VOLKSWAGEN FINANCIAL SERVICES

FINANCE. FLEET. INSURANCE. MOBILITY.

Annual Report 2021

A LIVING COMMITMENT

TO OUR CUSTOMERS

Corporate directory

of Volkswagen Financial Services Australia Pty Limited

Directors	**in office from/to:**
Mr Jörn Kurzrock	Managing Director
Mr Zhong Zhong	Managing Director (until 31 January 2021)
Mr Paul Stanton	Managing Director (from 1 February 2021)
Mr Norbert Dorn	Non-executive Director (employee of VWFS AG, Germany) (until 31 March 2021)
Mr Ralf Teichmann	Non-executive Director (employee of VWFS AG, Germany) (from 1 April 2021)
Mr Marc Schwekendiek	Non-executive Director (employee of VWFS AG, Germany) (until 30 April 2021)
Mr Cheikh Niang	Non-executive Director (employee of VWFS AG, Germany) (from 1 May 2021)

Principal registered office in Australia

Level 1, 24 Muir Road
Chullora NSW 2190
+61 2 9695 6311

Auditor

Ernst & Young
200 George Street
Sydney NSW 2000 Australia

Bankers

ANZ Bank
115 Pitt Street
Sydney NSW 2000

Website Address

www.vwfs.com.au

Annual report – 31 December 2021

of Volkswagen Financial Services Australia Pty Limited

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Directors' report

of Volkswagen Financial Services Australia Pty Limited

Your directors present their report on Volkswagen Financial Services Australia Pty Limited (the Company) and the entities it controlled during the year (referred to hereafter as the Group) for the year ended 31 December 2021.

The Group contains assets and liabilities of Volkswagen Financial Services Australia (referred to hereafter as the "Parent" or the "Company") and the entities it controlled during the year which included Driver Australia five Trust, Driver Australia six Trust, Driver Australia seven Trust and Driver Australia Master Trust (Special Purpose Trusts, referred to hereafter as the "Trusts").

The following persons were directors of the Group during the whole of the financial year and up to the date of this report (unless otherwise stated below).

Mr Jörn Kurzrock	Managing Director
Mr Zhong Zhong	Managing Director (until 31 January 2021)
Mr Paul Stanton	Managing Director (from 1 February 2021)
Mr Norbert Dorn	Non-executive Director (employee of VWFS AG, Germany) (until 31 March 2021)
Mr Ralf Teichmann	Non-executive Director (employee of VWFS AG, Germany) (from 1 April 2021)
Mr Marc Schwekendiek	Non-executive Director (employee of VWFS AG, Germany) (until 30 April 2021)
Mr Cheikh Niang	Non-executive Director (employee of VWFS AG, Germany) (from 1 May 2021)

The Company has an Australian Financial Services Licence (Licence No: 389344) and an Australian Credit Licence (Licence No: 389344).

Principal activities
The Company's principal activities during the year consisted of the provision of automotive financial services.

Review of operations
The Group's operations during the year ended 31 December 2021 resulted in an operating profit after income tax of $95,651,991 (2020: $54,994,274).

Dividends
The Directors recommend that no amount be paid as dividend for the current year. A dividend of $80,000,000 (2020: $nil) was declared by the Board of Directors on 7 December 2021 and paid to the Company's sole shareholder.

Significant changes in the state of affairs
There were no other significant changes to the Company's state of affairs during the financial year.

Covid-19 pandemic
The Covid-19 pandemic has continued to have significant impacts on the Australian and global economies. Australia has experienced continued lockdowns throughout the year, with the virus starting to spread in the community in the second half of the year. The vaccine rollout was slower than in other developed countries, but resulted in high vaccination rates among the adult population towards the end of the year.
While the lockdowns led to significant drops in economic activity, the recovery after each lockdown was strong and quick, and by the end of 2021, the Australian economy as a whole had reached pre-pandemic levels.
The Group has been impacted in a number of ways by the pandemic, including the following notable issues:

- Volkswagen Group continues to experience some supply shortages, in particular with regard to semiconductors, that lead to limited numbers of new vehicles being available for the Australian markets. Most other manufacturers are affected by these supply issues, too, but to varying degrees.
- Used car prices continue to exceed long-term averages as a result of the shortage of new vehicles and an increased demand.
- The Group has continued to provide IT and other facilities to its employees to enable work from home setups in order to minimise disruptions caused by the lockdowns.

Matters subsequent to the end of the financial year

Driver Australia five had its Clean-up Call on 21 January 2022.

There are no other matters or circumstances that have arisen since 31 December 2021 that have significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the Group's operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is subject to normal State and Federal environmental legislation and does not operate within an industry with specific environmental guidelines or limits.

Insurance of Officers

During the financial year, the Group paid premiums to insure the directors, secretary or other officers of the Group.

Meetings of Directors

The number of meetings of the Group's board of directors held during the year ended 31 December 2021, and the numbers of meetings attended by each director were:

	A	B
J. Kurzrock	9	9
Z. Zhong	1	1
P. Stanton	8	8
N. Dorn	2	2
R. Teichmann	6	6
M. Schwekendiek	2	2
C. Niang	4	6

A: Number of meetings attended

B: Number of meetings held during the time the director held office during the year

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the Corporations Act 2001.

Auditor's Independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

Rounding of amounts

The company and its controlled entities are of a kind referred to in ASIC Legislative Instrument 2016/191, relating to "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Tax compliance

The Group has documented its approach to Tax risk management in its Tax Policy which has been approved by the Managing Directors and published on the intranet. The Board of Directors and Management of VWFSA understand the importance of compliance with all applicable laws and regulations, including Tax laws and regulations, as a corporate citizen. They are therefore committed to implementing all necessary processes and controls to ensure ongoing Tax compliance. Tax matters are managed by the Finance team and escalated, if necessary, to the Public Officer and the Board of Directors in accordance with the Tax Policy. The Group's external tax advisors are consulted in case there is uncertainty about the appropriate tax treatment in a specific case.

Auditor

Ernst &Young has been appointed as the auditor in accordance with section 327 of the Corporations Act 2001.
This report is made in accordance with a resolution of the directors.

Jörn Kurzrock
Managing Director

Paul Stanton
Managing Director

Sydney
22 March 2022

Building a better working world

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Auditor's independence declaration to the directors of Volkswagen Financial Services Australia

As lead auditor for the audit of the financial report of Volkswagen Financial Services Australia for the financial year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Volkswagen Financial Services Australia Pty Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
22 March 2022

Financial report – 31 December 2021

of Volkswagen Financial Services Australia Pty Limited

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Financial report – 31 December 2021

of Volkswagen Financial Services Australia Pty Limited

This financial report covers Volkswagen Financial Services Australia Pty Limited and its controlled entities during the year (the Group) as a consolidated entity and Volkswagen Financial Services Australia Pty Limited as a parent entity. The financial report is presented in Australian dollars.

Volkswagen Financial Services Australia Pty Limited is an entity limited by shares, incorporated and domiciled in Australia.

Its principal place of business and registered office are:

Volkswagen Financial Services Australia Pty Limited
Level 1, 24 Muir Road
Chullora NSW 2190

The Company's principal activities during the year consisted of the provision of automotive financial services.

The financial report was authorised for issue by the Directors on 22 March 2022. The Directors have the power to amend and re-issue the financial report.

Statement of Comprehensive Income

of Volkswagen Financial Services Australia Pty Limited

$'000	Note	Consolidated		Parent	
		31.12.2021	31.12.2020	31.12.2021	31.12.2020
Net income from operations					
Interest income from lending transactions					
Cash and cash equivalents		193	507	110	256
Retail financing		259,228	258,278	259,228	258,280
Dealer financing		24,728	32,162	24,728	32,162
Fleet financing	4	6,555	5,857	6,555	5,857
Subtotal: Interest income measured at the effective interest rate method		*290,704*	*296,804*	*290,621*	*296,555*
Subordinated loans		0	0	5,202	7,198
Retail financing accounted for at fair value through profit or loss		28,425	28,551	28,425	28,551
Income from operating lease transactions	5	4,805	4,648	4,805	4,648
Interest expense		(109,755)	(138,554)	(136,863)	(174,319)
Interest expense on lease liability	8	(235)	(299)	(235)	(299)
Non-interest revenue	6	12,952	13,883	34,705	37,733
Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)		2,734	331	(5,314)	(2,862)
Total net income from operations		229,630	205,364	221,346	197,205
Bad and doubtful debts expenses	4	(34,391)	(67,192)	(34,391)	(67,192)
Employee expenses	10	(26,779)	(25,464)	(26,779)	(25,464)
Depreciation and amortisation expenses	7	(7,709)	(7,757)	(7,709)	(7,757)
Other expenses from ordinary activities	11	(27,854)	(27,739)	(27,834)	(27,714)
Profit before income tax		132,897	77,212	124,633	69,078
Income tax expenses	12	(37,245)	(22,218)	(37,245)	(22,218)
Profit for the year attributable to owners		95,652	54,994	87,388	46,860
Change in fair value of cash flow hedges	13	14,019	(8,579)	1,632	1,011
Net change in deferred tax for cash flow hedges	13	(4,206)	2,574	(490)	(303)
Other comprehensive income for the year		9,813	(6,005)	1,142	708
Total comprehensive income attributable to owners		105,465	48,989	88,530	47,568

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

Statement of Financial Position

of Volkswagen Financial Services Australia Pty Limited

$'000	Note	Consolidated		Parent	
		31.12.2021	31.12.2020	31.12.2021	31.12.2020
Current assets					
Cash and cash equivalents		442,496	92,488	394,757	37,061
Loans to and receivables from customers attributable to					
Retail loan financing at amortised cost	4	1,105,007	868,658	1,105,007	868,658
Retail loan financing at fair value through profit or loss	4	110,725	156,941	110,725	156,941
Dealer loan financing	4	987,693	1,168,381	987,693	1,168,381
Fleet loan financing	4	22,595	12,415	22,595	12,415
Lease receivables	4	23,067	24,545	23,067	24,545
Derivative financial instruments		17,046	4,955	7,763	4,477
Other financial assets	4	17,841	14,374	65,405	19,422
Lease assets	5	4,744	3,182	4,744	3,182
Inventories		143	493	143	493
Other assets	7	754	571	754	572
Total current assets		2,732,111	2,347,003	2,722,653	2,296,147
Non-current assets					
Loans to and receivables from customers attributable to					
Retail loan financing	4	3,693,663	3,811,686	3,693,663	3,811,686
Retail loan financing at fair value through profit or loss	4	371,107	317,071	371,107	317,071
Dealer loan financing	4	237,087	0	237,087	0
Fleet loan financing	4	41,108	35,039	41,108	35,039
Lease receivables	4	34,834	40,745	34,834	40,745
Derivative financial instruments		11,507	31,465	9,610	31,466
Other financial assets	4	0	0	128,716	166,045
Lease assets	5	10,911	11,034	10,911	11,034
Property, plant and equipment	7	5,228	7,220	5,228	7,220
Intangible assets	7	18,614	15,685	18,614	15,685
Deferred tax assets	12	47,445	47,260	48,183	44,283
Total non-current assets		4,471,504	4,317,205	4,599,061	4,480,274
Total assets		7,203,615	6,664,208	7,321,714	6,776,421

Current liabilities					
Liabilities to banks	8	612,248	1,074,209	612,248	1,074,209
Medium Term Notes and Commercial Papers issued	8	1,498,511	1,139,006	1,498,511	1,139,006
Asset Backed Securities Notes issued	8	431,942	918,439	0	0
Derivative financial instruments		10,343	6,841	9,963	6,411
Virtual Loan	8	0	0	468,974	552,325
Other financial liabilities	8	29,038	47,193	29,038	47,193
Lease liabilities	8	1,263	1,257	1,263	1,257
Employee entitlements	10	4,602	4,050	4,602	4,050
Current tax liabilities		5,412	8,281	5,412	8,281
Other liabilities	9	27,260	28,995	27,525	29,232
Total current liabilities		2,620,619	3,228,271	2,657,536	2,861,964
Non-current liabilities					
Liabilities to banks	8	545,632	430,488	545,632	430,488
Medium Term Notes and Commercial Papers issued	8	1,807,449	1,535,314	1,807,449	1,535,314
Asset Backed Securities Notes issued	8	1,821,847	1,080,120	0	0
Derivative financial instruments		13,371	19,626	13,030	14,198
Virtual Loan	8	0	0	1,926,555	1,570,318
Other financial liabilities	8	0	0	0	0
Lease liabilities	8	3,213	4,481	3,213	4,481
Employee entitlements	10	837	726	837	726
Deferred tax liabilities	12	0	0	0	0
Total non-current liabilities		4,192,349	3,070,755	4,296,716	3,555,525
Total liabilities		6,812,968	6,299,026	6,954,252	6,417,489
Net assets		390,647	365,182	367,462	358,932
Equity					
Share capital	13	195,440	195,440	195,440	195,440
Cash-flow hedges reserve	13	1,577	(8,236)	(146)	(1,288)
Retained earnings	13	193,630	177,978	172,168	164,780
Total equity		390,647	365,182	367,462	358,932

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

Statement of Changes in Equity

of Volkswagen Financial Services Australia Pty Limited

Consolidated $'000	Contributed equity	Cash-flow hedges reserve	Retained earnings	Total equity
Balance at 1 January 2020	195,440	(2,231)	122,984	316,193
Profit for the year	0	0	54,994	54,994
Other comprehensive income for the year	0	(6,005)	0	(6,005)
Total comprehensive income for the year	0	(6,005)	54,994	48,989
Balance at 31 December 2020	195,440	(8,236)	177,978	365,182
Profit for the year	0	0	95,652	95,652
Other comprehensive income for the year	0	9,813	0	9,813
Dividend paid	0	0	(80,000)	(80,000)
Total comprehensive income for the year	0	9,813	15,652	25,465
Balance at 31 December 2021	195,440	1,577	193,630	390,647

Parent $'000	Contributed equity	Cash-flow hedges reserve	Retained earnings	Total equity
Balance at 1 January 2020	195,440	(1,996)	117,920	311,364
Profit for the year	0	0	46,860	46,860
Other comprehensive income for the year	0	708	0	708
Total comprehensive income for the year	0	708	46,860	47,568
Balance at 31 December 2020	195,440	(1,288)	164,780	358,932
Profit for the year	0	0	87,388	87,388
Other comprehensive income for the year	0	1,142	0	1,142
Dividend paid	0	0	(80,000)	(80,000)
Total comprehensive income for the year	0	1,142	7,388	8,530
Balance at 31 December 2021	195,440	(146)	172,168	367,462

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

of Volkswagen Financial Services Australia Pty Limited

Consolidated	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Cash flows from operating activities				
Interest received	394,248	392,032	398,887	399,867
Interest and other costs of finance paid	(100,898)	(139,679)	(116,661)	(156,103)
Fees and other non-interest income received	33,305	30,129	55,114	54,105
Fees and commissions paid	(116,877)	(103,956)	(115,090)	(106,316)
Net proceeds from/(payments for) trading portfolio assets and other financial assets and liabilities	(575)	(881)	(3,122)	(2,973)
Payment for acquisition of leased assets	(15,042)	(6,240)	(15,042)	(6,240)
Income from operating lease contracts	4,850	4,729	4,850	4,729
Payments to suppliers	(42,795)	(6,497)	(41,891)	(5,256)
Employment expenses paid	(27,070)	(25,557)	(27,070)	(25,557)
Income tax paid	(44,505)	(28,365)	(44,505)	(28,365)
Net loan assets repaid/(granted)	(245,358)	293,953	(245,358)	293,953
Recoveries of loans previously written off	12,959	10,114	12,959	10,114
Net proceeds from sale of returned vehicles	26,450	30,928	26,450	30,928
Total cash flows from operating activities	(121,308)	450,710	(110,479)	462,886
Cash flows from investing activities				
Payments for the acquisition of property, plant and equipment and intangible assets	(5,948)	(9,452)	(5,948)	(9,452)
Total cash flows from investing activities	(5,948)	(9,452)	(5,948)	(9,452)
Cash flows from financing activities				
Proceeds from				
Liabilities to banks	4,216,000	5,092,500	4,216,000	5,092,500
Medium Term Notes and Commercial Papers issued	5,850,900	3,658,900	5,850,900	3,658,900
Asset Backed Securities Notes issued	701,910	313,700	0	0
Virtual loan	0	0	1,987,557	748,678
Repayments of				
Liabilities to banks	(4,563,000)	(5,090,500)	(4,563,000)	(5,090,500)
Medium Term Notes and Commercial Papers issued	(5,200,400)	(3,810,300)	(5,200,400)	(3,810,300)
Asset Backed Securities Notes issued	(446,415)	(613,875)	0	0
Virtual loan	0	0	(1,730,168)	(1,092,355)
Subordinated loans	0	(2,991)	(5,036)	47,434
Intercompany borrowings	0	0	0	0
Lease payments and interest from lease liabilities	(1,731)	(1,867)	(1,730)	(1,867)
Dividend Paid	(80,000)	0	(80,000)	0
Total cash flows from financing activities	477,264	(454,433)	474,123	(447,510)
Net cash movement	350,008	(13,175)	357,696	5,924
Cash and cash equivalents at the beginning of the financial year	92,488	105,663	37,061	31,137
Cash and cash equivalents at the end of the financial year	442,496	92,488	394,757	37,061

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

of Volkswagen Financial Services Australia Pty Limited

Notes to the Financial Statements

of Volkswagen Financial Services Australia Pty Limited

1 | Summary of significant accounting policies

The principal accounting policies adopted in the preparation of this financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, and the Corporations Act 2001. They have been prepared on a going concern basis.

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. As a result, certain line items have been amended in the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flow, and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation.

Compliance with IFRS
The financial statements of Volkswagen Financial Services Australia Pty Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the Group
The effect of the adoption of new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2021 is described in Note 1Y.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) measured at fair value through profit or loss.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Foreign currency translation
- *Functional and presentation currency:*

Items included in these financial statements are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

- *Transactions and balances:*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the Statement of Comprehensive Income on a net basis within non-interest revenue or other expenses from ordinary activities. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

B. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Parent as at 31 December 2021 and the results of all subsidiaries for the year then ended. The Parent and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries
Subsidiaries are all entities (including structured entities) over which the Parent has control. The Parent controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to use its power to affect those returns. Consolidation of subsidiaries begins from the date on which the Parent obtains control of the entity and ends from the date that the Parent loses control of the entity.

The acquisition method of accounting is used to account for business combinations of the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity.

C. REVENUE RECOGNITION

Interest income

- *Financial assets at amortised cost and finance leases*

Interest income is recognised using the effective interest rate method. For purchased or originated credit-impaired (POCI) financial assets the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

Commissions paid to dealers are capitalised when paid and amortised over the lifetime of the related contracts as part of the effective interest rate method. They are presented part of interest income in the Statement of Comprehensive Income as these are an integral part of loan contracts.

The income from fees which are classified as being an integral part of loan contracts is amortised over the lifetime of the contracts and is included in the interest income in the Statement of Comprehensive Income.

- *Financial assets at fair value through profit or loss*

Interest income is recognised on an accruals basis as per the contractual terms of the related contracts.

Interest income from financial assets at fair value through profit or loss is included in the interest income in the Statement of Comprehensive Income.

Operating lease income
Leasing revenue from operating leases is recognised on a straight-line basis over the lease term.

Non-interest revenue
Fee and insurance commission income is recognised in the Statement of Comprehensive Income in the period the relevant service is rendered. Income is recognised at the amount of the transaction price, which is the amount of consideration the Group is entitled to in exchange for transferring the service.

D. INTEREST EXPENSES

Interest expenses are recognised in the Statement of Comprehensive Income for interest-bearing liabilities measured at amortised cost using the effective interest rate method.

Any fees associated with obtaining the Group's funding are capitalised when paid and amortised over the term of the related funding instrument as part of the effective interest rate method. They are presented as part of the interest expense in the Statement of Comprehensive Income.

E. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying value of any component accounted as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Asset Class	Method	Useful Life
Leasehold improvements	Straight-line	2-20 years
Computer and office equipment	Straight-line	3-10 years

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss as other income or other expenses.

F. INTANGIBLE ASSETS

IT development and software
Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from 3 to 5 years. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

G. OTHER ASSETS

Lease assets
Lease assets represent vehicles under operating lease contracts where the Group is the lessor. Lease assets are initially recognised at fair value and subsequently amortised over their useful life. Once vehicles are returned to the Group at the maturity of operating lease contracts, they are reclassified to inventories.

Inventories
Inventories include repossessed vehicles and vehicles returned at the end of operating leases. Returned or repossessed vehicles are recognised at the lower of purchase cost and net realisable value, with any loss incurred recognised in other expenses from ordinary activities. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Any profit or loss on the sale of inventories is recognised when the vehicles are sold.

H. IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

I. FINANCIAL ASSETS

Recognition and de-recognition
The Group recognises a financial asset when it becomes party to the contractual provisions of the instrument. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:
- The Group has transferred its contractual rights to receive cash flows from the financial asset or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

A transfer only qualifies for derecognition if either:
- The Group has transferred substantially all the risks and rewards of the asset or
  The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Classification and measurement
The Group classifies its financial assets into the following categories:
- financial assets at fair value through profit or loss and
- financial assets at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets at amortised cost
The Group classifies financial assets at amortised cost if they meet the following criteria:
- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Based on the above criteria, the Group classifies its retail loans, dealer loans and wholesale loans as well as its cash and cash equivalents as financial assets at amortised cost, with the exception of certain retail loans where the customer has the right to return the car at the end of the contract term.

Financial assets at amortised cost are initially measured at their fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset. They are subsequently measured at amortised cost.

For the purpose of presentation in the Statement of Financial Position and the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and for the purpose of the cash flow statement, bank overdrafts. Bank overdrafts are shown as borrowings in the Statement of Financial Position.

Financial assets at fair value through profit or loss
The Group classifies financial assets at fair value through profit or loss in accordance with AASB 9 if they are not classified at either amortised cost or fair value through other comprehensive income.

Based on the above, the Group classifies certain retail loans where the customer has the right to return the car at the end of the contract term (which does not represent cash flows that are solely payments of principal and interest on the principal amount outstanding) and its derivatives as financial assets at fair value through profit or loss.

In addition, the Parent entity classifies its subordinated loan receivables from other Group entities as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially and subsequently measured at their fair value.

Refer to note 1R for further details on the Group's accounting policy for derivatives.

J. IMPAIRMENT OF FINANCIAL ASSETS

The Group applies a three-stage approach to measuring expected credit losses ("ECL") on debt instruments accounted for at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

- Stage 1, 12-month ECL: For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, a provision for the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- Stage 2, lifetime ECL, not credit impaired: For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a provision for lifetime ECL is recognised.
- Stage 3, lifetime ECL, credit impaired: Financial assets demonstrating objective indications of impairment are allocated to Stage 3 and a provision for lifetime ECL is recognised.

The Group has defined any modification of an existing contract as substantial if it meets one of the following criteria:

- the net present value of the cash flows under the new terms discounted at the original effective interest rate is at least 10% different from the carrying amount of the original debt
- a significant change in the terms and conditions that is so fundamental that immediate de-recognition is required with no additional quantitative analysis

In the event of a substantial modification, the Group derecognises the existing contract and recognises a new contract which reflects the modified terms. Based on the credit risk assessment of the contract, it is either classified as a Stage 1 contract or as a "purchased and originated credit impaired" (POCI) contract.

For POCI contracts at initial recognition the Group calculates the credit-adjusted effective interest rate, which is calculated based on incorporating the impact of expected credit losses in the estimated cash flows. Changes in the lifetime expected credit losses is recognised in other comprehensive income as an impairment gain or loss.

Interest income on POCI contracts is recognised based on applying the original credit-adjusted effective interest rate against the amortised cost of the financial asset.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk scoring and grading systems, arrears status and forecast information to assess deterioration in credit quality of a financial asset. If a contract is more than 30 days past due, the contract is classified as having experienced a significant increase in credit risk.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or statistical basis. For the purposes of a statistical evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, cash flow, credit risk class, collateral, date of initial recognition, arrears performance, remaining term to maturity, months on book, industry, geographical location of the borrower and other relevant factors.

The amount of the ECL is measured as the unbiased and probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group considers forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL. The methodology and assumptions including any outlook of future economic conditions are reviewed regularly.

A contract will be classified as credit impaired (stage 3) when it meets the Group's default definitions, which are more than 90 days in arrears, hardship approved and vehicles missing, surrendered, repossessed or totally damaged.
In a subsequent period, if financial assets no longer meet the default criteria, loans that were previously assessed as non-performing are reversed to a performing status based on our behavioural scoring methodology. This methodology requires a loan to perform for a certain period of time ("cure period") before it moves back into stage 1. The length of this period depends on the specific circumstances of each individual loan.

When financial assets that were previously assessed as a significant increase in credit risk subsequently experience a credit quality improvement with the number of days behind payment not greater than 30, these loans will be recognised as stage 1 with a 12-months ECL.

K. SECURITISATION OF FINANCIAL ASSETS

Financial assets include receivables that are subject to non-returnable finance arrangements following the securitisation of a portfolio of receivables with special purpose vehicles (Note 8C). The terms of the transfer of securitised receivables do not meet the criteria for de-recognition under AASB 9 and are therefore recognised on the Group's Statement of Financial Position. AASB 10 defines various indicators which require the Group to consolidate these securitisation special purpose vehicles. Accordingly, Special Purpose Vehicles (the Trusts) are consolidated because the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

L. LEASING BUSINESS WITH THE GROUP AS LESSOR

The Group is engaged in both finance leases and operating leases as a lessor of motor vehicles.

In the case of finance leases, the material risks and rewards of ownership pass to the lessee. Receivables from finance leases are shown under Lease receivables, whereby the net investment value always corresponds to the fair value of the leased assets and any initial direct costs at the inception of the lease. Interest income from these transactions is shown under Interest income from lending transactions in the Statement of Comprehensive Income.

In the case of operating leases, the material risks and rewards of ownership of the lease object remain with the lessor. In this case the leased asset are shown in the consolidated Statement of Financial Position in the separate item leased assets, and are measured at cost less straight-line depreciation expense over the term of the lease to the imputed residual value. Impairments, which are identified when conducting an impairment test in compliance with AASB 136 by taking into account the carrying value of an asset and its recoverable amount, are recognized through write-downs. If the reason for the write-downs recorded in previous years no longer applies, appropriate write-ups are recognised. Write-downs and write-ups are contained in the depreciation expenses. Leasing income is recognised on a straight-line basis over the term of the lease.

M. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

N. EMPLOYEE BENEFITS

Wages and salaries, annual leave and long service leave

Liabilities for wages and salaries, including annual leave expected to be settled within 12 months of the reporting date are recognised in the current provision for employee entitlements in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liability is settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at rates paid or payable. The liability for long service leave and annual leave which is not expected to be settled within 12 months in which the employees render the related service is recognised in the non-current provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where it is contractually obliged or where there is past practice that has created a constructive obligation. The obligation is presented as a current liability in the Statement of Financial Position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

O. FINANCIAL LIABILITIES

Recognition and de-recognition

The Group recognises a financial liability when it becomes party to the contractual provisions of the instrument. It derecognises a financial liability when the liability is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires or if there is a substantial modification.

Classification and measurement

The Group classifies its financial liabilities into the following categories:

- financial liabilities at fair value through profit or loss and
- financial liabilities at amortised cost.

Financial liabilities measured at amortized cost using the effective interest method relate to liabilities to banks, bonds, commercial paper and notes, loans and other liabilities. Gains or losses resulting from changes in amortized cost, including the effects of changes in exchange rates, are recognized through profit or loss.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs on the loan to the extent that is probable that some or all of the facility will be drawn down. Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or expenses, or as finance costs. Interest-bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Other financial liabilities

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Other liabilities are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

- *Financial liabilities at fair value through profit or loss*

The Group classifies its derivatives as financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are initially and subsequently measured at their fair value.

Refer to Note 1R for further details on the Group's accounting policy for derivatives.

P. DEBT SECURITIES IN ISSUE

The Group's special purpose securitisation vehicles fund the purchase of receivables primarily through the issue of notes. These notes are classified as debt securities in issue and are denominated in Australian dollars. These securities are recognised at inception at fair value net of transaction costs and are subsequently measured at amortised cost.

Q. VIRTUAL LOAN

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets. Financial assets (retail car loans) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained as control under AASB 10 exists. When the Group consolidates the SPV, the Group continues to recognise the transferred financial assets.

The Group securitises automotive loans and receivables (receivables) under the Driver Australia Program. These receivables are acquired by Trusts through equitable entitlements. The Trusts fund these acquisitions by issuing class A notes, class B notes and subordinated loans (Volkswagen International Luxembourg S.A.).

VWFSA has not passed the de-recognition criteria of AASB 9 and therefore has continued to recognise the receivables transferred to the Trusts on its Statement of Financial Position. Virtual loans have been recognised in VWFSA standalone representing the consideration received by VWFSA from the Trusts. VWFSA has control over the Trusts as it has the power and ability to direct the relevant activities of the Trusts and has exposure to variable returns through the collateral loan arrangements.

The initial measurement of virtual loan is at fair value, net of transaction costs incurred, with subsequent measurement being at amortised cost under the effective interest method.

R. DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or
- hedges of the cash flows of recognised liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the economic relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be highly effective in offsetting changes in cash flows or fair values of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 14A. Movement in the cash flow hedge reserve in other comprehensive income is shown in Note 13C. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in 'Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)', together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in 'Interest expense', together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in 'Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in 'Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item will affect profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit or loss within interest expense.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss and when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in 'Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)'.

S. LEASING BUSINESS WITH THE GROUP AS LESSEE

The Group leases its office in Chullora and some items of equipment. Rental contracts are typically made for fixed periods of 3 to 10 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased asset that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group, unless an exemption applies. Refer to Note 1Y for further details in relation to the transition to the new accounting standard.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivable,
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- Amounts expected to be payable by the Group under residual value guarantees,
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal repayment and interest. Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The remainder of the lease payment amount is classified as principal repayment.

Right-of-use assets are measured at cost comprising the following:
- The amount of the initial measurement of lease liability,
- Any lease payments made at or before the commencement date less any lease incentives received,
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are the asset less then $5,000 that comprise some IT equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

T. INCOME TAX

The income tax expense for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

U. EQUITY

Ordinary shares are classified as share capital.

V. GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

W. ROUNDING

The company and its controlled entities are of a kind referred to in ASIC Legislative Instrument 2016/191, relating to "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

X. COMPARATIVES

Where necessary, comparative information has been restated to conform to changes in the presentation in the current year. This includes presenting comparative information in the layout used in the current year for the Statement of Comprehensive Income and Statement of Financial Position.

Y. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following new standards have not yet been adopted by the Group. None of these new standards are expected to have a material impact on the financial position or income and expenses of the Group.

- AASB 2020-1 Amendments to AASs – Classification of liabilities as current or non-current
- AASB 2021-2 Amendments to AASs – Disclosures of accounting policies and definition of accounting estimates
- AASB 2021-5 Amendments to AASs – Deferred tax related to assets and liabilities arising from a single transaction

2 | Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including fair value risk, residual value risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures.

Financial risk management is carried out by the Group in conjunction with the regional treasury department of Volkswagen Financial Services under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks. The Board of Directors and management provide written principles for overall risk management, as well as written policies covering specific areas, such as mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

A. CREDIT RISK

Credit is any transaction that creates an obligation on borrowers to meet interest and principal repayments. Credit risk arises as there is the potential for a borrower to fail to meet its obligations to the Group in accordance with the agreed terms of a borrowing arrangement.

The Group has no significant concentrations of credit risk. Exposures to credit risks are managed through the policies in place to ensure the credit worthiness of each retail and wholesale customer. The Group manages credit risk by placing limits on the amount of risk accepted in relation to a borrower as well as the financial capacity of a borrower to enter into an arrangement. Derivative counterparties and cash exposures are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. The analysis of the quality of financial assets is disclosed in Note 4C.

B. FAIR VALUE RISK

The Group has certain financial assets and financial liabilities that pay or receive a fixed-rate interest for the entirety of their life. Based on fluctuations of market interest rates, the Group is exposed to fair value risks from these financial instruments. The Group manages this fair value risk by entering into interest-rate swap agreements with third parties, with the aim to match its exposures to fixed interest rates between the asset and liability side (ALM – Asset-Liability Management). Exposures are monitored on a regular basis and limits have been defined for quarterly net exposures.

C. RESIDUAL VALUE RISK

Some of the Group's contracts with customers for the financing of vehicles are structured in a way such that the customer will or may return the vehicle to the Group at the end of the contract term. These are operating lease contracts as well as loans with a GFV (Guaranteed Future Value) option. As a result, the Group is exposed to residual value risks from these contracts.

The Group manages these risks by (a) setting conservative residual values for new contracts based on market data and its own historical experience and (b) maximising the sale proceeds from returned vehicles by actively managing the timing and location of vehicles being offered for sale.

D. LIQUIDITY RISK

Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

The Group manages the liquidity risk based on contractual maturities within certain time bands for derivative and non-derivative financial liabilities (Note 14D).

The maturity analysis of interest bearing liabilities and the credit standby arrangements are disclosed in Note 8B.

E. INTEREST RATE RISK

The Group's interest rate risk arises from long-term borrowings and receivables from customers. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At year end 60.9% (consolidated) and 94.4% (parent) (2020: 63.6% and 94.0% respectively) of borrowings were at fixed rates. Receivables from customers with fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally if the Group raises long term borrowings at floating rates it will swap them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts (Note 14E).

3 | Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for expected credit losses

All the estimates and assumptions necessary as part of the recognition and measurement in accordance with AASB comply with the relevant standard, are continuously updated and are based on past experience and other factors, including expectations regarding future events that appear to be reasonable in the given circumstances. Assumptions and estimates are based on the latest available information. The circumstances prevailing at the time the financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business.

The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends as well as trends in the automotive market, financial markets and the legal framework.

As future business performance is subject to unknown factors that, in part, lie outside of the control of the Group, our assumptions and estimates continue to be subject to considerable uncertainty. If changes in parameters are different from the assumptions and beyond any influence that can be exercised by management, the amounts actually arising could differ from the estimated values originally forecast.

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. As far as possible, these estimates take into account the latest market data as well as rating classes and scoring information based on experience combined with forward-looking parameters.

The provision for credit risks, which is recognised in accordance with the expected credit loss model specified by AASB 9 and in accordance with uniform standards applied throughout the Group, encompasses all financial assets measured at amortised cost, lease receivables that fall within the scope of AASB 16 and credit risks from off-balance-sheet irrevocable credit commitments and financial guarantees. The calculation of the provision for credit risks generally takes into account the exposure at default, the probability of default and the loss given default.

Financial assets are subject to credit risks, which are taken into account by recognising valuation allowances in the amount of the expected loss; such valuation allowances are recognised for both financial assets with objective evidence of impairment and non-impaired financial assets.

The general approach is used for financial assets measured at amortised cost and for irrevocable credit commitments and financial guarantees unless there is already objective evidence of impairment on initial recognition.

The calculation of the macroeconomic overlay for the provision for expected credit losses is a probability weighted estimate based on three scenarios which together are representative of the Group's view of potential loss outcomes depending on a number of macro-economic factors, which include the impact of Covid-19.

The base case scenario uses market economic forecasts which show a gradual recovery in 2022 and subsequent years and considers the impacts of Covid-19 as well as the Australian Government's stimulus measures implemented to soften the impact. The downside scenario is a more severe scenario with a delayed and slowed-down recovery path leading to higher unemployment, lower property price levels and a resulting higher impact on businesses. The upside scenario represents a faster and steeper recovery than the base case scenario.

Scenario	Unemployment rate	Inflation rate	GDP growth
Base case	6.5%	3.5%	(3.2)%
Downside	7.5%	4.0%	(5.0)%
Upside	5.5%	3.0%	0.2%

The macroeconomic overlay reflects the uncertainty that continues to exist in relation to the expected economic recovery from the pandemic and any future restrictions in relation with potential new strains of the virus. Most Government support packages have now ended and the economy is recovering. Management has factored in the potential for further credit losses linked to the Covid-19 pandemic despite the ongoing economic recovery.

We note that while deferral of payments by customers in hardship arrangements is generally treated as an indication of a significant increase in credit risk (SICR), the deferral of payments under the current Covid-19 support packages has not, in isolation, been treated as an indication of SICR. These packages are available to customers who have had income losses as a result of Covid-19 and who otherwise had up to date payment status prior to the onset of Covid-19. The relief packages allow for a deferral of payments for a short term. During this period, the deferred interest is capitalised and in most cases, the loan term is extended for a period equivalent to the payment deferral period. While a large number of hardship applications was approved by the Group during the pandemic, in particular in 2020, leading to deferrals of customer payments for at least 3 months, most of the affected customers have resumed their contractual payments to the Group before the balance sheet date. Accordingly, at this stage, we do not consider customers making use of a hardship arrangement have necessarily experienced a significant increase in credit risk as this assessment is based on changes in lifetime probability of default. This is consistent with the “IFRS 9 and Covid-19” guidance issued by the IASB on 27 March 2020.

The Group will reassess this treatment as the situation evolves and the longer-term impacts of the Covid-19 pandemic become clearer. It is likely that some customers will move into general hardship arrangements after the end of Government support packages and thus be treated as having experienced a SICR.

The provision for credit risks relating to trade receivables and to operating and finance lease receivables accounted for in accordance with AASB 16 is uniformly determined using the simplified approach. In the simplified approach, an expected loss is calculated over the entire remaining maturity of the asset. Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information is used to determine the measurement parameters for calculating the provision for credit risks. Insignificant lease/trade receivables and significant individual lease/trade receivables with no indication of impairment are grouped together into homogeneous portfolios using comparable credit risk features and broken down by risk category. In the case of significant individual impaired loans or receivables (e.g. dealer financing loans/receivables and fleet customer business loans/receivables), specific valuation allowances are recognised in the amount of the expected loss. Management make certain judgements and estimates in relation to the credit loss allowance. These judgments and estimates relate to various factors determining the credit loss allowance including future payments by the customer, the future value and recoverability of any collateral, the timing of payment receipts, determination of what is considered a significant increase in credit risk and forward-looking information.

Impairment arises in a number of situations, such as delayed payment over a certain period, the initiation of enforcement measures, the threat of insolvency or over indebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures.

Reviews are regularly carried out to ensure that the valuation allowances are appropriate.
Uncollectible loans or receivables that are already subject to a workout process and for which all collateral has been recovered and all further options for recovering the loan or receivable have been exhausted are written off directly. If the amount to be written off is greater than accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to ‘Bad and doubtful debt expenses’.

Refer to Note 1J for further details on the Group’s accounting policy regarding the impairment of financial assets.

Fair value measurement of loans to and receivables from customer measured at fair value

For certain retail loans, the customers are given the option either to return the financed vehicle at a guaranteed future value or retain the vehicle and make a final contractual payment to the Group that approximates to the guaranteed future value. Management assessed whether these loans meet the SPPI test (Solely Payments of Principal and Interest) to determine their classification and concluded, based on the return rates of the vehicles to the Group, that five of the financed brands did not pass the SPPI test and therefore were classified as retail loan financing at fair value through profit or loss.

The fair value of these financial assets is calculated using a Discounted Cash Flow model, which requires management estimates in relation to the discount rate used. The discount rate includes a risk premium component to account for the risk that the Group will not be able to collect all of its contractual receivables due to its exposure to credit risk and residual value risk. The risk premium is estimated by management based on its standard processes for managing and measuring credit risk and residual value risk. Refer to Notes 2A and 2C for further details on the Group's management of these risks.

Lease liabilities

The Group has recorded a lease liability in relation to the lease of its office and car park spaces at its premises in Chullora.
The measurement of the lease liability is based on some management estimates:

- Discount rate: 3.64%-4.92%
- Lease extension options: None or unlikely to be exercised

Long service leave

Long service leave is discounted to present value using assumptions relating to staff departures, leave utilisation and future salary.

Other provisions

Provisions are held in respect of a range of future obligations, some of which involve significant judgement about the likely outcome of various events and estimated future cash flows.

Impairment of Intangible assets

The Group has experienced delays and increased costs in relation to the implementation of a new software system. Management considers the increase in costs above the budgeted amount as a trigger event for an impairment test of the capitalised costs for this project.
The impairment test was performed by comparing the following:

- The capitalised cost of the project as of 31 December 2021, plus the estimated remaining cost to complete the project, and
- The net present value of the estimated benefits from the software system once it is in production.

Management came to the conclusion that the net present value of the estimated benefits is the smaller of the two amounts, and that the new software system is impaired. As a result, an impairment of $1,277k was booked against the carrying value of the software system as of 31 December 2021.

4 | Financial assets

A. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents includes restricted cash items of $47,739k (2020: $55,427k) for the Group and $nil (2020: $nil) for the Parent. This balance represents the cash held in the Driver Australia Trusts.

B. LOANS TO AND RECEIVABLES FROM CUSTOMERS

The following tables show the gross and net balances of loans to and receivables from customers:

31.12.2021 CONSOLIDATED AND PARENT $'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

31.12.2020 CONSOLIDATED AND PARENT $'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans at amortised cost	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

Concentration of exposures
The majority of the Group's financial assets are provided to finance the purchase of motor vehicles or motor dealership assets.
The Group's exposure to various risks associated with the financial instruments is discussed in Note 14. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

C. PROVISION FOR IMPAIRMENT

Credit risk arises from cash and cash equivalents, contractual cash flows of loans carried at amortised cost and at fair value through profit or loss, favourable derivative financial instruments and deposits with banks and financial institutions.

(i) Risk management

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

For derivative financial instruments, management has established limits so that, at any time, less than 10% of the fair value of favourable contracts outstanding are with any individual counterparty.

(ii) Security

For some loans the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

(iii) Impairment of financial assets

The Group's financial assets carried at amortised cost are subject to the expected credit loss model.

While cash and cash equivalents and other financial assets form part of the Group's financial assets at amortised cost, the identified risk of credit losses is immaterial.

Retail, wholesale and fleet receivables

Note 1J provides information on the accounting policies adopted by the Group regarding its approach to determining expected credit losses in accordance with AASB 9.

In addition, the Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and lease receivables.

To measure the expected credit losses, trade receivables and lease receivables have been grouped based on shared credit risk characteristics and the days past due. The receivables relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for these assets.

The expected loss rates are based on the payment profiles over a period of 36 months before 31 December 2021 or 31 December 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of relevant markets, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 270 days past due.

Impairment losses on loans are presented as net impairment losses within bad and doubtful debt expenses. Subsequent recoveries of amounts previously written off are credited against the same line item.

The table below provides information regarding the movement in the Group's expected credit losses during the year.

Retail:

31.12.2021 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified Approach	Total
Balance as of 1 January 2020	10,868	35,900	9,499	7,258	1,397	64,922
Newly granted/purchased financial assets (additions)	3,451	0	1,670	0	1,799	6,920
Transfer to						0
Stage 1	681	(5,492)	0	0	0	(4,811)
Stage 2	(1,416)	14,475	(953)	0	0	12,106
Stage 3	(79)	(2,035)	16,449	0	0	14,335
Financial instruments derecognised during the period (derecognitions)	(1,741)	(5,075)	(1,261)	(2,280)	(121)	(10,478)
Utilisations	0	0	(6,539)	(1,511)	0	(8,050)
Model or risk parameter changes	11,988	20,930	(1)	0	0	32,917
Balance as of 31 December 2020	23,752	58,703	18,864	3,467	3,075	107,861
Newly granted/purchased financial assets (additions)	14,181	2,435	2,611	375	41	19,643
Transfer to						0
Stage 1	1,753	(12,611)	(117)	0	0	(10,975)
Stage 2	(1,495)	15,196	(1,756)	0	0	11,945
Stage 3	(130)	(3,137)	14,962	0	0	11,695
Financial instruments derecognised during the period (derecognitions)	(20,926)	(12,028)	(3,998)	(460)	(2,759)	(40,171)
Utilisations	0	0	(6,579)	(925)	(4)	(7,508)
Model or risk parameter changes	16,550	8,053	(146)	(4)	149	24,602
Balance as of 31 December 2021	33,685	56,611	23,841	2,453	502	117,092

Model or risk parameter changes represent a change in modelling assumptions including forward looking information and other modelling assumptions, refinements and measurement variables.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

The following tables present the carrying amounts of financial assets as of 31 December 2021, broken down by risk class:

31.12.2021 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Default risk rating class 1 (loans/receivables not at risk of default - normal loans) *12-month Basel PD range: 0% - 8.18%*	4,054,073	615,731	0	5,805	15,813	4,691,422
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management) *12-month Basel PD range: 8.18% - 100%*	281	182,748	0	5,991	746	189,766
Default risk rating class 3 (loans/receivables in default - non performing loans) *12-month Basel PD range: 100%*	0	0	46,800	2,963	257	50,020
Total gross carrying amount	4,054,354	798,479	46,800	14,759	16,816	4,931,208

31.12.2020 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Default risk rating class 1 (loans/receivables not at risk of default - normal loans) *12-month Basel PD range: 0% - 8.18%*	3,709,959	742,412	28,853	25,172	16,813	4,523,209
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management) *12-month Basel PD range: 8.18% - 100%*	243,887	29,445	3,832	1,784	0	278,948
Default risk rating class 3 (loans/receivables in default - non performing loans) *12-month Basel PD range: 100%*	0	152	0	0	0	152
Total gross carrying amount	3,953,846	772,009	32,685	26,956	16,813	4,802,309

Wholesale:

31.12.2021 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified Approach	Total
Balance as of 1 January 2020	5,799	347	0	0	0	6,146
Newly granted/purchased financial assets (additions)	6,754	470	0	0	0	7,224
Transfer to						
Stage 1	0	0	0	0	0	0
Stage 2	(3)	11	0	0	0	8
Stage 3	0	0	0	0	0	0
Financial instruments derecognised during the period (derecognitions)	(5,297)	(297)	0	0	0	(5,594)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	0	0	0	0	0	0
Balance as of 31 December 2020	7,253	531	0	0	0	7,784
Newly granted/purchased financial assets (additions)	10,905	2,385	0	0	0	13,290
Transfer to						
Stage 1	0	0	0	0	0	0
Stage 2	(2)	10	0	0	0	8
Stage 3	0	0	0	0	0	0
Financial instruments derecognised during the period (derecognitions)	(6,578)	(240)	0	0	0	(6,818)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	0	0	0	0	0	0
Balance as of 31 December 2021	11,578	2,686	0	0	0	14,264

31.12.2021 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Default risk rating class 1 (loans/receivables not at risk of default - normal loans) *12-month Basel PD range: 0% - 8.18%*	1,079,350	122,928	0	0	0	1,202,278
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management) *12-month Basel PD range: 8.18% - 100%*	24,841	11,925	0	0	0	36,766
Default risk rating class 3 (loans/receivables in default - non performing loans) *12-month Basel PD range: 100%*	0	0	0	0	0	0
Total gross carrying amount	1,104,191	134,853	0	0	0	1,239,044

31.12.2020 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Default risk rating class 1 (loans/receivables not at risk of default - normal loans) *12-month Basel PD range: 0% - 8.18%*	977,565	68,732	0	0	0	1,046,297
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management) *12-month Basel PD range: 8.18% - 100%*	97,839	32,029	0	0	0	129,868
Default risk rating class 3 (loans/receivables in default - non performing loans) *12-month Basel PD range: 100%*	0	0	0	0	0	0
Total gross carrying amount	1,075,404	100,761	0	0	0	1,176,165

Fleet:

31.12.2021 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified Approach	Total
Balance as of 1 January 2020	19	0	8,634	0	2,096	10,749
Newly granted/purchased financial assets (additions)	4	0	0	0	12,015	12,019
Transfer to						0
Stage 1	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0
Stage 3	0	0	0	0	0	0
Financial instruments derecognised during the period (derecognitions)	(14)	0	0	0	(10,687)	(10,701)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	0	0	0	0	0	0
Balance as of 31 December 2020	9	0	8,634	0	3,424	12,067
Newly granted/purchased financial assets (additions)	41	2,424	0	0	2,019	4,484
Transfer to						0
Stage 1	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0
Stage 3	0	0	0	0	0	0
Financial instruments derecognised during the period (derecognitions)	0	(3)	0	0	(13)	(16)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	0	129	3,366	0	(3,495)	0
Balance as of 31 December 2021	50	2,550	12,000	0	1,935	16,535

31.12.2021 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Default risk rating class 1 (loans/receivables not at risk of default - normal loans) *12-month Basel PD range: 0% - 8.18%*	25,870	38,310	0	0	33,899	98,079
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management) *12-month Basel PD range: 8.18% - 100%*	0	4,983	0	0	7,770	12,753
Default risk rating class 3 (loans/receivables in default - non performing loans) *12-month Basel PD range: 100%*	0	0	12,000	0	0	12,000
Total gross carrying amount	25,870	43,293	12,000	0	41,669	122,832

31.12.2020 CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
Default risk rating class 1 (loans/receivables not at risk of default - normal loans) *12-month Basel PD range: 0% - 8.18%*	12,042	0	0	0	85,743	97,785
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management) *12-month Basel PD range: 8.18% - 100%*	0	0	0	0	1,437	1,437
Default risk rating class 3 (loans/receivables in default - non performing loans) *12-month Basel PD range: 100%*	0	0	12,000	0	0	12,000
Total gross carrying amount	12,042	0	12,000	0	87,180	111,222

Retail, Wholesale and Fleet:

The net increase in the gross carrying amount of Retail receivables has resulted in a net increase in the Group's loss allowance. Wholesale and Fleet receivables remained stable during the year and therefore have not had a material impact on the loss allowance.

The total amount of undiscounted expected credit losses at initial recognition of POCI loans recognised during the period is $96k (2020: $6k).

During the year, there have been modifications to contractual cash flows of financial assets that have not resulted in derecognition.

- For financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit loss, their amortised cost before the modification was $109,892k and the net modification loss recognised was $325k (2020: $180,087k and $1,016k).

- For financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses, their amortised cost before the modification was $95,688k (2020: $108,839k).

The Group's credit-impaired assets (Stage 3 and POCI) and related collateral held are as follows:

31.12.2021 CONSOLIDATED AND PARENT $'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held (Vehicles)
Credit-impaired assets				
Retail loans and lease receivables	61,559	26,294	35,265	36,227
Wholesale loans	0	0	0	0
Fleet loans and lease receivables	12,000	12,000	0	0
Total	73,559	38,294	35,265	36,227

31.12.2020 CONSOLIDATED AND PARENT $'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held (Vehicles)
Credit-impaired assets				
Retail loans and lease receivables	59,641	22,331	37,310	33,918
Wholesale loans	0	0	0	0
Fleet loans and lease receivables	12,000	12,000	0	0
Total	71,641	34,331	37,310	33,918

All collateral held is in the form of a registered security interest (PPSR) over the financed vehicles. This means that the Group is entitled to repossess the financed vehicle in the case of a customer's default and sell it on behalf of the customer in order to recover or partially recover any incurred losses from the loan or lease contract. Any surplus from the sale is payable to the customer.

The quality of the collateral held has not significantly changed compared to the prior year.

D. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets mandatorily measured at fair value through profit or loss				
Retail loans where the customer has the right to return the vehicle at the end of the contract term (Note 4b) - *included in Loans to and receivables from customers attributable to Retail loan financing*				
Current receivables	110,725	156,941	110,725	156,941
Non-current receivables	371,107	317,071	371,107	317,071
Subordinated Loan - *included in Other financial assets*				
Current receivables	0	0	47,862	4,014
Non-current receivables	0	0	128,418	166,045
Total financial assets at fair value through profit or loss	481,832	474,012	658,112	644,071

Amounts recognised in profit or loss
During the year, an amount of $2,459k credit (2020: $3,366k credit) was recognised in profit or loss for fair value losses on retail receivables where the customer has the right to return the car at the end of the contract term.

E. BAD AND DOUBTFUL DEBTS EXPENSES

31.12.2021 CONSOLIDATED AND PARENT $'000	Net provision movement	Write-off	Bad debts recovered	Other bad debts (income) / expenses (net)	Total bad and doubtful debts expenses
Retail loans and lease receivables	7,854	24,128	(8,590)	(376)	23,016
Retail loans	*7,854*	*24,128*	*(8,590)*	*(376)*	
Retail leases	*0*	*0*	*0*	*0*	
Dealer loans	6,480	0	0	0	6,480
Fleet loans and lease receivables	4,467	0	(1)	434	4,900
Fleet loans	*0*	*0*	*0*	*0*	
Fleet leases	*4,467*	*0*	*(1)*	*434*	
Returned vehicles	0	0	0	(5)	(5)
Total	18,801	24,128	(8,591)	53	34,391

31.12.2020 CONSOLIDATED AND PARENT $'000	Net provision movement	Write-off	Bad debts recovered	Other bad debts (income) / expenses (net)	Total bad and doubtful debts expenses
Retail loans and lease receivables	43,987	27,549	(6,730)	63	64,869
Retail loans	*43,987*	*27,549*	*(6,730)*	*63*	*64,869*
Retail leases	*0*	*0*	*0*	*0*	*0*
Dealer loans	1,638	0	0	0	1,638
Fleet loans and lease receivables	1,319	0	0	29	1,348
Fleet loans	*0*	*0*	*0*	*0*	*0*
Fleet leases	*1,319*	*0*	*(1)*	*30*	*1,348*
Returned vehicles	0	0	0	(663)	(663)
Total	46,944	27,549	(6,730)	(571)	67,192

The contractual amount outstanding on financial assets that were written-off during the reporting period and are still subject to enforcement activity is $24.53m (2020: $24.70m).

F. MATURITY PROFILE OF LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Maturity analysis				
Less than 3 months	324,490	1,422,592	324,490	1,422,592
More than 3 months, but less than 1 year	1,924,601	808,348	1,924,597	808,348
More than 1 year, but less than 5 years	4,260,818	3,984,788	4,260,822	3,984,788
More than 5 years	116,977	219,753	116,977	219,753
Total	6,626,886	6,435,481	6,626,886	6,435,481

G. OTHER FINANCIAL ASSETS

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Subordinated loans	0	0	176,280	170,059
Other debtors	17,346	13,526	17,346	13,526
Amounts receivable from related entities	495	848	495	1,882
Total	17,841	14,374	194,121	185,467

A credit risk provision of $12.4k (2020: $15.8k) has been recognised for miscellaneous assets as at the end of the financial year.

H. FINANCE LEASES AS A LESSOR

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Selling profit or loss	0	0	0	0
Finance income on the net investment in the lease	6,555	5,857	6,555	5,857
Income relating to variable lease payments not included in the measurement of the net investment in the lease	0	0	0	0

The Group manages the risk associated with any rights it retains in underlying assets through its process of setting residual values. The process is overseen jointly by the Risk & Compliance department and the Sales department who participate in regular Residual Value Risk Committee meetings in order to determine appropriate residual values for each vehicle model, taking into account various other factors including the term of the contract and options fitted to the vehicle.

The following table shows the maturity profile of undiscounted future cash flows from Finance lease contracts and a reconciliation to their carrying amount:

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Maturity analysis				
Less than 1 year	31,027	29,463	31,027	29,463
More than 1 year, but less than 2 years	18,255	18,599	18,255	18,599
More than 2 years, but less than 3 years	12,681	14,821	12,681	14,821
More than 3 years, but less than 4 years	7,878	7,726	7,878	7,726
More than 4 years, but less than 5 years	4,092	4,093	4,092	4,093
More than 5 years	117	0	117	0
Total	74,050	74,702	74,050	74,702
thereof: unearned income	*(5,936)*	*(6,669)*	*(5,936)*	*(6,669)*
thereof: unamortised	*490*	*514*	*490*	*514*
thereof: credit risk provisions	*(10,703)*	*(3,257)*	*(10,703)*	*(3,257)*
Net investment in the lease	57,901	65,290	57,901	65,290
Discounted residual values included in the net investment in the lease	26,901	29,694	26,901	29,694

5 | Operating leases

A. INCOME FROM OPERATING LEASE TRANSACTIONS

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Gross operating lease income	4,784	4,524	4,784	4,524
Accrued operating lease income	21	124	21	124
Total	4,805	4,648	4,805	4,648

B. LEASE ASSETS

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Gross cost	25,946	22,744	25,946	22,744
Accumulated depreciation	(10,291)	(8,528)	(10,291)	(8,528)
Total	15,655	14,216	15,655	14,216

CONSOLIDATED AND PARENT $'000	Gross cost	Accumulated depreciation	Total
Carrying amount as of 1 January 2020	20,888	(6,717)	14,171
Additions	6,239	(3,773)	2,466
Disposals	(4,383)	1,962	(2,421)
Carrying Amount as of 31 December 2020	22,744	(8,528)	14,216
Additions	7,960	(3,879)	4,081
Disposals	(4,758)	2,116	(2,642)
Carrying Amount as of 31 December 2021	25,946	(10,291)	15,655

Leased assets are vehicles owned by the Group that are subject to Operating Lease contracts with customers at the balance sheet date.

The Group is entitled to the following future lease payments from its customers under these contracts:

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Less than 3 months	1,675	988	1,675	988
More than 3 months, but less than 1 year	3,069	2,194	3,069	2,194
More than 1 year, but less than 2 years	5,060	6,343	5,060	6,343
More than 2 years, but less than 3 years	3,168	3,441	3,168	3,441
More than 3 years, but less than 4 years	1,762	1,099	1,762	1,099
More than 4 years, but less than 5 years	921	151	921	151
More than 5 years	0	0	0	0

6 | Non-interest revenue

$'000	Consolidated 31.12.2021	Consolidated 31.12.2020	Parent 31.12.2021	Parent 31.12.2020
ABS service fee income	0	0	21,753	23,850
Fair value movements	2,459	3,366	2,459	3,366
Management fee income	3,388	3,330	3,388	3,130
Fee income from Retail contracts at fair value through profit or loss	1,820	3,116	1,820	3,116
Insurance commission income	2,945	2,435	2,945	2,434
Service fee income	1,071	1,314	1,071	1,514
Early return fee income	335	303	335	303
Other non-interest revenue	934	19	934	20
Total	12,952	13,883	34,705	37,733

7 | Other non-financial assets

A. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

CONSOLIDATED AND PARENT $'000	Net book value 31.12.2020	Additions and transfers in	Disposals and transfers out	Depreciation and impairment	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	(1,860)	(1,277)	16,127
Total intangible assets	15,685	7,903	(1,860)	(3,114)	18,614
Total	22,905	7,903	(1,860)	(5,106)	23,842

31.12.2021 CONSOLIDATED AND PARENT $'000	Gross cost	Accumulated depreciation	Net book value
Property, plant and equipment			
Leasehold improvements	4,194	(3,201)	993
Computer and office equipment	1,095	(885)	210
Right of use assets	8,283	(4,258)	4,025
Total property, plant and equipment	13,572	(8,344)	5,228
Intangible assets			
Computer software	26,839	(24,352)	2,487
Software under development	16,127	0	16,127
Total intangible assets	42,966	(24,352)	18,614
Total	56,538	(32,696)	23,842

CONSOLIDATED AND PARENT $'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

31.12.2020 CONSOLIDATED AND PARENT $'000	Gross Cost	Accumulated Depreciation	Net book value
Property, plant and equipment			
Leasehold improvements	4,194	(2,848)	1,346
Computer and office equipment	1,097	(746)	351
Right of use assets	8,281	(2,758)	5,523
Total property, plant and equipment	13,572	(6,352)	7,220
Intangible assets			
Computer software	25,708	(22,514)	3,194
Software under development	12,491	0	12,491
Total intangible assets	38,199	(22,514)	15,685
Total	51,771	(28,866)	22,905

B. DEPRECIATION AND AMORTISATION EXPENSES

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Depreciation				
Leased assets	3,879	3,773	3,879	3,773
Leasehold improvements	353	353	353	353
Computer and office equipment	140	146	140	146
Right of use assets	1,500	1,383	1,500	1,383
Total depreciation	5,872	5,655	5,872	5,655
Amortisation				
Computer software	1,837	2,102	1,837	2,102
Total amortisation	1,837	2,102	1,837	2,102
Total	7,709	7,757	7,709	7,757

In addition, an impairment expense of $1,277k (2020: $nil) was recorded against Software under development.

C. OTHER ASSETS

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
GST receivable	0	0	0	0
Prepayments	754	571	754	572
Total	754	571	754	572

8 | Financial liabilities

A. BORROWINGS

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

31.12.2021 PARENT $'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
Total	4,453,100	17,857	(2,230)	(4,887)	4,463,840

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

31.12.2020 PARENT $'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
Total	4,149,600	17,614	(2,690)	14,493	4,179,017

The medium term note program include maturities between 2 months and 5 years duration with an average rate of 2.3% (2020: 3.0%).

Bank loans include maturities between 2 month to 1.6 years duration with an average rate of 1.29% (2020: 1.26%). The Group had undrawn facility limits at 31 December 2021 of $1,887k (2020: $1,367k). All of the Group's bank loan facilities are uncommitted and can be withdrawn by the counterparty at any time.

VWFSA utilises asset backed notes transactions for the purpose of refinancing under the Driver Australia Program resulting of issuance of secured borrowings (notes A, notes B and subordinated loans). The asset backed securitisation transactions may be subject to early repayment (so called clean-up call). $2,444,145,752 (2020: $2,093,224,855) of loans and receivables are backing the class A notes, the class B notes and subordinated loans.

The average interest rates of Class A and Class B notes outstanding at the balance sheet date are 0.76% and 1.13% respectively (2020: 0.98% and 1.67% respectively). The clean-up call for Driver Australia four was exercised on 21 April 2021.

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.
The current interest rate is 0.61% (2020: 0.51%) on the overdraft facility.

Concentration of exposures
Amounts due to other financial institutions represent borrowings from four Australian licensed deposit taking institutions.

B. BORROWINGS – MATURITY PROFILE

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Maturity analysis				
Less than 3 months	1,337,993	1,353,867	1,196,716	1,117,583
More than 3 months, but less than 1 year	1,204,708	1,777,787	914,043	1,095,632
More than 1 year, but less than 5 years	4,174,928	3,045,922	2,353,081	1,965,802
More than 5 years	0	0	0	0
Total	6,717,629	6,177,576	4,463,840	4,179,017

C. VIRTUAL LOAN

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets through interests and securitisations. Financial assets (retail car loans) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Group is entitled to any residual income of a securitisation vehicle, the Group continues to recognise the financial assets.

The Group securitises automotive loans and receivables (receivables) under the Driver Australia Program. These receivables are acquired by Trusts through equitable entitlements. The Trusts fund these acquisitions by issuing class A notes, class B notes and subordinated loans.
VWFSA has not passed the de-recognition criteria of AASB 9 and therefore has continued to recognise the receivables transferred to the Trusts on its Statement of Financial Position. Virtual loans have been recognised in VWFSA representing the consideration received by VWFSA from the Trusts.
VWFSA has control over the Trusts as it has the power and ability to direct the relevant activities of the Special Purpose Trusts and has exposure to variable returns through the collateral loan arrangements.
VWFSA is prohibited by the terms from the arrangement from selling or pledging the receivables to any parties other than the Trusts.
VWFSA undertakes the role as servicer for the receivables, transferring all collections of the receivables to the Trusts. VWFSA has provided the Trusts with collateral of $44.8m (2020: $50.3m). The first loss on the Receivables is borne by the Collateral Loan Lender. After payment of the amount due to note-holders, VWFSA is entitled to the return of all remaining receivables, all titles and rights are renounced and VWFSA is entitled to all future collections.

The following table presents information for transfers of financial assets not derecognised by the Parent Entity as at 31 December 2021:

	Parent	
$'000	31.12.2021	31.12.2020
Retail receivables		
Carrying amount of transferred assets	2,875,847	2,579,747
Carrying amount of associated liabilities	2,253,790	1,998,559
For those liabilities that have recourse only to the transferred assets		
Fair value of transferred assets	2,858,687	2,561,176
Fair value of associated liabilities	2,253,790	1,998,559
Net fair value	604,897	562,617

Sensitivity analysis
At 31 December 2021 if interest rate changed by -/+1% from the year end rate with all other variables held constant, there would be no impact to the virtual loan and therefore no impact to profit or loss or equity.

D. VIRTUAL LOAN – MATURITY PROFILE

The repayment of the virtual loan is linked to the underlying collections of the securitised assets and the same is repaid to the trust based on the collections from the underlying loan receivables.
The estimated timing of the repayments is as follows:

PARENT $'000	31.12.2021	31.12.2020
Maturity analysis		
Less than 3 months	154,786	160,546
More than 3 months, but less than 1 year	314,188	391,779
More than 1 year, but less than 5 years	1,926,555	1,570,318
More than 5 years	0	0
Total	2,395,529	2,122,643

E. OTHER FINANCIAL LIABILITIES

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Amounts payable to related entities	4,141	30,832	4,141	30,832
Commission clearing/payable	9,080	9,612	9,080	9,612
Other Creditors	15,817	6,749	15,817	6,749
Total	29,038	47,193	29,038	47,193

F. LEASE LIABILITIES

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
As at 1 January	5,738	7,006	5,738	7,006
Additions	0	0	0	0
Accretion of Interest	235	299	235	299
Payments	(1,497)	(1,567)	(1,497)	(1,567)
As at 31 December	4,476	5,738	4,476	5,738

9 | Other liabilities

$'000	Consolidated 31.12.2021	Consolidated 31.12.2020	Parent 31.12.2021	Parent 31.12.2020
Sundry accruals	9,506	10,412	9,506	10,412
Compliance, programs and regulation	9,449	9,650	9,449	9,650
Audit fee provision	272	235	272	235
GST payable	6,527	8,223	6,792	8,460
Tax fee provision	399	287	399	287
Other creditors	1,107	188	1,107	188
Tax provision	0	0	0	0
Total	27,260	28,995	27,525	29,232

The provision for Compliance, programs and regulation of $9,449k has reduced by $201k from last year, resulting from utilisations. There were no releases to the Statement of Comprehensive Income during the year. The provision is in relation to a Court Enforceable Undertaking whereby the Group will implement a customer remediation program, on a no admissions basis. This remediation program is estimated to provide $7.4 million in redress to approximately 3,026 consumers and includes taking reasonable steps to remove default listings from affected consumer credit bureau files. The financial effects relating to remediation are not expected to significantly impact on the Group's business activities or growth and will not impact on its ability to meet its payment obligations as and when they fall due. The Group takes its compliance obligations seriously and works to ensure policies, systems and processes are in place to meet its responsible lending obligations.

All other liabilities as of 31 December 2020 were paid or released to the Statement of Comprehensive Income in the current year. The amounts outstanding as of 31 December 2021 were booked in the current year and represent the Group’s other liabilities as of the balance date.

10 | Employee entitlements

A. PROVISIONS

$'000	Consolidated 31.12.2021	Consolidated 31.12.2020	Parent 31.12.2021	Parent 31.12.2020
Provision for staff bonus	3,264	2,827	3,264	2,827
Provision for leave entitlements - current	1,338	1,223	1,338	1,223
Total current employee entitlements	4,602	4,050	4,602	4,050
Provision for leave entitlements - non-current	837	726	837	726
Total non-current employee entitlements	837	726	837	726
Total	5,439	4,776	5,439	4,776

Consolidated & Parent $'000	Staff bonus	Leave entitlements	Total
Carrying amount as at 1 January 2020	2,911	1,718	4,629
Additional provisions recognised	2,827	956	3,783
Reductions in provisions	(2,911)	(725)	(3,636)
Carrying amount as at 31 December 2020	2,827	1,949	4,776
Additional provisions recognised	2,566	1,063	3,629
Reductions in provisions	(2,129)	(837)	(2,966)
Carrying amount as at 31 December 2021	3,264	2,175	5,439

B. EXPENSES

$'000	Consolidated		Parent	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Salaries and wages	22,058	21,138	22,058	21,138
Superannuation	2,160	2,219	2,160	2,219
Fringe Benefits Tax	1,049	840	1,049	840
Expat benefits	264	415	264	415
Staff training and education	237	314	237	314
Temporary staff costs	346	219	346	219
Recruitment	524	149	524	149
Other	141	170	141	170
Total	26,779	25,464	26,779	25,464

11 | Other expenses from ordinary activities

$'000	Consolidated		Parent	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Consultancy	3,771	3,708	3,771	3,708
Commission expense from Retail contracts at fair value through profit or loss	4,942	4,526	4,942	4,526
Credit rating expenses	3,830	3,855	3,830	3,855
IT and communication	4,958	5,203	4,958	5,203
Net loss on sale of vehicles	25	1,239	25	1,239
GST disallowed	1,967	1,081	1,947	1,056
Marketing	832	823	832	823
Company cars	1,089	1,194	1,089	1,194
Expenses paid to related parties	783	715	783	715
Postage	875	794	875	794
Rent	519	1,341	519	1,341
Travel	75	116	75	116
Compliance and insurance	198	741	198	741
Commission paid for operating leases	745	290	745	290
Costs for services provided to customers	164	293	164	293
Other	3,081	1,820	3,081	1,820
Total	27,854	27,739	27,834	27,714

12 | Income tax

A. DEFERRED TAX POSITION

$'000	Consolidated 31.12.2021	Consolidated 31.12.2020	Parent 31.12.2021	Parent 31.12.2020
The balance comprises temporary differences attributable to:				
Unamortised dealer commissions	0	0	0	0
Loans and receivables	179	241	179	241
Doubtful debts	44,994	38,926	44,994	38,926
Other provisions & accruals	6,205	5,924	6,205	5,924
Derivative financial instruments	7,974	8,208	7,974	8,208
Revaluation of cash flow hedges	(676)	3,530	62	553
Deferred income	489	1,999	489	1,999
Other temporary differences	136	558	136	558
Deferred tax assets	59,301	59,386	60,039	56,409
Prepayments	0	0	0	0
Leases	0	0	0	0
Deferred income	0	0	0	0
Derivative financial instruments	(6,830)	(8,628)	(6,830)	(8,628)
Fleet receivable	(3,075)	(2,625)	(3,075)	(2,625)
Doubtful debts	(1,610)	(873)	(1,610)	(873)
Other temporary differences	(341)	0	(341)	0
Deferred tax liabilities	(11,856)	(12,126)	(11,856)	(12,126)
Net deferred tax assets	47,445	47,260	48,183	44,283
Movements:				
Opening balance as at 1 January	47,260	33,076	44,283	32,976
Charged to income statement	4,391	11,610	4,391	11,610
Charged to other comprehensive income	(4,206)	2,574	(491)	(303)
Closing balance as at 31 December	47,445	47,260	48,183	44,283
Deferred tax assets expected to be recovered:				
within 12 months	20,476	18,662	20,476	18,662
over 12 months	26,969	28,598	27,707	25,621
Total	47,445	47,260	48,183	44,283

B. INCOME TAX EXPENSE

$'000	Consolidated 31.12.2021	Consolidated 31.12.2020	Parent 31.12.2021	Parent 31.12.2020
Current tax expense	44,286	35,252	44,286	35,252
Deferred tax expense	(4,391)	(1,423)	(4,391)	(1,423)
(Over provision) / Under provision	(2,650)	(11,611)	(2,650)	(11,611)
Total income tax expense	37,245	22,218	37,245	22,218
Income tax expense is attributable to:				
Profit from continuing operations	37,245	22,218	37,245	22,218
Deferred tax expense in income tax benefit comprises:				
(Increase) / Decrease in deferred tax assets	(4,120)	(5,351)	(4,120)	(5,351)
Increase / (Decrease) in deferred tax liabilities	(270)	(6,260)	(270)	(6,260)
Total deferred income tax expense	(4,390)	(11,611)	(4,390)	(11,611)

Numerical reconciliation of income tax benefit to prima facie tax payable:

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Profit from continuing operations before income tax expense	132,897	77,212	124,633	69,077
Tax at the Australian tax rate of 30% (2020: 30%)	39,868	23,164	37,390	20,723
Adjustment for prior tax period	(2,650)	(954)	(172)	1,487
Thin Capitalisation non deductible interest	0	0	0	0
Ungroupable losses Driver Australia three	0	0	0	0
Other permanent differences	27	8	27	8
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income	27	8	27	8
Total	37,245	22,218	37,245	22,218

13 | Equity

A. SHARE CAPITAL

CONSOLIDATED & PARENT	Number of shares		Share capital	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Ordinary shares - fully paid	105,440	105,440	195,440	195,440
Total	105,440	105,440	195,440	195,440

CONSOLIDATED & PARENT	Details	Number of shares	Issue price	Share capital ($ '000)
1 January 2004	Opening balance	26,000,000	$ 1.00	26,000
18 March 2004	Share issue	11,000,000	$ 1.00	11,000
23 July 2009	Share issue	43,440,000	$ 1.00	43,440
15 December 2010	Share issue	25,000,000	$ 1.00	25,000
7 December 2012	Additional paid in capital	0		35,000
19 November 2013	Additional paid in capital	0		25,000
12 November 2014	Additional paid in capital	0		30,000
Total		105,440,000		195,440

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.
On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Capital risk management

Volkswagen Financial Services Australia Pty Limited has an Australian financial services licence (Licence No: 389344). The licence is subject to certain capital and cash needs requirements.

Furthermore, the Group maintains trigger points in accordance with the requirements of the licence. These trigger points maintain a headroom value above the AFSL requirements and the Group has in place a number of processes and procedures should a trigger point be reached.

During the period, the Group complied with the AFSL requirements.

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for its parent Group. In order to maintain or adjust the capital structure in line with its capital management and liquidity strategy, the Group can request additional capital injection from its parent Group or raise additional debts within the capital markets in accordance with the Australian regulatory framework and requirements.

B. RETAINED EARNINGS

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Retained earnings as at 1 January	177,978	122,984	164,780	117,920
Net profit / (loss) for the year	95,652	54,994	87,722	46,860
Dividend paid	(80,000)	0	(80,000)	0
Retained earnings as at 31 December	193,630	177,978	172,502	164,780

C. CASH FLOW HEDGE RESERVE

Nature and purpose of hedging reserve for cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Note 1R. Amounts are recognised in the Statement of Comprehensive Income when the associated hedged transaction affects profit or loss.

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Cash flow hedge reserve	2,253	(11,766)	(208)	(1,840)
Deferred tax for cash flow hedge reserve	(676)	3,530	62	552
Total	1,577	(8,236)	(146)	(1,288)

	Consolidated		Parent	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Opening balance as at 1 January	(8,236)	(2,231)	(1,288)	(1,996)
Changes in cash flow hedge reserve				
Revaluation movement	8,033	(3,580)	1,146	1,388
Amounts transferred to profit or loss	5,986	(4,999)	486	(377)
Total net changes in cash flow hedge reserve	14,019	(8,579)	1,632	1,011
Changes in deferred tax for cash flow hedges	(4,206)	2,574	(490)	(303)
Balance as at 31 December	1,577	(8,236)	(146)	(1,288)

14 | Financial instruments

A. DERIVATIVE FINANCIAL INSTRUMENTS

The Group is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies (Note 2).

Interest rate swap contracts
Interest bearing liabilities currently bear an average variable interest rate of 0.82% (consolidated) and 1.02% (parent) (2020: 1.08% and 1.31% respectively). It is the Group's policy to protect part of the loans from exposure to increasing interest rates through entering into interest rate swaps for the purpose of economically hedging both fair value and cash flows. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 62.3% (consolidated) and 43.2% (parent) (2020: 95.6% and 60.0% respectively) of the interest bearing liabilities outstanding and are timed to expire as each bank loan repayment or maturity of commercial paper falls due. Fixed interest rates range between 0.31% and 3.50% (2020: between 0.61% and 3.50%) and the variable rates are between 0.62% and 1.50% (2020: between 0.91% and 1.82%).

The notional principal amounts and the remaining terms of interest rate contracts outstanding at the reporting date are:

31.12.2021 CONSOLIDATED $'000	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Fair value hedges				
Interest rate swaps				
Notional	250,000	175,000	800,000	0
Average variable interest rate	1.19%	1.25%	1.15%	
Cash flow hedges				
Interest rate swaps				
Notional	65,545	50,000	841,053	0
Average fixed interest rate	3.46%	0.82%	1.72%	
Derivatives				
Interest rate swaps				
Notional	115,545	3,005,326	2,317,969	0
Average variable interest rate	2.46%	0.93%	1.00%	
Average fixed interest rate	2.26%	2.04%	0.97%	

31.12.2021 PARENT $'000	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Fair value hedges				
Interest rate swaps				
Notional	250,000	175,000	800,000	0
Average variable interest rate	1.19%	1.25%	1.15%	
Cash flow hedges				
Interest rate swaps				
Notional	0	50,000	0	0
Average fixed interest rate		0.82%		
Derivatives				
Interest rate swaps				
Notional	115,545	1,657,126	2,317,969	0
Average variable interest rate	1.23%	0.93%	1.00%	
Average fixed interest rate	2.26%	2.08%	0.97%	

31.12.2020 CONSOLIDATED $'000	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Fair value hedges				
Interest rate swaps				
Notional	0	250,000	725,000	0
Average variable interest rate	0.00%	1.11%	1.34%	
Cash flow hedges				
Interest rate swaps				
Notional	50,000	50,000	788,248	0
Average fixed interest rate	2.16%	2.19%	2.24%	
Derivatives				
Interest rate swaps				
Notional	150,000	2,888,900	1,884,777	0
Average variable interest rate	n/a	1.36%	1.18%	
Average fixed interest rate	2.13%	2.42%	1.87%	

31.12.2020 PARENT $'000	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Fair value hedges				
Interest rate swaps				
Notional	0	250,000	725,000	0
Average variable interest rate		1.11%	1.34%	
Cash flow hedges				
Interest rate swaps				
Notional	50,000	50,000	50,000	0
Average fixed interest rate	2.16%	2.19%	0.82%	
Derivatives				
Interest rate swaps				
Notional	150,000	1,627,845	1,884,777	0
Average variable interest rate	n/a	1.36%	1.18%	
Average fixed interest rate	2.13%	2.48%	1.87%	

The following table contains details of the hedging instruments used in the Group's hedging strategies:

31.12.2021 CONSOLIDATED $'000	Notional	Carrying amount Assets	Carrying amount Liabilities	Statement of Financial Position line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges					
Interest rate					
Interest rate swaps	1,225,000	7,646	(10,725)	Derivative financial instruments	(10,261)
Cash flow hedges					
Interest rate					
Interest rate swaps	956,598	1,897	(669)	Derivative financial instruments	1,428

31.12.2021 PARENT $'000	Notional	Carrying amount Assets	Carrying amount Liabilities	Statement of Financial Position line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges					
Interest rate					
Interest rate swaps	1,225,000	7,646	(10,725)	Derivative financial instruments	(10,261)
Cash flow hedges					
Interest rate					
Interest rate swaps	50,000	0	(218)	Derivative financial instruments	(208)

31.12.2020 CONSOLIDATED $'000	Notional	Carrying amount Assets	Carrying amount Liabilities	Statement of Financial Position line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges					
Interest rate					
Interest rate swaps	975,000	27,979	0	Derivative financial instruments	20,518
Cash flow hedges					
Interest rate					
Interest rate swaps	888,248	0	(6,899)	Derivative financial instruments	(6,605)

31.12.2020 PARENT $'000	Notional	Carrying amount		Statement of Financial Position line item(s)	Changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities		
Fair value hedges					
Interest rate					
Interest rate swaps	975,000	27,979	0	Derivative financial instruments	20,518
Cash flow hedges					
Interest rate					
Interest rate swaps	150,000	0	(1,470)	Derivative financial instruments	(1,354)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31.12.2021 CONSOLIDATED $'000	Carrying amount of hedged item	Accumulated amount of fair value adjustments	Statement of Financial Position line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
	Assets (+) / Liabilities (-)	Assets (+) / Liabilities (-)			Continuing hedges	Discontinued hedges
Fair value hedges						
Interest rate						
Fixed rate borrowings	(1,225,000)	(10,261)	Medium Term Notes and Commercial Papers issued	(10,261)	n/a	n/a
Cash flow hedges						
Interest rate						
Variable rate borrowings	(956,598)	n/a	Liabilities to banks, Medium Term Notes and Commercial Papers issued and Asset Backed Securities Notes issued	n/a	(1,428)	n/a

31.12.2021 PARENT $'000	Carrying amount of hedged item Assets (+) / Liabilities (-)	Accumulated amount of fair value adjustments Assets (+) / Liabilities (-)	Statement of Financial Position line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve Continuing hedges	Discontinued hedges
Fair value hedges						
Interest rate						
Fixed rate borrowings	(1,225,000)	(10,261)	Medium Term Notes and Commercial Papers issued	(10,261)	n/a	n/a
Cash flow hedges						
Interest rate						
Variable rate borrowings	(50,000)	n/a	Liabilities to banks, Medium Term Notes and Commercial Papers issued and Asset Backed Securities Notes issued	n/a	208	n/a

31.12.2020 CONSOLIDATED $'000	Carrying amount of hedged item Assets (+) / Liabilities (-)	Accumulated amount of fair value adjustments Assets (+) / Liabilities (-)	Statement of Financial Position line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve Continuing hedges	Discontinued hedges
Fair value hedges						
Interest rate						
Fixed rate borrowings	1,475,000	5,303	Medium Term Notes and Commercial Papers issued	5,303	n/a	n/a
Cash flow hedges						
Interest rate						
Variable rate borrowings	1,501,009	n/a	Liabilities to banks, Medium Term Notes and Commercial Papers issued and Asset Backed Securities Notes issued	(3,307)	2,863	0

31.12.2020 PARENT $'000	Carrying amount of hedged item Assets (+) / Liabilities (-)	Accumulated amount of fair value adjustments Assets (+) / Liabilities (-)	Statement of Financial Position line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve Continuing hedges	 Discontinued hedges
Fair value hedges						
Interest rate						
Fixed rate borrowings	1,475,000	5,303	Medium Term Notes and Commercial Papers issued	5,303	n/a	n/a
Cash flow hedges						
Interest rate						
Variable rate borrowings	300,000	n/a	Liabilities to banks, Medium Term Notes and Commercial Papers issued and Asset Backed Securities Notes issued	(2,899)	2,633	0

The gain or loss from revaluing the cash flow hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit or loss when the hedged interest expense is recognised. The ineffective portion is recognised in the Statement of Comprehensive Income immediately and amounts to a debit of $5,986k (consolidated) and a debit of $486k (Parent) for the year (2020: credit of $4,999k and credit of $377k).

Hedge ineffectiveness in micro-hedge accounting largely results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Different yield curves are used when determining forward interest rates when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness. The hedge ratio is 1:1 between the hedged item and the hedging instrument for each hedge relationship.

The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

31.12.2021 CONSOLIDATED $'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness Amount	 P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	0	Net gains/(losses) on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	2,253	(825)	Net gains/(losses) on financial instruments at fair value

31.12.2021 PARENT $'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness	
		Amount	P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	0	Net gains/(losses) on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	(208)	0	Net gains/(losses) on financial instruments at fair value

31.12.2020 CONSOLIDATED $'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness	
		Amount	P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	0	Net gains/(losses) on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	11,766	5,161	Net gains/(losses) on financial instruments at fair value

31.12.2020 PARENT $'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness	
		Amount	P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	0	Net gains/(losses) on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	1,840	486	Net gains/(losses) on financial instruments at fair value

B. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and liabilities are shown in the following table. The fair value is the amount for which financial instruments can be sold or bought on fair terms on the balance sheet date.

CONSOLIDATED	Fair value		Carrying amount		Difference	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Assets						
Measured at fair value						
Retail loan financing	481,832	474,012	481,832	474,012	0	0
Derivative financial instruments	28,553	36,420	28,553	36,420	0	0
Measured at amortised cost						
Cash and cash equivalents	442,496	92,488	442,496	92,488	0	0
Retail loan financing	4,864,991	4,810,903	4,798,670	4,680,344	66,321	130,559
Dealer loan financing	1,224,780	1,168,381	1,224,780	1,168,381	0	0
Fleet loan financing	63,411	47,537	63,703	47,454	(292)	83
Lease receivables	58,809	66,599	57,901	65,290	908	1,309
Other financial assets	17,841	14,374	17,841	14,374	0	0
Liabilities						
Measured at fair value						
Derivative financial instruments	23,714	26,467	23,714	26,467	0	0
Measured at amortised cost						
Liabilities to banks	1,155,236	1,507,216	1,157,880	1,504,697	(2,644)	(474)
Medium Term Notes and Commercial Papers issued	3,277,000	2,692,666	3,305,960	2,674,320	(28,960)	18,346
Asset Backed Securities Notes issued	2,304,995	2,102,964	2,253,789	1,998,559	51,206	104,405
Other financial liabilities	29,038	47,193	29,038	47,193	0	0

PARENT	Fair value		Carrying amount		Difference	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Assets						
Measured at fair value						
Retail loan financing	481,832	474,012	481,832	474,012	0	0
Derivative financial instruments	17,373	35,943	17,373	35,943	0	0
Other financial assets	128,716	170,059	128,716	170,059	0	0
Measured at amortised cost						
Cash and cash equivalents	394,757	37,061	394,757	37,061	0	0
Retail loan financing	4,864,991	4,810,903	4,798,670	4,680,344	66,321	130,559
Dealer loan financing	1,224,780	1,168,381	1,224,780	1,168,381	0	0
Fleet loan financing	63,411	47,537	63,703	47,454	(292)	83
Lease receivables	58,809	66,599	57,901	65,290	908	1,309
Other financial assets	65,405	15,408	65,405	15,408	0	0
Liabilities						
Measured at fair value						
Derivative financial instruments	22,993	20,609	22,993	20,609	0	0
Measured at amortised cost						
Liabilities to banks	1,155,236	1,507,216	1,157,880	1,504,697	(2,644)	2,519
Medium Term Notes and Commercial Papers issued	3,277,000	2,692,666	3,305,960	2,674,320	(28,960)	18,346
Virtual Loan	2,395,529	2,122,643	2,395,529	2,122,643	0	0
Other financial liabilities	29,038	47,193	29,038	47,193	0	0

The fair values of receivables from Retail loan financing and Fleet loan financing and Lease receivables are measured using valuation techniques incorporating at least one significant input that is not directly observable in an active market (fair value level 3).

The fair value of Dealer loan financing is measured on the basis of inputs observable in the markets, such as Bank Bill Swap Rates (BBSW) or yield curves, using market-based valuation techniques (fair value level 2).

The fair value of Liabilities to banks is measured on the basis of inputs observable in the markets, such as Bank Bill Swap Rates (BBSW) or yield curves, using market-based valuation techniques (fair value level 2).

C. FAIR VALUE MEASUREMENTS

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are observable in the market or not.

Level 1 is used to report the fair value of financial instruments such as marketable securities or securitised liabilities for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives and liabilities to customers.

Level 3 fair values are measured using valuation techniques incorporating at least one significant input that is not directly observable in an active market. All Retail loan financing receivables are allocated to Level 3 because their fair value is measured using inputs that are not observable in active markets.

There were no transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy.

For the fair value measurements within Level 3, the fair values were calculated using Discounted Cash Flow and other models, and key inputs into these valuation models include interest rates, a risk premium and average remaining term. For Retail loan financing receivables, the fair value is calculated on a monthly basis using a standardised method.

Key inputs include the following:

31.12.2021 CONSOLIDATED AND PARENT	Retail loan financing at fair value through profit or loss	Retail loan financing at amortised cost	Fleet loan financing at amortised cost	Lease receivables at amortised cost
Key Inputs				
Undiscounted outstanding balance	537,153	4,812,624	69,752	68,114
Average remaining term	n/a	32	28	24
Average contractual interest rate	n/a	6.20%	4.71%	6.34%
Risk premium	n/a	1.03%	1.03%	1.03%
Credit risk	2.45%	n/a	n/a	n/a
Residual value risk	0.97%	n/a	n/a	n/a

31.12.2020 CONSOLIDATED AND PARENT	Retail loan financing at fair value through profit or loss	Retail loan financing at amortised cost	Fleet loan financing at amortised cost	Lease receivables at amortised cost
Key Inputs				
Undiscounted outstanding balance	499,969	5,084,247	49,504	69,229
Average remaining term	25	33	23	24
Average contractual interest rate	0	6.29%	6.37%	4.46%
Risk Premium	0	1.03%	1.03%	1.03%

The methodology for the calculation of fair values for Retail loans financing at fair value through profit or loss was changed in 2021 to improve the accuracy of the results. Key inputs into this new model are partially different from key inputs into the previous model applied.

All of the above inputs have similar levels of sensitivity to the fair value calculation. During the reporting period, the discount rate had the largest impact on fair value movement due to its higher volatility levels compared to other inputs.

All fair value movements and balances are unrealised because the underlying assets are held to maturity by the Group.

The following table shows the allocation of financial instruments to this three-level fair value hierarchy by class:

CONSOLIDATED	Level 1		Level 2		Level 3	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Assets						
Measured at amortised cost						
Cash and cash equivalents	442,496	92,488	0	0	0	0
Retail loan financing	0	0	0	0	4,864,991	4,810,903
Dealer loan financing	0	0	1,224,780	1,168,381	0	0
Fleet loan financing	0	0	0	0	63,411	47,537
Lease receivables	0	0	0	0	58,809	66,599
Other financial assets	0	0	17,841	14,374	0	0
Measured at fair value						
Retail loan financing	0	0	0	0	481,832	474,012
Derivative financial instruments	0	0	28,553	36,420	0	0
thereof: Derivative financial instruments designated as hedges	*0*	*0*	*7,646*	*27,979*	*0*	*0*
Liabilities						
Measured at amortised cost						
Liabilities to banks	0	0	1,155,236	1,507,216	0	0
Medium Term Notes and Commercial Papers issued	0	0	3,277,000	2,692,666	0	0
Asset Backed Securities Notes issued	0	0	2,304,995	2,102,964	0	0
Other financial liabilities	0	0	29,038	47,193	0	0
Measured at fair value	0	0	0		0	0
Derivative financial instruments	0	0	*23,714*	*26,467*	0	0
thereof: Derivative financial instruments designated as hedges	*0*	*0*	*11,394*	*16,616*	*0*	*0*

PARENT $'000	Level 1 31.12.2021	Level 1 31.12.2020	Level 2 31.12.2021	Level 2 31.12.2020	Level 3 31.12.2021	Level 3 31.12.2020
Assets						
Measured at amortised cost						
Cash and cash equivalents	394,757	37,061	0	0	0	0
Retail loan financing	0	0	0	0	4,864,991	4,810,903
Dealer loan financing	0	0	1,224,780	1,168,381	0	0
Fleet loan financing	0	0	0	0	63,411	47,537
Lease receivables	0	0	0	0	58,809	66,599
Other financial assets	0	0	65,405	15,408	0	0
Measured at fair value						
Retail loan financing	0	0	0	0	481,832	474,012
Derivative financial instruments	0	0	17,373	35,943	0	0
thereof: Derivative financial instruments designated as hedges	0	0	*7,646*	*27,979*	0	0
Other financial assets	0	0	0	0	128,716	170,059
Liabilities						
Measured at amortised cost						
Liabilities to banks	0	0	1,155,236	1,507,216	0	0
Medium Term Notes and Commercial Papers issued	0	0	3,277,000	2,692,666	0	0
Virtual Loan	0	0	2,395,529	2,122,643	0	0
Other financial liabilities	0	0	29,038	47,193	0	0
Measured at fair value						
Derivative financial instruments	0	0	22,993	20,609	0	0
thereof: Derivative financial instruments designated as hedges	0	0	*10,725*	*11,187*	0	0

The following table shows reconciliation of balances in level 3 of the fair value hierarchy :

	Consolidated		Parent	
$'000	2021	2020	2021	2020
Retail loan and lease and Fleet financing at amortised cost				
Balance at 1 January	4,925,039	4,480,922	4,959,781	4,703,475
New contracts	1,960,083	1,914,285	1,960,083	1,914,285
Matured contracts	(1,964,848)	(1,602,119)	(1,895,452)	(1,654,613)
Fair value gains/(losses) recognised in the Income Statement	66,937	131,951	(2,459)	(3,366)
Balance at 31 December	4,987,211	4,925,039	5,021,953	4,959,781
Retail loan financing at fair value through profit or loss				
Balance at 1 January	474,012	496,723	474,012	496,723
New contracts	207,719	161,286	207,719	161,286
Matured contracts	(197,440)	(180,631)	(197,440)	(180,631)
Fair value gains/(losses) recognised in the Income Statement	(2,459)	(3,366)	(2,459)	(3,366)
Balance at 31 December	481,832	474,012	481,832	474,012
Subordinated loans				
Balance at 1 January	0	0	170,059	216,049
New loans granted	0	0	34,812	0
Repayments	0	0	(28,591)	(45,990)
Fair value gains/(losses) recognised in the Income Statement	0	0	0	0
Balance at 31 December	0	0	176,280	170,059

D. LIQUIDITY RISK

The ageing analysis of undiscounted cash outflows from financial liabilities is as follows:

31.12.2021 CONSOLIDATED $'000	Cash outflows	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Financial liabilities					
Derivative financial instruments	68,612	9,369	20,064	31,754	7,425
Other financial liabilities	29,038	29,038	0	0	0
Lease liabilities	4,711	357	1,070	3,284	0
Liabilities to banks	1,173,375	53,668	571,065	548,642	0
Medium Term Notes and Commercial Papers issued	3,510,253	1,164,448	452,113	1,893,692	0
Asset Backed Securities Notes issued	2,292,407	145,483	304,905	1,842,019	0
Gross credit commitments	1,444,813	1,444,813	0	0	0
Total	8,523,209	2,847,176	1,349,217	4,319,391	7,425

31.12.2021 PARENT $'000	Cash outflows	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Financial liabilities					
Derivative financial instruments	18,770	4,237	6,570	7,963	0
Other financial liabilities	29,038	29,038	0	0	0
Lease liabilities	4,711	357	1,070	3,284	0
Liabilities to banks	1,173,375	53,668	571,065	548,642	0
Medium Term Notes and Commercial Papers issued	3,510,253	1,164,448	452,113	1,893,692	0
Virtual Loan	2,474,201	162,006	485,907	1,826,288	0
Gross credit commitments	1,444,813	1,444,813	0	0	0
Total	8,655,161	2,858,567	1,516,725	4,279,869	0

31.12.2020 CONSOLIDATED $'000	Cash outflows	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Financial liabilities					
Derivative financial instruments	33,692	8,959	15,222	9,511	0
Other financial liabilities	47,193	47,193	0	0	0
Lease liabilities	6,091	345	1,036	4,710	0
Liabilities to banks	1,521,688	384,057	701,324	436,307	0
Medium Term Notes and Commercial Papers issued	2,755,326	736,513	435,913	1,582,900	0
Asset Backed Securities Notes issued	2,037,250	208,807	617,005	1,554,474	0
Gross credit commitments	1,285,426	1,285,426	0	0	0
Total	7,686,666	2,671,300	1,770,500	3,587,902	0

31.12.2020 PARENT $'000	Cash outflows	Less than 3 months	More than 3 months, but less than 1 year	More than 1 year, but less than 5 years	More than 5 years
Financial liabilities					
Derivative financial instruments	22,669	6,650	10,652	5,367	0
Other financial liabilities	47,193	47,193	0	0	0
Lease liabilities	6,091	345	1,036	4,710	0
Liabilities to banks	1,521,688	384,057	701,324	436,307	0
Medium Term Notes and Commercial Papers issued	2,755,326	736,513	435,913	1,582,900	0
Virtual Loan	2,184,160	150,825	518,051	1,515,284	0
Gross credit commitments	1,285,426	1,285,426	0	0	0
Total	7,822,553	2,611,009	1,666,976	3,544,568	0

Derivative financial instruments represent the net settlement amount of Interest rate swaps. Effective interest rate swaps require settlement of the net interest receivable or payable every 90 days. Settlement dates coincide with the dates on which the interest is payable on the underlying borrowings with the fixed and floating cash flows settled on a net basis.

E. INTEREST RATE RISK EXPOSURE

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out below. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

31.12.2021 CONSOLIDATED $'000	Floating interest	Fixed interest maturing		Non-interest bearing	Total
		Less than 1 year	More than 1 year, but less than 5 years		
Financial assets					
Cash and cash equivalents	442,496	0	0	0	442,496
Retail loan financing	0	1,215,732	4,064,770	0	5,280,502
Dealer loan financing	1,224,780	0	0	0	1,224,780
Fleet loan financing	0	22,595	41,108	0	63,703
Lease receivables	0	23,067	34,834	0	57,901
Miscellaneous financial assets	0	0	0	17,841	17,841
Total	1,667,276	1,261,394	4,140,712	17,841	7,087,223
Weighted average interest rate	2.07%	5.50%	5.92%	0.00%	4.92%
Financial liabilities					
Liabilities to banks	50,014	562,234	545,632	0	1,157,880
Medium Term Notes and Commercial Papers issued	200,080	1,498,511	1,607,369	0	3,305,960
Asset Backed Securities Notes issued	2,253,789	0	0	0	2,253,789
Other financial liabilities	0	0	0	29,038	29,038
Total	2,503,883	2,060,745	2,153,001	29,038	6,746,667
Weighted average interest rate	0.82%	1.51%	1.92%	0.00%	1.38%
Derivative financial instruments	(12,360)	7,184	10,017	0	4,841
Weighted average interest rate	2.11%	1.78%	0.74%	0.00%	1.54%
Net financial assets/(liabilities)	(848,967)	(792,167)	1,997,728	(11,197)	345,397

31.12.2021 PARENT $'000	Floating interest	Fixed interest maturing		Non-interest bearing	Total
		Less than 1 year	More than 1 year, but less than 5 years		
Financial assets					
Cash and cash equivalents	394,757	0	0	0	394,757
Retail loan financing	0	1,215,732	4,064,770	0	5,280,502
Dealer loan financing	1,224,780	0	0	0	1,224,780
Fleet loan financing	0	22,595	41,108	0	63,703
Lease receivables	0	23,067	34,834	0	57,901
Miscellaneous financial assets	128,716	0	0	65,405	194,121
Total	1,748,253	1,261,394	4,140,712	65,405	7,215,764
Weighted average interest rate	2.15%	5.50%	5.92%	0.00%	4.88%
Financial liabilities					
Liabilities to banks	50,014	562,234	545,632	0	1,157,880
Medium Term Notes and Commercial Papers issued	200,080	1,498,511	1,607,369	0	3,305,960
Virtual Loan		468,974	1,926,555	0	2,395,529
Other financial liabilities	0	0	0	29,038	29,038
Total	250,094	2,529,719	4,079,556	29,038	6,888,407
Weighted average interest rate	1.01%	1.51%	1.92%	0.00%	1.73%
Derivative financial instruments	(12,360)	(1,714)	8,461	0	(5,613)
Weighted average interest rate	2.11%	-1.41%	0.59%	0.00%	0.43%
Net financial assets/(liabilities)	1,485,799	(1,270,039)	69,617	36,367	321,744

31.12.2020 CONSOLIDATED $'000	Floating interest	Fixed interest maturing: Less than 1 year	Fixed interest maturing: More than 1 year, but less than 5 years	Non-interest bearing	Total
Financial assets					
Cash and cash equivalents	92,488	0	0	0	92,488
Retail loan financing	0	1,109,994	4,044,362	0	5,154,356
Dealer loan financing	1,168,381	0	0	0	1,168,381
Fleet loan financing	0	12,415	35,039	0	47,454
Lease receivables	0	24,545	40,745	0	65,290
Miscellaneous financial assets	0	0	0	14,374	14,374
Total	1,260,869	1,146,954	4,120,146	14,374	6,542,343
Weighted average interest rate	1.75%	5.71%	6.16%	0.00%	5.22%
Financial liabilities					
Liabilities to banks	150,281	381,001	973,414	0	1,504,696
Medium Term Notes and Commercial Papers issued	100,088	1,139,007	1,435,226	0	2,674,321
Asset Backed Securities Notes issued	1,998,559	0	0	0	1,998,559
Other financial liabilities	0	0	0	47,193	47,193
Total	2,248,928	1,520,008	2,408,640	47,193	6,224,769
Weighted average interest rate	1.08%	1.44%	2.61%	0.00%	1.75%
Derivative financial instruments	35,943	(6,364)	(19,626)	0	9,953
Weighted average interest rate	1.24%	2.31%	1.90%	0.00%	1.82%
Net financial assets/(liabilities)	(952,116)	(379,418)	1,691,880	(32,819)	327,527

31.12.2020 PARENT $'000	Floating interest	Fixed interest maturing: Less than 1 year	Fixed interest maturing: More than 1 year, but less than 5 years	Non-interest bearing	Total
Financial assets					
Cash and cash equivalents	37,061	0	0	0	37,061
Retail loan financing	0	1,109,994	4,044,362	0	5,154,356
Dealer loan financing	1,168,381	0	0	0	1,168,381
Fleet loan financing	0	12,415	35,039	0	47,454
Lease receivables	0	24,545	40,745	0	65,290
Miscellaneous financial assets	170,059	0	0	15,408	185,467
Total	1,375,501	1,146,954	4,120,146	15,408	6,658,009
Weighted average interest rate	1.95%	5.71%	6.16%	0.00%	5.20%
Financial liabilities					
Liabilities to banks	150,281	381,001	973,414	0	1,504,696
Medium Term Notes and Commercial Papers issued	100,088	1,139,007	1,435,226	0	2,674,321
Virtual Loan	0	552,325	1,570,318	0	2,122,643
Other financial liabilities	0	0	0	47,193	47,193
Total	250,369	2,072,333	3,978,958	47,193	6,348,853
Weighted average interest rate	1.31%	1.44%	2.61%	0.00%	2.16%
Derivative financial instruments	35,943	(6,574)	(14,035)	0	15,334
Weighted average interest rate	1.24%	2.21%	1.78%	0.00%	0.34%
Net financial assets/(liabilities)	1,161,075	(931,953)	127,153	(31,785)	324,490

F. INTEREST RATE AND FOREIGN EXCHANGE SENSITIVITY ANALYSIS

The Group's main interest rate risk arises from movements in interest rates on short and long term borrowings which are set at variable interest rates. As mentioned in Note 2 the Group analyses its interest rate exposure on a dynamic basis and by using floating to fixed interest rate swaps. Various scenarios are simulated taking into account refinancing, renewal of existing positions and new business introduced. Under the interest rate swaps the Group agrees with other parties to exchange at specific intervals (mainly quarterly), the difference between fixed contract rate and floating interest rate amounts calculated by reference to the agreed notional principal amounts.

The following tables present the impact on profit and equity from -/+ 1% change in interest rates with all other variables held constant.

CONSOLIDATED	Carrying amount		Impact on profit and equity from change in interest rates			
			Decrease by 1%		Increase by 1%	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets						
Cash and cash equivalents	442,496	92,488	(4,425)	(925)	4,425	925
Retail loan financing at amortised cost	4,798,670	4,680,344	0	0	0	0
Retail loan financing at fair value through profit or loss	481,832	474,012	14,961	4,848	(9,233)	(4,737)
Dealer loan financing	1,224,780	1,168,381	(12,248)	(11,684)	12,248	11,684
Fleet loan financing	63,703	47,454	0	0	0	0
Lease receivables	57,901	65,290	0	0	0	0
Other financial assets	17,841	14,374	0	0	0	0
Derivative financial instruments	28,553	36,420	(7,209)	118	(6,283)	(356)
Total	7,115,776	6,578,763	(8,921)	(7,643)	1,157	7,516
Financial liabilities						
Liabilities to banks	1,157,880	1,504,697	500	1,503	(500)	(1,503)
Medium Term Notes and Commercial Papers issued	3,305,960	2,674,320	2,001	1,001	(2,001)	(1,001)
Asset Backed Securities Notes issued	2,253,789	1,998,559	22,538	19,986	(22,538)	(19,986)
Other financial liabilities	29,038	47,193	0	0	0	0
Derivative financial instruments	23,714	26,467	7,315	(277)	6,468	214
Total	6,770,381	6,251,236	32,354	22,213	(18,571)	(22,276)
Net increase / (decrease)			(41,275)	(29,856)	19,728	29,792

PARENT	Carrying amount		Impact on profit and equity from change in interest rates			
			Decrease by 1%		Increase by 1%	
$'000	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial assets						
Cash and cash equivalents	394,757	37,061	(3,948)	(371)	3,948	371
Retail loan financing at amortised cost	4,798,670	4,680,344	0	0	0	0
Retail loan financing at fair value through profit or loss	481,832	474,012	14,961	4,848	(9,233)	(4,737)
Dealer loan financing	1,224,780	1,168,381	(12,248)	(11,684)	12,248	11,684
Fleet loan financing	63,703	47,454	0	0	0	0
Lease receivables	57,901	65,290	0	0	0	0
Other financial assets	194,121	185,467	(1,589)	(1,823)	1,589	1,823
Derivative financial instruments	17,373	35,943	1,840	404	2,115	(478)
Total	7,233,137	6,693,952	(984)	(8,626)	10,667	8,663
Financial liabilities						
Liabilities to banks	1,157,880	1,504,697	500	1,503	(500)	(1,503)
Medium Term Notes and Commercial Papers issued	3,305,960	2,674,320	2,001	1,001	(2,001)	(1,001)
Virtual Loan	2,395,529	2,122,643	0	0	0	0
Other financial liabilities	29,038	47,193	0	0	0	0
Derivative financial instruments	22,993	20,609	9,102	(342)	8,150	2
Total	6,911,400	6,369,462	11,603	2,162	5,649	(2,502)
Net increase / (decrease)			(12,587)	(10,788)	5,018	11,165

As at 31 December 2021, the Group had outstanding trade payables denominated in EUR totalling $1.7m at the exchange on the balance sheet date (2020: $1.5m). The Group was exposed to change in the AUD/EUR exchange rate in relation to these balances. A -/+ 1% change in the exchange rate would have lead to a change in the AUD equivalent of these balances of -/+ $17k (2020: $15k).

G. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as ratings downgrade or event of default.

Offsetting arrangements

Master netting arrangements – not currently enforceable
Derivative transactions with counterparties are covered by ISDA agreements. Under the terms of these arrangements, only upon an event of default or rating downgrade to a certain level, the net position owing/ receivable to a select counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the table below.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements but not offset. The column 'net amount' shows the impact on the Group's statement of financial position if set-off rights were exercised.

31.12.2021 CONSOLIDATED	Effects of offsetting on the Statement of Financial Position			Related amounts not offset	Net amount
$'000	Gross amount	Offsetting	Net amount presented in the Statement of Financial Position	Balances subject to master netting arrangements	
Financial assets					
Cash and cash equivalents	442,496	0	442,496	0	442,496
Retail loan financing at amortised cost	4,798,670	0	4,798,670	0	4,798,670
Retail loan financing at fair value through profit or loss	481,832	0	481,832	0	481,832
Dealer loan financing	1,224,780	0	1,224,780	0	1,224,780
Fleet loan financing	63,703	0	63,703	0	63,703
Lease receivables	57,901	0	57,901	0	57,901
Other financial assets	17,841	0	17,841	0	17,841
Derivative financial instruments	28,553	0	28,553	(4,840)	23,713
Total	7,115,776	0	7,115,776	(4,840)	7,110,936
Financial liabilities					
Liabilities to banks	1,157,880	0	1,157,880	0	1,157,880
Medium Term Notes and Commercial Papers issued	3,305,960	0	3,305,960	0	3,305,960
Asset Backed Securities Notes issued	2,253,789	0	2,253,789	0	2,253,789
Derivative financial instruments	23,714	0	23,714	(4,840)	18,874
Other financial liabilities	29,038	0	29,038	0	29,038
Total	6,770,381	0	6,770,381	(4,840)	6,765,541

31.12.2021 PARENT	Effects of offsetting on the Statement of Financial Position			Related amounts not offset	Net amount
$'000	Gross amount	Offsetting	Net amount presented in the Statement of Financial Position	Balances subject to master netting arrangements	
Financial assets					
Cash and cash equivalents	394,757	0	394,757	0	394,757
Retail loan financing at amortised cost	4,798,670	0	4,798,670	0	4,798,670
Retail loan financing at fair value through profit or loss	481,832	0	481,832	0	481,832
Dealer loan financing	1,224,780	0	1,224,780	0	1,224,780
Fleet loan financing	63,703	0	63,703	0	63,703
Lease receivables	57,901	0	57,901	0	57,901
Derivative financial instruments	17,373	0	17,373	(4,840)	12,533
Other financial assets	194,121	0	194,121	0	194,121
Total	7,233,137	0	7,233,137	(4,840)	7,228,297
Financial liabilities					
Liabilities to banks	1,157,880	0	1,157,880	0	1,157,880
Medium Term Notes and Commercial Papers issued	3,305,960	0	3,305,960	0	3,305,960
Derivative financial instruments	22,993	0	22,993	(4,840)	18,153
Virtual Loan	2,395,529	0	2,395,529	0	2,395,529
Other financial liabilities	29,038	0	29,038	0	29,038
Total	6,911,400	0	6,911,400	(4,840)	6,906,560

31.12.2020 CONSOLIDATED	Effects of offsetting on the Statement of Financial Position			Related amounts not offset	Net amount
$'000	Gross amount	Offsetting	Net amount presented in the Statement of Financial Position	Balances subject to master netting arrangements	
Financial assets					
Cash and cash equivalents	92,488	0	92,488	0	92,488
Retail loan financing at amortised cost	4,680,344	0	4,680,344	0	4,680,344
Retail loan financing at fair value through profit or loss	474,012	0	474,012	0	474,012
Dealer loan financing	1,168,381	0	1,168,381	0	1,168,381
Fleet loan financing	47,454	0	47,454	0	47,454
Lease receivables	65,290	0	65,290	0	65,290
Derivative financial instruments	36,420	0	36,420	(12,839)	23,581
Other financial assets	14,374	0	14,374	0	14,374
Total	6,578,763	0	6,578,763	(12,839)	6,565,924
Financial liabilities					
Liabilities to banks	1,504,697	0	1,504,697	0	1,504,697
Medium Term Notes and Commercial Papers issued	2,674,320	0	2,674,320	0	2,674,320
Asset Backed Securities Notes issued	1,998,559	0	1,998,559	0	1,998,559
Derivative financial instruments	26,467	0	26,467	(12,839)	13,628
Other financial liabilities	47,193	0	47,193	0	47,193
Total	6,251,236	0	6,251,236	(12,839)	6,238,397

31.12.2020 PARENT $'000	Effects of offsetting on the Statement of Financial Position			Related amounts not offset	Net amount
	Gross amount	Offsetting	Net amount presented in the Statement of Financial Position	Balances subject to master netting arrangements	
Financial assets					
Cash and cash equivalents	37,061	0	37,061	0	37,061
Retail loan financing at amortised cost	4,680,344	0	4,680,344	0	4,680,344
Retail loan financing at fair value through profit or loss	474,012	0	474,012	0	474,012
Dealer loan financing	1,168,381	0	1,168,381	0	1,168,381
Fleet loan financing	47,454	0	47,454	0	47,454
Lease receivables	65,290	0	65,290	0	65,290
Derivative financial instruments	35,943	0	35,943	(12,839)	23,104
Other financial assets	185,467	0	185,467	0	185,467
Total	6,693,952	0	6,693,952	(12,839)	6,681,113
Financial liabilities					
Liabilities to banks	1,504,697	0	1,504,697	0	1,504,697
Medium Term Notes and Commercial Papers issued	2,674,320	0	2,674,320	0	2,674,320
Derivative financial instruments	20,609	0	20,609	(12,839)	7,770
Virtual Loan	2,122,643	0	2,122,643	0	2,122,643
Other financial liabilities	47,193	0	47,193	0	47,193
Total	6,369,462	0	6,369,462	(12,839)	6,356,623

15 | Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the Company and the Trusts which are controlled entities in accordance with the accounting policy in Note 1B.

	Place of business/ country of incorporation	Ownership interest held by the group		Ownership interest held by non-controlling interests	
		2021	2020	2021	2020
Driver Australia Three Trust	Australia	0%	100%	0%	0%
Driver Australia Four Trust	Australia	0%	100%	0%	0%
Driver Australia Five Trust	Australia	100%	100%	0%	0%
Driver Australia Six Trust	Australia	100%	100%	0%	0%
Driver Australia Seven Trust	Australia	100%	0%	0%	0%
Driver Australia Master Trust	Australia	100%	100%	0%	0%

AASB 10 defines various indicators which require the Group to consolidate this securitisation special purpose vehicles. Accordingly, the vehicle is consolidated as it is determined that the Group has the majority of the variability of the distributions from the vehicle.

16 | Remuneration of auditors

$'000	Consolidated		Parent	
	2021	2020	2021	2020
Remuneration for audit services				
Auditor of the Group - EY	333	223	282	173
Remuneration for other services				
Auditor of the Group - EY	150	86	150	86
Total	483	309	432	259

17 | Commitments

A. CAPITAL COMMITMENTS

The Group had not committed to any capital expenditure at the end of the reporting period which were not recognised as liabilities.

B. NON-CANCELLABLE OPERATING LEASES

The Group leases office and car parking space as well as IT equipment under non-cancellable operating leases expiring within 1 year to 3 years and 3 months. The leases have varying terms, extension options and renewal rights. On renewal, the terms of the leases are renegotiated.

The Group has recognised right-of-use assets for these leases, except for short-term and low-value leases. See Note 1S for further information.

The commitments for future payments under non-cancellable operating leases which meet the short-term or low-value exception criteria are as follows:

$'000	Consolidated		Parent	
	2021	2020	2021	2020
Less than 1 year	55	216	55	216
More than 1 year, but less than 5 years	0	0	0	0
More than 5 years	0	0	0	0
Total	55	216	55	216

18 | Related parties

A. KEY MANAGEMENT PERSONNEL

The following persons had authority and responsibility for the planning, directing and controlling of the activities for the Company, directly or indirectly, during the financial year. They are responsible for both the short term and long term strategic planning of the organisation as well as the implementation of policies and procedures which adhere to those of the parent entity. They also ensure local compliance with regulatory bodies.

Mr Jörn Kurzrock	Managing Director
Mr Zhong Zhong	Managing Director (until 31 January 2021)
Mr Paul Stanton	Managing Director (from 1 February 2021)
Mr Norbert Dorn	Non-executive Director (employee of VWFS AG, Germany) (until 31 March 2021)
Mr Ralf Teichmann	Non-executive Director (employee of VWFS AG, Germany) (from 1 April 2021)
Mr Marc Schwekendiek	Non-executive Director (employee of VWFS AG, Germany) (until 30 April 2021)
Mr Cheikh Niang	Non-executive Director (employee of VWFS AG, Germany) (from 1 May 2021)
Mr Birger Wenner	Director of Finance and Treasury
Mr Paul Stanton	Director of Controlling (until 31 January 2021)
Mr Patrick Tian	Director of Controlling and Risk (from 30 March 2021)
Mr Stephan Woffleben	Director of IT and Projects (until 30 July 2021)
Mr James Chalmers	Director of IT and Projects (from 16 September 2021)
Mr Steve Mifsud	Director of Dealer and Customer Services
Mr Barry O'Brien	Director of Fleet
Mr Henry Geddes	Director of Sales
Mr Michael Allan	Director of Human Resources and Organisation
Mr Stephen Butel	General Manager IT (on secondment to VWFS Germany during the financial year)

B. KEY MANAGEMENT PERSONNEL COMPENSATION

$'000	Consolidated		Parent	
	2021	2020	2021	2020
Short-term employee benefits	3,916	4,691	3,916	4,691
thereof: Superannuation contributions	*294*	*195*	*294*	*195*
thereof: Fringe benefits	*627*	*968*	*627*	*968*
Termination benefits	18	12	18	12
Other long-term benefits	58	113	58	113
Total	3,992	4,816	3,992	4,816

C. CONTROLLING ENTITIES

The ultimate parent entity is Volkswagen AG (incorporated in Germany). The intermediate parent entity is Volkswagen Financial Services AG which at 31 December 2021 owns 100% (31 December 2020: 100%) of the issued ordinary shares of Volkswagen Financial Services Australia Pty Limited.

D. RELATED PARTY TRANSACTIONS

During the financial year there were recharges of expenses within the wholly owned group of entities of the Volkswagen Group.

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

$'000	Consolidated		Parent	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Intercompany receivables: included in other financial assets				
Volkswagen Group Australia	85	501	85	501
Audi Australia	110	0	110	0
Porsche Australia	300	347	300	347
Driver Australia four Trust: Subordinated loan	0	0	0	4,014
Driver Australia five Trust: Subordinated loan	0	0	0	20,342
Driver Australia six Trust: Subordinated loan	0	0	50,137	52,113
Driver Australia seven Trust: Subordinated loan	0	0	34,728	0
Driver Australia Master Trust: Subordinated loan	0	0	91,415	93,590
Total intercompany receivables	495	848	176,775	170,907
Intercompany payables: included in other financial liabilities				
Volkswagen Group Australia	1,894	1,345	1,894	1,345
Audi Australia	2,247	29,487	2,247	29,487
Total intercompany payables	4,141	30,832	4,141	30,832

	Consolidated		Parent	
	2021	2020	2021	2020
Income from intercompany transactions:				
Driver Australia four Trust: Interest income on subordinated loan	0	0	0	4
Driver Australia five Trust: Interest income on subordinated loan	0	0	0	19
Driver Australia six Trust: Interest income on subordinated loan	0	0	45	984
Driver Australia seven Trust: Interest income on subordinated loan	0	0	25	0
Driver Australia Master Trust: Interest income on subordinated loan	0	0	26	27
Expenses from intercompany transactions:				
Volkswagen International Luxembourg S.A.: Interest expense on subordinated loan (Driver Australia three Trust)	0	11	0	0
Volkswagen Financial Services Japan Ltd.: Treasury services	318	338	318	338
Volkswagen Financial Services AG, Germany: IT support, DCM guarantee fees and technical assistance	3,585	4,135	3,585	4,135
Volkswagen Bank GmbH, Germany: Treasury services	446	488	446	488
Volkswagen Software Asset Management GmbH, Germany: IT licences and usage fees	762	122	762	122
Volkswagen AG, Germany: Insurance premium recharges	30	31	30	31
Total expenses from intercompany transactions	5,141	5,125	5,141	5,114
Cash receipts from Intercompany transactions relating to Retail finance campaigns: capitalised in Retail loan financing				
Volkswagen Group Australia	15,357	20,993	15,357	20,993
Audi Australia	872	440	872	440
Porsche Australia	829	469	829	469
Total Cash receipts from intercompany transactions	17,058	21,902	17,058	21,902
Cash payments from Intercompany transactions relating to the floorplan: recorded as part of wholesale daily payments				
Volkswagen Group Australia	1,914,889	1,445,123	1,914,889	1,445,123
Audi Australia	950,307	829,339	950,307	829,339
Porsche Australia	194,417	86,311	194,417	86,311
Total Cash payments from intercompany transactions	3,059,613	2,360,773	3,059,613	2,360,773
Cash payments from Intercompany transactions relating to the lease of office space and outgoings: recorded as reduction in lease liability				
Volkswagen Group Australia	2,106	2,072	2,106	2,072
Total Cash payments from intercompany transactions	2,106	2,072	2,106	2,072

19 | Segment reporting

Management has determined the operating segments based on reports reviewed by Management and the Board of Directors that are used to make strategic decisions. While interest income and risk costs are reported separately for Retail, Wholesale and Fleet, other items including funding costs, fee income and overhead costs are reported in a single amount for the entire business. The budget set for the Group includes targets for total earning assets, profit contribution and profit before tax excluding the result from derivative valuation. Each of these targets as well as the overall budget are set for the entire business rather than separately for Retail, Wholesale and Fleet.

The Fleet business commenced its operations in 2015 and as at 31 December 2021 the total Fleet assets were approximately 2.1% of total assets (2020: 1.8%). The Retail and Wholesale businesses are closely linked and cross-subsidised and can therefore not be managed separately.

Based on the above, Management has concluded that the business of the Group consists of a single segment and the financial statements have been prepared on this basis.

20 | Credit commitments

The Company has outstanding revocable commitments to extend credit in the normal course of business which are not reflected in the financial report.

Outstanding credit commitments provided to customers currently undrawn are as follows:

$'000	Consolidated		Parent	
	2021	2020	2021	2020
Wholesale customers	1,444,813	1,285,426	1,444,813	1,285,426
Total	1,444,813	1,285,426	1,444,813	1,285,426

21 | Events occurring after the balance sheet date

There were no material subsequent events to 31 December 2021 that have not been reflected in the financial statements.

22 | Contingent liabilities

There are no contingent liabilities as at 31 December 2021 (31 December 2020: nil).

23 | Reconciliation of profit from continuing operations after income tax to net cash outflow from operating activities

CONSOLIDATED & PARENT $'000	Consolidated 2021	 2020	Parent 2021	 2020
Profit/(loss) from continuing operations after income tax	95,652	54,994	87,388	46,860
Depreciation and amortisation	5,246	5,270	5,246	5,270
Fair value (gain)/loss on derivatives	5,235	3,438	18,465	3,256
(Increase)/decrease in receivables	(190,976)	374,888	(190,976)	374,888
Decrease/(increase) in other operating assets	(6,472)	4,623	(6,416)	4,750
(Increase)/decrease in deferred tax asset	(4,121)	(5,350)	(4,121)	(5,350)
(Increase)/decrease in tax receivables	(3,139)	(797)	(3,139)	(797)
Increase/(decrease) in other operating liabilities	(22,503)	13,336	(16,696)	33,701
Increase/(decrease) in other provisions	(230)	308	(230)	308
Net cash outflow from operating activities	(121,308)	450,710	(110,479)	462,886

Net Debt Reconciliation

Net Debt comprises the Group's borrowings. Additionally, for the Parent entity it includes the virtual loan.

CONSOLIDATED 31.12.2021 $'000	Opening balance	Cash flows	Non-cash movements Reclassifi-cations	 Additions	 Valuation	Closing balance
Current financial liabilities						
Liabilities to banks	1,074,209	(1,800,649)	612,248	726,440	0	612,248
Medium Term Notes and Commercial Papers issued	1,139,006	(2,090,721)	675,000	1,773,100	2,126	1,498,511
Asset Backed Securities Notes issued	918,439	(778,568)	292,071	0	0	431,942
Lease liabilities	1,257	(1,503)	1,509	0	0	1,263
Total current financial liabilities	3,132,911	(4,671,440)	1,580,827	2,499,540	2,126	2,543,964
Non-current financial liabilities						
Liabilities to banks	430,488	181,760	(612,248)	545,632	0	545,632
Medium Term Notes and Commercial Papers issued	1,535,314	953,255	(675,000)	0	(6,120)	1,807,449
Asset Backed Securities Notes issued	1,080,120	1,033,798	(292,071)	0	0	1,821,847
Lease liabilities	4,481	241	(1,509)	0	0	3,213
Total non-current financial liabilities	3,050,403	2,169,053	(1,580,827)	545,632	(6,120)	4,178,141
Total	6,183,314	(2,502,387)	0	3,045,172	(3,994)	6,722,105

PARENT 31.12.2021 $'000	Opening balance	Cash flows	Non-cash movements			Closing balance
			Reclassifi-cations	Additions	Valuation	
Current financial liabilities						
Liabilities to banks	1,074,209	(1,800,649)	612,248	726,440	0	612,248
Medium Term Notes and Commercial Papers issued	1,139,006	(2,090,721)	675,000	1,773,100	2,126	1,498,511
Virtual Loan	552,325	(574,398)	319,862	171,185	0	468,974
Lease liabilities	1,257	(1,503)	1,509	0	0	1,263
Total current financial liabilities	2,766,797	(4,467,270)	1,608,619	2,670,725	2,126	2,580,996
Non-current financial liabilities						
Liabilities to banks	430,488	181,760	(612,248)	545,632	0	545,632
Medium Term Notes and Commercial Papers issued	1,535,314	953,255	(675,000)	0	(6,120)	1,807,449
Virtual Loan	1,570,317	286,561	(319,862)	389,539	0	1,926,555
Lease liabilities	4,481	241	(1,509)	0	0	3,213
Total non-current financial liabilities	3,540,600	1,421,817	(1,608,619)	935,171	(6,120)	4,282,849
Total	6,307,397	(3,045,454)	0	3,605,896	(3,994)	6,863,845

CONSOLIDATED 31.12.2020 $'000	Opening balance	Cash flows	Non-cash movements			Closing balance
			Reclassifi-cations	Additions	Valuation	
Current financial liabilities						
Liabilities to banks	1,086,757	(1,036,742)	371,184	653,009	0	1,074,208
Medium Term Notes and Commercial Papers issued	878,694	(857,131)	402,817	722,600	(7,973)	1,139,007
Asset Backed Securities Notes issued	761,949	(527,729)	684,219	0	0	918,439
Lease liabilities	1,267	(1,472)	1,462	0	0	1,257
Total current financial liabilities	2,728,667	(2,423,074)	1,459,682	1,375,609	(7,973)	3,132,911
Non-current financial liabilities						
Liabilities to banks	420,607	(49,422)	(371,184)	430,488	0	430,489
Medium Term Notes and Commercial Papers issued	1,938,686	(13,832)	(402,817)	0	13,276	1,535,313
Asset Backed Securities Notes issued	1,539,504	224,835	(684,219)	0	0	1,080,120
Lease liabilities	5,739	204	(1,462)	0	0	4,481
Total non-current financial liabilities	3,904,536	161,785	(1,459,682)	430,488	13,276	3,050,403
Total	6,633,203	(2,261,289)	0	1,806,097	5,303	6,183,314

PARENT 31.12.2020 $'000	Opening balance	Cash flows	Non-cash movements			Closing balance
			Reclassifi-cations	Additions	Valuation	
Current financial liabilities						
Liabilities to banks	1,086,757	(1,036,742)	371,184	653,009	0	1,074,208
Medium Term Notes and Commercial Papers issued	878,694	(857,131)	402,817	722,600	(7,973)	1,139,007
Virtual Loan	748,676	(557,083)	360,732	0	0	552,325
Lease liabilities	1,267	(1,472)	1,462	0	0	1,257
Total current financial liabilities	2,715,394	(2,452,428)	1,136,195	1,375,609	(7,973)	2,766,797
Non-current financial liabilities						
Liabilities to banks	420,607	(49,422)	(371,184)	430,488	0	430,489
Medium Term Notes and Commercial Papers issued	1,938,686	(13,832)	(402,817)	0	13,276	1,535,313
Virtual Loan	1,704,691	226,358	(360,732)	0	0	1,570,317
Lease liabilities	5,739	204	(1,462)	0	0	4,481
Total non-current financial liabilities	4,069,723	163,308	(1,136,195)	430,488	13,276	3,540,600
Total	6,785,117	(2,289,120)	0	1,806,097	5,303	6,307,397

Directors' declaration

In the directors' opinion:

a) the financial statements and notes are in accordance with the Corporations Act 2001, including:
b) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
c) giving a true and fair view of the Company and the Group's financial position as at 31 December 2021 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1A confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

Jörn Kurzrock
Managing Director

Paul Stanton
Managing Director

Sydney
22 March 2022

Auditor's opinion

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Independent auditor's report to the directors of Volkswagen Financial Services Australia Pty Limited

Opinion

We have audited the financial report of Volkswagen Financial Services Australia Pty Limited (the Company) and its subsidiaries (collectively, the Group), which comprises:

- The Group consolidated and Company statements of financial position as at 31 December 2021;
- The Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- Notes to the financial statements, including a summary of significant accounting policies; and
- The directors' declaration.

In our opinion, the accompanying financial report is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the Company's and the Group's financial position as at 31 December 2021 and of their financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

R. Balfour

Richard Balfour
Partner
Sydney
22 March 2022