
VOLKSWAGEN FINANCIAL SERVICES

FINANCE. FLEET. INSURANCE. MOBILITY.



Annual Report

2019

A LIVING COMMITMENT
TO OUR CUSTOMERS

Corporate directory

of Volkswagen Financial Services Australia Pty Limited

Directors

Ms Silke Schmidt (Managing Director)
Mr Jörn Kurzrock (Managing Director)
Mr Gavin Zhong (Managing Director)

Mr Norbert Dorn
Mr Patrick Welter
Mr Marc Schwekendiek

in office from/to:

from 1 January to 28 February 2019
from 1 January to 31 December 2019
from 1 June to 31 December 2019

from 1 January to 31 December 2019
from 1 January to 30 April 2019
from 1 May to 31 December 2019

Principal registered office in Australia

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

Auditor

PricewaterhouseCoopers
One International Towers
Watermans Quay
Barangaroo NSW 2000 Australia

Bankers

ANZ Bank
115 Pitt Street
Sydney NSW 2000

Website Address

www.vwfs.com.au

Annual report – 31 December 2019

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 2018.

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 Two Trust, Driver Australia Three Trust, Driver Australia Four Trust, Driver Australia Five Trust, Driver Australia Six 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)	from 1 January to 31 December 2019
Ms Silke Schmidt (Managing Director)	from 1 January to 28 February 2019
Mr Gavin Zhong (Managing Director)	from 3 June to 31 December 2019
Mr Norbert Dorn	from 1 January to 31 December 2019
Mr Patrick Welter	from 1 January to 30 April 2019
Mr Marc Schwekendiek	from 1 May to 31 December 2019

The Company has an Australian financial services 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 2019 resulted in an operating profit after income tax of \$33,825,910 (2018: \$32,095,592).

Dividends

The Directors recommend that no amount be paid as dividend for the current year (2018: nil).

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

A widespread public health issue, or fear of such an event, may result in a deterioration of our customers' economic conditions and could therefore have a material adverse impact on the Group's operating results and its sales volumes. In this scenario, the Group might also face increased funding costs due to lower levels of available liquidity in the overall market. With regard to the Group's operations, outbreaks of disease could result in increased government restrictions and regulation, including quarantine of the Group's employees.

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. The World Health Organisation has declared COVID-19 to constitute a global pandemic and the Australian Government has implemented measures to contain the spread of the virus. The extent of the impact of these measures and a potential economic slowdown on the Group's operational and financial performance will depend on future developments, including the duration and spread of the outbreak, which are highly uncertain and cannot be predicted. The Group is continuously monitoring the situation and assessing the potential impact on its business. This includes, among other factors, levels of expected credit losses, volume of new sales and availability of funding. There are also a range of operational risks which could have a material impact on the Group, including among other factors, the health and safety of employees, access to premises and the effectiveness of remote working. As a result of the rapidly evolving situation, there are a range of external factors that may also have a material impact on the Group. While the range of potential factors cannot be accurately predicted, some potential factors may include a significant downturn in economic activity in Australia, severe constraints on the movement of people and trade, significant disruptions to supply chains and other businesses, among other factors.

At the date of signing these financial statements, the potential financial effect of any of these events on the Group cannot be reliably estimated.

There are no other matters or circumstances that have arisen since 31 December 2019 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 2018, and the numbers of meetings attended by each director were:

	A	B
J. Kurzrock	9	9
S. Schmidt	0	0
G. Zhong	3	3
N. Dorn	9	9
P. Welter	4	4
M. Schwekendiek	5	5

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.

Auditor

PricewaterhouseCoopers continues in office 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



Gavin Zhong
Managing Director

Sydney
20 March 2020



Auditor's Independence Declaration

As lead auditor for the audit of Volkswagen Financial Services Australia Pty Limited for the year ended 31 December 2019, I declare that 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; and
- (b) no contraventions of 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 period.

A handwritten signature in blue ink, appearing to read 'D R Cox', with a horizontal line underneath.

David R Cox
Partner
PricewaterhouseCoopers

Sydney
20 March 2020

Financial report – 31 December 2019

of Volkswagen Financial Services Australia Pty Limited

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Financial report – 31 December 2019

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 18 March 2020. 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	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
Net income from operations					
Interest income from lending transactions					
Cash and cash equivalents		2,830	3,505	1,847	2,855
Retail financing		242,634	208,339	242,634	208,339
Dealer financing		53,764	58,391	53,765	58,391
Fleet financing		5,238	2,653	5,238	2,653
<i>Subtotal: Interest income measured at the effective interest rate method</i>		<i>304,466</i>	<i>272,888</i>	<i>303,484</i>	<i>272,238</i>
Subordinated loans		0	0	9,861	11,883
Retail financing accounted for at fair value through profit or loss		29,817	25,727	29,817	25,727
Income from operating lease transactions	5	6,701	8,499	6,701	8,499
Interest expense		(181,314)	(187,450)	(212,385)	(219,059)
Non-interest revenue	6	16,413	18,718	41,807	35,668
Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)		(13,932)	2,676	(15,573)	6,152
Total net income from operations		162,151	141,058	163,712	141,108
Bad and doubtful debts expenses	4	(45,858)	(30,541)	(45,858)	(30,541)
Employee expenses	10	(23,528)	(20,436)	(23,528)	(20,436)
Depreciation and amortisation expenses	7	(8,463)	(9,332)	(8,463)	(9,332)
Other expenses from ordinary activities	11	(34,481)	(34,139)	(34,426)	(34,943)
Profit before income tax		49,821	46,610	51,437	45,856
Income tax expenses	12	(15,995)	(14,514)	(15,995)	(14,514)
Profit for the year attributable to owners		33,826	32,096	35,442	31,342
Change in fair value of cash flow hedges	13	108	(3,259)	(1,708)	(1,069)
Net change in deferred tax for cash flow hedges	13	(44)	978	512	321
Other comprehensive income for the year		64	(2,281)	(1,196)	(748)
Total comprehensive income attributable to owners		33,890	29,815	34,246	30,594

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	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
Current assets					
Cash and cash equivalents		105,663	260,323	31,137	147,442
Loans to and receivables from customers attributable to					
Retail loan financing	4	1,005,281	1,181,259	1,005,281	1,181,259
Dealer loan financing	4	1,766,879	1,728,315	1,766,879	1,728,315
Fleet loan financing	4	9,524	2,747	9,524	2,747
Lease receivables	4	29,690	24,141	29,690	24,141
Derivative financial instruments	14	5,643	4,076	5,643	4,077
Miscellaneous financial assets	4	18,027	17,970	20,444	19,829
Lease assets	5	4,132	14,195	4,132	14,195
Other assets	7	8,734	8,958	8,540	8,764
Total current assets		2,953,573	3,241,984	2,881,270	3,130,769
Non-current assets					
Loans to and receivables from customers attributable to					
Retail loan financing	4	3,931,300	3,454,075	3,931,300	3,454,075
Fleet loan financing	4	26,437	12,279	26,437	12,279
Lease receivables	4	41,228	66,470	41,228	66,470
Derivative financial instruments	14	37,771	18,183	33,721	17,984
Miscellaneous financial assets	4	0	0	216,049	184,604
Lease assets	5	10,039	16,946	10,039	16,946
Property, plant and equipment	7	8,769	2,293	8,769	2,293
Intangible assets	7	9,654	7,468	9,654	7,468
Deferred tax assets	12	33,076	25,859	32,976	25,202
Total non-current assets		4,098,274	3,603,573	4,310,173	3,787,321
Total assets		7,051,847	6,845,557	7,191,443	6,918,090

Current liabilities					
Liabilities to banks	8	1,086,757	1,179,888	1,086,757	1,179,888
Medium Term Notes and Commercial Papers issued	8	878,694	812,957	878,694	812,957
Asset Backed Securities Notes issued	8	761,949	628,730	0	0
Derivative financial instruments	14	6,745	420	4,681	421
Virtual Loan	8	0	0	748,676	603,570
Other financial liabilities	8	37,177	41,376	37,177	48,337
Employee entitlements	10	3,981	3,469	3,981	3,469
Current tax liabilities		2,818	0	2,818	0
Other liabilities	9	22,305	14,274	22,305	14,274
Total current liabilities		2,800,426	2,681,114	2,785,089	2,662,916
Non-current liabilities					
Liabilities to banks	8	420,607	800,000	420,607	800,000
Medium Term Notes and Commercial Papers issued	8	1,938,686	1,569,705	1,938,686	1,569,705
Asset Backed Securities Notes issued	8	1,539,504	1,494,005	0	0
Derivative financial instruments	14	30,044	17,906	24,619	10,858
Virtual Loan	8	0	0	1,704,691	1,596,969
Other financial liabilities	8	5,739	0	5,739	0
Employee entitlements	10	648	524	648	524
Total non-current liabilities		3,935,228	3,882,140	4,094,990	3,978,056
Total liabilities		6,735,654	6,563,254	6,880,079	6,640,972
Net assets		316,193	282,303	311,364	277,118
Equity					
Share capital	13	195,440	195,440	195,440	195,440
Reserves	13	(2,231)	(2,295)	(1,996)	(800)
Retained earnings	13	122,984	89,158	117,920	82,478
Total equity		316,193	282,303	311,364	277,118

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	Reserves	Retained earnings	Total equity
Balance at 1 January 2018	195,440	(14)	57,063	252,489
Profit for the year	0	0	32,095	32,095
Other comprehensive income for the year	0	(2,281)	0	(2,281)
Total comprehensive income for the year	0	(2,281)	32,095	29,814
Balance at 31 December 2018	195,440	(2,295)	89,158	282,303
Profit for the year	0	0	33,826	33,826
Other comprehensive income for the year	0	64	0	64
Total comprehensive income for the year	0	64	33,826	33,890
Balance at 31 December 2019	195,440	(2,231)	122,984	316,193

Parent \$'000	Contributed equity	Reserves	Retained earnings	Total equity
Balance at 1 January 2018	195,440	(52)	51,137	246,525
Profit for the year	0	0	31,341	31,341
Other comprehensive income for the year	0	(748)	0	(748)
Total comprehensive income for the year	0	(748)	31,341	30,593
Balance at 31 December 2018	195,440	(800)	82,478	277,118
Profit for the year	0	0	35,442	35,442
Other comprehensive income for the year	0	(1,196)	0	(1,196)
Total comprehensive income for the year	0	(1,196)	35,442	34,246
Balance at 31 December 2019	195,440	(1,996)	117,920	311,364

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 \$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Cash flows from operating activities				
Interest received	416,662	383,387	422,234	385,032
Interest and other costs of finance paid	(185,033)	(183,848)	(155,631)	(208,352)
Fees and other non-interest income received	24,503	37,400	50,072	58,981
Fees and commissions paid	(106,107)	(125,276)	(104,903)	(125,645)
Net proceeds from/(payments for) trading portfolio assets and other financial assets and liabilities	708	(1,752)	748	(2,416)
Payment for acquisition of leased assets	(5,859)	(28,401)	(5,859)	(28,401)
Income from operating lease contracts	7,311	8,799	7,311	8,799
Payments to suppliers	(22,656)	(4,660)	(21,121)	(2,956)
Employment expenses paid	(23,117)	(22,469)	(23,117)	(22,469)
Income tax refunds received/(paid)	(20,157)	(19,745)	(20,157)	(19,745)
Net loan assets granted	(420,618)	(1,017,535)	(420,618)	(1,017,535)
Recoveries of loans previously written off	7,992	6,203	7,992	6,203
Net proceeds from sale of returned vehicles	45,742	67,244	45,742	67,245
Total cash flows from operating activities	(280,629)	(900,653)	(217,307)	(901,259)
Cash flows from investing activities				
Payments for the acquisition of property, plant and equipment and intangible assets	(5,540)	(4,519)	(5,540)	(4,519)
Total cash flows from investing activities	(5,540)	(4,519)	(5,540)	(4,519)
Cash flows from financing activities				
Proceeds from				
Liabilities to banks	3,416,000	5,368,000	3,416,000	5,368,000
Medium Term Notes and Commercial Papers issued	2,385,100	3,164,600	2,385,100	3,164,600
Asset Backed Securities Notes issued	1,630,140	2,243,640	0	0
Virtual loan	0	0	2,068,051	2,332,447
Repayments of				
Liabilities to banks	(3,885,000)	(5,105,980)	(3,885,000)	(5,105,980)
Medium Term Notes and Commercial Papers issued	(1,960,400)	(2,670,000)	(1,960,400)	(2,670,000)
Asset Backed Securities Notes issued	(1,436,059)	(1,243,144)	0	0
Virtual loan	0	0	(1,883,495)	(1,286,305)
Subordinated loans	(16,396)	(27,575)	(31,838)	(118,365)
Intercompany borrowings	0	(785,500)	0	(785,500)
Lease payments and interest from lease liabilities	(1,876)	0	(1,876)	0
Total cash flows from financing activities	131,509	944,041	106,542	898,897
Net cash movement	(154,660)	38,869	(116,305)	(6,881)
Cash and cash equivalents at the beginning of the financial year	260,323	221,454	147,442	154,323
Cash and cash equivalents at the end of the financial year	105,663	260,323	31,137	147,442

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

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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.

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 2019 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 and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses are presented in the income statement 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 2019 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. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

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 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. It derecognises a financial asset when the contractual rights to the cash flows expire or when it transfers the financial 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 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.

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

Refer to note 1L 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 recognised 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 but not impaired (stage 2).

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.

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 vehicle (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 balance sheet. 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 Income Statement.

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 balance sheet 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 balance sheet 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.

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 balance sheet 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 balance sheet. 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 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 profit or loss, 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 profit or loss within finance costs, 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 profit or loss.

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 the profit or loss.

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 the income statement.

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.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, 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 and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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 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 balance sheet.

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**New standards adopted by the Group**

The Group has adopted AASB 16 for the first time for the financial year ended 31 December 2019.

The Group as lessee

The Group has elected to not reassess its existing leases at the time of initial application on 1 January 2019 as per AASB 16.C3. It has recognised its right-of-use assets at an amount equal to the corresponding lease liabilities as per AASB 16.C8(b)(ii).

All existing transactions that have been classified as leases in accordance with the provisions of AASB 117 as of 31 December 2018 continue to be treated as leases in accordance with AASB 16 as of January 1, 2019. All existing transactions that have not been classified as leases in accordance with the provisions of AASB 117 as of 31 December 2018 continue to be treated as non-lease transactions in accordance with AASB 16 as of 1 January 2019.

However, new transactions entered into from 1 January 2019 are classified exclusively using the definition of leases in AASB 16.

The Group applies the modified retrospective approach pursuant to AASB 16.C5(b) in conjunction with AASB 16.C7-C13. As of 1 January 2019, the Group has recognised the following right-of-use assets and lease liabilities as a lessee under this approach:

Leased item	Right-of-use assets \$'000	Lease liabilities \$'000
Office space	7,537	7,537
IT equipment	447	447
Total	7,984	7,984

The above amounts represent the net present value of all future lease payments under the existing lease agreements as at 1 January 2019.

These amounts have been determined using the Group's weighted average incremental borrowing rate at 1 January 2019 of 4.87%.

The initial measurement of the lease liabilities of \$7,984k as at 1 January is \$1,208k lower than the undiscounted future lease commitments for these lease agreements of \$9,192k under AASB 117. The difference relates to the discounting of the lease liabilities.

The Group has not used any of the practical expedients as per AASB 16.C10.

The Group as lessor

There is no financial impact from the adoption of AASB 116 for the Group as a lessor.

New standards not yet adopted by the Group

There are no new standards not yet adopted by the Group that are expected to have a material impact on the financial position or income and expenses of the Group.

2 | Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including fair value 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 transactions 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. 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.

C. INTEREST RATE RISK

The Group's interest rate risk arises from long-term borrowings. 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 59.1% (consolidated) and 90.7% (parent) (2018: 61.7% and 91.9% respectively) of borrowings were at fixed rates.

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 impairment of financial assets

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 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 loans/receivables and significant individual loans/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. Any valuation allowances previously recognized are utilised.

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

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.

4 | Financial assets

A. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents includes restricted cash items of \$74,526k (2018: \$112,689k) for the Group and \$nil (2018: \$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:

31.12.2019 CONSOLIDATED AND PARENT \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans	5,208,035	(286,966)	79,895	(63,926)	(457)	4,936,581
Dealer loans	1,773,025	0	0	(6,146)	0	1,766,879
Fleet loans	40,632	(2,610)	1,273	(3,334)	0	35,961
Total loans	7,021,692	(289,576)	81,168	(73,406)	(457)	6,739,421
Lease receivables						
Retail lease receivables	14,523	(986)	424	(1,448)	0	12,513
Fleet lease receivables	72,885	(7,065)	0	(7,415)	0	58,405
Total lease receivables	87,408	(8,051)	424	(8,863)	0	70,918
Total	7,109,100	(297,627)	81,592	(82,269)	(457)	6,810,339

31.12.2018 CONSOLIDATED AND PARENT \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans	4,893,763	(275,492)	75,702	(56,385)	(2,254)	4,635,334
Dealer loans	1,731,801	0	0	(3,486)	0	1,728,315
Fleet loans	15,401	(1,334)	960	(1)	0	15,026
Total loans	6,640,965	(276,826)	76,662	(59,872)	(2,254)	6,378,675
Lease receivables						
Retail lease receivables	35,165	(2,471)	1,081	(874)	0	32,901
Fleet lease receivables	65,113	(7,072)	0	(331)	0	57,710
Total lease receivables	100,278	(9,543)	1,081	(1,205)	0	90,611
Total	6,741,243	(286,369)	77,743	(61,077)	(2,254)	6,469,286

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 month before 31 December 2019 or 31 December 2018 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:

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Simplified Approach	Total
CONSOLIDATED AND PARENT						
\$'000						
Balance as of 1 January 2018	8,217	16,298	16,796	0	0	41,311
Newly granted/purchased financial assets (additions)	1,746	12,843	1,223	4,559	775	21,146
Transfer to						0
Stage 1	320	(3,075)	(2,087)	0	0	(4,842)
Stage 2	(925)	10,137	(5,157)	0	0	4,055
Stage 3	(33)	(346)	5,971	0	0	5,592
Financial instruments derecognised during the period (derecognitions)	(1,211)	(3,762)	(2,054)	0	0	(7,027)
Utilisations	0	0	(6,752)	0	0	(6,752)
Model or risk parameter changes	666	1,614	1,042	310	0	3,632
Balance as of 31 December 2018	8,780	33,709	8,982	4,869	775	57,115
Newly granted/purchased financial assets (additions)	5,104	11,596	1,887	5,299	829	24,715
Transfer to						0
Stage 1	492	(5,428)	0	0	0	(4,936)
Stage 2	(934)	9,200	(805)	0	0	7,461
Stage 3	(34)	(1,229)	2,051	0	0	788
Financial instruments derecognised during the period (derecognitions)	(2,900)	(13,244)	(1,303)	(2,082)	(207)	(19,736)
Utilisations	0	0	(6,471)	(828)	0	(7,299)
Model or risk parameter changes	360	1,296	5,158	0	0	6,814
Balance as of 31 December 2019	10,868	35,900	9,499	7,258	1,397	64,922

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 2019, broken down by risk class:

31.12.2019	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
CONSOLIDATED AND PARENT \$'000						
Default risk rating class 1 (loans/receivables not at risk of default - normal loans)	3,643,278	609,127	18,297	40,234	77,204	4,388,140
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	104,858	19,792	1,986	2,815	416	129,867
Default risk rating class 3 (loans/receivables in default - non performing loans)	0	114	0	81	0	195
Total	3,748,136	629,033	20,283	43,130	77,620	4,518,202

31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
CONSOLIDATED AND PARENT \$'000						
Default risk rating class 1 (loans/receivables not at risk of default - normal loans)	3,288,388	707,313	24,803	263	47,228	4,067,995
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	97,710	27,842	3,324	1,096	640	130,612
Default risk rating class 3 (loans/receivables in default - non performing loans)	0	17	0	28,838	71	28,926
Total	3,386,098	735,172	28,127	30,197	47,939	4,227,533

Wholesale:

31.12.2019 CONSOLIDATED AND PARENT \$'000	Stage 1	Stage 2	Stage 3	POCI	Simplified Approach	Total
Balance as of 1 January 2018	3,349	130	0	0	0	3,479
Newly granted/purchased financial assets (additions)	2,863	0	0	0	0	2,863
Transfer to						
Stage 1	7	0	0	0	0	7
Stage 2	(8)	131	0	0	0	123
Stage 3	0	0	0	0	0	0
Financial instruments derecognised during the period (derecognitions)	(3,212)	(129)	0	0	0	(3,341)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	0	355	0	0	0	355
Balance as of 31 December 2018	2,999	487	0	0	0	3,486
Newly granted/purchased financial assets (additions)	4,252	212	0	0	0	4,464
Transfer to						
Stage 1	0	(39)	0	0	0	(39)
Stage 2	(9)	11	0	0	0	2
Stage 3	0	0	0	0	0	0
Financial instruments derecognised during the period (derecognitions)	(2,513)	(324)	0	0	0	(2,837)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	1,070	0	0	0	0	1,070
Balance as of 31 December 2019	5,799	347	0	0	0	6,146

31.12.2019 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)	1,641,756	52,563	0	0	0	1,694,319
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	65,561	13,145	0	0	0	78,706
Default risk rating class 3 (loans/receivables in default - non performing loans)	0	0	0	0	0	0
Total	1,707,317	65,708	0	0	0	1,773,025

31.12.2018 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)	1,589,282	59,010	0	0	0	1,648,292
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	53,557	29,952	0	0	0	83,509
Default risk rating class 3 (loans/receivables in default - non performing loans)	0	0	0	0	0	0
Total	1,642,839	88,962	0	0	0	1,731,801

Fleet:

31.12.2019 CONSOLIDATED AND PARENT \$'000	Stage 1	Stage 2	Stage 3	POCI	Simplified Approach	Total
Balance as of 1 January 2018	0	0	0	0	372	372
Newly granted/purchased financial assets (additions)	1	0	0	0	271	272
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	0	0	0	(168)	(168)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	0	0	0	0	0	0
Balance as of 31 December 2018	1	0	0	0	475	476
Newly granted/purchased financial assets (additions)	18	0	0	0	1,853	1,871
Transfer to						0
Stage 1	0	0	0	0	0	0
Stage 2	0	0	0	0	0	0
Stage 3	0	0	2,334	0	0	2,334
Financial instruments derecognised during the period (derecognitions)	0	0	0	0	(232)	(232)
Utilisations	0	0	0	0	0	0
Model or risk parameter changes	0	0	6,300	0	0	6,300
Balance as of 31 December 2019	19	0	8,634	0	2,096	10,749

31.12.2019 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)	21,173	9,658	9,047	0	31,197	71,075
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	4,360	1,418	0	0	28,262	34,040
Default risk rating class 3 (loans/receivables in default - non performing loans)	0	0	0	0	0	0
Total	25,533	11,076	9,047	0	59,459	105,115

31.12.2018 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)	2,210	10,721	0	0	57,669	70,600
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	0	0	0	0	2,468	2,468
Default risk rating class 3 (loans/receivables in default - non performing loans)	0	0	0	0	0	0
Total	2,210	10,721	0	0	60,137	73,068

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 \$489k (2018: \$8,478k).

The Group's credit-impaired assets and related collateral held are as follows:

31.12.2019 CONSOLIDATED AND PARENT \$'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held (Vehicles)
Credit-impaired assets				
Retail loans and lease receivables	63,387	16,757	46,630	44,216
Wholesale loans	0	0	0	0
Fleet loans and lease receivables	9,047	8,634	413	6,915
Total	72,434	25,391	47,043	51,131

31.12.2018 CONSOLIDATED AND PARENT \$'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held (Vehicles)
Credit-impaired assets				
Retail loans and lease receivables	58,324	13,851	44,473	30,372
Wholesale loans	0	0	0	0
Fleet loans and lease receivables	0	0	0	0
Total	58,324	13,851	44,473	30,372

D. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
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) - <i>included in Loans to and receivables from customers attributable to Retail loan financing</i>				
Current receivables	262,432	230,314	262,432	230,314
Non-current receivables	234,291	269,901	234,291	269,901
Subordinated Loan - <i>included in Miscellaneous financial assets</i>				
Current receivables	0	0	0	0
Non-current receivables	0	0	216,049	184,604
Total financial assets at fair value through profit or loss	496,723	500,215	712,772	684,819

Amounts recognised in profit or loss

During the year, an amount of \$1,797k credit (2018: \$805k debit) 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

31.12.2019 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	7,823	28,538	(3,512)	308	33,157
Dealer loans	2,660	0	0	0	2,660
Fleet loans and lease receivables	10,273	0	2	(89)	10,186
Returned vehicles	0	0	0	(145)	(145)
Total	20,756	28,538	(3,510)	74	45,858

31.12.2018 CONSOLIDATED AND PARENT \$'000	Net provision movement	Write-off	Bad debts recovered	Other bad debts expenses	Total bad and doubtful debts expenses
Retail loans and lease receivables	13,274	20,700	(3,571)	14	30,417
Dealer loans	7	0	0	0	7
Fleet loans and lease receivables	104	0	0	0	104
Returned vehicles	0	0	0	13	13
Total	13,385	20,700	(3,571)	27	30,541

F. MATURITY PROFILE

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Maturity analysis				
Less than 3 months	245,513	297,856	245,513	297,856
More than 3 months, but less than 1 year	801,227	911,856	801,227	911,856
More than 1 year, but less than 5 years	5,592,935	5,212,380	5,592,935	5,212,380
More than 5 years	170,664	47,194	170,664	47,194
Total	6,810,339	6,469,286	6,810,339	6,469,286

G. MISCELLANEOUS FINANCIAL ASSETS

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Subordinated loans	0	0	216,049	184,604
Other debtors	14,194	15,006	14,194	15,006
Amounts receivable from related entities	3,833	2,964	6,250	4,823
Total	18,027	17,970	236,493	204,433

A credit risk provision of \$16k (2018: \$nil) has been recognised for miscellaneous assets as at the end of the financial year.

H. FINANCE LEASES AS A LESSOR

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Selling profit or loss	0	0	0	0
Finance income on the net investment in the lease	5,238	2,653	5,238	2,653
Income relating to variable lease payments not included in the measurement of the net investment in the lease	0	0	0	0

The Group continues to offer finance leases to its Retail and Fleet customers. While volumes of new contracts have remained stable in Fleet, and offsetting principal repayments received on existing contracts, new business in Retail has been shifting towards loan contracts and as a result, the carrying amount of finance lease receivables has reduced compared to the previous year.

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:

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Maturity analysis				
Less than 1 year	39,796	29,772	39,796	29,772
More than 1 year, but less than 2 years	20,170	32,981	20,170	32,981
More than 2 years, but less than 3 years	14,451	18,162	14,451	18,162
More than 3 years, but less than 4 years	9,379	12,358	9,379	12,358
More than 4 years, but less than 5 years	3,612	7,005	3,612	7,005
More than 5 years	0	0	0	0
Total	87,408	100,278	87,408	100,278
<i>thereof: unearned income</i>	<i>(8,051)</i>	<i>(9,543)</i>	<i>(8,051)</i>	<i>(9,543)</i>
<i>thereof: unamortised</i>	<i>424</i>	<i>1,081</i>	<i>424</i>	<i>1,081</i>
<i>thereof: credit risk provisions</i>	<i>(8,863)</i>	<i>(1,205)</i>	<i>(8,863)</i>	<i>(1,205)</i>
Net investment in the lease	70,918	90,611	70,918	90,611
Discounted residual values included in the net investment in the lease	39,523	33,530	39,523	33,530

5 | Operating leases

A. INCOME FROM OPERATING LEASE TRANSACTIONS

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Gross operating lease income	6,778	8,405	6,778	8,405
Accrued operating lease income	(77)	94	(77)	94
Total	6,701	8,499	6,701	8,499

B. LEASE ASSETS

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Gross cost	20,888	37,310	20,888	37,310
Accumulated depreciation	(6,717)	(6,169)	(6,717)	(6,169)
Total	14,171	31,141	14,171	31,141

CONSOLIDATED AND PARENT \$'000	Gross cost	Accumulated depreciation	Total
Carrying amount as of 1 January 2018	41,948	(3,970)	37,978
Additions	28,401	(6,183)	22,218
Disposals	(33,039)	3,984	(29,055)
Carrying Amount as of 31 December 2018	37,310	(6,169)	31,141
Additions	5,860	(5,124)	736
Disposals	(22,282)	4,576	(17,706)
Carrying Amount as of 31 December 2019	20,888	(6,717)	14,171

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:

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Less than 3 months	1,708	5,118	1,708	5,118
More than 3 months, but less than 1 year	3,372	11,205	3,372	11,205
More than 1 year, but less than 2 years	4,448	5,033	4,448	5,033
More than 2 years, but less than 3 years	2,992	5,458	2,992	5,458
More than 3 years, but less than 4 years	1,464	3,499	1,464	3,499
More than 4 years, but less than 5 years	187	805	187	805
More than 5 years	0	23	0	23

6 | Non-interest revenue

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
ABS service fee income	0	0	25,394	21,113
Fee income from Retail contracts at fair value through profit or loss	5,232	4,615	5,232	4,615
Management fee income	3,903	1,349	3,903	1,349
Insurance fee income	3,454	3,182	3,454	3,182
Fair value provision movements	1,797	5,038	1,797	5,038
Service fee income	1,272	112	1,272	112
Early return fee income	733	233	733	233
Other non-interest revenue	22	4,189	22	26
Total	16,413	18,718	41,807	35,668

7 | Other non-financial assets

A. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

CONSOLIDATED AND PARENT \$'000	Net book value 31.12.2018	Adjustment to opening balance 01.01.2019 *	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 31.12.2019
Property, plant and equipment						
Leasehold improvements	2,052	0	0	0	(353)	1,699
Computer and office equipment	241	0	0	0	(77)	164
Right of use assets						
Buildings	0	7,537	297	0	(1,263)	6,571
Equipment	0	447	0	0	(112)	335
Total property, plant and equipment	2,293	7,984	297	0	(1,805)	8,769
Intangible assets						
Computer software	3,888	(1,477)	2,652	0	(1,531)	3,532
Software under development	3,580	1,477	3,408	(2,343)	0	6,122
Total intangible assets	7,468	0	6,060	(2,343)	(1,531)	9,654
Total	9,761	7,984	6,357	(2,343)	(3,336)	18,423

31.12.2019 CONSOLIDATED AND PARENT \$'000	Gross cost	Accumulated depreciation	Net book value
Property, plant and equipment			
Leasehold improvements	4,194	(2,495)	1,699
Computer and office equipment	763	(599)	164
Right of use assets	8,281	(1,375)	6,906
Total property, plant and equipment	13,238	(4,469)	8,769
Intangible assets			
Computer software	23,944	(20,412)	3,532
Software under development	6,122	0	6,122
Total intangible assets	30,066	(20,412)	9,654
Total	43,304	(24,881)	18,423

CONSOLIDATED AND PARENT \$'000	Net book value 01.01.2018	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 31.12.2018
Property, plant and equipment					
Leasehold improvements	2,405	0	0	(353)	2,052
Computer and office equipment	220	112	0	(91)	241
Total property, plant and equipment	2,625	112	0	(444)	2,293
Intangible assets					
Computer software	4,215	2,481	0	(2,808)	3,888
Software under development	2,834	3,105	(2,359)	0	3,580
Total intangible assets	7,049	5,586	(2,359)	(2,808)	7,468
Total	9,674	5,698	(2,359)	(3,252)	9,761

31.12.2018 CONSOLIDATED AND PARENT \$'000	Gross Cost	Accumulated Depreciation	Net book value
Property, plant and equipment			
Leasehold improvements	4,194	(2,143)	2,051
Computer and office equipment	763	(521)	242
Total property, plant and equipment	4,957	(2,664)	2,293
Intangible assets			
Computer software	21,292	(18,881)	2,411
Software under development	5,057	0	5,057
Total intangible assets	26,349	(18,881)	7,468
Total	31,306	(21,545)	9,761

B. DEPRECIATION AND AMORTISATION EXPENSES

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Depreciation				
Leased assets	5,126	6,640	5,126	6,640
Leasehold improvements	353	353	353	353
Computer and office equipment	78	91	78	91
Right of use assets	1,375	0	1,375	0
Total depreciation	6,932	7,084	6,932	7,084
Amortisation				
Computer software	1,531	2,248	1,531	2,248
Total amortisation	1,531	2,248	1,531	2,248
Total	8,463	9,332	8,463	9,332

C. OTHER ASSETS

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Inventories	5,079	7,584	5,079	7,584
GST receivable	2,834	835	2,640	641
Prepayments	821	539	821	539
Total	8,734	8,958	8,540	8,764

8 | Financial liabilities**A. BORROWINGS**

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

31.12.2019 PARENT \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Bank loans	1,500,000	7,364	0	0	1,507,364
Medium Term Notes and Commercial Papers issued	2,799,000	17,416	(4,339)	5,303	2,817,380
Total unsecured borrowings	4,299,000	24,780	(4,339)	5,303	4,324,744
Total	4,299,000	24,780	(4,339)	5,303	4,324,744

31.12.2018 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Bank loans	1,969,000	10,888	0	0	1,979,888
Medium Term Notes and Commercial Papers issued	2,374,300	9,184	(3,873)	3,051	2,382,662
Total unsecured borrowings	4,343,300	20,072	(3,873)	3,051	4,362,550
Secured borrowings					
Asset Backed Securities Notes issued	2,104,001	1,353	(2,048)	0	2,103,306
Subordinated loans	19,429	0	0	0	19,429
Total secured borrowings	2,123,430	1,353	(2,048)	0	2,122,735
Total	6,466,730	21,425	(5,921)	3,051	6,485,285

31.12.2018 PARENT \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Bank loans	1,969,000	10,888	0	0	1,979,888
Medium Term Notes and Commercial Papers issued	2,374,300	10,606	(5,295)	3,051	2,382,662
Total unsecured borrowings	4,343,300	21,494	(5,295)	3,051	4,362,550
Total	4,343,300	21,494	(5,295)	3,051	4,362,550

The medium term note program include maturities between 6 months to 5 years duration with an average rate of 3.0% (2018: 3.3%).

Bank loans include maturities between 1 month to 2 years duration with an average rate of 2.5% (2018: 2.9%).

The subordinated loans for Driver Australia Three are provided by Volkswagen International Luxemburg S.A. and are provided at an average interest rate of 6.6% (2018: 6.2%).

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). \$2,524,683,867 (2018: \$2,422,869,592) 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 1.8% and 2.4% respectively (2018: 3.0% and 3.7% respectively).

The clean-up call for Driver Australia Three was exercised on 21 January 2020.

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The current interest rate is 1.4% (2018: 2.5%) 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

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Maturity analysis				
Less than 3 months	1,114,440	1,120,557	914,470	1,013,893
More than 3 months, but less than 1 year	1,612,960	1,493,675	1,050,981	973,657
More than 1 year, but less than 2 years	3,898,797	3,871,053	2,359,293	2,375,000
More than 5 years	0	0	0	0
Total	6,626,197	6,485,285	4,324,744	4,362,550

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 (Volkswagen International Luxembourg S.A.)

VWFSA has not passed the de-recognition criteria of AASB 139 and AASB 9 and therefore has continued to recognise the receivables transferred to the Trusts on its balance sheet. 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 \$61.8m (2018: \$81.8m). 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 Entity as at 31 December 2019:

\$'000	Parent	
	31.12.2019	31.12.2018
Retail receivables		
Carrying amount of transferred assets	2,608,171	2,528,082
Carrying amount of associated liabilities	2,301,449	2,124,090
For those liabilities that have recourse only to the transferred assets		
Fair value of transferred assets	2,587,678	2,460,621
Fair value of associated liabilities	2,301,449	2,124,090
Net fair value	286,229	336,531

Sensitivity analysis

At 31 December 2019 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.

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:

\$'000	Parent	
	31.12.2019	31.12.2018
Maturity analysis		
Less than 3 months	184,388	93,318
More than 3 months, but less than 1 year	564,286	510,252
More than 1 year, but less than 5 years	1,704,693	1,596,969
More than 5 years	0	0
Total	2,453,367	2,200,539

E. MISCELLANEOUS FINANCIAL LIABILITIES

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Amounts payable to related entities	28,125	29,029	28,125	40,457
Commission clearing/payable	7,246	7,420	7,246	7,420
Lease Liability	7,007	0	7,007	0
Other Creditors	538	4,927	538	460
Total	42,916	41,376	42,916	48,337

9 | Other liabilities

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Sundry accruals	11,255	8,541	11,255	8,405
Compliance, programs and regulation	9,650	5,395	9,650	5,395
Audit fee provision	327	320	327	320
GST payable	0	0	0	0
Tax fee provision	276	172	276	172
Other creditors	797	46	797	182
Tax provision	0	(200)	0	(200)
Total	22,305	14,274	22,305	14,274

The provision for Compliance, programs and regulation was increased from \$5,395k by \$4,255k to \$9,650k in the current year, with no utilisations or releases to the Income Statement during the year. The increase is solely due to a revised estimate of the required provision amount. Both the amount and the timing of these outflows remain uncertain as they are dependent on external factors beyond the Group's control. The Group does not expect any reimbursement in relation to this provision. The provision is in relation to a pending litigation case against the Company.

All other liabilities as of 31 December 2018 were paid or released to the Income Statement in the current year. The amounts outstanding as of 31 December 2019 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		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Provision for staff bonus	2,911	2,583	2,911	2,583
Provision for leave entitlements - current	1,070	885	1,070	885
Total current employee entitlements	3,981	3,468	3,981	3,468
Provision for leave entitlements - non-current	648	525	648	525
Total non-current employee entitlements	648	525	648	525
Total	4,629	3,993	4,629	3,993

Consolidated & Parent \$'000	Staff bonus	Leave entitlements	Total
Carrying amount as at 1 January 2018	2,318	1,347	3,665
Additional provisions recognised	1,693	239	1,932
Reductions in provisions	(1,428)	(176)	(1,604)
Carrying amount as at 31 December 2018	2,583	1,410	3,993
Additional provisions recognised	1,895	537	2,432
Reductions in provisions	(1,567)	(229)	(1,796)
Carrying amount as at 31 December 2019	2,911	1,718	4,629

B. EXPENSES

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Salaries and wages	19,191	16,448	19,191	16,448
Superannuation	2,047	1,760	2,047	1,760
Expat benefits	340	411	340	411
Recruitment	281	275	281	275
Staff training and education	323	275	323	275
Temporary staff costs	362	363	362	363
Fringe Benefits Tax	840	840	840	840
Other	144	64	144	64
Total	23,528	20,436	23,528	20,436

11 | Other expenses from ordinary activities

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Consultancy	9,424	8,856	9,424	8,856
Commission expense from Retail contracts at fair value through profit or loss	6,957	6,046	6,957	6,046
Credit rating expenses	3,185	2,702	3,185	2,702
IT and communication	3,549	2,092	3,549	2,092
Net loss on sale of vehicles	1,793	4,068	1,793	4,068
GST disallowed	1,427	785	1,372	774
Marketing	1,070	984	1,070	984
Company cars	998	855	998	855
Expenses paid to related parties	760	284	760	284
Postage	677	862	677	862
Rent	596	1,719	596	1,719
Travel	483	494	483	494
Compliance and insurance	447	947	447	947
Commission paid for operating leases	318	270	318	270
Costs for services provided to customers	150	304	150	304
Other	2,647	2,871	2,647	3,686
Total	34,481	34,139	34,426	34,943

12 | Income tax

A. DEFERRED TAX POSITION

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
The balance comprises temporary differences attributable to:				
Unamortised dealer commissions	4,151	6,408	4,151	6,408
Loans and receivables	560	333	560	333
Doubtful debts	25,466	19,756	25,466	19,756
Loss on disposal of securitised assets	0	668	0	668
Other provisions & accruals	11,446	6,230	11,446	6,230
Derivative financial instruments	9,839	4,401	9,739	4,401
Deferred tax assets	51,462	37,796	51,362	37,796
Leases	(3,219)	(3,307)	(3,219)	(3,307)
Prepayments	(421)	(512)	(421)	(512)
Gain on disposal of securitised assets	(966)	(881)	(966)	(881)
Deferred income	(3,534)	(2,427)	(3,534)	(2,427)
Derivative financial instruments	(10,246)	(4,810)	(10,246)	(5,467)
Deferred tax liabilities	(18,386)	(11,937)	(18,386)	(12,594)
Net deferred tax assets	33,076	25,859	32,976	25,202
Movements:				
Opening balance as at 1 January	25,859	19,980	25,859	19,980
Adjustment on adoption of AASB 9	0	2,213	0	2,213
Adjusted opening balance as at 1 January	25,859	22,193	25,859	22,193
Charged to income statement	7,255	4,900	7,256	4,900
Charged to other comprehensive income	(38)	(1,234)	(139)	(1,891)
Closing balance as at 31 December	33,076	25,859	32,976	25,202
Deferred tax assets expected to be recovered:				
within 12 months	13,596	10,649	13,496	9,992
over 12 months	19,480	15,210	19,480	15,210
Total	33,076	25,859	32,976	25,202

B. INCOME TAX EXPENSE

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Current tax	23,251	19,414	23,252	19,414
Deferred tax	(7,256)	(4,900)	(7,256)	(4,900)
Total income tax expense	15,995	14,514	15,996	14,514
Income tax expense is attributable to:				
Profit from continuing operations	15,995	14,514	15,995	14,514
Deferred tax expense in income tax benefit comprises:				
(Increase) / Decrease in deferred tax assets	(14,108)	(12,337)	(14,108)	(12,337)
Increase / (Decrease) in deferred tax liabilities	6,852	7,437	6,852	7,437
Total deferred income tax expense	(7,256)	(4,900)	(7,256)	(4,900)

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

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Profit from continuing operations before income tax expense	49,738	46,610	51,355	45,853
Tax at the Australian tax rate of 30% (2018: 30%)	14,923	13,983	15,407	13,756
Adjustment for prior tax period	533	(9)	49	(9)
Thin Capitalisation non deductible interest	139	334	139	334
Ungroupable losses Driver Australia three	386	454	386	454
Other permanent differences	14	(248)	14	(21)
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income	539	540	539	767
Total	15,995	14,514	15,995	14,514

13 | Equity

A. SHARE CAPITAL

CONSOLIDATED & PARENT \$'000	Number of shares		Share capital	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
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

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Retained earnings as at 1 January	89,240	57,063	82,560	51,137
Net profit / (loss) for the year	33,744	32,095	35,360	31,341
Retained earnings as at 31 December	122,984	89,158	117,920	82,478

C. RESERVES

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 1J. Amounts are recognised in the income statement when the associated hedged transaction affects profit or loss.

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Cash flow hedge reserve	(3,187)	(3,295)	(2,851)	(1,143)
Deferred tax for cash flow hedge reserve	956	1,000	855	343
Total	(2,231)	(2,295)	(1,996)	(800)

\$'000	Consolidated		Parent	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Opening balance as at 1 January	(2,295)	(14)	(800)	(52)
Changes in cash flow hedge reserve				
Amounts transferred from profit or loss	5,087	715	(1,526)	38
Amounts transferred to profit or loss	(4,979)	(693)	(182)	(16)
Total net changes in cash flow hedge reserve	108	22	(1,708)	22
Changes in deferred tax for cash flow hedges	(44)	(2,303)	512	(770)
Balance as at 31 December	(2,231)	(2,295)	(1,996)	(800)

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 1.8% (consolidated) and 1.9% (parent) (2017: 2.9% and 3.1% 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 67.8% (consolidated) and 69.8% (parent) (2018: 79.0% and 69.3% 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 0.8% and 4.7% (2018: between 1.8% and 4.8%) and the variable rates are between 0.9% and 3.5% (2018: between 1.8% and 4.8%).

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

31.12.2019 CONSOLIDATED	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
\$'000				
Fair value hedges				
Interest rate swaps				
Notional	201,527	2,547,917	4,481,377	0
Average variable interest rate	2.64%	2.29%	2.11%	
Cash flow hedges				
Interest rate swaps				
Notional	51,527	250,000	1,489,959	0
Average fixed interest rate	4.27%	2.06%	2.42%	

31.12.2019 PARENT	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
\$'000				
Fair value hedges				
Interest rate swaps				
Notional	201,527	1,630,657	4,481,377	0
Average variable interest rate	2.64%	2.34%	2.11%	
Cash flow hedges				
Interest rate swaps				
Notional	0	250,000	150,000	0
Average fixed interest rate		2.06%	1.72%	

31.12.2018 CONSOLIDATED	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
\$'000				
Fair value hedges				
Interest rate swaps				
Notional	0	330,000	1,175,000	0
Average variable interest rate		2.81%	2.80%	
Cash flow hedges				
Interest rate swaps				
Notional	0	0	250,000	902,928
Average fixed interest rate			2.00%	3.12%

31.12.2018 PARENT	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
\$'000				
Fair value hedges				
Interest rate swaps				
Notional	0	330,000	1,175,000	0
Average variable interest rate		2.81%	2.80%	
Cash flow hedges				
Interest rate swaps				
Notional	0	0	250,000	0
Average fixed interest rate			2.00%	

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

31.12.2019 CONSOLIDATED	Notional	Carrying amount		Balance Sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities		
\$'000					
Fair value hedges					
Interest rate					
Interest rate swaps	1,475,000	24,527	(2,192)	Derivative financial instruments	5,303
Cash flow hedges					
Interest rate					
Interest rate swaps	1,501,009	4,209	(7,516)	Derivative financial instruments	(3,307)

31.12.2019 PARENT	Notional	Carrying amount		Balance Sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities		
\$'000					
Fair value hedges					
Interest rate					
Interest rate swaps	1,475,000	24,527	(2,192)	Derivative financial instruments	5,303
Cash flow hedges					
Interest rate					
Interest rate swaps	300,000	159	(3,058)	Derivative financial instruments	(2,899)

31.12.2018 CONSOLIDATED	Notional	Carrying amount		Balance Sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities		
\$'000					
Fair value hedges					
Interest rate					
Interest rate swaps	1,505,000	3,072	0	Derivative financial instruments	3,072
Cash flow hedges					
Interest rate					
Interest rate swaps	1,152,928	167	(3,240)	Derivative financial instruments	(3,073)

31.12.2018 PARENT	Notional	Carrying amount		Balance Sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities		
\$'000					
Fair value hedges					
Interest rate					
Interest rate swaps	1,505,000	3,072	0	Derivative financial instruments	3,072
Cash flow hedges					
Interest rate					
Interest rate swaps	250,000	0	(866)	Derivative financial instruments	(866)

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

31.12.2019 CONSOLIDATED	Carrying amount of hedged item	Accumulated amount of fair value adjustments	Balance sheet line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
	Assets (+) / Liabilities (-)	Assets (+) / Liabilities (-)			Continuing hedges	Discontinued hedges
\$'000						
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

31.12.2019 PARENT	Carrying amount of hedged item	Accumulated amount of fair value adjustments	Balance sheet line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
	Assets (+) / Liabilities (-)	Assets (+) / Liabilities (-)			Continuing hedges	Discontinued hedges
\$'000						
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

31.12.2018 CONSOLIDATED	Carrying amount of hedged item	Accumulated amount of fair value adjustments	Balance sheet line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
	Assets (+) / Liabilities (-)	Assets (+) / Liabilities (-)			Continuing hedges	Discontinued hedges
\$'000						
Fair value hedges						
Interest rate						
Fixed rate borrowings	1,501,949	3,051	Medium Term Notes and Commercial Papers issued	3,051	n/a	n/a
Cash flow hedges						
Interest rate						
Variable rate borrowings	1,156,059	n/a	Liabilities to banks, Medium Term Notes and Commercial Papers issued and Asset Backed Securities Notes issued	3,034	3,073	0

31.12.2018 PARENT	Carrying amount of hedged item	Accumulated amount of fair value adjustments	Balance sheet line item	Changes in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
	Assets (+) / Liabilities (-)	Assets (+) / Liabilities (-)			Continuing hedges	Discontinued hedges
\$'000						
Fair value hedges						
Interest rate						
Fixed rate borrowings	1,501,949	3,051	Medium Term Notes and Commercial Papers issued	3,051	n/a	n/a
Cash flow hedges						
Interest rate						
Variable rate borrowings	250,870	n/a	Liabilities to banks, Medium Term Notes and Commercial Papers issued and Asset Backed Securities Notes issued	877	866	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 income statement immediately and amounts to \$216k (consolidated) and \$109k (Parent) for the year (2018: \$62k and \$7k).

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:

31.12.2019 CONSOLIDATED \$'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness	
		Amount	P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	47	Net gains/losses on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	3,025	162	Net gains/losses on financial instruments at fair value

31.12.2019 PARENT \$'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness	
		Amount	P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	47	Net gains/losses on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	2,742	109	Net gains/losses on financial instruments at fair value

31.12.2018 CONSOLIDATED \$'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness	
		Amount	P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	21	Net gains/ losses on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	3,131	59	Net gains/ losses on financial instruments at fair value

31.12.2018 PARENT \$'000	Gain/(loss) recognised in OCI	Hedge ineffectiveness	
		Amount	P&L line item
Fair value hedges			
Interest rate			
Fixed rate borrowings	0	21	Net gains/ losses on financial instruments at fair value
Cash flow hedges			
Interest rate			
Variable rate borrowings	870	4	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 \$'000	Fair value		Carrying amount		Difference	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Assets						
Measured at fair value						
Retail loan financing	496,723	500,215	496,723	500,215	0	0
Derivative financial instruments	43,414	22,259	43,414	22,259	0	0
Measured at amortised cost						
Cash and cash equivalents	105,663	260,323	105,663	260,323	0	0
Retail loan financing	4,377,319	4,271,399	4,439,858	4,135,119	(62,539)	136,280
Dealer loan financing	1,766,879	1,728,315	1,766,879	1,728,315	0	0
Fleet loan financing	35,937	15,468	35,961	15,026	(24)	442
Lease receivables	67,666	93,275	70,918	90,611	(3,252)	2,664
Miscellaneous financial assets	18,027	17,970	18,027	17,970	0	0
Liabilities						
Measured at fair value						
Derivative financial instruments	36,789	18,326	36,789	18,326	0	0
Measured at amortised cost						
Liabilities to banks	1,506,890	1,979,888	1,507,364	1,979,888	(474)	0
Medium Term Notes and Commercial Papers issued	2,817,380	2,382,662	2,817,380	2,382,662	0	0
Asset Backed Securities Notes issued	2,301,453	2,122,735	2,301,453	2,122,735	0	0
Other financial liabilities	42,916	41,376	42,916	41,376	0	0

PARENT \$'000	Fair value		Carrying amount		Difference	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Assets						
Measured at fair value						
Retail loan financing	496,723	500,215	496,723	500,215	0	0
Derivative financial instruments	39,364	22,061	39,364	22,061	0	0
Miscellaneous financial assets	216,049	184,604	216,049	184,604	0	0
Measured at amortised cost						
Cash and cash equivalents	31,137	147,442	31,137	147,442	0	0
Retail loan financing	4,377,319	4,271,399	4,439,858	4,135,119	(62,539)	136,280
Dealer loan financing	1,766,879	1,728,315	1,766,879	1,728,315	0	0
Fleet loan financing	35,937	15,468	35,961	15,026	(24)	442
Lease receivables	74,170	93,275	70,918	90,611	3,252	2,664
Miscellaneous financial assets	20,444	19,829	20,444	19,829	0	0
Liabilities						
Measured at fair value						
Derivative financial instruments	29,300	11,279	29,300	11,279	0	0
Measured at amortised cost						
Liabilities to banks	1,506,890	1,979,888	1,507,364	1,979,888	(474)	0
Medium Term Notes and Commercial Papers issued	2,817,380	2,382,662	2,817,380	2,382,662	0	0
Virtual Loan	2,453,367	2,200,539	2,453,367	2,200,539	0	0
Other financial liabilities	42,916	48,337	42,916	48,337	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 Liabilities to banks is measured on the basis of inputs observable in the markets, such as exchange rates 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 2 and 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 loan prepayment rates. For Retail loan financing receivables, the fair value is calculated on a monthly basis using a standardised method.

Key inputs include the following:

- Undiscounted outstanding balance
- Average remaining term and average contractual interest rate
- Discount rate
 - o Risk premium, taking into account credit risk and residual value risk
 - o Market interest rates

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 \$'000	Level 1		Level 2		Level 3	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Assets						
Measured at fair value						
Retail loan financing	0	0	0	0	496,723	500,215
Derivative financial instruments	0	0	43,414	22,259	0	0
<i>thereof: Derivative financial instruments designated as hedges</i>	0	0	30,639	13,628	0	0
Liabilities						
Measured at fair value						
Derivative financial instruments	0	0	13,806	10,377	0	0
<i>thereof: Derivative financial instruments designated as hedges</i>	0	0	23,143	7,950	0	0

PARENT \$'000	Level 1		Level 2		Level 3	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Assets						
Measured at fair value						
Retail loan financing	0	0	0	0	496,723	500,215
Derivative financial instruments	0	0	39,364	22,061	0	0
<i>thereof: Derivative financial instruments designated as hedges</i>	0	0	26,589	13,430	0	0
Miscellaneous financial assets	0	0	0	0	216,049	184,604
Liabilities						
Measured at fair value						
Derivative financial instruments	0	0	29,300	11,279	0	0
<i>thereof: Derivative financial instruments designated as hedges</i>	0	0	18,685	5,594	0	0

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

\$'000	Consolidated		Parent	
	2019	2018	2019	2018
Retail loan financing				
Balance at 1 January	500,215	367,383	500,215	367,383
New contracts	144,242	234,685	144,242	234,685
Matured contracts	(145,937)	(101,049)	(145,937)	(101,049)
Fair value gains/(losses) recognised in the Income Statement	(1,797)	(804)	(1,797)	(804)
Balance at 31 December	496,723	500,215	496,723	500,215
Subordinated loans				
Balance at 1 January	0	0	184,604	67,253
New loans granted	0	0	90,513	117,675
Repayments	0	0	(59,068)	(324)
Fair value gains/(losses) recognised in the Income Statement	0	0	0	0
Balance at 31 December	0	0	216,049	184,604

D. LIQUIDITY RISK

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

31.12.2019 CONSOLIDATED	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
\$'000					
Financial liabilities					
Derivative financial instruments	43,965	11,237	19,218	13,510	0
Other financial liabilities	43,796	36,428	1,179	6,025	164
Liabilities to banks	1,553,740	590,364	536,429	426,947	0
Medium Term Notes and Commercial Papers issued	2,976,494	373,460	566,455	2,036,579	0
Asset Backed Securities Notes issued	2,330,378	208,807	617,005	1,554,474	0
Gross credit commitments	511,318	511,318	0	0	0
Total	7,459,691	1,731,614	1,740,286	4,037,535	164

31.12.2019 PARENT	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
\$'000					
Financial liabilities					
Derivative financial instruments	38,768,634	9,266,481	18,215,670	11,286,482	0
Other financial liabilities	43,796	36,428	1,179	6,025	164
Liabilities to banks	1,553,740	590,364	536,429	426,947	0
Medium Term Notes and Commercial Papers issued	2,976,494	373,460	566,455	2,036,579	0
Virtual Loan	2,380,286	208,807	617,005	1,554,474	0
Gross credit commitments	511,318	511,318	0	0	0
Total	46,234,268	10,986,858	19,936,738	15,310,507	164

31.12.2018 CONSOLIDATED	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
\$'000					
Financial liabilities					
Derivative financial instruments	19,537	8,417	5,981	5,139	0
Other financial liabilities	274,402	49,042	28,496	195,504	1,360
Liabilities to banks	2,023,414	621,879	586,360	815,175	0
Medium Term Notes and Commercial Papers issued	2,527,593	413,893	450,060	1,663,640	0
Asset Backed Securities Notes issued	2,185,084	114,261	536,863	1,533,960	0
Gross credit commitments	371,144	371,144	0	0	0
Total	7,401,174	1,578,636	1,607,760	4,213,418	1,360

31.12.2018 PARENT	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
\$'000					
Financial liabilities					
Derivative financial instruments	15,822	6,644	4,563	4,615	0
Other financial liabilities	48,861	48,861	0	0	0
Liabilities to banks	2,023,414	621,879	586,360	815,175	0
Medium Term Notes and Commercial Papers issued	2,527,593	413,893	450,060	1,663,640	0
Virtual Loan	2,225,611	119,162	551,773	1,554,676	0
Gross credit commitments	371,144	371,144	0	0	0
Total	7,212,445	1,581,583	1,592,756	4,038,106	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.

31.12.2019 CONSOLIDATED	Floating interest	Fixed interest maturing		Non-interest bearing	Total
		Less than 1 year	More than 1 year, but less than 5 years		
\$'000					
Financial assets					
Cash and cash equivalents	105,663	0	0	0	105,663
Retail loan financing	0	1,005,281	3,931,300	0	4,936,581
Dealer loan financing	1,766,879	0	0	0	1,766,879
Fleet loan financing	0	9,524	26,437	0	35,961
Lease receivables	0	29,690	41,228	0	70,918
Miscellaneous financial assets	0	0	0	18,027	18,027
Total	1,872,542	1,044,495	3,998,965	18,027	6,934,029
Weighted average interest rate	2.52%	5.65%	6.44%	0.00%	5.25%
Financial liabilities					
Liabilities to banks	300,621	936,584	270,159	0	1,507,364
Medium Term Notes and Commercial Papers issued	100,088	878,694	1,838,598	0	2,817,380
Asset Backed Securities Notes issued	2,301,453	0	0	0	2,301,453
Other financial liabilities	0	0	7,007	35,909	42,916
Total	2,702,162	1,815,278	2,115,764	35,909	6,669,113
Weighted average interest rate	1.97%	2.38%	2.90%	0.00%	2.37%
Derivative financial instruments	28,384	(6,746)	(15,013)	0	6,625
Weighted average interest rate	1.96%	2.22%	1.95%		1.74%
Net financial assets/(liabilities)	(801,236)	(777,529)	1,868,188	(17,882)	271,541

31.12.2019 PARENT	Floating interest	Fixed interest maturing		Non-interest bearing	Total
		Less than 1 year	More than 1 year, but less than 5 years		
\$'000					
Financial assets					
Cash and cash equivalents	31,137	0	0	0	31,137
Retail loan financing	0	1,005,281	3,931,300	0	4,936,581
Dealer loan financing	1,766,879	0	0	0	1,766,879
Fleet loan financing	0	9,524	26,437	0	35,961
Lease receivables	0	29,690	41,228	0	70,918
Miscellaneous financial assets	216,049	0	0	20,444	236,493
Total	2,014,065	1,044,495	3,998,965	20,444	7,077,969
Weighted average interest rate	2.69%	5.65%	6.44%	0.00%	5.24%
Financial liabilities					
Liabilities to banks	300,621	936,584	270,159	0	1,507,364
Medium Term Notes and Commercial Papers issued	100,088	878,694	1,838,598	0	2,817,380
Virtual Loan		748,676	1,704,691	0	2,453,367
Other financial liabilities	0	0	7,007	35,909	42,916
Total	400,709	2,563,954	3,820,455	35,909	6,821,027
Weighted average interest rate	2.38%	2.38%	2.90%	0.00%	2.66%
Derivative financial instruments	28,384	(4,681)	(13,639)	0	10,064
Weighted average interest rate	1.96%	2.21%	1.89%		1.95%
Net financial assets/(liabilities)	1,641,740	(1,524,140)	164,871	(15,465)	267,006

31.12.2018 CONSOLIDATED	Floating interest	Fixed interest maturing		Non-interest bearing	Total
		Less than 1 year	More than 1 year, but less than 5 years		
\$'000					
Financial assets					
Cash and cash equivalents	260,323	0	0	0	260,323
Retail loan financing	0	1,181,259	3,454,075	0	4,635,334
Dealer loan financing	1,728,315	0	0	0	1,728,315
Fleet loan financing	0	2,747	12,279	0	15,026
Lease receivables	0	24,141	66,470	0	90,611
Miscellaneous financial assets	0	0	0	17,970	17,970
Total	1,988,638	1,208,147	3,532,824	17,970	6,747,579
Weighted average interest rate	4.20%	6.75%	6.35%	0.00%	5.77%
Financial liabilities					
Liabilities to banks	250,865	1,179,888	549,135	0	1,979,888
Medium Term Notes and Commercial Papers issued	100,149	399,300	1,883,213	0	2,382,662
Asset Backed Securities Notes issued	2,122,735	0	0	0	2,122,735
Other financial liabilities	0	0	0	41,376	41,376
Total	2,473,749	1,579,188	2,432,348	41,376	6,526,661
Weighted average interest rate	3.11%	2.92%	3.16%	0.00%	3.06%
Derivative financial instruments	18,102	(4,848)	(9,321)	0	3,933
Weighted average interest rate	3.06%	2.91%	2.74%		4.00%
Net financial assets/(liabilities)	(467,009)	(375,889)	1,091,155	(23,406)	224,851

31.12.2018 PARENT	Floating interest	Fixed interest maturing		Non-interest bearing	Total
		Less than 1 year	More than 1 year, but less than 5 years		
\$'000					
Financial assets					
Cash and cash equivalents	147,442	0	0	0	147,442
Retail loan financing	0	1,181,259	3,454,075	0	4,635,334
Dealer loan financing	1,728,315	0	0	0	1,728,315
Fleet loan financing	0	2,747	12,279	0	15,026
Lease receivables	0	24,141	66,470	0	90,611
Miscellaneous financial assets	184,604	0	0	19,829	204,433
Total	2,060,361	1,208,147	3,532,824	19,829	6,821,161
Weighted average interest rate	4.20%	6.75%	6.35%	0.00%	5.75%
Financial liabilities					
Liabilities to banks	250,865	1,179,888	549,135	0	1,979,888
Medium Term Notes and Commercial Papers issued	100,149	399,300	1,883,213	0	2,382,662
Virtual Loan	0	603,570	1,596,969	0	2,200,539
Other financial liabilities	0	0	0	48,337	48,337
Total	351,014	2,182,758	4,029,317	48,337	6,611,426
Weighted average interest rate	3.03%	2.92%	3.16%	0.00%	3.05%
Derivative financial instruments	28,382	(6,746)	(10,854)	0	10,782
Weighted average interest rate	1.96%	2.22%	1.95%		1.82%
Net financial assets/(liabilities)	1,737,729	(981,357)	(507,347)	(28,508)	220,517

F. INTEREST RATE 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 \$'000	Carrying amount		Impact on profit and equity from change in interest rates			
	31.12.2019	31.12.2018	Decrease by 1%		Increase by 1%	
			31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets						
Cash and cash equivalents	105,663	260,323	(1,057)	(2,603)	1,057	2,603
Retail loan financing	4,936,581	4,635,334	4,837	5,566	(4,729)	(5,433)
Dealer loan financing	1,766,879	1,728,315	(17,563)	(17,318)	17,563	17,318
Fleet loan financing	35,961	15,026	0	0	0	0
Lease receivables	70,918	90,611	0	0	0	0
Miscellaneous financial assets	18,027	17,970	0	0	0	0
Derivative financial instruments	43,414	22,259	(3)	(223)	1	223
Total	6,977,443	6,769,838	(13,786)	(14,578)	13,892	14,711
Financial liabilities						
Liabilities to banks	1,507,364	1,979,888	3,006	2,509	(3,006)	(2,509)
Medium Term Notes and Commercial Papers issued	2,817,380	2,382,662	1,001	1,001	(1,001)	(1,001)
Asset Backed Securities Notes issued	2,301,453	2,122,735	22,398	17,758	(22,398)	(17,758)
Other financial liabilities	42,916	41,376	0	0	0	0
Derivative financial instruments	36,789	18,326	(124)	(183)	122	183
Total	6,705,902	6,544,987	26,281	21,085	(26,283)	(21,085)
Net increase / (decrease)			(40,067)	(35,663)	40,175	35,796

PARENT \$'000	Carrying amount		Impact on profit and equity from change in interest rates			
	31.12.2019	31.12.2018	Decrease by 1%		Increase by 1%	
			31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets						
Cash and cash equivalents	31,137	147,442	(311)	(1,474)	311	1,474
Retail loan financing	4,936,581	4,635,334	4,837	5,566	(4,729)	(5,433)
Dealer loan financing	1,766,879	1,728,315	(17,563)	(17,318)	17,563	17,318
Fleet loan financing	35,961	15,026	0	0	0	0
Lease receivables	70,918	90,611	0	0	0	0
Miscellaneous financial assets	236,493	204,433	(2,133)	(2,007)	2,133	2,007
Derivative financial instruments	39,364	22,061	117	221	(119)	221
Total	7,117,333	6,843,222	(15,053)	(15,012)	15,159	15,587
Financial liabilities						
Liabilities to banks	1,507,364	1,979,888	3,006	2,509	(3,006)	(2,509)
Medium Term Notes and Commercial Papers issued	2,817,380	2,382,662	1,001	1,001	(1,001)	(1,001)
Virtual Loan	2,453,367	2,200,539	0	0	0	0
Other financial liabilities	42,916	48,337	0	0	0	0
Derivative financial instruments	29,300	11,279	(73)	(113)	72	113
Total	6,850,327	6,622,705	3,934	3,397	(3,935)	(3,397)
Net increase / (decrease)			(18,987)	(18,409)	19,094	18,984

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.

31.12.2019 CONSOLIDATED	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	
\$'000					
Financial assets					
Cash and cash equivalents	105,663	0	105,663	0	105,663
Retail loan financing	4,936,581	0	4,936,581	0	4,936,581
Dealer loan financing	1,766,879	0	1,766,879	0	1,766,879
Fleet loan financing	35,961	0	35,961	0	35,961
Lease receivables	70,918	0	70,918	0	70,918
Miscellaneous financial assets	18,027	0	18,027	0	18,027
Derivative financial instruments	43,414	0	43,414	(21,821)	21,593
Total	6,977,443	0	6,977,443	(21,821)	6,955,622
Financial liabilities					
Liabilities to banks	1,507,364	0	1,507,364	0	1,507,364
Medium Term Notes and Commercial Papers issued	2,817,380	0	2,817,380	0	2,817,380
Asset Backed Securities Notes issued	2,301,453	0	2,301,453	0	2,301,453
Derivative financial instruments	36,789	0	36,789	(21,821)	14,968
Other financial liabilities	42,916	0	42,916	0	42,916
Total	6,705,902	0	6,705,902	(21,821)	6,684,081

31.12.2019 PARENT	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	
\$'000					
Financial assets					
Cash and cash equivalents	31,137	0	31,137	0	31,137
Retail loan financing	4,936,581	0	4,936,581	0	4,936,581
Dealer loan financing	1,766,879	0	1,766,879	0	1,766,879
Fleet loan financing	35,961	0	35,961	0	35,961
Lease receivables	70,918	0	70,918	0	70,918
Derivative financial instruments	39,364	0	39,364	(31,893)	7,471
Miscellaneous financial assets	236,493	0	236,493	0	236,493
Total	7,117,333	0	7,117,333	(31,893)	7,085,440
Financial liabilities					
Liabilities to banks	1,507,364	0	1,507,364	0	1,507,364
Medium Term Notes and Commercial Papers issued	2,817,380	0	2,817,380	0	2,817,380
Derivative financial instruments	29,300	0	29,300	(31,893)	(2,593)
Virtual Loan	2,453,367	0	2,453,367	0	2,453,367
Other financial liabilities	42,916	0	42,916	0	42,916
Total	6,850,327	0	6,850,327	(31,893)	6,818,434

31.12.2018 CONSOLIDATED	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	
\$'000					
Financial assets					
Cash and cash equivalents	260,323	0	260,323	0	260,323
Retail loan financing	4,635,334	0	4,635,334	0	4,635,334
Dealer loan financing	1,728,315	0	1,728,315	0	1,728,315
Fleet loan financing	15,026	0	15,026	0	15,026
Lease receivables	90,611	0	90,611	0	90,611
Derivative financial instruments	22,259	0	22,259	(6,738)	15,521
Miscellaneous financial assets	17,970	0	17,970	0	17,970
Total	6,769,838	0	6,769,838	(6,738)	6,763,100
Financial liabilities					
Liabilities to banks	1,979,888	0	1,979,888	0	1,979,888
Medium Term Notes and Commercial Papers issued	2,382,662	0	2,382,662	0	2,382,662
Asset Backed Securities Notes issued	2,122,735	0	2,122,735	0	2,122,735
Derivative financial instruments	18,326	0	18,326	(6,738)	11,588
Other financial liabilities	41,376	0	41,376	0	41,376
Total	6,544,987	0	6,544,987	(6,738)	6,538,249

31.12.2018 PARENT	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	
\$'000					
Financial assets					
Cash and cash equivalents	147,442	0	147,442	0	147,442
Retail loan financing	4,635,334	0	4,635,334	0	4,635,334
Dealer loan financing	1,728,315	0	1,728,315	0	1,728,315
Fleet loan financing	15,026	0	15,026	0	15,026
Lease receivables	90,611	0	90,611	0	90,611
Derivative financial instruments	22,061	0	22,061	(11,194)	10,867
Miscellaneous financial assets	204,433	0	204,433	0	204,433
Total	6,843,222	0	6,843,222	(11,194)	6,832,028
Financial liabilities					
Liabilities to banks	1,979,888	0	1,979,888	0	1,979,888
Medium Term Notes and Commercial Papers issued	2,382,662	0	2,382,662	0	2,382,662
Derivative financial instruments	11,279	0	11,279	(11,194)	85
Virtual Loan	2,200,539	0	2,200,539	0	2,200,539
Other financial liabilities	48,337	0	48,337	0	48,337
Total	6,622,705	0	6,622,705	(11,194)	6,611,511

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	
		2019	2018	2019	2018
Driver Australia Two Trust	Australia	n/a	100%	n/a	0%
Driver Australia Three Trust	Australia	100%	100%	0%	0%
Driver Australia Four Trust	Australia	100%	100%	0%	0%
Driver Australia Five Trust	Australia	100%	100%	0%	0%
Driver Australia Six Trust	Australia	100%	n/a	0%	n/a
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	
	2019	2018	2019	2018
Remuneration for audit of the financial reports				
Auditor of the Group - Pricewaterhouse Coopers	395	354	395	354
Remuneration for other services				
Auditor of the Group - Pricewaterhouse Coopers				
Taxation	172	200	172	200
Other assurance services	275	260	275	260
Total	842	814	842	814

17 | Commitments

A. CAPITAL COMMITMENTS

The Group had not committed to any no 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 7 months to 3 years. The leases have varying terms, extension options and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases. See Note 1Y 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	
	2019	2018	2019	2018
Less than 1 year	263	1,585	263	1,585
More than 1 year, but less than 5 years	137	5,933	137	5,933
More than 5 years	0	1,812	0	1,812
Total	400	9,330	400	9,330

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
Ms Silke Schmidt	Managing Director (until 28 February 2019)
Mr Gavin Zhong	Managing Director (from 3 June 2019)
Mr Norbert Dorn	Non-executive Director (employee of VWFS AG, Germany)
Mr Patrick Welter	Non-executive Director (employee of VWFS AG, Germany) (until 30 April 2019)
Mr Marc Schwekendiek	Non-executive Director (employee of VWFS AG, Germany) (from 1 May 2019)
Mr Birger Wenner	Head of Finance
Mr David Skillen	Head of Risk and Compliance
Mr Paul Stanton	General Manager Controlling
Mr Stephan Woffleben	Head of IT
Mr Steve Mifsud	Head of Dealer and Customer Services
Mr Barry O'Brien	Head of Fleet
Mr Henry Geddes	General Manager Sales
Ms Susan Jobson	Head of Brand & Marketing (until 14 October 2019)
Mr Michael Allan	Head of Human Resources

B. KEY MANAGEMENT PERSONNEL COMPENSATION

\$'000	Consolidated		Parent	
	2019	2018	2019	2018
Short-term employee benefits	3,519	3,664	3,519	3,664
<i>thereof: Superannuation contributions</i>	258	252	258	252
Termination benefits	101	0	101	0
Other long-term benefits	60	30	60	30
Total	3,680	3,694	3,680	3,694

The short-term employee benefits includes superannuation payments of \$0.3m (2018: \$0.3m).

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 2019 owns 100% (31 December 2018: 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	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Intercompany receivables: included in other financial assets				
Volkswagen Group Australia	3,833	2,771	3,833	2,771
Audi Australia	160	39	160	39
Total intercompany receivables	3,993	2,810	3,993	2,810
Intercompany payables: included in other financial liabilities				
Volkswagen Group Australia	1,312	2,528	1,312	2,528
Audi Australia	22,211	25,668	22,211	25,668
Total intercompany payables	23,523	28,196	23,523	28,196
Intercompany borrowings: included in Asset Backed Securities Notes issued				
Volkswagen International Luxembourg S.A.	2,991	19,388	2,991	19,388
Total intercompany borrowings	2,991	19,388	2,991	19,388
	Consolidated		Parent	
	2019	2018	2019	2018
Expenses from intercompany transactions:				
Volkswagen International Luxembourg S.A.: Interest expense for subordinated loans	789	2,272	789	2,272
Volkswagen Financial Services Japan Ltd.: treasury services	377	350	377	350
Volkswagen Financial Services AG, Germany: IT support, DCM guarantee fees and technical assistance	3,627	3,023	3,627	3,023
Volkswagen Bank GmbH, Germany: treasury services	421	351	421	351
Volkswagen Software Asset Management GmbH, Germany: IT licences and usage fees	152	0	152	0
Volkswagen AG, Germany: Insurance premium recharges	11	10	11	10
Total expenses from intercompany transactions	5,377	6,006	5,377	6,006
Cash receipts from Intercompany transactions relating to Retail finance campaigns: capitalised in Retail loan financing				
Volkswagen Group Australia	15,276	25,418	15,276	25,418
Audi Australia	662	4,356	662	4,356
Total Cash receipts from intercompany transactions	15,938	29,774	15,938	29,774
Cash payments from Intercompany transactions relating to the lease of office space: recorded as reduction in lease liability (2018: recorded in rent expenses)				
Volkswagen Group Australia	1,329	1,249	1,329	1,249
Total Cash payments from intercompany transactions	1,329	1,249	1,329	1,249

19 | Segment reporting

Management has determined the operating segments based on reports reviewed by 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 2019 the total Fleet assets were approximately 1.8% of total assets (2018: 1.6%). 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	
	2019	2018	2019	2018
Wholesale customers	511,318	371,144	511,318	371,144
Total	511,318	371,144	511,318	371,144

21 | Events occurring after the balance sheet date

A widespread public health issue, or fear of such an event, may result in a deterioration of our customers' economic conditions and could therefore have a material adverse impact on the Group's operating results and its sales volumes. In this scenario, the Group might also face increased funding costs due to lower levels of available liquidity in the overall market. With regard to the Group's operations, outbreaks of disease could result in increased government restrictions and regulation, including quarantine of the Group's employees.

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. The World Health Organisation has declared COVID-19 to constitute a global pandemic and the Australian Government has implemented measures to contain the spread of the virus. The extent of the impact of these measures and a potential economic slowdown on the Group's operational and financial performance will depend on future developments, including the duration and spread of the outbreak, which are highly uncertain and cannot be predicted. The Group is continuously monitoring the situation and assessing the potential impact on its business. This includes, among other factors, levels of expected credit losses, volume of new sales and availability of funding. There are also a range of operational risks which could have a material impact on the Group, including among other factors, the health and safety of employees, access to premises and the effectiveness of remote working. As a result of the rapidly evolving situation, there are a range of external factors that may also have a material impact on the Group. While the range of potential factors cannot be accurately predicted, some potential factors may include a significant downturn in economic activity in Australia, severe constraints on the movement of people and trade, significant disruptions to supply chains and other businesses, among other factors.

At the date of signing these financial statements, the potential financial effect of any of these events on the Group cannot be reliably estimated.

There were no other material subsequent events to 31 December 2019 that have not been reflected in the financial statements.

22 | Contingent liabilities

There are no contingent liabilities as at 31 December 2019 (31 December 2018: nil).

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

CONSOLIDATED & PARENT \$'000	Consolidated		Parent	
	2019	2018	2019	2018
Profit/(loss) from continuing operations after income tax	33,826	32,096	35,442	31,342
Depreciation and amortisation	5,405	4,432	5,405	4,433
Fair value (gain)/loss on derivatives	(13,155)	(3,882)	(18,947)	(12,748)
(Increase)/decrease in receivables	(341,127)	(910,579)	(339,482)	(908,934)
Decrease/(increase) in other operating assets	20,178	33,101	20,354	33,375
(Increase)/decrease in deferred tax asset	(14,461)	(8,873)	(14,461)	(8,872)
(Increase)/decrease in tax receivables	10,299	3,642	10,299	3,642
Increase/(decrease) in other operating liabilities	18,507	(50,958)	84,184	(43,865)
Increase/(decrease) in other provisions	(101)	368	(101)	368
Net cash outflow from operating activities	(280,629)	(900,653)	(217,307)	(901,259)

Net Debt Reconciliation

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

CONSOLIDATED 31.12.2019 \$'000	Opening balance	Cash flows	Non-cash movements			Closing balance
			Additions	Reclassifi- cations	Valuation	
Current financial liabilities						
Liabilities to banks	1,179,888	(508,131)	0	415,000	0	1,086,757
Medium Term Notes and Commercial Papers issued	812,957	(436,308)	0	500,000	2,045	878,694
Asset Backed Securities Notes issued	628,730	(568,214)	0	701,433	0	761,949
Other financial liabilities	820	(1,317)	209	1,501	54	1,267
Total current financial liabilities	2,622,395	(1,513,970)	209	1,617,934	2,099	2,728,667
Non-current financial liabilities						
Liabilities to banks	800,000	35,607	0	(415,000)	0	420,607
Medium Term Notes and Commercial Papers issued	1,569,705	865,723	0	(500,000)	3,258	1,938,686
Asset Backed Securities Notes issued	1,494,005	746,932	0	(701,433)	0	1,539,504
Other financial liabilities	6,531	0	412	(1,501)	297	5,739
Total non-current financial liabilities	3,870,241	1,648,262	412	(1,617,934)	3,555	3,904,536
Total	6,492,636	134,292	621	0	5,654	6,633,203

PARENT 31.12.2019 \$'000	Opening balance	Cash flows	Non-cash movements			Closing balance
			Additions	Reclassifi- cations	Valuation	
Current financial liabilities						
Liabilities to banks	1,179,888	(508,131)	0	415,000	0	1,086,757
Medium Term Notes and Commercial Papers issued	812,957	(436,308)	0	500,000	2,045	878,694
Virtual Loan	603,570	(544,977)	0	690,083	0	748,676
Other financial liabilities	820	(1,317)	209	1,501	54	1,267
Total current financial liabilities	2,597,235	(1,490,733)	209	1,606,584	2,099	2,715,394
Non-current financial liabilities						
Liabilities to banks	800,000	35,607	0	(415,000)	0	420,607
Medium Term Notes and Commercial Papers issued	1,569,705	865,723	0	(500,000)	3,258	1,938,686
Virtual Loan	1,596,969	797,805	0	(690,083)	0	1,704,691
Other financial liabilities	6,531	0	412	(1,501)	297	5,739
Total non-current financial liabilities	3,973,205	1,699,135	412	(1,606,584)	3,555	4,069,723
Total	6,570,440	208,402	621	0	5,654	6,785,117

CONSOLIDATED 31.12.2018 \$'000	Opening balance	Cash flows	Non-cash movements		Closing balance
			Reclassifi- cations	Valuation	
Current financial liabilities					
Liabilities to banks	1,096,980	(227,092)	310,000	0	1,179,888
Medium Term Notes and Commercial Papers issued	634,700	(223,176)	400,000	1,433	812,957
Asset Backed Securities Notes issued	403,431	(65,992)	291,291	0	628,730
Total current financial liabilities	2,135,111	(516,260)	1,001,291	1,433	2,621,575
Non-current financial liabilities					
Liabilities to banks	610,000	500,000	(310,000)	0	800,000
Medium Term Notes and Commercial Papers issued	1,225,000	743,087	(400,000)	1,618	1,569,705
Asset Backed Securities Notes issued	701,472	1,083,824	(291,291)	0	1,494,005
Total non-current financial liabilities	2,536,472	2,326,911	(1,001,291)	1,618	3,863,710
Total	4,671,583	1,810,651	0	3,051	6,485,285

PARENT 31.12.2018 \$'000	Opening balance	Cash flows	Non-cash movements		Closing balance
			Reclassifi- cations	Valuation	
Current financial liabilities					
Liabilities to banks	1,096,980	(227,092)	310,000	0	1,179,888
Medium Term Notes and Commercial Papers issued	634,700	(223,176)	400,000	1,433	812,957
Virtual Loan	410,982	(126,699)	319,287	0	603,570
Total current financial liabilities	2,142,662	(576,967)	1,029,287	1,433	2,596,415
Non-current financial liabilities					
Liabilities to banks	610,000	500,000	(310,000)	0	800,000
Medium Term Notes and Commercial Papers issued	1,225,000	743,087	(400,000)	1,618	1,569,705
Virtual Loan	769,452	1,146,804	(319,287)	0	1,596,969
Total non-current financial liabilities	2,604,452	2,389,891	(1,029,287)	1,618	3,966,674
Total	4,747,114	1,812,924	0	3,051	6,563,089

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 2019 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 1 A 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



Gavin Zhong
Managing Director

Sydney
20 March 2020



Independent auditor's report

To the members of Volkswagen Financial Services Australia Pty Limited

Our opinion

In our opinion:

The accompanying financial report of Volkswagen Financial Services Australia Pty Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's and Group's financial position as at 31 December 2019 and of their financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Company and Group financial report comprises:

- the Consolidated and Company statements of financial position as at 31 December 2019
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

We are independent of the Company and 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 ability of the Company and the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or the 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

David R Cox
Partner

Sydney
20 March 2020