

(English Translation)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.
The 31st fiscal year from January 1, 2020 to December 31, 2020
Financial Statements

Independent Auditor's Report

March 1, 2021

To Mr. Zhong Zhong
The Corporate Auditor
VOLKSWAGEN FINANCIAL SERVICE JAPAN LTD.

Ernst & Young ShinNihon LLC
Tokyo, Japan

Noboru Miura
Designated Engagement Partner
Certified Public Accountant

Takashi Hasegawa
Designated Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 436, section 2, paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, significant accounting policies, other notes and the related supplementary schedules (the “financial statements”) of VOLKSWAGEN FINANCIAL SERVICE JAPAN LTD (the “Company”) to the fiscal year from January 1, 2020 to December 31, 2020.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position and results of operations of the Company applicable to the fiscal year ended December 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Corporate Auditor for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

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

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

(English Translation)

Notes to the Readers of Independent Auditor's Report

This is an English translation of the Independent Auditor's Report as required by the Companies Act of Japan for the conveniences of the reader.

Financial Statements

(The 31st fiscal year from January 1, 2020 to December 31, 2020)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.

Balance Sheet

(As of December 31, 2020)

(JPY in thousands)

Account item	Amount	Account item	Amount
Assets		Liabilities	
Current assets	369,415,684	Current liabilities	155,791,081
Cash on hand and in banks	6,097,155	Accounts payable - trade	427,439
Accounts receivable - trade	18,005,234	Short-term borrowings	51,000,000
Installment accounts receivable	291,208,332	Commercial papers	28,993,046
Lease investment assets	30,801,808	Bonds payable within one year	2,000,000
Lease Receivable	1,021,446	Payable under fluidity installment accounts receivable	55,646,240
Short-term loans receivable	13,514,553	Liabilities from leasing business	277,069
Advance payments	8,748,852	Accounts payable - other	1,268,119
Prepaid expenses	67,538	Accrued expenses	508,754
Accounts receivable - other	1,391,172	Income taxes payable	1,101,189
Others	89,323	Advances received	1,467,668
Allowance for bad debts	△587,339	Deposits payable	426,772
Allowance for residual value	△942,393	Deferred installment income	12,268,928
Fixed assets	6,174,703	Bonus allowance	138,344
Tangible fixed assets	1,259,784	Others	267,507
Buildings	151,781	Long-term liabilities	193,934,137
Building equipment	77,156	Bonds	11,599,221
Structures	7,770	Long-term borrowings	108,000,000
Machinery and equipment	2,394	Long-term payable under fluidity installment accounts receivable	70,606,440
Vehicles and cars	72,668	Deposits received for guarantees	3,074,869
Furniture, fixtures and tools	102,151	Retirement reserve allowance	325,424
Land	845,862	Retirement reserve allowance for directors	140,012
Intangible fixed assets	866,120	Asset retirement obligations	124,439
Software	866,120	Others	63,728
Telephone rights	0	Total liabilities	349,725,218
Investments and other assets	4,048,799	Equity	
Stocks of affiliated companies	20,000	Shareholders' equity	25,903,842
Long-term loans receivable	293,025	Capital stock	1,010,000
Long-term prepaid expenses	924,348	Earned surplus	24,893,842
Long-term guarantee money deposited	1,559,648	Legal reserve	252,500
Deferred tax assets	1,253,345	Retained earnings and others	24,641,342
Allowance for bad debts	△1,568	Retained earnings carried forward	24,641,342
		Valuation and translation adjustments	△38,673
		Deferred gains and losses on hedges	△38,673
		Total equity	25,865,169
Total assets	375,590,387	Total liabilities & equity	375,590,387

Income Statement

(from January 1, 2020 to December 31, 2020)

(JPY in thousands)

Account item	Amount	
Operating revenues		
Retail financing loan income	9,375,284	
Dealer financing income	295,543	
Finance leasing income	750,830	
Real estate rental income	246,521	
Credit card commission income	8,193	
Insurance commission income	908,172	
Others	334,853	11,919,399
Operating expenses		
Interest expenses	839,209	
Interest expenses (bond)	46,985	
Selling, general and administrative expenses	5,994,231	6,880,426
Operating income		5,038,972
Non-operating income		
Interest income	172	172
Ordinary income		5,039,145
Extraordinary gains		
Reversal of asset retirement obligation	17,742	
Gains from sales of fixed assets	3,648	21,391
Extraordinary loss		
Losses from disposing/sales of fixed assets	4,684	4,684
Net income before taxes		5,055,852
Income taxes-current	1,606,994	
Income taxes-deferred	△ 84,499	1,522,495
Net income		3,533,357

Statement of Changes in Equity

(from January 1, 2020 to December 31, 2020)

(JPY in thousands)

	Shareholders' equity					Valuation and translation adjustments	Total equity
	Capital stock	Earned surplus			Total shareholders' equity	Deferred gains and losses on hedges	
		Legal reserve	Retained earnings and others (Note)	Total earned surplus			
Beginning balance	1,010,000	252,500	21,107,985	21,360,485	22,370,485	△ 52,755	22,317,729
Changes of items during the period							
Net income			3,533,357	3,533,357	3,533,357		3,533,357
Net changes of items other than shareholders' equity						14,082	14,082
Total changes of items during the period			3,533,357	3,533,357	3,533,357	14,082	3,547,439
Ending balance	1,010,000	252,500	24,641,342	24,893,842	25,903,842	△ 38,673	25,865,169

Note: "Retained earnings and others" are all from retained earnings carried forward.

Summary of significant accounting policies

1. Valuation standard and method for assets

- (1) Stock of affiliated companies: Cost method
- (2) Derivatives: Market value method

2. Method of depreciation of fixed assets

- (1) Tangible fixed assets: Declining-balance method

However, buildings are depreciated on a straight-line basis over their estimated useful lives, with either the estimated disposal value or zero given as residual value.

- (2) Intangible fixed assets

Software: Software costs are amortized on a straight-line basis over the estimated useful lives (5 years) in the company.

3. Accounting for allowance

- (1) Allowance for bad debts: To provide against the loss of bad debts, allowance for normal debt is estimated on the basis of reasonable criterion, whereas the estimated calculation of allowance for specified bad debts is treated individually as the amount that is likely to be recovered.

- (2) Allowance for residual value: A projected loss is used to provide against the risk of realizing loss on residual value.

- (3) Bonus allowance: Allowance for bonuses is provided based upon the estimated amount of bonus payments to employees in the following fiscal year, which is attributable to this fiscal year.

- (4) Retirement reserve allowance: A retirement allowance is provided based upon the estimated present value of the retirement benefit obligation as at year-end. Actuarial gains and losses are amortized over the employees' average residual number of years of service on a straight-line basis, effective in the following fiscal year. As for the past service cost, collective expenses are processed in the year in which they occur.

- (5) Retirement reserve allowance for directors: Retirement reserve allowance for directors is provided based upon the estimated present value of the retirement benefit obligation as at year-end.

4. Recognition of revenue and expense

- (1) Revenue recognition of loan interests: Revenues are recognized on an accrual basis.
- (2) Revenue recognition regarding finance lease transactions: Accrued interest is allocated to each period, without sales amount.

5. Hedge accounting

Deferral hedge accounting is applied.

6. Accounting for consumption tax and local consumption tax

Consumption tax and local consumption tax are not included in the balances of the relevant accounts in the accompanying income statement. In addition, non-deductible consumption taxes and others are recognized as current expenses.

Notes to the balance sheet

1. Assets offered as security and corresponding obligation

(1) Assets offered as security

Installment accounts receivable	151,423,929 thousand yen
Advance payments	8,748,852 thousand yen
Long-term guarantee money deposited	1,322,000 thousand yen

(2) Obligation corresponding to assets offered as security

Payable under fluidity installment accounts receivable	55,646,240 thousand yen
Long-term payable under fluidity installment accounts receivable	70,606,440 thousand yen

2. Accumulated depreciation on tangible fixed assets 902,711 thousand yen

3. Monetary claims and liabilities related to affiliated companies

Short-term monetary claims	57,224 thousand yen
Long-term monetary claims	240,892 thousand yen
Short-term liabilities	150,903 thousand yen

4. Fractional amounts of less than 1,000 yen have been discarded.

Notes to the income statement

1. Transactions with affiliated companies

Operating revenues and others	5,597 thousand yen
Selling, general and administrative expenses	23,282 thousand yen

2. Fractional amounts of less than 1,000 yen have been discarded.

Notes to the statement of changes in equity

1. Number of issued shares as of the end of this fiscal year

Common stock	20,200 shares
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2. Fractional amounts of less than 1,000 yen have been discarded.

Notes on deferred tax accounting

Deferred tax assets are attributed mainly to disallowed liabilities such as allowance for bad debts, allowance for residual value, prepaid expenses and excess depreciation amount.

Notes on financial instruments

1. Financial instrument disclosure

(1) Financial instrument policies

Our financial assets include receivables in relation to installment, lease, and financial transactions. We raise funds through indirect financing such as bank borrowings, as well as direct financing including issuance of bonds and commercial papers, and liquidation of debts.

To reduce credit risks resulting from breach of contract by customers, in accordance with our credit management rules, we regularly oversee due dates and balances by individual customer, and keep abreast of their credit status.

The Company has also conducted ALM (asset-liability management) in order to appropriately control interest-rate risks caused by mismatch of interest rate types and contract period of asset management and financing. We carry out derivatives trading only for the purpose of hedging interest-rate risks, and do not conduct speculative dealing to seek short-term profits.

While striving to ensure liquidity by diversifying financing instruments, we also manage financing-related liquidity risks according to our liquidity risk management rules.

(2) Supplementary notes on fair value of financial instruments

The fair values of financial instruments are based on market prices or rational calculations in the absence of such prices. Since those prices are calculated on certain assumptions, the adoption of different assumptions may result in price fluctuations. The contract amounts of derivatives trading stated in “2. Disclosure about fair value of financial instruments” do not reflect market risks of such trading.

2. Disclosure about fair value of financial instruments

The balance sheet and fair values, and the differences between them, as of December 31, 2020 were as follows. However, financial instruments of which fair value is extremely difficult to determine are not included (see Note 2).

(JPY in thousands)

	Balance sheet value	Fair value	Differences
(1) Cash on hand and in banks	6,097,155	6,097,155	—
(2) Accounts receivable – trade Allowance for bad debts (*1)	18,005,234 △102,834		
	17,902,400	17,902,400	—
(3) Installment of accounts receivable Deferred installment income Allowance for residual value (*1) Allowance for bad debts (*1)	291,208,332 △12,268,928 △942,393 △413,750		
	277,583,261	268,891,205	△8,692,056
(4) Lease investment assets Allowance for bad debts (*1)	30,801,808 △46,520		
	30,755,288	29,006,807	△1,748,481
(5) Lease Receivable	1,021,446	1,499,037	477,591
(6) Short-term loans receivable Allowance for bad debts (*1)	13,514,553 △24,236		
	13,490,317	13,490,317	—
(7) Long-term loans receivable (*2) Allowance for bad debts (*1)	293,025 △1,569		
	291,456	293,021	1,565
Total assets	347,141,324	337,179,942	△9,961,381
(1) Accounts payable – trade	427,439	427,439	—
(2) Short-term borrowings	19,000,000	19,000,000	—
(3) Commercial paper (*3)	28,993,046	29,000,000	△6,954
(4) Liabilities from leasing business	277,069	307,073	△30,004
(5) Bonds (*4)	13,599,221	13,574,918	24,303
(6) Long-term borrowings (*5)	140,000,000	139,887,368	112,632
(7) Long-term payable under fluidity installment accounts receivable (*6)	126,252,680	125,976,098	276,582
Total liabilities	328,549,455	328,172,896	376,559
Derivatives trading (*7)			
Derivatives trading that hedge accounting is applied to	△55,741	△55,741	—
Total derivatives trading	△55,741	△55,741	—

(*1) Allowances for bad debts or residual value respectively corresponding to accounts receivable-trade, installment accounts receivable, lease investment assets, short-term loans receivable, and long-term loans receivable have been deducted.

(*2) Long-term loans receivable include long-term loans to be repaid within one year.

(*3) Discount fee has been deducted in lieu of the interest rate adjustment for the balance sheet amount on the commercial paper.

(*4) Bonds include bonds maturing within one year.

(*5) Long-term borrowings include borrowings for repayment within one year.

(*6) Long-term payable under fluidity installment accounts receivable include payable under fluidity installment accounts receivable.

(*7) The net amounts of receivables and payables caused by derivatives trading have been indicated. Total debts are shown in negative.

Note 1) Methodology for calculating fair values of financial instruments, and matters concerning derivatives trading

Assets

(1) Cash on hand and in banks, (2) Accounts receivable-trade, and (6) Short-term loans receivable

Due to the short maturities of these instruments, the carrying amount approximates fair value.

(3) Installment accounts receivable, (4) Lease investment assets, (5) Lease Receivable, and (7) Long-term loans receivable

As these assets are subject to fixed interest rates, fair value is calculated by discounting the total amount of principal and interest using an interest rate assumed if conducting a similar new transaction with respect to each segment based on the type of receivable, the internal rating, and the period.

Liabilities

(1) Accounts payable-trade, and (2) Short-term borrowings

Due to the short maturities of these instruments, the carrying amount approximates fair value.

(3) Commercial paper

Due to the short maturities of these instruments, the face value approximates fair value.

(4) Liabilities from leasing business

The fair value of liabilities from leasing business is calculated by discounting the total amount of principal and interest using the interest rate assumed if conducting a similar new transaction.

(5) Bonds

The fair value of bonds is calculated by discounting the total amount of principal and interest using the interest rate assumed if issuing similar bonds.

(6) Long-term borrowings

Long-term borrowings subject to variable interest rates are recorded using book values as their fair values are deemed to approximate their book values since the variable interest rates reflect market interest rates over a short period and our credit status has not changed significantly since implementing these borrowings. The fair value of long-term borrowings subject to fixed rates is calculated by discounting the total amount of principal and interest of the long-term borrowing classified by a certain period using the interest rate assumed in case of similar borrowings.

(7) Long-term payable under fluidity installment accounts receivable

The fair value of long-term payable under fluidity installment accounts receivable is calculated by discounting the total amount of principal and interest of the long-term payable under fluidity installment accounts receivable classified by a certain period using the interest rate assumed if conducting similar liquidation of claims.

Derivatives trading

Derivatives trading that hedge accounting is applied to

When hedge accounting is applied to derivatives trading, the contract amount at the end of this fiscal year or the amount equivalent to principal stipulated in the contract by methodology for hedge accounting is as follows:

(a) Matters concerning interest rates

(JPY in thousands)

Methodology for hedge accounting	Kind of derivatives trading	Major hedged items	Contract amount, etc.		Fair value (*)
				Over 1 year	
Principal accounting method	Interest-rate swap agreement	Short-term borrowings	14,000,000	14,000,000	△55,741
	Payment of fixed interest / Reception of variable interest	Bonds Long-term borrowings			
Total			14,000,000	14,000,000	△55,741

(*) Fair values are calculated based primarily on discounted cash flow.

Note 2) Financial instruments for which fair value is extremely difficult to determine

1. As unlisted stocks of affiliated companies (20,000 thousand yen posted in the balance sheet) do not have market prices, and their future cash flow cannot be estimated, the fair value is extremely difficult to determine. Therefore, those stocks are not included in notes on fair value.
2. Deposits received for guarantees (3,074,869 thousand yen posted in the balance sheet) are not included in notes on fair value. This is because future cash flow cannot be estimated as it is difficult to identify the time to return the deposits including guarantee money deposited from business partners and deposits for real estate. Consequently, the fair value is extremely difficult to determine.

Notes on investment and rental properties

1. Description of investment and rental properties

The Company has multi-tenant buildings and office buildings for rent (including land) in Tokyo and other areas.

2. Fair value of investment and rental properties

(JPY in thousands)

Balance sheet value			Year-end fair value
Beginning balance	Changes during the period	Year-end balance	
1,025,198	△4,058	1,021,139	1,362,735

Note 1) Balance sheet values are obtained by deducting the accumulated amount of depreciation costs from acquisition costs.

Note 2) Fair value at the end of this fiscal year is calculated by the Company, based mainly on "Real Estate Appraisal Standards" (including adjusted amounts with indicators, etc.)

Notes on related-party transactions

(JPY in thousands)

Relation	Name	Share-holding (-held) ratio	Relationship	Transaction	Amount (*5)	Account	Year-end balance
Parent	Volkswagen Financial Services AG	Share held Indirect 100%	• Guarantee on issue of commercial paper and bonds	Liabilities guaranteed (*1)	42,592,268	—	—
				Guarantee fee expense (*1)	23,282	—	—
Subsidiary of parent	Volkswagen Group Japan KK	NA	• Subvention income related to loans • Purchase receivable	Subvention income (*2)	1,346,164	Accounts receivable-other	132,752
				Purchased receivable (*2)	89,000,618	Accounts payable-trade	—
				Handling Charge of purchased receivable (*2)	53,379	Accounts receivable-other	3,083
Subsidiary of parent	Audi Japan KK	NA	• Subvention income related to loans • Purchase receivable	Subvention income (*2)	2,055,654	Accounts receivable-other	187,110
				Purchased receivable (*2)	104,151,431	Accounts payable-Trade	13,271
				Handling charge of purchased receivable (*2)	102,348	Accounts receivable-other	4,035
Subsidiary of parent	Volkswagen Japan Sales KK	NA	• Leasing income • Funding loan	Purchase of cars (*3)	202,445	Accounts payable-trade	—
				Funding Loan receivable (*4)	—	Short-term loans receivable	180,000
				Loans collected	—		
				Loan interest income (*4)	530	Accrued income	—
Subsidiary of parent	Audi Japan Sales KK	NA	• Leasing income • Funding loan	Purchase of cars (*3)	2,066,062	Accounts payable-trade	—
				Funding Loan receivable (*4)	7,665,584	Short-term loans receivable	3,777,337
				Loans collected	8,811,985		
				Loan interest income (*4)	17,036	Accrued income	492

Terms and conditions, and policies on settling conditions

(*1) Guarantee rates are settled after negotiating on the rates presented by Volkswagen Financial Services AG.

(*2) Conditions of subvention and receivables related to loans are determined after consideration of general market rates and individual negotiation.

- (*3) Conditions of lease transactions are determined by comparison with general transaction conditions, taking general market rates into consideration.
- (*4) Market interest rates are taken into consideration when deciding loan and borrowing rates.
- (*5) The transaction amount in the above disclosure does not include consumption tax. The final balance includes consumption tax.

Notes on Debt Guarantee

The following guarantees are provided for Lamborghini purchased receivables.

The maximum amounts of debt guarantees are as follows.

KK RPM	555,833 thousand yen
KK Corrida Motors	597,268 thousand yen
Mitsuoka Motor Co., Ltd.	1,049,533 thousand yen
Cornes Motors KK	1,043,430 thousand yen
Bolognese KK	1,274,485 thousand yen

Per share data

Equity per share	1,280,453.92 yen
Net income per share	174,918.66 yen

Accounting estimate related to the impact of the spread of COVID-19

It is difficult to have a practical assumption at this time regarding the impact of the coronavirus spread and when it will subside. We have estimated the collectability of deferred tax account under the assumption that the market will make a gradual recovery in 2021.

Supplementary Schedules in relation to Financial Statements

(The 31st fiscal year from January 1, 2020 to December 31, 2020)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.

1. Details of tangible fixed assets and intangible fixed assets

(JPY in thousands)

Account item	Asset	Beginning book value	Increase during the period	Decrease during the period	Amount written off during the period	Year-end book value	Accumulated depreciation	Year-end acquisition cost
Tangible fixed assets	Buildings	167,655	—	—	15,874	151,781	327,741	479,522
	Building equipment	80,515	7,593	—	10,952	77,156	202,945	280,101
	Structures	6,391	2,150	—	771	7,770	38,676	46,447
	Machinery and equipment	3,861	—	—	1,467	2,394	45,605	48,000
	Vehicles and cars	82,247	36,833	13,565	32,846	72,668	52,757	125,426
	Furniture, fixtures and tools	97,982	43,085	8,235	30,680	102,151	234,983	337,135
	Land	845,862	—	—	—	845,862	—	845,862
	Construction in progress	350,492	—	350,492	—	—	—	—
	Total	1,635,009	89,662	372,293	92,593	1,259,784	902,711	2,162,495
Intangible fixed assets	Software	903,121	436,262	182,524	290,739	866,120	/	
	Telephone rights	0	—	—	—	0		
	Total	903,121	436,262	182,524	290,739	866,120		

(Note 1) The increase in furniture, fixtures and tools for this period was mainly for the purpose of purchasing accompanying equipment regarding revision of the dealer support system (EVAS).

(Note 2) The increase in software for this period was mainly due to development of the e-sign (electronic contract system).

(Note 3) The decrease in construction in progress for this period was due to the accompanying transfer in accordance with the completion of construction for the real estate rental business

2. Details of allowances

(JPY in thousands)

Account item	Beginning balance	Increase during the period	Decrease during the period		Year-end balance
			For intended use	Others	
Allowance for bad debts	190,525	588,908	—	190,525	588,908
Allowance for residual value	765,176	942,393	—	765,176	942,393
Bonus allowance	115,137	138,344	115,137	—	138,344
Retirement reserve allowance	311,446	49,213	35,235	—	325,424
Retirement reserve allowance for directors	132,770	7,242	—	—	140,012

Note: The decrease (others) in allowance for bad debts and allowance for residual value during the period is caused by reversing the closing entry for the allowance.

3. Details of selling, general and administrative expenses

(JPY in thousands)

Item	Amount	Note
Sales promotion expense	212,209	
Payroll expense	1,104,164	
Traveling expense	47,002	
Guarantee cost	2,025,420	
Outsourcing expense	437,854	
Commission expense	13,109	
Rent expense	305,284	
Depreciation cost	392,073	
Costs regarding EDP	244,201	
Communication cost	391,700	
Convention expense	4,200	
Printing expense	3,143	
Books training expense	13,217	
Taxes other than income taxes	125,763	
Provision of allowance for bad debts	398,382	
Provision of allowance for residual value	177,217	
Other SG&A expenses	99,285	
Total	5,994,231	