

(English Translation)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.
The 33rd fiscal year from January 1, 2022 to December 31, 2022
Financial Statements

(English Translation)
Independent Auditor's Report

February 28, 2023

The Board of Directors
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, 2022 to December 31, 2022.

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, 2022, 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.

Other Information

The other information comprises the information included in the Company's business report and its supplementary schedules. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor is responsible for overseeing the Company's reporting process of the other information.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of 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.

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- 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.

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 33rd fiscal year from January 1, 2022 to December 31, 2022)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.

Balance Sheet

(As of December 31, 2022)

(JPY in thousands)

Account item	Amount	Account item	Amount
Assets		Liabilities	
Current assets	367,286,668	Current liabilities	145,467,721
Cash on hand and in banks	4,976,222	Accounts payable - trade	830,406
Accounts receivable - trade	25,324,112	Short-term borrowings	41,000,000
Installment accounts receivable	282,818,736	Commercial papers	29,997,565
Lease investment assets	35,129,816	Bonds payable within one year	3,000,000
Lease receivable	958,287	Payable under fluidity installment accounts receivable	52,245,154
Short-term loans receivable	9,791,552	Liabilities from leasing business	196,623
Advance payments	8,179,069	Accounts payable - other	1,384,830
Prepaid expenses	98,634	Accrued expenses	684,230
Accounts receivable - other	1,323,480	Income taxes payable	746,706
Others	762,987	Advances received	1,977,198
Allowance for bad debts	△981,972	Deposits payable	488,857
Allowance for residual value	△1,094,258	Deferred installment income	12,227,109
Fixed assets	7,128,140	Bonus allowance	188,613
Tangible fixed assets	1,279,623	Others	500,426
Buildings	129,869	Long-term liabilities	203,957,481
Building equipment	59,767	Long-term borrowings	131,000,000
Structures	6,469	Long-term payable under fluidity installment accounts receivable	69,949,952
Machinery and equipment	2,400	Deposits received for guarantees	2,384,540
Vehicles and cars	74,305	Retirement reserve allowance	323,962
Furniture, fixtures and tools	160,949	Retirement reserve allowance for directors	154,496
Land	845,862	Asset retirement obligations	129,103
Intangible fixed assets	822,184	Others	15,427
Software	822,184	Total liabilities	349,425,202
Telephone rights	0	Equity	
Investments and other assets	5,026,332	Shareholders' equity	24,989,606
Stocks of affiliated companies	20,000	Capital stock	1,010,000
Long-term prepaid expenses	1,925,745	Earned surplus	23,979,606
Long-term guarantee money deposited	1,524,621	Legal reserve	252,500
Deferred tax assets	1,555,965	Retained earnings and others	23,727,106
		Retained earnings carried forward	23,727,106
		Total equity	24,989,606
Total assets	374,414,809	Total liabilities & equity	374,414,809

Income Statement

(from January 1, 2022 to December 31, 2022)

(JPY in thousands)

Account item	Amount	
Operating revenues		
Retail financing loan income	7,846,646	
Dealer financing income	234,718	
Finance leasing income	858,768	
Real estate rental income	275,879	
Insurance commission income	1,042,302	
Others	320,547	10,578,862
Operating expenses		
Interest expenses	817,240	
Interest expenses (bond)	27,200	
Selling, general and administrative expenses	5,203,597	6,048,038
Operating income		4,530,824
Non-operating income		
Interest income	265	265
Ordinary income		4,531,090
Extraordinary gains		
Gains from sales of fixed assets	9,091	9,091
Extraordinary loss		
Losses from disposing/sales of fixed assets	12,395	12,395
Net income before taxes		4,527,786
Income taxes-current	1,526,862	
Income taxes-deferred	△ 64,581	1,462,280
Net income		3,065,505

Statement of Changes in Equity

(from January 1, 2022 to December 31, 2022)

(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	20,661,600	20,914,100	21,924,100	△ 7,129	21,916,970
Changes of items during the period							
Net income			3,065,505	3,065,505	3,065,505		3,065,505
Net changes of items other than shareholders' equity						7,129	7,129
Total changes of items during the period			3,065,505	3,065,505	3,065,505	7,129	3,072,635
Ending balance	1,010,000	252,500	23,727,106	23,979,606	24,989,606	—	24,989,606

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 to residual value which is either the estimated disposal value or zero.

- (2) Intangible fixed assets

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

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 allowance for specified bad debts is calculated individually as the amount that is likely to be recovered.
- (2) Allowance for residual value: A projected loss is provided against the risk of decrease in residual value.
- (3) Bonus allowance: Allowance for bonuses is provided based upon the estimated amount of bonus to employees attributable to this fiscal year but payable in the following 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 from the following fiscal year. As for the past service cost, expenses are recognized 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: At the commencement of retail financing loan, installment accounts receivables are recognized at the total payments of the loan, and at each payment due date interest portion of the payment is recognized as loan interest income.
- (2) Revenue recognition regarding finance lease transactions: Accrued interest is allocated to each period, without sales amount.
- (3) Revenue recognition of insurance commission income: Insurance business mainly provides services to insurance companies such as establishing scheme of insurance products and promoting sales. Such performance obligations are satisfied when policyholders pay premiums to insurance companies. Insurance commission income is recognized at the amount calculated as the premiums paid times a certain rate.

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.

Change in accounting policy

1. Adoption of Accounting Standard for Revenue Recognition
“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 issued on 31 March 2020) was adopted from the beginning of the current fiscal year. Revenue is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the company expects to be entitled in the exchange of those goods or services. The adoption did not have any impact of financial position or performance of the company.
2. Adoption of Accounting Standard for Fair Value Measurement
“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30 issued on 4 July 2019) was adopted from the beginning of the current fiscal year. New accounting policy regarding fair value measurement was adopted prospectively in accordance with transition treatment specified in paragraph 19 of “Accounting Standard for Fair Value Measurement” and “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 issued on 4 July 2019). The adoption did not have any impact of financial position or performance of the company.

Notes to the balance sheet

1. Assets offered as security and corresponding obligation
 - (1) Assets offered as security

Installment accounts receivable	146,409,537 thousand yen
Advance payments	8,179,069 thousand yen
Long-term guarantee money deposited	1,285,000 thousand yen
 - (2) Obligation corresponding to assets offered as security

Payable under fluidity installment accounts receivable	52,245,154 thousand yen
Long-term payable under fluidity installment accounts receivable	69,949,952 thousand yen
2. Accumulated depreciation on tangible fixed assets 981,042 thousand yen
3. Monetary claims and liabilities related to affiliated companies

Short-term monetary claims	2,157 thousand yen
Short-term liabilities	182,150 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	3,476 thousand yen
Selling, general and administrative expenses	210,357 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
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, 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 securitization of receivables.

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 differences.

2. Disclosure about fair value of financial instruments

The balance sheet and fair values, and the differences between them, as of December 31, 2022 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	4,976,222	4,976,222	—
(2) Accounts receivable – trade Allowance for bad debts (*1)	25,324,112 △77,376		
	25,246,736	25,246,736	—
(3) Installment of accounts receivable Deferred installment income Allowance for residual value (*1) Allowance for bad debts (*1)	282,818,736 △12,227,109 △1,094,258 △818,789		
	268,678,580	260,044,106	△8,634,474
(4) Lease investment assets Allowance for bad debts (*1)	35,129,816 △62,823		
	35,066,993	34,237,981	△829,012
(5) Lease Receivable	958,287	1,351,399	393,112
(6) Short-term loans receivable Allowance for bad debts (*1)	9,791,552 △22,982		
	9,768,570	9,768,570	—
Total assets	344,695,387	335,625,014	△9,070,374
(1) Accounts payable – trade	830,406	830,406	—
(2) Short-term borrowings	16,000,000	16,000,000	—
(3) Commercial paper (*2)	29,997,565	30,000,000	△2,435
(4) Liabilities from leasing business	196,623	200,181	△3,558
(5) Bonds (*3)	3,000,000	3,000,000	—
(6) Long-term borrowings (*4)	156,000,000	155,427,067	572,933
(7) Long-term payable under fluidity installment accounts receivable (*5)	122,195,107	121,873,923	321,184
(8) Deposits received for guarantee	2,384,540	2,376,300	8,240
Total liabilities	330,604,241	329,707,877	896,364

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

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

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

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

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

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.

(8) Deposit received for guarantee

The fair value of deposit received for guarantee is calculated by discounting the book value using the interest rate based on current credit risk of the company.

Note 2) The list above does not include shares without market price. The amounts of such financial instruments recognized in the balance sheets are as follows.

Category	Amount recognized in balance sheet (JPY in thousands)
Affiliate companies	
Unlisted shares	20,000

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	
1,005,520	△16,791	988,729	1,253,702

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)	32,997,565	—	—
				Guarantee fee expense (*1)	16,734	—	—
Subsidiary of parent	Volkswagen Group Japan KK	NA	• Subvention income related to loans • Receivable purchase	Subvention income (*2)	3,425,952	Accounts receivable-other	321,021
				Purchased receivable (*2)	271,484,495	Accounts payable-trade	—
				Handling Charge of purchased receivable (*2)	211,377	Accounts receivable-other	8,421

Subsidiary of parent	Volkswagen Japan Sales KK	NA	<ul style="list-style-type: none"> • Leasing income • Receivable purchase • Funding loan 	Purchase of cars (*3)	706,682	Accounts payable-trade	—
				Purchased receivable (*6)	6,969,436	Accounts receivable	711,343
				Funding Loan receivable (*4)	500,000	Short-term loans receivable	180,000
				Loans collected	500,000		
				Loan interest income (*4)	1,726	Unearned income	181
Subsidiary of parent	Audi Japan Sales KK	NA	<ul style="list-style-type: none"> • Leasing income • Receivable purchase • Funding loan 	Purchase of cars (*3)	2,702,253	Accounts payable-trade	—
				Purchased receivable (*6)	25,493,921	Accounts receivable	2,887,561
				Funding Loan receivable (*4)	3,621,774	Short-term loans receivable	1,396,646
				Loans collected	4,177,127		
				Loan interest income (*4)	3,858	Unearned income	0

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.
- (*6) These are the amounts of vehicle receivables purchased from Volkswagen Group Japan KK where the original debtors are Volkswagen Japan Sales KK and Audi Japan Sales KK.

Notes on Debt Guarantee

The following guarantees are provided for Lamborghini purchased receivables.

The maximum amounts of debt guarantees are as follows.

KK RPM	485,027 thousand yen
KK Corrida Motors	554,622 thousand yen
Mitsuoka Motor Co., Ltd.	820,860 thousand yen
Cornes Motors KK	878,932 thousand yen
Bolognese KK	1,254,035 thousand yen

Per share data

Equity per share	1,237,109.22 yen
Net income per share	151,757.70 yen

Notes to revenue recognition

Basis of understanding revenue is described in “Summary of significant accounting policies – 4. Recognition of revenue and expense”.

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 2023.

Supplementary Schedules in relation to Financial Statements

(The 33rd fiscal year from January 1, 2022 to December 31, 2022)

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	143,267	—	—	13,398	129,869	349,653	479,522
	Building equipment	66,984	2,194	—	9,411	59,767	222,528	282,295
	Structures	7,095	—	—	626	6,469	39,977	46,447
	Machinery and equipment	2,400	—	—	—	2,400	45,605	48,005
	Vehicles and cars	68,514	47,248	11,471	29,985	74,305	66,253	140,558
	Furniture, fixtures and tools	138,629	96,572	7,162	68,989	160,949	257,024	417,973
	Land	845,862	—	—	—	845,862	—	845,862
	Construction in progress	—	—	—	—	—	—	—
	Total	1,272,755	146,015	18,634	122,411	1,279,623	981,042	2,260,665
Intangible fixed assets	Software	772,604	378,766	—	327,288	822,184	/	
	Telephone rights	0	—	—	—	0		
	Total	772,604	378,766	—	327,288	822,184		

(Note 1) The increase in furniture and fixtures for the current fiscal year was mainly due to the renewal of internal network equipment.

(Note 2) The increase in software for the current fiscal year was mainly due to additional development of the dealer support system (EVAS).

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	954,471	981,972	—	954,471	981,972
Allowance for residual value	1,023,942	1,094,258	—	1,023,942	1,094,258
Bonus allowance	133,890	188,613	133,890	—	188,613
Retirement reserve allowance	313,192	45,640	34,871	—	323,962
Retirement reserve allowance for directors	147,254	7,242	—	—	154,496

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	240,812	
Payroll expense	1,135,471	
Traveling expense	64,132	
Guarantee cost	1,642,330	
Outsourcing expense	331,122	
Commission expense	18,885	
Rent expense	327,028	
Depreciation cost	449,202	
Costs regarding EDP	643,288	
Communication cost	98,396	
Convention expense	14,849	
Printing expense	1,236	
Books training expense	8,086	
Taxes other than income taxes	47,121	
Provision of allowance for bad debts	27,500	
Provision of allowance for residual value	70,315	
Other SG&A expenses	83,816	
Total	5,203,597	