VOLKSWAGEN FINANCIAL SERVICES

FINANCE. FLEET. INSURANCE. MOBILITY.

Annual Report 2018

A LIVING COMMITMENT
TO OUR CUSTOMERS

Corporate directory

of Volkswagen Financial Services Australia Pty Limited

Directors	in office from/to:
Ms Silke Schmidt (Managing Director)	from 1 January to 31 December 2018
Mr Jörn Kurzrock (Managing Director)	from 1 January to 31 December 2018
Mr Norbert Dorn	from 1 January to 31 December 2018
Mr Patrick Welter	from 1 January to 31 December 2018

Principal registered office in Australia

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

Auditors

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 2018

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 Master Trust and Driver Australia Five 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).

Ms Silke Schmidt (Managing Director)	from 1 January to 31 December 2018
Mr Jörn Kurzrock (Managing Director)	from 1 January to 31 December 2018
Mr Norbert Dorn	from 1 January to 31 December 2018
Mr Patrick Welter	from 1 January to 31 December 2018

Ms Silke Schmidt ceased to be a Director of the Company as of 28 February 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 2018 resulted in an operating profit after income tax of $32,095,592 (2017: $16,181,342).

Dividends
The Directors recommend that no amount be paid as dividend for the current year (2017: 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
There are no matters or circumstances that have arisen since 31 December 2018 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	6	7
S. Schmidt	7	7
N. Dorn	4	7
P. Welter	4	7

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.

Auditors’ 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

Sydney

10 April 2019

Auditor's Independence Declaration

As lead auditor for the audit of Volkswagen Financial Services Australia Pty Limited for the year ended 31 December 2018, 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.

RW McMahon
Partner
PricewaterhouseCoopers

Sydney
10 April 2019

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Financial report – 31 December 2018

of Volkswagen Financial Services Australia Pty Limited

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Financial report – 31 December 2018

of Volkswagen Financial Services Australia Pty Limited

This financial report covers Volkswagen Financial Services Australia Pty Limited and it's 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 5 April 2019. The Directors have the power to amend and re-issue the financial report.

Statement of Comprehensive Income

of Volkswagen Financial Services Australia Pty Limited

		CONSOLIDATED		PARENT	
$'000	Note	**2018**	2017 Restated	**2018**	2017 Restated
Revenue from continuing operations					
Interest and similar revenue	4	301,347	237,860	308,416	241,087
Interest expense and similar charges	4	(187,017)	(154,688)	(219,059)	(174,263)
Net interest revenue		**114,330**	**83,172**	**89,357**	**66,824**
Non-interest revenue	5	18,439	11,521	39,552	23,549
Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)		2,676	1,356	6,152	853
Total income from operations		**135,445**	**96,049**	**135,061**	**91,226**
Employee benefit expenses	6c	(20,436)	(18,678)	(20,436)	(18,678)
Bad and doubtful debts expenses		(31,346)	(26,226)	(31,346)	(26,226)
Depreciation and amortisation expenses	6a	(9,332)	(8,238)	(9,332)	(8,238)
Other expenses from ordinary activities	6b	(27,722)	(20,496)	(28,092)	(19,205)
Profit before income tax		**46,609**	**22,411**	**45,855**	**18,879**
Income tax expense	7a	(14,514)	(7,139)	(14,514)	(7,139)
Profit for the year attributable to owners		**32,095**	**15,272**	**31,341**	**11,740**
Other comprehensive income					
Change in fair value of cash flow hedges		(3,259)	62	(1,069)	16
Net change in deferred tax for cash flow hedges		978	(5)	321	(5)
Other comprehensive income for the year		**(2,281)**	**57**	**(748)**	**11**
Total comprehensive income for the year attributable to owners		**29,814**	**15,329**	**30,593**	**11,751**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet

of Volkswagen Financial Services Australia Pty Limited

CONSOLIDATED

$'000	Note	31.12.2018	31.12.2017 Restated	01.01.2017 Restated
CURRENT ASSETS				
Cash and cash equivalents	8a	260,051	221,454	187,392
Financial assets at amortised cost	8a	2,700,249	-	-
Financial assets at fair value through profit or loss	8b	230,314	-	-
Loans and receivables	8a	-	2,547,439	2,232,892
Derivative financial instruments	20a	4,076	1,485	1,840
Lease receivables	13	24,141	22,000	18,496
Leased assets	14	14,195	31,051	21,104
Other assets	10	8,958	65,612	58,079
Total current assets		**3,241,984**	**2,889,041**	**2,519,802**
NON-CURRENT ASSETS				
Financial assets at amortised cost	8a	3,196,453	-	-
Financial assets at fair value through profit or loss	8b	269,901	-	-
Loans and receivables	8a	-	2,953,880	2,033,671
Derivative financial instruments	20a	18,183	11,163	11,849
Property, plant and equipment	11	2,293	2,625	3,000
Intangible assets	12	7,468	7,049	6,712
Lease receivables	13	66,470	42,752	38,534
Leased assets	14	16,946	6,927	9,516
Deferred tax assets	15	25,859	19,980	16,024
Total non-current assets		**3,603,573**	**3,044,376**	**2,119,306**
TOTAL ASSETS		**6,845,557**	**5,933,417**	**4,639,108**
CURRENT LIABILITIES				
Borrowings	16a	2,621,575	2,944,386	2,339,027
Derivative financial instruments	20a	420	747	1,914
Employee entitlements	18	3,469	3,242	3,363
Other liabilities	16b	55,650	122,461	124,192
Total current liabilities		**2,681,114**	**3,079,836**	**2,468,496**
NON-CURRENT LIABILITIES				
Borrowings	16a	3,863,710	2,595,375	1,916,324
Derivative financial instruments	20a	17,906	9,131	11,674
Employee entitlements	18	524	423	291
Total non-current liabilities		**3,882,140**	**2,604,929**	**1,928,289**
TOTAL LIABILITIES		**6,563,254**	**5,675,765**	**4,396,785**
NET ASSETS		**282,303**	**257,652**	**242,323**
EQUITY				
Contributed equity	19a	195,440	195,440	195,440
Other reserves	19d	(2,295)	(14)	(71)
Retained earnings	19c	89,158	62,226	46,954
Total equity		**282,303**	**257,652**	**242,323**

The above balance sheet should be read in conjunction with the accompanying notes.

PARENT

$'000	Note	31.12.2018	31.12.2017 Restated	01.01.2017 Restated
CURRENT ASSETS				
Cash and cash equivalents	8a	147,362	154,323	133,246
Financial assets at amortised cost	8a	2,701,916	-	-
Financial assets at fair value through profit or loss	8b	230,314	-	-
Loans and receivables	8a	-	2,547,439	2,232,892
Derivative financial instruments	20a	4,077	1,484	1,423
Lease receivables	13	24,141	22,000	18,496
Leased assets	14	14,194	31,051	21,104
Other assets	10	8,765	65,451	58,745
Total current assets		**3,130,769**	**2,821,748**	**2,465,906**
NON-CURRENT ASSETS				
Financial assets at amortised cost	8a	3,196,453	-	-
Financial assets at fair value through profit or loss	8b	454,505	-	-
Loans and receivables	8a	-	3,021,133	2,075,516
Derivative financial instruments	20a	17,984	10,046	10,900
Property, plant and equipment	11	2,293	2,625	3,000
Intangible assets	12	7,468	7,049	6,712
Lease receivables	13	66,470	42,752	38,534
Leased assets	14	16,946	6,927	9,516
Deferred tax assets	15	25,202	19,980	16,023
Total non-current assets		**3,787,321**	**3,110,512**	**2,160,201**
TOTAL ASSETS		**6,918,090**	**5,932,260**	**4,626,107**
CURRENT LIABILITIES				
Borrowings	16a	1,992,845	2,547,301	2,056,976
Derivative financial instruments	20a	421	747	1,914
Employee entitlements	18	3,469	3,242	3,363
Virtual loan	17	603,570	393,753	258,336
Other liabilities	16b	62,611	118,585	121,784
Total current liabilities		**2,662,916**	**3,063,628**	**2,442,373**
NON-CURRENT LIABILITIES				
Borrowings	16a	2,369,705	1,842,991	1,160,951
Derivative financial instruments	20a	10,858	8,388	11,191
Employee entitlements	18	524	423	291
Virtual loan	17	1,596,969	765,141	771,363
Total non-current liabilities		**3,978,056**	**2,616,943**	**1,943,796**
TOTAL LIABILITIES		**6,640,972**	**5,680,571**	**4,386,169**
NET ASSETS		**277,118**	**251,689**	**239,938**
EQUITY				
Contributed equity	19a	195,440	195,440	195,440
Other reserves	19d	(800)	(52)	(63)
Retained earnings	19c	82,478	56,301	44,561
Total equity		**277,118**	**251,689**	**239,938**

The above balance sheet 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	OTHER RESERVES	RETAINED EARNINGS	**TOTAL EQUITY**
Balance at 1 January 2017 (as originally presented)	**195,440**	**(71)**	**48,965**	**244,334**
Correction of error (net of tax)	-	-	(2,011)	(2,011)
Balance at 1 January 2017 (restated)	**195,440**	**(71)**	**46,954**	**242,323**
Profit for the year 2017 (restated)	-	-	15,272	15,272
Other comprehensive income (restated)	-	57	-	57
Total comprehensive income for the year (restated)	-	**57**	**15,272**	**15,329**
Balance at 31 December 2017 (restated)	**195,440**	**(14)**	**62,226**	**257,652**
Change in accounting policy	-	-	(5,163)	(5,163)
Balance at 1 January 2018 (restated)	**195,440**	**(14)**	**57,063**	**252,489**
Profit for the year 2018	-	-	32,095	32,095
Other comprehensive income	-	(2,281)	-	(2,281)
Total comprehensive income for the year	**-**	**(2,281)**	**32,095**	**29,814**
Balance at 31 December 2018	**195,440**	**(2,295)**	**89,158**	**282,303**

PARENT

$'000	CONTRIBUTED EQUITY	OTHER RESERVES	RETAINED EARNINGS	**TOTAL EQUITY**
Balance at 1 January 2017 (as originally presented)	**195,440**	**(63)**	**46,572**	**241,949**
Correction of error (net of tax)	-	-	(2,011)	(2,011)
Balance at 1 January 2017 (restated)	**195,440**	**(63)**	**44,561**	**239,938**
Profit for the year 2017 (restated)	-	-	11,740	11,740
Other comprehensive income (restated)	-	11	-	11
Total comprehensive income for the year (restated)	-	**11**	**11,740**	**11,751**
Balance at 31 December 2017 (restated)	**195,440**	**(52)**	**56,301**	**251,689**
Change in accounting policy	-	-	(5,164)	(5,164)
Balance at 1 January 2018 (restated)	**195,440**	**(52)**	**51,137**	**246,525**
Profit for the year 2018	-	-	31,341	31,341
Other comprehensive income	-	(748)	-	(748)
Total comprehensive income for the year	-	**(748)**	**31,341**	**30,593**
Balance at 31 December 2018	**195,440**	**(800)**	**82,478**	**277,118**

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

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
Cash flows (used in)/from operating activities				
Interest received	391,370	303,884	393,207	307,102
Interest and other costs of finance paid	(183,848)	(149,550)	(208,352)	(171,347)
Fees and other non-interest income received	37,944	30,196	59,525	42,026
Fees and commissions paid	(125,276)	(106,829)	(125,645)	(105,792)
Net (payments for)/ proceeds from trading portfolio assets and other financial assets/liabilities	(1752)	(1,997)	(2,416)	(3,649)
Payment for acquisition of leased assets	(28,401)	(12,747)	(28,401)	(12,747)
Payments to suppliers	(4,660)	(669)	(2,956)	(192)
Employment expenses paid	(22,469)	(20,002)	(22,469)	(20,005)
Income tax (paid)/ recovery	(19,745)	(6,930)	(19,745)	(6,930)
Net loan assets granted	(1,017,535)	(1,295,785)	(1,017,535)	(1,292,602)
Recovery of loans previously written off	6,203	4,860	6,203	4,860
Net proceeds from sale of returned vehicles	67,244	27,829	67,245	24,647
Net cash flows (used in)/ from operating activities	**(900,925)**	**(1,227,740)**	**(901,339)**	**(1,234,629)**
Cash flows (used in)/from investing activities				
Payments for the acquisition of property, plant and equipment and intangible assets	(4,519)	(2,581)	(4,519)	(2,581)
Net cash flows (used in)/from investing activities	**(4,519)**	**(2,581)**	**(4,519)**	**(2,581)**
Cash flows (used in)/from financing activities				
Proceeds from borrowings	10,776,241	6,916,968	10,865,046	5,983,308
Proceeds from intercompany borrowings	-	2,215,446	-	2,215,446
Repayments of subordinated debt	(27,575)	(19,771)	(118,365)	(25,445)
Repayments of borrowings	(9,019,125)	(5,657,718)	(9,062,284)	(4,724,480)
Repayment of intercompany borrowings	(785,500)	(2,190,542)	(785,500)	(2,190,542)
Net cash flows (used in)/from financing activities	**944,041**	**1,264,383**	**898,897**	**1,258,287**
Net increase in cash and cash equivalents	**38,597**	**34,062**	**(6,961)**	**21,077**
Cash and cash equivalents at the beginning of the financial year	221,454	187,392	154,323	133,246
Cash and cash equivalents at the end of the financial year	**260,051**	**221,454**	**147,362**	**154,323**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

of Volkswagen Financial Services Australia Pty Limited

Notes to the financial statements

of Volkswagen Financial Services Australia Pty Limited

GENERAL

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 2018 is described in note 31.

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 other income or other expenses. 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 Group as at 31 December 2018 and the results of all subsidiaries for the year then ended. The Group 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 group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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 income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

C. REVENUE RECOGNITION

Interest income
Interest income is recognised using the effective interest 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 are amortised over the lifetime of the contracts and are presented as commission expense as part of net interest revenue 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 presented as fee income as part of net interest revenue in the Statement of Comprehensive Income.

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

Fee income and insurance income
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 Company is entitled to in exchange for transferring the service.

D. FINANCE AND OTHER COSTS

Finance costs
Finance costs are recognised in the income statement for borrowings measured at amortised cost using the effective interest method.

E. 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.

F. IMPAIRMENT OF ASSETS (EXCEPT FINANCIAL ASSETS)

Intangible and other assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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.

G. CASH AND CASH EQUIVALENTS

For the purpose of presentation in 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 Balance Sheet.

H. 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 loans (consisting of retail, wholesale and fleet receivables) and its cash and cash equivalents as financial assets at amortised cost, with the exception of retail receivables 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.

- *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 of its retail receivables 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 1 L for further details on the Group's accounting policy for derivatives.

I. PROVISION FOR 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, 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 lifetime ECL is recognised.
- Stage 3, lifetime ECL, credit impaired: Financial assets demonstrating objective indications of impairment are allocated to Stage 3. In Stage 3, an expected credit loss is calculated for the entire remaining maturity of the asset.

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 is calculated, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates 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 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 credit risk exposure 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 ECL. The methodology and assumptions including any outlook of future economic conditions are reviewed regularly.

Impairment will be recognised once financial assets meet 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.

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.

J. 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 17). 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.

K. 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.

L. 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 20 A. Movement in the cash flow hedge reserve in other comprehensive income is shown in note 19 D. 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 finance costs.

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.

M. 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.

N. 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.

O. 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.

P. 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 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 1 L for further details on the Group's accounting policy for derivatives.

Q. 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.

R. 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.

S. 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.

T. LEASING BUSINESS

The Group is engaged in both finance leases and operating leases. This business concerns 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 loans and 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 and similar revenue 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 recognized. Write-downs and write-ups are contained in the depreciation expenses. Leasing income is recognized on a straight-line basis over the term of the lease.

The Group as lessee
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

U. CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

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

Figures presented in the financial statements as comparative information for the financial year ended 31 December 2017 have been restated to reflect the correction of an error in relation to the amortisation of fees received by the Group at the time of settlement of retail contracts. Refer to note 30 for further details.

Where necessary, comparative information has been restated to conform to changes in the presentation in the current year.

Y. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

New standards adopted by the Group

The group has adopted AASB 9 and AASB 15 for the financial year ended 31 December 2018. For details on their impact on the financial statements from these changes in accounting policy, refer to note 31.

New standards not yet adopted by the Group

AASB 16 Leases

Effective date: 1 January 2019

AASB 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a lease liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The Group has assessed the impact of AASB 16 on its financial statements. The following lease contracts have previously been classified as operating leases but will be required to be recognised as a right-of-use asset and a corresponding lease liability on the Group's balance sheet upon adoption of AASB 16:

- Lease contract for office space at Level 1, 24 Muir Road, Chullora NSW 2190
- Lease contract for IT equipment

The Group has opted to apply the modified retrospective approach for the purpose of transition to AASB 16. On this basis, there will be no equity adjustment to the Group's opening balance as of 1 January 2019.

The amounts for the right-of-use assets and corresponding lease liabilities to be recognised by the Group as of 1 January 2019 are expected to be as follows:

- Office space: $7,926,455
- IT equipment: $451,784

The impact on the Group's profit or loss is expected to be immaterial.

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 a central treasury department (Asia – Pacific (VW Group Entity)) under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks. The Board and Executive Committee (EC) provides 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 9.

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 20 D).

The maturity analysis of interest bearing liabilities and the credit standby arrangements are disclosed in note 16.

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 61.7% (consolidated) and 91.9% (parent) (2017: 77.3% and 97.7% 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 20 E).

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

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 117 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 recognized 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.

Financial assets are broken down into three stages in the general approach. Stage 1 consists of financial assets that are being recognized for the first time or that have not demonstrated any significant increase in probability of default since initial recognition. In this stage, the model requires the calculation of an expected credit loss for the next twelve months. Stage 2 consists of financial assets for which the probability of default has increased significantly since initial recognition. Financial assets demonstrating objective indications of impairment are allocated to Stage 3. In Stages 2 and 3, an expected credit loss is calculated for the entire remaining maturity of the asset.

In the case of financial assets already impaired on initial recognition and classified as Stage 4 for the purposes of the disclosures, the provision for credit risks is recognised in subsequent measurement on the basis of the cumulative changes in the expected credit loss for the entire life of the asset concerned. Any financial instrument already classified as impaired on initial recognition remains in this stage until it is derecognised.

The provision for credit risks relating to trade receivables and to operating and finance lease receivables accounted for in accordance with AASB 117 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.

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.

Notes To The Income Statement

4 | Interest and similar revenue and interest expense and similar charges

	CONSOLIDATED		PARENT	
$'000	**2018**	2017 Restated	**2018**	2017 Restated
Interest and similar revenue				
Cash and cash equivalents	3,505	2,647	2,853	2,936
Financial assets at amortised cost	313,866	-	321,587	-
Financial assets at fair value through profit or loss	52,731	-	52,731	-
Loans and receivables	-	293,532	-	296,470
Lease receivables	4,763	3,297	4,763	3,297
Acceptance fee income	14,566	12,634	14,566	13,933
Finalisation fee and prepayment fee income	5,293	4,410	5,293	3,111
Commission expense	(93,377)	(78,660)	(93,377)	(78,660)
Net interest and similar revenue	**301,347**	**237,860**	**308,416**	**241,087**

	CONSOLIDATED		PARENT	
$'000	**2018**	2017 Restated	**2018**	2017 Restated
Interest expense and similar charges				
Interest and finance charges paid/ payable	187,017	154,688	219,059	174,263
Total	**187,017**	**154,688**	**219,059**	**174,263**

5 | Non-interest revenue

	CONSOLIDATED		PARENT	
$'000	**2018**	2017	**2018**	2017
Fee income	3,508	2,778	3,508	2,778
ABS service fee income	0	0	21,113	12,028
Insurance income	5,031	1,986	5,031	1,986
Operating Lease Income	8,246	5,710	8,246	5,710
Other income	1,421	772	1,421	772
Profit on sale of vehicles in inventory	233	275	233	275
Non- interest revenue	**18,439**	**11,521**	**39,552**	**23,549**

Fee income primarily comprises late payments charges and cheque dishonour charges.

6 | Expenses

Profit before income tax includes the following specific expenses:

6a. Depreciation and amortisation expenses

$'000	CONSOLIDATED 2018	CONSOLIDATED 2017 Restated	PARENT 2018	PARENT 2017 Restated
DEPRECIATION				
Leased assets	6,640	4,975	6,640	4,975
Leasehold improvements	353	353	353	353
Computer and office equipment	91	76	91	76
Total depreciation	**7,084**	**5,404**	**7,084**	**5,404**
AMORTISATION				
Software	2,248	2,834	2,248	2,834
Total amortisation	**2,248**	**2,834**	**2,248**	**2,834**
Total depreciation and amortisation expenses	**9,332**	**8,238**	**9,332**	**8,238**

6b. Other expenses from ordinary activities

$'000	CONSOLIDATED 2018	CONSOLIDATED 2017 Restated	PARENT 2018	PARENT 2017 Restated
Professional advisors	8,850	2,808	8,850	2,824
Other expenses	3,763	1,938	3,765	1,938
Loss on sale of vehicles	3,263	2,606	3,263	2,606
IT and communication	1,789	2,474	1,789	2,474
Leasing	2,022	2,343	2,022	2,343
Credit rating expenses	2,702	2,276	2,702	2,276
Marketing expenses	984	1,455	984	1,455
Other fees and costs (ABS)	1,098	1,093	1,477	62
GST Disallowed	785	1,048	774	772
Expenses paid to related companies	284	678	284	678
Company car rental	882	828	882	828
Travel and accommodation	438	419	438	419
Postage	862	530	862	530
Total other expenses	**27,722**	**20,496**	**28,092**	**19,205**

6c. Employee benefit expenses

$'000	CONSOLIDATED 2018	CONSOLIDATED 2017 Restated	PARENT 2018	PARENT 2017 Restated
Wages and salaries	17,341	16,186	17,341	16,186
Superannuation contributions	1,724	1,507	1,724	1,507
Other employee benefit expenses	1,371	985	1,371	985
Total employee benefit expenses	**20,436**	**18,678**	**20,436**	**18,678**

7 | Income tax expense

Aggregate current and deferred tax arising in the reporting period:

7a. Income tax expense

$'000	CONSOLIDATED 2018	CONSOLIDATED 2017 Restated	PARENT 2018	PARENT 2017 Restated
Current tax	19,414	11,573	19,414	11,573
Deferred tax	(4,900)	(4,434)	(4,900)	(4,434)
Income tax expense	**14,514**	**7,139**	**14,514**	**7,139**
Income tax expense is attributable to:				
Profit from continuing operations	14,514	7,139	14,514	7,139
Deferred tax expense in income tax benefit comprises:				
(Increase) / Decrease in deferred tax assets	(12,337)	238	(12,337)	238
Increase / (Decrease) in deferred tax liabilities	7,437	(4,672)	7,437	(4,672)
Deferred Income tax expense	**(4,900)**	**(4,434)**	**(4,900)**	**(4,434)**

7b. Numerical reconciliation of income tax benefit to prima facie tax payable

$'000	CONSOLIDATED 2018	CONSOLIDATED 2017 Restated	PARENT 2018	PARENT 2017 Restated
Profit from continuing operations before income tax expense	**46,610**	**22,411**	**45,853**	**18,880**
Tax at the Australian tax rate of 30% (2017: 30%)	13,983	6,723	13,756	5,664
Adjustment for prior tax period	(9)	(232)	(9)	(232)
Tax effect of amounts which are not (taxable) deductible in calculating taxable income	540	648	767	1,707
Income tax expense	**14,514**	**7,139**	**14,514**	**7,139**

Notes To The Balance Sheet

8 | Financial Assets

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
Financial assets at amortised cost				
Cash and cash equivalents	260,051	221,454	147,362	154,323
Retail receivables	4,192,380	-	4,192,380	-
Wholesale receivables	1,731,801	-	1,731,801	-
Fleet receivables	15,027	-	15,027	-
Loans and receivables (AASB 139)	-	5,543,275	-	5,610,528
Loss allowance	(60,746)	(41,956)	(60,746)	(41,956)
Other financial assets at amortised cost	18,240	-	19,907	-
Total financial assets at amortised cost	**6,156,753**	**5,722,773**	**6,045,731**	**5,722,895**
Financial assets at fair value through profit or loss	**500,215**	**-**	**684,819**	**-**
Derivative financial instruments				
Used for hedging	13,629	10,721	13,431	10,053
Held for trading at fair value through profit or loss	8,630	1,927	8,630	1,477
Total derivative financial instruments	**22,259**	**12,648**	**22,061**	**11,530**
Total financial assets	**6,679,227**	**5,735,421**	**6,752,611**	**5,734,425**

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 20. 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.

See note 31 for the impact of the change in accounting policy following the adoption of AASB 9 on the classification of financial assets.

8a. Financial assets at amortised cost

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
Cash and cash equivalents				
Cash at bank	**260,051**	**221,454**	**147,362**	**154,323**
Retail receivables				
Current receivables	967,383	-	967,383	-
Non-current receivables	3,224,997	-	3,224,997	-
Loans and receivables (Retail - AASB 139)	-	3,972,717	-	3,972,717
Loss allowance	(57,259)	(37,889)	(57,259)	(37,889)
Total retail receivables less loss allowance	**4,135,121**	**3,934,828**	**4,135,121**	**3,934,828**
Wholesale receivables				
Current receivables	1,731,801	-	1,731,801	-
Non-current receivables	-	-	-	-
Loans and receivables (Wholesale - AASB 139)	-	1,570,558	-	1,570,558
Loss allowance	(3,486)	(4,067)	(3,486)	(4,067)
Total wholesale receivables less loss allowance	**1,728,315**	**1,566,491**	**1,728,315**	**1,566,491**
Fleet receivables				
Current receivables	2,747	-	2,747	-
Non-current receivables	12,280	-	12,280	-
Loans and receivables (Fleet - AASB 139)	-	-	-	-
Loss allowance	(1)	-	(1)	-
Total fleet receivables less loss allowance	**15,026**	**-**	**15,026**	**-**
Other financial assets at amortised cost				
Loans and receivables (Subordinated loans - AASB 139)	-	-	-	67,253
Wholesale debtors	7,551	-	7,551	-
Other debtors	7,746	-	8,077	-
Amounts receivable from related entities	2,673	-	4,198	-
Bank interest	270	-	81	-
Total other financial assets at amortised cost	**18,240**	**-**	**19,907**	**67,253**
Total financial assets at amortised cost	**6,156,753**	**5,722,773**	**6,045,731**	**5,722,895**

The above balance of cash and cash equivalents includes restricted cash items of $112,688,909 (2017: $67,130,724) for the Group and $nil (2017: $nil) for the Parent. This balance represents the cash held in the Driver Australia Trusts.

8b. Financial assets at fair value through profit or loss

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
Financial assets mandatorily measured at fair value through profit or loss				
Retail receivables where the customer has the right to return the vehicle at the end of the contract term				
Current receivables	230,314	-	230,314	-
Non-current receivables	269,901	-	269,901	-
Subordinated Loan	-	-	184,604	-
Total financial assets at fair value through profit or loss	**500,215**	**-**	**684,819**	**-**

Amounts recognised in profit or loss
During the year, an amount of $804,667 was recognised in profit or loss as a debit for fair value losses on retail receivables where the customer has the right to return the car at the end of the contract term.

9 | Provision for impairment of financial assets at amortised costs

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 1 (I) 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 the contract assets. AASB7(35G)

The expected loss rates are based on the payment profiles over a period of 36 month before 31 December 2018 or 1 January 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 operating profit. 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. The key drivers relate to the origination of $2.4b of retail and wholesale loans during the year resulting in $14.8m of expected credit losses. This was offset by the derecognition of retail and wholesale loans and their associated expected credit losses of $9.5m, offset by $4.9m of expected credit losses on POCI loans.

Previous accounting policy for impairment of loans and receivables

In the prior year, the impairment of loans and receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties of the debtor
- Probability that the debtor will enter bankruptcy or financial reorganisation, and
- Default or late payments (more than 21 days overdue).

CONSOLIDATED AND PARENT $'000	Stage 1	Stage 2	Stage 3	Stage 4	Simplified Approach	**Total**
Balance as of 1 January 2018 (restated)	**13,561**	**16,428**	**17,330**	**0**	**372**	**47,691**
Newly granted/purchased financial assets (additions)	8,554	0	0	5,933	271	14,758
Transfer to						
Stage 1	328	(3,075)	(2,087)	0	0	(4,834)
Stage 2	(933)	10,268	(5,157)	0	0	4,178
Stage 3	(33)	(346)	5,971	0	0	5,592
Financial instruments derecognised during the period (derecognitions)	(4,425)	(3,891)	(993)	0	(168)	(9,477)
Utilizations	0	0	(6,082)	(1,060)	0	(7,142)
Model or risk parameter changes	(4,501)	14,812	-	-	0	10,309
Balance as of 31 December 2018	**12,551**	**34,196**	**8,982**	**4,873**	**475**	**61,077**

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.

Credit risk provision movements for the previous year

	CONSOLIDATED	PARENT
$'000	**31.12.2017**	**31.12.2017**
INDIVIDUALLY ASSESSED PROVISION		
Opening balance	7,108	7,108
Addition	12,080	12,080
Release	(2,397)	(2,397)
Drawings on provision	(4,354)	(4,354)
Closing balance	**12,437**	**12,437**
COLLECTIVELY ASSESSED PROVISION		
Opening balance	21,740	21,740
Addition	21,050	21,050
Release	(13,230)	(13,230)
Closing balance	**29,560**	**29,560**
Total provision for impairment of loans and receivables	**41,997**	**41,997**

The following table presents the carrying amounts of financial assets as of 31 December 2018, broken down by risk class:

CONSOLIDATED	31 December 2018				
$'000	Stage 1	Stage 2	Stage 3	Stage 4	Simplified Approach
Default risk rating class 1 (loans/receivables not at risk of default - normal loans)	5,157,074	748,632	16,975	250	-
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	150,871	55,685	2,170	982	90,544
Default risk rating class 3 (loans/receivables in default - non performing loans)	-	17	-	24,097	67
Total	**5,307,945**	**804,334**	**19,145**	**25,329**	**90,611**

PARENT	31 December 2018				
$'000	Stage 1	Stage 2	Stage 3	Stage 4	Simplified Approach
Default risk rating class 1 (loans/receivables not at risk of default - normal loans)	5,046,052	748,632	16,975	250	-
Default risk rating class 2 (loans/receivables at risk of default - loans with intensified loan management)	150,871	55,685	2,170	982	90,544
Default risk rating class 3 (loans/receivables in default - non performing loans)	-	17	-	24,097	67
Total	**5,196,923**	**804,334**	**19,145**	**25,329**	**90,611**

The total amount of undiscounted expected credit losses at initial recognition of POCI loans recognised during the period is $8.5m.

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

CONSOLIDATED AND PARENT	31 December 2018			
$'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held (Vehicles)
Credit-impaired assets				
Retail receivables	19,145	(8,982)	10,163	10,548
Wholesale receivables	-	-	-	-
Fleet receivables	-	-	-	-
Total	**19,145**	**(8,982)**	**10,163**	**10,548**

10 | Other assets

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017	PARENT 31.12.2018	PARENT 31.12.2017
Vehicles returned for disposal (inventories)	7,584	14,149	7,584	14,149
Wholesale debtors *	0	29,674	0	29,674
GST receivable	835	15,776	642	15,116
Other debtors *	0	3,379	0	3,941
Amounts receivable from related entities *	0	1,585	0	1,628
Prepayments	539	775	539	775
Bank interest *	0	274	0	168
Total other assets	**8,958**	**65,612**	**8,765**	**65,451**

* These assets have been classified as financial assets at amortised in 2018 as a result of AASB 9 transition from 1 January 2018.

11 | Property, plant and equipment

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
LEASEHOLD IMPROVEMENTS				
Leasehold improvements – at cost	4,195	4,195	4,195	4,195
Accumulated depreciation	(2,143)	(1,790)	(2,143)	(1,790)
Net book value	**2,052**	**2,405**	**2,052**	**2,405**
COMPUTER AND OFFICE EQUIPMENT				
Computer and office equipment – at cost	762	650	762	650
Accumulated depreciation	(521)	(430)	(521)	(430)
Net book value	**241**	**220**	**241**	**220**
Total property, plant and equipment	**2,293**	**2,625**	**2,293**	**2,625**

CONSOLIDATED and PARENT

$'000	Leasehold improvement	Computer and office equipment	**Total**
Carrying amount at 1 January 2017	**2,719**	**281**	**3,000**
Additions	39	14	53
Depreciation	(353)	(75)	(428)
Carrying amount at 31 December 2017	**2,405**	**220**	**2,625**
Carrying amount at 1 January 2018	**2,405**	**220**	**2,625**
Additions	-	112	112
Depreciation	(353)	(91)	(444)
Carrying amount at 31 December 2018	**2,052**	**241**	**2,293**

12 | Intangible assets

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
COMPUTER SOFTWARE				
Computer software – at cost	22,769	20,288	22,769	20,288
Accumulated amortisation	(18,881)	(16,073)	(18,881)	(16,073)
Net book value	**3,888**	**4,215**	**3,888**	**4,215**
SOFTWARE UNDER DEVELOPMENT	**3,580**	**2,834**	**3,580**	**2,834**
Total intangible assets	**7,468**	**7,049**	**7,468**	**7,049**

CONSOLIDATED and PARENT

$'000	Computer software	Software under development	**Total**
Carrying amount at 1 January 2017	**4,324**	**2,387**	**6,711**
Additions	1,211	2,174	3,385
Transfers	1,513	(1,513)	-
Disposal	-	(214)	(214)
Amortisation	(2,833)	-	(2,833)
Carrying amount at 31 December 2017	**4,215**	**2,834**	**7,049**
Carrying amount at 1 January 2018	**4,215**	**2,834**	**7,049**
Additions	593	4,993	5,586
Transfers	1,888	(1,888)	-
Disposal	-	(2,359)	(2,359)
Amortisation	(2,808)	-	(2,808)
Carrying amount at 31 December 2018	**3,888**	**3,580**	**7,468**

13 | Lease receivables

CONSOLIDATED & PARENT	**31.12.2018**			31.12.2017 Restated		
$'000	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payments receivable	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payments receivable
Within one year	28,802	(4,661)	24,141	25,002	(3,002)	22,000
Later than one year but not later than 5 years	72,077	(5,607)	66,470	46,542	(3,790)	42,752
Greater than 5 years	-	-	-	-	-	-
Total	**100,879**	**(10,268)**	**90,611**	**71,544**	**(6,792)**	**64,752**

The unguaranteed undiscounted Residual Value at the balance sheet date was $29.0m (2017: $16.3m).

14 | Leased assets

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
LEASED ASSETS				
Leased assets – at cost	37,309	41,948	37,309	41,948
Depreciation	(6,169)	(3,970)	(6,169)	(3,970)
Net book value	**31,140**	**37,978**	**31,140**	**37,978**
Total leased assets	**31,140**	**37,978**	**31,140**	**37,978**

CONSOLIDATED and PARENT $'000	Leased assets	Total
Carrying amount at 1 January 2017	**30,620**	**30,620**
Additions	41,994	**41,994**
Disposals	(33,676)	**(33,676)**
Depreciation	(960)	**(960)**
Carrying amount at 31 December 2017	**37,978**	**37,978**
Carrying amount at 1 January 2018	**37,978**	**37,978**
Additions	28,401	**28,401**
Disposals	(33,040)	**(33,040)**
Depreciation	(2,199)	**(2,199)**
Carrying amount at 31 December 2018	**31,140**	**31,140**

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 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
Within one year	5,005	3,994	5,005	3,994
Later than one year but not later than 5 years	5,651	3,301	5,651	3,301
Greater than 5 years	-	-	-	-

The total Residual Value of the leased assets at the balance sheet date was $22,050k (2017: $32,492k).

15 | Deferred tax assets

CONSOLIDATED $'000	31.12.2018	31.12.2017 Restated
The balance comprises temporary differences attributable to:		
Unamortised dealer commissions	6,408	4,091
Loans and receivables	(2,974)	(2,137)
Doubtful debts	19,756	13,141
Disposal of securitised assets	(212)	1,480
Deferred income	(895)	(87)
Other provisions & accruals	4,185	3,189
Derivative financial instruments	(409)	303
Total attributable to temporary differences	**25,859**	**19,980**
Deferred tax assets	**25,859**	**19,980**
Movements:		
Opening balance at 1 January	**19,980**	**15,162**
Adjustment on adoption of AASB 9	2,213	-
Correction of acceptance fee error	-	1,251
Adjusted opening balance at 1 January	**22,193**	**16,413**
Charged to income statement	4,900	4,434
Charged to other comprehensive income	(1,234)	(867)
Closing balance at 31 December	**25,859**	**19,980**
Deferred tax assets expected to be recovered:		
within 12 months	10,649	9,046
over 12 months	15,210	10,934
Total	**25,859**	**19,980**

PARENT $'000	31.12.2018	31.12.2017 Restated
The balance comprises temporary differences attributable to:		
Unamortised dealer commissions	6,408	4,091
Loans and receivables	(2,974)	(2,137)
Doubtful debts	19,756	13,141
Disposal of securitised assets	(212)	1,480
Deferred income	(895)	(87)
Other provisions & accruals	4,185	3,189
Derivative financial instruments	(1,066)	303
Total attributable to temporary differences	**25,202**	**19,980**
Deferred tax assets	**25,202**	**19,980**
Movements:		
Opening balance at 1 January	**19,980**	**15,162**
Adjustment on adoption of AASB 9	2,213	-
Correction of acceptance fee error	-	1,251
Adjusted opening balance at 1 January	**22,193**	**16,413**
Charged to income statement	4,900	4,434
Charged to other comprehensive income	(1,891)	(867)
Closing balance at 31 December	**25,202**	**19,980**
Deferred tax assets expected to be recovered:		
within 12 months	9,992	9,046
over 12 months	15,210	10,934
Total	**25,202**	**19,980**

16 | Financial liabilities

	CONSOLIDATED		PARENT	
$'000	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated
Financial liabilities at amortised cost				
Borrowings	6,485,285	5,539,761	4,362,550	4,390,292
Other liabilities	55,650	122,461	62,611	118,585
Derivative financial instruments				
Used for hedging	7,072	5,310	4,718	4,567
Held for trading at fair value through profit or loss	11,254	4,568	6,561	4,568
Total financial liabilities	6,559,261	5,672,100	4,436,440	4,518,012

16a Borrowings

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
UNSECURED				
Medium term notes	1,975,000	1,475,001	1,975,000	1,475,000
Bank loans	1,969,000	1,706,980	1,969,000	1,706,980
Commercial paper	399,300	404,700	399,300	404,700
Intercompany loans	-	785,500	-	785,500
Total unsecured	**4,343,300**	**4,372,181**	**4,343,300**	**4,372,180**
SECURED				
Note A	1,882,638	1,018,361	-	-
Note B	222,757	86,542	-	-
Subordinated loan	19,388	46,962	-	-
Total secured	**2,124,783**	**1,151,865**	**-**	**-**
Accrued interest	24,545	22,870	24,545	22,870
Total	**6,492,628**	**5,546,916**	**4,367,845**	**4,395,050**
Less capitalised finance costs	(7,343)	(7,155)	(5,295)	(4,758)
Total borrowings	**6,485,285**	**5,539,761**	**4,362,550**	**4,390,292**
Maturity analysis				
No longer than 3 months	1,127,900	1,704,691	1,019,188	1,630,991
Longer than 3 months, no longer than 1 year	1,493,675	1,239,697	973,657	929,059
Longer than 1 year, no longer than 5 years	3,871,053	2,602,528	2,375,000	1,835,000
Longer than 5 years	-	-	-	-
	6,492,628	**5,546,916**	**4,367,845**	**4,395,050**
CREDIT STANDBY ARRANGEMENTS				
Total bank loan facility	**2,544,000**	**2,065,980**	**2,544,000**	**2,065,980**
Used at balance date	1,969,000	1,706,980	1,969,000	1,706,980
Unused at balance date	575,000	359,000	575,000	359,000
Thereof total bank overdraft facility	**10,000**	**10,000**	**10,000**	**10,000**
Used at balance date	0	0	0	0
Unused at balance date	10,000	10,000	10,000	10,000

The medium term note program include maturities between 6 months to 2 years duration with an average rate of 3.3% (2017: 3.4%).

Bank loans include maturities between 1 month to 2 years duration with an average rate of 2.9% (2017: 2.9%).

The intercompany loan at 31 December 2017 was provided from Volkswagen Financial Services N.V. and was provided at a commercial interest rate of 3.1%. The duration was between 1 month to 2 years. There was no outstanding intercompany loan balance at 31 December 2018.

The subordinated loans for Driver Australia Three (2017: Driver Australia Two and Driver Australia Three) are provided by Volkswagen International Luxemburg S.A. and are provided at an average interest rate of 6.15% (2017: 5.9%).

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). $2,422,869,592 (2017: $1,151,864,489) 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 3.0% and 3.7% respectively (2017: 2.8% and 3.7% respectively).

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.
The current interest rate is 2.545% (2017: 2.2%) on the overdraft facility.

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

16b Other liabilities

	CONSOLIDATED		PARENT	
$'000	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated
Amounts payable to related entities	26,613	72,966	26,572	68,862
Other creditors	14,763	36,774	21,765	37,002
Other provisions*	9,079	10,377	9,079	10,377
Compliance, programs and regulation*	5,395	-	5,395	-
Tax provision*	(200)	2,344	(200)	2,344
Total other liabilities	**55,650**	**122,461**	**62,611**	**118,585**

* These liabilities are not classified as financial liabilities.

All other liabilities as of 31 December 2017 were paid or released to the Income Statement in the current year. The amounts outstanding as of 31 December 2018 were booked in the current year and represent the Group's other liabilities as of the balance date.

16c Derivative financial instruments

Refer to note 20 A for details on derivative financial instruments.

17 | Transfer of Financial Assets (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 AASB139 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 $81.8m (2017: $49.1m). 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 2018:

PARENT $'000	**31.12.2018**	31.12.2017 Restated
Retail receivables		
Carrying amount of transferred assets	2,528,082	1,323,071
Carrying amount of associated liabilities	2,124,090	1,150,239
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement	2,609,920	1,372,188
For those liabilities that have recourse only to the transferred assets		
Fair value of transferred assets	2,460,621	1,375,829
Fair value of associated liabilities	2,124,090	1,150,239
Net fair value	**336,531**	**225,590**

Liquidity profile

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

PARENT $'000	**31.12.2018**	31.12.2017 Restated
Maturity analysis		
No longer than 3 months	103,970	84,800
Longer than 3 months, no longer than 1 year	513,012	326,183
Longer than 1 year, no longer than 5 years	1,625,128	769,452
Longer than 5 years	0	0
Total	**2,242,110**	**1,180,435**

Sensitivity analysis
At 31 December 2018 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.

18 | Employee Entitlements

	CONSOLIDATED		PARENT	
$'000	31.12.2018	31.12.2017 Restated	31.12.2018	31.12.2017 Restated
Provision for staff bonus	2,583	2,318	2,583	2,318
Provision for leave entitlements - current	886	924	886	924
Total current employee entitlements	**3,469**	**3,242**	**3,469**	**3,242**
Provision for leave entitlements - non-current	524	423	524	423
Total non-current employee entitlements	**524**	**423**	**524**	**423**
Total employee entitlements	**3,993**	**3,665**	**3,993**	**3,665**

CONSOLIDATED and PARENT $'000	Staff bonus	Entitlement leave	Total
Movements in provision:			
Carrying amount at 1 January 2017	**2,430**	**1,223**	**3,653**
Additional provisions recognised	1,152	124	1,276
Reductions in provisions	(1,264)	-	(1,264)
Carrying amount at 31 December 2017	**2,318**	**1,347**	**3,665**
Carrying amount 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 at 31 December 2018	**2,583**	**1,410**	**3,993**

19 | Equity

19a. Share capital

CONSOLIDATED and PARENT	31.12.2018 (Shares)	31.12.2017 (Shares)	31.12.2018 ($'000)	31.12.2017 Restated ($'000)
SHARE CAPITAL				
Ordinary shares – fully paid	105,440,000	105,440,000	195,440	195,440

19b. Movements in ordinary share capital

CONSOLIDATED and PARENT

Date	Details	Number of shares	Issue price	$'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	-	-	35,000
19 November 2013	Additional paid in capital	-	-	25,000
12 November 2014	Additional paid in capital	-	-	30,000
31 December 2018	**Balance**	**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.

19c Retained earnings

	CONSOLIDATED		PARENT	
$'000	**2018**	2017 Restated	**2018**	2017 Restated
Retained earnings at 1 January	62,226	46,954	56,301	44,561
Adjustment to retained earnings from adoption of AASB 9 on 1 January 2018	(5,163)	-	(5,163)	-
Net profit / (loss) for the year	32,095	15,272	31,341	11,740
Retained earnings at 31 December	**89,158**	**62,226**	**82,478**	**56,301**

19d 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 1 L. Amounts are recognised in the income statement when the associated hedged transaction affects profit or loss.

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
Cash flow hedge reserve	(3,295)	(36)	(1,143)	(74)
Deferred tax for cash flow hedge reserve	1,000	22	22	22
Total cash flow hedge reserve	**(2,295)**	**(14)**	**(1,121)**	**(52)**

$'000	CONSOLIDATED 31.12.2018	CONSOLIDATED 31.12.2017 Restated	PARENT 31.12.2018	PARENT 31.12.2017 Restated
Movements in cash flow hedge reserve				
Opening balance at 1 January	**(14)**	**(71)**	**(52)**	**(63)**
Valuation - gross	(3,259)	62	(1,069)	16
Deferred tax	978	(5)	0	(5)
Balance as at 31 December	**(2,295)**	**(14)**	**(1,121)**	**(52)**

During the year, an amount of $27,524 (2017: $56,134) has been transferred to the Income Statement in relation to closed hedges.

20 | 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 2.9% (consolidated) and 3.09% (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 79% (consolidated) and 69.3% (parent) (2017: 46.7% and 33.7% 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 1.79% and 4.75% (2017: between 4.2% and 2.1%) and the variable rates are between 1.79% and 4.75% (2017: between 2.4% and 7.4%).

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

CONSOLIDATED	31 December 2018			
$'000	Up to three months	Three months to one year	One year to five years	More than five years
Fair value hedges				
Interest rate swaps				
Notional	-	330,000	1,175,000	-
Average variable interest rate	-	2.81%	2.80%	-
Cash flow hedges				
Interest rate swaps				
Notional	-	-	250,000	902,928
Average fixed interest rate	-	-	2.00%	3.12%

PARENT	31 December 2018			
$'000	Up to three months	Three months to one year	One year to five years	More than five years
Fair value hedges				
Interest rate swaps				
Notional	-	330,000	1,175,000	-
Average variable interest rate	-	2.81%	2.80%	-
Cash flow hedges				
Interest rate swaps				
Notional	-	-	250,000	-
Average fixed interest rate	-	-	2.00%	-

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

CONSOLIDATED	31 December 2018				
		Carrying amount			
$'000	Notional	Assets	Liabilities	Balance Sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges					
Interest rate					
Interest rate swaps	1,505,000	3,072	-	Derivative financial instruments	3,072
Cash flow hedges					
Interest rate					
Interest rate swaps	1,152,928	167	(3,240)	Derivative financial instruments	(3,073)

PARENT	31 December 2018				
		Carrying amount			
$'000	Notional	Assets	Liabilities	Balance Sheet line item(s)	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges					
Interest rate					
Interest rate swaps	1,505,000	3,072	-	Derivative financial instruments	3,072
Cash flow hedges					
Interest rate					
Interest rate swaps	250,000	-	(866)	Derivative financial instruments	(866)

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

CONSOLIDATED	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
$'000	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Fair value hedges								
Interest rate								
Fixed rate borrowings	-	1,501,949	-	(3,051)	Borrowings	(3,051)	n/a	n/a
Cash flow hedges								
Interest rate								
Variable rate borrowings	-	1,156,059	-	n/a	Borrowings	n/a	3,073	-

PARENT	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
$'000	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Fair value hedges								
Interest rate								
Fixed rate borrowings	-	1,501,949	-	(3,051)	Borrowings	(3,051)	n/a	n/a
Cash flow hedges								
Interest rate								
Variable rate borrowings	-	250,870	-	n/a	Borrowings	n/a	866	-

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 $61,539 (consolidated) and $6,810 (Parent) for the year (2017: $92,507 and $10,824).

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:

CONSOLIDATED	**31 December 2018**		
$'000	**Gains/(loss) recognised in OCI**	**Hedge Ineffectiveness recognised in P&L**	**P&L line item that includes hedge ineffectiveness**
Fair value hedges			
Interest rate			
Fixed rate borrowings	-	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

PARENT	**31 December 2018**		
$'000	**Gains/(loss) recognised in OCI**	**Hedge Ineffectiveness recognised in P&L**	**P&L line item that includes hedge ineffectiveness**
Fair value hedges			
Interest rate			
Fixed rate borrowings	-	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	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
$'000	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated
ASSETS						
Measured at fair value						
Financial assets at fair value through profit or loss	500,215	-	500,215	-	-	-
Derivative financial instruments	22,259	12,648	22,259	12,648	-	-
Measured at amortised cost						
Cash and cash equivalents	260,051	221,454	260,051	221,454	-	-
Financial assets at amortised cost	6,036,088	-	5,896,702	-	139,387	-
Loans and receivables	-	5,541,712	-	5,501,319	-	40,393
Other assets	-	34,911	-	34,911	-	-
LIABILITIES						
Measured at fair value						
Derivative financial instruments	18,326	9,878	18,326	9,878	-	-
Measured at amortised costs						
Borrowings	6,488,336	5,541,352	6,485,285	5,539,761	3,051	1,591
Other liabilities	41,376	109,740	41,376	109,740	-	-

PARENT	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
$'000	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated
ASSETS						
Measured at fair value						
Financial assets at fair value through profit or loss	684,819	-	684,819	-	-	-
Derivative financial instruments	22,061	11,530	22,061	11,530	-	-
Measured at amortised cost						
Cash and cash equivalents	147,362	154,323	147,362	154,323	-	-
Financial assets at amortised cost	6,037,755	-	5,898,369	-	139,386	-
Loan and receivables	-	5,608,965	-	5,568,572	-	40,393
Other assets	-	35,410	-	35,410	-	-
LIABILITIES						
Measured at fair value						
Derivative financial instruments	11,279	9,135	11,279	9,135	-	-
Measured at amortised costs						
Borrowings	4,365,601	4,391,883	4,362,550	4,390,292	3,051	1,591
Virtual Loan	2,242,110	1,180,435	2,242,110	1,180,435	-	-
Other liabilities	48,337	105,864	48,337	105,864	-	-

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 of the receivables from customers 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.

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

CONSOLIDATED	LEVEL 1		LEVEL 2		LEVEL 3	
$'000	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated
ASSETS						
Measured at fair value						
Financial assets at fair value through profit or loss	-	-	-	-	500,215	-
Derivative financial instruments	-	-	22,259	12,648	-	-
Measured at amortised cost						
Cash and cash equivalents	260,051	221,454	-	-	-	-
Financial assets at amortised cost	-	-	-	-	5,896,702	-
Loans and receivables	-	-	-	-	-	5,501,319
Other assets	-	-	-	-	-	34,911
Derivative financial instruments designated as hedges	-	-	13,629	10,721	-	-
LIABILITIES						
Measured at fair value						
Derivative financial instruments	-	-	18,326	9,878	-	-
Measured at amortised costs						
Borrowings	-	-	4,367,845	4,395,051	2,117,440	1,144,711
Other liabilities	-	-	-	-	41,376	109,740
Derivative financial instruments designated as hedges	-	-	6,106	5,394	-	-

PARENT	LEVEL 1		LEVEL 2		LEVEL 3	
$'000	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated	**31.12.2018**	31.12.2017 Restated
ASSETS						
Measured at fair value						
Financial assets at fair value through profit or loss	-	-	-	-	684,818	-
Derivative financial instruments	-	-	22,061	11,530	-	-
Measured at amortised cost						
Cash and cash equivalents	147,362	154,323	-	-	-	-
Financial assets at amortised cost	-	-	-	-	5,898,369	-
Loans and receivables	-	-	-	-	-	5,568,572
Other assets	-	-	-	-	-	35,410
Derivative financial instruments designated as hedges	-	-	13,431	10,054	-	-
LIABILITIES						
Measured at fair value						
Derivative financial instruments	-	-	11,279	9,135	-	-
Measured at amortised costs						
Borrowings	-	-	4,362,550	4,390,292	-	-
Virtual loan	-	-	-	-	2,200,539	1,158,894
Other liabilities	-	-	-	-	48,337	105,864
Derivative financial instruments designated as hedges	-	-	5,954	4,651	-	-

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

	CONSOLIDATED		PARENT	
$'000	**2018**	2017	**2018**	2017
Balance at 1 January	367,383	-	367,383	-
New contracts	234,685	-	234,685	-
Matured contracts	(101,049)	-	(101,049)	-
Fair value gains/(losses) recognised in the Income Statement	(804)	-	(804)	-
Balance at 31 December	500,215	-	500,215	-

D. LIQUIDITY RISK

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

CONSOLIDATED	31 December 2018				
$'000	Cash outflows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
FINANCIAL LIABILITIES					
Borrowings	6,969,117	1,157,699	1,601,779	4,208,279	1,360
Derivative financial instruments	19,537	8,417	5,981	5,139	-
Other liabilities	41,376	41,376	-	-	-
Gross loan commitments	371,144	371,144	-	-	-
Total	**7,401,174**	**1,578,636**	**1,607,760**	**4,213,418**	**1,360**

CONSOLIDATED	31 December 2017 Restated				
$'000	Cash outflows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
FINANCIAL LIABILITIES					
Borrowings	5,843,648	1,693,463	1,398,029	2,752,156	-
Derivative financial instruments	20,170	7,402	6,041	6,727	-
Other liabilities	109,740	109,740	-	-	-
Gross loan commitments	408,514	408,514	-	-	-
Total	**6,382,072**	**2,219,119**	**1,404,070**	**2,758,883**	**-**

PARENT	31 December 2018				
$'000	Cash outflows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Financial liabilities					
Borrowings	4,551,008	1,035,771	1,036,421	2,478,816	-
Derivative financial instruments	15,822	6,644	4,563	4,615	-
Other liabilities	48,337	48,337	-	-	-
Gross loan commitments	371,144	371,144	-	-	-
Total	**4,986,311**	**1,461,896**	**1,040,984**	**2,483,431**	**-**

PARENT	31 December 2017 Restated				
$'000	Cash outflows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Financial liabilities					
Borrowings	4,555,837	1,594,205	1,029,082	1,932,550	-
Derivative financial instruments	15,822	6,644	4,563	4,615	-
Other liabilities	105,864	105,864	-	-	-
Gross loan commitments	408,514	408,514	-	-	-
Total	**5,086,037**	**2,115,227**	**1,033,645**	**1,937,165**	**-**

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 December 2018				
CONSOLIDATED $'000	**Floating Interest Rate**	**Fixed interest maturing** Up to 1 year	1 to 5 years	**Non-Interest Bearing**	**Total**
FINANCIAL ASSETS					
Cash and cash equivalents	260,051	-	-	-	260,051
Financial assets at amortised cost	1,731,801	967,383	3,224,997	-	5,924,181
Financial assets at fair value through profit or loss	-	230,314	269,901	-	500,215
Total	**1,991,852**	**1,197,697**	**3,494,898**	-	**6,684,447**
Weighted average interest rate	**4.20%**	**6.75%**	**6.35%**		
FINANCIAL LIABILITES					
Borrowings	2,224,783	1,992,845	2,275,000	-	6,492,628
Other liabilities	-	-	-	41,376	41,376
Swaps	(8,136,518)	4,499,747	3,636,771	-	0
Total	**(5,911,735)**	**6,492,592**	**5,911,771**	**41,376**	**6,534,004**
Weighted average interest rate	**3.11%**	**2.92%**	**3.16%**		
Net Financial assets / (liabilities)	**7,903,587**	**(5,294,895)**	**(2,416,873)**	**(41,376)**	**150,443**

CONSOLIDATED $'000	31 December 2017 (Restated)				
	Floating Interest Rate	Fixed interest maturing Up to 1 year	1 to 5 years	Non-Interest Bearing	Total
FINANCIAL ASSETS					
Cash and cash equivalents	221,454	-	-	-	221,454
Loans and Receivables	1,570,558	990,366	2,982,393	-	5,543,317
Other assets	-	-	-	34,911	34,911
Total	**1,792,012**	**990,366**	**2,982,393**	**34,911**	**5,799,682**
Weighted average interest rate	**4.03%**	**5.89%**	**6.33%**		
FINANCIAL LIABILITES					
Borrowings	1,251,866	2,560,050	1,735,000	-	5,546,916
Other liabilities	-	-	-	109,740	109,740
Swaps	(5,097,961)	1,173,540	3,924,421	-	0
Total	**(3,846,095)**	**3,733,590**	**5,659,421**	**109,740**	**5,656,656**
Weighted average interest rate	**2.82%**	**2.83%**	**3.31%**		
Net Financial assets / (liabilities)	**5,638,107**	**(2,743,224)**	**(2,677,028)**	**(74,829)**	**143,026**

PARENT $'000	31 December 2018				
	Floating Interest Rate	**Fixed interest maturing** Up to 1 year	1 to 5 years	**Non-Interest Bearing**	**Total**
FINANCIAL ASSETS					
Cash and cash equivalents	147,362	-	-	-	147,362
Financial assets at amortised cost	1,731,801	967,383	3,224,997	-	5,924,181
Financial assets at fair value through profit or loss	-	230,314	454,505	-	684,819
Loans and Receivables	-	-	-	-	0
Other assets	-	-	-	-	0
Total	**1,879,163**	**1,197,697**	**3,679,502**	-	**6,756,362**
Weighted average interest rate	**4.20%**	**6.75%**	**6.35%**		
FINANCIAL LIABILITES					
Borrowings	100,000	1,992,845	2,275,000	-	4,367,845
Other liabilities	-	-	-	48,337	48,337
Swaps	(6,942,018)	3,305,247	3,636,771	-	0
Total	**(6,842,018)**	**5,298,092**	**5,911,771**	**48,337**	**4,416,182**
Weighted average interest rate	**3.03%**	**2.92%**	**3.16%**		
Net Financial assets / (liabilities)	**8,721,181**	**(4,100,395)**	**(2,232,269)**	**(48,337)**	**2,340,180**

PARENT $'000	31 December 2017 (Restated) Floating Interest Rate	Fixed interest maturing Up to 1 year	1 to 5 years	Non-Interest Bearing	Total
FINANCIAL ASSETS					
Cash and cash equivalents	154,323	-	-	-	154,323
Loans and Receivables	1,570,558	990,366	2,982,393	-	5,543,317
Other assets	-	-	-	35,410	35,410
Total	**1,724,881**	**990,366**	**2,982,393**	**35,410**	**5,733,050**
Weighted average interest rate	**4.13%**	**5.89%**	**6.33%**		
FINANCIAL LIABILITES					
Borrowings	100,000	2,537,180	1,735,000	-	4,372,180
Other liabilities	-	-	-	105,864	105,864
Swaps	(3,993,058)	781,770	3,211,288	-	-
Total	**(3,893,058)**	**3,318,950**	**4,946,288**	**105,864**	**4,478,044**
Weighted average interest rate	**3.07%**	**2.83%**	**3.31%**		
Net Financial assets / (liabilities)	**5,617,939**	**(2,328,584)**	**(1,963,895)**	**(70,454)**	**1,255,006**

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	CARRYING AMOUNT		IMPACT ON PROFIT AND EQUITY FROM -1 % CHANGE IN INTEREST RATES		IMPACT ON PROFIT AND EQUITY FROM +1 % CHANGE IN INTEREST RATES	
$'000	**31.12. 2018**	31.12. 2017 Restated	**31.12. 2018**	31.12. 2017 Restated	**31.12. 2018**	31.12. 2017 Restated
FINANCIAL ASSETS						
Cash and cash equivalents	260,051	221,454	(2,601)	(2,215)	2,601	2,215
Financial assets at amortised cost	5,896,702	-	(17,318)	-	17,318	-
Financial assets at fair value through profit or loss	500,215	-	5,566	-	(5,433)	-
Loans and receivables	-	5,501,319	-	(15,706)	-	15,706
Derivative financial instruments	22,259	12,648	*	*	*	*
Other assets	-	34,911	-	-	-	-
FINANCIAL LIABILITES						
Borrowings	6,485,285	5,539,761	22,248	12,519	(22,248)	(12,519)
Derivative financial instruments	18,326	9,878	*	*	*	*
Other liabilities	41,376	109,740	-	-	-	-
Total increase / (decrease)			**7,895**	**(5,400)**	**(7,762)**	**5,400**

* The net impact on equity for the net derivative financial instruments is $(22,248)k (2017: $(12,519)k) for a -1% change in interest rates and $22,248k (2017: $12,519k) for a +1% change in interest rates.

Parent	CARRYING AMOUNT		IMPACT ON PROFIT AND EQUITY FROM -1 % CHANGE IN INTEREST RATES		IMPACT ON PROFIT AND EQUITY FROM +1 % CHANGE IN INTEREST RATES	
$'000	**31.12. 2018**	31.12. 2017	**31.12. 2018**	31.12. 2017	**31.12. 2018**	31.12. 2017
FINANCIAL ASSETS						
Cash and cash equivalents	147,362	154,323	(1,474)	(1,543)	1,474	1,543
Financial assets at amortised cost	5,898,369	-	(17,318)	0	17,318	-
Financial assets at fair value through profit or loss	684,819	-	5,566	0	(5,433)	-
Loans and receivables	-	5,568,572	-	(15,706)	-	15,706
Derivative financial instruments	22,061	11,530	*	*	*	*
Other assets	-	34,911	-	-	-	-
FINANCIAL LIABILITES						
Borrowings	4,362,550	4,390,292	1,000	1,000	(1,000)	(1,000)
Virtual Loan	2,200,539	1,158,894	22,005	11,589	(22,005)	(11,589)
Derivative financial instruments	11,279	9,135	*	*	*	*
Other liabilities	48,337	105,864	-	-	-	-
Total increase (decrease)			**9,779**	**(4,659)**	**(9,646)**	**4,659**

* The net impact on equity for the net derivative financial instruments is $(22,005)k (2017: $(11,589)k) for a -1% change in interest rates and $22,005k (2017: $11,589k) for a +1% change in interest rates.

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 December 2018				
CONSOLIDATED	EFFECTS OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET	
$'000	**Gross amount**	Gross amount setoff in the balance sheet	**Net amount presented in the balance sheet**	Amounts subject to master netting arrangements	**Net amount**
FINANCIAL ASSETS					
Cash and cash equivalents	260,051	-	260,051	-	260,051
Financial assets at amortised cost	5,896,702	-	5,896,702	-	5,896,702
Financial assets at fair value through profit or loss	500,215	-	500,215	-	500,215
Derivative financial instruments	22,259	-	22,259	(11,288)	10,971
Total	**6,679,227**	**-**	**6,679,227**	**(11,288)**	**6,667,939**
FINANCIAL LIABILITIES					
Borrowings	6,485,285	-	6,485,285	-	6,485,285
Derivative financial instruments	18,326	-	18,326	(11,288)	7,038
Other liabilities	55,650	-	55,650	-	55,650
Total	**6,559,261**	**-**	**6,544,261**	**(11,288)**	**6,547,973**

CONSOLIDATED	31 December 2017 (Restated)				
	EFFECTS OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET	
$'000	**Gross amount**	Gross amount setoff in the balance sheet	**Net amount presented in the balance sheet**	Amounts subject to master netting arrangements	**Net amount**
FINANCIAL ASSETS					
Cash and cash equivalents	221,454	-	221,454	-	221,454
Loans and receivables	5,501,319	-	5,501,319	-	5,501,319
Derivative financial instruments	12,648	-	12,648	(6,738)	5,910
Other assets	34,911	-	34,911	-	34,911
Total	**5,770,332**	**-**	**5,770,332**	**(6,738)**	**5,763,594**
FINANCIAL LIABILITIES					
Borrowings	5,539,761	-	5,539,761	-	5,539,761
Derivative financial instruments	9,878	-	9,878	(6,738)	3,140
Other liabilities	109,740	-	109,740	-	109,740
Total	**5,659,379**	**-**	**5,659,379**	**(6,738)**	**5,652,641**

PARENT	31 December 2018				
	EFFECTS OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET	
$'000	**Gross amount**	Gross amount setoff in the balance sheet	**Net amount presented in the balance sheet**	Amounts subject to master netting arrangements	**Net amount**
FINANCIAL ASSETS					
Cash and cash equivalents	147,362	0	147,362	0	147,362
Financial assets at amortised cost	5,898,369	(33,811)	5,864,558	0	5,864,558
Financial assets at fair value through profit or loss	684,818	0	684,818	0	684,818
Derivative financial instruments	22,061	0	22,061	(11,194)	10,867
Total	**6,752,610**	**(33,811)**	**6,718,799**	**(11,194)**	**6,707,605**
FINANCIAL LIABILITIES					
Borrowings	4,362,550	0	4,362,550	0	4,362,550
Virtual Loan	2,200,539	(33,811)	2,166,728	0	2,166,728
Derivative financial instruments	11,279	0	11,279	(11,194)	85
Other liabilities	62,611	0	62,611	0	62,611
Total	**6,636,979**	**(33,811)**	**6,603,168**	**(11,194)**	**6,591,974**

PARENT	31 December 2017 (Restated)				
	EFFECTS OF OFFSETTING ON THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET	
$'000	**Gross amount**	Gross amount setoff in the balance sheet	**Net amount presented in the balance sheet**	Amounts subject to master netting arrangements	**Net amount**
FINANCIAL ASSETS					
Cash and cash equivalents	154,323	-	154,323	-	154,323
Loan and receivables	5,591,155	(22,583)	5,568,572	-	5,568,572
Derivative financial instruments	11,530	-	11,530	(6,481)	5,049
Other assets	35,410	-	35,410	-	35,410
Total	**5,792,418**	**(22,583)**	**5,769,835**	**(6,481)**	**5,763,354**
FINANCIAL LIABILITIES					
Borrowings	4,390,292	-	4,390,292	-	4,390,292
Virtual Loan	1,158,894	(22,583)	1,136,311	-	1,136,311
Derivative financial instruments	9,135	-	9,135	(6,481)	2,654
Other liabilities	105,864	-	105,866	-	105,864
Total	**5,664,185**	**(22,583)**	**5,641,603**	**(6,481)**	**5,635,122**

OTHER NOTES

21 | 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.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the group		Ownership interest held by non-controlling interests		Principal activities
		2018	2017	2018	2017	
Driver Australia Two Trust*	Australia	100%	100%	0%	0%	Securitisation special purpose vehicle
Driver Australia Three Trust*	Australia	100%	100%	0%	0%	Securitisation special purpose vehicle
Driver Australia Four Trust*	Australia	100%	100%	0%	0%	Securitisation special purpose vehicle
Driver Australia Five Trust*	Australia	100%	n/a	0%	n/a	Securitisation special purpose vehicle
Driver Australia Master Trust*	Australia	100%	100%	0%	0%	Securitisation special purpose vehicle

*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.

22 | Remuneration of auditors

$'000	CONSOLIDATED 2018	CONSOLIDATED 2017 Restated	PARENT 2018	PARENT 2017 Restated
Remuneration for audit of the financial reports				
Auditor of the Group - PricewaterhouseCoopers	354	266	354	266
Remuneration for other services				
Auditor of the Group - PricewaterhouseCoopers				
Taxation	200	454	200	454
Other assurance services	260	260	260	260
Total remuneration	**814**	**980**	**814**	**980**

23 |Commitments for expenditure

Lease commitments
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

$'000	CONSOLIDATED 2018	CONSOLIDATED 2017 Restated	PARENT 2018	PARENT 2017 Restated
Within one year	1,573	1,536	1,573	1,536
Later than one year but not later than 5 years	5,499	5,592	5,499	5,592
Greater than 5 years	941	2,432	941	2,432
Total commitments not recognised in the financial statements	**8,013**	**9,560**	**8,013**	**9,560**

24 |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
Mr Norbert Dorn	Non-executive Director (employee of VWFS AG, Germany)
Mr Patrick Welter	Non-executive Director (employee of VWFS AG, Germany)
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
Mr Michael Allan	Head of Human Resources

Ms Silke Schmidt ceased to be a Director and left the Company as of 28 February 2019.

B. KEY MANAGEMENT PERSONNEL COMPENSATION

	CONSOLIDATED		PARENT	
$'000	2018	2017 Restated	2018	2017 Restated
Short-term employee benefits	3,664	3,790	3,664	3,790
Termination benefits	0	13	0	13
Other long-term benefits	30	90	30	90
Total	**3,694**	**3,893**	**3,694**	**3,893**

The short-term employee benefits includes superannuation payments of $0.3m (2017: $0.3m).

C. TRANSACTIONS WITHIN THE WHOLLY OWNED GROUP

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

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 2018 owns 100% (2017: 100%) of the issued ordinary shares of Volkswagen Financial Services Australia Pty Limited.

Other related parties
Aggregate amounts included in the balance sheet and the determination of profit from continuing operations before income tax that resulted from transactions with each class of other related parties:

Other liabilities include intercompany liabilities to Volkswagen Group Australia of $2,528,055 (2017: $6,590,793). Other assets include intercompany receivables from Volkswagen Group Australia of $2,178,857 (2017: $968,713).
The total rent expenses under the sublease contract with Volkswagen Group Australia for the premises are $1,248,501 (2017: $1,216,108).

Other liabilities include intercompany liabilities to Audi Australia of $25,668,215 (2017: $62,299,237). Other assets include intercompany receivables from Audi Australia of $nil (2017: $579,506).

The borrowings include subordinated loans from Volkswagen International Luxembourg S.A. of $19,387,567 (2017: $46,962,264) with an average interest rate of 7.5% (2017: 4.6%). The total interest expense from the subordinated loans is $2,435,059 (2017: $4,104,544).

Borrowings also include intercompany liabilities to Volkswagen Financial Services Netherland (VWFS NV) of $nil (2017: $789,029,951).

During the financial year the parent entity recognised $21,111,521 (2017: $12,028,378) of ABS service fees as part of its fee income.

Expenses incurred by the Group on behalf of Volkswagen Financial Services Australia Pty Limited were repaid during the year. These were: $1,850,497 (2017: $1,041,793) for guarantee fees and treasury services; payment for IT support of $Nil (2017: $Nil); and $Nil (2017: $574,052) for expert technical assistance.

During the year Volkswagen Financial Services Australia Pty Limited offered retail finance campaigns that were assisted from contributions by Audi Australia Pty Limited and Volkswagen Group Australia Pty Ltd. These contributions totalled $29,774,566 (2017: $31,760,466). Interest income includes $Nil (2017: $32,558) from wholesale campaigns that were assisted from contributions by Volkswagen Group Australia Pty Ltd.

Motor vehicles were sold to Volkswagen Financial Services Australia Pty Limited during the year from commonly controlled entities. The costs for these vehicles totalled $25,356,164 (2017: $596,973) and were made on normal commercial terms and conditions.

25 | Segment reporting

Management has determined the operating segments based on reports reviewed by the Board of directors that are used to make strategic decisions. It categorises the operations of the business into two main business streams - retail and fleet. Retail segment comprises loans and leases to personal and commercial customers including wholesale finance which comprises loans and bailment facilities to motor vehicle dealerships. Fleet segment is composed of loans and leases to small business and fleet customers consisting of small to medium commercial clients and not for profit organisations. The Company's business segments operate entirely in Australia.

The Fleet business commenced its operations in 2015 and as at 31 December 2018 the total Fleet assets were approximately 1.6% of total assets. Total revenue from the Fleet business for the year ended 31 December 2018 is approximately 2.6% of the total revenue. As the fleet business is insignificant and does not meet the quantitative criteria under AASB 8, the financial statements are currently reflective of one operating segment.

26 | 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:

	CONSOLIDATED		PARENT	
$'000	2018	2017 Restated	2018	2017 Restated
Wholesale customers	371,144	408,514	371,144	408,514
Total commitments not recognized in the financial statements	**371,144**	**408,514**	**371,144**	**408,514**

27 | Events occurring after the balance sheet date

There were no material subsequent events to 31 December 2018 that have not been reflected in the financial statements.

28 | Contingent liabilities

There are no contingent liabilities as at 31 December 2018.

At 31 December 2017, the Group had a contingent liability in relation to an ongoing investigation by a regulatory body into some of the company’s consumer loans. The financial impact, if any, relating to this matter was not determinable and no provision was made.

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

CONSOLIDATED $'000	2018	2017 (Restated)
Profit/ (loss) from continuing operations after income tax	**32,096**	**15,272**
Depreciation and amortisation	4,432	2,619
Fair value (gain)/ loss on derivatives	(3,882)	(604)
Decrease/ (increase) in other operating assets	32,829	(20,687)
(Increase)/ decrease in receivables	(910,579)	(1,239,207)
(Increase)/ decrease in deferred tax asset	(8,873)	(183)
(Increase)/ decrease in tax receivables	3,642	391
Increase/ (decrease) in other operating liabilities	(50,958)	14,695
Increase/ (decrease) in other provisions	368	(36)
Net cash outflow from operating activities	**(900,925)**	**(1,227,740)**

PARENT $'000	2018	2017 (Restated)
Profit/ (loss) from continuing operations after income tax	**31,339**	**11,740**
Depreciation and amortisation	4,433	2,619
Fair value (gain)/ loss on derivatives	(12,748)	(1,226)
Decrease/ (increase) in other operating assets	33,298	(20,885)
(Increase)/ decrease in receivables	(908,934)	(1,239,269)
(Increase)/ decrease in deferred tax asset	(8,872)	(183)
(Increase)/ decrease in tax receivables	3,642	391
Increase/ (decrease) in other operating liabilities	(43,865)	12,220
Increase/ (decrease) in other provisions	368	(36)
Net cash outflow from operating activities	**(901,339)**	**(1,234,629)**

Net Debt Reconciliation

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

CONSOLIDATED

$'000	Borrowings		Virtual Loan		
	Due within 1 year	Due After 1 year	Due within 1 year	Due After 1 year	Total
Net Debt as at 1 January 2018	2,944,386	2,595,375	-	-	5,539,761
Cash flows	(1,322,823)	2,269,832	-	-	947,009
Other non-cash movements*	1,000,012	(1,001,497)	-	-	(1,485)
Net Debt as at 31 December 2018	**2,621,575**	**3,863,710**	**-**	**-**	**6,485,285**

* Other non-cash movements primarily relates to reclassification of borrowings from more than 1 year to under 1 year and accrued interest on borrowings as at 31 December 2018.

CONSOLIDATED

$'000	Borrowings		Virtual Loan		
	Due within 1 year	Due After 1 year	Due within 1 year	Due After 1 year	Total
Net Debt as at 1 January 2017 Restated	2,339,027	1,916,324	-	-	4,255,351
Cash flows	632,718	631,665	-	-	1,264,383
Other non-cash movements	-	(2,843)	-	-	(2,843)
Net Debt as at 31 December 2017 Restated	**2,971,745**	**2,545,146**	**-**	**-**	**5,516,891**

PARENT

$'000	Borrowings		Virtual Loan		
	Due within 1 year	Due After 1 year	Due within 1 year	Due After 1 year	Total
Net Debt as at 1 January 2018	2,547,301	1,842,991	393,753	765,141	5,549,186
Cash flows	(1,263,318)	1,236,714	(83,459)	1,125,104	1,015,041
Other non-cash movements	708,862	(710,000)	293,276	(293,276)	(1,138)
Net Debt as at 31 December 2018	**1,992,845**	**2,369,705**	**603,570**	**1,596,969**	**6,563,089**

PARENT

$'000	Borrowings		Virtual Loan		
	Due within 1 year	Due After 1 year	Due within 1 year	Due After 1 year	Total
Net Debt as at 1 January 2017 Restated	2,056,976	1,160,951	258,336	771,363	4,247,626
Cash flows	480,204	669,291	135,417	(26,625)	1,258,287
Other non-cash movements	-	-	-	20,403	20,403
Net Debt as at 31 December 2017 Restated	**2,537,180**	**1,830,242**	**393,753**	**765,141**	**5,526,316**

30 | Correction of errors

The Company charges an upfront acceptance fees to most of its retail customers upon commencement of a new contract. Up until 2017, the Company recognised a portion of this fee income in its Statement of Comprehensive Income upon receipt of the cash payment from the customers and the balance was amortised and recognised over the life of the retail contract.

In 2018, it was noted that the previous accounting treatment was not in accordance with AASB 9, *Financial Instruments*. During the current year the Company has retrospectively corrected the error by restating the prior reporting periods in accordance with AASB 108, *Accounting Policies, Changes in Accounting Estimates and Errors.*

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

CONSOLIDATED

$'000	**31.12.2017**	**Increase/ (Decrease)**	31.12.2017 Restated	**31.12.2016**	**Increase/ (Decrease)**	01.01.2017 Restated
Balance Sheet (Extract)						
Loans and receivables (current)	2,572,176	(2,737)	2,569,439	2,252,889	(1,502)	2,251,387
Loans and receivables (non-current)	2,998,067	(1,435)	2,996,632	2,073,576	(1,371)	2,072,205
Deferred tax assets	18,729	1,251	19,980	15,162	862	16,024
Net assets	260,572	(2,920)	257,652	244,334	(2,011)	242,323
Retained earnings	65,146	(2,920)	62,226	48,965	(2,011)	46,954
Total Equity	260,572	(2,920)	257,652	244,334	(2,011)	242,323

$'000	**2017**	**Increase/ (Decrease)**	2017 Restated
Statement of Comprehensive Income (Extract)			
Interest and similar revenue	234,164	(836)	233.328
Non-interest revenue	16,516	(463)	16,053
Income tax expense	(7,529)	390	(7,139)
Profit for the year	16,181	(909)	15,272
Total comprehensive income for the year	16,238	(909)	15,329

PARENT

$'000	**31.12.2017**	**Increase/ (Decrease)**	31.12.2017 Restated	**31.12.2016**	**Increase/ (Decrease)**	01.01.2017 Restated
Balance Sheet (Extract)						
Loans and receivables (current)	2,572,176	(2,737)	2,569,439	2,252,889	(1,502)	2,251,387
Loans and receivables (non-current)	3,065,320	(1,435)	3,063,885	2,115,421	(1,371)	2,114,050
Deferred tax assets	18,729	1,251	19,980	15,162	862	16,024
Net assets	254,609	(2,920)	251,689	241,949	(2,011)	239,938
Retained earnings	59,221	(2,920)	56,301	46,572	(2,011)	44,561
Total Equity	254,609	(2,920)	251,689	241,949	(2,011)	239,938

$'000	**2017**	**Increase/ (Decrease)**	2017 Restated
Statement of Comprehensive Income (Extract)			
Interest and similar revenue	234,164	(836)	233.328
Non-interest revenue	16,516	(463)	16,053
Income tax expense	(7,529)	390	(7,139)
Profit for the year	12,649	(909)	11,740
Total comprehensive income for the year	12,660	(909)	11,751

31 | Changes in accounting policy

This note explains the impact of the changes in the Group's accounting policies on its financial statements.

31a. AASB 9 Financial Instruments

As a result of the transition from AASB 139 to AASB 9, an opening balance adjustment was posted for the current financial year. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

On 1 January 2018 (the date of initial application of AASB 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate AASB 9 categories. For further details on the Group's accounting policies for the recognition, classification and measurement of financial instruments, refer to notes 1 H, 1 I and 1 P.

The impact of the transition to AASB 9 on 1 January 2018 with regard to the classification and measurement of financial instruments is as follows:

CONSOLIDATED	31 December 2017 (restated)		Reclassification	Remeasurement	1 January 2018	
$'000	at amortised cost	at fair value			at amortised cost	at fair value
Assets						
Financial assets at amortised cost						
Retail receivables	3,934,828		(366,765)	(8,433)	3,559,630	
Wholesale receivables	1,566,491			588	1,567,079	
Cash and cash equivalents	221,454				221,454	
Financial assets at fair value through profit or loss (Amortised cost method under AASB 139)	-		366,765	618		367,383
Lease receivables	64,752			(149)		64,603
Derivative financial instruments		12,648				12,648
Liabilities						
Borrowings	5,539,761				5,539,761	
Other liabilities	122,461				122,461	
Derivative financial instruments		9,878				9,878
Total reclassification and remeasurement (booked in equity)			-	7,376		

PARENT	31 December 2017 (restated)		Reclassification	Remeasurement	1 January 2018	
$'000	at amortised cost	at fair value			at amortised cost	at fair value
Assets						
Financial assets at amortised cost						
Retail receivables	3,867,575		(366,765)	(8,433)	3,492,377	
Wholesale receivables	1,566,491			588	1,567,079	
Subordinated loans	67,253		(67,253)		-	
Cash and cash equivalents	154,323				154,323	
Financial assets at fair value through profit or loss (Amortised cost method under AASB 139)			434,018	618		434,636
Lease receivables	64,752			(149)		64,603
Derivative financial instruments		11,530				11,530
Liabilities						
Borrowings	4,390,292				4,390,292	
Virtual loan	1,158,894				1,158,894	
Other liabilities	118,585				118,585	
Derivative financial instruments		9,135				9,135
Total reclassification and Remeasurement (booked in equity).				7,376		

The adjustments shown above for financial assets at amortised cost result from the shift to ECL under AASB 9, whereas the adjustment for financial assets at fair value through profit or loss results from a reclassification of certain assets. These assets comprise:

- certain retail receivables where the customer has the right to return the car at the end of the contract term: the cash flows from these contracts do not consist solely of payments of principal and interest on the principal amount outstanding. This is the case where the customers' option to return the vehicle to the Company has more than a 'de minimis effect' on the contractual cash flows. The Group has determined that
  - Skoda and Volkswagen brands satisfy the SPPI criteria - on the basis the GFV option has a 'de minimis' impact, and
  - Audi and JLR brands fail the SPPI criteria - GFV option results in cash flows which are not SPPI.
- the subordinated loans provided by the Parent entity to the Driver Trusts (in Parent entity only) receive payments on these loans which are contractually linked to payments received on an underlying pool of retail loans (contractually linked instruments). Given the level of subordination of these loans the SPPI criteria is not passed and the loans are required to be classified at fair value through profit or loss.

Amounts recognised in statement of comprehensive income

During the year, an amount of $804,667 was recognised in profit or loss as a debit for fair value losses on retail receivables where the customer has the right to return the car at the end of the contract term.

CONSOLIDATED & PARENT

$'000	Provisions under AASB 139	Reclassification	Remeasurement	Provisions under AASB 9
Assets				
Financial assets at amortised cost	39,697	-	7,994	47,691
Financial assets at fair value through profit or loss (Amortised cost method under AASB 139)	1,939	(1,939)	-	-

31b AASB 15 Revenue from contracts with customers

The group has adopted AASB 15 Revenue from contracts with customers for the first time in the financial year ended 31 December 2018. There is no material impact on the Group’s financial statements.

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 2018 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

Sydney
10 April 2019

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 positions as at 31 December 2018 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 balance sheets as at 31 December 2018
- 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* (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 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

RW McMahon
Partner

Sydney
10 April 2019