Volkswagen Financial Services (UK) Limited

Annual report and financial statements
For the year ended 31 December 2018

Registered number 2835230

Annual report and financial statements for the year ended 31 December 2018

Contents

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Annual report and financial statements for the year ended 31 December 2018
Strategic Report

The directors present their strategic report on the group and company for the year ended 31 December 2018

Principal activities

The Volkswagen Financial Services (UK) Limited Annual report and financial statements have been prepared at both company and group level. The Company being Volkswagen Financial Services (UK) Limited (VWFS), and the Group being the Company and the subsidiaries detailed in note 10.

The Company and Group provides financial products and services to retail customers across the entire Volkswagen Group in the United Kingdom. The core business is the financing of Audi, Volkswagen passenger cars, Volkswagen commercial vehicles, SEAT, Skoda and MAN vehicles. Financing is also available for Porsche, Bentley and Lamborghini.

Business review

The Company continued to perform strongly in terms of new business written with 382,911 (2017: 390,650) vehicles being financed with the total value funded during the year of £8,134m (2017: £8,150m). New business decreased from £6,200.3m to £ 5,807.3m, a decrease of 6.3% marginally below the overall decline in the new car market of 6.8%. According to industry commentators the main drivers of the downturn for the market were to falling consumer confidence and a supply shortage as a result of regulatory change with the introduction of the new worldwide light vehicle test procedure (WLTP) in September 2018. As in 2017, diesel registrations were down in the year while petrol and alternatively fuelled vehicles recorded increased sales and market share. The Company performed well in the used car sector where advances were £2,326.2m up from £1,949.6m in 2017, this helped support the continued growth of the balance sheet during the year.

Volkswagen Group UK Limited maintained market share in the year at 21.1% (2017:21.1%) with new car registrations year on year decreasing to 498,438 units (2017: 532,874 units). Penetration rate, a measure of the number of new cars funded by the Company as a percentage of total VW Group registrations, decreased marginally in the year to 55.0% (2017: 55.1%) continuing to show strong commitment to our products.

The financial result for the year was positive with Operating profit increasing by 76.6% from £191.8m to £338.7m. This was in part due to higher interest income with continued growth in the book, net lease receivables increased by just under £1bn during the year to £12.5bn and operating lease assets were up from £2.5bn to £2.6bn.

Interest rates remained low with only the second increase in the Bank of England base rate in over a decade in August 2018, the rate now stands at 0.75%. In May 2018 the Company renegotiated Driver UK Master S.A (a private asset backed conduit structure) for a further 12 months with additional funding. There were also new issuances of Asset-Backed Security 'ABS' during the year; Driver Compartment 4 and Private Driver 2018. Further details on these arrangements are set out in note 16.

In addition, on 4 May 2018 the Company acquired 100% of the shares of Volkswagen Insurance Services (Great Britain) Limited (VIS) for a total consideration of £6,273,000. The principal activity of VIS is to arrange insurance for vehicle owners of Volkswagen Group vehicles on behalf of retailers. VIS receives commission for this service and the valuation of the business was based on these future income streams. VWFS purchased the book to compliment it's existing insurance commission income stream.

In June 2016 the UK voted to leave the European Union and negotiations of all future political and economic relationships are still continuing and there remains a significant amount of uncertainty surrounding the economic impact of any agreement. While the situation is being monitored it is still not possible at this stage to determine the impacts this will have for VWFS, the sector and the UK economy as a whole. The Company and wider Volkswagen Group would be adversely affected by a disorderly Brexit, the most significant risks being the end to free and frictionless trade which may lead to tariffs and the possibility of short term delays to the supply of vehicles into the UK. Delays in the new vehicle supply chain could however have a short term upside for the used car market. Brexit uncertainty could also have an impact on consumers decisions to purchase new vehicles in the short term although there is an expectation that the new relationship with the EU will be agreed in the very near future. The Company continues to monitor the risk situation closely so it can take a proactive approach to any developments that may occur including future regulatory relationships and reporting requirements.

NOx issue update

On September 18, 2015, the US Environmental Protection Agency (EPA) announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NOx) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type EA 189 2.0 l diesel engines in the US (the NOx Issue). In this context, the Volkswagen Group announced that discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines.

Volkswagen AG subsequently engaged with UK and European type approval authorities to design and approve technical measures in respect of the vehicles affected by this issue outside of the US and Canada with the objective that they do not adversely affect CO2 emissions figures, fuel consumption figures, engine output, maximum torque or noise emissions.

For these affected vehicles, technical measures have been approved by the German type approval authority, the Kraftfahrt-Bundesamt (KBA) in respect of Volkswagen and Audi branded vehicles, by the UK type approval authority, the Vehicle Certification Agency (VCA) in respect of SKODA branded vehicles, and by the Spanish type approval authority Ministerio de Industria, Energía y Turismo (MDI) in respect of SEAT branded vehicles. The KBA and VCA have confirmed for all affected vehicles that the implementation of all technical measures does not adversely impact fuel consumption figures, CO2 emissions figures, engine output, maximum torque and noise emissions. The MDI is also content that the technical measures be applied to those SEAT vehicles for which they are the relevant approval authority. As of 3 March 2019, of the circa 1.17 million vehicles affected by the NOx issue sold in the UK, approximately 875,000 vehicles have had the technical measures implemented.

Registered owners of affected vehicles have been contacted and invited to attend for a voluntary service action. In the UK, the service action is not a mandatory recall and ultimately it is up to the owners of the affected vehicles themselves to decide to have the technical measures implemented.

NOx issue update (continued)

Volkswagen Financial Services (UK) Limited ("VWFS") and other Volkswagen Group entities face legal proceedings from a number of firms of solicitors based in the UK acting on behalf of affected owners or lessees of which a sub-population of them entered into a financial agreement with VWFS in respect of their vehicles and are pursuing claims against VWFS. On 28 October 2016 one of the claimant law firms representing a number of claimants applied to the High Court for a Group Litigation Order (a "GLO") to enable the court to manage any claims relating to the NOx issue.

The President of the Queen's Bench Division has given his consent to the GLO and the GLO has been formally made. At present, there are approximately 113,000 claimants in the group action. There will be greater clarity over the number of claimants in the English litigation, and how many of these claimants intend to bring claims against VWFS, following service of the Group Register on 18 April 2019. A case management conference was heard on 5 and 6 March 2019, at which further directions were given by the court on the conduct of the litigation. In particular, the court directed that certain matters in the litigation be determined by way of a trial of preliminary issues, to proceed while the main action progresses. A further case management conference to determine the progression of that trial of preliminary issues is due to be heard on 31 May 2019 at which it is expected further directions will be given by the court on the conduct of that aspect of the litigation. A further case management conference will be scheduled for directions in respect of the main action after the trial of preliminary issues has taken place. It is expected that a trial of the main action will likely take place in 2021.

VWFS disputes the allegations being made and intends to vigorously defend this litigation and believes that there are good defences to the Claims as it understands them.

We do not believe the Company to be liable for any potential costs associated with the NOx issue, save for legal fees.

This is discussed further in note 29.

Results and dividends

The results for the year are set out in the group statement of comprehensive income on page 15.

The profit for the year is £298.5m (2017: £182.0m)

The total assets for the Group increased by 8.3% from £14,847m to £16,076m during the year.

The directors do not propose a dividend for 2018 (2017: £nil).

The growth in new business, evidenced by the improvements in the key performance indicators shown later in this Strategic Report, resulted in an increased earning-asset portfolio at the year end. This, coupled with further new asset backed securitisation transactions (see note 16) means the Company is well placed to continue as a lender of choice for Volkswagen vehicles.

Strategy

As our industry is facing its biggest ever transformation, VWFS AG are determined to lead the changes with our exciting strategic ambitions leading to 2025. The long term vision of VWFS globally is "we are the key to mobility"; and locally our mission is "to help people drive our cars".

A number of strategic activities have been delivered this year including the launch of Buy My Audi, the launch of online service plans for Audi, Skoda and Volkswagen and the development of our rental car proposition which we have launched in seven locations around the country. In 2019 we will continue to expand our digital products and services with the goal of digitising our finance products by 2020.

We continue to drive digital change and embrace innovation which saw VWFS host the first UK startup battlefield which exposed the business to a range of exciting new businesses the winner then entered the Volkswagen Mobility Incubator to continue our engagement.

At its core the company remains committed to its purpose of enabling the sale and provision of VWG products and services profitably in the UK market *and delivering shareholder value.*

The company seeks to move beyond being the market leader in captive vehicle finances, to leading the market as a provider of services that are key to mobility. We continue to expand our electric car programme which will support the ramp up in volume of EVs sold in the UK in 2019.

Focus on the customer is vital for our continued success and therefore, the customer and product strategy is rightly at the heart of what we do. With market leading products and services in financing, insurance, maintenance and mobility we will be able to deliver what we need to be successful.

Financial Risk Management

The Company's operations expose it to a number of financial risks which are described below. The Company has in place risk management policies that seek to limit the adverse effects of the financial performance on the Company. These policies are set by the Board of Directors and implemented by the Company's risk management and operational departments.

Price risk

The Company has no direct exposure to commodity price risk or equity securities price risk.

Credit risk

The Company has implemented policies that require appropriate credit checks and credit scoring on potential customers before finance is granted. The Company's risk management and underwriting departments are responsible for continually monitoring the credit risks associated with new and existing business.

Strategic Report (continued)

Financial Risk Management (continued)

Residual value risk

A residual value risk exists when the estimated sales value of a vehicle at the time of disposal is less than the expected residual value estimated at the time the contract was written. The Company will be exposed to residual value risk upon the termination of a contract. This exposure can exist on leased assets or on Personal Contract Purchase ("PCP") contracts where the customer has chosen the option to return the vehicle. Risks are quantified regularly by means of evaluations and analyses on a contract by contract basis. The contracted residual values are compared to attainable market values that are generated from both the data of external service providers and the Company's own experience. Please see note 23 for further details.

Liquidity risk

The main liquidity risk to the company arises from the difference in the nature of the lending undertaken to the customer base and the funds borrowed by the Company to fund that lending. The business mainly funds customers over a medium-term basis, typically between three to four years, whilst it raises liquidity over a short and medium-term basis. In order for the business to meet its on-going funding obligations, and for further expansion, it is necessarily reliant on the continued availability of its funding sources which are described below.

The Company has three main sources of liquidity, short to medium-term funding from inter-company lenders, funding from the sale of securitised assets through our ABS programmes and short-term uncommitted bank loans, typically provided over a period of up to one month.

The directors manage the liquidity risk by the following methods. Firstly, the Company works closely with the Treasury department of the parent company Volkswagen Bank GmbH (VWB) to ensure that VWB is aware of the medium-term funding requirements. In connection with this source of funding, the directors ultimately rely on the letter of comfort published by VWB in its financial statements, which confirms that VWB will exert its influence to ensure that obligations to third party creditors are met in the agreed manner. Secondly, the company works, in conjunction with the Treasury departments of the parent and ultimate parent companies, to ensure that, on an on-going basis, there is a sufficient availability of third party bank credit lines.

A secondary liquidity risk recognised by the directors is that the funding currently provided by the revolving ABS Master transactions could be withdrawn at their next renewal date in May 2019. Under this scenario the facilities would amortise monthly to zero. In the case of withdrawal the facilities would fully reduce to zero over time (approx. 2.5 Yrs) and the directors believe that sufficient replacement funds would be available from inter-company sources and unused bank credit lines.

The directors believe that the policies outlined above are sufficient to substantially mitigate against the liquidity risk encountered in the on-going operations of the business particularly given the published support of its sole shareholder.

Interest rate cash flow risk

The Company has policies and procedures setting out specific guidelines that must be followed to manage the interest-rate risk together with circumstances where it would be appropriate to use derivative financial instruments to manage this risk.

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include hire purchase and leasing contracts that mostly earn interest at a fixed rate over the life of each individual contract, which is typically three to four years.

The current funding to support this lending, is mainly through a mixture of short to medium-term inter-group loans, funding from the sale of securitised assets through our ABS programmes and short-term uncommitted bank loans.

Inter-company loans are mainly of short to medium-term duration and are at floating rate. The interest rate risk arising from funding medium-term assets mainly with floating rate loans is managed through the use of derivative financial instruments, specifically interest rate swap contracts. The use of these swaps results in a "floating to fixed" interest rate on loans. As a lending institution, increases in funding costs are applied to new underwritten business where competitive market conditions allow in order to ensure the sustained profitability of the company. Additionally, the directors comply with the parent company requirement that a significant majority of the company's funding be fixed rate, either directly or through the use of allowed derivatives, over a medium-term basis.

The interest rate risks borne by the Company and the Group are managed as part of a VW AG group-wide treasury and risk management policy. Although most derivatives are designated in hedge relationships at a VW AG group-wide level, there will be some derivatives which are not designated as being in hedge relationships. As a result the directors have elected not to apply hedge accounting in these financial statements. Consequently all fair value movements of derivative financial instruments are charged or credited to the Statement of Comprehensive Income.

Exchange Rate Risk

The Company operates a branch in the Republic of Ireland. This means the Company has exposure to movements in exchange rates, however the directors do not feel this creates a significant risk due to the relative size of the business in the branch. The frequency of transactions being converted to Sterling is reduced by holding a Euro bank account for all receipts and payments in that currency.

Strategic Report (continued)

Financial Risk Management (continued)

Principal risks and uncertainties

Operational risk

Processes and procedures are in place which evaluate the operational risks associated with processes, personnel, infrastructure / IT and external risks. The procedures established ensure awareness and determination of assessed operational risks, and the initiation of appropriate counter-measures to avoid such or similar future re-occurrences.

Non-financial risk management

The Company's operations also expose it to a number of non-financial risks which are described below. The Company has in place risk management policies that seek to limit the adverse effects of these risks on the Company.

Competition risk

The main competition risk is provided by alternative funding providers, typically banks and other finance houses. The directors mitigate competition risk by the following methods. Firstly, the Company works closely with the Volkswagen Group brands to continue to be their supplier of choice for retail financing facilities. Secondly, the Company seeks to create innovative and relevant products and services whilst closely monitoring competitor activity in the market-place.

Regulatory risk

The Company operates in a highly regulated industry that is constantly changing. Structures, processes and procedures are in place to monitor and implement changes in regulation and to provide assurance of ongoing regulatory compliance.

The Company was fully authorised and regulated by the Financial Conduct Authority ("FCA") in respect of regulated consumer credit and leasing activities throughout the period. It is also regulated by the FCA in respect of general insurance business as an intermediary. Volkswagen Insurance Service (Great Britain) Limited ("VIS") is an appointed representative of the Company, which entails the Company taking regulatory responsibility for their insurance mediation activities. VIS became a subsidiary of the Company in 2018. Further detail is provided in note 10. The Company is supervised by the FCA in respect of compliance with its anti-money laundering obligations.

The FCA launched its review of the motor finance market in 2017 to develop its understanding of the relevant products and how they are sold, and to assess whether the products cause harm to consumers and if the market is functioning as well as it could. The FCA published its final findings in March 2019.

In particular, the FCA found that commission models allowing broker discretion on interest rates have the potential for significant customer harm in terms of higher interest charges. The FCA is considering changes to the way in which commission works in the motor finance sector to address harm it has identified. This could include strengthening existing FCA rules or other steps such as banning certain types of commission model or limiting broker discretion. The FCA also has concerns that some firms may not adequately meet obligations in relation to pre-contract disclosure and explanations, and affordability assessments.

The FCA has started work with a view to assessing the options for policy intervention in relation to commission arrangements. Subject to cost benefit analysis, this could involve consulting on changes to its rules to strengthen existing provisions or other policy interventions such as particular commission models or limiting broker discretion.

The Company proactively monitors and implements legal and regulatory changes as necessary and regularly assesses and controls its exposure to legal and regulatory risks through a compliance monitoring programme. This programme includes with both UK and EU relevant legal and regulatory requirements including compliance with FCA rules. All potential changes to laws and regulations impacting the Company are captured and implemented through revised policies and procedures as necessary. Regulatory risks arise through, but are not limited to, the following key requirements: the Financial Services and Markets Act 2000; the Consumer Credit Acts 1974 (as amended); the Consumer Protection from Unfair Trading Regulations 2008; the Consumer Rights Act 2015; the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013; the EU General Data Protection Regulation; the Data Protection Act 2018; the EU Insurance Distribution Directive; the Proceeds of Crime Act 2002; the Terrorism Act 2000; the Criminal Finances Act 2017; the Bribery Act 2010; the Competition Act 1998; and the Enterprise Act 2002.

Personnel risk

In order to attract, develop and retain the best human resources, the Company has developed relevant policies and procedures coupled with appropriate remuneration, training and development opportunities. As per the KPI table below, employee retention figures continue to be consistent with expectation and in line with the broader market view.

Key Performance Indicators

The Company monitors certain aspects of its performance through five indicators set out in the table below:

	2018	2017	Definition, method of calculation and analysis
Finance penetration %	**55.0%**	55.1%	This is the percentage of total Volkswagen Group new vehicle registrations funded by the company.
Finance cases - units	**382,911**	390,650	This is the total number of new contracts funded in the year.
Advances - £m	**8,134**	8,150	This is the total value of new contracts funded in the year.
Average Earning Assets - £m	**15,566**	13,901	This is the average retail and fleet earning assets for the year.
Employee retention %	**84.1%**	85.5%	This is the number of employees remaining in employment with the Company at the end of the year expressed as a percentage of the employees at the beginning of the year.

Performance against financial KPIs is discussed within the business review section above.

On behalf of the board

Mike Todd
Chief Executive Officer
2 April 2019

Directors' report

The directors present their report, and the audited group financial statements, for the year ended 31 December 2018. These have been prepared using International Financial Reporting Standards ("IFRSs") as adopted by the EU.

Future Developments

The Company will further embed the new 2025 VW global strategy in 2019, further details of which can be found in the Strategy section of the Strategic report on page 4, and also continue with local initiatives surrounding digital and used car finance.

On 29 March 2019 the immediate parent of the Company and its' subsidiaries Volkswagen Insurance Service (GB) Limted and MAN Financial Services Limited changed from Volkswagen Bank GmbH to Volkswagen Financial Services AG as part of a restructure.

Dividend

The directors do not propose a dividend for 2018 (2017: £nil).

Political and charitable donations

The Group has made charitable donations in the year of £175,000 (2017: £233,500), primarily to the UK Motor Industry Benevolent Fund (supporting current and former employees of the motor industry).

The Company made no political donations in the year (2017: £nil).

Directors and directors' interests

The directors who held office during the year and up to the date of this report were as follows:

H Hesske	(resigned on 29 March 2019)
J Legenbauer	
D Maloney	(resigned on 1 August 2018)
M E Reinhart	(resigned on 29 March 2019)
J Smith	(appointed on 1 April 2019)
M Todd	(appointed on 28 September 2018)
A Van Den Bergh	(resigned on 31 March 2019)
P Welter	

None of the directors held beneficial interests in the share capital of the Company as at 31 December 2018 (31 December 2017: none).

Financial Risk Management

The Strategic Report on pages 3 to 6 contains disclosures and commentary relevant to the financial risk management policies of the Company.

Employees

The Company has a strong culture that focuses on creating an environment where our people are engaged, want to do their best and reach their potential. We place great emphasis on our values ensuring that our employees first of all, understand them and their importance in guiding the way we do business and then through continuous education and discussion ensure we empower our employees to live these. Through our Employee Forum we share business performance, news and updates. Through our Employee Forum representatives we also consult on business changes, seek input and feedback to ensure that our employees have genuine involvement and an opportunity to contribute to the success of the organisation. We seek to engage with our employees through our weekly digital communication tool 'Headlight' which has been designed to share a broad range of information about our business and the industry, keeping colleagues up to date with the financial and economic factors that affect the performance of the Company. Departments regularly have 'team huddles' designed to share, engage and motivate their employees. Employees are recognised through our Thank you scheme 'Living our Spirit Stars which has been designed to recognise colleagues who have gone the extra mile. We have a market competitive total reward package which includes a discretionary bonus scheme, Our wellbeing offering has been recognised by Great Place to Work as a centre of Excellence in Wellbeing, our on premise wellbeing centre provides health assessments, physiotherapy, occupational health support, monthly seminars, health education and lots more.

The Company operates an equal opportunities policy and are committed to offering opportunities to employees or potential employees regardless of their age, disability, gender reassignment, marriage & civil partnerships, race, religion & belief, sex or sexual orientation.

Applicants for employment or promotion will be assessed objectively against the requirements for the role, taking account of any reasonable adjustments that may be required to support candidates with a disability. If an employee considers that they are affected by a disability – or any medical condition which affects their ability to undertake work – they should inform their Line Manager and the Company will explore any support or adjustments that could be made.

The Company is very proud of the learning and development programmes we provide which encourage individuals to take responsibility for their personal development, develop themselves as well as supporting their on-going career development and the opportunity of internal promotion and career progression within the Company.

Learning & Development

Our aim is to enable our business to achieve high performance through its people. We provide multiple learning interventions and blended solutions to develop the skills and behaviours needed to achieve high performance. We have created an environment where continuous learning & development is encouraged and employees feel supported in their roles. . Employees discuss and capture their personal training and development requirements with their line managers as part of our annual performance management process, this ensures there is a real focus on continuous development and personal growth. Employees are encouraged to play an active part in identifying their own learning needs, selecting appropriate learning methods and in assessing the outcomes and effectiveness of their learning. This partnership approach to learning ensures development is relevant and adds both personal and business value.

Individuals who join our business are supported through our structured 'Licence2 Start' induction session. As well as helping new employees to understand our business, how we operate and our culture it is a great opportunity for new employees to meet team members across the business and ensure they quickly settle into our organisation and their new role. In addition to our induction session, there is specific departmental and technical training.

Our learning management system, The Learning Zone provides access for employees to book directly on to our Licence 2 Courses, access materials, resources and online courses on a wide variety of business topics. This approach supports our philosophy of creating a learning environment and encouraging employees to take responsibility for their personal development. It also ensures that employees have the relevant knowledge, skills and expertise to perform their roles and achieve their full potential.

Labour standards and human rights

In 2015 the UK Government published the Modern Slavery Act (MSA) which places a duty on companies to make a public statement on the steps to minimise the possibility that slavery or human trafficking is happening in their own business or in their supply chain, this can be found on the Company's website at www.vwfs.co.uk.

Financial Instruments

Finance lease receivables

Finance leased assets include lease purchase, finance leases, personal contract plans ("PCP") and hire purchase contracts. The investment in the lease, net of anticipated credit losses, is recorded in the balance sheet as a lease receivable with the balance being reduced over the lease period by the proportion of rental income received, which is treated as a repayment of the debtor. These contracts are all accounted for within lease receivables as it is anticipated at the outset that the vehicle would not be returned and consequently the majority of risks and rewards have been transferred. Vehicle returns could only occur in the event of default on a contract, at the end of a PCP contract when the vehicle can be returned at the customers' option or where a customer exercises their rights under the Consumer Credit Act to terminate a leasing contract early. Finance lease receivables are stated after deductions of provisions for bad debts, comprising specific and portfolio provisions made to reflect the assessment of expected losses on existing debts, which are known to exist from experience and any expected residual value loses on vehicle returns.

Loans and receivables

Loans and receivables are measured at amortised cost and include non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are loans to employees in connection with the Volkswagen Group UK Limited employee car ownership scheme.

Securitisation

The Company has securitised a certain amount of its finance lease gross receivables. Receivables may be sold on a monthly basis to Special Purpose Entities ("SPEs"). Under IFRS as adopted by the European Union, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Directors have concluded that the Company has retained substantially all the risks and rewards of the pool of auto loan receivables and therefore that Company cannot derecognise the auto loan receivables as assets. Instead, the Company recognises a limited recourse loan from the SPEs which are secured on, and only has recourse to, the cash flows arising from the auto loan receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowing

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using effective interest method, less any impairment losses.

Directors' report (continued)

Financial Instruments (continued)

Derivative financial instruments and hedging activities

In accordance with its treasury policy, the Group only holds derivative financial instruments to manage its exposure to financial risk. The Group does not hold derivative financial instruments for trading or speculative purposes. The primary financial risk arises from interest rate risk on the Group's variable-rate borrowings. The Group manages this risk by holding derivative financial instruments, namely interest rate swaps.

The derivative financial instruments comprise of interest rate swaps transactions and embedded derivatives within finance lease contracts. The current expected value of financial instruments are classified as being held for trading.

All interest rate swaps currently held are considered to be used for hedging purposes when they alter the risk profile of the underlying exposure of the Group in line with the VW AG group's risk management policies and in accordance with established guidelines. At the inception of the hedge relationship the Company documents the relationship between the hedging interest and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Interest rate swaps are measured at fair value at each reporting date with all movements being recognised within finance income/expense in the statement of comprehensive income. The Company's interest rate exposures and resulting hedging activity are primarily managed at Group level, the Company has not adopted hedge accounting for the purpose of preparing its UK financial statements. Movements in both the effective and ineffective portion of the fair value of the hedging instrument are recognised immediately in the statement of comprehensive income.

Branches outside the UK

The Company maintains a branch presence in the Republic of Ireland as part of normal business operations.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Disclosure of information to independent auditors

Companies Act 2016 section 418 states that the directors' report must contain a statement to the effect that, in the case of each of the persons who are directors at the time the report is approved:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditors' independence

During the year the external auditors' provided non-audit services. Auditors' objectivity and independence was safeguarded by these activities being subject to tender and the subsequent activity performed by members of auditors' staff not involved in audit activity.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the board

Mike Todd
Chief Executive Officer
2 April 2019

Annual report and financial statements for the year ended 31 December 2018
Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;

• make judgements and accounting estimates that are reasonable and prudent; and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

• so far as the director is aware, there is no relevant audit information of which the group and parent company's auditors are unaware; and

• they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

Report on the audit of the financial statements

Opinion

In our opinion, Volkswagen Financial Services (UK) Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Group and Company statements of financial position as at 31 December 2018; the Group statement of comprehensive income, the Group and Company statement of changes in equity; the Group and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements 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 remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Materiality: Overall group materiality: £35.9 million (2017: £18 million), based on the lower of 1% of total assets or the amount instructed to us by the group auditors for the purposes of group reporting.

- Materiality: Overall company materiality: £35.9 million (2017: £18 million), based on the lower of 1% of total assets or the amount instructed to us by the group auditors for the purposes of group reporting.

- Audit Scope: These consolidated accounts comprise the Company, its two quasi subsidiaries Driver UK Master S.A. and Driver UK Multicompartment S.A. and its subsidiary Volkswagen Insurance Service (Great Britain) Limited. We performed an audit of the complete financial information of the Company and Volkswagen Insurance Service (Great Britain) Limited. The primary transactions in the quasi subsidiaries are the issue of asset-backed securities on the Luxembourg stock exchange. We performed an audit of the transactions and listings to obtain audit coverage over these two quasi subsidiaries.

Key audit matters:

- Leasing and rental assets - Adjustment for residual value risk (Group and Company).
- Finance lease receivables - Voluntary termination risk and residual value risk (Group and Company).
- Finance lease receivables - Provision for credit risk (Group and Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Leasing and rental assets - Adjustment for residual value risk	
When determining the value of the lease and rental assets, management has to consider the residual value of the vehicle at the end of the contract agreement. The vehicles are depreciated over the life of the operating lease down to their forecast residual values. If residual value estimates are too high, depreciation charges are likely to be too low, resulting in losses when vehicles are sold at the end of the operating leases. Hence, where estimated residual value estimates are revised downwards, the depreciation charge for the year will be increased compared to what it would have been using the previous residual value estimate. There is a risk that this adjustment could be misstated because it involves significant judgements and assumptions around the value of the vehicles upon completion of the lease, which can fluctuate depending on future market trends and customer demand.	We assessed the methodology applied by management and the appropriateness of the residual value model and underlying assumptions. On a sample basis, we tested key inputs to the model by tracing them back to the source contract management system and tested estimated vehicle sales values to external industry data sources. We validated the completeness of the model by ensuring that all vehicles that are exposed to residual value risk are included in the model. We compared the historic actual loss with management's previous estimates to ensure that the estimates are reasonable. In addition, actual sales prices were compared to the expected sales value based on historic industry data to assess the accuracy of the data being used. We performed independent research on current market conditions that impact the residual value of the vehicles and ensured that these conditions are appropriately taken into account when calculating the adjustment.
Group and Company	No exception was noted as a result of the above procedures.

Our audit approach (continued)

Key audit matter	*How our audit addressed the key audit matter*
Finance lease receivables - Voluntary termination risk and residual value risk When determining the value of the finance lease receivable, management has to consider the net present value of lease payments taking into account the impact of any voluntary terminations by customers and expected residual values. Consumers with finance lease agreements regulated under the Consumer Credit Act 1974 ("CCA") have the right, once specific conditions are met, to voluntarily terminate their agreements before the end of the contract. The voluntary termination provision provides for losses expected to be incurred by the company on disposal of any vehicles that are returned part way through a contract when a customer exercises this legal right to terminate a lease. Further, the residual value of all vehicles may be less than anticipated at the beginning of the contract. Hence management assess the level of residual values on all products to ensure the finance lease receivable is recoverable. The identification and the determination of this provision is inherently judgemental and involves significant assumptions about expected loss and the probability of voluntary termination throughout the lease, which increases the risk of misstatement. Group and Company	We have assessed the methodology applied by management, the appropriateness of the provision model and underlying assumptions. On a sample basis, we tested key inputs to the models by tracing them back to the source contract management system and actual experience of losses and voluntary termination rates of the Group, in order to ensure that they are appropriately applied in accordance with the model assumptions. We validated completeness of the models by ensuring that all contracts that are exposed to the risk of voluntary termination or a decline in residual value are included in the model. We compared the historic actual loss with management's previous estimates to ensure that the estimates are reasonable. In addition, actual sales prices were compared to the expected sales value based on historic industry data to assess the accuracy of the data being used. We reviewed the monthly reports prepared by an independent expert over the development and performance of the VT model. We performed independent research on current market conditions that impact the residual value of the vehicles and ensured that these conditions are appropriately taken into account when calculating the impairment. No exception was noted as a result of the above procedures.
Finance lease receivables - Provision for credit risk Provision for credit risk represents management's best estimate of expected credit losses ("ECL") incurred within the lease portfolio, if a customer is unable to meet their monthly payment schedule and falls into arrears. This year the group and company have measured credit risk in accordance with a new accounting standard, IFRS 9 'Financial Instruments'. This involves assessing the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") for the portfolio of assets. Measurement of the ECL has required the development of a new impairment model, which was centrally developed by Volkswagen Financial Services AG in Germany, and includes significant assumptions about credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). There is a risk that the provision could be misstated due to the judgments required. Group and Company	A combination of manual controls, information technology dependent controls and substantive testing was performed both in the UK and Germany focusing on: - the appropriateness of underlying assumptions and the reasonableness of methodology applied by management; - the completeness and accuracy of data input into the source system, as well as the flow and transformation of data between source systems to the impairment calculation tool; and - the design and operating effectiveness of the impairment calculation tool. We validated the accuracy of the calculation and compared historic actual experience with management's estimates on key components (i.e. PD and LGD). We reviewed and validated the sensitivity analysis performed by management. We evaluated the reasonableness of potential economic scenarios and their impacts to ECL. No exception is noted as a result of the above procedures.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.
These consolidated accounts comprise the Company, its two quasi subsidiaries Driver UK Master S.A., Driver UK Multicompartment S.A. and its subsidiary undertaking Volkswagen Insurance Service (Great Britain) Limited. We performed an audit of the complete financial information of the Company and Volkswagen Insurance Service (Great Britain) Limited. The primary transactions in the quasi subsidiaries are the issue of asset-backed securities on the Luxembourg stock exchange. We performed an audit of the transactions and listings to obtain audit coverage over these two quasi subsidiaries.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent Auditors' Report to the members of Volkswagen Financial Services (UK) Limited (continued)

Our audit approach (continued)

Materiality (continued)

	Group financial statements	*Company financial statements*
Overall materiality	£35.9 million (2017: £18 million).	£35.9 million (2017: £18 million).
How we determined it	Lower of 1% of total assets or the amount instructed to us by the group auditors for the purposes of group reporting.	Lower of 1% of total assets or the amount instructed to us by the group auditors for the purposes of group reporting.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, total assets is the primary measure used by the shareholders in assessing the performance and financial position and performance of the group, and is a generally accepted auditing benchmark.	Based on the benchmarks used in the annual report, total assets is the primary measure used by the shareholders in assessing the financial position and performance of the company, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.8 million (Group audit) (2017: £900,000) and £1.8 million (Company audit) (2017: £900,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.
However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.
With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.
Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the members of Volkswagen Financial Services (UK) Limited (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs (UK) 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Iwan Griffiths (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
2 April 2019

Annual report and financial statements for the year ended 31 December 2018
Statement of comprehensive income

Group statement of comprehensive income for the year ended 31 December 2018

	Note	2018	2017
		£000	£000
Revenue	2	**2,330,189**	1,922,222
Cost of Sales	3	**(1,753,254)**	(1,485,498)
Gross profit		**576,935**	436,724
Distribution Costs	5	**(103,435)**	(108,534)
Administration Costs	5	**(97,995)**	(104,294)
Other Operating Income	5	**5,280**	5,603
Other Operating Costs	5	**(42,117)**	(37,731)
Operating profit		**338,668**	191,768
Finance gain	6	**31,491**	30,859
Profit before tax		**370,159**	222,627
Taxation	9	**(71,613)**	(40,617)
Profit for the year		**298,546**	182,010
Other comprehensive income:			
Items that will not be reclassified to the profit or loss			
Actuarial gain/(loss) on defined benefit pension plans	24	**3,130**	516
Tax on income recognised directly in equity	13	**(532)**	(88)
Other comprehensive income		**2,598**	428
Total comprehensive income for the year		**301,144**	182,438

All of the above figures relate to continuing operations.

The Group has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

The profit attributable to the parent company for the year was £311.2m (2017: £156.6m)

The notes on pages 20 to 73 form part of these financial statements

Statements of financial position

Group & Company statements of financial position as at 31 December 2018

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		£000	£000	£000	£000
Non-current assets					
Investments in subsidiaries	10	-	-	6,273	-
Intangible assets	11	-	-	-	-
Property, plant and equipment	12	10,704	11,961	10,704	11,961
Leasing and rental assets	12	2,607,166	2,487,984	2,607,166	2,487,984
Finance lease receivables at amortised cost	16	9,048,774	8,516,290	9,048,774	8,516,290
Derivative financial instruments	23	36,770	36,996	25,529	14,709
Other receivables and financial assets	17	153,814	144,428	153,814	144,428
Deferred tax assets	13	53,038	28,719	52,995	28,719
		11,910,266	11,226,378	11,905,255	11,204,091
Current assets					
Inventories	14	104,518	45,207	104,518	45,207
Trade receivables		44,093	42,238	44,382	42,238
Loans and receivables at amortised cost	15	178,485	171,736	178,485	171,736
Finance lease receivables at amortised cost	16	3,437,033	3,051,048	3,437,033	3,051,048
Other receivables and financial assets	17	328,218	235,305	170,408	108,223
Derivative financial instruments	23	5,255	832	5,255	832
Cash and cash equivalents (excluding bank overdrafts)	18	67,771	74,655	-	-
		4,165,373	3,621,021	3,940,081	3,419,284
Total assets		16,075,639	14,847,399	15,845,336	14,623,375
Current liabilities					
Financial liabilities	19	3,699,647	4,904,748	3,699,647	4,904,748
Trade payables		56,054	53,176	57,298	53,176
Other liabilities	20	225,959	46,516	223,799	45,031
Derivative financial instruments	23	1,261	7,458	1,261	7,458
Current income tax liabilities		45,242	1,543	45,139	1,543
Other provisions	21	11,442	9,600	11,135	9,600
Bank overdraft	18	51,363	61,929	51,363	61,929
		4,090,968	5,084,970	4,089,642	5,083,485
Non-current liabilities					
Financial liabilities	19	10,295,893	8,185,646	10,070,367	7,983,909
Other liabilities	20	169,793	300,717	169,793	300,717
Derivative financial instruments	23	12,445	30,806	10,740	30,412
		10,478,131	8,517,169	10,250,900	8,315,038
Total liabilities		14,569,099	13,602,139	14,340,542	13,398,523
Net assets		1,506,540	1,245,260	1,504,794	1,224,852
Equity					
Share capital and share premium	22	87,922	87,922	87,922	87,922
Other reserves	22	91,103	97,123	97,123	97,123
Retained earnings	22	1,327,515	1,060,215	1,319,749	1,039,807
Total equity		1,506,540	1,245,260	1,504,794	1,224,852

The notes on pages 20 to 73 form part of these financial statements

The Group has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

The financial statements on pages 15 to 73 were approved by the Board of Directors on 2 April 2019 and signed on its behalf by

Mike Todd
Chief Executive Officer

Company registered number: 2835230

Statement of changes in equity

Group statement of changes in equity for the year ended 31 December 2018

	Share capital and share premium	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000
Balance as at 1 January 2017	87,922	97,123	877,777	1,062,822
Profit for the year	-	-	182,010	182,010
Other comprehensive income for the year	-	-	428	428
Total comprehensive income for the year and movement in equity during the year	-	-	182,438	182,438
Balance as at 31 December 2017	87,922	97,123	1,060,215	1,245,260
Balance as at 1 January 2018	87,922	97,123	1,060,215	1,245,260
Changes on initial application of IFRS 9 (note 1)	-	-	(33,078)	(33,078)
Changes of initial application of IFRS 15 (note 1)	-	-	(6,409)	(6,409)
Deferred tax adjustment	-	-	5,643	5,643
Restated Balance as at 1 January 2018	87,922	97,123	1,026,371	1,211,416
Investment in Volkswagen Insurance Service (Great Britain) Limited	-	(6,020)	-	(6,020)
Profit for the year	-	-	298,546	298,546
Other comprehensive income for the year	-	-	2,598	2,598
Total comprehensive income for the year and movement in equity during the year	-	-	301,144	301,144
Balance as at 31 December 2018	**87,922**	**91,103**	**1,327,515**	**1,506,540**

The aggregated current and deferred tax relating to items that were charged to equity during the year is £532,000 (2017: £88,000).

The notes on pages 20 to 73 form part of these financial statements

Statement of changes in equity

Company statement of changes in equity for the year ended 31 December 2018

	Share capital and share premium	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000
Balance as at 1 January 2017	87,922	97,123	882,759	1,067,804
Profit for the year	-	-	156,620	156,620
Other comprehensive income for the year	-	-	428	428
Total comprehensive income for the year and movement in equity during the year	-	-	1,039,807	1,224,852
Balance as at 31 December 2017	87,922	97,123	1,039,807	1,224,852
Balance as at 1 January 2018	87,922	97,123	1,039,807	1,224,852
Changes on initial application of IFRS 9 (note 1)	-	-	(33,078)	(33,078)
Changes of initial application of IFRS 15 (note 1)	-	-	(6,409)	(6,409)
Deferred tax adjustment	-	-	5,643	5,643
Restated Balance as at 1 January 2018	87,922	97,123	1,005,963	1,191,008
Profit for the year	-	-	311,188	311,188
Other comprehensive income for the year	-	-	2,598	2,598
Total comprehensive income for the year and movement in equity during the year	-	-	313,786	313,786
Balance as at 31 December 2018	**87,922**	**97,123**	**1,319,749**	**1,504,794**

The aggregated current and deferred tax relating to items that were charged to equity during the year is £532,000 (2017: £88,000).

The notes on pages 20 to 73 form part of these financial statements

Statements of cash flows

Group & Company statements of cash flows for the year ended 31 December 2018

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		£000	£000	£000	£000
Profit before tax		**370,159**	222,627	**369,684**	222,627
Depreciation, amortisation and valuation allowances		**448,681**	394,785	**448,681**	394,785
Net liabilities transferred on business combination under common control		**403**	-	-	-
Change in provisions		**1,534**	4,735	**1,534**	4,735
Change in other non-cash items		**(61,881)**	92,782	**(55,860)**	92,782
Change in inventories		**(59,311)**	5,301	**(59,311)**	5,301
Change in trade receivables		**(15,231)**	18,995	**(15,525)**	18,995
Change in leasing and rental assets - principal		**(566,742)**	(927,462)	**(566,742)**	(927,462)
Change in finance lease receivables - principal		**(938,486)**	(1,374,688)	**(938,486)**	(1,374,688)
Change in loans and receivables		-	(17,601)	-	(17,601)
Change in other assets from operating activities		**(55,846)**	(48,227)	**(55,846)**	(48,227)
Change in liabilities to financial institutions		**897**	1,871	**897**	1,871
Change in other liabilities from operating activities		**52,326**	38,683	**53,696**	38,683
Income tax paid		**(46,924)**	(71,543)	**(46,924)**	(71,543)
Cash flows used in operating activities		**(870,421)**	(1,659,742)	**(864,202)**	(1,659,742)
Cash outflows from purchase of new investments		-	-	**(6,273)**	
Cash outflows from the purchase of property, plant and equipment		**(237)**	(823)	**(237)**	(823)
Cash flows (used in) investing activities		**(237)**	(823)	**(6,510)**	(823)
Proceeds from the issue of deemed loan / bonds		**2,468,500**	1,415,400	**2,468,500**	1,415,400
Repayment of bonds		**(934,081)**	(1,170,130)	**(934,081)**	(1,170,130)
Change in cash advanced to SPE's		-	-	**6,938**	21,255
Cash (outflows)/ inflows from securities and loans		**(30,808)**	21,498	**(30,808)**	21,498
Change in other financial liabilities		**(629,271)**	1,389,800	**(629,271)**	1,389,800
Cash flows generated from financing activities		**874,340**	1,656,568	**881,278**	1,677,823
Cash and cash equivalents as at the end of the previous year		**12,726**	16,723	**(61,929)**	(79,187)
Cash flows used in operating activities		**(870,421)**	(1,659,742)	**(864,202)**	(1,659,742)
Cash flows (used in)/ generated from investing activities		**(237)**	(823)	**(6,510)**	(823)
Cash flows generated from financing activities		**874,340**	1,656,568	**881,278**	1,677,823
Cash and cash equivalents as at the end of the year	18	**16,408**	12,726	**(51,363)**	(61,929)

The notes on pages 20 to 73 form part of these financial statements

Notes to the financial statements

1. Accounting policies

Volkswagen Financial Services (UK) Limited ('the Company') is a wholly owned subsidiary of Volkswagen Bank GmbH.

Volkswagen Financial Services (UK) Limited and its subsidiaries ("the Group") offer financial products and services promoting Audi, Volkswagen passenger cars, Volkswagen commercial vehicles, SEAT, Skoda and MAN vehicle sales in the UK.

The principal trading activities of the Group and Company during the year are described in the strategic report.

The Company is limited by shares domiciled and incorporated in England and Wales under the Companies Act 2006.

The address of its registered office is Brunswick Court, Yeomans Drive, Blakelands, Milton Keynes, MK14 5LR, United Kingdom. The registered number of the Company is 2835230.

Basis of preparation

The Group and Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU ("EU Adopted IFRSs") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS.

Given the special nature of the Group's business, the Group statement of comprehensive income is presented in a revised format with interest payable and similar charges treated as a cost of providing finance to customers, and therefore classified as a cost of sale. In addition cost of sales includes the depreciation of operating lease assets, service and maintenance costs, the cost of assets returned under operating lease agreements and assets returned under purchase products, operating lease commission and vehicle disposal costs. Distribution costs consists of finance commission expenses, salesforce payroll costs and an element of general overheads. Administration costs includes all other payroll costs, general overheads, depreciation and amortisation or other operating costs/income if it remains on the face of the statement of comprehensive income.

The financial statements have been prepared on the historic cost basis except for financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2018 and have been applied consistently to all periods presented in these financial statements. The Group and Company has applied the following standards and amendments for the first time for their annual reporting period 1 January 2018:

- IFRS 9 Financial
- IFRS 15 Revenue from Contracts with Customers

Further detail is disclosed on page 26.

Amounts are stated in thousands of pounds (£'000), unless indicated otherwise. All notes in the financial statements refer to the Group and Company unless otherwise stated.

Assets and liabilities are shown in descending order of liquidity in accordance with IAS 1.

The notes to the financial statements shows Group and Company values unless otherwise stated.

Management estimates and judgements

The presentation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities as well as income and expenses in the financial statements provided.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The actual outcome is not expected to differ significantly from the estimates and assumptions made.

The estimates' underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

1. Accounting policies (continued)

Management estimates and judgements (continued)

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Key estimations and uncertainties made are in relation to the valuation of residual values for assets supporting finance and operating lease agreements and amounts due under finance leases, the recoverability of debtor balances, taxation and pension liabilities:

- Residual value adjustment - Residual values (RV) represent the estimated value of the leased asset at the end of the lease period. Residual values are calculated after analysing the market place and the Group's own historical experience in the market. Expected residual values of leased assets are reviewed regularly looking at market data and any expected losses are charged to the income statement in the period in which they arise.

Additionally, consumers with hire purchase agreements (including personal contract purchase) and hire agreements regulated under the Consumer Credit Act 1974 ("CCA") have the right to voluntarily terminate their agreements early. Expectations of the timings and volumes of voluntary terminations can have an impact on the expected future cash flows of finance lease receivables where the expected RV of the returned vehicle is lower than the customer future receivables.

- Credit risk provisions are made relating to the recoverability of receivable balances to reflect expected losses. Residual values are also considered when determining the expected recoverability of the debt.

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost and FVOCI is based on the IFRS9 simplified approach, which requires the use of models and assumptions about credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

The critical inputs to calculate ECL come from the; Probability of Default (PD), on balance sheet and off balance sheet Exposure at Default (EAD), Loss Given Default (LGD). Individual specific approaches applied for defaulted contracts which are individually significant, which are based not on statistical methods: but on evaluation of discounted recoveries by a risk analyst.

Key estimates and judgements arise where;
- PD represents the likelihood of a borrower defaulting on its financial obligation; requires risk classes to be applied to receivables contracts, with an appropriate probability of default attributed,
- EAD is based on the amounts the Group expects to be owed at the time of default. EAD includes not yet due and overdue principal and interest against which a relevant discount rate is applied,
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure and is based on underlying collateral values, realised amounts and statistical decision trees.

These approaches are based on (i) underlying collateral values expected to be generated, (ii) realised amounts and (iii) statistics based decision trees. Contracts are allocated to different portfolios and have an applicable approach applied.
EIR adjustments are applied to exposures, and are based on two components; Unamortised fees and Day count conventions, and
ILCR requires specific portfolios of assets to be defined based on e.g. "Days past due" and/or "Product" and anticipated credit loss rates attributed to them.

The Group considers forward looking information in the ECL model assessing various economic variables and concluded to have no material impact on the ECL. There is little sensitivity in the ECL from possible changes in economic variables. Further information can be found in note 23.

- In the recognition of uncertain income tax items, the expected tax payment is used as the basis for the best estimate. When determining deferred tax assets, there is a need to make assumptions about future taxable income and the timings for any recovery of the deferred tax assets. The measurement of deferred tax assets for tax loss carry forwards is generally based on future taxable income within a planning horizon of five fiscal years.

- The recognition and measurement of pension liabilities is also based on assumptions about the probability that future events will occur and the amounts involved, together with an estimation of the discount rate. Past experience or reports from external experts are used as far as possible. The assumptions underlying the calculation of pension provisions are explained in note 24. Actuarial gains and losses are recognised in other comprehensive income and have no impact on profit or loss.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the primary statements and notes of these set of financial statements. In addition, note 23 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

1. Accounting policies (continued)

Management estimates and judgements (continued)

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Consolidation

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 over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations other than common control acquistions (see below). The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised profit and losses are also eliminated.

The Company does not have an investment in Driver UK Master S.A. or Driver UK Multicompartment S.A. as it holds no interest in either company. However both Driver UK Master S.A. and Driver UK Multicompartment S.A. are considered to meet the Companies Act description of a quasi subsidiary (on the basis of control due to the Company's ability to use power to effect variable returns).

Common Control

Acquisitions made by the Company from other companies of the VW AG Group are treated as common control transactions and predecessor accounting is applied. Under predecessor accounting no purchase price allocation is performed. The acquired assets and liabilities are initially recognised in the Company at the their book value as recorded in the consolidated VW AG Group financial statements at the date of transfer, the difference being recognised in equity.

All profits and losses of the acquired business are included within the profit and loss account in the year of acquisition from the date the entity became a member of the Group.

Foreign currency

Transactions in foreign currencies, which are those other than the functional currency of the entity, are recorded at the exchange rate ruling at the date of the transaction. At the balance sheet date monetary assets and liabilities denominated in foreign currency are translated at the balance sheet rate.

Functional and presentational currency
Items included in the financial statements are measured using Sterling, the currency of the primary economic environment in which the entity operates being the United Kingdom.

Financial risk
The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and residual value risk. The Group's overall risk management programme relating to each of these risks is set out in note 23 of these financial statements.

Financial assets and liabilities
Financial assets

(i) Classification
From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:
- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost

(ii) Impairment
The Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI. The Group recognises a loss allowance at each reporting date. The measurement of ECL reflects:
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Derecognition
Assets are derecognised once all of the risk and rewards of ownership have been transferred.

1. Accounting policies (continued)

Finance lease receivables

Lease agreements are classified as finance leases since they transfer substantially all of the risks and rewards of ownership to the Lessee; this includes lease purchase, finance leases, personal contract plans ("PCP") and hire purchase contracts. All other leases are classified as operating leases. When assets are treated as a finance lease, the net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable. The difference between gross receivable and the present value of the receivable is recognised as unearned finance lease income. Future lease payments are based on the expected cash flows on the leasing contract, these cash flows take into account any expected losses on the residual value of a vehicle.

Loans and receivables

Loans and receivables are measured at amortised cost and include non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are loans to employees in connection with the Volkswagen Group UK Limited employee car ownership scheme.

Securitisation

The Company has securitised certain of its hire purchase gross receivables. Receivables may be sold on a monthly basis to Special Purpose Entities ("SPEs"). Under IFRS as adopted by the European Union, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Directors have concluded that the Company has retained substantially all the risks and rewards of the pool of auto loan receivables and therefore that the Company cannot derecognise the auto loan receivables as assets. Instead, the Company recognises a limited recourse loan from the SPEs which are secured on, and only has recourse to, the cash flows arising from the auto loan receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flow.

Financial liabilities

(i) Classification

In both the current and prior period, financial liabilities are classified as measured at amortised cost, except for financial liabilities at fair value through profit or loss, applied to derivatives and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Trade and other payables

Trade and other payables are recognised at their carrying value, subsequent to initial recognition they are measured at amortised cost.

Interest-bearing borrowing

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using effective interest method, less any impairment losses.

Derivative financial instruments and hedging

Derivative financial instruments

The derivative financial instruments comprise interest rate swaps transactions and embedded derivatives. Only interest rate swaps are used for risk management purposes. All derivatives are stated at fair value and are shown separately under note 23. The fair value is determined using discounted cash flows and market value for similar assets, taking into account credit and debit value adjustments. All changes in fair value of the derivative financial instruments are recognised in profit or loss.

Revenue

The statement of comprehensive income is credited with:
- Income from finance leases, calculated according to the effective interest rate method;
- Income from operating leases recognised on a straight line basis over the period of the lease and comprises an interest and repayment portion;
- The sales proceeds from the sale of vehicles at the end of operating lease agreements and other returned vehicles;
- Income from service and maintenance contracts recognised based on the satisfaction of a performance obligation within the contract.

Revenue from service and maintenance contracts is recognised in accordance with the principles of IFRS 15, Revenue from Contracts with Customers. The core principle of the standard is to recognise revenue based on the satisfaction of a performance obligation within the contract. For these contracts the obligation or part of the obligation is satisfied at the point the costs for service and maintenance are incurred, the amount of revenue recognised at this point is based on the expected margin within the contract until all obligations within the contract are fulfilled, at that point all remaining revenue will be recognised. Due to the nature of service and maintenance contracts there will be more than one occurrence of a performance obligation during the contract, for example there may be an entitlement to two or three services, therefore the expected margin in the contract will have an impact on the timing of the recognition of the income but will not change the revenue and profit recognised over the life of the contract.

1. Accounting policies (continued)

Revenue (continued)

IFRS 15 has been applied from 1 January 2018 including retrospective application to all contracts that were not yet complete at the beginning of that period. The Company has opted to recognise the cumulative effect of applying IFRS 15 as an adjustment to the opening balance of equity and not restate any of the prior period comparatives. This has resulted in an opening adjustment to reduce reserves by £6,409,199.

Payments from customers for service and maintenance contracts are deferred on the balance sheet until the point they are recognised, when the performance obligations is met.

Other operating income

Other operating income comprises income from other provisions, post write-off recoveries, servicer fee income, net insurance income and other income.

Other operating costs

Other operating costs comprise net movements in provisions for impairment and residual value losses on receivables, recharged overheads, donations and other operating costs.

Segment reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision-maker has been identified as the Executive Board that makes strategic decisions.

Information reported to the Executive Board for the purpose of resource allocation and assessment of segment performance is by strategic (significant) business unit, i.e. on a geographical basis.

Secondary reporting information is also provided to the Executive Board regarding business products. The Company operates in the United Kingdom only and therefore has a single operating segment.

Intangible assets

Purchased intangible assets with a finite useful life, mainly software, are capitalised at cost and amortised over their economic life of three years using the straight-line method. Provided the requirements under IAS38 are fulfilled, software developed in-house is capitalised with directly attributable direct costs and overhead. The corresponding assets are like-wise subject to amortisation over a three year period, and the resulting depreciation and amortisation expense is recognised under general administration costs.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. Costs comprise of the purchase price after discounts plus all directly attributable costs of bringing the asset to working condition for its intended use. Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate if it meets the definition of an asset.

Depreciation is calculated using the straight-line method over their estimated useful life.

Fixtures, fittings and equipment - Straight-line over estimated useful life of asset (3 to 10 years)
Leasehold land and buildings - Straight line over 33 years
Freehold land - Not depreciated

Assets subject to operating leases

Operating lease assets consists of vehicles leased to retail and corporate customers on contract hire agreements, these are shown in the Statement of financial position as a separate item 'Leasing and rental assets' and are measured at cost less straight-line depreciation and amortisation expenses over the term of the lease to the imputed residual value which are reviewed on a monthly basis. Estimated residual values are reviewed at the balance sheet date against revised projections of used-car prices at the end of the lease term and the resulting changes of estimate are accounted for as a recalibration of depreciation for the year and remaining lease term. If the reasons for the write-downs recorded in previous years no longer apply, appropriate write-ups are recognised. Write-downs and write-ups are charged to other operating costs. Leasing income is recognised on a straight-line basis over the term of the lease and comprises an interest and repayment portion.

Inventories

Inventories consist of used vehicles awaiting resale in respect of terminated or matured lease contracts, and new vehicles acquired in anticipation of lease contracts about to commence. The carrying value is at the lower of net book value and net realisable value (sales proceeds net of any selling costs). The proceeds from the sale of stock is recognised in Sales Revenue with the corresponding carrying value included in Cost of sales.

Employee benefits

Pension arrangements for staff are operated through the Volkswagen Group Pension Scheme. The assets of the Volkswagen Group Pension Scheme are administered by trustees and kept separate from those of the Company. The defined benefit scheme is closed to new members and therefore some current employees are members of this scheme, whilst others are members of a defined contribution scheme.
With effect from 1 January 2010 no further contributions were made into the defined benefit scheme. All members of the defined benefit scheme then became members of the money purchase scheme and all contributions made from this date, other than to fund already accrued defined benefit obligations, will be directed to that scheme instead.

Some former employees of MAN Financial Services Limited (MFS) continued to be members of the MAN UK Group defined benefit Pension scheme until 31 August 2018 when they transferred to the Volkswagen Group scheme. The MAN UK Group scheme was closed to new members and future contributions from 31 December 2016.

1. Accounting policies (continued)

Employee benefits (contined)

Defined contribution plan

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Pension costs in relation to the defined contribution scheme are charged to the profit and loss account in the period they are incurred.

Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The regular service cost of providing retirement benefits to employees during the year is charged to operating profit in the year. The full cost of providing amendments to benefits in respect of past service is also charged to operating profit in the year.

A credit representing the expected return on the assets of the scheme during the year is included within other finance income. This is based on the market value of the assets of the scheme at the start of the financial year. A charge representing the expected increase in the liabilities of the scheme during the year is included within other finance expense. This arises from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in other comprehensive income in the year, together with differences arising from changes in assumptions.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Independent actuaries prepare funding valuations of this scheme at least every three years and in accordance with their recommendations the Company makes contributions over the expected working lives of the employees. These triennial valuations are updated each year to meet the accounting requirements of IAS19. The valuations are prepared using the internationally accepted projected unit credit method.

The current service cost of the defined benefit plan, recognised in the statement of comprehensive income in Administration and Distribution costs, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in Administration and Distribution costs. These costs are calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Employee bonus

The Company recognises a liability and an expense for staff bonuses based on the performance of the wider Volkswagen Group and the Company individually. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred 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 group 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 not 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 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 entity 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.

1. Accounting policies (continued)

Operating leases - lessee accounting

Rental costs under operating leases are charged to the statement of comprehensive income in equal amounts over the period of the leases.

Initial direct costs

Initial direct costs are those costs incurred by the company in consummating and negotiating a lease transaction, and which would have been avoided had the lease transaction not taken place (previously described as acquisition costs). They include commissions, documentation fees and bonuses paid to procure individual lease contracts; other commission and bonuses paid that arise from volume related arrangements that span a number of separate lease contracts are not considered to be initial direct costs and are expensed as incurred. Initial direct costs are deferred on the balance sheet when incurred and included within Financial Services receivables to the extent that the costs are recoverable from future profits of the lease. The capitalised amount is amortised to the profit and loss account over the lease term, with the amortisation charge being determined on a basis similar to the basis of income recognition of the related lease contract. Initial direct costs are presented within amounts due more than one and less than one year, as appropriate, based on the expected timing of the future amortisation charge.

Deemed Loan to SPEs

The Directors of the Company have concluded that the sale of the pools of auto receivables to the SPEs being Driver UK Master S.A. and Driver UK Multicompartment S.A failed the derecognition criteria under IFRS 9 and therefore, the Company has not derecognised the auto loan receivables. Instead the Company has recognised a limited recourse loan (a 'deemed loan') from the SPEs, which is secured on, and only has recourse to, the cash flow arising from the auto loans. The deemed loan is classified within Financial Liabilities.

The deemed loan was originally recognised at the amount corresponding to the consideration received by the Company for the pool of auto loans, less the *funding of the reserve funds. The limited recourse loan has subsequently been adjusted of the principle receipts from the underlying auto loans which have been* retained by the SPEs and which represent the deemed loan.

Effects of new and revised IFRS standards

The Company has applied all financial reporting standards subject to mandatory application from fiscal year 2018.

During the year the following standards became mandatory. The impact of the application of IFRS 9 Financial instruments materially affects the Company's net assets, financial position and results of operations detailed below.

Standard/Interpretation		Mandatory *application*
IFRS 9	Financial instruments	01.01.2018
IFRS 15	Revenue from Contracts with Customers	01.01.2018

Changes in accounting policies

IFRS 15 Revenue from Contracts with Customers

IFRS 15 has been applied from 1 January 2018 including retrospective application to all contracts that were not yet complete at the beginning of that period. The Company has opted to recognise the cumulative effect of applying IFRS 15 as an adjustment to the opening balance of equity and not restate any of the prior period comparatives. This has resulted in an opening adjustment to reduce reserves by £6,409,199.

IFRS 9 Financial instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018. The Group did not early adopt any of IFRS 9 in previous periods.

The Group elected not to restate comparative figures. Any adjustments to the carrying amounts were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently, for notes disclosures, the amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets and other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

1. Accounting policies (continued)

Changes in accounting policies (continued)

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		Remeasurement	IFRS 9	
Financial Instrument	**Category**	**Amount**	**ECL**	**Amount**	**Category**
		£000	**£000**	**£000**	
Derivative Financial Instruments	Fair value to profit and loss	37,827	-	37,827	Fair value to profit and loss
Finance Lease Receivables	Loans and receivables	11,567,338	(32,704)	11,534,634	Amortised cost
Loans & Receivables	Loans and receivables	171,736	-	171,736	Amortised cost
Trade Receivables	Loans and receivables	42,238	-	42,238	Amortised cost
Other Receivables	Loans and receivables	379,733	(306)	379,427	Amortised cost
Cash and cash equivalents	Loans and receivables	74,655	-	74,655	Amortised cost
		12,273,527	(33,010)	12,240,517	
Financial Liabilities	Amortised cost	13,090,394	-	13,090,394	Amortised cost
Derivative Financial Instruments	Fair value to profit and loss	38,264	-	38,264	Fair value to profit and loss
Trade Payables	Amortised cost	53,176	-	53,176	Amortised cost
Other payables excluding non-financial liabilities	Amortised cost	418,762	-	418,762	Amortised cost
		13,600,596	-	13,600,596	
		(1,327,069)	(33,010)	(1,360,079)	

Reconciliation of

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	IAS 39/IAS 37 Loan loss allowance Amount £000	Remeasurement £000	IFRS 9 Loan loss allowance Amount £000
Leasing and rental	1,245	374	1,619
Inventories	5,296	(306)	4,990
Derivative Financial	-	-	-
Finance Lease Receivables	44,752	32,704	77,456
- Finance Lease	*41,121*	32,765	*73,886*
- Other	*3,631*	(61)	*3,570*
Loans & Receivables	-	-	-
Trade Receivables	-	-	-
Other Receivables	3,232	306	3,539
Cash and cash equivalents	-	-	-
	54,525	33,078	87,604

Notes to the financial statements

1. Accounting policies (continued)

New and revised IFRS standards not applied

Volkswagen Financial Services (UK) Limited has not applied in its 2018 group financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2018.

	Standard/Interpretation	Published by the IASB	Mandatory application	Adopted by the EU	Expected effects
IFRS 3	Business Combinations: Definition of a Business	22.10.2018	01.01.2020	No	No material impact
IFRS10 and IAS28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets by an investor to its Associated Company or Joint Venture	11.09.2014	Effective date deferred indefinitely	No	None
IFRS16	Leases	13.01.2016	01.01.2019	Yes	The Company will apply IFRS 16 from 1 January 2019 with the election to apply the standard retrospectively without restating comparatives but recognising the cumulative effect of initial application as an adjustment to opening equity at that date. IFRS 16 will have the following impact on the Company at 1 January 2019; - Other Liabilities increased by £31,434,344 - Equity increased by £1,894,995 - Fixed assets - right of use increased by £33,329,339 The expected impact of the application of the standard on the profit of the Company next year is a reduction of around £500,000. This is a temporary timing difference in the recognition of the costs since over the life of all contracts the expense is unchanged under IFRS 16.
IFRS 17	Insurance Contracts	18.05.2017	01.01.2021	No	No material impact
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	31.10.2018	01.01.2020	No	No material impact
IAS 19	Employee Benefits: Remeasurement of a Plan Amendment, Curtailment or Settlement	07.02.2018	01.01.2019	No	No material impact
IAS 28	Investments in Associates and Joint Ventures: Long term interests in Associates and Joint Ventures	12.10.2017	01.01.2019	Yes	None
	Annual Improvements to International Financial Reporting Standards 2017	12.12.2017	01.01.2019	No	No material impact
IFRIC 23	Uncertainty over Income Tax Treatments	07.06.2017	01.01.2019	Yes	No material impact

2. Revenue

Revenue is the aggregate of operating lease income and earnings from finance leases and service and maintenance contracts, primarily in the UK. Revenue also includes the sales proceeds from the sale of vehicles at the end of operating lease agreements and other returned vehicles.

	Group	
	2018	2017
	£000	£000
Loans and receivables	**5,369**	5,061
Finance leases	**777,754**	597,267
Operating leases	**596,775**	511,408
Vehicle disposals	**877,312**	712,822
Service and maintenance	**70,083**	93,289
Other income	**2,896**	2,375
	2,330,189	1,922,222

3. Cost of sales

The cost of sales represents interest payable and similar costs, the depreciation of operating lease assets, service and maintenance costs, the cost of assets returned under operating lease agreements and assets returned under purchase products, operating lease commission and vehicle disposal costs.

Amounts recognised within cost of sales in the statement of comprehensive income are set out below:

	2018	2017
	£000	£000
Carrying amount of vehicle disposals	915,997	743,609
Operating lease depreciation	447,186	393,169
Interest payable	222,453	166,736
Service & Maintenance costs	44,930	64,008
Dealer commissions	12,976	12,089
Other leasing expense	109,712	105,887
	1,753,254	1,485,498

Carrying amount of vehicle disposals:

	2018	2017
	£000	£000
Operating lease disposals	584,426	473,761
Other vehicle disposals	331,571	269,848
	915,997	743,609

Operating lease depreciation:

	2018	2017
	£000	£000
Depreciation on rental assets	432,160	371,421
Operating lease residual value adjustment (note 23)	8,658	20,503
Credit risk adjustment on future operating lease receivables	6,368	1,245
	447,186	393,169

Interest payable included within the cost of sales is as follows:

	2018	2017
	£000	£000
On loans from affiliated companies	134,464	107,631
On bank loans and overdrafts	11,896	11,314
On loan notes	76,093	47,791
	222,453	166,736

4. Auditors' remuneration

	2018	2017
	£000	£000
Amounts receivable by the auditors and their associates in respect of:		
Fees payable to Company's auditors and their associates for the audit of parent company and group financial statements	233	263
Fees payable to the company's auditors for the audit of the Company's subsidiaries	5	-
Fees payable to the Company's auditors and their associates for other services: Other assurance services including SPE services and pension advisory services	307	295
	545	558

5. Expenses and other operating income and costs

Administration and Distribution costs

	2018	2017
	£000	£000
Commission expenses	65,992	71,298
Third party services	34,836	31,787
Payroll and training expenses	55,137	49,440
Other expenses	14,188	21,845
IT Costs	29,782	36,842
Depreciation of intangible and tangible fixed assets	1,495	1,616
Total Administration and Distribution Costs	201,430	212,828

Other operating income

	2018	2017
	£000	£000
Post write-off recoveries	-	719
Servicer fee income	3,000	3,000
Net insurance income	1,568	1,187
Gain on foreign exchange	-	160
Other income	712	537
Total Other operating income	5,280	5,603

Other operating costs

	2018	2017
	£000	£000
Movements in provisions for impairment and write offs	24,418	15,176
Recharged overheads	3,000	3,000
Donations	175	234
Loss on disposal of fixed assets	-	-
Other operating costs	14,524	19,321
Total other operating costs	42,117	37,731

Movements in provisions for impairment and residual value losses' include decreases in the gross carrying value of leasing receivables as a result of changes in estimates of future expected cash flows of vehicles being voluntarily terminated.

6. Finance gain

	2018	2017
	£000	£000
Fair value gain on financial instruments - Interest rate swaps	31,518	31,287
Net interest cost from pension provisions (see note 24)	(27)	(428)
	31,491	30,859

7. Staff numbers and costs

The monthly average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Executive	**2**	2
Sales	**53**	57
Administration	**881**	870
	936	929

The aggregate payroll costs of these persons (including executive pay) were as follows:

	2018	2017
	£000	£000
Wages and salaries	**46,958**	44,651
Social security costs	**3,932**	3,596
Pension costs - defined contribution plans (note 24)	**3,025**	3,073
Pension costs - defined benefit plans (note 24)	**550**	302
	54,465	51,622

8. Directors' emoluments and key management personnel remuneration

Directors' remuneration	2018	2017
	£000	£000
Salaries & other short-term employee benefits	536	442
Compensation for loss of office	88	-
Company contributions to defined contribution pension schemes	3	3
	627	445

Retirement benefit accrued to three directors (2017: Two) under a money purchase scheme during the year.

The aggregate emoluments of the highest paid director was £0.3m (2017: £0.2m).Included within this £0.3m are recharges from the parent Company which includes pension contributions and other administration costs borne by the parent Company on behalf of the Group.

The statutory directors and the Board of Management were considered to be the key management personnel of the Group. The compensation payable by the Group to the key management personnel is shown below.

Key management personnel (including directors) remuneration	2018	2017
	£000	£000
Salaries & other short-term employee benefits	1,747	1,189
Company contributions to defined contribution pension schemes	100	85
	1,847	1,274

Pension contributions are included in the emoluments above.

During the year retirement benefits accrued to the following number of key management personnel under:

	2018	2017
Money purchase schemes	6	6

Transactions with Key Management Personnel

The Company operates a scheme whereby employees are eligible to loans which can only be used to fund the purchase of a car from the VW UK Group at a discounted retail price. This vehicle is purchased on the basis VW UK Group will buyback the vehicle at the end of an agreed period or when the vehicle has completed between 6,000 and 8,500 miles. The proceeds of the buyback are used to settle the loan and no cash flows for the loan pass through employees.

The details of the transactions are disclosed below and represent the discounted aggregate retail value (loan amount) of the cars acquired during the year.

	2018	2017
	£000	£000
Amounts outstanding at the beginning of the year	563	461
Monies advanced by the Company during the year	1,380	1,341
Amounts repaid during the year	(1,482)	(1,239)
	461	563

The maximum amounts outstanding during the year were £583,507 (2017: £562,802).

9. Taxation

Recognised in the statement of comprehensive income

	2018	2017
	£000	£000
Current tax expense		
Current year	**86,178**	41,938
Adjustments in respect of prior periods	**4,432**	(8,312)
	90,610	33,626
Deferred tax charge/(credit)		
Origination and reversal of temporary differences	**(14,925)**	533
Effect from the change in tax rate	**-**	-
Adjustments in respect of prior periods	**(4,072)**	6,458
	(18,997)	6,991
Total tax charge in statement of comprehensive income	**71,613**	40,617

Reconciliation of effective tax rate

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 19.00% (2017: 19.25%).

The tax charge is higher (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018	2017
	£000	£000
Profit before tax	**370,159**	222,627
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	**70,330**	42,856
Effects of:		
Permanent differences	**603**	19
Adjustments in respect of prior periods	**360**	(1,853)
Difference in rates	**320**	(405)
Total tax in statement of comprehensive income	**71,613**	40,617

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

UK deferred tax assets and liabilities have been calculated at a mixture of 19% and 17% depending on when these are expected to reverse.

From 1 April 2017 the UK corporation tax rate reduced from 20% to 19%. Under changes substantively enacted on 6 September 2016 by Finance Act 2016, the UK corporation tax rate will reduce to 17% from 1 April 2020.

10. Investments in subsidiaries

During the year VWFS Limited purchased Volkswagen Insurance Services (Great Britain) Limited by acquiring 20,400 A ordinary shares of £1.00 each from Volkswagen Versicherungsdienst GmbH and 19,600 B orindary shares of £1.00 each from Volkswagen Group United Kingdom Limited for consideration of £6.273m.

The Group and Company has the following investments in subsidiaries:	2018 £'000	2017 £'000
Volkswagen Insurance Services (Great Britain) Limited	6,273	-
MAN Financial Services Limited: £1 (2017:£1)	-	-
	6,273	-

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

	Country of Incorporation	Number and Class of shares held	Ownership % 2018	Ownership % 2017
MAN Financial Services Limited	UK	1 Ordinary	100%	100%
Volkswagen Insurance Services (Great Britain) Limited	UK	40,000 Ordinary	100%	-

The registered address of MAN Financial Services Limited is Clearwater House, Clearwater Business Park, Swindon SN5 8YZ, United Kingdom.

The registered address of Volkswagen Insurance Services (Great Britain) Limited is Brunswick Court, Yeomans Drive, Blakelands, Milton Keynes, MK14 5LR, United Kingdom.

The Company does not have an investment in Driver UK Master S.A. or Driver UK Multicompartment S.A. as it holds no interest in either company. However both Driver UK Master S.A. and Driver UK Multicompartment S.A. are considered to meet the Companies Act description of a quasi subsidiary (on the basis of control due to the Company's ability to use power to effect variable returns).

The Company maintains a branch presence in the Republic of Ireland as part of normal business operations.

11. Intangible assets

	Internally generated intangible assets	Acquired intangible assets	Total
	£000	£000	£000
Cost			
Balance as at 1 January 2017	2,484	553	3,037
Balance as at 31 December 2017	2,484	553	3,037
Accumulated amortisation			
Balance as at 1 January 2017	(2,484)	(553)	(3,037)
Charge	-	-	-
Balance as at 31 December 2017	(2,484)	(553)	(3,037)
Net Book Amount			
At 31 December 2016	-	-	-
At 31 December 2017	-	-	-

	Internally generated intangible assets	Acquired intangible assets	Total
	£000	£000	£000
Cost			
Balance as at 1 January 2018	2,484	553	3,037
Balance as at 31 December 2018	2,484	553	3,037
Accumulated amortisation and impairment			
Balance as at 1 January 2018	(2,484)	(553)	(3,037)
Balance as at 31 December 2018	(2,484)	(553)	(3,037)
Net Book Amount			
At 31 December 2017	-	-	-
At 31 December 2018	-	-	-

Intangible assets consist solely of costs relating to software.

There are no contractual commitments for the acquisition of intangible assets, nor are any intangible assets pledged as security for liabilities.

Amortisation is charged to administration expenses in the income statement.

VWFS continues to use the internally generated software that has a nil net book value as at 31 December 2017 and 31 December 2018.

12. Tangible fixed assets

	Leasing and rental assets	Freehold land and buildings	Fixtures, fittings and equipment	Total Property, Plant and Equipment	Total
	£000	£000	£000	£000	£000
Cost					
Balance as at 1 January 2017	2,439,979	1,144	15,212	16,356	2,456,335
Additions	1,375,507	-	823	823	1,376,330
Disposals	(767,273)	-	-	-	(767,273)
Balance as at 31 December 2017	3,048,213	1,144	16,035	17,179	3,065,392
Accumulated depreciation and impairment					
Balance as at 1 January 2017	(486,289)	(141)	(3,461)	(3,602)	(489,891)
Charge	(371,421)	(47)	(1,569)	(1,616)	(373,037)
Impairment adjustment	(21,748)	-	-	-	(21,748)
Disposals	319,229	-	-	-	319,229
Balance as at 31 December 2017	(560,229)	(188)	(5,030)	(5,218)	(565,447)
Net Book Amount					
As at 31 December 2016	1,953,690	1,003	11,751	12,754	1,966,444
At 31 December 2017	**2,487,984**	**956**	**11,005**	**11,961**	**2,499,945**

12. Tangible fixed assets (continued)

	Leasing and rental assets	Freehold land and buildings	Fixtures, fittings and equipment	Total Property, Plant and Equipment	Total
	£000	£000	£000	£000	£000
Cost					
Balance as at 1 January 2018	3,048,213	1,144	16,035	17,179	3,065,392
Additions	1,190,167	-	237	237	1,190,404
Disposals	(985,299)	-	-	-	(985,299)
Balance as at 31 December 2018	3,253,081	1,144	16,272	17,416	3,270,497
Accumulated depreciation and impairment					
Balance as at 1 January 2018	(560,229)	(188)	(5,030)	(5,218)	(565,447)
Opening adjustment on adoption of IFRS 9	(374)	-	-	-	(374)
Charge	(432,160)	(47)	(1,447)	(1,494)	(433,654)
Impairment adjustment	(15,026)	-	-	-	(15,026)
Disposals	361,874	-	-	-	361,874
Balance as at 31 December 2018	(645,915)	(235)	(6,477)	(6,712)	(652,627)
Net Book Amount					
As at 31 December 2017	2,487,984	956	11,005	11,961	2,499,945
At 31 December 2018	**2,607,166**	**909**	**9,795**	**10,704**	**2,617,870**

Included within the impairment adjustment is a charge £6.4m relating to a reduction of expected value in use and £8.7m associated with residual values, further information can be found in note 23.

Future minimum lease receipts under non-cancellable operating leases:

	2018	2017
	£000	£000
Not later than one year	**578,546**	515,935
Later than one year and not later than five years	**234,917**	314,043
	813,463	829,978

13. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Operating leases	**24,515**	4,242	**-**	-	**24,515**	4,242
Temporary differences	**28,523**	24,477	**-**	-	**28,523**	24,477
Net tax assets	**53,038**	28,719	**-**	-	**53,038**	28,719

Movement in deferred tax during the year

	1 January 2018	**IFRS 9 Adoption Adjustment**	**Balances transferred into the group**	**Revised 1 January 2018**	**Recognised in income**	**Recognised in equity**	**31 December 2018**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Operating leases	**4,242**	**-**	**-**	**4,242**	**20,273**	**-**	**24,515**
Temporary differences	**24,477**	**5,814**	**40**	**30,331**	**(1,276)**	**(532)**	**28,523**
	28,719	**5,814**	**40**	**34,573**	**18,997**	**(532)**	**53,038**

Movement in deferred tax during the prior year

	1 January 2017	Recognised in income	Recognised in equity	31 December 2017
	£000	£000	£000	£000
Operating leases	10,040	(5,798)	-	4,242
Temporary differences	25,758	(1,193)	(88)	24,477
	35,798	(6,991)	(88)	28,719

Deferred tax relating to timing differences which are expected to reverse is measured at either 19% or less (2017: 19% or less) and reflects the rates at which deferred tax is expected to reverse. Deferred tax has not been discounted.

Management have, in considering recognition of the deferred tax asset, looked at future profit forecasts for the Group. The Group prepares forecasts for a period of 5 years which provides Management with the necessary comfort that sufficient profits will arise in future periods with which to allow full offset of the deferred tax asset.

Change in tax rate

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced was to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020 were substantively enacted on 6 September 2016.

14. Inventories

	2018 £000	2017 £000
Vehicles held for remarketing	**104,518**	45,207

All items included within inventories are expected to be recovered within 12 months.

The cost of inventories recognised as an expense and included in cost of sales and other operating expenses amounted to £990m (2017: £801.5m)

The write-down of inventories to fair value less costs to sell recognised as an expense in the year amounted to £12.3m (2017: £5.7m)

15. Loans and receivables at amortised cost

	2018 £000	2017 £000
Loans to individuals	**178,485**	171,736

The Company operates a scheme whereby employees of companies within the VW UK group of companies are eligible to loans which can only be used to fund the purchase of a car from the VW UK Group at a discounted retail price. This vehicle is purchased on the basis VW UK Group will buyback the vehicle at the end of an agreed period or when the vehicle has completed between 6,000 and 8,500 miles. The proceeds of the buyback are used to settle the loan and no cash flows for the loan pass through employees.

16. Financial Lease Receivables at amortised cost

	2018	2017
	£000	£000
Non-current	9,048,774	8,516,290
Current	3,437,033	3,051,048
	12,485,807	11,567,338
Eligible finance lease receivables securitised	9,406,959	6,791,675

The carrying value of gross leasing receivables has been reduced by £150m (2017: £170.5m) in respect of the residual value risk on leasing receivables.

Asset backed securitisation programmes - Driver UK Master S.A and Driver UK Multicompartment S.A

In August 2002 the Company entered into a securitisation programme with Dunyard Funding Limited, a special purpose entity (SPE) conduit, involving the sale of hire purchase and personal contract purchase receivables pursuant to the terms of a corporate administration agreement. This initial agreement ended in August 2005. However, a series of rolling agreements have been made on varying terms to continue the programme. In November 2011 in order to align the UK with the corporate programme, this programme was replaced by another named Driver UK Master S.A , the terms of which remain fundamentally the same as the then most recent Dunyard Funding Limited programme, with the introduction of discounted cash flows (DCF) valued receivables performed in November 2013. In November 2014 Driver UK Multicompartment S.A was introduced on similar terms to Driver UK Master S.A, allowing the placement of term deals.

The SPEs have each been treated as a related party in accordance with IAS24 'Related party disclosures'. The SPEs, separate companies which have both been incorporated in Luxembourg, were established for the purpose of purchasing these receivables and are beneficially owned by a foundation. The SPEs are deemed to be subsidiaries of the Company as it has no interest in the share capital but does have control by virtue of its servicing of the receivables and its exposure to variable returns.

Under IFRS as adopted by the European Union, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Directors have concluded that the Company has retained substantially all the risks and rewards of the pool of auto loan receivables transferred to the SPEs and therefore that the Company cannot derecognise these auto loan receivables as assets. Instead, the Company recognises a limited recourse loan from the SPEs which are secured on, and only has recourse to, the cash flows arising from the auto loan receivables. As a result of this, securitised receivables are included within Finance lease receivables with the liability recorded as Deemed loans from SPEs within financial liabilities.

The securitisation programme is primarily funded by asset backed notes which were listed on the Luxembourg Stock Exchange from November 2011. The Company may continue to sell receivables each month to the SPEs in order to maintain the balance of funds advanced under the senior facility at a fixed level.

The Company is only obligated to support the losses on the securitised assets to the extent of the over collateralisation within the relevant transaction to which the asset is sold, it is not obliged to support any loss greater than this amount, and does not intend to do so. The SPEs have agreed not to seek recourse against any other assets of the Company, apart from the identified portfolio of receivables designated as securitised. There is no provision whatsoever, either in the financing agreement or otherwise, whereby the Company has a right or an obligation either to keep the items on repayment of the finance or, where title has been transferred, to reacquire them at any time.

The Company retains responsibility for servicing the receivables arising from the programme in line with the terms of a Receivables Purchase Agreement. It receives a monthly service fee which is included in turnover for administering these responsibilities on behalf of the SPEs.

During 2018, there were two renewals and two new ABS transactions launched. The Driver UK Master S.A. acting as Driver UK Master Compartment two transaction was renewed in May 2018 at an increased size of £5.542bn with an additional tap up taking place in November 2018 bringing the transaction to £5.676bn. The Driver UK Master S.A. acting as Driver UK Master Compartment three transaction was also renewed in May 2018 at an increased size of £600m. In March 2018, the Driver UK Multicompartment S.A. acting as Private Driver UK 2018-1 transaction was successfully placed for £1.250bn as a private term deal. In June 2018, the Driver UK Master S.A. acting as Driver UK Master Compartment four transaction was successfully placed for £621m as a private master deal, with an additional tap up taking place in September 2018 bringing the transaction to £935m.

16. Financial Lease Receivables at amortised cost (continued)

Any monthly surplus arising within the SPE accrues to the benefit of VWFS. The surplus will be passed to the Company as deferred purchase consideration at the end of the transaction. Within the Company this amount is included within the deemed loan.

	Finance lease 2018	Finance lease 2017
	£000	£000
Gross investment in the lease		
Not later than one year	**3,905,256**	3,425,305
Later than one year and not later than five years	**10,271,302**	9,572,917
Unearned finance income	**(1,591,752)**	(1,386,132)
Credit loss provision	**(98,999)**	(44,752)
	12,485,807	11,567,338

	Finance lease 2018	Finance lease 2017
Present Value of minimum lease payments receivable		
Not later than one year	**3,437,033**	3,051,048
Later than one year and not later than five years	**9,048,774**	8,516,290
	12,485,807	11,567,338

17. Other receivables and financial assets

	Group 2018	Group 2017	Company 2018	Company 2017
	£000	£000	**£000**	£000
Non-current assets				
Prepayments and accrued income	**11,201**	12,879	**11,201**	12,879
Net defined benefit surplus for Pensions (Note 24)	**1,405**	-	1,405	-
Trade and other receivables	**141,208**	131,549	**141,208**	131,549
	153,814	144,428	**153,814**	144,428
Current assets				
Restricted cash held by SPEs	**157,810**	127,082	-	-
Prepayments and accrued income	**10,028**	6,967	**10,028**	6,967
Trade and other receivables	**160,380**	101,256	**160,380**	101,256
	328,218	235,305	**170,408**	108,223

The restricted cash held by the SPEs can only be utilised in line with the strict priority of payments as set out in the Driver UK Master S.A & Driver UK Multicompartment S.A. programme documentation. As the cash can only be used to meet certain specific liabilities and not available to be used with discretion, it is therefore viewed as restricted cash.

The Restricted Cash held by the SPEs is treated as a collateral fund and is not readily available to the Group, it may only be used in accordance with terms of the Loan notes issued. The decrease in the 2017 balance was driven by the execution of the clean up call option for the Driver UK two transaction in November 2017, resulting in the release of collateral held for advanced collections in line with the Driver UK Multicompartment S.A. programme documentation.

18. Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Bank overdraft	**(51,363)**	(61,929)	**(51,363)**	(61,929)
Cash and cash equivalents held by SPEs	**67,771**	74,655	**-**	-
Net cash balance held	**16,408**	12,726	**(51,363)**	(61,929)

The Company has undrawn borrowing facilities that are available for future operating activities and the settlement of capital commitments. The Company has three main sources of liquidity, short to medium-term funding, is sourced from inter-company lenders, funding from the sale of securitised assets through our ABS programmes and short-term uncommitted bank loans, typically provided over a period of up to one month. Details of these facilities are set out in the Strategic Report. As at 31 December 2018, the Company had £750m (2017: £804m) of uncommitted facilities available and of this, £nil (2017: £474m) was utilised.

The cash held by the SPEs is used for operational activities in accordance with terms of the 'Order of Priority' within the securitisation structures. The decrease in the 2018 balance was driven by the ongoing amortisation of the Driver UK three transaction, where the reducing monthly cash collections results in the release of collateral held for advanced collections in line with the Driver UK Multicompartment S.A. programme documentation.

Included within other receivables and financial assets is £157.8m (2017: £127.1m) of restricted cash, further details can be found in note 17. These restricted cash balances have not been included in the year end cash balances for the purpose of the cash flow statement.

19. Financial Liabilities

	Group 2018	Group 2017	Company 2018	Company 2017
	£000	£000	£000	£000
Financial Liabilities current				
Loan amounts due to fellow group affiliates - floating rate	**1,208,227**	2,031,507	**1,208,227**	2,031,507
Deemed loan from SPEs	**-**	-	**2,491,420**	2,398,786
Loan Notes and Subordinated Debt - floating rate	**2,331,442**	2,019,015	**-**	-
Loan Notes and Subordinated Debt - fixed rate	**159,978**	379,771	**-**	-
Bank borrowings	**-**	474,455	**-**	474,455
	3,699,647	4,904,748	**3,699,647**	4,904,748

	2018	2017	2018	2017
	£000	£000	£000	£000
Financial Liabilities non-current				
Loan amounts due to fellow group affiliates - floating rate	**3,266,412**	2,977,562	**3,266,412**	2,977,562
Deemed loan from SPEs	**-**	-	**6,803,955**	5,006,347
Loan Notes and Subordinated Debt - floating rate	**5,389,935**	4,447,996	**-**	-
Loan Notes and Subordinated Debt - fixed rate	**1,639,546**	760,088	**-**	-
	10,295,893	8,185,646	**10,070,367**	7,983,909

The amounts due to fellow group affiliates consist of loan balances with wholly owned subsidiaries of Volkswagen AG and are interest bearing with rates ranging between 0% and 4.066%. All amounts due to fellow group affiliates are unsecured and set for specific terms.

Further to Note 16 which details the Asset Backed Securitisation (ABS) programme of Driver UK Master S.A. and Driver UK Multicompartment S.A., the programme comprises of senior Loan A Notes, mezzanine Loan B Notes and Subordinated Debt, the issued Loan Notes & Debt have a legal final maturity ranging from 2024 to 2028. As at 31 December 2018 £2,491.4m of the £9,520.9m of outstanding Loan and Subordinated Debt were due for repayment within one year.

The securitisations are financed by both Loan Notes and Subordinated Debt as described above. In the case of Driver UK Master S.A. acting as Driver UK Master Compartment two and Driver UK Master S.A. acting as Driver UK Master Compartment three the Loan Notes and Subordinated Debt will begin to be repaid once the revolving period has expired in May 2019. With regards to Driver UK Master S.A. acting as Driver UK Master Compartment four the amounts will begin to be repaid once the revolving period has expired in June 2020. In the case of Driver UK Multicompartment S.A. acting as Private Driver UK 2018-1 the amounts will begin to be repaid once the revolving period has expired in March 2020. With regards to Driver UK Multicompartment S.A. acting as Driver UK three, Driver UK Multicompartment S.A. acting as Driver UK four, Driver UK Multicompartment S.A. acting as Driver UK five, Driver UK Multicompartment S.A. acting as Driver UK six and Driver UK Multicompartment S.A. acting as Private Driver UK 2016-1 amounts are already being repaid as the revolving periods have expired. With regards to Driver UK Multicompartment S.A. acting as Driver UK two amounts have been fully repaid due to the execution of the clean up call option in November 2017. During the revolving period principal collections for the securitised receivables will be utilised to purchase further receivables from VWFS UK Ltd, resulting in the Loan notes and Subordinated Debt balances remaining constant. Following the revolving period the Loan Notes and Subordinated Debt will be repaid as the underlying receivables portfolio redeems.

The terms and conditions of the Loan Notes and Subordinated Debt provide that the holders will receive interest and principle only to the extent that sufficient funds are generated from the securitised receivables. The priority and the amount of the claims on the portfolio proceeds are determined in accordance with the strict priority of payments. Loan Note and Subordinated Debt holders have no right to recourse to the Group in any form. The non recourse finance comprises Sterling notes and debt issued at par at a floating rate bearing interest ranging from one month Libor plus 0.45% to 2.90% (2017: 0.45% to 2.90%), except for Driver UK Multicompartment S.A. acting as Private Driver UK 2016-1 that bears a fixed rate of 1.29% to 3.82% (2017: 1.29% to 3.82%) and Driver UK Master S.A. acting as Driver UK Master Compartment three which changed from bearing a fixed rate of 0.94% to 2.75% in 2017 to a floating rate of one month Libor plus 0.50% to 2.26% when the transaction was renewed in May 2018.

The deemed loan from the SPEs is only repayable to the extent that the principle payments on the securitised loans are received.

Additional information relating to maturity and comparatives can be found in note 23.

20. Other liabilities

	Group 2018	2017	Company 2018	2017
	£000	£000	£000	£000
Current liabilities				
Accruals and deferred income	**197,199**	37,729	**197,199**	37,729
Accruals within the SPEs	**2,160**	1,485	-	-
Other taxes payable	**26,600**	7,302	**26,600**	7,302
	225,959	46,516	**223,799**	45,031
Non-current liabilities				
Accruals and deferred income	**169,237**	266,461	**169,237**	266,461
Other liabilities	**556**	32,303	**556**	32,303
Provisions for Pensions (Note 24)	-	1,953	-	1,953
	169,793	300,717	**169,793**	300,717

Included within accruals and deferred income is £146.8m of deferred income on service and maintenance contracts to be recognised on the satisfaction of future performance obligations.

Included within the Accruals for SPEs are interest accruals relating to both the Loan notes and Subordinated Debt for the period from the most recent payment date of the 25th of the month to the end of the month as described in the transaction documents of both Driver UK Master S.A. and Driver UK Multicompartment S.A.

21. Other Provisions

	2018	2017
	£000	£000
Other Provisions		
Payroll related provisions	**7,012**	5,261
Customer remediation	**4,430**	4,339
	11,442	9,600

	Payroll	Other	Total
	£000	**£000**	**£000**
At 1 January 2018	**5,261**	**4,339**	**9,600**
Utilised in the year	**(5,247)**	**(88)**	**(5,335)**
Additions in the year - charged to the income statement	**6,998**	**179**	**7,177**
Unused amounts reversed in the year	**-**	**-**	**-**
At 31 December 2018	**7,012**	**4,430**	**11,442**

The payroll provision relates to short term incentive payments that are expected to be paid. The customer remediation provision relates to amounts expected to be repaid to customers.

The balances are classified as current at the reporting date given that management expects these provisions to be utilised within 12 months.

22. Capital and reserves

Called up share capital

	2018 £000	2017 £000
Authorised		
100,000,000 (2017: 100,000,000) Ordinary shares of £1 each	**100,000**	100,000
Allotted called up and fully paid		
70,000,002 (2017: 70,000,002) Ordinary shares of £1 each	**70,000**	70,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share Capital and Share Premium

	Number of shares	Shares £000	Share Premium £000	Total £000
As at 1 January 2017	70,000,002	70,000	17,922	87,922
New shares issued in year	-	-	-	-
As at 31 December 2017	70,000,002	70,000	17,922	87,922

	Number of shares	Shares £000	Share Premium £000	Total £000
As at 1 January 2018	70,000,002	70,000	17,922	87,922
New shares issued in year	-	-	-	-
As at 31 December 2018	**70,000,002**	**70,000**	**17,922**	**87,922**

22. Capital and reserves (continued)

Group Reserves

	Other Reserves Non-distributable reserve	Other reserves	Retained earnings	Total Reserves
	£000	£000	£000	£000
As at 1 January 2018	26,973	70,150	1,060,215	1,157,338
Changes on initial application of IFRS 9 (note 1)	-	-	(33,078)	(33,078)
Changes of initial application of IFRS 15 (note 1)	-	-	(6,409)	(6,409)
Deferred tax adjustment	-	-	5,643	5,643
Investment in Volkswagen Insurance Services (Great Britain) Limited	-	(6,020)	-	(6,020)
Restated balance at 1 January 2018	26,973	64,130	1,026,371	1,117,474
Profit for the year	-	-	298,546	298,546
Other comprehensive income	-	-	2,598	2,598
As at 31 December 2018	26,973	64,130	1,327,515	1,418,618

Company Reserves

	Other Reserves Non-distributable reserve	Other reserves	Retained earnings	Total Reserves
	£000	£000	£000	£000
As at 1 January 2018	26,973	70,150	1,039,807	1,136,930
Changes on initial application of IFRS 9 (note 1)	-	-	(33,078)	(33,078)
Changes of initial application of IFRS 15 (note 1)	-	-	(6,409)	(6,409)
Deferred tax adjustment	-	-	5,643	5,643
Restated balance at 1 January 2018	26,973	70,150	1,005,963	1,103,086
Profit for the year	-	-	311,188	311,188
Other comprehensive income	-	-	2,598	2,598
As at 31 December 2018	26,973	70,150	1,319,749	1,416,872

Other reserves relates to a non-refundable capital contribution of £20.0m gifted from the parent company and actuarial gains and losses on the defined benefit pension scheme net of deferred tax. The capital contribution is treated as distributable.

The Non-distributable reserve represents the retained profits of the company to 31 December 1999 which were credited to the capital reserves of the Company following a special resolution dated 17 February 2000. This resolution made pursuant to Regulation 70 of Table A in the schedule to the Companies (Table A to F) Regulation 2007 as amended can be revoked at any time by an ordinary resolution of the Company which would enable the directors to treat the reserves as distributable.

Capital management

The Company's capital management objective is to support the objective of the VWFS Group. The Volkswagen Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in the long term and to provide an adequate return to shareholders.

The Volkswagen Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of the underlying assets.

The Volkswagen Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the Volkswagen Group uses a variety of financial instruments available on the worlds' capital markets to achieve optimal diversification.

Dividends

The shareholders have not been paid a dividend for 2018 (2017: £nil). The Directors do not propose a dividend (2017: nil).

23. Financial instruments

Financial income and expense

The Group had no gains and losses on financial instruments recognised directly within equity, finance expenses recognised within cost of sales on financial liabilities measured at amortised cost are shown in the table below. Income on loans and receivables and finance leases is shown in note 2 to the accounts.

Finance expenses

	2018	2017
	£000	£000
Interest expense on financial liabilities measured at amortised cost:		
Loans from group companies	**134,464**	107,631
Bank loans and overdrafts	**11,896**	11,314
On loan notes	**76,093**	47,791
Total finance expense	**222,453**	166,736

Financial instruments by category
The values shown below are the carrying amounts:

	31 December 2018		
	Financial assets at amortised cost	**Assets at fair value through profit and loss**	**Total**
Assets as per statement of financial position:	**£000**	**£000**	**£000**
Assets at fair value through profit and loss:			
Derivative financial instruments (1)	-	**42,025**	**42,025**
Financial assets at amortised cost:			
Finance lease receivables	**12,485,807**	-	**12,485,807**
Loans and receivables	**178,485**	-	**178,485**
Trade and other receivables (2)	**503,491**	-	**503,491**
Cash and cash equivalents	**67,771**	-	**67,771**
	13,235,554	**42,025**	**13,277,579**

	31 December 2017		
	Financial assets at amortised cost	Assets at fair value through profit and loss	Total
Assets as per statement of financial position:	£000	£000	£000
Assets at fair value through profit and loss:			
Derivative financial instruments (1)	-	37,828	37,828
Financial assets at amortised cost:			
Finance lease receivables	11,567,338	-	11,567,338
Loans and receivables	171,736	-	171,736
Trade and other receivables (2)	402,126	-	402,126
Cash and cash equivalents	74,655	-	74,655
	12,215,855	37,828	12,253,683

(1) The derivative financial instruments comprise of interest rate swaps transactions

(2) Prepayments, accrued income and pension surplus are excluded from trade and other receivables as the analysis is only required for financial instruments.

23. Financial instruments (continued)

	31 December 2018 Financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
	£000	£000	£000
Liabilities as per statement of financial position:			
Financial liabilities	13,995,540	-	13,995,540
Derivative financial instruments	-	13,706	13,706
Trade and other payables excluding non-financial liabilities (3)	240,302	-	240,302
	14,235,842	13,706	14,249,548

	31 December 2017 Financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
	£000	£000	£000
Liabilities as per statement of financial position:			
Financial liabilities	13,090,394	-	13,090,394
Derivative financial instruments	-	38,264	38,264
Trade and other payables excluding non-financial liabilities (3)	207,623	-	207,623
	13,298,017	38,264	13,336,281

(3) Deferred income and other provisions are excluded from trade and other payables as the analysis is only required for financial instruments.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following tables present the Group and Company's financial assets and liabilities that are measured at fair value at 31 December 2018 and 31 December 2017.

31 December 2018	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Assets				
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	42,025	-	42,025
Total assets	-	42,025	-	42,025

31 December 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Assets				
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	37,828	-	37,828
Total assets	-	37,828	-	37,828

23. Financial instruments (continued)

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	13,706	-	13,706
Total liabilities	-	13,706	-	13,706

	31 December 2017			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Liabilities				
Financial liabilities at fair value through profit or loss:				
Derivative financial instruments	-	38,264	-	38,264
Total liabilities	-	38,264	-	38,264

Financial instruments in level 1
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets in this category is the current bid price. These instruments are included in Level 1.

Financial instruments in level 2
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. There were no transfers between levels during the year.

Fair values of financial instruments

Detailed below are the assumptions applied in determining the fair value of the financial instruments held by the Group:

Receivables and liabilities

In the absence of market prices, the fair values of receivables and liabilities are determined on discounting, taking into account customary market interest rates appropriate for the relevant risk and corresponding to the relevant maturity, i.e. risk-free interest rate curves were adjusted as necessary for the relevant risk factors as well as for equity and administrative costs. For receivables and liabilities with a residual term of less than one year, the notional amount is deemed to reflect fair value.

Derivative financial instruments

The fair value of derivative financial instruments is determined on an IT-based measurement method using discounted cash flows, taking into account credit and debit value adjustments. The measurement method was refined during the prior year. This did not have any significant effect on earnings.

23. Financial instruments (continued)

Disclosure of fair-values of financial assets and liabilities

The fair value of all financial assets and liabilities together with the carrying amounts shown in the statement of financial position, are as follows:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial assets:				
Non-current Finance lease receivables	9,048,774	9,519,808	8,516,290	9,123,550
Current Finance lease receivables	3,437,033	3,437,033	3,051,048	3,051,048
Loans and receivables	178,485	178,485	171,736	171,736
Trade and other receivables	503,491	503,491	402,126	402,126
Non-current derivative financial instruments	36,770	36,770	36,996	36,996
Current derivative financial instruments	5,255	5,255	832	832
Cash and cash equivalents	67,771	67,771	74,655	74,655
Total financial assets	13,277,579	13,748,613	12,253,683	12,860,943

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities:				
Financial liabilities at amortised cost				
Non-current financial liabilities	10,295,893	10,237,475	8,185,646	8,191,019
Current financial liabilities	3,699,647	3,699,647	4,904,748	4,904,748
Current Trade Payables	56,054	56,054	53,176	53,176
Non-current other liabilities	556	556	31,835	31,835
Current other liabilities	183,692	183,692	122,612	122,612
Non-current derivative financial instruments	12,445	12,445	30,806	30,806
Current derivative financial instruments	1,261	1,261	7,458	7,458
Total financial liabilities	14,249,548	14,191,129	13,336,281	13,341,654

For recognised liabilities that have a floating interest rate, the interest rate level changes on the capital market do not have a significant effect on the fair value of the statement of financial position items. It is deemed that the carrying value is the same as fair value.

Financial risk management

The Group is exposed in particular to the following risks:

Credit risk
Liquidity risk
Interest rate risk
Residual value risk
Exchange rate risk

Credit risk measurement

Credit risk concerns the risk of loss through defaults in customer transactions, specifically, non-payments by a borrower or lessee. The loss is contingent on the inability or unwillingness of the borrower or lessee to make payments. This includes scenarios where the contracting party makes payments of interest and principal late or not in full.

23. Financial instruments (continued)

Exposure to credit risk

The Group bases its lending decisions on credit assessments of the given borrowers using rating and scoring methods, which provide an objective basis for the Company's decisions on granting loans and leases.

Parameters for developing and maintaining rating systems are described in a working guideline. There is also a rating manual, which governs the application of rating systems as part of the loan approval process. Similarly, the underlying conditions for developing, using and validating scoring procedures in the retail business are described in work instructions.

In principle, lending transactions are secured in ways adequate to the risks concerned. In addition, a group-wide guideline establishes the requirements that collateral as well as assessment procedures and principles must satisfy. Additional local guidelines (collateral guidelines) prescribe concrete valuations as well as regional specificities to follow.

The valuations in the collateral guidelines are based on historical data and many years of expert experience. Automobiles, as a form of collateral, are very important for this approach because the activities of the Group focus on financing customer purchases as well as vehicle leasing. For this reason, the development of vehicles' market values is monitored and analysed. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values.

Expected credit loss measurement

IFRS 9 outlines the "three stage" model for impairment based on changes in credit quality since initial recognition. The group have adopted the simplified approach for Expected Credit Loss against the majority of receivables. Under the simplified approach, there is no need to monitor for significant increases in credit risk; but there is a requirement to measure lifetime expected credit losses at all times.

Measuring Expected Credit Loss (ECL) - Explanation of inputs, assumptions and estimation techniques

Expected credit losses is measured for future months and are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation.

EAD is based on the amounbts the Group expects to be owed at the time of default.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure.

The discount rate used is an approximation of the effective interest rate.

The Group defines a financial instrument as "in default" or "credit impaired" when it meets any of the following criteria apply to the borrower; is more than 90 days past due on it's contractual payments, is in long term forbearance, is insolvent, is probably entering bankruptcy, has received concessions relating to financial difficulty.

An instrument is considered to be no longer be in default (ie to have cured) when it no longer meets any of the above criteria. If contractual arrears are brought up to date and other crieteria do not apply, the Group considers the liklihood of a financial instrument returning to default status after cure to be immaterial.

Assets 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 180 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group considers forward looking information in the ECL model assessing various economic variables and concluded to have no material impact on the ECL. There is little sensitivity in the ECL from possible changes in economic variables.

23. Financial instruments (continued)

Previous accounting policy for impairment

In the prior year, the impairment of 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 30 days overdue).

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

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows :

The ageing of finance lease receivables and operating lease receivables at the reporting date by due status:

	2018 £000	2017 £000
Not past due	**14,945,651**	13,885,418
Aged 0 - 30 days	**110,386**	99,775
Aged 31 - 60 days	**58,652**	50,044
Aged 61 - 90 days	**23,082**	22,096
Aged 91 - 120 days	**12,863**	12,715
More than 121 days	**41,340**	30,027
Total receivable	**15,191,973**	14,100,074
Less allowance for impairment:		
Credit risk provision	**(98,999)**	(44,752)
Total	15,092,975	14,055,323

The total receivable balance is stated net of operating lease residual value adjustments. Further analysis of the residual value adjustments can be found within the Residual value risk section of this note below.

The estimated fair value of collateral held for receivables on which impairment allowances were recognised totalled £9.3bn in the year (2017: £9.6bn). This related primarily to new and used Volkswagen Group branded vehicles on Finance lease agreements.

The Group actively manages its credit exposures and when weaknesses in exposure are detected, either in individual exposures or in group exposures, action is taken to mitigate the risks. These include steps to reduce the amounts outstanding either through written or verbal communications with the customer and when appropriate, repossession and sale of the hire purchase or leased assets.

The Group monitors the credit quality of retail assets (finance lease receivables and operating leases) when they are originated, it also monitors these on an on-going basis. The group views all retail assets that are neither past due nor specifically impaired to be good quality.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. To minimise this risk the Group takes the following measures. The Group's day-to-day liquidity is managed in conjunction with VWFS AG Treasury in such a way to ensure that it can meet future payment obligations. In addition the Group performs cash flow forecasting in order to ensure that future requirements can be met.

The Group reports its funding requirements into the VWFS AG Group wide liquidity planning which is the basis for obtaining liquidity in the world's financial markets. To ensure access to liquidity at attractive rates, the VWFS Group is present in all important capital markets to enable a diversification of funding sources including asset backed transactions.

23. Financial instruments (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2018			
	Carrying amount	Contractual cash flows	1 year or less	More than 1 year
	£000	£000	£000	£000
Non-derivative financial liabilities				
Loan amounts due to fellow group affiliates	6,996,769	7,112,337	5,325,939	1,786,397
Loan notes	6,998,772	7,139,386	1,795,280	5,344,106
Bank borrowings	-	-	-	-
Trade and other payables	225,959	225,959	225,959	-
Derivative financial liabilities				
Interest rate swaps	13,706	46,872	13,534	33,338
Total	14,235,206	14,524,554	7,360,713	7,163,841

	2017			
	Carrying amount	Contractual cash flows	1 year or less	More than 1 year
	£000	£000	£000	£000
Non-derivative financial liabilities				
Loan amounts due to fellow group affiliates	7,404,778	7,527,709	2,740,706	4,787,004
Loan notes	5,211,158	5,308,235	1,707,846	3,600,389
Bank borrowings	474,455	479,698	479,698	-
Trade and other payables	46,516	46,516	46,516	-
Derivative financial liabilities				
Interest rate swaps	38,264	66,061	25,963	40,098
Total	13,175,171	13,428,219	5,000,729	8,427,491

Interest rate risk

Interest rate risk includes potential losses from changes in market rates. It arises from non-matching fixed-interest periods of a portfolio's assets and liabilities. If interest rates change, this would adversely affect the results of operations.

Interest rate risks are determined as part of the monthly monitoring process using the value-at-risk ("VaR") method based on a 40 day holding period and a confidence level of 99%. This model is based on a historical simulation and calculates potential losses taking 1,000 historical market fluctuations (volatilities) into account.

Treasury is responsible for interest risk management based on the resolutions of the ALM Committee of VWFS AG. Interest rate risk is managed using interest rate derivatives.

23. Financial instruments (continued)

Derivative financial instruments

Interest rate swaps	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Current	5,255	1,261	832	7,458
Non-current	36,770	12,445	36,996	30,806
Total	42,025	13,706	37,828	38,264

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The notional principal amounts of the outstanding interest rate swaps at 31 December 2018 for the purposes of hedging were £10.950bn (2017: £9.280bn).

The SPE referred to in note 16 has entered into interest rate swap arrangements for the outstanding amount of note liabilities which are designed to hedge the interest rate risk arising over the life of the funding arrangement. The swaps are reset at the same dates on which the underlying note liabilities are renewed.

At 31 December 2018, the fixed interest rates vary from 0.93% to 2.35% (2017: 0.29% to 1.91%).

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

Fixed rate instruments	2018	2017
	£000	£000
Financial assets - Loans and receivables	178,485	171,736
Financial assets - finance lease receivables	12,485,807	11,567,338
Financial liabilities - loans from fellow group affiliates	(325,615)	(1,139,859)
Total	12,338,677	10,599,215

23. Financial instruments (continued)

Variable rate instruments	2018 £000	2017 £000
Financial liabilities - loans from fellow group affiliates	(6,671,154)	(6,264,919)
Financial liabilities - Loan notes	(6,998,772)	(5,211,158)
Financial Liabilities - Bank Borrowings	-	(474,455)
Total	(13,669,926)	(11,950,532)

The Group has designated that finance lease receivables due from customers, which are all at a fixed rate, constitute the financial asset portion of the fixed rate instruments.

Sensitivity analysis

The Group applies a Value-at-Risk ("VaR") approach for internal reporting purposes and to manage interest rate risks. Value-at-Risk is a statistical estimate, based on historic volatility of interest rates, given a certain confidence level over a specified holding time period, of how much a Group can expect to lose on its positions, given a change in interest rates. No prospective view on market developments are used in the calculation of VaR. Within the group, VaR is used to ensure adequate economic capital is maintained on the balance sheet to cover fluctuations in market rates.

The Value-at-Risk was as follows:

	2018	2017
Confidence level	99%	99%
Retention period	40 days	40 days
Value-at-Risk	£22.4m	£19.0m

23. Financial instruments (continued)

Residual value risk

The profitability of the Company's vehicle operating lease and personal contract purchase contracts is highly dependent on the residual value ("RV") of the vehicle at the end of the agreement, which in the case of a personal contract purchase agreement arises if the customer returns the vehicle to VWFS in full and final settlement of the agreement.

On inception of the lease or personal contract purchase, the Company uses its knowledge and experience of the market and industry to estimate the final RV of the vehicle. This is compared to other providers using competitor surveys such as the Insight report from CAP Derwent. However, future RVs can be difficult to predict due to a number of reasons, including future market trends and customer demands. The Company and the Group is always exposed to the risk that the RV of the vehicle may be less than anticipated at the outset of the contract impacting profitability.

The Company manages this risk through effective and robust procedures by continually monitoring historic, current and forecast RV performance, RV estimates and exposures within its portfolio, both against industry-wide data such as CAP and Glasses Guides, and the Company's own remarketing information on remarketing VW group and non-group vehicles. This ensures that any appropriate early action can be taken to mitigate RV risk.

Since the emergence of the NOx issue VWFS has continued to review the estimates and underlying assumptions in relation to potential changes in RVs through ongoing analysis of both its own portfolio and by reviewing leading market data and opinion. Used affected vehicles are still being sold and we are continuing to monitor sales of affected vehicles. To date, we have not identified any decline in the UK of the anticipated RVs of the VWFS portfolio as a result of the NOx emissions issue.

Notwithstanding the NOx issue, both VWFS and leading market data and opinion have observed evidence of a general degradation in RVs in the used car market as a result of the existing economic cycle and in respect of diesel vehicles, irrespective of manufacturer, as anti-diesel political sentiment in the UK has intensified. This is likely to impact the RVs of our portfolio in the short term and beyond. We are continually monitoring the RVs of our portfolio through robust, well established and business as usual monitoring processes. Our asset valuations and risk management processes are robust and in conjunction with the appropriate level of adjustments being maintained, we are confident that the financial impact of a fall in RVs would not materially affect our overall financial soundness.

Further analysis of the residual value adjustments at 31 December 2018 and charge to the profit and loss for the year ended 31 December 2018 can be found in the table below.

	2018 £000	2017 £000	Movement £000	Charged to
Expiry of operating leases (adjustment to fixed assets)	95,272	86,614	8,658	Cost of sales
Vehicles held for remarketing (adjustment to inventories)	4,072	2,166	1,906	Gross Profit
	99,344	88,780	10,564	

Consumers with hire purchase agreements (including personal contract purchase) and hire agreements regulated under the Consumer Credit Act 1974 ("CCA") have the right to voluntarily terminate their agreements early. Expectations of the timings and volumes of voluntary terminations can have an impact on the expected future cash flows of finance lease receivables where the expected RV of the returned vehicle is lower than the customer future receivables. The carrying value of gross leasing receivables has been reduced by £150.1m (2017: £170.5m) in respect of the residual value risk on leasing receivables.

23. Financial instruments (continued)

As a result of the risk management guidelines detailed above, the Group has estimated its future RV exposure on finance lease and operating lease assets:

	2018		2017	
	Contract Purchase Residual Value	Operating Lease Residual Value	Contract Purchase Residual Value	Operating Lease Residual Value
	£000	£000	£000	£000
Residual value exposure:				
Not later than one year	1,038,383	828,834	790,190	740,107
Later than one year and not later than five years	6,090,241	1,249,696	5,734,330	1,233,706
Total residual value exposure:	7,128,624	2,078,530	6,524,520	1,973,813

Sensitivity analysis

The Group regularly performs sensitivity analysis on its exposure to fluctuations in the used car market. The calculation of expected decreases in future cash flows as the result of changes in residual values involves using key management estimates, were there to be a 10% decrease in the residual values this would result in a decrease to finance lease receivables of £114.9m (2017: £95.9m).

Foreign exchange risk

The Group does not have any material exposure to foreign exchange risk due to the small number of financial transactions that take place in a currency other than pounds sterling.

As part of the acquisition of the business of MFS on 30 November 2016, VWFS acquired a branch in Ireland. This means the Company has additional exposure to movements in exchange rates, however due to the relative size of the business in the branch there is not a material exposure.

Capital Management

Capital is managed at a Group level by VW AG, the objective of the Group's capital management is to ensure the organisation provides returns for shareholders and benefits for employees and other stakeholders. For the Financial Services Division of the VW AG group management focus on the return on equity, being the measure of earnings before tax to average equity. Average equity calculated from the balance at the beginning and the end of the reporting period. Furthermore the goals of the Financial Services Division are to meet the banking supervisory authorities' regulatory capital requirements, to procure equity for growth planned in the coming fiscal years and to support its external rating by ensuring capital adequacy. VWFS UK works collaboratively with VW AG in order to positively contribute to these objectives.

The return on equity of the VWFS UK Group is shown in the table below:

	2018	2017
	£'000	£'000
Profit before tax	370,159	222,627
Opening equity	1,211,416	1,062,822
Closing equity	1,506,540	1,245,260
Average equity	1,358,978	1,336,478
Return on Equity	27.2%	16.7%

24. Employee benefits

Employees are members of the Volkswagen Group Pension Scheme and the liabilities of the Group are summarised in the table below. In addition until 31 August 2018 there were a small numbers of employees and former employees who transferred to VWFS from MFS who remained members of the MAN UK Group Pension scheme. On 31 August 2018 these employees transferred to the Volkswagen Group Pension scheme and the Group no longer had a liability to that scheme.

		2018	2017
		£000	£000
Statement of Financial Position			
Other liabilities	i)	-	1,953
Income Statement			
Finance cost	ii)	(27)	428
Other comprehensive income			
Actuarial gain/(loss) on defined benefit pension plans	iii)	3,130	516
i) Provision for pensions			
VWG pension scheme net defined benefit (surplus)/deficit		(1,405)	1,126
MAN pension scheme net defined benefit deficit		-	827
Total (asset)/liability for both schemes		**(1,405)**	**1,953**
ii) Net interest cost from pension provision			
VWG pension scheme Interest income		550	409
MAN pension scheme interest income/(expense)		-	19
Total net interest		**550**	**428**
iii) Actuarial gain/(loss) on defined benefit pension plans			
VWG pension scheme net actuarial gains/(losses) in the year		3,130	674
MAN pension scheme net actuarial gains/(losses) in the year		-	(158)
Total net actuarial gain/(loss)		**3,130**	**516**

Included in the above are past service costs for £0.2m in respect of Guaranteed Minimum Pension (GMP).

Volkswagen Group Pension Scheme

The Company operates a defined contribution arrangement for its employees and directors which are sections of the Volkswagen Group Pension Scheme. The Scheme is funded and is administered by professional pension administrators Barnett Waddingham. The defined benefit section was closed to new entrants on 31 December 2009. Responsibility for the governance of the scheme lies jointly with the member companies, the board of trustees and employee representatives.

The details of the post-employment benefits relevant to key management personnel are set out under note 8.

(a) Defined contribution section
The company's contributions to the money purchase section during the year amounted to £3.0m (2017: £3.1m). There were no outstanding or prepaid contributions at the balance sheet date (2017: £nil).

(b) Defined benefit section
The defined benefit section is a final salary pension scheme which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The defined benefit section is funded and self-administered. Contributions were charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the company.

The defined benefit contributions are determined by an independent qualified actuary, AON, on the basis of actuarial valuations using the projected unit credit method. The most recent completed triennial actuarial valuation of the scheme was carried out by Lane Clark & Peacock LLP , an independent qualified actuary, as at 30 September 2017 signed off in September 2018. For the purpose of these financial statements an updated valuation as at 31 December 2018, based on data consistent with the 30 September 2017 triennial valuation and updated as appropriate, has been prepared by AON, to take account of the requirements of IAS 19.

Contributions expected to be paid in the year commencing 1 January 2019 amount to £0.2m (commencing 1 January 2018: £0.2m).

24. Employee benefits (continued)

The Scheme exposes the Company to a number of risks:

Investment rate risk
The Scheme holds investments in asset classes, such as equities, which have volatile market values. While assets are expected to provide real returns over the long term, the short term volatility can cause additional funding contributions to be required if a deficit emerges.

Interest rate risk
The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities, the value of the assets and liabilities may not move in the same way.

Inflation risk
A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, adverse movements over the short term could lead to deficits emerging.

Life expectancy risk
In the event that members live longer than assumed a deficit will emerge in the Scheme.

There were no scheme amendments, curtailments or settlements during the year.

Amounts recognised in the statement of financial position were as follows:

	2018 £000	2017 £000
Fair value of scheme assets	**28,932**	27,951
Present value of funded obligation	**(27,527)**	(29,077)
Net defined benefit surplus/(deficit)	**1,405**	(1,126)

Amounts recognised in the statement of other comprehensive income over the year were as follows:

	2018 £000	2017 £000
Interest expense on defined benefit obligation	**817**	752
Interest income on scheme assets	**(781)**	(705)
Administration expenses	**514**	362
Expenses recognised in the statement of comprehensive income	**550**	409

Measurements over the year recognised in the statement of other comprehensive income were as follows:

	2018 £000	2017 £000
Effect of changes in demographic assumptions	**(880)**	-
Effect of changes in financial assumptions	**(2,894)**	(240)
Effect of experience adjustments	**(2,052)**	-
Return on scheme asset (excluding interest income)	**2,696**	(434)
Total	**(3,130)**	(674)

24. Employee benefits (continued)

Changes in the assets over the year were as follows:

	2018 £000	2017 £000
Fair value of scheme assets at 1 January	27,951	27,431
MAN Pension Scheme opening balance	3,448	-
Interest income	781	705
Employer contributions	997	496
Benefits paid	(1,036)	(753)
Administration expenses	(514)	(362)
Return on scheme assets (excluding interest income)	(2,695)	434
Fair value of scheme assets at 31 December	28,932	27,951

Present value of obligation at 31 December:

	2018 £000	2017 £000
Defined benefit obligation at the beginning of the year	(29,077)	(29,318)
MAN Pension Scheme opening balance	(4,275)	-
Benefits paid	1,036	753
Interest cost on scheme liabilities	(817)	(752)
Plan amendments	(220)	-
Effects of changes in demographic assumptions	880	-
Effects of changes in financial assumptions	2,894	240
Effects of experience adjustments	2,052	-
Defined benefit obligation at the end of the year	(27,527)	(29,077)

The analysis of the scheme assets at the balance sheet date were as follows:

	Value at 31 December 2018 £000	Value at 31 December 2017 £000
Equities (UK and overseas)	2,279	2,296
Hedge funds	3,350	-
Diversified growth	4,259	3,229
Dynamic Liability Driven Investment (LDI)	18,010	18,003
Cash/other	1,034	4,423
Fair value of scheme assets	28,932	27,951

Scheme assets do not include any of the company's own equity instruments, any property occupied by the company, or any other assets used by the company.

24. Employee benefits (continued)

The present value of the defined benefit obligation was measured using the projected unit credit method and were as follows:

	2018	2017
Valuation method	**Projected unit**	Projected unit
Discount rate	**2.9%**	2.5%
Inflation rate		
- RPI	**3.2%**	3.3%
- CPI	**2.1%**	2.3%
Increases to pensions:		
- April 1997 – September 2005 (LPI 5%)	**3.1%**	3.1%
- post October 2005 (LPI 2.5%)	**2.1%**	2.1%
Salary increases	**-**	-

Salary increases in the above table are shown as nil for 2018 due to the scheme being closed in 2011 and so there was no further expectation of any increase to be included (2017: Nil).

Mortality rates

The mortality assumptions are in line with the S2NA (Year of Birth) mortality tables with a 100% rating. Future mortality adjustments are assumed to be in line with CMI 2017 projections, with a long term annual rate of improvement of 1.25% (2017: 1.5%) for both males and females.

The mortality assumptions used were as follows:

	2018	2017
	Years	Years
Longevity at age 65 current pensioners:		
- Men	**21.9**	23.1
- Women	**23.9**	25.3
Longevity at age 65 for future pensioners		
- Men	**23.3**	25.4
- Women	**25.4**	27.6

Given the considerable uncertainty surrounding future rates of mortality, actual life expectancy for scheme members could be materially different from the assumptions adopted.

24. Employee benefits (continued)

Sensitivity of the value placed on liabilities

To prepare the valuation, assumptions are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities. The future is uncertain and the Scheme's actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely 'correct' and many alternative projections of the future could also be regarded as reasonable. A 'sensitivity analysis' shows the degree to which results would be different if you substitute alternative assumptions within the range of possibilities for those utilized in this report.

An indication of the sensitivity of the results to changes in the most material assumptions is detailed below. The methods and assumptions used in preparing the sensitivity analysis have been consistently applied.

Impact on defined benefit obligation:

	Change in assumptions	**2018** **Net increase / decrease**	2017 Net increase / decrease
Discount rate	-50bp	**2,753**	(354)
- Assumed rate			
- Weighted average duration of defined benefit obligation (in years)			
Discount rate	+50bp	**(2,406)**	(150)
- Assumed rate			
- Weighted average duration of defined benefit obligation (in years)			
Inflation rate	-50bp	**(1,392)**	(4)
- Assumed rate			
Inflation rate	+50bp	**1,434**	(457)
- Assumed rate			
Mortality	1 year longer	**785**	(248)

Breakdown of the present value of the 31 December 2018 IAS 19 obligation by the maturity of the underlying payments (allowing for new retirements)

	£000
Less than one year	**493**
Between two and five years	**1,900**
Greater than five years	**25,134**
	27,527

Effect of the scheme on the company's future cash flows

An actuarial valuation of the Scheme must be carried out at least once every three years. Following each such valuation, the Company is required to agree a Schedule of Contributions with the Trustees of the Scheme. The next valuation of the Scheme is due no later than 30 September 2020. In the event that this valuation reveals a larger deficit than expected, the Company may be required to increase contributions above those set out in the existing Schedule of Contributions dated 30 June 2015. Conversely, if the position is better than expected contributions may be reduced.

In respect of the Final Salary Section of the Scheme, the Company expects to pay contributions of £156,000 in the year to 31 December 2018.

The weighted average duration of the Defined Benefit Obligation is approximately 22 years.

24. Employee benefits (continued)

MAN UK Group Pension scheme ("MAN GPS")

During the year 2016 the Company acquired the share capital of MAN Financial Services PLC (MFS) from its immediate parent company VWFS AG, MFS was a participating employer in the MAN GPS. Subsequent to this the Company transferred the business of MFS into the Company ('hive up'), this included the MFS share of the scheme. On this date the employees of MFS transferred across to be employed by the VWFS. As at the year end 2017 there were 12 employees and former employees who were still members of the MAN GPS. On 31 August 2018, the assets and liabilities in respect of members of the MAN UK Group Pension Scheme that VW FS were responsible for, were transferred into the VW Group Pension Scheme.

The disclosures below relate to the Company's share of the scheme for the comparative period. The last full actuarial valuations of MAN GPS was on 5 April 2014, performed by an independent actuary.

Amounts recognised in the statement of financial position were as follows:	2017
	£000
Fair value of scheme assets	3,448
Present value of funded obligation	(4,275)
Net defined benefit deficit	(827)

Amounts recognised in the statement of other comprehensive income over the year were as follows:

	2017
	£000
Interest expense on defined benefit obligation	(107)
Interest income on scheme assets	88
Administration income	-
(Expense) recognised in the statement of comprehensive income	(19)

Measurements over the year recognised in the statement of other comprehensive income were as follows:

	2017
	£000
Effect of changes in demographic assumptions	(64)
Effect of changes in financial assumptions	178
Return on scheme asset (excluding interest income)	44
Total	**158**

24. Employee benefits (continued)

Changes in assets over the year were as follows:	2017
	£000
Fair value of scheme assets at 1 January	3,379
Interest income	88
(Loss)/return on plan assets excluding interest income	(44)
Contributions paid by employer	25
Fair value of scheme assets at 31 December	3,448

Present value of obligation at 31 December:	2017
	£000
Defined benefit obligation at the beginning of the year	(4,054)
Service cost	-
Interest expense	(107)
Actuarial loss	(114)
Defined benefit obligation at the end of the year	(4,275)

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 31 December
	2017
	£000
Equities	685
Bonds	787
Other – Index linked gilts	1,876
Other – Cash and real estate	100
Fair value of scheme assets	3,448
Present value of funded obligation	(4,275)
Pension scheme liability	(827)

The major assumptions used in this valuation were:

	2017
Rate of increase in salaries	3.45%
Rate of increase in pensions in payment and deferred pensions	2.20%
Discount rate applied to scheme liabilities	2.40%
Inflation assumptions	3.20%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Mortality Assumptions

The post-retirement mortality assumptions used in valuing the liabilities of the scheme at 31 December 2017 were based on the S2PA tables. These were then adjusted for future improvements based on CMI 2016 with 1.25% p.a. minimum improvements. The current life expectancy at 31 December 2017 for a member now aged 65 will be 21.7 years and for a member now aged 45 life expectancy at age 65 will be 23.4 years.

25. Related parties

The related parties with which the Company traded during the year or with whom there were outstanding assets or liabilities at the year-end are listed below. Each of the related parties is a subsidiary of Volkswagen Aktiengesellschaft (VW AG), the ultimate parent company and controlling party. The number of related parties within the VW AG group is extensive and as a result is too extensive to list here, therefore only those with whom the Company traded during the year are listed. The full list can be found in the Annual Return of the Company.

Identity of related parties:
Volkswagen AG Konzernteil, 38436 Wolfsburg, Deutschland
Porsche Retail Group Limited, Reading, Berkshire, RG31 7SG, UK
Bentley Motors Ltd., Pyms Lane, Crewe, Cheshire, CW1 3PL, UK
Volkswagen Group United Kingdom Ltd., Yeomans Drive, Blakelands, Milton Keynes MK14 5AN, UK
Volkswagen International Luxemburg S.A, 291 Route d'Arlon, 1150 Luxembourg
Volkswagen Financial Services AG, Gifhorner Straße 57, 38112 Braunschweig, Germany
Volkswagen Bank GmbH, Gifhorner Straße 57, 38112 Braunschweig, Germany
Volkswagen International Finance N.V., Paleisstraat 1 1012 RB Amsterdam, Netherlands
Volkswagen Group Services S.A., Woluwedal 18 Sint-Stev-Woluwe 1932, Belgium
Volkswagen Financial Services N.V., Saturnus 1 NL-3824 ME Amersfoort, Netherlands
Volkswagen Insurance Service Ltd., Brunswick Court, Yeomans Drive, Blakelands, Milton Keynes, MK14 5LR, UK
Porsche Cars (GB) Limited, Bath Road Calcot Reading RG31 7SG, UK
Porsche Financial Services Limited, Bath Road, Calcot, Reading RG31 7SE, UK
Volkswagen Bank GmbH (France), Avenue de la Demi-Lune, 95700 Roissy-en-France, France
Volkswagen Bank GmbH (Netherlands), Saturnus 1, 3824 ME Amersfoort, Netherlands
Volkswagen Bank GmbH (UK), Brunswick Court, Yeomans Drive, Blakelands, Milton Keynes MK14 5LR, UK
Volkswagen Bank GmbH Branch Ireland, Block C, Liffey Valley Business Campus, Dublin 22, Ireland D22CF60
Volkswagen Business Service GmbH, Gifhorner Straße 57 38112 Braunschweig Germany
Volkswagen Leasing GmbH, Gifhorner Straße 57 38112 Braunschweig Germany
Driver UK Master S.A. 52-54, Avenue du X Septembre, L-2550 Luxembourg
Driver UK Multicompartment S.A. 52-54, Avenue du X Septembre, L-2550 Luxembourg
Seat S.A., Spain, Catalonia, Barcelona, 08027, Autovía A-2, Km. 585, Martorell (E-08760)
MAN Truck & Bus UK Ltd, Clearwater House, Clear Water Business Park, Frankland Road, Swindon SN5 8YU, UK
MAN Financial Services Limited, Clearwater House, Clear Water Business Park, Frankland Road, Swindon SN5 8YZ, UK
Ducati UK Limited, Silverstone Circuit Silverstone NN12 8GX, UK
MAN Diesel & Turbo UK Ltd, Stockport, Cheshire SK7 5BP, UK
Scania Finance, Atterbury, Milton Keynes MK10 9RG, UK
Scania GB Limited, Delaware Drive, Tongwell, Milton Keynes MK15 8HB, UK

The following transactions were carried out with related parties:

Group and Company

Sales of goods and services

	2018 £000	2017 £000
Sales of goods and services:		
- Other related parties	**46,695**	44,377
Total	**46,695**	44,377

Purchase of goods and services

	2018 £000	2017 £000
Purchase of goods and services:		
- Parent	**7,902**	11,416
- Other related parties	**701,342**	793,843
Total	**709,244**	805,259

25. Related parties (continued)

Interest payable

	2018 £000	2017 £000
Interest payable:		
- Parent	**7,902**	11,416
- Other related parties	**106,535**	81,765
Total	**114,437**	93,181

Subsidies due

	2018 £000	2017 £000
Subsidies due:		
- Other related parties	**149,955**	184,953
Total	**149,955**	184,953

Interest receivable

	2018 £000	2017 £000
Interest receivable:		
- Other related parties	**9**	28
Total	**9**	28

Amounts receivable from related parties at the year end, which the Company expects to be settled in cash, were as follows:

Amounts due from fellow group affiliates

	2018 £000	2017 £000
- Parent	**-**	150
- Other related parties	**44,382**	42,088
Total	**44,382**	42,238

No amounts were due from the ultimate parent.

25. Related parties (continued)

Amounts payable to related parties at the year end, which the Company expects to be settled in cash were as follows:

Trade and other payables

	2018	2017
	£000	£000
Trade and other payables	**50,385**	50,677
Of which:		
Due to the parent	**-**	81

Loan amounts due to fellow group affiliates

	2018	2017
	£000	£000
Current liabilities	**1,978,020**	2,463,568
Non-current liabilities	**5,018,748**	4,626,876

The current loan amount due to VIS Limited as at 31 December 2018 was £1.2m (2017: £1.5m).

The amounts due to fellow group affiliates consist of loan balances with wholly owned subsidiaries of Volkswagen AG and are interest bearing with rates ranging between 0% and 4.066%. All amounts due to fellow group affiliates are unsecured. No amounts were due to the parent or ultimate parent.

Dividends received

There were no dividends received in the year (2017:nil)

Other Related Parties

The Company operates a scheme whereby employees of companies within the VW UK group of companies are eligible to loans which can only be used to fund the purchase of a car from the VW UK Group at a discounted retail price. This vehicle is purchased on the basis VW UK Group will buyback the vehicle at the end of an agreed period or when the vehicle has completed between 6,000 and 8,500 miles. The proceeds of the buyback are used to settle the loan and no cash flows for the loan pass through employees.

The details of the transactions are disclosed below and represent the discounted aggregate retail value (loan amount) of the cars acquired by directors of other companies within the VW UK group of companies during the year, the comparative year relates to the period from which VWFS funded the scheme, 1 October 2015.

	2018	2017
	£000	£000
Amounts outstanding at the beginning of the year	**854**	1,011
Monies advanced by the Company during the year	**2,772**	2,058
Amounts repaid during the year	**(2,611)**	(2,215)
	1,015	854

Guarantees

During the year, Volkswagen Financial Services AG has provided a guarantee to the landlord of One Delaware Drive for the rent payable over the period of the lease.

Key management compensation

Key management includes directors (executive and non-executive) and members of the Executive Board. The transactions with and compensation paid or payable to the key management for employee services is shown in Note 8.

26. Operating Lease commitments

As at 31 December 2018 the company had aggregate commitments as a lessee under non-cancellable leases that expire as set out below:

	Buildings		Other	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
In one year	**2,511**	2,394	**5**	-
In the second to fifth years inclusive	**9,860**	9,575	-	-
Over 5 years	**37,700**	40,094	-	-
At 31 December	**50,072**	52,063	**5**	-

Volkswagen Financial Services AG has provided a guarantee to the landlord of One Delaware Drive for the rent payable over the period of the lease.

27. Ultimate parent company and parent company of larger group

During the year the immediate parent undertaking is Volkswagen Bank GmbH (VW Bank GmbH), a company incorporated in Germany. VW Bank GmbH is the parent undertaking of the smallest group to consolidate these financial statements.

On 29 March 2019 the immediate parent of the Company and its' subsidiaries Volkswagen Insurance Service (GB) Limted and MAN Financial Services Limited changed from Volkswagen Bank GmbH to Volkswagen Financial Services AG as part of a restructure.

The ultimate parent undertaking and ultimate controlling party by virtue of shareholdings remained as Volkswagen AG, a company incorporated in Germany. Volkswagen AG is the parent undertaking of the largest group to consolidate these financial statements. Copies of the ultimate and immediate parent's consolidated financial statements may be obtained from the offices of:

Volkswagen Aktiengesellschaft Finanz
Publizität und Statistik
D-38436 Wolfsburg
Germany

Volkswagen AG, Wolfsburg, is the sole shareholder of VW Bank GmbH and Volkswagen Financial Services AG. At the year-end Porsche SE held an equity stake of 52.20% (2017: 52.20%) in Volkswagen AG. Porsche Automobil Holding SE, Stuttgart, owned the majority of the voting shares in Volkswagen AG as at the balance sheet date. The extraordinary Annual General Meeting of Volkswagen AG on 3 December 2009 resolved to give the German state of Lower Saxony the right to appoint board members. Hence Porsche SE can no longer appoint the majority of the members of Volkswagen AG's Supervisory Board as long as the state of Lower Saxony is holding at least 15% of the ordinary shares. However, Porsche SE has the opportunity to participate in the Volkswagen Group's corporate decision making.

28. Business Combination

On 4 May 2018 the Company acquired 100% of the shares of Volkswagen Insurance Services (Great Britain) Limited for a total consideration of 6,273,000 from two related companies as follows:

Volkswagen Group United Kingdom Limited - 19,600 B ordinary shares of £1.00 each for £3,074,000

Volkswagen Versicherungsdienst GmbH 20,400 A ordinary shares of £1.00 each for £3,199,000

As the ultimate parent of the Company and Volkswagen Insurance Services (Great Britain) Limited is VW AG the transfer has been accounted for as a transaction of entities under common control.

At the date of acquisition the net assets acquired by the Company are shown below, as the transaction was accounted for using predecessor accounting the assets and liabilities were transferred at book value:

	2018
Assets	**£000**
Trade Debtors	30
Cash at Bank	655
Deferred tax asset	48
Total Assets	733
Liabilities	
Sundry Creditors	25
Accruals	359
Corporation tax payable	96
Total Liabilities	480
Net Assets	253
Consideration	6,273
Decrease shown in Statement of change in equity	**6,020**

The principal activity of VIS is to arrange insurance for vehicle owners of Volkswagen Group vehicles on behalf of retailers. VIS receives commission for this service and the valuation of the business was based on these future income streams. VWFS purchased the book to compliment it's existing insurance commission income stream.

Since acquisition VIS has contributed £0.4m of income to VWFS.

29. Contingent Liabilities

The following information is provided in respect of civil proceedings formally issued in the High Court of England and Wales against VWFS in respect of the NOx issue.

The civil proceedings in England and Wales are still at a relatively early stage. It is not apparent what sums will be either claimed and/or ultimately awarded, if any, in the event VWFS is found liable nor what costs are likely to be incurred by VWFS in defending such proceedings. As such, it is not practicable to provide an estimate of the financial effect of any proceedings in respect of the NOx issue.

However, some information that is currently known in respect of the existing proceedings against VWFS is set out below:

VWFS, and other Volkswagen Group entities, face legal proceedings from a number of firms of solicitors based in the UK acting on behalf of affected owners of which a sub-population of them entered into a financial agreement with VWFS in respect of their vehicles and may pursue claims against VWFS. On 28 October 2016 one of the claimant law firms representing a number of claimants applied to the High Court for a Group Litigation Order (the "GLO") to enable the court to manage any claims relating to the NOx issue.

The President of the Queen's Bench Division has now given his consent to the GLO and the GLO has been formally made. At present, there are approximately 117,000 claimants in the group action. The claimant firms have not yet specified how many of these claimants intend to bring claims against VWFS. At a case management conference on 5 and 6 March 2019 the court directed that certain matters in the litigation be determined by way of a trial of preliminary issues, to proceed while the main action progresses. A further case management conference to determine the progression of that trial of preliminary issues is due to be heard on 31 May 2019 at which it is expected further directions will be given by the court on the conduct of that aspect of the litigation. A further case management conference will be scheduled for directions in respect of the main action after the trial of preliminary issues has taken place. It is expected that a trial of the main action will likely take place in 2021.

As against VWFS, the claimants that entered into a financial contract with VWFS allege that they have a claim under the Consumer Credit Act 1974 (the "CCA") on the basis that the vehicles under the financial contract were not of satisfactory quality and/or that an 'unfair relationship' under the terms of the CCA existed between VWFS as a result of actions and/or omissions alleged against other Volkswagen Group entities. The claimants seek compensatory and exemplary damages for these alleged breaches of the CCA and other relief for the losses they are alleged to have suffered.

VWFS disputes the allegations being made and intends to vigorously defend this litigation and believes that there are good defences to the claims as it understands them.

30. Post balance sheet event

On 29 March 2019 the immediate parent of the Company and its' subsidiaries Volkswagen Insurance Service (GB) Limted and MAN Financial Services Limited changed from Volkswagen Bank GmbH to Volkswagen Financial Services AG as part of a restructure.