Volkswagen Financial Services (UK) Limited

Annual report and financial statements
For the year ended 31 December 2021

Registered number 2835230

Annual report and financial statements for the year ended 31 December 2021

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Directors, Advisors and Independent Auditors

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Strategic Report

The directors present their strategic report on the company for the year ended 31 December 2021

Principal activities

Volkswagen Financial Services (UK) Limited ('Company') provides financial products and services to retail and business 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

Throughout 2021 COVID 19 continued to have an impact on the industry with the lockdown in the early part of the year and then restrictions at the back end of the year with the appearance of the Omicron variant. Furthermore the second half of the year in particular saw significant supply issues for the industry, with the global semi-conductor shortage impacting new business volumes. All of these challenges have limited opportunity for a continuation in the growth of the balance sheet seen pre-pandemic with little change in earning assets year on year. However given the challenges, maintaining the portfolio can be seen as a positive, although this will have an impact on future years' revenues, at least up until volumes return to normal levels. The shortage of new vehicles did however have a positive effect on used car market values which have contributed to the Company delivering another strong financial result with operating profits increasing significantly on 2020.

New business written in the year increased 0.9% with 345,669 (2020: 342,510) vehicles being financed with the total value funded during the year of £8,008m (2020: £7,473m). New car business increased from 2020 with £5,256m advanced in 2021 compared to £5,073m an increase of 3.5% when comparing two years significantly impacted by COVID-19. 2020 had seen the closure of new business channels from late March until the end of May, followed by a period of lockdown at the end of the year which continued into 2021. In 2021 there were COVID restrictions but also the impact of Brexit which posed new challenges on trading arrangements and the semi-conductor supply shortage. When compared to the last pre-pandemic year, 2019, new business was down just under 10%. 2021 saw an upturn in used vehicle sales for the Company, volumes were up 7.8% with 143,340 contracts activated compared to 132,997 in 2020, this was only down 2.4% on 2019. Used car values advanced were however up on 2020 (+14.7%) and 2019 (+4.1%) at £2,751m reflecting the significant increases seen in used car market values in part as a result of the supply issues with new vehicles.

In the new car market there continued to be strong growth in electric vehicle sales with more than 40% of models in the industry now available as plug in, while these vehicles continue to increase in popularity there remain the challenges to ensure the infrastructure to support them is in place. Petrol still remains the most popular engine type with just over 58% market share including mild hybrid petrol vehicles, although the market share is reducing. Diesel registrations continued to fall finishing the year with just over 14% market share, including mild hybrid. The Company continues to develop products specifically to support the expansion of the electric vehicle offering of the brands.

Volkswagen Group United Kingdom Limited increased market share in the year accounting for 23.5% (2020: 23%) of new car registrations, unit sales also increased up 2.9% from 375,913 units in 2020 to 387,104, while this shows a slight recovery it is still significantly down on pre-pandemic levels. Penetration rate, a measure of the number of new cars funded by the Company as a percentage of total VW Group registrations, decreased slightly in the year to 51.0% (2020: 54.9%) but continues to show strong commitment to our products.

The Company has a strong financial result recording an operating profit of £695.4m for the year, an increase of 120% from £315.4m, the main driver of the positive performance being improvements in used car market values. The book saw little change even with a backdrop of supply restrictions net finance lease receivables decreasing by £0.1bn to £13.7bn (2020:£13.8bn) while operating lease assets increased from £2.5bn to £2.6bn.

Interest costs decreased in 2021 compared to 2020 with the Company benefitting from lower interest rates on a broadly stable funding requirement as a result of the stable book, in addition VWFS repurchased the remaining subordinated debt in Driver UK Master Compartment four and Driver UK Master Compartment five, and Driver UK Multi-Compartment S.A. acting as Private Driver UK 2020-1 and Driver UK Multi-Compartment S.A. acting as Private Driver UK 2018-1. VWFS also has a robust hedging strategy which reduces exposure to interest rates risk.

During 2021 funding was renewed on four existing ABS transactions. The Driver UK Master S.A. acting as Driver UK Master Compartment two transaction saw further tap up issuances of £450m in May 2021 and £300m in November 2021, taking the transaction to £6.714bn in total. The Driver UK Master S.A. acting as Driver UK Master Compartment three transaction was renewed in September 2021 at a size of £610m. The Driver UK Master S.A. acting as Driver UK Master Compartment four transaction was renewed in February 2021 at a size of £958m. The Driver UK Multi-Compartment S.A. acting as Private Driver UK 2020-1 was renewed in March 2021 at a size of £711m.

The availability of funding is discussed in the liquidity risk section below which demonstrates that even in a high stress scenario the Company continues to have sufficient levels of liquidity to service debts and fund expected volumes of new business. Day to day operations have seen a significant change since the COVID-19 outbreak with the Company's long established business continuity plans being successfully enacted. This meant all employees were working remotely within one week of the Government decision to significantly restrict movement and require all employees who can to work from home and staff were able to maintain all business activity from remote locations throughout the year.

Business review (continued)

2021 saw the roll out of the COVID-19 vaccination programme and recent end of restrictions which has improved the general and economic outlook however inflation continues to be an area of concern with it potentially slowing the broader recovery. In addition to this the ongoing vehicle supply issues as a result of the global semi-conductor shorter will make 2022 challenging from a new business and portfolio perspective. Furthermore the recent developments in the Ukraine bring global uncertainty and concern. The Company has shown in recent years it is well placed to deal with new challenges having successfully navigated through these unprecedented times, adapting the workforce to work remotely and continuing focus on positive customer outcomes, and continuing to look to the future developing new products and sales channels to ensure the Company is well placed for years to come.

The restrictions imposed as a result of COVID-19 impacted individuals and companies and their ability to meet their financial commitments, which created a potential credit risk for the Company. VWFS remained committed to supporting people and companies during this period and had in place a number of options. In line with Financial Conduct Authority (FCA) requirements VWFS provided payment deferrals to customers who were having temporary difficulties meeting finance or leasing payments due to COVID-19. Where customers were experiencing temporary payment difficulties due to COVID-19 and needed use of a vehicle, VWFS looked to mitigate the end the agreement or repossession of the vehicle. In addition to payment holidays VWFS offers options for extending Arrangements to Pay (ATPs) for up to 3 months which was extended to 12 months where appropriate for individuals, these arrangements continue to be put in place based on affordability and in the interest of customers, furthermore customers were allowed to break the ATP up to three times rather than the existing two. Corporate customers continue to be able to make individual arrangements depending on their individual situation and creditworthiness, and there were a number of payment holiday requests in the Truck and Bus sector, this is a small part of the VWFS portfolio.

VWFS has seen a decrease in retail arrears since the beginning of 2021 with more certainty over COVID-19 which led to a more positive economic outlook by the end of the year, the Company decreased credit risk provisions to take account of these factors while ensuring that the concerns over inflationary pressures and the ongoing conflict in the Ukraine are considered. However, as in previous periods of economic stress such as the 2008-09 economic recession, which caused financial stress for a significant period, the portfolio is expected to remain resilient.

The recent events in the Ukraine creates global uncertainty and Volkswagen continues to hope for a cessation of hostilities and a return to diplomacy and believes that a sustainable solution to the conflict can only be found on the basis of international law. VWFS and the whole Volkswagen Group will be affected by the impact the conflict has on the whole European economy and in particular the immediate effect on the supply of new vehicles from this market.

The Volkswagen Group has a global network of more than 40,000 suppliers, including some in Western Ukraine. The supply chain is already being adversely affected due to the current situation in this region. This may result in adaptations to production at individual locations of the Group. Furthermore long-term interruptions to global supply chains which could result in, among other things, considerable price increases, an energy shortage and an increase in inflation and thus have massive negative effects for European companies. Europe is dependent on imports of raw materials and so there might be long-term bottlenecks with problems in the logistics chain due to a loss of haulage capacities and, for example, long waits at border crossings. Vehicle and component deliveries by rail and truck along the usual routes have been interrupted. Transportation of them by ship is very difficult because many shipping companies refuse to call at Russian ports. At the same time, freight charges and insurance premiums are increasing.

The degree to which Volkswagen Group business activities are impacted is continuously ascertained by experts in a Group-wide task force, which is proceeding cautiously in the coming days and weeks and constantly assessing the situation. The task force has already reduced production stoppages and secured production while the Group stands by its suppliers in Ukraine and, as befits a partner, is doing all it can to help the local companies. However, together with partners the Volkswagen Group continues to assess where alternative production can be quickly established so as to ensure that the components in question are supplied. That may ultimately mean surplus capacities if the war is over soon – but that is better than a shortage of parts.

In summary, the Company has a strong balance sheet with significant available capital reserves and has reflected the possible expected impacts of the current economic conditions that remain from the COVID-19 pandemic including supply shortages within the financial result for the year and these are also reflected in the financial position of the Company. It should however be said that while there is more certainty over COVID-19 than twelve months ago the situation remains unprecedented and there are further concerning developments on the horizon with inflationary pressures, supply issues and the conflict in the Ukraine, therefore while best estimates of the outcome can be made it's still a difficult scenario to forecast.

Strategic Report (continued)

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 Volkswagen Group vehicles with type EA 189 2.0ltr 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 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 some had financial agreements with VWFS in respect of their vehicle.

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 ('GLO') for claims relating to the NOx issue. A GLO, entitled the VW NOx Emissions Group Litigation, was subsequently granted. On 25 May 2022, it was announced that the Volkswagen Group had reached an out of court settlement in respect of the VW NOx Emissions Group Litigation ending the litigation. The claims in that group action (including against VWFS) were dismissed by the High Court on 25 May 2022. No admissions in respect of liability, causation or loss have been made by any of the defendants as part of the settlement. The settlement applies to the circa 91,000 claims in the Volkswagen NOx Emissions Group Litigation. It has no bearing on any other claims in England & Wales or any other jurisdiction.

A number of claim forms have also been issued in England & Wales (and some of them served on VWFS) in respect of claims outside of the settled GLO in relation to EA 189 diesel engines. Preaction correspondence indicates that these claims are similar or identical to those advanced in the GLO. It is not clear at this stage precisely how many of these claims are being brought against VWFS although it is expected to be in the thousands (however no claims will be brought only against VWFS). A group action is also proceeding in Scotland in relation to EA189 claims.

VWFS continues to dispute the allegations being made in the remaining English and Scottish claims and believes that there are good defences to the claims as it understands them.

Further, Volkswagen Aktiengesellschaft, VWFS and other Volkswagen Group entities have been notified of other threatened claims in England & Wales in relation to certain other diesel vehicles leased or sold in England, Wales and Northern Ireland since 2009 which contain various diesel engine types. No Claim Form has been served and the claims are uncertain in scope at present.

Results and dividends

The results for the year are set out in the Income Statement on page 20.

The profit for the year is £642.5m (Restated 2020: £222.5m)

The total assets for the Company increased by 0.55% from restated £17,943m to £18,041m during the year.

The directors proposed and paid a dividend of £525m for 2021 (2020: £nil).

As discussed in the business review above, and can be seen in the KPIs in the table below, the Company has continued to perform strongly delivering a strong financial result with operating profit up on last year, increased advances and a consolidated balance sheet position during another unprecedented year of economic and social turmoil, and supply issues.

Statement by the directors in the performance of their statutory duties in accordance with s172(1) Companies Act 2006

In making decisions throughout the year ended 31 December 2021 the board of directors of VWFS have acted in a manner they consider would most likely promote the success of the Company for the benefit of its members as a whole having regard to the stakeholders and matters as set out in s172 (1) (a-f) of the Act. The Company has a clear culture and set of values as set out in the employees section of the directors report on page 11, these are clearly aligned to and supportive of the strategy of the Company set out in the Strategy section below, while risk management and the policies to protect and support the effective operation of the business are described within the Financial Risk Management section.

Strategy

As a captive financial services company and sales promoter for the Volkswagen Group, VWFS are committed to enabling the sale and provision of VWG products and services profitably in the UK market and delivering shareholder value.

Our parent, Volkswagen Financial Services AG, operates in 48 markets through their various subsidiaries, shareholdings and joint ventures and with more than 16,500 employees worldwide and 21.9 million contracts, we ensure that our customers remain mobile and financially flexible every day.

We are making significant steps forward in supporting Volkswagen Groups New Auto – Mobility for generations to come. We continue to develop products and services along with a strong customer service, to ensure we are at the forefront of supporting our customers regardless of how they choose to move around in the future. Our focus on digitalisation, eMobility, Customer Experience and Fleet, whilst also driving forward our Fit for the Future programme ensures we are focussed on driving a sustainable business whilst putting our customers at the heart of everything we do.

Within the UK market we want our customers to enjoy accessible, safe and transparent mobility in their everyday lives. Our goal is to fulfil this wish with our purpose being "We help people drive our cars" through our Customers and Car relationship management programme.

We are expanding outside our traditional business model focussed on financing and leasing and developing new business models to adapt to the market changes and moving towards new mobility concepts. We intend to selectively expand our digital sales and interaction channels and ultimately enhance the loyalty of our customers. Through our Rent-a-car business we offer short term and flexible rental solutions and are working with partners to ensure we can offer customers a range of products and services to support new mobility concepts.

Through our Fit for the Future programme we are taking a multi-faceted approach to ensuring we have a sustainable business focussing on our people, the potential future world, driving out solutions to offer our customers Sustainable mobility solutions and driving down our Carbon footprint. We are implementing new ways of working to reflect a diverse and inclusive population, using technology to improve our pace and flexibility and ensuring we have a constant focus on the skills and capabilities of our people.

Using our guiding principles to steer us in all circumstances, with market leading products and services in our traditional business fields of financing, leasing and fleet and with our focus and progression in our new business fields of electrification and mobility we will continue to be successful whilst adapting and responding to the significant market changes

Factoring our stakeholders into our decision making

When carrying out impact assessments and making key decisions for the organisation it is important that we understand the needs and concerns of all stakeholders. This is done through stakeholder impact analysis being completed for all significant decisions that identifies the potential benefits and areas of concern for each stakeholder group and enables plans to be put in place to mitigate any risks identified and ensure that these are actioned. As an example during the recent and ongoing vehicle supply shortage a new extension product has been launched the impacts the proposed changes would have to help support our customers, the Company, our retailer network and also our suppliers were all considered and feedback received from the stakeholders. These stakeholder impact assessments assist directors when performing their duties under s172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval.

The key stakeholders identified by the Company are:

- **Customers** - Customers are central to the strategy of VWFS and the impact on the customer drives all key decision making within the organisation. As discussed in the strategy section the customer is central to the operation of the Company and its goals. Decisions on product design and pricing take into account both the existing and future needs of the customers but also ensures that customers are treated fairly and consistently. This is achieved through ensuring regulatory compliance with transparency in product details, and clear and understandable communications. The Enterprise Risk Committee, mandated by the Board of Directors, has the remit to embed a clearly articulated risk culture that places the customer at the heart of our business.

- **Suppliers** - Suppliers play a key role in the success of the business and the Company. The Company works closely with key Suppliers to ensure decision making considers the impact on them. VWFS has close working relationships with a number of key suppliers. Management and Board members will regularly conduct meetings and visits to them to promote a positive working relationship beneficial to both parties, this can include involving them in early stages of significant initiatives, key Suppliers are both within and external to the Volkswagen Group.
- **Employees** - Employees are central to the success of the Company and VWFS has a strong culture that ensures the wellbeing of its staff is continuously considered, monitored and supported. This is achieved through regular communication from the Board downwards, a culture that promotes open dialogue and challenge, an employee forum, employee development programmes, the wellbeing centre, the employee helpline, and policies and a culture that promotes inclusion and equal opportunities. The detail of all of these areas are discussed in the Employees section of the Directors Report.

Factoring our stakeholders into our decision making (continued)

- **Community and the environment** - VWFS supports a number of charities through its Community committee and partners with the Local Hospice to ensure we are giving back to the community in which we operate. The Company provides opportunities for individuals, small groups or whole teams to volunteer time to support local charities and operates a Matched funding policy to encourage these activities and contribute greater to the monies raised. The Company understands it has an impact on the environment. Locally it is taking steps to reduce waste on site at its office locations, limit the use of non-reusable materials, encourage recycling and energy conservation. The Company also supports schemes such as ride to work that promote greener transportation methods, and provides on site facilities to ensure staff can take advantage of them such as electric charging points, changing and bike storage facilities. In addition the Company is supporting the development of new technologies by the Volkswagen Group for cleaner vehicles, both new models of internal combustion engines and future generation electric vehicles. This is further discussed in the Climate Change section of the Directors Report.

When making its decisions, the Board considers the outcomes of relevant stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct, and to consider the long-term consequences of its decisions.

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. In addition they are responsible for appropriate provisioning for credit risk within the financial position of the Company.

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.

Financial Risk Management (continued)

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 a number of sources of liquidity, short, medium and long-term funding from inter-company lenders, funding from the sale of securitised assets through our ABS programmes, short-term uncommitted bank loans, debt capital market loans arranged via the parent company, and committed syndicated loan facility. In addition VWFS has a short term overdraft facility in place for operational needs. This combination of funding ensures that VWFS continues to have sufficient and diversified funding available even during periods of stress.

The directors manage the liquidity risk by the following methods. Firstly, the Company works closely with the Treasury department of Volkswagen Bank GmbH (VWB). VWB acts under an Agency Agreement with VWFS with the Treasury functions being undertaken jointly, VWFS focuses predominantly on operations, whereas VWB Treasury focus on the front office activities and the strategy, sourcing counterparties obtaining quotes and executing for those trades VWFS identified as necessary. In connection with this source of funding, the directors ultimately rely on the letter of comfort published by VWFS AG in its financial statements, which confirms that VWFS AG will exert its influence to ensure that obligations to third party creditors are met in the agreed manner. VWFS AG Group has a balance sheet of €125bn and €14bn of equity, it has a diversified funding structure with access to capital markets, Asset Backed Securities and bank borrowings, it has clearly defined liquidity management policies and limits across the VWFS AG Group managed by the VWFS AG Operational Liquidity Committee. 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 September 2022 and November 2022. 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.

VWFS continuously conducts stress scenarios ranging from an 'as-is' scenario with little impact through to a remote high stress scenario where most sources of funding become unavailable, including those modelling likely impacts in the current economic conditions which have placed greater stresses on the economy as a whole and created a risk to liquidity for everyone. In all scenarios VWFS has sufficient liquidity to meet its funding obligations and expected material pipeline.

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 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 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. All fair value movements of derivative financial instruments are charged or credited to the Income Statement.

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.

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.

In addition to ensuring operational risk readiness in a normal environment the Company has robust business continuity plans in place to ensure operations can continue in a number of scenarios such as a loss of building, loss of IT, loss of personnel and with the loss of significant suppliers for certain periods of time. These plans were tested during the COVID-19 pandemic when VWFS was able to quickly operate with the vast majority of employees working from home in early 2020 and continue to do so throughout 2021. All key work processes are now completed remotely including those providing support and services to customers while at the same time security and data protection have remained key and central to operations.

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 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.

During 2020 the FCA issued requirements to firms offering consumer credit to customers experiencing payment difficulties as a result of coronavirus (Covid-19). The Company followed these requirements and provided payment deferrals to customers for up to six months where they meet the conditions set out by the FCA, these deferrals were available for customers for up to six months until 31 July 2021.

There continues to be existing regulation regarding the use of certain fuel types in a number of cities with many low emission zones in place. In the short to medium term these measures would most likely lead to an uptake in Petrol or Alternatively Fuelled Vehicles (AFVs) and non-hybrid AFVs longer term. The sale of new internal combustion engines will cease in 2030 and this transition away from petrol and diesel fuelled vehicles will be a risk factor for VWFS in the coming years however we are confident the relatively short duration of our lease contracts and the commitment of Volkswagen Group to provide Alternatively Fuelled Vehicles (AFVs) will allow the business to adjust its portfolio accordingly. VWFS continues to design and develop new and innovative products to compliment these vehicles.

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 both UK and (to the extent retained under UK law as a result of the European Union (Withdrawal) Act 2018) EU relevant legal and regulatory requirements as well as 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 Act 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 retained version of 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 satisfaction levels have improved in the last 12 months during a another challenging year for everyone as the impacts of COVID-19 continued to be felt both inside and out of work.

Key Performance Indicators

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

	2021	2020	Definition, method of calculation and analysis
Finance penetration %	51.0%	54.9%	This is the percentage of total Volkswagen Group new vehicle registrations funded by the company.
Finance cases - units	345,669	342,510	This is the total number of new contracts funded in the year.
Advances - £m	8,008	7,473	This is the total value of new contracts funded in the year.
Operating Profit - £m	695.4	315.4	This is the annual operating profit of VWFS before taxation charges.
Employee Satisfaction %	86.0%	85.0%	The level of satisfaction is measured based on employee responses to questions in an annual global engagement survey.

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

On behalf of the board

Jean Smith

Jean Smith
Chief Financial Officer
27 June 2022

Directors' report

The directors present their report, and the audited company financial statements, for the year ended 31 December 2021. These have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

Future Developments

As discussed in the Strategic Report the Company will further embed its aim of "We help people drive our cars". To do this effectively the Company is developing new products and services which combined with strong customer services enables customers to be supported regardless of how they choose to move around in the future. This compliments and enables VWFS to support the Volkswagen Group vision of mobility for generations to come, through strategic themes and initiatives. This will be achieved through focus on digitalisation, eMobility, Customer Experience and Fleet while the Fit for the Future programme ensures wefocus on driving a sustainable business that puts the customers at the heart of everything we do.

Dividend

The directors have proposed and paid a dividend of £525m for 2021 (2020: £nil).

Political and charitable donations

The Company has made charitable donations in the year of £107,750 (2020: £229,500), primarily to the Willen Hospice.
The Company made no political donations in the year (2020: £nil).

Directors and directors' interests

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

J Smith	
M Todd	
K Vogler	(resigned 30 September 2021)
J Ebert	
A Bandmann	(appointed on 1 October 2021)

None of the directors held beneficial interests in the share capital of the Company as at 31 December 2021 (31 December 2020: none).

Financial Risk Management

The Strategic Report on pages 3 to 10 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 Company values and the VWFS UK Guiding Principles, to ensure that our employees first of all understand them and their importance in shaping the way we do business and then through continuous education and discussion, ensure we empower our employees to live these. Our Together4Integrity (T4I) Programme was launched in 2019, and has gained momentum and growing focus since that time. This global programme is centred on developing standards of behaviour right across the Volkswagen Group, promoting integrity and openness, while valuing diversity and being responsive, particularly to misconduct. Annual workshops with employees are designed to acknowledge the positive impact and changes that T4I has achieved, as well as assess the perception of employees about how integrity and compliance are being sustainably embedded.

Through our Employee Forum we share business performance, news and updates, and share with the representatives context around business changes, seeking their 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 a range of communication channels including our intranet site FS.NET 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. There has been considerable investment in collaboration tools over the last 2 years, namely in Microsoft Teams functionality, which allows colleagues to speak freely and host online meetings across the business, both locally and internationally.

In addition, the Company provides regular updates through corporate communications on email to all employees on any matters and issues of concern, and All Staff Updates are hosted by the directors throughout the year that ensure the communication of the strategy and direction of the Company, highlight areas of key focus and enable employees to ask any questions. Employees' individual objectives are aligned to those of the organisation and performance assessed against these annually with a direct link to the annual pay review and discretionary bonus award.

Furthermore, departments regularly have 'team huddles' designed to bring together, engage and motivate team members. Employees can thank each other through our 'Living our Spirit Stars' scheme which recognises colleagues who have gone the extra mile.

As a Group we endorse and participate in an annual global engagement survey (Stimmungsbarometer). Colleagues in the UK are invited to respond to a series of questions on a range of topics and we use the results to understand how our people are feeling and to track and measure engagement levels with a focus on action planning for continuous improvement.

Reward and Benefits Provision

We have a market competitive total reward package which includes a basic salary, an annual discretionary bonus scheme, private medical cover, group income protection insurance, pension scheme, life assurance as well as ancillary benefits such as holiday purchase and a cycle to work scheme. There are also various discount schemes that colleagues can access to receive a reduction in high street and online retail outlets. Our wellbeing offering has been recognised by Great Place to Work as a centre of Excellence in Wellbeing and our on premises wellbeing centre provides health assessments, physiotherapy, occupational health support, monthly seminars, health education and lots more. We provide a 24/7 Employee Assistance Programme which is available to all employees covering a range of subjects, which has been well utilised especially given the ongoing global uncertainty and change.

Equal Opportunities and Attraction

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

Internal and external 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. We include questions about integrity in all interviews and the candidate's responses form a key part of any hiring decision. We also take a focused approach with our hiring managers to minimise bias in decision making throughout the selection process.

We have progressed a number of new activities to ensure our business is focused on being as diverse and inclusive as possible, examples include listening groups with the Board of Management, creating and sharing a series of powerful colleague video stories called '100% me' to highlight experiences of bias and discrimination and launching a Reciprocal Partnership mentoring scheme. Our people managers play a key role in driving change and improving inclusivity so to help them better understand the part they play in removing bias, encouraging colleagues to be their authentic selves and providing equal opportunity, we have introduced a mandatory workshop that all people mangers attend.

Learning & Development

The Company promotes a culture of learning and development where colleagues are encouraged to take responsibility for their personal development and develop themselves proactively alongside the Company supporting their ongoing career development and providing opportunities for promotion and career progression within the Company. The current offering spans all elements of development from technical training, continued professional development, behavioural upskilling and leadership development as well as providing the online platform 'LinkedIn Learning' to all colleagues. The method of deployment is varied and we provide a blended solution to develop the skills and behaviours needed to achieve high performance and to maximise the potential of our internal talent pool.

Learning and development requirements are captured as part of our annual performance appraisal process to ensure 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. As part of the annual development planning cycle, the Learning & Development function overlay the wider business objectives and priority areas of skill development to ensure there are appropriate interventions to support business success.

Individuals who join our business are supported through our structured 'Licence2Start' induction programme. The induction helps new employees to understand our business and how we operate, understand important compliance and data management topics and get to know more about our culture. It is also a great opportunity for new employees to meet colleagues from across the business supporting them to quickly settle into our organisation and their new role. In addition to our Company induction, there is specific departmental and technical training delivered locally by the business areas.

Our learning management system, The Learning Zone provides access for employees to book directly on to our Licence2 courses, access materials, resources and online courses on a wide variety of business topics, this has recently been enhanced with the introduction of LinkedIn learning. 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.

Climate Change

The VWFS approach to environmental management is intended to be a transparent and continuous process of improvement that is understandable for customers within the context of both the Corporate Responsibility Strategy and the sustainable development of the Volkswagen Group. Compliance with all relevant legal and administrative regulations and a cooperative interaction with our stakeholder groups is for us a matter of course.

Taking ecological responsibility is a key component of our corporate conduct and a cornerstone of our business operations. We are convinced that we have an obligation to create added value for our customers, employees and investors and to live up to our responsibility towards the environment and society. That is why "We take responsibility for our environment" is one of our guiding principles. Our guiding principles steer us in all circumstances, irrespective of changes in our goals, strategies, type of work or management.

VWG are committed to the 2 degree goal of the Paris Climate Agreement and intend to become a CO2 neutral company by 2050 and by 2025 plan to reduce our total lifecycle Greenhouse Gas emissions of passenger cars and light duty vehicles by 30% compared to 2015

VWFS UK is focused on driving down our carbon footprint as well as ensuring we reduce our impact in many areas of environment. We are taking steps to reduce waste on site at its office locations, limit the use of non-reusable materials, encourage recycling and energy conservation. The Company also actively develops green travel plans which encourage riding to work, an internal EV and e-bike booking scheme along with on site facilities to ensure staff can take advantage of them such as electric charging points, changing and bike storage facilities. We progress sustainable mobility solutions for our customers ensuring we have products and services to promote the move to electric cars, car sharing and enabling customer to have short term use of cars as well as our more traditional finance products.

Climate change presents both a risk and opportunity for the Company. The development of new technologies by group companies is an opportunity for VWFS to develop new products and customer relationships which will be further enhanced through digital developments. This is however a significant change, and there will be risks, existing vehicles will no longer be desired as they once were or permitted as a result of regulatory change. The Company will need to be ready with new products, what was successful in the past may not be relevant in the future. Globally, VW has one of the largest worldwide investment programs of any corporation to ensure readiness for this change and VWFS is already developing new products to support this.

Energy Efficient Actions

In addition to the commitments to climate change described above the Company has been developing plans to enable employees to work from anywhere on a long term basis going forward, this is part of ongoing initiatives around flexible working that the organisation has been rolling out to all employees in recent years. To enable this the Company has invested in the technology to enable all employees to be able to work from remotely where appropriate, and encourages the use of technology to support this such as video conferencing. These initiatives will reduce the need to travel on a daily basis for many employees and limit the amount of business travel for offsite meetings. Furthermore the Company is encouraging and making electric vehicles available for employees, this will also include future investment in further charging facilities for EVs. Finally the Company continues to use and generate solar electricity at its main site.

Directors' report (continued)

Streamlined Energy and Carbon Reporting

VWFS reports greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. VWFS follows the HM Government Environmental Reporting Guidelines (March 2019) and has defined the streamlined Energy and Carbon Reporting as all energy use and carbon emissions from its operations in the United Kingdom where VWFS maintains financial control. The table below summarises the energy consumption and CO2 emissions of the Company.

	Energy Consumption	CO2 Emissions
	kWh	tCO2
Scope 1 Energy/Emissions		
Natural Gas	1,993,687	365
Business Owned Transport	111,874	31
Total Scope 1 Energy/Emissions	**2,105,561**	**396**
Scope 2 Energy/Emissions		
Electricity	1,974,198	419
Total Scope 2 Energy/Emissions	**1,974,198**	**419**

Intensity Metric

Revenue (2021) £m	2,702
tCO2 per £m	0.30

Scope 1 emissions are generated from the gas used in the main operational buildings of VWFS in the UK. The emissions are those generated from the use of company vehicles on company business in the UK.

Scope 2 emissions are generated from the use of electricity in the same UK premises as in scope 1.

The reporting period for GHG emissions runs from 1 January 2021 to 31 December 2021. Conversion factors are from the UK Government's 2021 Conversion Factors for Company Reporting document.

Transport emissions were compiled using actual mileage recordings in 2021. Energy usage in buildings is taken from meter readings at the premises except for one location where the utilities usage is included within the rentals, in this instance an estimate was made based on occupied floor space.

Branches outside the UK

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

Directors' report (continued)

Corporate Governance

The Company has continued to follow its existing Corporate Governance structure, policies and procedures throughout the year since these are already aligned to the best practice principles, these are summarised as follows:

Through the leadership of the Board of Directors (BoD) a clear understanding of the Company's purpose, strategy, culture and values are established. These are then cascaded and embedded in the organisation through policies, committees, and formal and informal communications. They are visible across the organisation and consistently applied across all departments, this is achieved through clear, consistent and regular communication to all employees. The BoD are then accountable to the Board of Volkswagen Financial Services AG and report to the shareholders of the parent company Volkswagen Finance Overseas B.V. The Management Board of Volkswagen Financial Services AG are responsible for approving the remuneration of the directors.

The Company operates through a clear governance process consisting of the Board of Management (BoM) and committees, which have clear terms of reference, there are then policies and procedures that apply across the organisation. The BoM is entrusted by the BoD with the general management of the Company with the exception of the determination of strategic, general policy and direction of the Company and the matters reserved to the BoD or VWFS AG. Matters of fundamental significance to the Company (including those that require BoD approval) must be agreed by both the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The appointment of members of the board is made with due care and consideration for the needs of the business and persons appointed have the appropriate levels of skill and experience to ensure it can achieve its strategy and objectives.

The BoM acts in accordance with all applicable laws and regulations, the Company's articles of association, shareholder resolutions and directives and the requests and instructions of ultimate parent company, Volkswagen AG, and in accordance with the delegated authority of the BoD.
The members of the BoM collectively assist and direct the development, implementation and promotion of the Company's vision, mission, strategy, values, risk appetite and behaviours, and in doing so act in the way to promote the success of the Company for the benefit of its employees, customers and other stakeholders in both the short and long term. This includes ensuring that appropriate resources and controls exist for the organisation to operate effectively and in line with its risk appetite.

The BoM is responsible for ensuring that the Company maintain and operate within an appropriate governance framework (i.e. relevant to the Company's business, reputation, the materiality of the risks inherent and the relative costs and benefits of implementing specific controls), to ensure the management and oversight of risks, effective and efficient operations and delivery, appropriate internal, financial, performance/delivery and other controls, compliance with all relevant laws, regulations and other appropriate (e.g. industry) standards. The BoM ensure that the Company operates with reference to the risk appetite determined by the BoD and this is embedded at a strategic level within the business and that the responsibilities and communication channels are in place to and from the Enterprise Risk Committee (ERC) to ensure key risk measures are in place and monitored by the ERC in accordance with the Company's Enterprise Risk Management Framework.
The ERC is one of several committees in place across the organisation to ensure that appropriate operational governance exists to support the purpose and strategy of the Company. All committees have clearly defined scope, accountability and duties. The ERC is a mandated sub-committee of the BoD to which it will report on a regular basis and its authority extends to all matters relevant to the Company. The Board continue to review and update the governance structure to ensure it is relevant and appropriate for the operational needs of the organisation and to support the achievement of the Company's strategy.

Statement of engagement with suppliers, customer and others in the business relationship with the company

In making decisions throughout the year ended 31 December 2021 the board of directors of VWFS have acted in a manner they consider would most likely promote the success of the company for the benefit of its members as a whole having regard to all stakeholders, details of this can be found in the Factoring our stakeholders into our decision making section within the Strategic Report and the Employees section above.

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 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 company's auditors are aware of that information.

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.

Auditors' independence

During the year the external auditors' did not provide any non-audit services. Auditors' objectivity and independence is safeguarded because all non audit services are always subject to tender, the VWAG policy about commissioning of audit firms and audit networks and ensuring where there are any non-audit activities being performed they conducted by members of auditors' staff not involved in audit activity.

Independent auditors

The directors intend to pass a resolution to reappoint Ernst & Young LLP as the Statutory Auditor for 2022.

Directors' report (continued)

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 company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. 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 company and of the profit or loss of the group and 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 accounting standards 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 company will continue in business.

The directors are also responsible for safeguarding the assets of the 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 3 to 10.

In determining the appropriateness of the Going Concern basis for the preparation of the annual reports and accounts the directors have assessed a period from the date of signing the accounts until 27 June 2023. The assessment considered a number of key factors, namely, accessibility of funding and levels of liquidity, capital reserves, forecasts of business performance and asset risk. Management considers accessibility to liquidity the most significant risk to the business. When considering whether the Company has access to sufficient levels of funding the directors considered a number of scenarios, as is, cautious, downside and an extreme stress scenario. In all instances the Company has sufficient liquidity headroom up to and including 27 June 2023.

After making these assessments, 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 accounts.

On behalf of the board

Jean Smith

Jean Smith
Chief Financial Officer
27 June 2022

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

Opinion

We have audited the financial statements of Volkswagen Financial Services (UK) Limited for the year ended 31st December 2021 which comprise the Income statement, Statement of Changes in Equity, Balance sheet and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- *give a true and fair view of the company's affairs as at 31st December 2021 and of its profit for the year then ended;*
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

Understanding the directors' going concern assessment process;

- Assessing and challenging key factors relevant to the assessment that had been considered by the directors;
- Evaluating the reasonableness of key assumptions included in the directors' going concern assessment, including the consideration of business and strategic plans, capital, liquidity and funding positions, and litigation;
- Assessed the reasonableness of the stress tests performed by the directors, and validating that they included consideration of current and emerging risks, including the impact of Covid-19;
- Performing sensitivity analysis of the stress testing (including reverse stress testing); and
- Performing enquiries of management and those charged with governance to identify risks or events that may impact the company's ability to continue as a going concern. In addition, we read minutes of meetings of the Board and its committees to assess whether there were any other matters discussed that may have an impact on the company's ability to continue as a going concern; and
- Reading the company's going concern disclosures in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period 12 months from when financial statements are authorised for issue until 27 June 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are relate to the reporting framework (FRS 101 and the Companies Act 2006), the relevant direct and indirect tax compliance regulation in the United Kingdom, the Consumer Credit Act 1974 and the license conditions and the supervisory requirements of the Financial conduct authority (FCA).

- We understood how the company is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the company and regulatory bodies, reviewed minutes of the Board and Risk committees and gained an understanding of the company's governance framework.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering risk of management override and by assuming revenue, specifically revenue from service and maintenance contracts and topside adjustments to revenue, to be subject to fraud risk. We considered the controls the company has established to address the risks identified by the directors or that otherwise seek to prevent, deter or detect fraud, including in a remote-working environment; and how management monitors these controls. Our audit procedures also included testing a sample of manual journals to verify the transactions were appropriate and supported by source documentation. We also tested the recognition of service and maintenance income by verifying a sample of the performance obligations and recalculating the revenue recognised, including assessing a sample of the cost input assumptions in the calculation of the revenue recognised.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making inquiry of those charged with governance and senior management as to their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations, inquiring about the company's methods of enforcing and monitoring compliance with such policies, reviewing the complaints log, and inspecting significant correspondence with the FCA.

- The company is regulated in respect of consumer credit and as a general insurance business intermediary under the supervision of the FCA. As such, the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Steven Robb (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 June 2022

Income Statement

for the year ended 31 December 2021

	Note	2021	*Restated 2020
		£000	£000
Revenue	2	2,701,918	2,628,485
Cost of Sales	3	(1,896,239)	(2,071,096)
Gross profit		805,679	557,389
Distribution Costs	5	(40,782)	(34,031)
Administration Costs	5	(93,458)	(68,727)
Other Operating Income	5	62,512	1,847
Other Operating Costs	5	(38,585)	(141,108)
Operating profit		695,366	315,370
Finance (loss)/gain	6	90,386	(49,998)
Impairment on investment in subsidiary	10	(3,564)	-
Profit before tax		782,188	265,372
Taxation	9	(139,645)	(42,824)
Profit for the year		642,543	222,548
Other comprehensive (expense)/income:			
Items that will not be reclassified to the profit or loss			
Actuarial (loss)/gain on defined benefit pension plans	24	1,173	(725)
Tax on (expense)/income recognised directly in equity	13	199	291
Other comprehensive (expense)/income		1,372	(434)
Total comprehensive income for the year		643,915	222,114

All of the above figures relate to continuing operations.
*Refer to note 1 for details of the restatement.

The notes on pages 23 to 63 form part of these financial statements

Statement of changes in equity

for the year ended 31 December 2021

	Share capital and share premium	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000
Balance as at 1 January 2020	87,922	97,123	1,590,465	1,775,510
Changes on hedge accounting			(8,704)	(8,704)
Restated Balance as at 1 January 2020	87,922	97,123	1,581,761	1,766,806
Profit for the year	-	-	233,116	233,116
Changes on hedge accounting	-	-	(21,215)	(21,215)
Prior year tax adjustment	-	-	10,647	10,647
Other comprehensive expense for the year	-	-	(434)	(434)
Total comprehensive income for the year	-	-	222,114	222,114
Restated Balance as at 31 December 2020	87,922	97,123	1,803,875	1,988,920
Restated Balance as at 1 January 2021	87,922	97,123	1,803,875	1,988,920
Profit for the year	-	-	642,543	642,543
Other comprehensive income for the year	-	-	1,372	1,372
Dividend paid	-	-	(525,000)	(525,000)
Total comprehensive income for the year	-	-	118,915	118,915
Balance as at 31 December 2021	**87,922**	**97,123**	**1,922,790**	**2,107,835**

The aggregated current and deferred tax relating to items that were recognised in equity during the year is (£199,000) (2020: (£291,000)).

The notes on pages 23 to 63 form part of these financial statements

*Refer to note 1 for details of the restatement.

Balance sheet

as at 31 December 2021

	Note	2021 £000	*Restated 2020 £000
Non-current assets			
Finance lease receivables	16	9,936,967	9,870,768
Loans and receivables	15	171	715
Leasing and rental assets	12	2,610,632	2,510,014
Right-of-use assets	26	33,927	36,028
Property, plant and equipment	12	6,201	7,614
Intangible assets	11	13,007	5,967
Derivative financial instruments	23	66,307	24,914
Subordinated notes	19	876,451	852,618
Deferred tax assets	13	99,170	121,957
Investments in subsidiaries	10	2,709	6,273
		13,645,542	13,436,868
Current assets			
Cash and cash equivalents (excluding bank overdrafts)	18	16,317	37,945
Inventories	14	44,853	185,076
Trade receivables		83,554	97,588
Loans and receivables	15	172,910	175,980
Finance lease receivables	16	3,786,230	3,940,430
Other receivables and financial assets	17	52,425	41,439
Derivative financial instruments	23	6,616	-
Current income tax assets		37,409	-
Subordinated notes	19	195,057	27,337
		4,395,371	4,505,795
Total assets		18,040,913	17,942,663
Current liabilities			
Financial liabilities	19	3,057,212	2,477,678
Lease liabilities	26	1,436	1,377
Trade payables		58,078	123,841
Other liabilities	20	244,707	200,323
Derivative financial instruments	23	4,653	21,080
Current income tax liabilities		-	4,521
Provisions	21	5,964	12,170
		3,372,050	2,840,990
Non-current liabilities			
Financial liabilities	19	12,317,129	12,839,634
Lease liabilities	26	33,201	34,767
Other liabilities	20	181,155	176,532
Derivative financial instruments	23	27,991	59,097
Provisions	21	1,008	964
Pension liabilities	24	544	1,759
		12,561,028	13,112,753
Total liabilities		15,933,078	15,953,743
Net assets		2,107,835	1,988,920
Equity			
Share capital and share premium	22	87,922	87,922
Other reserves	22	97,123	97,123
Retained earnings	22	1,922,790	1,803,875
Total equity		2,107,835	1,988,920

The notes on pages 23 to 63 form part of these financial statements

*Refer to note 1 for details of the restatement.

The financial statements on pages 20 to 63 were approved by the Board of Directors on 27 June 2022 and signed on its behalf by

Jean Smith

Jean Smith
Chief Financial Officer

1. Accounting policies

Volkswagen Financial Services (UK) Limited ('the Company') is a wholly owned subsidiary of Volkswagen Finance Overseas B.V.

Volkswagen Financial Services (UK) Limited offers financial products and services promoting brands such as Audi, Volkswagen passenger cars, Volkswagen commercial vehicles, SEAT, Skoda and MAN vehicle sales in the UK.

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

The Company is a private company limited by shares, domiciled and incorporated in England and Wales, United Kingdom 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 Company's financial statements have been prepared and approved by the directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards and the Companies Act 2006.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Volkswagen Finance Overseas B.V. The results of Volkswagen Finance Overseas B.V. are included in the consolidated financial statements of Volkswagen Financial Services AG which are available from the offices of:

Volkswagen Aktiengesellschaft Finanz
Publizität und Statistik
D-38436 Wolfsburg
Germany

Given the special nature of the Company's business, the income statement 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 income statement.

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 2021 and have been applied consistently to all periods presented in these financial statements.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

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

The accounting policies which follow set out these policies which apply in preparing the financial statements for the year ended 31 December 2021.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirement of IFRS 7 *Financial Instruments: Disclosures*;
(b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;
(c) the requirement of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers;*
(d) the requirement of paragraph 52, the second sentence of paragraph 89, and paragraph 90, 91 and 93 of IFRS 16 *Leases;*
(e) the requirement of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
  (i) IAS 1 paragraph 79(a)(iv) *a reconciliation of the number of shares outstanding at the beginning and at the end of the period;*
  (ii) IAS 16 *Property, Plant and Equipment*, paragraph 73(e);
  (iii) IAS 38 *Intangible Assets*, paragraph 118(e).
(f) the requirement of IAS 7 *Statement of Cash Flows;*
(g) the requirement of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors;*
(h) the requirements of paragraph 17 and 18(a) of IAS 24 *Related Party Disclosures (key management compensation);*
(i) the requirement in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
(j) the requirement of paragraphs 130(f)(ii)-(iii) of IAS 36 *Impairment of Assets.*

1. Accounting policies (continued)

Management estimates and judgements

The presentation of the financial statements in conformity with FRS 101 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.

Judgements made by management in the application of FRS 101 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, income recognition of service and maintenance contracts, 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 Company's own historical experience in the market. Expected residual values of leased assets are prospectively adjusted for through the depreciation adjustments which are charged to the income statement each year. Refer to Note 12 and 14 for further details.

- Voluntary termination adjustment - 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. The key estimates and judgements that arise in relation to determining the voluntary termination adjustment are:
- expectations of the timings of voluntary terminations - when in the life cycle a voluntary termination is likely to happen will have an impact on the valuation of any adjustment both in relation the time value of cash flows and the expected residual value of returned vehicles;
- the expected volume of voluntary terminations - the quantity of voluntary terminations expected in the portfolio will have an impact on the total size of any adjustment;
- the expected losses given voluntary termination (LGVT) - the estimate of the cash flows of finance lease receivables where the expected RV of the returned vehicle is lower than the customer future receivables.

Refer to Note 16 for further details.

Credit risk provisions are made relating to the recoverability of receivable balances to reflect expected losses. The expected asset collateral is also considered when determining the expected recoverability of the debt. Refer to Note 16 for further details.

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost 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), Exposure at Default (EAD) and Loss Given Default (LGD).

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 Company 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 Company's expectation of the extent of loss on a defaulted exposure and is based on underlying collateral values, expected realisable amounts and statistical decision trees.

Effective Interest Rate (EIR) adjustments are applied to exposures, and are based on two components; Unamortised fees and Day count conventions.
The Internal Liquidity Coverage Ratio (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 Company considers forward looking information in the ECL model assessing various economic variables.

Notes to the financial statements

1. Accounting policies (continued)

Management estimates and judgements (continued)

The expected profit margin on service and maintenance products is a key estimate used that determines the timing of the recognition of income, while this does not change the profit recognised over the whole life it will impact the profits recognised in each financial year. In determining the expected profitability of these products estimates are made concerning the expected costs of providing the service and maintenance and where applicable expectations of the quantity of services required. Refer to Note 20 for further details.

- 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. Refer to Note 13 for further details.
- 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, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Directors' Report on pages 11 to 16. The appropriateness of the going concern basis in the preparation is discussed in the paragraph below. The financial position of the Company, liquidity position and borrowing facilities are described in the primary statements and notes of these set of financial statements.

In determining the appropriateness of the Going Concern basis for the preparation of the annual reports and accounts the directors have assessed a period from the date of signing the accounts until 27 June 2023. The assessment considered a number of key factors, namely, accessibility of funding and levels of liquidity, capital reserves, forecasts of business performance and asset risk. Management considers accessibility to liquidity the most significant risk to the business. When considering whether the Company has access to sufficient levels of funding the directors considered a number of scenarios, as is, cautious, downside and an extreme stress scenario. In all instances the Company has sufficient liquidity headroom up to and including 27 June 2023.

After making these assessments, the directors assessed there to be 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 accounts.

Common Control Acquisitions

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 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 management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and residual value risk. The Company's overall risk management programme relating to each of these risks is set out in the Strategic Report.

1. Accounting policies (continued)

Financial assets and liabilities
Financial assets

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

(ii) Impairment
The Company assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost. The Company 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.

Finance lease receivables

Lease agreements are classified as finance leases when 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 and are classified as embedded derivatives further details of which are discussed in the embedded derivatives section below.

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 United Kingdom Limited employee car ownership scheme and loans to dealers.

Trade and other receivables

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

Trade receivables are predominantly amounts due to other inter-group companies and other receivables consist mainly of third parties.

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 9, 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 deemed loan from the SPEs (note 19) which are secured on, and only has recourse to, the cash flows arising from the auto loan receivables. See also Deemed Loan to SPEs below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and bank overdrafts that are repayable on demand.

1. Accounting policies (continued)

Subordinated notes

Subordinated notes are initially measured at fair value on recognition and then in subsequent periods at amortised cost.

Financial liabilities

(i) Classification and measurement

Financial liabilities are classified as measured at amortised cost with exception of derivatives that are measured at fair value through profit or loss.

(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 fair value on recognition and then in subsequent periods at amortised cost.

Trade payables are predominantly amounts owed to other companies within the Volkswagen Group for the purchase of vehicles.

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

Derivative financial instruments

The derivative financial instruments comprise interest rate swaps transactions. Only interest rate swaps are used for risk management purposes. All derivatives financial instruments 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 the income statement.

Embedded derivatives

As explained within finance lease receivables above the valuation of certain finance lease contracts includes an expectation of expected losses. The expected losses are the result of clauses within the contract that create an embedded derivative. These clauses relate to the customers right to handback a vehicle at the end of a contract or to voluntary terminate a contract. The embedded derivatives are included within the finance lease receivable in the balance sheet and are measured at fair value. This valuation is based on the expected loss taking into account estimates and judgements discussed within the Management Estimates and Judgements section above for voluntary terminations and on expected market valuations and levels of return for handbacks.

1. Accounting policies (continued)

Revenue

The income statement 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. The expected margin is calculated as part of the pricing process and is the difference between the amount paid by the customer for the contract and the expected costs to be incurred which are determined using expected volumes of service and parts and the agreed costs for labour and parts.

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 post write-off recoveries, net insurance income and other income.

Other operating costs

Other operating costs comprise net movements in provisions for impairment and write offs on receivables, movement in embedded derivatives, 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 Board of Directors and Board of Management that makes strategic decisions.

Information reported to the Board of Directors and Board of Management 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 Board of Directors and Board of Management 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.

1. Accounting policies (continued)

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)
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 on the balance sheet 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 throughout the year and 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 prospectively as a change in estimate in line with IAS 8. Increases and decreases in residual values result in an adjusted prospective depreciation charge within cost of sales. Leasing income is recognised on a straight-line basis over the term of the lease and comprises an interest and repayment portion.

Residual values are being assessed for impairment and any increases or decreases resulting from the assessment are recognised or reversed in the profit or loss in accordance with IAS 36.

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.

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 finance gain/(loss). 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 finance gain/(loss). 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 on 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.

1. Accounting policies (continued)

Employee benefits (continued)

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 income statement in Administrative 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 Administrative 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 income statement 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 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 the income statement, 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.

Operating leases - lessee accounting

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

Initial direct costs

Initial direct costs are those incremental costs incurred by the company in obtaining the lease which would have been avoided had the lease transaction not taken place. They include commissions, documentation fees and bonuses paid to procure individual lease contracts. Initial direct costs are deferred on the balance sheet when incurred and included within the lease receivables balance or PPE 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 principal receipts from the underlying auto loans which have been retained by the SPEs and which represent the deemed loan.

1. Accounting policies (continued)

Adjustment of comparative amounts

Under IAS 39, an entity must satisfy a number of criteria before it can apply portfolio fair value hedge accounting, i.e. before it can apply the relevant mechanisms to account for the hedging of interest rate risk in a portfolio of financial assets. One of the requirements is that an assessment must be carried out at the inception of the hedge to establish whether the hedge will be highly effective within the hedging period. The prospective test of hedge effectiveness was related to the inception of the hedge, but was not carried out at the beginning of the hedging period. Furthermore, the hedges were not fully documented in accordance with all of the technical requirements of IAS 39 at the beginning of the relevant hedging periods either. As a consequence, VWFS did not satisfy all of the requirements for the application of portfolio fair value hedge accounting, either in the reporting year or in prior periods.

As a result, a prior year adjustment has been made to derecognise the hedged portfolio assets from prior year and their movement recognised in the Income Statement. The prior year Retained Earnings has also been adjusted to remove the income recognised on the portfolio assets movement in 2020 and the 2019 portfolio assets. In addition, the corporation and deferred tax balances are adjusted for the above swaps adjustment and stock.

Interest rate swaps portfolio assets summary

	£000
As at 31 December 2019	**8,704**
Fair value movement of assets designated in a hedging relationship (Finance gain/(loss))	50,152
Amortisation of the de-designated hedges (Finance gain/(loss))	(28,937)
As at 31 December 2020	**29,919**

Impact to 2020 comparative amounts:	2020	Prior year adjustment	2020 restated
	£000	£000	£000
- Finance lease receivables (non current)	9,882,749	(11,981)	9,870,768
- Finance lease receivables (current)	3,958,368	(17,938)	3,940,430
- Deferred tax assets (non current)	111,310	10,647	121,957
		(19,272)	
- Retained Earnings as at 1 January 2020	1,775,510	(8,704)	1,766,806
- Retained Earnings as at 31 December 2020 (restated)	1,999,488	(10,568)	1,988,920
		(19,272)	

Net impact of adjustment on the income statement	2020	Prior year adjustment	2020 restated
	£000	£000	£000
- Finance gain/(loss)	(28,783)	(21,215)	(49,998)
- Taxation	(53,471)	10,647	(42,824)
		(10,568)	

Effects of new and revised IFRSs

From 1 January 2022, it is mandatory to apply the amendments to IAS 37, IFRS 9, IFRS 16, IFRS 3 and IAS 16.

- IAS 37 (Onerous Contracts - Cost of fulfilling a contract) - clarifying the cost concept where all costs relate directly to a contract must be included;
- IFRS 9/16 (Annual Improvements 2018-2020) - clarifying the '10% test' in assessing the derecognition of a financial liability and removal of a lease incentive from the illustrative example;
- IFRS 3 (Updating a reference to the Conceptual Framework) - applicable to business combinations that have an acquisition date on or after 1st January 2022;
- IAS 16 (Property, Plant and Equipment: Proceeds before Intended Use) - amendment to proceeds gained by sale of products before intended use (activation) of PPE are prohibited to be deducted from the cost of the PPE.

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.

Amounts recognised within revenue in the income statement are set out below:

	2021 £000	2020 £000
Loans and receivables	46,646	8,893
Finance leases	698,733	736,265
Operating leases	588,117	595,390
Vehicle disposals	1,181,827	1,143,042
Service and maintenance	181,915	140,196
Other income	4,680	4,699
	2,701,918	2,628,485

3. Cost of sales

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

	2021 £000	2020 £000
Carrying amount of vehicle disposals	1,029,328	1,190,258
Operating lease depreciation	425,019	413,947
(Write up)/Impairment on operating lease	(20,699)	7,774
Interest payable	235,394	259,904
Service & Maintenance costs	154,286	119,144
Dealer commissions	25,621	24,457
Vehicle disposal costs	31,064	33,942
Other leasing expense	16,226	21,670
	1,896,239	2,071,096

Carrying amount of vehicle disposals:

	2021 £000	2020 £000
Operating lease disposals	691,122	719,794
Other vehicle disposals	338,206	470,464
	1,029,328	1,190,258

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

	2021 £000	2020 £000
On loans from affiliated companies	157,163	163,478
On bank loans and overdrafts	12,529	13,554
On loan notes	65,702	82,872
	235,394	259,904

4. Auditors' remuneration

	2021 £000	2020 £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 company financial statements	211	210
Fees payable to the Company's auditors for the audit of the Company's subsidiaries	16	14
	227	224

5. Expenses and other operating income and costs

Administration and Distribution costs

	2021 £000	2020 £000
Third party services	20,590	21,357
Payroll and training expenses	58,169	58,852
Other expenses	24,385	24,818
IT Costs	27,671	29,768
Depreciation of intangible and tangible fixed assets	3,425	3,478
VAT recovered	-	(35,515)
Total Administration and Distribution Costs	134,240	102,758

VAT recovered relates to refunded amounts of VAT previously paid to HMRC for periods back to 2007.

Other operating income

	2021 £000	2020 £000
Movements in provisions for write ups	7,960	-
Movements in embedded derivatives	50,591	-
Net insurance income	2,323	1,631
Other income	1,638	216
Total Other operating income	62,512	1,847

Other income includes release of unutilised customer remediation provision from prior year, refer to Note 21 for further detail.

Other operating costs

	2021 £000	2020 £000
Movements in provisions for impairment and write offs	-	88,926
Movements in embedded derivatives	-	26,148
Donations	108	230
Other operating costs	38,477	25,804
Total other operating costs	38,585	141,108

Movements in provisions for write ups' include increases 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 (loss)/gain

	2021	*Restated 2020
	£000	£000
Gain/(loss) on derivatives designated at fair value	90,910	(50,003)
Foreign exchange gain/(loss)	(504)	23
Net interest (cost)/income from pension provisions (see note 24)	(20)	(18)
	90,386	(49,998)

*Refer to note 1 for details of restatement

7. Staff numbers and costs

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

	Number of employees	
	2021	2020
Executive	7	6
Sales	58	57
Administration	908	901
	973	964

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

	2021	2020
	£000	£000
Wages and salaries	49,709	50,909
Social security costs	4,324	4,245
Pension costs - defined contribution plans (note 24)	3,644	3,529
	57,677	58,683

8. Directors' emoluments

Directors' remuneration	2021 £000	2020 £000
Salaries & other short-term employee benefits	721	803
Company contributions to defined contribution pension schemes	9	9
	730	812

Retirement benefit accrued to two directors (2020: Two) under a money purchase scheme during the year.

In respect of the highest paid director:	2021 £000	2020 £000
Salaries & other short-term employee benefits	382	425
Company contributions to defined contribution pension schemes	4	5
	386	430

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.

	2021 £000	2020 £000
Amounts outstanding at the beginning of the year	519	395
Monies advanced by the Company during the year	821	829
Amounts repaid during the year	(852)	(705)
	488	519

9. Taxation

Recognised in the income statement

	2021 £000	*Restated 2020 £000
Current tax expense		
Current year	135,919	88,032
Adjustments in respect of prior periods	(19,260)	7,662
	116,659	95,694
Deferred tax charge/(credit)		
Origination and reversal of temporary differences	(10,326)	(46,162)
Adjustments in respect of prior periods	33,312	(6,708)
	22,986	(52,870)
Total tax charge in income statement	139,645	42,824

*Refer to note 1 for details of restatement

Reconciliation of effective tax rate

The company's profits for this accounting year are taxed at an effective rate of 19.00% (2020: 19.00%).

The tax charge is lower (2020: lower) than the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%). The differences are explained below:

	2021 £000	*Restated 2020 £000
Profit before tax	782,188	265,372
Tax at the UK corporation tax rate of 19.00% (2020: 19.00%)	148,616	50,421
Effects of:		
Permanent differences	162	192
Adjustments in respect of prior periods	14,052	954
Difference in rates	(23,185)	(8,743)
Total tax in the income statement	139,645	42,824

The restatement of the tax numbers for the accounting period ending 31st December 2020 has arisen in relation to the adjustment of comparative amounts, as explained in note 1 of these financial statements. The prior year adjustment to derecognise the hedged portfolio assets from prior year, and their movement recognised in the Income Statement, has had a subsequent impact on both the company's corporation tax and deferred tax balances as at 31st December 2020.

The prior year adjustment for the accounting period ending 31st December 2021 is predominantly driven by changes to the timing difference recognised on the company's leases with its customers. These changes have resulted from bringing a number of balance sheet values relating to customer leases into the company's deferred tax calculation as at 1st January 2021, with the impact of reducing the value of the company's deferred tax asset. The balance sheet values involved mainly relate to stock arising from vehicles returned to the company at the end of customer operating and finance lease contracts. The balance sheet values relating to finance leases have also impacted the company's prior year corporation tax balance. In addition, since the balance sheet date but prior to the date of signing these financial statements, the company received full and final settlement from HMRC relating to corporation tax over payment claims submitted on 30th December 2019 for historic credit loss provisions. The impact of the HMRC settlement has been a credit to the company's corporation tax balance in prior years and a decrease to the company's deferred tax balance as at 1st January 2021.

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.

It was announced in the UK Government's Budget on 3 March 2021, that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change was substantively enacted on 24 May 2021. Subsequently, in the current period, the Company's closing deferred tax assets and liabilities have been calculated at a mixture of 19% and 25%.

Accordingly a rate change adjustment has arisen as the opening deferred tax balance had been calculated taking into account the previously enacted rate of 19%.

10. Investments in subsidiaries

During 2018 VWFS Limited purchased Volkswagen Insurance Service (Great Britain) Limited by acquiring 20,400 A ordinary shares of £1.00 each from Volkswagen Versicherungsdienst GmbH and 19,600 B ordinary shares of £1.00 each from Volkswagen Group United Kingdom Limited for consideration of £6.273m.

The Company has the following investments in subsidiary:	2021 £'000	2020 £'000
Balance as at 1 January 2021	6,273	6,273
Impairment on investment	(3,564)	-
Balance as at 31 December 2021	2,709	6,273

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

	Country of Incorporation	Number and Class of shares held	Ownership % 2021	Ownership % 2020
Volkswagen Insurance Service (Great Britain) Limited	UK	40,000 Ordinary	100%	100%

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

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 its existing insurance commission income stream.

Decision has been made in 2021 to transfer 50% of the VIS business to VWFS from 2022, as a result, the investment on VIS has been impaired by the reduction in forecast future cashflows.

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

	Intangible assets under development	Internally generated intangible assets	Total
	£000	£000	£000
Cost			
Balance as at 1 January 2021	5,967	2,484	8,451
Additions	7,040	-	7,040
Disposals	-	-	-
Balance as at 31 December 2021	13,007	2,484	15,491
Accumulated amortisation and impairment			
Balance as at 1 January 2021	-	(2,484)	(2,484)
Amortisation during the year	-	-	-
Disposals	-	-	-
Balance as at 31 December 2021	-	(2,484)	(2,484)
Net Book Amount			
At 31 December 2020	5,967	-	5,967
At 31 December 2021	**13,007**	**-**	**13,007**

Intangible assets consist solely of costs relating to software.

The new intangible asset capitalised in the year is internally generated from the development of a new software for the business. It was still in the stage of development as at the end of the year and therefore amortisation will only commence when the asset is in use.

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 2020 and 31 December 2021.

12. Property, plant and equipment

	Leasing and rental assets	Freehold land	Fixtures, fittings and equipment	Total Property, Plant and Equipment	Total
	£000	£000	£000	£000	£000
Cost					
Balance as at 1 January 2021	3,112,150	676	16,405	17,081	3,129,231
Additions	1,103,797	-	43	43	1,103,840
Disposals	(966,361)	-	-	-	(966,361)
Balance as at 31 December 2021	3,249,586	676	16,448	17,124	3,266,710
Accumulated depreciation and impairment					
Balance as at 1 January 2021	(602,136)	-	(9,467)	(9,467)	(611,603)
Charge	(425,019)		(1,456)	(1,456)	(426,475)
Write up adjustment	20,699	-	-	-	20,699
Disposals	367,502	-	-	-	367,502
Balance as at 31 December 2021	(638,954)	-	(10,923)	(10,923)	(649,877)
Net Book Amount					
As at 31 December 2020	2,510,014	676	6,938	7,614	2,517,628
At 31 December 2021	2,610,632	676	5,525	6,201	2,616,833

Included within the write up adjustment is a charge of £6.1m (2020: £2.6m) relating to a reduction of expected value in use and a release of £26.8m (2020: charge £5.2m) associated with residual values.

The provision included within the leasing and rental assets is £68.8m (2020: £89.5m).

Future minimum lease receipts under non-cancellable operating leases:

	2021	2020
	£000	£000
Within 1 year	208,580	214,958
1 to 2 years	189,174	180,761
2 to 3 years	79,246	68,755
3 to 4 years	14,415	12,166
4 to 5 years	101	154
Lease receipts total	491,516	476,794
Not later than one year	208,580	214,958
Later than one year and not later than five years	282,936	261,836
	491,516	476,794

13. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2021 £000	*Restated 2020 £000
Operating leases	82,160	82,726
Temporary differences	17,010	39,231
Total deferred tax assets	99,170	121,957

Movement in deferred tax during the year

	1 January 2021 £000	Recognised in income £000	Recognised in equity £000	31 December 2021 £000
Operating leases	82,726	(566)	-	82,160
Temporary differences	39,231	(22,420)	199	17,010
	121,957	(22,986)	199	99,170

Movement in deferred tax during the prior year

	*Restated 1 January 2020 £000	*Restated Recognised in income £000	*Restated Recognised in equity £000	*Restated 31 December 2020 £000
Operating leases	45,107	37,619	-	82,726
Temporary differences	23,688	15,252	291	39,231
	68,795	52,871	291	121,957

Deferred tax relating to timing differences which are expected to reverse is measured at a mixture of 19% and 25% (2020: 19%) and reflects the rates at which deferred tax is expected to reverse, which were substantively enacted at the balance sheet date. Deferred tax has not been discounted.

Management have, in considering recognition of the deferred tax asset, looked at future profit forecasts for the Company. The Company 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.

*Refer to note 1 for details of restatement.

14. Inventories

	2021 £000	2020 £000
Vehicles held for remarketing	44,853	185,076

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 £1,080m (2020: £1,238m)

The write-up of inventories to fair value less costs to sell recognised as an income in the year amounted to £7.4m (2020: expense £1.4m) and these assets have a carrying value of £39m (2020: £144m).

The embedded derivatives in respect of the residual value risk on inventories is £0.4m (2020: £7.2m).

15. *Loans and receivables*

	2021 £000	2020 £000
Loans to individuals	172,910	175,980
Loans to dealers	171	715
	173,081	176,695

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. Finance Lease Receivables

	2021 £000	*Restated 2020 £000
Non-current	**9,936,967**	9,870,768
Current	**3,786,230**	3,940,430
	13,723,197	13,811,198
Eligible finance lease receivables securitised	**9,248,889**	9,369,766

The embedded derivatives in respect of the residual value risk on leasing receivables is £110m (2020: £161m).
*Refer to note 1 for details of restatement.

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 DCF valued receivables performed in November 2013. In November 2014 Driver UK Multi-Compartment 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 9, 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 hire purchase receivables with the liability recorded as 'Amounts owed to 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 2021, there were four renewals to existing ABS transactions. The Driver UK Master S.A. acting as Driver UK Master Compartment two transaction saw further tap up issuances of £450m in May 2021 and £300m in November 2021, taking the transaction to £6.714bn in total. The Driver UK Master S.A. acting as Driver UK Master Compartment three transaction was renewed in September 2021 at a size of £610m. The Driver UK Master S.A. acting as Driver UK Master Compartment four transaction was renewed in February 2021 at a size of £958m. The Driver UK Multi-Compartment S.A. acting as Private Driver UK 2020-1 was renewed in March 2021 at a size of £711m.

16. Finance Lease Receivables (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 2021 £000	Restated Finance lease 2020 £000
Gross investment in the lease		
Less than 1 year	4,268,440	4,446,146
1-2 years	4,563,771	4,447,054
2-3 years	3,801,914	4,033,223
3-4 years	2,858,015	2,715,302
4-5 years	4,126	3,788
More than 5 years	426	377
	15,496,692	15,645,890
Unearned finance income	(1,524,386)	(1,515,133)
Credit loss provision	(138,968)	(158,827)
Embedded derivatives	(110,141)	(160,732)
	13,723,197	13,811,198
Net investment in the lease		
Not later than one year	3,786,230	3,940,430
Later than one year and not later than five years	9,936,967	9,870,768
	13,723,197	13,811,198

Residual value risk

The profitability of the Company's 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 HPI. 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.

In addition to the above the Company also reduces residual value risk on a smaller sub set of the portfolio through the use of buyback agreements with other VW Group Companies which guarantee a repurchase price to VWFS at the end of a customers lease contract or rental period subject to certain conditions.

17. Other receivables and financial assets

	2021 £000	2020 £000
Current assets		
Prepayments and accrued income	5,942	15,647
Other receivables	46,483	25,792
	52,425	41,439

18. Cash and cash equivalents

	2021 £000	2020 £000
Cash and cash equivalents	16,317	37,945
Net cash balance held	16,317	37,945

The Company has borrowing facilities that are available for future operating activities and the settlement of capital commitments. The Company has four 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, a committed syndicated revolving credit facility signed in 2019 and short-term uncommitted bank credit facilities, 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 2021, the Company had £513m (2020: £541m) of uncommitted facilities available of this, £nil (2020: £nil) was utilised with £20m held on deposit (2020: £32m) and £2,000m of syndicated revolving credit facilities available of which £nil was utilised (2020: £100m).

19. Financial Assets and Liabilities

	2021	2020
Financial Assets non-current	£000	£000
Subordinated notes	876,451	852,618
	876,451	852,618

	2021	2020
Financial Assets current	£000	£000
Subordinated notes	195,057	27,337
	195,057	27,337

	2021	2020
Financial Liabilities current	£000	£000
Loan amounts due to fellow group affiliates - floating rate	2,096,348	1,066,225
Deemed loan from SPEs	960,864	1,311,431
Bank borrowings	0	100,022
	3,057,212	2,477,678

	2021	2020
Financial Liabilities non-current	£000	£000
Loan amounts due to fellow group affiliates - floating rate	4,778,645	5,283,521
Deemed loan from SPEs	7,538,484	7,556,113
	12,317,129	12,839,634

Further to Note 16 which details the Asset Backed Securitisation (ABS) programme of Driver UK Master S.A. and Driver UK Multi-Compartment 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 2028 to 2029. As at 31 December 2021 £960.9m of the £8,628.6m 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. 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. In the case of Driver UK Master S.A. acting as Driver UK Master Compartment two the Loan Notes and Subordinated Debt will begin to be repaid once the revolving period has expired in November 2022. With regards to 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 September 2022. 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 February 2022. In the case of Driver UK Multi-Compartment S.A. acting as Private Driver UK 2020-1 the amounts will begin to be repaid once the revolving period has expired in June 2022. With regards to Driver UK Multi-Compartment S.A. acting as Private Driver UK 2018-1 and Driver UK Master S.A. acting as Driver UK Master Compartment five amounts are already being repaid as the revolving periods have expired. With regards to Driver UK Multi-Compartment 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. With regards to Driver UK Multi-Compartment S.A. acting as Driver UK three, amounts have been fully repaid due to the execution of the clean up call option in February 2019. With regards to Driver UK Multi-Compartment S.A. acting as Private Driver UK 2016-1, amounts have been fully repaid due to the execution of the clean up call option in February 2020. With regards to Driver UK Multi-Compartment S.A. acting as Driver UK four, amounts have been fully repaid due to the execution of the clean up call option in June 2020. With regards to Driver UK Multi-Compartment S.A. acting as Driver UK five, amounts have been fully repaid due to the execution of the clean up call option in October 2020. With regards to Driver UK Multi-Compartment S.A. acting as Driver UK six, amounts have been fully repaid due to the execution of the clean up call option in May 2021.

During 2021, Volkswagen Financial Services (UK) Limited became the Subordinated Lender across all of the remaining securitisations (2020: Volkswagen Financial Services (UK) Limited was Subordinated Lender across 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 only). As at 31 December 2021 £195.1m of the £1,071.5m of outstanding Subordinated Debt were due for repayment within one year.

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 SONIA plus 0.40% to 3.73% (2020: one month LIBOR plus 0.48% to 4.68%, except for Driver UK Master S.A. acting as Driver UK Master Compartment two, Driver UK Master S.A. acting as Driver UK Master Compartment three and Driver UK Multi-Compartment S.A. acting as Private Driver UK 2020-1 which bear a floating rate of one month SONIA plus 0.85% to 5.00%).

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

20. Other liabilities

	2021 £000	2020 £000
Current liabilities		
Accruals and deferred income	242,029	184,925
Other taxation and social security	2,678	15,398
	244,707	200,323
Non-current liabilities		
Accruals and deferred income	181,155	176,532
	181,155	176,532

Included within accruals and deferred income is £159m (2020: £161m) of deferred income on service and maintenance contracts to be recognised on the satisfaction of future performance obligations. During the year £104m (2020: £78m) of revenue was recognised on service and maintenance contracts deferred from previous periods where there was the satisfaction of the obligation in the current period.

21. Provisions

	2021 £000	2020 £000
Current liabilities		
Short term incentive	5,901	7,152
Other	63	-
Customer Remediation	-	4,918
Dilapidation provision	-	100
	5,964	12,170
Non-current liabilities		
Dilapidation provision	1,008	964
	1,008	964

	Other £000	Short term incentive £000	Customer remediation £000	Dilapidation £000	Total £000
At 1 January 2021	-	7,152	4,918	1,064	13,134
Utilised in the year	(164)	(4,856)	(2,218)	(200)	(7,438)
Additions in the year - charged to the income statement	227	5,901	-	144	6,272
Unused amounts reversed in the year	-	(2,296)	(2,700)	-	(4,996)
At 31 December 2021	63	5,901	-	1,008	6,972

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

As part of the property leasing arrangements there is an obligation to repair damages which incur during the life of the lease, such as wear and tear. The cost is charged to profit and loss as the obligation arises. The majority of provision has been accounted for as non current liabilities.

22. Capital and reserves

Called up share capital

	2021 £000	2020 £000
Authorised		
100,000,000 (2020: 100,000,000) Ordinary shares of £1 each	100,000	100,000
Allotted called up and fully paid		
70,000,002 (2020: 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 2021	70,000,002	70,000	17,922	87,922
New shares issued in year	-	-	-	-
As at 31 December 2021	**70,000,002**	**70,000**	**17,922**	**87,922**

22. Capital and reserves (continued)

	Other Reserves			
	Non-distributable reserve	Other reserves	Retained earnings	Total reserves
	£000	£000	£000	£000
As at 1 January 2021	26,973	70,150	1,823,147	1,920,270
Changes on hedge accounting			(29,919)	(29,919)
Prior year tax adjustment			10,647	10,647
Restated as at 1 January 2021*	26,973	70,150	1,803,875	1,900,998
Profit for the year	-	-	642,543	642,543
Other comprehensive income	-	-	1,372	1,372
Dividend paid	-	-	(525,000)	(525,000)
As at 31 December 2021	26,973	70,150	1,922,790	2,019,913

*Refer to note 1 for details of restatement.

Other reserves relates to a non-refundable capital contribution of £20.0m gifted from the parent company and £50.15m on the acquisition of MAN Financial Services P.L.C from the parent company in 2016. These are both 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
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 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.

Dividends
The shareholders have been paid a dividend of £525m for 2021 (2020: £nil).

23. Financial Instruments

Derivatives financial instruments

The values shown below are the carrying amounts:

Per the balance sheet:	2021 £000	2020 £000
Assets at fair value through profit and loss:		
Interest rate swaps	72,923	24,914
Liabilities at fair value through profit and loss:		
Interest rate swaps	32,644	80,177

Fair value estimation

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.

Fair values of financial instruments

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

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.

Derivative financial instruments

Interest rate swaps	2021 Assets £000	2021 Liabilities £000	2020 Assets £000	2020 Liabilities £000
Current	6,616	4,653	-	21,080
Non-current	66,307	27,991	24,914	59,097
Total	72,923	32,644	24,914	80,177

24. Employee benefits

Employees are members of the Volkswagen Group Pension Scheme and the liabilities of the Company are summarised in the table below.

	2021	2020
	£000	£000
Balance sheet		
Pension liabilities	544	1,759
Income statement		
Net interest (cost) from pension provisions	(20)	(18)
Actuarial gain/(loss) on defined benefit pension plans	1,173	(725)

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.

(a) Defined contribution section
The Company's contributions to the money purchase section during the year amounted to £3.7m (2020: £3.5m). There were no outstanding or prepaid contributions at the balance sheet date (2020: £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 2020. For the purpose of these financial statements an updated valuation as at 31 December 2021, based on data consistent with the 30 September 2020 triennial valuation and updated as appropriate, has been prepared by AON, to take account of the requirements of IAS 19.

Following completion of a new actuarial valuation, the Company contributions expected to be paid in the year commencing 1 January 2022 amount to £0.7m (commencing 1 January 2021 £0.8m). Additional contributions could be payable if the funding position does not remain on track to remove the deficit by the end of the Recovery Plan.

24. Employee benefits (continued)

The Scheme undergoes a triennial valuation where the participating employers and Trustee put in place a funding agreement taking into account the assets and value of liabilities. If the liabilities exceed the assets there will be a requirement to repair this shortfall and a recovery plan is agreed setting out the deficit contributions required and the timing of them. The last valuation was agreed in 2020 which had an effective reporting date of 30 September 2020 at that time the Scheme was fully funded and no deficit contributions were required.

Where contributions are payable the amount paid by each participating employer is proportional to their share of the deficit. All members (past and present) of the scheme are allocated to one of the employers. The liability for each employer is the total liability in respect of all the members allocated to that employer. The Trustee and the employers have agreed a protocol for the notional splits of the scheme's assets between the participating employers. The asset value allocated to each employer is in line with existing practice used for IAS 19 and as originally set out in a paper prepared by LCP dated 7 December 2012. This involves taking the asset value for each employer at the previous year end and rolling forward to reflect cashflows in respect of each employer and the overall investment return for the scheme. This means that the breakdown of assets differs from the breakdown of liability (largely due to different cashflows by employer eg level of contributions and benefit payments).

The funding level is assessed every three years and depending on the outcome of each actuarial valuation this could impact the level of future contributions. The liabilities are valued on a prudent basis as required under UK legislation, whereas in the financial statements a best estimate is placed on the liabilities (except the discount rate which is prescribed to be set using AA corporate bond yields).

All participating entities attend a quarterly employer meeting to discuss pension related matters and so all entities have regular input as required.

In the normal course of events, an Employer which participates in the Plan will not be liable for other participating employers' obligations or liabilities in respect of the Plan. However, if a participating employer ceased to participate in the Plan due to that employer's insolvency and the circumstances were such that the employer was not able to pay its share of the Plan's liabilities, in principle, the remaining Employer(s) in the Plan would then have to meet the liabilities which would otherwise be attributable to the 'exiting' employer. In other words the Plan's deficit would then be funded by the remaining Employer(s), including the proportion of the deficit for which the insolvent employer would have been responsible. Ultimately, this would be a matter to be addressed in the particular circumstances but such a situation could cause an employer to become liable for another employer's obligation under the Plan.

There is no agreed allocation of a deficit or surplus as between the participating employer on the winding-up of the Plan. Each Employer would be liable for its share of the Scheme's deficit under Section 75 of the Pensions Act 1995 (i.e. its share of the full buy-out cost to secure the Plan's liabilities). As such, this is a matter for legislation (such that the Employer's liability for the overall Scheme deficit is proportionate to the liabilities which are attributable to Employer itself) rather than there being any other pre-agreed apportionment or allocation of liabilities between the Employers. Alternatively, if there were a surplus on the winding-up of the Plan, it would be for the Trustees to determine the shares which are paid to the Employers, rather than there being a pre-agreed allocation/distribution of a surplus.

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.

Notes to the financial statements (continued)

24. Employee benefits (continued)

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

Amounts recognised on the balance sheet were as follows:

	2021 £000	2020 £000
Fair value of scheme assets	31,228	33,411
Present value of funded obligation	(31,772)	(35,170)
Net defined benefit (deficit)/surplus	(544)	(1,759)

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

	2021 £000	2020 £000
Interest expense on defined benefit obligation	478	632
Interest income on scheme assets	(458)	(614)
Administration expenses	681	551
Expenses recognised in the income statement	701	569

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

	2021 £000	2020 £000
Effect of changes in demographic assumptions	(35)	394
Effect of changes in financial assumptions	(1,742)	3,588
Effect of experience adjustments	13	(635)
Return on scheme asset (excluding interest income)	591	(2,622)
Total	(1,173)	725

Changes in the assets over the year were as follows:

	2021 £000	2020 £000
Fair value of scheme assets at 1 January	33,411	30,723
Interest income	458	615
Employer contributions	744	823
Benefits paid	(2,113)	(821)
Administration expenses	(681)	(551)
Return on scheme assets (excluding interest income)	(591)	2,622
Fair value of scheme assets at 31 December	31,228	33,411

Present value of obligation at 31 December:

	2021 £000	2020 £000
Defined benefit obligation at the beginning of the year	(35,170)	(32,012)
Benefits paid	2,113	821
Interest cost on scheme liabilities	(478)	(632)
Effects of changes in demographic assumptions	35	(394)
Effects of changes in financial assumptions	1,742	(3,588)
Effects of experience adjustments	(14)	635
Defined benefit obligation at the end of the year	(31,772)	(35,170)

24. Employee benefits (continued)

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

	Value at 31 December 2021	Value at 31 December 2020
	£000	£000
Equities (UK and overseas)	-	2,908
Hedge funds	2,693	-
Diversified growth	11,559	13,631
Dynamic Liability Driven Investment (LDI)	14,638	16,603
Cash/other	2,338	269
Fair value of scheme assets	31,228	33,411

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. All scheme assets are unquoted.

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

	2021	2020
Valuation method	Projected unit	Projected unit
Discount rate	2.0%	1.4%
Inflation rate		
- RPI	3.2%	2.7%
- CPI	2.6%	2.1%
Increases to pensions:		
- April 1997 – September 2005 (LPI 5%)	3.1%	2.7%
- post October 2005 (LPI 2.5%)	2.2%	2.0%
Salary increases	-	-

Salary increases in the above table are shown as nil for 2021 due to the scheme being closed in 2011 and so there was no further expectation of any increase to be included (2020: Nil).

Mortality rates

The mortality assumptions are in line with the S3NXA (Year of Birth) mortality tables with a 100% rating. Future mortality adjustments are assumed to be in line with CMI 2020 projections, with a long term annual rate of improvement of 1.25% (2020: 1.25%) for both males and females.

The mortality assumptions used were as follows:

	2021 Years	2020 Years
Longevity at age 65 current pensioners:		
- Men	22.6	22.6
- Women	25.0	24.9
Longevity at age 65 for future pensioners		
- Men	23.9	23.9
- Women	26.4	26.3

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	**2021** Net increase / (decrease)	2020 Net increase / (decrease)
Discount rate sensitivity			
- With decrease in discount rate	-50bp	**3,125**	3,387
- With increase in discount rate	+50bp	**(2,676)**	(3,038)
Indexation for retirees / beneficiaries sensitivities			
- With indexation rate decrease for retirees / beneficiaries	-50bp	**(1,300)**	(1,684)
- With indexation rate increase for retirees / beneficiaries	+50bp	**1,343**	1,514
Mortality sensitivities			
- With increased life expectancy	1 year longer	**1,092**	1,205

Breakdown of the present value of the 31 December 2021 IAS 19 obligation by the maturity of the underlying payments (allowing for new retirements)

The table below shows an approximate breakdown of the present value of the defined benefit obligation by the maturity of the underlying payments. It uses the current pensioner payroll with future expected inflation increases discounted back using the discount rate.

	£000
Less than one year	**613**
Between two and five years	**2,446**
Greater than five years	**28,713**
	31,772

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 last valuation of the Scheme was carried out as at 30 September 2020 and resulted in a reduction in the pension liability of £0.6m.

In respect of the Final Salary Section of the Scheme, the Company does not expect to pay any additional contributions in the year to 31 December 2021 (2020: £nil).

The weighted average duration of the Defined Benefit Obligation is approximately 19 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, with the exception of Volkswagen Financial Services Digital Solutions GmbH, which is a joint venture between Volkswagen Financial Services AG and Volkswagen Bank GmbH. 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 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, Autovia A-2, Km. 585, Martorell (E-08760)
MAN Truck & Bus UK Ltd, Clearwater House, Clear Water Business Park, Frankland Road, Swindon SN5 8YU, UK
Ducati UK Limited, Silverstone Circuit Silverstone NN12 8GX, UK
MAN Energy Solutions 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
Volkswagen Financial Services Digital Solutions GmbH, Gifhorner Strasse 57, 38112 Braunschweig, Germany
Volkswagen D'Ieteren Finance, Rue du Mail 50, 1050 Bruxelles, Belgium
Automobili Lamborghini S.p.A., I-40019 Sant' Agata Bolognese, Italy

The Company has taken the advantage of the disclosure exemption under FRS 101 paragraph 8(k) for disclosure of related party transactios entered into between two or more members of a group, provided that any subsidiary which is a party of the transaction is wholly owned by such member.

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

	2021	2020
	£000	£000
- Parent	-	406
- Other related parties	1,155,062	977,136
Total	1,155,062	977,542

Other related parties includes a balance of £1,072m of subordinated notes repurchased during 2021 (2020: £880m) see note 19 for further details.

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

	2021	2020
	£000	£000
Trade and other payables	52,657	119,855

Loan amounts due to fellow group affiliates

	2021	2020
	£000	£000
Current liabilities	3,057,212	2,377,657
Non-current liabilities	12,317,129	12,839,635

The current loan amount due to VIS Limited as at 31 December 2021 was £2.2m (2020: £2.2m).

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 4.35%. 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 (2020:nil).

Other Related Parties

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.

26. Leases

This note provides information for leases where the Company is a lessee. For leases where the Company is a lessor, see note 12.

Amounts recognised in the balance sheet related to leases

	2021	2020
	£000	£000
Right-of-use assets		
Buildings	33,927	36,028
Lease liabilities		
Current	1,436	1,377
Non-current	33,201	34,767
	34,637	36,144

The total future cash outflow is £47.4m (2020: £52.0m).

Amount recognised in the income statement

The income statement shows the following amounts relating to leases:

	2021	2020
	£000	£000
Depreciation charge of right-of-use assets	(1,969)	(1,983)
Interest expense (included in finance cost)	(1,244)	(834)

The total charge for the year for leases in 2021 was £2.7m (2020: £2.7m).

The Company's leasing activities and how these are accounted for

The Company leases 1 office. Rental contracts are made for fixed periods. There are no extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, less any lease incentives receivable.

The lease payments are discounted using the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following

(i) the amount of the initial measurement of lease liability

(ii) any lease payments made at or before the commencement date less any lease incentives received

(iii) any initial direct costs, and

(iiii) restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

27. Ultimate parent company and parent company of larger group

The Company's immediate parent undertaking is Volkswagen Finance Overseas B.V. Volkswagen Finance Overseas B.V. is a wholly owned subsidiary of Volkswagen Financial Services AG the smallest group to consolidate these financial statements.

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. 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. Contingent liabilities

The following information is provided in respect of the remaining civil proceedings formally issued in the courts of England & Wales, and Scotland, against VWFS in respect vehicles containing EA189 engines. 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. VWFS disputes the allegations being made and continues to vigorously defend this litigation. VWFS believes there are good defences to the claims as it understands them.

In respect of the threatened claims in England & Wales relating to certain other diesel vehicles leased or sold in England, Wales and Northern Ireland since 2009 which contain various diesel engine types, such claims remain uncertain in scope at present.