VCL Master Netherlands B.V.

Annual Report 2017

Amsterdam, the Netherlands

VCL Master Netherlands B.V.
Prins Bernhardplein 200
1097 JB Amsterdam
The Netherlands
Chamber of Commerce Amsterdam 65.49.09.16

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1. Director's report

1.1 Activities and results

General
VCL Master Netherlands B.V. (“the Company”) was incorporated on March 3, 2016 as part of a structured debt transaction of car lease contracts.

On May 31, 2016 ("the Closing Date"), the Company purchased a portfolio of leased vehicle contracts and the accompanying lease receivables, and entered into a Master Hire Purchase Agreement and a number of related agreements. The contract and receivables were acquired from Volkswagen Leasing B.V. and DutchLease B.V. (collectively, "the Originator"). In order to finance the transaction, the Company issued Asset Backed Floating Rate Class A Notes and Asset Backed Floating Rate Class B Notes ("the Notes"), entered into a Subordinated Loan agreement with Volkswagen International Luxemburg S.A. ("the Subordinated Lender") and by way of a Maintenance Reserve Funding Agreement with the Originator.

During 2017, the Company increased the existing Series of Class A Notes for a total amount of EUR 131.4 million and the Series of Class B Notes for a total amount of EUR 11.8 million. Furthermore, the Subordinated Lender granted an additional advance for a total amount of EUR 36.6 million under the Subordinated Loan Agreement. The proceeds were used to finance the purchase of Additional Lease Vehicles and Additional Lease Receivables from the Originator.

On May 25, 2017, the Transaction was renewed. The renewal has resulted in an extension of the Revolving Period and the Expected Maturity Date of the Notes. Also, HSBC Bank plc was replaced by ING Bank N.V. as swap counterparty as per May 25, 2017. Furthermore, Series A Class 2016-1 Notes was redeemed and delisted as per May 25, 2017.

The Company is set up as a bankruptcy remote vehicle for the transaction.

The Company's balance sheet asset 'Deemed loan to the Originator' represents the value of the underlying lease contracts and receivables. Whilst the Company has the legal ownership of these contracts and receivables, the economic interest is considered to have remained with the Originator.

Apart from a minimum profit amount, all income and expenses are allocated to the parties concerned in the funding arrangement. Reference is made to the notes to the Financial statements for further details.

These Financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and this Annual Report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks that the Company faces.

Interest Rates
In the year the average annualized interest rate on the Deemed loan to the Originator amounted to 4.91% (previous year: 3.10%) and the average annualized funding rate amounted to 0.65% (previous year: 0.54%). The resulting net interest margin was EUR 20.5 million (previous year: 8.4 million). The average interest rates approximate the effective rates.

Performance of underlying lease vehicle contract portfolio
Realized losses on underlying Lease Receivables (net of recoveries) during the reporting year amounted to nil (previous year: nil). Management is of the opinion that the Lease Receivables are fully collectible because the credit enhancements, provided as part of the incorporation of the Company, are sufficient to absorb any potential losses on the Lease Receivables.

RISK MANAGEMENT

Following the purchase of the lease vehicle contract portfolio and the issue of the Notes, the Company is exposed to a variety of risks. As the Company issued the Notes with limited recourse, the risks for the Company itself are limited. However, given the limited recourse (meaning a risk transfer to the Noteholders), the Company took a variety of measures to minimise the risks linked to the transaction.

In addition to financial risks, the Company also faces operational risks. The servicing of the contracts and the entity administration and investor reporting is performed by regulated and well-known companies. The operating risk is mitigated as the Company has contractual agreements with these companies and these companies either provide annual audit statements of the sub-servicer on the contract portfolio and/or an ISAE 3402 report in respect to the services provided.
The Company realises a fixed profit for tax purposes, both in terms of determining the annual profit and for determining total profits. As a result, the risks as described do not influence the profit level of the Company.

The Company believes that no ongoing risk assessment is deemed necessary, as the most significant risks are adequately covered.

Limited recourse
The obligations of the Company under the Notes are limited recourse obligations and the ability of the Company to meet its obligations to pay principal and interest on the Notes is dependent on the receipt of funds from the Lease Receivables, the proceeds of the sale of any Lease Receivables, the proceeds of the sale of any vehicles, payments under the Swap Agreement and the availability of the Cash Reserve and the margin in the Swap Agreement.

If the proceeds are insufficient to repay in full all principal and interest and other amounts due under the Notes, then, as the Company has no other assets, it may be unable to satisfy claims in respect to any unpaid amounts.

Also in view of the below factors, the Company's risk appetite is considered to be low.

The Company does not have any employees. The managing director is not a natural person, therefore, the requirements in article 2:391 paragraph 7 BW, on information on the human gender ratio of board members can be found in the Directors' Report of the managing director.

Risk goals and realisations
There is no elaborated strategic annual plan. A number of control mechanisms / measures are in place. Examples of these mechanisms are:
- Financial monthly reports. These are supported by manuals and procedures;
- IT management that ensures the integrity and continuity of the information. including the use of backup and recovery systems, security systems, networks and applications;
- Insurances / contractual agreements aimed to cover the consequences of business risks that the Company does not want to run, for example residual value risks and interest rate risks.

Management is responsible for the proper functioning of the risk management and control model as described above.

Credit and concentration risk
As a company that solely invests in Lease Receivables in the Netherlands, the Company has significant exposure to credit and concentration risks associated with the Dutch car lease sector.

Credit risk is mainly related to the economic conditions and the risk that individual lessees might be unable to fulfil their payment obligations. However, these risks are mitigated because each Lease Receivable is collateralised on the underlying asset (i.e. vehicle), and the Lease Receivable portfolio is well spread over a large number of individual Lease Receivables, a variety of car brands and models, industry sectors in which the lessees operate and geographical areas. If a lessee defaults and the Company sells the collateral, the Company is entitled to all proceeds of the sale of the collateral. If the proceeds from the sale of the collateral is insufficient to repay the outstanding principal amount of the Lease Receivable, accrued interest and any other costs the Company could record a loss.

Consequently, not only the creditworthiness of the lessee can be recognised as a risk but also the general economic conditions and the car lease sector in particular have an impact on the probability of a loss.

As detailed in the Future developments section below, the Dutch economy has prospered significantly in 2017 and most macro economic developments are showing very positive trends. The profitability of companies in the Netherlands has been increasing appreciably over the last couple of years and this was one of the reasons behind the very appreciable rise in new car registrations in 2017. The trends are also expected to have a positive effect on car Lease Receivables loss levels and on new business, though there are some clear variations continuing in the individual sectors.
Whilst this has the effect of reducing the Company's exposure to credit and concentration risk, it will not eliminate it. Management is aware of variations within the sector as well as regional variations in both developments and future expectations and so not all Lease Receivables will be so positively influenced. Moreover, the expectations are contingent on a number of local and global developments which may not materialise and over which the Company has no control.

However, the Company believes that all significant risks are adequately addressed and that no ongoing risk assessment is deemed necessary. The credit enhancements granted under the terms of the transaction are all part of the risk control measures.

In the unlikely situation that all risk measures as described above fail, the limited recourse clause of the transaction will take effect.

Interest rate risk
The Company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. These risks are addressed and mitigated by interest rate Swap Agreements. Therefore, the interest rate risk is zero.

Liquidity risk
Matching maturities of assets and liabilities and related cash flows is fundamental to the management of the Company. This risk is addressed and mitigated by the Cash Collateral Amount (EUR 5,389,200) and credit enhancements. If the receipt of funds from the underlying Lease Receivables is insufficient to meet the Company's obligations under the Notes, the Company may apply the Cash Collateral Amount to make payments in respect of the Notes.

Residual value risk
The residual risk for the Company is the risk that, after it has acquired legal title to a Purchased Vehicle, any Vehicle Realisation Proceeds of such Purchased Vehicle are insufficient to cover (i) in case of a Matured Lease, the Estimated Residual Value or (ii) in case of a Lease Agreement Early Termination, the Present Value of the Estimated Residual Value of such Purchased Vehicle. This risk is addressed and mitigated by the Master Hire Purchase Agreement under which the Originator, in case a Lease Termination Date occurs, has the option to repurchase the purchased vehicles together with the associated Lease Receivables at an Option Exercise Price equal to the sum of (i) the present value of all scheduled Lease Interest Components and Lease Principal Components and (ii) the present value of the Estimated Residual Value of such Purchased Vehicles in the circumstances set out in the Master Hire Purchase Agreement. Altough the Originator is not obliged to exercise the Repurchase Option, it is standard practice that the Originator exercises this option. After all, the legal ownership of the Leased Vehicles will only transfer to the Company upon fulfillment of the condition precedent that the purchase price is paid in full (i.e. upon payment of the final installment).

Employees
During the period under review the Company did not employ any personnel.

Research and development
The Company is not involved with any research and development activities.

1.2 Future developments

The year 2017 is considered the have been very good for the Dutch economy for just about all economic indicators and often accelerating the positive underlying trends of recent years. The Gross Domestic Product ("GDP") increased by 3.3% in 2017, the highest growth rate in a decade. The growth was mostly fueled by consumer confidence stemming for a large part from the upswing in the domestic house prices, as well as high confidence levels within commercial enterprises. The latter is the result of increased world trade and the continuing low levels of inflation and interest rates. It is expected that the economy will continue to show relatively high growth rates in the coming years with increases of GDP of 3.1% and 2.3% expected for 2018 and 2019, respectively. Much of these expectations are much dependent on developments in the rest of the world, however.

Growing confidence is also a noticeable trend in the business and commerce sectors and investment levels are also expected to rise. The attitude of banks towards SMEs is always seen as a potential brake on these developments but this appears to have improved during recent times, though small and micro businesses still experience some obstacles. Against this, corporate profit levels continue to rise generally, providing liquidity to fund new investments.

Unemployment levels reduced from 6.0% to 4.9% during 2017 and this trend is also expected to continue in 2018 with an estimate of 3.9% at the end of the year and 3.5% at the end of 2019. However, there were signs at the end of 2017 that some capacity limits were being reached and that the recruitment of suitable staff is becoming a greater issue. This may put restraints on future growth patterns.

Inflation is expected to rise moderately from the 1.3% in 2017 to 1.4% in 2018 but rising to 2.3% in 2019. The upward pressure in the coming years is expected to stem from higher levels of indirect taxation and unit wage costs which will come under pressure as employment levels and recruitment difficulties continue to rise.

The 2017 level of new car registrations was 414,538. That was up 8.4% from the previous year though it should be noted that that was a very low year, in fact the lowest point since 1969. New car registrations in 2017 were also strongly affected by the lack of appreciable changes in fiscal rules and regulations for the lessee which created an air of clarity and stability in the market. The prognosis for 2018 from the branch organisation (BOVAG) is for a more modest rise of new registrations to around 430,000.

The general trend of increasing profitability as well as rising levels of confidence in the economy have given a positive impulse to the propensity to invest in new car leases which is expected to continue for the coming years. These factors are generally expected to have a positive impact on the overall expected losses on car Lease Receivables as well as new business levels. The latter may be negatively impacted by new lease accounting rules for larger business clients.

In the light of the risk factors facing the Company, as described above, the economic developments over the past year or so and future outlook are generally considered positive for the Company. Management believes that the Company's risks are adequately mitigated by the various credit enhancements, as described in the Financial statements and the Prospectus. Moreover, the Company's obligations to the Noteholders are of limited recourse (see above). As a consequence, no noticeable changes in the current position of the Company are expected for the next 12 months.

Amsterdam, November 9, 2018

Managing Director
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

2.1 Balance sheet as at December 31, 2017

(Before result appropriation)

		December 31, 2017		December 31, 2016	
ASSETS		€	€	€	€
Fixed assets	[1]				
Financial fixed assets					
Deemed loan to the Originator		579,177,228		425,134,565	
			579,177,228		425,134,565
Current assets	[2]				
Receivables					
Other receivables		723,612		2,152,819	
			723,612		2,152,819
Cash and cash equivalents	[3]		67,888,056		38,469,272
			647,788,896		465,756,656
SHAREHOLDER'S EQUITY AND LIABILITIES					
Shareholder's equity	[4]				
Share capital		1		1	
Other reserves		1,660		-	
Net result		2,000		1,660	
			3,661		1,661
Non-current liabilities	[5]				
Notes payable		449,100,000		329,400,000	
Subordinated Loan		138,404,751		101,756,264	
			587,504,751		431,156,264
Current liabilities	[6]				
Prepayments received		2,641,421		-	
Derivative instruments		7,124		1,680	
Maintenance Reserve Advance		32,039,728		17,918,133	
Cash Collateral Amount		5,389,200		3,952,800	
Taxes		915		415	
Interest payable		3,662,582		1,227,205	
Accrued expenses and other liabilities		16,539,514		11,498,498	
			60,280,484		34,598,731
			647,788,896		465,756,656

2.2 Statement of income for the year 2017

		January 1, 2017 to December 31, 2017		March 3, 2016 to December 31, 2016	
		€	€	€	€
Interest income					
Interest income	[7]	24,678,563		10,360,710	
			24,678,563		10,360,710
Interest expenses					
Interest expense Notes	[8]	-873,008		-631,664	
Interest expense Subordinated Loan	[9]	-2,439,967		-1,216,342	
Interest expense bank accounts		-261,050		-81,211	
Interest Rate Swap	[10]	-561,754		-76,514	
			-4,135,779		-2,005,731
Interest margin			20,542,784		8,354,979
Operating income					
Servicing collections	[11]	141,432,256		60,098,412	
			141,432,256		60,098,412
Operating expenses					
Senior Maintenance Coordinator fees	[12]	-131,947,126		-52,584,238	
Other operating expenses	[13]	-19,953,465		-8,516,722	
			-151,900,591		-61,100,960
			10,074,449		7,352,431
Final Success Fee	[14]		-10,071,949		-7,350,356
Income before taxation			2,500		2,075
Corporate income tax	[15]		-500		-415
Net result			2,000		1,660

2.3 Statement of cash flows for the year 2017

The Statement of cash flows has been prepared according to the indirect method.

		January 1, 2017 to December 31, 2017		March 3, 2016 to December 31, 2016	
		€	€	€	€
Net result			2,000		1,660
Adjustments to statement of income:					
Interest income	[7]	-24,678,563		-10,360,710	
Interest expense		3,574,025		1,929,217	
Corporate income taxes		500		415	
			-21,104,038		-8,431,078
Movements in working capital					
Change in receivables	[2]	1,429,207		-2,152,819	
Change in derivative instruments	[6]	5,444		1,680	
Change in accrued expenses and other liabilities	[6]	7,682,437		11,498,498	
			9,117,088		9,347,359
Cash flow from operating activities			-11,984,950		917,941
Cash flow from investing activities					
Initial investment in Deemed loan to the Originator	[1]	-		-254,509,900	
Additional lease receivables purchased	[1]	-313,107,442		-233,603,465	
Repayments Deemed loan to the Originator	[1]	102,948,576		42,360,067	
Repurchased Deemed loan to the Originator	[1]	47,982,270		9,277,378	
Discount Deemed loan to the Originator	[1]	8,133,933		11,341,355	
Interest income received	[7]	24,678,563		10,360,710	
Cash flow from investing activities			-129,364,100		-414,773,855
Cash flow from financing activities					
Issued and paid-up capital		-		1	
Notes issued	[5]	143,200,000		329,400,000	
Redemption Notes	[5]	-23,500,000		-	
Drawdown of Subordinated Loan	[5]	36,648,487		101,756,264	
Change in Maintenance Reserve Advance	[6]	14,121,595		17,918,133	
Change in Cash Collateral Amount	[6]	1,436,400		3,952,800	
Interest expenses paid		-1,138,648		-702,012	
Cash flow from financing activities			170,767,834		452,325,186
Movements in cash			29,418,784		38,469,272
Notes to the cash resources					
Starting balance			38,469,272		-
Movements in cash			29,418,784		38,469,272
Closing balance			67,888,056		38,469,272

2.4 General notes to the Financial statements

GENERAL INFORMATION

VCL Master Netherlands B.V. (“the Company”) a private company with limited liability incorporated under the laws of the Netherlands on March 3, 2016. The statutory seat of the Company is in Amsterdam, the Netherlands. The sole managing director of the Company is Intertrust Management B.V. The Company is registered with the Chamber of Commerce under number 65.49.09.16.

The Company was incorporated specifically and solely to facilitate the transaction described below and the Company is empowered in its Articles of Association to achieve this. As of the date of this report, it is the Company's only business activity.

Stichting VCL Master Netherlands (“the Foundation") holds the shares of the Company. The Foundation is an independent foundation incorporated under the laws of the Netherlands on March 3, 2016. The objectives of the Foundation are to incorporate and to acquire, to hold, to alienate and encumber shares in the capital of the Company. The sole managing director of the Foundation is Intertrust Management B.V.

TRANSACTION STRUCTURE, MANAGEMENT AND RELATED PARTIES

The Company is part of a structured finance transaction, in which leased vehicles ("the Leased Vehicles") are hire purchased by the Company from Volkswagen Leasing B.V. and DutchLease B.V. (collectively, "the Originator") under a Master Hire Purchase Agreement. The main aim of the Company is financing the hire purchase of the Leased Vehicles and the accompanying lease receivables ("the Lease Receivables") by the issuance of Asset Backed Floating Rate Class A Notes and Asset Backed Floating Rate Class B Notes ("the Notes"), a Subordinated Loan Agreement with the Volkswagen International Luxemburg S.A. ("the Subordinated Lender") and by way of a Maintenance Reserve Funding Agreement with the Originator. The Company is set up as a bankruptcy remote vehicle for the transaction.

On May 31, 2016 ("the Closing Date") the Company purchased Leased Vehicles under the Master Hire Purchase Agreement from the Originator amounting to EUR 254.5 million. The Notes funding was provided by external investors, for an initial amount of EUR 190.7 million. The Subordinated Lender provided the Subordinated Loan to fund the remainder of the initial purchase price. During the revolving period, the Company is allowed to substitute the proceeds from Lease Receivables for the purchase of additional Leased Vehicles and accompanying Lease Receivables.

Apart from a pre-determined profit level, the Company's financial results are for the account of the Originator through a Final Success Fee mechanism.

The Company's balance sheet asset 'Deemed loan to the Originator' represents the value of the underlying lease contracts and receivables. Whilst the Company has the legal ownership of these contracts and receivables, the economic interest is considered to have remained with the Originator.

Intertrust Management B.V. manages the Company. The Originator is the Maintenance Coordinator and Servicer of the Leased Vehicles. Volkswagen Pon Financial Services B.V. handles investment reporting and Intertrust Administrative Services B.V. handles cash management and statutory accounting in close cooperation with the Originator. ING Bank N.V. is the swap counterparty.

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also entities which can control the Company are considered to be a related party. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

Transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is necessary in order to provide the required insight.

Intertrust Management B.V. and Intertrust Administrative Services B.V. belong to the same group of companies but are not related to the Originator. The Intertrust companies and the Originator, as well as any entities belong to those groups, are considered related parties to the Company. Transactions with those parties are detailed in the relevant disclosure notes. All transactions with related parties are considered to be at arms' length pricing.

FINANCIAL RISK MANAGEMENT

Following the purchase of the lease vehicle contract portfolio and the issue of the Notes, the Company is exposed to a variety of risks. As the Company issued the Notes with limited recourse, the risks for the Company itself are limited. However, given the limited recourse (meaning a risk transfer to the Noteholders), the Company took a variety of measures to minimise the risks linked to the transaction.

In addition to financial risks, the Company also faces operational risks. The servicing of the contracts and the entity administration and investor reporting is performed by regulated and well-known companies. The operating risk is mitigated as the Company has contractual agreements with these companies and these companies either provide annual audit statements of the sub-servicer on the contract portfolio and/or an ISAE 3402 report in respect to the services provided.

The Company realises a fixed profit for tax purposes, both in terms of determining the annual profit and for determining total profits. As a result, the risks as described do not influence the profit level of the Company.

The Company believes that no ongoing risk assessment is deemed necessary, as the most significant risks are adequately covered.

Limited recourse

The obligations of the Company under the Notes are limited recourse obligations and the ability of the Company to meet its obligations to pay principal and interest on the Notes is dependent on the receipt of funds from the Lease Receivables, the proceeds of the sale of any Lease Receivables, the proceeds of the sale of any vehicles, payments under the Swap Agreement and the availability of the Cash Reserve and the margin in the Swap Agreement.

If the proceeds are insufficient to repay in full all principal and interest and other amounts due under the Notes, then, as the Company has no other assets, it may be unable to satisfy claims in respect to any unpaid amounts.

Also in view of the below factors, the Company's risk appetite is considered to be low.

The Company does not have any employees. The managing director is not a natural person, therefore, the requirements in article 2:391 paragraph 7 BW, on information on the human gender ratio of board members can be found in the Directors' Report of the managing director.

Credit and concentration risk

As a company that solely invests in Lease Receivables in the Netherlands, the Company has significant exposure to credit and concentration risks associated with the Dutch car lease sector.

Credit risk is mainly related to the economic conditions and the risk that individual lessees might be unable to fulfil their payment obligations. However, these risks are mitigated because each Lease Receivable is collateralised on the underlying asset (i.e. vehicle), and the Lease Receivable portfolio is well spread over a large number of individual Lease Receivables, a variety of car brands and models, industry sectors in which the lessees operate and geographical areas. If a lessee defaults and the Company sells the collateral, the Company is entitled to all proceeds of the sale of the collateral. If the proceeds from the sale of the collateral is insufficient to repay the outstanding principal amount of the Lease Receivable, accrued interest and any other costs the Company could record a loss.

Consequently, not only the creditworthiness of the lessee can be recognised as a risk but also the general economic conditions and the car lease sector in particular have an impact on the probability of a loss.

As detailed in the Future developments section below, the Dutch economy has prospered significantly in 2017 and most macro economic developments are showing very positive trends. The profitability of companies in the Netherlands has been increasing appreciably over the last couple of years and this was one of the reasons behind the very appreciable rise in new car registrations in 2017. The trends are also expected to have a positive effect on car Lease Receivables loss levels and on new business, though there are some clear variations continuing in the individual sectors.
Whilst this has the effect of reducing the Company’s exposure to credit and concentration risk, it will not eliminate it. Management is aware of variations within the sector as well as regional variations in both developments and future expectations and so not all Lease Receivables will be so positively influenced. Moreover, the expectations are contingent on a number of local and global developments which may not materialise and over which the Company has no control.

However, the Company believes that all significant risks are adequately addressed and that no ongoing risk assessment is deemed necessary. The credit enhancements granted under the terms of the transaction are all part of the risk control measures.

In the unlikely situation that all risk measures as described above fail, the limited recourse clause of the transaction will take effect.

Interest rate risk
The Company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. These risks are addressed and mitigated by interest rate Swap Agreements. Therefore, the interest rate risk is zero.

Liquidity risk
Matching maturities of assets and liabilities and related cash flows is fundamental to the management of the Company. This risk is addressed and mitigated by the Cash Collateral Amount (EUR 5,389,200) and credit enhancements. If the receipt of funds from the underlying Lease Receivables is insufficient to meet the Company's obligations under the Notes, the Company may apply the Cash Collateral Amount to make payments in respect of the Notes.

Residual value risk
The residual risk for the Company is the risk that, after it has acquired legal title to a Purchased Vehicle, any Vehicle Realisation Proceeds of such Purchased Vehicle are insufficient to cover (i) in case of a Matured Lease, the Estimated Residual Value or (ii) in case of a Lease Agreement Early Termination, the Present Value of the Estimated Residual Value of such Purchased Vehicle. This risk is addressed and mitigated by the Master Hire Purchase Agreement under which the Originator, in case a Lease Termination Date occurs, has the option to repurchase the purchased vehicles together with the associated Lease Receivables at an Option Exercise Price equal to the sum of (i) the present value of all scheduled Lease Interest Components and Lease Principal Components and (ii) the present value of the Estimated Residual Value of such Purchased Vehicles in the circumstances set out in the Master Hire Purchase Agreement. Altough the Originator is not obliged to exercise the Repurchase Option, it is standard practice that the Originator exercises this option. After all, the legal ownership of the Leased Vehicles will only transfer to the Company upon fulfillment of the condition precedent that the purchase price is paid in full (i.e. upon payment of the final installment).

FAIR VALUE FINANCIAL INSTRUMENTS

Due to the short-term nature of the cash and cash equivalents and all current assets and liabilities included in these Financial statements, the estimated fair value for these financial instruments approximates the book value, as disclosed in the aforementioned accounting policies, except as stated below.

Deemed loan to the Originator
The Deemed loan to the Originator represents the estimated discounted cash flows due on the underlying Lease contracts and receivables. As such, the amounts reported on the Balance sheet are considered to closely approximate fair values.

Notes payable and Subordinated Loan
The estimated fair values of the Notes payable and Subordinated Loan closely approximate the balance sheet amounts.

Derivative instruments
An internal discounted cash flow valuation model is used to calculate the fair value as per year-end. The cash flows are based on the expected cash flows calculated up to maturity date. The expected cash flows are discounted at the 1-month Euribor interest curve. The fair value as per December 31, 2017 is EUR 22.4 million (receivable).

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these Financial statements are set out below:

Basis of presentation
The Financial statements are prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The Financial statements are prepared under the historical cost convention and presented in the joint currency of the European Monetary Union, the euro (“EUR” or "€"), the Company's functional currency. All amounts are in EUR, unless stated otherwise.

Unless specifically stated otherwise, assets and liabilities are recognised at the amounts at which they were acquired or incurred. The Balance sheet, Statement of income and Statement of cash flows include references to the notes.

Changes in accounting policies
The accounting policies have not changed, as compared to the previous year.

Significant accounting judgments and estimates
In the process of applying the Company's accounting policies, the Company's management has exercised judgment and estimates in determining the amounts recognised in the Financial statements. The most significant uses of judgment and estimates are as follows:

Going concern
Management has made an assessment of the Company’s ability to continue as a going concern and is satisfied that the Company has the resources and activities to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern. Therefore, the Financial statements continue to be prepared on the going concern basis.

Impairment losses on underlying Lease Receivables
The Company reviews the Leased Vehicles and Lease Receivables to determine whether provision should be made due to incurred loss events for which there is objective evidence, but of which effects are not yet evident. The assessment takes into account the data from the loan portfolio (such as credit quality, levels of arrears, loan to collateral ratios, historical loss patterns, etc.). Furthermore, the contractual Call Option of the Originator to repurchase contracts significantly in arrears, is taken into account.

Ultimately, the Company's obligations on the Notes have limited recourse to the payments received on the Lease Receivables and other income of the Company. In the unlikely event that the incurred credit losses on the Leased Vehicles and Lease Receivables impair the Company's ability to repay the Notes in full then the Notes would be deemed to have been discharged in full once the available funds are paid out. This limited recourse arrangement acts as a hedge to the credit risk arising on the underlying Lease Receivables.

Fair value of financial instruments
The Company's management has reviewed the fair values of each of the Company's financial instruments in the light of the Balance sheet valuation methods, the prevailing market conditions and the characteristics of the underlying Lease Contracts and Receivables, as at the Balance sheet date. It has concluded that the fair values of these instruments, except the derivative instruments, closely approximate the recorded Balance sheet values. The inputs to these judgments are derived from observable market data where possible, but where observable market data is not available, judgment has been used. The judgments include considerations of liquidity and inputs such as volatility for discount rates, prepayment rates and default rate assumptions.

Hedge accounting
The Company uses derivative financial instruments such as swaps to hedge its risks associated with interest rate fluctuations. Under Dutch Accounting Standards RJ 290, on initial recognition, the Company classifies the derivatives on a portfolio basis in the subcategory listed below.

Hedges are recognised on the basis of cost price hedge accounting if the following conditions are met: (i) the general hedging strategy and the way in which the hedging relationships are in line with risk management objectives and the expected effectiveness of these hedging relationships are documented; (ii) the nature of the hedging instruments involved and hedged positions are documented and (iii) any ineffectiveness is recognised in the Statement of income. The hedges that the Company applies meet these strict criteria for cost price hedge accounting and are accounted for as follows:

If the hedged item is carried at amortised cost in the Balance sheet, the derivative is also carried at cost. As long as the hedged item under cost price hedge accounting is not recognised in the Balance sheet, the hedging instrument is not revalued. If the hedged position of a forecast transaction results in the recognition of a financial asset or liability, the related gains or losses not yet recognised in income are taken to the Statement of income in the same period in which the acquired asset or contracted liability has an effect on income. As soon as an expected transaction leads to the recognition in the Statement of income of a financial asset or financial liability, the gains or losses associated with the derivative are recognised in the Statement of income in the same period in which the asset or liability affects income.

When a derivative expires or is sold, the accumulated profit or loss that has not yet been recognised in the Statement of income prior to that time is then included as a deferral in the Balance sheet until the hedged transactions take place. If a derivative no longer meets the conditions for hedge accounting, but the financial instrument is not sold, hedge accounting is terminated and the unrecorded accumulated income is recorded in the Statement of income. Subsequent measurement of the derivative instrument is at the lower of cost or market value.

The Company documents its hedging relationships in specific hedge documentation and regularly checks if the hedge is effective and that there is no over-hedging.

At each Balance sheet date, the Company assesses the degree of ineffectiveness of the hedging relationship. The degree of ineffectiveness is determined by comparing the critical terms of the hedging instrument against the hedged position. For this comparison, the Company uses the following critical terms: amount; term; hedged risk; method of settlement of the hedging instrument and the hedged position.

If the critical terms are matched, there is no ineffectiveness. If the critical terms are not matched, there is ineffectiveness. In that case, the degree of ineffectiveness is determined by comparing the fair value change of the hedging instrument with the fair value change of the hedged position. If there is a cumulative loss on the hedging relationship over the period between initial recognition of the hedging instrument and the Balance sheet date, the ineffectiveness is immediately recognised in the Statement of income.

Deemed loan to the Originator
The Deemed loan to the Originator is recognised initially at fair value. After initial recognition, the underlying Lease Receivables are carried at amortised cost (discounted cash flow calculation). Newly acquired contracts in the underlying portfolio are recognised at fair value. A provision for impairment is recorded if deemed necessary, representing the risk of losses on the underlying Leased Vehicles and Lease Receivables.

Other receivables
Other receivables are stated at the amounts at which they were acquired or incurred, unless indicated otherwise.

Cash and cash equivalents
Cash and cash equivalents are valued at nominal value and, insofar as not stated otherwise, are at the free disposal of the Company. Cash and cash equivalents relate to immediately due and payable withdrawal claims against credit institutions and cash resources.

Notes payable, Subordinated Loan, Maintenance Reserve Advance and other liabilities
Notes payable, Subordinated Loan, Maintenance Reserve Advance and other liabilities are recognised initially at fair value less directly attributable transaction costs. After initial recognition, these balances are carried at amortised cost based on the effective interest method. Gains and losses are taken to the Statement of income when the investments are transferred to a third party or impaired, as well as through the amortisation process, if applicable.

Derivative instruments
A derivative instrument is used to manage the Company's exposure to risk related to differences in interest rates arising from operational, financing and investment activities. As a result of the application of cost price hedge accounting, derivatives are carried at their accrued value at the Balance sheet date.

Offsetting
Financial assets and liabilities are offset at the net amount reported in the Balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Revenue recognition
Interest income and expenses are recognised in the Statement of income on an accruals basis, taking account of the effective interest rate on the assets and liabilities concerned. Operating income and expenses are accounted for in the year in which these are incurred. Losses are accounted for in the year in which they are identified.

Other operating expenses
Other operating expenses are accounted for in the period in which these are incurred.

CORPORATE INCOME TAX

The Company realises an minimum profit for corporate income tax purposes in accordance with tax rulings provided to comparable structured finance transactions from the past.

CONTINGENT LIABILITIES AND COMMITMENTS

The Company has granted a first ranking right of pledge over the Purchased Vehicles and beneficiary rights to Stichting Security Trustee VCL Master Netherlands ("the Security Trustee"). Furthermore, the Company has granted a first ranking pledge to the Security Trustee over the Company's rights under or in connection with certain transaction agreements.

The exercise of the pledge is subject to certain terms and conditions. In case the Company does not meet its obligations towards certain secured parties, including the Noteholders, this could lead to exercising the right of pledge by the Security Trustee.

STATEMENT OF CASH FLOWS

The Statement of cash flows has been prepared using the indirect method. The cash items disclosed in the Statement of cash flows are comprised of cash and cash equivalents. Interest paid is recognised as a financing activity and interest received is included in investment activities. Income taxes are included in cash from operating activities. Transactions not resulting in inflow or outflow of cash are not recognised in the Statement of cash flows.

2.5 Notes to the Balance sheet

ASSETS

FIXED ASSETS [1]

Financial fixed assets

Deemed loan to the Originator

The movement in the Deemed loan to the Originator, based on the movements in the underlying Lease Receivables can be detailed as follows:

	31-12-2017	31-12-2016
	€	€
Opening Balance	436,475,920	-
Initial Purchase of Lease Receivables	-	254,509,900
Repayments Lease Receivables	-102,948,576	-42,360,067
Additional purchased Lease Receivables	313,107,442	233,603,465
Repurchased Lease Receivables	-47,982,270	-9,277,378
	598,652,516	436,475,920
Discount	-19,475,288	-11,341,355
Closing balance	579,177,228	425,134,565

The balance of the Deemed loan to the Originator is based on the movement of the related collateralised Leased Vehicles and the accompanying Lease Receivables which were acquired by the Company from the Originator. The parties agreed that the purchase price for the Leased Vehicles is paid in regular installments and that legal ownership of the Leased Vehicle does not transfer at the time of delivery of the asset to the Company, but only upon fulfillment of the condition precedent that the purchase price is paid in full (i.e. upon payment of the final installment). The Company is entitled to all revenues generated by the Leased Vehicles subject to the Master Hire Purchase Agreement.

The original purchase price for the Initial Leased Vehicles was calculated on a discounted cash flow basis. The cash flows were discounted using the interest rate as used to calculate the lease installments in respect of the individual lease agreement. The purpose of the discount was to create additional interest income to cover the Company's expenses and provide additional credit enhancements to absorb impairment or losses in the transaction.

In the year the average annualized interest rate on the Deemed loan to the Originator amounted to 4.91% (previous year: 3.10%). The average interest rates approximate the effective rates.

Based on a specific review of the underlying Lease Receivables and taking into consideration current values of the underlying Lease Receivables and taking into account that the Originator has a contractual Call Option to repurchase contracts significantly in arrears, management has decided to not take into account a provision for doubtful Lease Receivables.

CURRENT ASSETS [2]

All current assets have a maturity of less than one year.

Other Receivables

	31-12-2017	31-12-2016
	€	€
Lease receivables	-	2,152,819
Final Success Fee	723,612	-
	723,612	2,152,819

Cash and cash equivalents [3]

The cash balances as disclosed below are freely available to the Company, except as stated.

	31-12-2017	31-12-2016
	€	€
Distribution Account	179,986	107,014
Cash Collateral Account	37,254,056	21,761,051
Monthly Collateral Account	30,454,014	16,601,207
	67,888,056	38,469,272

All bank accounts are held with Elavon Financial Services DAC.

Distribution Account
The Distribution Account is the main account in relation to the transaction, all regular receipts and payments are settled through the Distribition Account.

Accumulation Account
The Accumulation Account is used on each Payment Date to collect moneys paid under items eight (Class A Accumulation Amount) and ninth (Class B Accumulation Amount) of the Order of Priority to fund Additional Issuer Advances under the Issuer Facility Agreement. During the Revolving Period, amounts on deposit in the Accumulation Account may be used by the Company for funding of Additional Issuer Advances.

Cash Collateral Account
The Cash Collateral Account is set up to serve as a security to enable the Company to meet the obligation of operating expenses and or payments due to the Noteholders in accordance with the Order of Priority.

On the Initial Issue date, the Company has deposited EUR 2,288,400 in the Cash Collateral Account. This amount serves as the initial Cash Collateral Amount. Upon the issuance of Further Notes, the Company will make sure that there is always a deposit of 1.2% of the nominal amount of the then outstanding Notes in the Cash Collateral Account, subject to a floor which is lesser of (i) 0.6% of the Maximum Discounted Receivables Balance, and (ii) the aggregate outstanding principal amount of the Notes as of the end of the monthly period. Drawings from the Cash Collateral Account will be made in accordance with the Order of Priority.

The Cash Collateral Account also contains a Maintenance Reserve Ledger in which the Maintenance Reserve will be administrated. The Maintenance Reserve serves to provide credit enhancement to cover potential maintenance costs relating to any associated Lease Agreement. The purpose of the Maintenance Reserve is to ensure that the Company will continue to be able to pay any amounts to be paid to third party garages and service providers for the provision of the maintenance services in relation to the Purchased Vehicles.

Monthly Collateral Account
The Monthly Collateral Account is used to collect the expected collections ("Monthly Collateral") for each Monthly Period.

2.5 Notes to the Balance sheet

LIABILITIES

SHAREHOLDER'S EQUITY [4]

Share capital

The authorised capital amounts to € 1, consisting of 1 ordinary share of € 1, which is issued and paid-in.

The net result for the year amounts to EUR 2,000.

Other reserves

The movement in the Other reserves can be detailed as follows:

	31-12-2017	31-12-2016
	€	€
Opening balance	-	-
Result prior year	1,660	-
Dividend paid	-	-
Closing balance	1,660	-

NON-CURRENT LIABILITIES [5]

Notes payable

On the Closing Date, the Company issued Asset Backed Floating Rate Class A Notes for a total of EUR 171.7 million and Asset Backed Floating Rate Class B Notes for a total of EUR 19 million. The Asset Backed Floating Rate Class B Notes are subordinated to the Asset Backed Floating Rate Class A Notes.

The Company may issue effective on a Payment Date further Series of Class A Notes or Series of Class B Notes or increase existing Series of Class A Notes or existing Series of Class B Notes. On May 25, 2017, Series 2016-1 Class A Notes was redeemed in full. During 2017, the Company increased the existing Series Class A Notes for a total amount of EUR 131.4 million and the Series Class B Notes for a total amount of EUR 11.8 million.

	31-12-2017	31-12-2016
	€	€
Opening balance	329,400,000	-
Initial issuance	-	190,700,000
Additional issuances	-	37,100,000
Increase existing Series	143,200,000	101,600,000
Redemptions	-23,500,000	-
Closing balance	449,100,000	329,400,000

The interest rate payable on the Asset Backed Floating Rate Class A Notes amounts to the equivalent of one-month Euribor plus a margin of 0.45% per annum. The interest rate payable on the Asset Backed Floating Rate Class B Notes amounts to the equivalent of one-month Euribor plus a margin of 0.90% per annum. The Final Maturity Date of the Asset Backed Floating Rate Class A Notes and the Asset Backed Floating Rate Class B Notes is August 25, 2025.

Based on the principal repayments in 2017 and the assumption no event triggering earlier redemption of the Asset Backed Rate Class A Notes and Asset Backed Rate Class B Notes occurs the expection is that EUR 0 will be repaid in one year, EUR 0 after one year but before five years and EUR 449,100,000 will be repaid after five years.

The Asset Backed Floating Rate Class A Notes and the Asset Backed Floating Rate Class B Notes are listed on the Luxembourg Stock Exchange.

Subordinated Loan

On the Closing Date, the Subordinated Lender provided a Subordinated Loan to the Company as set out in the Subordinated Loan Agreement. The total initial amount was EUR 58.8 million. During 2017, the Company received an amount of EUR 36.6 million from the Subordinated Lender.

	31-12-2017	31-12-2016
	€	€
Opening balance	101,756,264	-
Initial amount	-	58,846,957
Further advances	36,648,487	42,909,307
Closing balance	138,404,751	101,756,264

The Subordinated Loan is set up to fund a part of the discounted value of all eligible and non-eligible Lease Receivables, as well as the required maintenance reserve advance.

The interest payable on the Subordinated Loan amounts to the equivalent of one-month Euribor plus a margin of 2.75% per annum. Payment of interest and repayment of principal is subordinated to payments of interest and principal on the Notes and all other payments.

CURRENT LIABILITIES [6]

All current liabilities have a maturity of less than one year.

Prepayments received

	31-12-2017	31-12-2016
	€	€
Prepayments received	2,641,421	-

The prepayments received relate to the Lease Collections that have been transferred to the Originator by the lessees and were received in January 2018.

Derivative instruments

On the Closing Date, the Company entered into a swap agreement with HSBC Bank plc. On May 25, 2017, HSBC Bank plc was replaced by ING Bank N.V. as swap counterparty. Under the new swap agreement with ING Bank N.V. (the "Swap Counterparty") the Company will undertake to pay to the Swap Counterparty on each Payment Date an amount equal to the amount of interest on the nominal amount of the Notes outstanding on each Payment Date, calculated on the basis of a fixed rate of interest of 0.2676% per annum in relation to the Class A Notes and 0.7093% per annum in relation to the Class B Notes. The Swap Counterparty will undertake to pay to the Company on each Payment Date an amount equal to the floating rate of interest on the nominal amount of the Notes outstanding calculated on the basis of 1-month Euribor plus 0.45% per annum in relation to the Class A Notes and 0.90% per annum in relation to the Class B Notes.

The Swap Agreement qualifies as a perfect hedge under RJ 290 of the Accounting Guidelines for Annual Reporting and this status is monitored throughout the year and at the Balance sheet date through the application of a critical terms analysis.

The fair value of the derivative instruments as per December 31, 2017 is EUR 22.4 million (receivable).

	31-12-2017	31-12-2016
	€	€
Swap amounts payable	7,124	1,680

Maintenance Reserve Advance	31-12-2017	31-12-2016
	€	€
Opening Balance	17,918,133	-
Increases	14,121,595	17,918,133
	32,039,728	17,918,133

The Maintenance Reserve Advance serves to provide credit enhancement to cover potential maintenance costs relating to any associated Lease Agreement. The purpose of the Maintenance Reserve Advance is to ensure that the Company will continue to be able to pay any amounts to be paid to third party garages and service providers for the provision of the maintenance services in relation to the Purchased Vehicles.

The increase of the Maintenance Reserve Advance in the amount of EUR 195,018 related to December 2017, was settled in January 2018.

Cash Collateral Amount	31-12-2017	31-12-2016
	€	€
Opening balance	3,952,800	-
Increases	1,436,400	3,952,800
	5,389,200	3,952,800

On the Closing Date, the Company has deposited an amount of EUR 2,288,400 in the Cash Collateral Account. This amount serves as the initial Cash Collateral Amount. On each Further Issue Date, such amount will be increased by an amount to increase it to 1.2% of the nominal amount of the Notes outstanding as of such Further Issue Date. On each Payment Date the Cash Collateral Amount shall be used to cover any shortfall in the amounts payable under the first to sixth item of the Order of Priority.

Taxes	31-12-2017	31-12-2016
	€	€
Corporate income tax current year	500	415
Corporate income tax previous years	415	-
	915	415

Interest payable	31-12-2017	31-12-2016
	€	€
Interest on Notes	6,272	10,863
Interest on Subordinated Loan	3,656,310	1,216,342
	3,662,582	1,227,205

Accrued expenses and other liabilities	31-12-2017	31-12-2016
	€	€
Audit fee	77,517	30,000
Servicer Fee payable	506,448	369,240
Senior Maintenance Fee payable	14,511,597	9,284,386
Management fee payable	-	262
Other costs payable	66,747	49,225
Final Success Fee	-	855,983
Buffer Release Amount payable	1,377,205	909,402
	16,539,514	11,498,498

The Servicer Fee, the Senior Maintenance fee, the Final Success Fee and the Buffer Release Amount are payable to the Originator.

2.6 Notes to the Statement of income

Interest income [7]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Interest income on Deemed loan to the Originator	24,678,563	10,360,710
	24,678,563	10,360,710

Interest income on Deemed loan to the Originator relates to the interest income on the underlying collateralized Leased Vehicles and the accompanying Lease Receivables registered in the Netherlands.

Interest expense Notes [8]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Interest expense Series 2016-1 Class A Notes	31,113	39,103
Interest expense Series 2016-2 Class A Notes	144,148	117,284
Interest expense Series 2016-3 Class A Notes	96,067	78,351
Interest expense Series 2016-4 Class A Notes	48,168	39,103
Interest expense Series 2016-5 Class A Notes	184,012	140,892
Interest expense Series 2016-6 Class A Notes	96,067	61,228
Interest expense Series 2016-1 Class B Notes	195,657	111,594
Interest expense Series 2016-2 Class B Notes	77,776	44,109
	873,008	631,664

Interest expense Subordinated Loan [9]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Interest expense Subordinated Loan	2,439,967	1,216,342
	2,439,967	1,216,342

Interest Rate Swap [10]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Interest expenses swap (paying leg)	1,434,763	637,933
Interest income swap (receiving leg)	-873,009	-561,419
	561,754	76,514

Servicing collections [11]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Servicing collections	141,432,256	60,098,412
	141,432,256	60,098,412

The Servicing collections relate to the servicing component included in the monthly lease installments.

Senior Maintenance Coordinator fees [12]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Senior Maintenance Coordinator fees	131,947,126	52,584,238
	131,947,126	52,584,238

The Senior Maintenance Coordinator fees were payable to the Originator in its capacity as Maintenance Coordinator.

Other operating expenses [13]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Servicing fees	5,438,749	2,422,368
Company administrator fees	18,513	13,646
Management fees	11,108	18,507
Audit fees	47,517	30,000
Legal fees	9,600	-
Buffer Release amounts	14,377,892	5,957,927
Cash Manager fees	4,000	4,000
Other general costs	46,086	70,274
Total	19,953,465	8,516,722

The Servicing fee, Company Administrator fees, Management fees and Buffer Release amounts were payable to related parties.

	Pricewaterhouse Coopers Accountants N.V.	Total 2017
Audit of the Financial Statements	47,517	47,517
Other audit engagements	-	-
Tax advisory services	-	-
Other non-audit services	-	-
Totals	47,517	47,517

The fees listed above relate to the procedures applied to the Company by accounting firms and external auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act ('Wet toezicht accountantsorganisaties - Wta") as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

These fees relate to the audit of the 2017 financial statements, regardless of whether the work was performed during the financial year.

Final Success Fee [14]

The Final Success Fee due to the Originator is the excess of interest collections on the Lease Receivables over the fees and expenses of the Company, including interest payments on the Notes and Subordinated Loan. The price paid for the Lease Receivables by the Company to the Originator is calculated on a discounted cash flow basis to provide the Company interest income in excess of interest payments.

The Final Success Fee due to the Originator during the period under review amounted to EUR 10,071,949.

Corporate income tax [15]

	2017	March 3, 2016 until Dec 31, 2016
	€	€
Corporate income tax	500	415
	500	415

The Company realises an minimum taxable profit equal to the higher of EUR 2,500 and 10% of the annual remuneration paid to the Managing Director of the Company. The applicable tax rate for the year under review is 20% of the taxable amount.

Employees

During the year under review the Company did not employ any personnel.

Remuneration of the Director and Board of Supervisory Directors

The Board of Directors consists of one corporate director, the remuneration of the Director is included in the management fees. The Company does not have a Board of Supervisory Directors.

Proposed appropriation of result

The net result for the year under review is EUR 2,000. Management proposes to add the net result to the Other reserves.

Post-balance sheet events

During 2018, the Company increased the existing Series of Class A Notes for a total amount of EUR 78.9 million and the Series of Class B Notes for a total amount of EUR 8.6 million. Furthermore, the Subordinated Lender granted an additional advance for a total amount of EUR 26.4 million under the Subordinated Loan Agreement. The proceeds were used to finance the purchase of Additional Lease Vehicles and Additional Lease Receivables from the Originator.

On February 26, 2018, the Transaction was renewed. The renewal has resulted in an amendment of the relevant Margin of the Notes and an extension of the Revolving Period and the Expected Maturity Date of the Notes.

Amsterdam, November 9, 2018

Managing Director
Intertrust Management B.V.

3. Other information

3.1 Statutory provisions

In accordance with Article 23 of the Articles of Association, the net result for the year is at the disposal of the General Meeting of Shareholders.

3.2 Independent auditor's report

Independent auditor's report

To: the general meeting of VCL Master Netherlands B.V.

Report on the financial statements 2017

Our opinion

In our opinion, VCL Master Netherlands B.V.'s financial statements give a true and fair view of the financial position of the company as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 of VCL Master Netherlands B.V., Amsterdam ('the Company').

The financial statements comprise:

- the balance sheet as at 31 December 2017;
- the income statement for the year then ended; and
- the notes, comprising the accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of VCL Master Netherlands B.V. in accordance with the European regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta – Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

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Our audit approach

Overview and context

The company is a securitisation company, with Volkswagen Leasing B.V. and Dutchlease B.V. as servicers and sellers. Volkswagen Leasing B.V. and Dutchlease B.V. are consolidated by Volkswagen Pon Financial Services B.V. Volkswagen Pon Financial Services B.V. is the sub-servicer with respect to the lease receivables of the company. Intertrust Management B.V. is the administrator and managing director of the company, for which an ISAE 3402 type II report is available. We paid specific attention to the areas of focus driven by the operations of the company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the managing director made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In section 2.4 of the financial statements, the company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty.

Given the size of the deemed loan to the originator relative to the overall size of the balance sheet and the accompanying estimation uncertainty in the impairment assessment of the lease receivables, we consider the deemed loan to the originator to be the key audit matter. Besides the key audit matter, other areas of focus were the notes payable, the subordinated loan and the fair value disclosures of the financial instruments.

The company also makes use of a third party service organisation for the administration process. We place reliance on the ISAE 3402 type II reports of Intertrust Management B.V. and the ISAE 3000 type II report of Intertrust Group IT Services for the operating effectiveness of internal controls, since they cover the IT general controls for all relevant systems for our audit of the financial statements and some of the controls at an operational process level that are relevant to our audit of the financial statements. These reports comprise, among other things, a description of the design of internal controls at Intertrust Management B.V. and an assurance report thereon provided by an independent auditor based on generally accepted assurance standards.

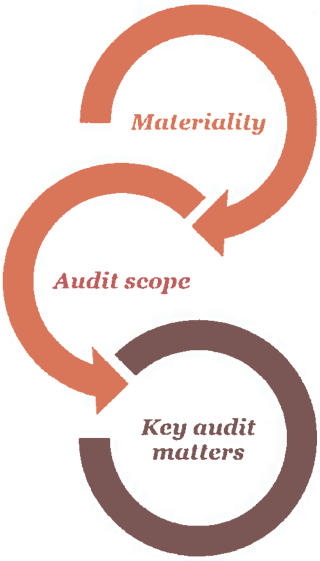
We obtained and read the reports. Based on our risk assessment and understanding of the company, we identified those internal controls in the ISAE 3402 type II reports and ISAE 3000 type II report which were relevant for our audit of the financial statements. We applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of the controls described in the ISAE 3402 type II reports and ISAE 3000 type II report to support our substantive work. Furthermore, for the purpose of our audit of the financial statements we determined the necessity of testing controls that were implemented at the company but which were not included in the ISAE 3402 type II reports and ISAE 3000 type II report, and we tested those when deemed necessary.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a securitisation company. We therefore included specialists in the areas of valuation of financial instruments and information technology in our team.

pwc

The outline of our audit approach was as follows:



Materiality

- Overall materiality: €6,470,653.

Audit scope

- Site visits and meetings with the managing director and sub-servicer by the engagement team took place at the locations of Intertrust Management B.V. and Volkswagen Pon Financial Services B.V. in the Netherlands.
- We conducted audit work on the directors' report and the financial statements of VCL Master B.V.
- Audit coverage: 100% of total assets.

Key audit matters

- Valuation of the deemed loan to the originator.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in the aggregate, on the financial statements as a whole and on our opinion.

Overall materiality	€6,477,889 (2016: €4,650,000)
Basis for determining materiality	At the start of the planning of our audit, we performed a stakeholders' analysis that identified suitable benchmarks and thresholds for determining the overall materiality for the financial statements. To establish suitable benchmarks and thresholds for determining overall materiality, we used quantitative and qualitative measures, taking into account the common information needs of the noteholders and regulators. We determined the overall materiality on the basis of 1% of total assets. This resulted in an overall materiality of €6,477,889 (2016: €4,650,000). The increase in materiality can be attributed to additional purchases of leased vehicle contracts and their accompanying lease receivables.
Rationale for benchmark applied	We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that total assets is an important metric for the financial performance of the company.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with management that we would report to them misstatements exceeding €323,500 (2016: €232,500) identified during our audit as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to management. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we describe the key audit matters and include a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Key audit matter	Our audit work and observations
Valuation of the deemed loan to the originator *Refer to the accounting policies 'Deemed loan to originator' on page 15 of the financial statements and note 1 'Deemed loan to originator' on page 17 of the financial statements.* We considered the valuation of the deemed loan to the originator that represents the securitised lease receivables a key audit matter. This considering the size of the deemed loan to the originator relative to the overall size of the balance sheet, the judgements made in determining the accurate valuation, the potential impact on the ability to redeem the outstanding notes and the material effect that possible impairments may have on the financial statements. At the balance sheet date, the managing director determines the possible need for an impairment provision by assessing whether there is any objective evidence of impairment on the deemed loan to the originator by assessing evidence of impairment on the securitised lease portfolio, which is the key driver of the valuation of the deemed loan to the originator. The managing director did not identify any objective evidence that lease receivables are materially impaired.	We have performed the following procedures to address the valuation of the deemed loan to the originator: • We performed audit procedures on the servicer reports, including IT general controls covered by these servicer reports, where these servicer reports include specific information on the lease receivables, which is used in drafting the financial statements. • We evaluated the analysis of the managing director which is used to determine, on an individual basis, whether there is any objective evidence of impairment. If the managing director determined that there was no objective evidence of impairment on an individual basis, the managing director determined whether leases, with a similar credit risk, collectively indicated any objective evidence of impairment. • We assessed the reasonableness of the methodology and parameters used by the managing director to estimate the possible provisioning of the lease receivables by verifying them with external and internal data.

Key audit matter	Our audit work and observations
	We found the managing director's assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences. Based on the procedures performed as set out above, we found that the valuation of the deemed loan to the originator was accurately calculated using reasonable assumptions.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the directors' report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The managing director is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of VCL Master Netherlands B.V. following the passing of a resolution by the shareholders at the annual meeting held on 31 May 2017. Our appointment has been renewed annually by the shareholders representing a total period of uninterrupted engagement appointment of two years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European regulation on specific requirements regarding statutory audits of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 13 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the managing director

The managing director is responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the managing director determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing director is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the managing director should prepare the financial statements using the going-concern basis of accounting unless the managing director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing director should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam
9 November 2018
PricewaterhouseCoopers Accountants N.V.

D.J.P. van Veen RA

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Appendix to our auditor's report on the financial statements 2017 of VCL Master Netherlands B.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. 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. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going-concern basis of accounting and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the European regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.