VCL Master Netherlands B.V.

Annual Report 2018

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. and by way of a Maintenance Reserve Funding Agreement with the Originator. On February 22, 2018, Volkswagen International Luxemburg S.A. was replaced as subordinated lender by Volkswagen Pon Financial Services B.V. ("the Subordinated Lender").

During 2018, the Company increased the existing Series of Class A Notes for a total amount of EUR 113.2 million and the Series of Class B Notes for a total amount of EUR 12.2 million. Furthermore, the Company requested and received an additional advance for a total amount of EUR 36.6 million from the Subordinated Lender under the Subordinated Loan Agreement. The proceeds were used to finance the purchase of Additional Lease Vehicles and Additional Lease Receivables from the Originator.

During 2018, the Transaction was renewed. The renewal has resulted in an extension of the Revolving Period and the Expected Maturity Date of the Notes. Also, ING Bank N.V. was replaced by Skandinaviska Enskilda Banken AB (publ) as swap counterparty as per November 25, 2018.

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.

There are no special events that should be taken into account for the financial statements.

Interest Rates
In the year the average annualized interest rate on the Deemed loan to the Originator amounted to 4.83% (previous year: 4.91%) and the average annualized funding rate amounted to 0.37% (previous year: 0.65%). The resulting net interest margin was EUR 28.6 million (previous year: EUR 20.5 million). The average interest rates approximate the effective interest rates.

Performance of underlying lease vehicle contract portfolio
Realized losses on underlying Lease Receivables (net of recoveries) during the reporting year amounted to 49 thousand (previous year: nil).

Based on the fact that the cumulative net loss ratio (0.00399%) as per year-end is very low, management has decided to not take into account a provision for doubtful underlying Lease Receivables.

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.

The Company faces operational risks and financial risks. The servicing of the Lease Receivables, and the entity administration and investor reporting is performed by regulated, 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 on the Lease Receivable Portfolio and/or an ISAE 3402 report with respect to the services provided. Furthermore the transaction includes measures to be taken once certain parties fail to maintain a specific credit rating. Management believes that the operational risks are low and no further measures are deemed necessary.

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 Collateral Amount 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
The Company does not have any employees. The managing director is not a natural person, therefore, the requirements in article 2:391 paragraph 7 of the Dutch Civil Code, 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 2018 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 2018. 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, as described above (see 'limited recourse'), 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. The interest rate risk on the Notes is fully addressed and mitigated by interest rate Swap Agreements. The Company thereby faces fair value risk on the interest rate swaps. However, this risk is limited since both the Company and the counterparty have an option to terminate the swap without cash settlement on given dates in the future. The Company is thereby exposed to interest rate risk on the Subordinated Loan with the Originator. This risk is not hedged by means of interest rate swaps, but given the structure of the transaction and its final success fee mechanism the risk hereon is deemed low.

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 6,894,000) 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. If the Originator does not exercise the option to repurchase the purchased vehicles together with the associated Lease Receivables, the Company may exercise its Put Option to sell the purchased vehicles together with the associated Lease Receivables against the Option Exercise Price to the Originator.

Annual profit tax
The Company and the Dutch Tax Authorities have agreed, by way of a tax ruling, that the Company will be assessed on a pre-determined level of annual profit for tax purposes. As a result, the risks described above will not influence the profit of the Company.

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

1.2 Future developments

The year 2018 has seen a continuation of the positive developments for the Dutch economy for just about all economic indicators, although in most areas, the level of growth was lower than in recent years, and 2017 in particular. The Gross Domestic Product ("GDP") increased by around 2.5% in 2018, as compared to 3.0% in 2017. The growth was mostly fueled by consumer confidence, still stemming for a large part from the upswing in the domestic house prices. In addition, public sector spending is rising and confidence levels within commercial enterprises are still relatively high. 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 1.7% expected for both 2019 and 2020. These are expected to be driven by consumer confidence and increased public spending though this is showing signs of delays due to capacity and raw material problems. Much of these expectations are to a large degree dependent on developments in the rest of the world. The threat of a trade wars, developments in the emerging economies (China in particular) and the consequences of Brexit currently form the biggest dangers to these projections.

A relatively high level of confidence continues in the business and commerce sectors and investment levels are also expected to remain relatively high. There appears to be ample funding available, both from the banking and private sectors, as well as from increased liquidity arising from higher profit levels.

Unemployment levels reduced from 4.9% to 3.8% during 2018 and this trend is also expected to slow down with an estimate of 3.6% at the end of both 2019 and 2020. The slowdown is the result of capacity limits being reached and difficulties being experienced in the recruitment of suitable staff is becoming a greater issue. Vacancy levels are high and are being filled increasingly by older, more experienced employees. The shift in labour markets seen in recent years from fixed to flexible contracts also appears to be coming to an end.

Inflation is expected to rise from some 1.6% in 2018 to 2.7% in 2019 but reducing to 1.8% in 2020. The anticipated rise in 2019 stems from increases in energy prices and the imposed increase in the low rate VAT. The VAT increase will only impact the 2019 inflation rate significantly. For each of the coming years, wage inflation is expected to rise from the 2018 level of around 2.1% as a result of annual wage increase settlements and the trend to employ more experienced personnel. Wage inflation, in combination with lower personal taxes is expected to lead to increases in real disposable income.

The 2018 level of new car registrations was 443,812. That was up 7.1% from the previous year which was seen as a year of recovery after previous historical lows in new registrations. In that perspective, the current levels may a more normalized level taken over a longer series of recent years. New car registrations in 2018 were positively affected by the prospect of 2019 changes in fiscal rules and regulations for the lessee. The prognosis for 2019 from the branch organisation (BOVAG) is for a stabilisation of new registrations to around 440,000.

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 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 Noteholders are of limited recourse (see above). Consequently, no noticeable changes in the current position of the Company are expected for the next 12 months.

The historical information and prospective trends in this report were primarily derived from public reports issued by DNB and the BOVAG.

Amsterdam, November 20, 2019

Managing Director
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

2.1 Balance sheet as at December 31, 2018

(Before result appropriation)

		December 31, 2018		December 31, 2017	
ASSETS		€	€	€	€
Fixed assets	[1]				
Financial fixed assets					
Deemed loan to the Originator		735,722,520		579,177,228	
			735,722,520		579,177,228
Current assets	[2]				
Receivables					
Other receivables		4,383,627		723,612	
			4,383,627		723,612
Cash and cash equivalents	[3]		96,416,039		67,888,056
			836,522,186		647,788,896
SHAREHOLDER'S EQUITY AND LIABILITIES					
Shareholder's equity	[4]				
Share capital		1		1	
Other reserves		3,660		1,660	
Net result		2,000		2,000	
			5,661		3,661
Non-current liabilities	[5]				
Notes payable		574,500,000		449,100,000	
Subordinated Loan		179,030,617		138,404,751	
			753,530,617		587,504,751
Current liabilities	[6]				
Prepayments received		7,406,731		2,641,421	
Derivative instruments		22,648		7,124	
Maintenance Advance		44,779,659		32,039,728	
Cash Collateral Amount		6,894,000		5,389,200	
Taxes		1,000		915	
Interest payable		1,732,148		3,662,582	
Accrued expenses and other liabilities		22,149,722		16,539,514	
			82,985,908		60,280,484
			836,522,186		647,788,896

2.2 Statement of income for the year 2018

		2018		2017 (restated)	
		€	€	€	€
Interest income	[7]		32,980,275		24,678,563
Interest expense	[8]		-4,348,130		-4,135,779
Operating result			28,632,145		20,542,784
Other operating expenses	[9]		-26,848,958		-21,704,637
Final Success Fee	[10]		-1,780,687		1,164,353
Income before taxation			2,500		2,500
Corporate income tax	[11]		-500		-500
Net result			2,000		2,000

2.3 Statement of cash flows for the year 2018

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

		2018		2017	
		€	€	€	€
Net result			2,000		2,000
Adjustments to statement of income:					
Interest income	[7]	-32,980,275		-24,678,563	
Interest expense		2,796,049		3,574,025	
Corporate income taxes		500		500	
Losses on lease receivables		48,628		-	
Discount Deemed loan to the Originator		11,086,377		8,133,933	
			-19,048,721		-12,970,105
Movements in working capital					
Change in receivables	[2]	-3,660,015		1,429,207	
Change in derivative instruments	[6]	15,524		5,444	
Change in prepayments received	[6]	4,765,310		2,641,421	
Change in accrued expenses and other liabilities	[6]	5,610,208		5,041,016	
Corporate income tax		-415		-	
Interest income received	[7]	32,980,275		24,678,563	
Cash Collateral Amount received	[6]	1,504,800		1,436,400	
			41,215,687		35,232,051
Cash flow from operating activities			22,168,966		22,263,946
Cash flow from investing activities					
Additional lease receivables purchased	[1]	-393,382,997		-313,107,442	
Repayments from lease receivables	[1]	141,868,297		102,948,576	
Repurchased lease receivables by the Originator	[1]	83,834,403		47,982,270	
Cash inflow Maintenance Advance	[6]	56,515,129		39,240,506	
Cash outflow Maintenance Advance	[6]	-43,775,198		-25,118,911	
Cash flow from investing activities			-154,940,366		-148,055,001
Cash flow from financing activities					
Notes issued	[5]	125,400,000		143,200,000	
Redemption Notes	[5]	-		-23,500,000	
Drawdown of Subordinated Loan	[5]	40,625,866		36,648,487	
Interest expenses paid		-4,726,483		-1,138,648	
Cash flow from financing activities			161,299,383		155,209,839
Movements in cash			28,527,983		29,418,784

2.3 Statement of cash flows for the year 2018

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

Notes to the cash resources

Starting balance	67,888,056	38,469,272
Movements in cash	28,527,983	29,418,784
Closing balance	96,416,039	67,888,056

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 Pon Financial Services B.V. ("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.

During 2018, the Company increased the existing Series of Class A Notes for a total amount of EUR 113.2 million and the Series of Class B Notes for a total amount of EUR 12.2 million. Furthermore, the Company requested and received an additional advance for a total amount of EUR 36.6 million from the Subordinated Lender under the Subordinated Loan Agreement. The proceeds were used to finance the purchase of Additional Lease Vehicles and Additional Lease Receivables from the Originator.

During 2018, the Transaction was renewed. The renewal has resulted in an extension of the Revolving Period and the Expected Maturity Date of the Notes. Also, ING Bank N.V. was replaced by Skandinaviska Enskilda Banken AB (publ) as swap counterparty as per November 25, 2018.

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. Skandinaviska Enskilda Banken AB (publ) 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.

The Company faces operational risks and financial risks. The servicing of the Lease Receivables, and the entity administration and investor reporting is performed by regulated, 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 on the Lease Receivable Portfolio and/or an ISAE 3402 report with respect to the services provided. Furthermore the transaction includes measures to be taken once certain parties fail to maintain a specific credit rating. Management believes that the operational risks are low and no further measures are deemed necessary.

The Company and the Dutch Tax Authorities have agreed, by way of a tax ruling, that the Company will be assessed on a pre-determined level of annual profit for tax purposes. As a result of the Final Succes fee mechanism, the risks described above will not influence the profit of the Company.

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

Limited recourse

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Residual value risk
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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, which are initially recognised at fair value and subsequently at amortised cost, 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 Company acquires and records the underlying lease contracts and receivables from the Originators at a discounted cash flow price. The lease portfolio is recalculated each month using a discounted cash flow model, taking into consideration any movements like repayments, arrears, changes in contract etc, as well as changes in underlying interest rates. 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 the Optional Early Termination Date. The expected cash flows are discounted at the 1-month Euribor interest curve. The fair value as per December 31, 2018 is EUR 1.6 million (payable) (previous year: EUR 0.7 million payable including optionality).

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.

Restatements

The Company has changed the presentation and narration of certain balances, transactions and cash flows in the financial statements due to a revised interpretation of RJ 270.105b. The Company does not have the primary responsibility for the delivery or execution of services rendered to the lessee, nor does the Company have inventory risk or the freedom of action when determining the price of the services rendered. In addition, the Company faces no credit risk on the amount owed by the lessee with respect to the services rendered in the transaction as a result of the senior maintenance coordinator fee in the waterfall mechanism. Therefore, the Company is an agent for the aforementioned services in the transaction and the corresponding amounts are no income for the Company and are therefore not gross presented in the statement of income.

The Company has made reclassifications from cash flows in the cash flow statement from or to adjustments on net results, cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

Comparatives have been restated accordingly.

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

In accordance with the transaction documentation, the Company will use the Available Distribution Amount to purchase additional Lease Receivables during the revolving period. The revolving period is scheduled to end in November 2020.

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 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 lease portfolio (such as credit quality, levels of arrears, loan to collateral ratios, historical loss patterns, etc.).

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 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.

Agent
The Company does not have the primary responsibility for the delivery or execution of services rendered to the lessee, nor does the Company have inventory risk or the freedom of action when determining the price of the services rendered. In addition, the Company faces no credit risk on the amount owed by the lessee with respect to the services rendered in the transaction as a result of the senior maintenance coordinator fee in the waterfall mechanism. Therefore, the Company is an agent for the aforementioned services in the transaction and the corresponding amounts are no income for the Company and are therefore not gross presented in the statement of income.

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.

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: notional 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 initially stated at the amounts at which they were acquired or incurred and subsequently are carried at amortised cost.

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 and Subordinated Loan
Notes payable and the Subordinated Loan are recognised initially at fair value plus 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 cost at the Balance sheet date.

Maintenance Advance
Maintenance Advance is valued at nominal value.

Final Success Fee
The Final Success Fee is recorded at nominal value. 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.

Other liabilities
Other liabilities are recognised initially at fair value. After initial recognition, the other liabilities are carried at amortised cost.

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.

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 comprise 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. During the period there were no non-cash transactions reflected in the cash flow statement adjustments.

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:

	December 31, 2018	December 31, 2017
	€	€
Opening Balance	598,652,516	436,475,920
Repayments Lease Receivables	-141,868,297	-102,948,576
Additional purchased Lease Receivables	393,382,997	313,107,442
Repurchased Lease Receivables	-83,834,403	-47,982,270
Losses on lease receivables	-48,628	-
	766,284,185	598,652,516
Discount	-30,561,665	-19,475,288
Closing balance	735,722,520	579,177,228

The current part of the Deemed loan to the Originator amounts to EUR 278.5 million.

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.

During the Revolving Period, the Company uses the proceeds from the lease collections to purchase additional Lease Receivables. The purchase price of the additional Lease Receivables is calculated on a discounted basis using an interest rate of 2.85%.

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 5.02% (previous year: 4.91%). The average interest rates approximate the effective interest rates.

Based on a specific review of the underlying Lease Receivables and taking into consideration current values of the underlying Lease Receivables, 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

	December 31, 2018	December 31, 2017
	€	€
Final Success Fee	4,383,627	723,612
	4,383,627	723,612

Cash and cash equivalents [3]

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

	December 31, 2018	December 31, 2017
	€	€
Distribution Account	6,567,222	179,986
Cash Collateral Account	52,558,208	37,254,056
Monthly Collateral Account	37,290,609	30,454,014
	96,416,039	67,888,056

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 Distribution 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 Advance Ledger in which the Maintenance Advance will be administrated. The Maintenance Advance serves to provide credit enhancement to cover potential maintenance costs relating to any associated Lease Agreement. The purpose of the Maintenance 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.

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.

Other reserves

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

	December 31, 2018	December 31, 2017
	€	€
Opening balance	1,660	-
Result prior year	2,000	1,660
Closing balance	3,660	1,660

Net result

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

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. During 2018, the Company increased the existing Series Class A Notes for a total amount of EUR 113.2 million and the Series Class B Notes for a total amount of EUR 12.2 million.

	December 31, 2018	December 31, 2017
	€	€
Opening balance	449,100,000	329,400,000
Increase existing Series	125,400,000	143,200,000
Redemptions	-	-23,500,000
Closing balance	574,500,000	449,100,000

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 June 25, 2027.

Based on the fact that during the Revolving Period no principal will be repaid on the Asset Backed Rate Class A Notes and Asset Backed Rate Class B Notes 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 574,500,000 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 2018, the Company received an amount of EUR 36.6 million from the Subordinated Lender.

	December 31, 2018	December 31, 2017
	€	€
Opening balance	138,404,751	101,756,264
Further advances	40,625,866	36,648,487
Closing balance	179,030,617	138,404,751

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 provision advance.

The interest payable on the Subordinated Loan amounts to the equivalent of one-month Euribor plus a margin of 2.07% at the beginning of 2018, 1.80% as per February 26, 2018 and 2.20 as per November 26, 2018. Payment of interest and repayment of principal is subordinated to payments of interest and principal on the Notes and all other payments.

Based on the fact that the Subordinated Loan can only be repaid if the Notes are redeemed in full the expectation is that EUR 175,038,653 will be repaid after five years.

CURRENT LIABILITIES [6]

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

Prepayments received

	December 31, 2018	December 31, 2017
	€	€
Prepayments received	7,406,731	2,641,421

The prepayments received relate to the Lease Collections that have been transferred to the Originator by the lessees concerning the period of January 2019 and were received by the Company in December 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 and on November 22, 2018 ING Bank N.V. was replaced by Skandinaviska Enskilda Banken AB (publ). Under the swap agreement with Skandinaviska Enskilda Banken AB (publ) (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 0.3919% (before: 0.2676%) per annum in relation to the Class A Notes and 0.8705% (before: 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 hedge is 100% effective 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, 2018 is EUR 1.6 million (payable) (previous year: EUR 0.7 million payable including optionality).

	December 31, 2018	December 31, 2017
	€	€
Swap amounts payable	22,648	7,124

Maintenance Advance

	December 31, 2018	December 31, 2017
	€	€
Opening Balance	32,039,728	17,918,133
Cash inflow	56,515,129	39,240,506
Cash outflow	-43,775,198	-25,118,911
	44,779,659	32,039,728

The Maintenance Advance serves to provide credit enhancement to cover potential maintenance costs relating to any associated Lease Agreement. The purpose of the Maintenance 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 Advance in the amount of EUR 464,082 related to December 2018, was settled in January 2019.

Cash Collateral Amount

	December 31, 2018	December 31, 2017
	€	€
Opening balance	5,389,200	3,952,800
Increases	1,504,800	1,436,400
	6,894,000	5,389,200

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

	December 31, 2018	December 31, 2017
	€	€
Corporate income tax current year	500	500
Corporate income tax previous years	500	415
	1,000	915

The effective tax rate is equal to the nominal tax rate taking into account that over the first EUR 200,000 of profit the Company only has to pay 20% tax and 25% over the remainder.

Interest payable

	December 31, 2018	December 31, 2017
	€	€
Interest on Notes	10,252	6,272
Interest on Subordinated Loan	1,721,896	3,656,310
	1,732,148	3,662,582

Accrued expenses and other liabilities

	December 31, 2018	December 31, 2017
	€	€
Audit fee	48,884	77,517
Servicer Fee payable	649,851	506,448
Senior Maintenance Fee payable	19,667,652	14,511,597
Other costs payable	44,128	66,747
Buffer Release Amount payable	1,739,207	1,377,205
	22,149,722	16,539,514

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

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.

Under the Master Hire Purchase Agreement, the Originator has the option to repurchase the purchased vehicles together with the associated Lease Receivables at on 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.

If the Originator elects to exercise the Repurchase Option, the Company shall retransfer the purchased vehicles together with the associated Lease Receivabes to the Originator.

If the Originator does not exercise the option to repurchase the purchased vehicles together with the associated Lease Receivables, the Company may exercise its Put Option to sell the purchased vehicles together with the associated Lease Receivables against the Option Exercise Price to the Originator.

2.6 Notes to the Statement of income

Interest income [7]

	2018	2017
	€	€
Interest income on Deemed loan to the Originator	32,980,275	24,678,563
	32,980,275	24,678,563

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.

In line with what has been set out in the significant accounting judgments and estimates, the presentation of the revenue and expenses streams have been adjusted for their nature, their associated risks and rights and obligations. In line with prior year, the interest income is presented gross. The servicing collections are netted with their associated expenses streams and therefore not shown as revenue.

Interest expense [8]

Interest expense Notes

	2018	2017
	€	€
Interest expense Series 2016-1 Class A Notes	-	31,113
Interest expense Series 2016-2 Class A Notes	47,347	144,148
Interest expense Series 2016-3 Class A Notes	31,511	96,067
Interest expense Series 2016-4 Class A Notes	15,989	48,168
Interest expense Series 2016-5 Class A Notes	66,925	184,012
Interest expense Series 2016-6 Class A Notes	31,511	96,067
Interest expense Series 2016-1 Class B Notes	163,866	195,657
Interest expense Series 2016-2 Class B Notes	65,474	77,776
	422,623	873,008

Interest expense Subordinated Loan

	2018	2017
	€	€
Interest expense Subordinated Loan	2,057,551	2,439,967
	2,057,551	2,439,967

Interest Rate Swap

	2018	2017
	€	€
Interest expenses swap (paying leg)	1,969,078	1,434,763
Interest income swap (receiving leg)	-416,997	-873,009
	1,552,081	561,754

Other operating expenses [9]

	2018	2017
	€	€
Servicing fees	6,933,818	5,438,749
Company administrator fees	18,779	18,513
Management fees	12,850	11,108
Audit fees	103,793	47,517
Legal fees	-	9,600
Buffer Release amounts	18,578,947	14,377,892
Maintenance Advance	1,095,389	1,751,171
Cash Manager fees	4,000	4,000
VAT costs	7,952	-
Other general costs	44,802	46,087
Losses on lease receivables	48,628	-
Total	26,848,958	21,704,637

The operating expenses for the year 2017 have been amended. The cash inflows and cash outflows of the Maintenance Advance were presented under the Final Success Fee, but should have been presented under the operating expenses. The amount of Final Success Fee has been adjusted accordingly.

The Buffer Release mechanism is in place to make sure that the current discount rate provides for enough income to cover increasing transaction costs which can occur in the future. It is a safety buffer set for the future, but can be paid out to the Servicers as long as the Servicers are not insolvent.

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

	Pricewaterhouse Coopers Accountants N.V.	Total 2018
Audit of the Financial Statements	48,884	48,884
Other audit engagements	-	-
Tax advisory services	-	-
Other non-audit services	-	-
Totals	48,884	48,884

The fee to PricewaterhouseCoopers Accountants N.V., in their role as independent auditor of the Company, amounts to EUR 48,884 (previous year: EUR 47,517). No other fees were paid or are payable to the independent auditor of the Company.

These fees relate to the audit of the 2018 financial statements, regardless of whether the work was performed during the financial year.

Final Success Fee [10]

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 1,780,687.

Corporate income tax [11]

	2018	2017
	€	€
Corporate income tax	500	500
	500	500

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 (previous year: nil).

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

No events took place that could have a major effect on the financial position of the Company.

Amsterdam, November 20, 2019

Managing Director
Intertrust Management B.V.

3. Other information

3.1 Statutory provisions

The general meeting is authorized to allocate the profit determined by adopting the annual accounts, to the extent that the Company's equity exceeds the reserves that the Company must maintain pursuant to the law or these articles of association. In addition the board of managing directors is authorized to resolve on any other distribution, to the extent that the Company's equity exceeds the reserves that the company must maintain pursuant to the law or these articles of association.

A resolution intending a distribution shall not be effected until the board of managing directors approves such resolution. the board of managing directors shall withhold such approval only if it knows, or could reasonably be expected to foresee, that the distribution would make the Company unable to continue paying any of its due and payable debts.

If, after making such a distribution, the Company is unable to continue paying its due and payable debts, the managing directors shall, subject to the provisions of prevailing law, be jointly and severally liable to the Company for the shortfall created by the distribution. A party receiving such distribution who knows or could reasonably be expected to foresee that the distribution would make the Company unable to continue paying any of its due and payable debts shall be liable to the Company for payment of the shortfall created by the distribution, with said liability not to exceed the amount of he distribution received by that party and with due observance of the provisions of prevailing law.

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 2018

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 2018, 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 2018 of VCL Master Netherlands B.V., Amsterdam ('the Company').

The financial statements comprise:

- the balance sheet as at 31 December 2018;
- the statement of income for the year then ended;
- the statement of cash flows 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 audit 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.

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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).

Our audit approach

Overview and context

The company is a securitization 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 Report II 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 paragraph 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 this to be a key audit matter. Besides the key audit matter, other areas of focus were the notes payable, the subordinated loan and the servicing collections.

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 it covers 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 report and ISAE 3000 type II report that 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 report 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 the 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 securitization company. We therefore included specialists in the area of valuation of financial instruments and information technology in our team.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: €8,321,552.

Audit scope

- Site visits and meetings with the managing director and sub-servicer by the Engagement Team were carried out to the locations of Volkswagen Pon Financial Services B.V. in the Netherlands.
- We conducted audit work on the director's report and 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 judgement, 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 aggregate, on the financial statements as a whole and on our opinion.

Overall materiality	€8,321,552 (2017: €6,477,889).
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 overall materiality for the financial statements. We utilised quantitative and qualitative measures that included the perspective of the common information needs of the noteholders and regulators for assessing suitable benchmarks and thresholds for determining overall materiality. Our evaluation of overall materiality has been based on applying 1% of the Deemed loan to the Originator plus the Cash and cash equivalents.

	This resulted in an overall materiality of €8,321,552 (2017: €6.477,889). 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 minus the Other receivables as the primary benchmark, since the Other receivables is a receivable to the Originator and does not serve as collateral on the notes as such. Our benchmark is a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements.

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 identified during our audit above €832,155 (2017: €323,500) 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 matter 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 described the key audit matter and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matter 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 9 of the financial statements and Note [1] 'Deemed loan to originator' on page 21 of the financial statements.* We considered the valuation of the deemed loan to the originator, that is representing the securitized 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 possible impairments may have on the financial statements.	We have performed the following procedures to address the valuation of the deemed loan to originator. We performed audit procedures on the servicer reports, including IT general controls applicable for these servicer reports, where these servicer reports include specific information of the lease receivables, which is used in drafting the financial statements. We have evaluated the analysis of the managing director through which it determined, 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 similar credit risk, collectively indicated any objective evidence of impairment.

Key audit matter	Our audit work and observations
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 securitized lease portfolio, being 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 assessed the reasonableness of the methodology and parameters used by the managing director in its estimates for the possible provisioning on the lease receivables by verifying with external and internal data. We found the managing director's assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences. We performed test of details on the lease receivables and reconciled the book values with the audited financial statements of Volkswagen Pon Financial Services B.V. 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 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 2016. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 3 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 audit 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 9 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 management 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, 21 November 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by D.J.P. van Veen RA

Appendix to our auditor's report on the financial statements 2018 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 EU Regulation on specific requirements regarding statutory audit 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.