

VCL Master Netherlands B.V.

Annual Report 2020

Amsterdam, the Netherlands

VCL Master Netherlands B.V.
Prins Bernhardplein 200
1097 JB Amsterdam
The Netherlands
Chamber of Commerce Amsterdam 65490916

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1. Director's report

VCL Master Netherlands B.V.

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Directors' report

The Director herewith presents to the shareholder the Annual Report of VCL Master Netherlands B.V. (the "Company") for the year 2020.

GENERAL

Structure of operations

The Company is a private company with limited liability incorporated under the laws of the Netherlands on March 3, 2016. The statutory address of the Company is Prins Bernhardplein 200, Amsterdam, the Netherlands. The Company's Dutch Chamber of Commerce registration number is 65490916. All issued shares are held by Stichting VCL Master Netherlands, which also is established in Amsterdam, The Netherlands.

On May 31, 2016 ("the Closing Date"), the Company purchased a portfolio of leased vehicle contracts and the accompanying lease receivables ("Lease Receivables") and entered into a Master Hire Purchase Agreement and a number of related agreements, amounting to EUR 254.5 million. The contract and Lease Receivables were acquired from Volkswagen Leasing B.V. and DutchLease B.V. (collectively, "the Originator"). In order to finance the transaction, under the EUR 1,000,000,000 Programme, the Company issued Asset Backed Floating Rate Class A Notes and Asset Backed Floating Rate Class B Notes ("the Notes"), which are quoted on the Luxembourg Stock Exchange, for an initial amount of EUR 190.7 million. The Company also entered into a Subordinated Loan agreement with Volkswagen International Luxemburg S.A., whereby the Subordinated Lender provided the Subordinated Loan to fund the remainder of the initial purchase price and entered into a Maintenance Reserve Funding Agreement with the Originator. 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.

On February 22, 2018, Volkswagen International Luxemburg S.A. was replaced as subordinated lender by Volkswagen Pon Financial Services B.V. ("the Subordinated Lender"). On October 31, 2019, Dutchlease B.V. merged into Volkswagen Leasing B.V., whereby Volkswagen Leasing B.V. assumed all obligations of and took over all rights from DutchLease B.V. On November 4, 2019 Volkswagen Pon Financial Services B.V. merged into Volkswagen Leasing B.V. and Volkswagen Leasing B.V. changed its legal name to Volkswagen Pon Financial Services B.V.

On February 25, 2020 and June 25 2020, the Company increased the existing Series of Class A Notes for a total amount of EUR 108.5 million and the Series of Class B Notes for a total amount of EUR 11.6 million. Furthermore, the Company requested and received an additional advance for a total amount of EUR 32 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.

Notes or alternative investments are rated by Moody's Investor Services Ltd and/ or Fitch Ratings Limited.

If a transferor retains substantially all the risks and rewards associated with transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Director has concluded that the Originator has retained substantially all the risks and rewards of the Lease Receivables under the most likely future circumstances. As a consequence, the Company does not recognise the Lease Receivables on its Balance Sheet but rather a Deemed loan to the Originator.

Arranger

The transaction is arranged by ING Bank N.V. ("ING Bank").

Personnel

As all operational activities are performed by external parties, the Company does not have any personnel.

Limited recourse

The Notes are limited recourse obligations of the Issuer alone and will not be the obligations of, or guaranteed by, or be the responsibility of, any other entity. The Issuer will have limited sources of funds available.

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The ability of the Company to meet its obligations to pay principal and interest on the Notes is dependent on the receipt of the funds from the Deemed loan to the Originator, the proceeds of the sale of any Lease Receivables, payments under the Swap agreement, the availability of the Cash Collateral Account and a margin in the Swap agreement.

Due to the limited recourse nature of the Notes, the Company is almost not exposed to any risks as all the risks are fully mitigated by derivative contracts or transferred to the Noteholders as described in the legal documentation as far as not transferred to the Swap Counterparty.

Financial reporting

The Company is responsible for establishing and maintaining adequate internal control over financial reporting, which has been outsourced to the Director. The Director is also responsible for the preparation and fair presentation of the financial statements. The Company's internal control over financial reporting is included in the ISAE 3402 framework of the Director.

The financial statements have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code and in accordance with Dutch Accounting Standards.

Comparison with prior year

The principles of valuation and determination of result remain unchanged compared to the prior year.

RISK MANAGEMENT

General

The Company's principal financial instruments during the year comprised the Deemed loan to the Originator, the Notes payable, the Subordinated Loan and Derivative instruments. The main purpose of these financial instruments is to finance the Company's operations and to manage the interest rate risk arising from its issued Notes.

Repayment of principal and interest payment on the Notes is subject to financial risks. If and when these risks materialize into losses, these losses will be borne by holders of the Notes issued, as well as other creditors that are party to the transaction, connected with the Lease Receivables as collateral to the Deemed loan to the Originator.

The key financial instrument risks are classified as credit and concentration risk, market risk (interest rate risk), liquidity risk, Swap Counterparty credit risk as well as, specifically applicable in relation to the Lease Receivables, residual value risk. These risks mainly relate to the Lease Receivables as collateral to the Deemed loan to the Originator.

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Credit and concentration risk

The Lease Receivables bear a mix of credit and concentration risks. As a company that invests in carlease loans in the Netherlands the Company has significant exposure to credit and concentration risks associated with the carlease market in the Netherlands.

Credit risk is mainly related to the economic conditions and the risk that individual borrowers might be unable to fulfil their payment obligations. However, these risks are mitigated because each Lease Receivable is collateralised by the related car/vehicle, and the portfolio is well spread over a large number of individual Lease Receivables, a variety of car/vehicle types, geographical areas and a variety in industry sectors in which the applicable lessees operate. If a borrower defaults and the Company forecloses on the Lease Receivable, the Company is entitled to all proceeds of the sale of the related car/vehicle. If the proceeds from the sale of the car are insufficient to repay the outstanding principal amount of the Lease Receivable, the Company could record a loss in this respect though, ultimately, such losses will very likely be borne by the Company's creditors that are also a party to the transaction.

Notwithstanding the effects of the worldwide outbreak of the COVID-19 virus, the new car registrations in the Netherlands were at a level of around 356,000 which is 20% down on the previous year. This appears to be largely as a result of decreased confidence levels of both consumers and businesses though some manufacturers also experienced serious production restrictions during the second quarter of the year. Prospects for the coming year or so, will be very much contingent on the reduction or elimination of current restrictions, and the negative developments in the economy which is having a significant negative financial impact on many consumers and businesses.

The Director is aware of the potential volatility in macro-economic developments and the car market in particular, and of the dangers it can bring with it. Consequently, not only the creditworthiness of the borrower/lessee can be recognised as a risk but also the general economic conditions and the car(lease) market in particular have an impact on the probability of a loss. At the same time, please note that, in principle, the Company itself is not exposed to credit risk due to the limited recourse nature of the issued Notes as the Noteholder bears the credit risk of the assets.

The maximum credit risk per the period ending is EUR 891,631,068 (previous period: EUR 805,260,317).

Interest rate risk

The Notes bear interest (floating, subject to a floor of zero). The Company's exposure to interest rate risk due to the limited recourse nature of the issued Notes is close to nil. Possible risks regarding the interest, as a result of fluctuations in the prevailing levels of market interest rates are mitigated by swap contracts. The interest rate risk on the Subordinated Loan is not hedged by means of swap contracts. However, we deem the interest rate risk low due to the credit enhancements in place (amongst others the Final Success Fee).

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations towards the Noteholders, and other creditors, as they become due. Liquidity risk on interest payments to be made by the Company to its Noteholders arises from mismatches on both the interest frequency on the Notes versus the Lease Receivables, as well as from the outstanding value of the Notes compared to the Lease Receivables. Liquidity risk on principal payments arises from mismatches in the maturity of the Notes compared to the maturity of the Lease Receivables.

Matching maturities of assets and liabilities and related cash flows is fundamental to the Director of the Company. This risk is addressed and mitigated by credit enhancements granted by the Originator as well as by means of the availability of the Cash Collateral Account.

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Swap Counterparty credit risk

The Company has entered into a swap agreement with the Swap Counterparty. Pursuant to this agreement, the Swap Counterparty agreed to make payments to the Company under certain circumstances as described therein.

The counterparty risk is the risk that the Company will be exposed to the credit risk of the relevant Swap Counterparty with respect to any such payments. To mitigate the Swap Counterparty credit risk of the financial derivatives, the Company only enters into contracts with carefully selected major financial institutions based upon their credit ratings.

With regards to Swap Counterparty exposure the Company uses International Swaps and Derivatives Association ("ISDA") agreements to govern derivative contracts to mitigate Swap Counterparty credit risk. The credit rating of Cr dit Agricole Corporate and Investment Bank per year end 2020 is AA (Fitch Ratings Limited) and Aa3 (Moody's Investors Service Ltd). Based on this rating we deem the risk of the Swap Counterparty defaulting to be low. Please note that the Swap Agreement provides for certain "Events of Default" (as defined in the Swap Agreement) relating to the Issuer and the Swap Counterparty, the occurrence of which may lead to a termination of the Swap Agreement.

Should the Swap Counterparty's rating fall below the contractually required rating, the posting of collateral is required, a third-party guarantee should be put in place or the Swap Counterparty should be replaced.

Residual value risk

The residual value 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:

- in case of a Matured Lease, the Estimated Residual Value; or
- 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:

- the present value of all scheduled Lease Interest Components and Lease Principal Components; and
- 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.

In addition to financial risks, the Company also faces operational risks. The servicing of the underlying 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 audited portfolio statements on the Lease Receivables and/or an ISAE 3402 report with respect to the services provided by the (sub) Servicer. Furthermore, the transaction includes measures to be taken once certain parties fail to maintain a specific credit rating. The Director believes that the operational risks are low and no further measures are deemed necessary.

COVID-19

Whilst the worldwide outbreak of the COVID-19 virus clearly increases a number of the risk factors, the limited recourse principle embedded in the transaction means that any such negative consequences are transferred from the Company to the Originator and/or Noteholders and/or Subordinated Loan holder.

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Risk appetite

The Company by its nature exposes itself to financial risks. The investors in the Notes issued by the Company are made aware of these risks and understand the adverse effects on repayment of principal and interest payments on issued Notes in the event these risks materialize into losses.

Based on the above, the Company is of the opinion that all significant risks are adequately addressed and that no ongoing risk assessment is deemed necessary. The credit enhancements granted are all part of the risk control measures. As a result, the Company's risk appetite is low.

Audit committee

The Company is an entity for securitization purposes according to Article 1 ministerial decree prudence rules Financial Supervision Act (Article 1, Decree on Prudential Rules for Financial Undertakings). As such the Company makes use of the exemption for securitization vehicles, concerning the obligation to establish an audit committee as defined in article 3d of the implementing regulation enforcing Article 41 of the European Directive no. 2006/43/EG. The implementing regulation came into effect in the Netherlands on August 7, 2008. The duties of the audit committee rest with the managing director.

Results

Apart from a pre-determined level of net income, the Company's financial results are for the account of the Originator through a Final Success Fee mechanism. Reference is made to the general notes to the financial statements for further details.

The net asset value of the Company as at December 31, 2020 amounts to EUR 9,772 (previous period: EUR 7,686). The result for year 2020 amounts to EUR 2,087 (previous period: EUR 2,025). The operating result amounted to EUR 33,336,941 (previous period: EUR 29,796,306). The carrying amount of the Deemed loan to the Originator amounts to EUR 891,631,068 (previous period: EUR 702,575,194).

In the reporting period the average interest rate on the Deemed loan to the Originator amounted to 5.15% (previous period: 5.08%) and the average funding rate amounted to 0.64% (previous period: 0.59%). The average interest rates approximate the effective rates.

Based on the set-up and structure of the Company, a special purpose vehicle with a fixed/predetermined amount of profit each year, no information or analyses are presented on the solvency, liquidity or any other performance ratios.

Realised losses on the underlying Lease Receivables (net of recoveries) during the period amount to EUR 646.5 thousand (previous period: EUR 198.8 thousand). At year-end, the cumulative net loss ratio is very low 0.07% (previous period: 0.02%). Based on a specific review of this loss ratio and taking into consideration the underlying collateral, the Director has decided not to make a provision for credit losses for doubtful underlying Lease Receivables.

Research and development

Based on the set-up and structure of the Company, a special purpose vehicle, no information or analyses is presented on the subject matter of research and development.

Future outlook

This section is largely based on data and expectations presented by De Nederlandse Bank ("DNB"), the Central Bureau of Statistics ("CBS") and the Dutch association for mobility ("BOVAG"). The prediction of future trends and the quantification of developments is inherently a difficult task, full of uncertainties. With the effects of COVID-19 still very much unclear, this has become even more difficult. All economic data relevant to the Company, historic or prospective, is or will be significantly influenced by COVID-19 developments. DNB has published three possible scenarios for its expectations to illustrate the vast gap that the uncertainties surrounding COVID-19 has created.

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The outlook presented below is based on the DNB's 'most likely scenario' but occasionally the 'best-case scenario' and 'worst-case scenario' expectations are also quoted to underline the range of possibilities. In addition, developments surrounding COVID-19 are very dynamic and can change on an almost daily basis. The calculation of economic indicators and predictions will inevitably lag events and some of the information available may not be completely up to date with developments. Moreover, the prospects of the Dutch economy are for a large part dependent on developments in the world economy. The effects of COVID-19 may well differ in the other major economies in the world and this would likely have an impact on the Dutch economy.

The year 2020 was economically influenced in almost every aspect by the worldwide COVID-19 pandemic. Whilst the Dutch economy was very well placed at the start of 2020 for positive development in just about all economic indicators, almost all major indicators showed downturns during 2020 as a result of COVID-19. The drastic effects of lockdown and social distancing measures caused record downturns in many indicators, especially in the second quarter and, to a lesser extent, the last quarter of the year. Another factor that has contributed to the downturn is a lack of confidence shown by both consumers and businesses as investments were postponed.

Against this, public sector spending was increased significantly in terms of infrastructure project spending as well as significant financial support packages designed to support the economy against COVID-19 effects. Some encouragement can also be taken from the spectacular positive bounce back during the third quarter of 2020, as also visible in the financial markets, and that the Dutch economy appeared to be somewhat more resilient than most comparable economies. The pressure on the banking sector has also clearly increased but the sector appears to be able to cope with this.

GDP decreased by around 3.8% in 2020, as compared to an increase of 1.6% in 2019. The current expectations are that GDP will bounce back somewhat by 2.9% in 2021 and 2.9% 2022. For 2021, the expectations are for increases of 4.9% in the best-case scenario and just 0.2% in the worst-case scenario. The impact of COVID-19 in 2020 was not evenly spread over the various sectors, with the tourism, recreation and entertainment sectors hardest hit, whilst some sectors experienced a positive impact. The recovery in the coming years will likely have its most positive impact on those sectors that suffered the most in 2020.

In the projections, the economy is expected to have the benefit of somewhat restored confidence by consumers and businesses alike, as well as a continuation of a high-level government spending. This is likely to be tempered by increasing levels of unemployment. The 1.7% surplus that government spending recorded in 2019 was already transformed to a deficit of 6.3% in 2020 though the deficit is projected to improve to a deficit of 4.9% in 2021. Much of these projections will depend on the extent and timing of government support for the economy.

Away from COVID-19, the threat of global trade wars has continued to recede but is certainly not eliminated. Whilst the prospect of a 'no-deal' Brexit has now disappeared, the exact consequences of the Brexit are still unclear and will probably impact the current projections.

Unemployment levels climbed from 3.4% to 4.0% during 2020 which appears to be a relatively modest rise under the circumstances, but this is expected to increase to 6.5% by the end of 2021 and 6.0% in 2022. For 2022, the 'best-case scenario' and 'worst-case scenario' are 4.8% and 7.4%, respectively. The relatively low impact on the 2020 unemployment figures appears to be the result of government support, a reluctance by businesses to release staff after years of under capacity in the labour markets and the possibility of reducing the number of flexible workers (freelancers and agency staff).

Headline inflation decreased from 2.7% in 2019 to some 1.2% in 2020 mainly due to reduced energy prices. Particularly oil prices tumbled under reduced worldwide demand. The level of inflation is expected to remain relatively stable at around 1.5% in the coming years on the expectation that oil prices will continue at the relatively low levels and low wage inflation as a result of rising unemployment.

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The level of new car registrations in 2020 was 356,051. That was down circa 20% from the previous year which was seen as an excellent year for new registrations. New car registrations in 2020 were negatively affected by a lack of confidence of both consumers and businesses and some supply difficulties experienced in the second quarter of 2020. The trend of recent years towards electric and hybrid vehicles amid government incentives continued at the expense of petrol and, in particular, diesel vehicles, as the volume and quality of electric and hybrid vehicles continues to increase significantly. The declining demand for diesel vehicles is also adversely affecting residual values for diesel vehicles and this may pose a threat to profitability.

The Dutch branch organisation (BOVAG) has deemed it impossible to provide a reliable estimate for the level of new registrations in 2021. However, it is likely that continued government incentives and a rising trend in private lease transactions will help mitigate remaining COVID-19 effects.

It is important to reiterate that the Company was incorporated specifically for its role in a structured finance transaction and is governed by the terms and conditions of the Transaction Documents. These are drawn up, inter alia, to foresee all possible future economic conditions, including those caused by COVID-19. At this stage, it is possible that the outbreak will result in an increased level of losses of both interest and principal on the Company's assets. The limited recourse principle embedded in the Transaction Documents dictates that any such losses from the Company's assets are to be borne by the Company's creditors, in accordance with a pre-determined priority of payments waterfall.

Consequently, any such losses are unlikely to be borne by the Company itself but rather by the Company's creditors, including the beneficiary of the Final Success Fee, the Noteholders, other creditors and only ultimately the Company's shareholder. The Company intends to continue to act within the terms and conditions set out for it by the Transaction Documents, and to otherwise comply with all its other obligations. The Company has no employees and is dependent on third-party service providers. However, the level or quality of the service provided has remained unaffected.

In conclusion, the Company expects to remain a going concern. The Director believes that the Company's risks are adequately mitigated by the various credit enhancements, as described in the financial statements.

Director representation statement

The Director declares that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and result of the Company and that the Director's report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties it faces.

Employees

The Company does not have any employees.

Director

During 2020 the Company was represented by Intertrust Management B.V. in the role as Director of the Company.

Amsterdam, November 4, 2021

Director,
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

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2.1 Balance sheet as at December 31, 2020

(Before result appropriation)

ASSETS	December 31, 2020		December 31, 2019	
	€	€	€	€
Fixed assets	[1]			
<i>Financial fixed assets</i>				
Deemed loan to the Originator	<u>827,053,389</u>	827,053,389	<u>702,575,194</u>	702,575,194
Current assets	[2]			
<i>Receivables</i>				
Servicer receivables	39,068,413		38,145,618	
Other receivables	<u>-</u>	39,068,413	<u>9,798,316</u>	47,943,934
Cash	[3]	25,509,266		54,741,189
		<u>891,631,068</u>		<u>805,260,317</u>
SHAREHOLDER'S EQUITY AND LIABILITIES				
Shareholder's equity	[4]			
Share capital	1		1	
Other reserves	7,685		5,660	
Net result	<u>2,087</u>	9,773	<u>2,025</u>	7,686
Non-current liabilities	[5]			
Notes payable	694,600,000		574,500,000	
Subordinated Loan	<u>142,472,172</u>	837,072,172	<u>153,642,931</u>	728,142,931
Current liabilities	[6]			
Interest payable	49,461		63,431	
Derivative instruments	4,748		6,227	
Maintenance Advance	15,997,353		46,766,057	
Cash Collateral Amount	8,335,200		6,894,000	
Taxes	515		1,290	
Accrued expenses and other liabilities	<u>30,161,846</u>	54,549,123	<u>23,378,695</u>	77,109,700
		<u>891,631,068</u>		<u>805,260,317</u>

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2.2 Statement of income for the year ended December 31, 2020

		2020		2019	
		€	€	€	€
Interest income	[7]		39,405,207		36,516,622
Interest expense	[8]		<u>-6,068,266</u>		<u>-6,720,316</u>
Operating result			33,336,941		29,796,306
Other operating expenses	[9]		-31,251,096		-29,619,950
Final Success Fee	[10]		<u>-2,083,345</u>		<u>-173,856</u>
Income before taxation			2,500		2,500
Corporate income tax	[11]		-413		-475
Net result			<u><u>2,087</u></u>		<u><u>2,025</u></u>

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2.2 Statement of cash flows for the year ended December 31, 2020

The cash flow statement has been prepared according to the indirect method.

	2020		2019	
	€	€	€	€
Net result		2,087		2,025
<i>Adjustments to statement of income:</i>				
Interest income [7]	-39,405,207		-36,516,622	
Interest expense [8]	6,068,266		6,720,316	
Corporate income taxes [11]	413		475	
Losses on lease receivables [1]	646,533		198,777	
Discount Deemed loan to the Originator	14,266,427		8,440,284	
		-18,423,568		-21,156,770
Movement in working capital				
Change in receivables [2]	8,875,521		-43,560,307	
Change in derivative instruments [6]	-1,479		-16,421	
Change in prepayments received	-		-7,406,731	
Change in accrued expenses and other liabilities [6]	6,783,151		1,228,973	
Corporate income tax [6]	-1,388		-500	
VAT payable [6]	200		315	
Cash Collateral Amount received [6]	1,441,200		-	
		17,097,205		-49,754,671
Cash flow from operating activities		-1,324,276		-70,909,416
Cash flow from investing activities				
Additional Lease Receivables purchased [1]	-501,515,219		-289,444,786	
Repayments from Lease Receivables [1]	172,735,701		165,691,011	
Repurchased Lease Receivables by the Originator [1]	189,388,363		148,262,040	
Cash inflow Maintenance Advance [6]	53,119,567		77,149,700	
Interest income received [7]	39,405,207		36,516,622	
Cash outflow Maintenance Advance [6]	-83,888,271		-75,163,302	
Cash flow from investing activities		-130,754,652		63,011,285
Cash flow from financing activities				
Notes issued [5]	120,100,000		-	
Drawdown of Subordinated Loan [5]	31,954,315		-	
Repayment of Subordinated Loan [5]	-43,125,074		-25,387,686	
Interest expenses paid [8]	-6,082,236		-8,389,033	
Cash flow from financing activities		102,847,005		-33,776,719
Movements in cash		<u>-29,231,923</u>		<u>-41,674,850</u>

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2.2 Statement of cash flows for the year ended December 31, 2020

The cash flow statement has been prepared according to the indirect method.

	2020		2019	
	€	€	€	€
Notes to the cash resources				
Balance at January 1, 2020		54,741,189		96,416,039
Movements in cash		<u>-29,231,923</u>		<u>-41,674,850</u>
Balance at December 31, 2020		<u>25,509,266</u>		<u>54,741,189</u>

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2.3 General notes to the Financial statements

GENERAL

Structure of operations

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During 2019, the transaction was renewed. The renewal has resulted in an extension of the Revolving Period, the margin on the Notes and the Expected Maturity Date of the Notes.

The objectives of the Company are (a) to hire-purchase, acquire, purchase, manage, alienate and encumber vehicles and receivables and to exercise any rights connected to such vehicles and receivables; (b) to take up loans, by issuing debentures, by granting participating interests or by entering into loan agreements, for the acquisition of vehicles and receivables mentioned under (a) and to enter into agreements in connection herewith; (c) to invest, including the providing of loans, any funds held by the Company; (d) to hedge interest rate - and other financial risks - amongst others by entering into derivatives agreements, including swap agreements and option agreements; (e) if incidental to the foregoing: i. to take up loans, amongst others to repay the obligations under any debentures, participating interests and loan agreements mentioned under (b); and ii. to grant property and personal security rights (goederenrechtelijke en persoonlijke zekerheidsrechten), or to release security rights granted to it by third parties, and to do all that is connected therewith or may be conducive thereto, all to be interpreted in the broadest sense.

If a Lease Receivable no longer meets the Lease Receivable eligibility criteria, the Originator has the obligation to repurchase the Lease Receivable and the option to substitute the Lease Receivable with a Lease Receivable that does meet the relevant criteria.

If a transferor retains substantially all the risks and rewards associated with transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Company's Director has concluded that the Originator has retained substantially all the risks and rewards of the Lease Receivables under the most likely future circumstances. As a consequence, the Company does not recognise the Lease Receivables on its Balance Sheet but rather a Deemed loan to the Originator.

At initial recognition the Deemed loan to the Originator and Notes payable are measured at the purchase price (fair value) and subsequently accounted for at amortised cost.

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Director and related parties

Intertrust Management B.V. manages the Company. The Originator services the Lease Pool. Intertrust Administrative Services B.V. handles cash management and statutory accounting.

Stichting VCL Master Netherlands ("the Foundation") holds the shares of the Company. The objectives of the Foundation are to incorporate, to acquire and to hold shares in the capital of the Company, and to administer the shares in the capital of the Company, to exercise all rights attached to such shares and to alienate and encumber such shares. The sole Director of the Foundation is Intertrust Management B.V.

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 belonging to those groups, are considered related parties to the Company.

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 a related party. In addition, statutory directors and close relatives are regarded as related parties.

Significant transactions with related parties, if any, are disclosed in the notes. All transactions are executed at normal market conditions and considered to be at conducted at arms' length.

Credit ratings

Notes are rated by Fitch Ratings Limited and/or Moody's Investors Service Ltd (the "Rating Agency").

Arranger

The transaction is arranged by ING Bank N.V. ("ING Bank" or "Arranger").

Personnel

As all operational activities are performed by external parties, the Company does not have any personnel.

Financial reporting

The Company is responsible for establishing and maintaining adequate internal control over financial reporting, which has been outsourced to the Director. The Director is also responsible for the preparation and fair presentation of the financial statements. The Company's internal control over financial reporting is included in the ISAE 3402 framework of the Director.

These financial statements have been prepared for a reporting period of one year, from January 1, 2020 to December 31, 2020.

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

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Basis of preparation

The financial statements have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code and in accordance with Dutch Accounting Standards ("RJ").

In some parts of the financial statements terms maybe used for financial statement line items that deviate from the decree on models of annual accounts (the Dutch "Besluit Modellen Jaarrekening"), for the purpose of better reflecting the content of the item.

The applied accounting policies for all assets and liabilities are based on the historic cost convention, which effectively comprises the cost of the transaction. The Balance Sheet, PStatement of income and Statement of cash flows include references to the notes.

An asset is recognised in the Balance Sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value of which the amount can be measured reliably. Assets that are not recognised in the Balance Sheet are considered as off-Balance Sheet assets.

A liability is recognised in the Balance Sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably. Liabilities that are not recognised in the Balance Sheet are considered as off-Balance Sheet liabilities.

An asset or liability that is recognised in the Balance Sheet, remains recognised on the Balance Sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Such transactions will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are taken into account. The benefits and risks that are not reasonably expected to occur, are not taken in to account in this assessment.

An asset or liability is no longer recognised in the Balance Sheet, and thus derecognised, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability are transferred to a a third party. In such cases, the results of the transaction are directly recognised in Statement of income.

If assets are recognised of which the Company does not have the legal ownership, this fact is being disclosed taking into account any allowances related to the transaction.

These financial statements are presented in EUR. All amounts are in EUR, unless stated otherwise.

Comparison with prior year

The principles of valuation and determination of result remain unchanged compared to the prior year.

Estimates

The preparation of the financial statements requires the Director to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. It also requires the Director to exercise its judgement in the process of applying the Company's accounting policies.

The actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

If necessary, for the purposes of providing the view required under article 2.362.1 Dutch Civil Code (DCC), the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the applicable financial statement items.

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Going concern

The Director 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, the Director 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.

Whilst the worldwide outbreak of the COVID-19 virus clearly increases a number of the risk factors, the limited recourse principle embedded in the transaction means that any such negative consequences are transferred from the Company to the Originator and/or Noteholders and/or Subordinated Loan holder.

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.

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.

Assets and liabilities

Financial fixed assets

Deemed loan to the Originator

The Deemed loan to the Originator is initially measured at the purchase price (fair value). After initial recognition the Lease Receivables underlying the Deemed loan to the Originator are measured at amortized cost minus a provision for impairment, using the effective interest method. Newly acquired contracts in the underlying portfolio are recognized at fair value.

The Company assesses at each Balance Sheet date whether a financial asset is impaired. If there is objective evidence of impairment, the amount of the impairment loss is determined and recognized in the Statement of income for all categories of financial assets recognized at fair value and/or nominal value and subsequently measured at amortized cost.

The amount of impairment losses on financial assets carried at amortised cost is calculated as the difference between the carrying amount of the asset and the best possible estimate of the future discounted cash flows. If an event occurs that impacts the underlying Lease Receivables, after the impairment was recognized, a previously recognised impairment loss is reversed to a maximum of the amount required to carry the asset at amortised cost at the time of the reversal if no impairment had taken place. The impairment loss reversal is taken to the Statement of income.

For the determination of the impairment losses on the Deemed loan to the Originator, the Company reviews the underlying Lease Receivables to determine if a provision for impairment is deemed necessary. The assessment takes into account the data from the Lease Receivables (such as credit quality, levels of arrears, historical loss patterns, etc.).

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Current assets

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost. All receivables included under current assets are due in less than one year. The fair value of the current assets approximates the book value due to its short-term character. If a receivable is uncollectable, it is written off against the Profit and Loss account.

Cash

Cash are valued at nominal value and, insofar as not stated otherwise, are at the free disposal of the Company. Cash relate to immediately due and payable withdrawal claims against credit institutions and cash resources. The fair value of the cash and cash equivalents approximates the book value due to its short-term character.

Non-current liabilities

Notes payable

Notes payable are initially recognised at fair value, normally being the amount received taking into account premium or discount and transaction costs. The Notes are subsequently stated at amortised cost, based on the effective interest method, being the amount received taking into account of any premium or discount, less any redemptions.

Contractual obligations of the Company towards the Noteholders are laid out in the Transaction documentation. The limited recourse nature of the transaction may result in the non-payment of both principal and interest to the Noteholders. The holders of the most subordinated Notes will be the first affected Noteholders by the impairment, in line with the inverse order of the priority of payments as defined in the waterfall as described in the Transaction documentation under priority of payments upon enforcement.

Subordinated Loan

The Subordinated Loan is initially recognised at the fair value, normally being the amount received taking into account premium or discount and transaction costs. The Subordinated Loan is subsequently stated at amortised cost, based on the effective interest method, being the amount received taking into account of any premium or discount, less any redemptions.

Current liabilities

After initial measurement at fair value, current liabilities are carried at amortised cost using the effective interest method, where applicable. All liabilities included under current liabilities are due in less than one year. Gains or losses are recognised in the Statement of income when the liabilities are derecognised, as well as through the amortisation process. The fair value of the current liabilities approximates the book value due to its short-term character.

Derivatives

The recognition and measurement of derivatives are discussed in a separate section, 'Derivatives and hedge accounting'. Due to the application of hedge accounting, all derivatives are carried at their accrued value at Balance Sheet date. The accrued value is calculated as being the net balance in the accrued interest receivable and payable positions at Balance Sheet date. Derivative contracts are used for hedging purposes.

Maintenance Advance

Maintenance Advance is recognised initially at fair value and subsequently measured at amortised cost.

Final Success Fee

The Final Success Fee is recognised initially at fair value and subsequently measured at amortised cost. 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.

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Recognition of income

Income is recognised in the Statement of income account when an increase in future economic potential related to an increase in an asset or a decrease of a liability arises, of which the size can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability arises, of which the size can be measured with sufficient reliability.

Income and expenses, including taxation, are allocated to the period to which they relate.

Interest income and expenses

The interest income on Lease Receivables and the interest expense on the Notes and Subordinated Loan are recognised in the Statement of income using the effective interest rate method.

Losses on Deemed loan to the Originator

Losses on the Deemed loan to the Originator are defined as any remaining unpaid amounts of principal and accrued interest on a Lease Receivable after the sale proceeds (net of repossession costs), plus any other amounts set off against the Borrower, have been deducted.

Other operating expenses

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

Income tax expense

Based on the set-up of the Notes structured debt transaction, the Company agreed to distribute the operating result, after the other operating expenses and taking the predetermined result after tax into account, to the Originator. On the other hand, possible remaining losses are deducted from certain classes of creditors and/or Noteholders. The Company realizes a pre-determined net income, which is in line with common practice for these kinds of securitizations. As a result, the financial statements of the Company include a tax charge.

Provisions for taxation have been made in accordance with the tax ruling the Company obtained from the Dutch Tax Authorities. This ruling mentions the minimum pre-tax result for a number of years.

Taxation is calculated on the reported pre-tax result, at the prevailing tax rates.

Results

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

Contingent liabilities and commitments

The Company has granted a first ranking right of pledge over the Lease Receivables and beneficiary rights to Stichting Trustee VCL Master Netherlands ("the Security Trustee"), established under the laws of the Netherlands as a foundation. The sole managing director of the Security Trustee is Amsterdamsch Trustee's Kantoor B.V. and it belongs to the same group of companies as Intertrust Management B.V. and Intertrust Administrative Services B.V. 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 an Option Exercise Price equal to the sum of:

- the present value of all scheduled Lease Interest Components and Lease Principal Components; and
- the present value of the Estimated Residual Value of such Purchased Vehicles in the circumstances set out in the Master Hire Purchase Agreement.

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

Statement of cash flows

The Statement of cash flows has been prepared using the indirect method. Income taxes are taken up under cash flow from operational activities. Interest paid is recognised as a financing activity and interest received is included under investing activities. Investing activities are those activities relating to the acquisition, holding and disposal of financial fixed assets and of investments. Investments can include securities not falling within the definition of cash.

Derivatives and hedge accounting

As part of its asset and liability risk management the Company uses derivatives to hedge exposure to interest rate risk. This is achieved by hedging specific transactions using financial derivatives, mostly interest rate swaps, when applicable. Under Dutch Accounting Standards ("RJ") 290. Derivatives are initially recognised at fair value and subsequently measured at cost. The Company applies cost price hedge accounting in order to simultaneously recognise both the results from changes in the value of the derivative and the hedged item in the Statement of income.

Resulting from the application of cost price hedge accounting, derivatives are recognised at cost and no revaluation of the derivative instrument takes place, as long as the derivative hedges the specific risk of a future transaction that is expected to take place. As soon as the expected future transaction leads to recognition in the Statement of income then the profit or loss that is associated with the derivative is recognised in the Statement of income.

The profits or losses associated with the derivative contracts are recognised in the Statement of income in the same period as in which the asset or liability affects the Statement of income.

Cost price hedge accounting

The hedges are recognised on the basis of cost price hedge accounting if the following conditions are met:

- the general hedging strategy and the way in which the hedging relationships are in line with risk manager objectives and the expected effectiveness of these hedging relationships must be documented;
- the nature of the hedging instruments involved and hedged positions must be documented; and
- the ineffectiveness must be recognised in the Statement of income.

Cost hedge accounting is no longer applied if:

- the hedging instrument expires, is sold, terminated or exercised. The realised cumulative gains or losses on the hedging instrument not yet recognised in the Statement of income at the time the hedge was effective, are then recognised in the Balance Sheet separately under accruals until the hedged transaction occurs; and
- the hedging relationship no longer meets the criteria for hedge accounting.

Hedge effectiveness

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, respectively amount, term, hedged risk, method of settlement of the hedging instrument and the hedged position.

If the critical terms are matched, there is nil risk on 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 accumulative 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.

During the year under review, no hedge ineffectiveness noted.

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RISK MANAGEMENT

General

The Company's principal financial instruments during the year comprised the Deemed loan to the Originator, the Notes payable, the Subordinated Loan and Derivative instruments. The main purpose of these financial instruments is to finance the Company's operations and to manage the interest rate risk arising from its issued Notes.

Repayment of principal and interest payment on the Notes is subject to financial risks. If and when these risks materialize into losses, these losses will be borne by holders of the Notes issued, as well as other creditors that are party to the transaction, connected with the Lease Receivables as collateral to the Deemed loan to the Originator.

The key financial instrument risks are classified as credit and concentration risk, market risk (interest rate risk), liquidity risk, Swap Counterparty credit risk as well as, specifically applicable in relation to the Lease Receivables, residual value risk. These risks mainly relate to the Lease Receivables as collateral to the Deemed loan to the Originator.

Credit and concentration risk

The Lease Receivables bear a mix of credit and concentration risks. As a company that invests in carlease loans in the Netherlands the Company has significant exposure to credit and concentration risks associated with the carlease market in the Netherlands.

Credit risk is mainly related to the economic conditions and the risk that individual borrowers might be unable to fulfil their payment obligations. However, these risks are mitigated because each Lease Receivable is collateralised by the related car/vehicle, and the portfolio is well spread over a large number of individual Lease Receivables, a variety of car/vehicle types, geographical areas and a variety in industry sectors in which the applicable lessees operate. If a borrower defaults and the Company forecloses on the Lease Receivable, the Company is entitled to all proceeds of the sale of the related car/vehicle. If the proceeds from the sale of the car are insufficient to repay the outstanding principal amount of the Lease Receivable, the Company could record a loss in this respect though, ultimately, such losses will very likely be borne by the Company's creditors that are also a party to the transaction.

Notwithstanding the effects of the worldwide outbreak of the COVID-19 virus, the new car registrations in the Netherlands were at a level of around 356,000 which is 20% down on the previous year. This appears to be largely as a result of decreased confidence levels of both consumers and businesses though some manufacturers also experienced serious production restrictions during the second quarter of the year. Prospects for the coming year or so, will be very much contingent on the reduction or elimination of current restrictions, and the negative developments in the economy which is having a significant negative financial impact on many consumers and businesses.

The Director is aware of the potential volatility in macro-economic developments and the car market in particular, and of the dangers it can bring with it. Consequently, not only the creditworthiness of the borrower/lessee can be recognised as a risk but also the general economic conditions and the car(lease) market in particular have an impact on the probability of a loss. At the same time, please note that, in principle, the Company itself is not exposed to credit risk due to the limited recourse nature of the issued Notes as the Noteholder bears the credit risk of the assets.

The maximum credit risk per the period ending is EUR 891,631,068 (previous period: EUR 805,260,317).

Interest rate risk

The Notes bear interest (floating, subject to a floor of zero). The Company's exposure to interest rate risk due to the limited recourse nature of the issued Notes is close to nil. Possible risks regarding the interest, as a result of fluctuations in the prevailing levels of market interest rates are mitigated by swap contracts. The interest rate risk on the Subordinated Loan is not hedged by means of swap contracts. However, we deem the interest rate risk low due to the credit enhancements in place (amongst others the Final Success Fee).

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Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations towards the Noteholders, and other creditors, as they become due. Liquidity risk on interest payments to be made by the Company to its Noteholders arises from mismatches on both the interest frequency on the Notes versus the Lease Receivables, as well as from the outstanding value of the Notes compared to the Lease Receivables. Liquidity risk on principal payments arises from mismatches in the maturity of the Notes compared to the maturity of the Lease Receivables.

Matching maturities of assets and liabilities and related cash flows is fundamental to the Director of the Company. This risk is addressed and mitigated by credit enhancements granted by the Originator as well as by means of the availability of the Cash Collateral Account.

Swap Counterparty credit risk

The Company has entered into a swap agreement with the Swap Counterparty. Pursuant to this agreement, the Swap Counterparty agreed to make payments to the Company under certain circumstances as described therein.

The counterparty risk is the risk that the Company will be exposed to the credit risk of the relevant Swap Counterparty with respect to any such payments. To mitigate the Swap Counterparty credit risk of the financial derivatives, the Company only enters into contracts with carefully selected major financial institutions based upon their credit ratings.

With regards to Swap Counterparty exposure the Company uses International Swaps and Derivatives Association ("ISDA") agreements to govern derivative contracts to mitigate Swap Counterparty credit risk. The credit rating of the applicable Swap Counterparty per year end 2020 is A+ (Fitch Ratings Limited) and Aa2 (Moody's Investors Service Ltd). Based on this rating we deem the risk of the Swap Counterparty defaulting to be low. Please note that the Swap Agreement provides for certain "Events of Default" (as defined in the Swap Agreement) relating to the Issuer and the Swap Counterparty, the occurrence of which may lead to a termination of the Swap Agreement.

Should the Swap Counterparty's rating fall below the contractually required rating, the posting of collateral is required, a third-party guarantee should be put in place or the Swap Counterparty should be replaced.

Residual value risk

The residual value 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:

- in case of a Matured Lease, the Estimated Residual Value; or
- 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:

- the present value of all scheduled Lease Interest Components and Lease Principal Components; and
- the present value of the Estimated Residual Value of such Purchased Vehicles in the circumstances set out in the Master Hire Purchase Agreement.

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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.

In addition to financial risks, the Company also faces operational risks. The servicing of the underlying 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 audited portfolio statements on the Lease Receivables and/or an ISAE 3402 report with respect to the services provided by the (Su) Servicer. Furthermore, the transaction includes measures to be taken once certain parties fail to maintain a specific credit rating. The Director believes that the operational risks are low and no further measures are deemed necessary.

COVID-19

Whilst the worldwide outbreak of the COVID-19 virus clearly increases a number of the risk factors, the limited recourse principle embedded in the transaction means that any such negative consequences are transferred from the Company to the Originator and/or Noteholders and/or Subordinated Loan holder.

Risk appetite

The Company by its nature exposes itself to financial risks. The investors in the Notes issued by the Company are made aware of these risks and understand the adverse effects on repayment of principal and interest payments on issued Notes in the event these risks materialize into losses.

Based on the above, the Company is of the opinion that all significant risks are adequately addressed and that no ongoing risk assessment is deemed necessary. The credit enhancements granted are all part of the risk control measures. As a result, the Company's risk appetite is low.

Critical accounting estimates and judgments

Application of the accounting policies in the preparation of the financial statements requires the Director of the Company to exercise judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgment are described below.

Fair value estimation of financial instruments

The Company discloses the fair value of the financial instruments in the notes to the financial statements.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If no fair value can be readily and reliably established, fair value is approximated by deriving it from the fair value of components or of a comparable financial instrument, or by approximating fair value using valuation models and valuation techniques. Valuation techniques include using recent at arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, making allowance for Company specific inputs. The fair values of the mentioned financial assets and liabilities are estimated using discounted cashflow models. The portfolio of Lease Receivables 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.

See below for the financial instruments where the fair value is stated, including a comparison of the fair value to the book amount.

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	December 31, 2020 EUR x 1,000		December 31, 2019 EUR x 1,000	
	Book value	Fair value	Book value	Fair value
Financial assets				
Deemed loan to the Originator	827,053	827,053	702,575	702,575
Financial liabilities				
Notes payable	694,600	694,600	574,500	574,500
Subordinated Loan	142,472	142,472	153,643	153,643
Derivative instruments	5	-3,128	6	-1,964

*The Derivative fair value of 2019 has been adjusted for disclosure purposes

Deemed loan to the Originator

The Deemed loan to the Originator is net of specific impairment taken on doubtful Lease Receivables. The estimated fair value of the Deemed loan to the Originator represents the discounted amount of estimated future cash flows of the underlying collateralised Lease Receivables expected to be received (taking into account repayments, arrears, etc). 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

The amounts reported per Balance Sheet date are considered to approximate fair values.

Subordinated loan

The estimated fair values of the Notes payable and Subordinated Loan closely approximate the Balance Sheet amount.

Derivative instruments

An internal discounted cash flow valuation model is used because no reliable market prices are available for the interest rate swap. The cash flows are based on the expected cash flows calculated up to the Optional Early Redemption Date. The expected cash flows are discounted at the 1-months effective Euribor interest curve.

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2.4 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:

	2020	2019
	€	€
Opening Balance	741,577,143	766,284,185
Repayments Lease Receivables	-172,735,701	-165,691,011
Additional purchased Lease Receivables	501,515,219	289,444,786
Repurchased Lease Receivables	-189,388,363	-148,262,040
Losses on Lease Receivables	-646,533	-198,777
	<u>880,321,765</u>	<u>741,577,143</u>
Discount	-53,268,376	-39,001,949
Closing balance	<u><u>827,053,389</u></u>	<u><u>702,575,194</u></u>
Discount movement		
Opening Balance	-39,001,949	-30,561,665
Additional discount this year	-14,266,427	-8,440,284
Closing balance	<u><u>-53,268,376</u></u>	<u><u>-39,001,949</u></u>

The current part of the Deemed loan to the Originator is EUR 284.2 million (previous period: EUR 296.3 million).

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On May 31, 2016 the Company entered into a Purchase Agreement with the Originator, which stipulated that the Company purchased and accepted from the Originator the legal ownership of Lease Receivables. 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 Lease Receivables is paid in regular instalments and that legal ownership of the Lease Receivables does not transfer at the time of delivery of the asset to the Company, but only upon fulfilment of the condition precedent that the purchase price is paid in full (i.e. upon payment of the final instalment). 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 3.54% (previous period: 2.85%).

Due to the requested and received additional advance for a total amount of EUR 32 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.

The original purchase price for the initial Lease Receivables was calculated on a discounted cash flow basis. The cashflows were discounted using the interest rate as used to calculate the lease instalments 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.

The average annualized interest rate on the Deemed loan to the Originator was 5.15% (previous period: 5.08%). The average interest rates approximate the effective interest rates.

Notwithstanding that the above represents a sale transaction from a legal perspective, the Originator has concluded that it has retained substantially all the risks and rewards associated with the Lease Receivables. The Director is of the view that this, coupled with the fact that the Lease Receivables will be sold back to the Originator at such time, requires that the Company recognises a Deemed loan to the Originator rather than the Lease Receivables itself.

Based on a specific review of the underlying Lease Receivables and taking into consideration current values of the underlying Lease Receivables, the Director has decided to not take into account an additional impairment for Lease Receivables.

CURRENT ASSETS [2]

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

Servicer receivables

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	€	€
Servicer receivables	<u>39,068,413</u>	<u>38,145,618</u>
Closing balance	<u><u>39,068,413</u></u>	<u><u>38,145,618</u></u>

The Servicer receivables relate to the lease collections that have been transferred to the Originator by the lessees and were received in January 2021.

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Other receivables

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	€	€
Final Success Fee	-	9,798,316
Closing balance	<u>-</u>	<u>9,798,316</u>

Cash [3]

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

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	€	€
Distribution Account	415,592	651,383
Cash Collateral Account	<u>25,093,674</u>	<u>54,089,806</u>
Closing balance	<u>25,509,266</u>	<u>54,741,189</u>

All bank accounts are held with Elavon Financial Services DAC. Elavon Financial Services DAC has a current short-term rating of P-1 by Moody's Investors Service Ltd and F1+ by Fitch and a long-term rating of A1 by Moody's and AA- by Fitch Ratings Limited.

The accounts of Elavon Financial Services DAC are freely available to the Company.

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.

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 the lesser of:

- 0.6% of the maximum Discounted Receivables balance; and
- 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 Lease Receivables.

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2.4 Notes to the Balance sheet

SHAREHOLDER'S EQUITY AND LIABILITIES

SHAREHOLDER'S EQUITY [4]

Share capital

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

Other reserves

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

	2020	2019
	€	€
Opening balance	5,660	3,660
Result prior year	2,025	2,000
Closing balance	<u>7,685</u>	<u>5,660</u>

Net result

The net result for the year amounts to EUR 2,087 (previous year: EUR 2,025). The Director proposes to distribute the result of EUR 2,025 to the Other reserves.

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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 February 25, 2020 and June 25 2020, the Company increased the existing Series of Class A Notes for a total amount of EUR 108.5 million and the Series of Class B Notes for a total amount of EUR 11.6 million.

	2020	2019
	€	€
Opening balance	574,500,000	574,500,000
Increase existing Series	120,100,000	-
Closing balance	<u>694,600,000</u>	<u>574,500,000</u>

The interest rate due on the:

- Asset Backed Floating Rate Class A Notes is one-month Euribor plus a margin of 0.75% (previous period: 0.55%), subject to a floor of zero.
- Asset Backed Floating Rate Class B Notes is one-month Euribor plus a margin of 1.45% (previous period: 1.10%), subject to a floor of zero.

As far as subordination of the aforementioned Notes is concerned, the following is mentioned.

- The Asset Backed Floating Rate Class B Notes are subordinated to the Asset Backed Floating Rate Class A Notes.

The Scheduled Repayment 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 expectation is that EUR 0 will be repaid in one year, EUR 0 after one year but before five years and EUR 694,600,00 will be repaid after five years.

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

All Notes and coupons are governed by, and were construed in accordance with, the laws of the Netherlands.

The rating of the Notes is as follows (the Asset Backed Floating Rate Class B Notes are not rated):

	December 31, 2020	
Notes	Moody's	Fitch
Asset Backed Floating Rate Class A Notes	Aaa	AAA
	December 31, 2019	
	Moody's	Fitch
Asset Backed Floating Rate Class A Notes	Aaa	AAA

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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. Subject to the terms of the Subordinated Loan Agreement, the Subordinated Lender may agree from time to time to grant additional advances up to an total amount of the Subordinated Loan of EUR 235.8 million provided that the Subordinated Lender shall be required to grant additional advances to the extent required to increase the loan amount by the Subordinated Loan Increase Amount. The Subordinated Loan serves as credit enhancement and ranks below the Notes with respect to payment of interest and principal.

On February 25, 2020 and June 25, 2020 the Company received as requested additional advances for a total amount of EUR 32 million from the Subordinated Lender under the Subordinated Loan Agreement. As mentioned before, the proceeds were used to finance the purchase of Additional Lease Vehicles and Additional Lease Receivables from the Originator. During the year, the Subordinated Loan was redeemed for an amount of EUR 43,125,074.

The movements in the Subordinated Loan can be detailed as follows:

	2020	2019
	€	€
Opening balance	153,642,931	179,030,617
Further advances	31,954,315	-
Repayments	-43,125,074	-25,387,686
Closing balance	<u>142,472,172</u>	<u>153,642,931</u>

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 2.85% at the beginning of 2020 and 3.54% as per November 25, 2020 (previous year: 2.20% at the beginning of 2019 and 2.85% as per November 25, 2019). Payment of interest and repayment of principal is subordinated to payments of interest and principal on the Notes and all other payments.

The Subordinated Loan is scheduled to mature on the Final Maturity Date of the Notes but is subject to optional partial redemption in certain circumstances. Basically, the Company will use its available funds, being the proceeds of the lease collections minus all payments that rank higher in priority than payments to the Subordinated Lender such as payments to the Managing Director, the Trustee, the Seller and Servicer, the Maintenance Coordinator, the Swap Counterparty and the Noteholders, to redeem the Subordinated Loan.

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CURRENT LIABILITIES [6]

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

Interest payable

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	€	€
Interest on Notes	14,235	12,238
Interest on Subordinated Loan	35,226	51,193
Closing balance	<u>49,461</u>	<u>63,431</u>

Derivative instruments

The Company entered per 2020 into a Swap Agreement with Crédit Agricole Corporate and Investment Bank to hedge the basis risk between the rate of interest to be received by the Company on the underlying Lease Receivables and the rate of interest payable on the Notes. Under the Swap Agreement 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 0.260% (previous period: 0.180%) per annum in relation to the Class A Notes and 0.950% (previous period: 0.700%) 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 0.75% (before: 0.55%) per annum in relation to the Class A Notes and 1.45% (before: 1.10%) per annum in relation to the Class B Notes.

Pursuant to the Swap Agreement, certain conditions apply to the Swap Counterparty, mainly relating to minimum rating requirements by Fitch Ratings Limited and/or Moody's Investors Service Ltd.

The Swap Agreement qualifies as a 100% effective cash flow hedge under RJ 290 and this status is monitored throughout the year and at the Balance Sheet date through the application of a critical terms analysis.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	€	€
Swap amounts payable	4,748	6,227
Closing balance	<u>4,748</u>	<u>6,227</u>

Maintenance Advance

	<u>2020</u>	<u>2019</u>
	€	€
Opening Balance	46,766,057	44,779,659
Cash inflow	53,119,567	77,149,700
Cash outflow	-83,888,271	-75,163,302
Closing balance	<u>15,997,353</u>	<u>46,766,057</u>

The Maintenance Advance serves to provide credit enhancement to cover potential maintenance costs relating to any associated Lease Receivable. 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 Lease Receivables.

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Cash Collateral Amount

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	€	€
Opening balance	6,894,000	6,894,000
Increases	1,441,200	-
Closing balance	<u>8,335,200</u>	<u>6,894,000</u>

On the Closing Date, the Company 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

	<u>2020</u>	<u>2019</u>
	€	€
VAT payable	515	315
Closing balance	<u>515</u>	<u>315</u>

Corporate income tax

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	€	€
Corporate income tax current year	-	475
Corporate income tax previous years	-	500
Closing balance	<u>-</u>	<u>975</u>

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 16.5% corporate income tax (previous period: 19%).

Accrued expenses and other liabilities

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	€	€
Audit fee	18,739	49,852
Servicer Fee payable	745,414	629,940
Senior Maintenance Fee payable	16,600,982	20,937,504
Other costs payable	126,356	103,002
Final Success Fee	10,707,956	-
Buffer Release Amount payable	1,962,399	1,658,397
Closing balance	<u>30,161,846</u>	<u>23,378,695</u>

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.

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

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2.6 Notes to the Statement of income

Interest income [7]

	2020	2019
	€	€
Interest income on Deemed loan to the Originator	39,405,207	36,516,622
	<u>39,405,207</u>	<u>36,516,622</u>

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 servicing collections are netted with their associated expenses streams and therefore not shown as revenue.

Interest expense [8]

Interest expense Notes

	2020	2019
	€	€
Interest expense Series 2016-2 Class A Notes	112,047	76,360
Interest expense Series 2016-3 Class A Notes	74,602	50,784
Interest expense Series 2016-4 Class A Notes	64,022	33,611
Interest expense Series 2016-5 Class A Notes	143,089	105,984
Interest expense Series 2016-6 Class A Notes	74,602	50,784
Interest expense Series 2016-1 Class B Notes	303,113	214,312
Interest expense Series 2016-2 Class B Notes	120,872	85,514
	<u>892,347</u>	<u>617,349</u>

Interest expense from bank account

	2020	2019
	€	€
Interest expense from bank account	460,516	443,603
	<u>460,516</u>	<u>443,603</u>

Interest expense Subordinated Loan

	2020	2019
	€	€
Interest expense Subordinated Loan	4,130,905	3,767,837
	<u>4,130,905</u>	<u>3,767,837</u>

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Interest Rate Swap

	2020	2019
	€	€
Interest expenses swap (paying leg)	1,517,675	2,506,729
Interest income swap (receiving leg)	-933,177	-615,202
	<u>584,498</u>	<u>1,891,527</u>

Other operating expenses [9]

	2020	2019
	€	€
Servicing fees	8,733,099	7,811,318
Company administrator fees	19,626	19,119
Management fees	14,692	14,931
Audit fees	52,544	36,986
Buffer Release amounts	22,990,996	20,849,451
Maintenance Advance	-1,246,798	657,606
Cash Manager fees	-	4,000
VAT costs	2,783	1,487
Other general costs	37,621	26,275
Losses on lease receivables	646,533	198,777
	<u>31,251,096</u>	<u>29,619,950</u>

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

With reference to Section 2:382a of the DCC, the following fees for the financial year have been charged by Ernst & Young Accountants LLP to the Company (previous period: PricewaterhouseCoopers Accountants N.V.), see below for more details.

	2020	2019
Statutory audit of the Annual Report	18,739	49,852
Other audit engagements	-	-
Tax advisory services	-	-
Other non-audit services	-	-
Total	<u>18,739</u>	<u>49,852</u>

The fee to Ernst & Young Accountants LLP, in their role as independent auditor of the Company, amounts to EUR 18,739 (previous year: EUR 49,852). No other fees were paid or are payable to the independent auditor of the Company.

These fees relate to the audit of the 2020 financial statements, regardless of whether the work was performed during the financial year.

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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 2,083,345 (previous period: EUR 173,856).

Corporate income tax [11]

	2020	2019
	€	€
Corporate income tax	413	475
	<u>413</u>	<u>475</u>

As mentioned in the notes on income tax, a minimum profit amount is applicable for tax purposes, which is equal to the minimum of 10% of the management fee and EUR 2,500, resulting in taxable income for corporate income tax purposes in the Netherlands.

The applicable tax rate for the year under review is 16.5% (previous period: 19.0%). The effective tax rate is equal to the applicable tax rate.

Staff numbers and employment costs

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous period.

The Company has one (previous period: one) Director, who receives EUR 14,692 (previous period: EUR 14,931) remuneration. The Company has no (previous period: none) supervisory directors.

Audit Committee

The Company is an entity for securitization purposes according to Article 1 ministerial decree prudence rules Financial Supervision Act (Article 1, Decree on Prudential Rules for Financial Undertakings). As such the Company makes use of the exemption for securitization vehicles, concerning the obligation to establish an audit committee as defined in article 3d of the implementing regulation enforcing Article 41 of the European Directive no. 2006/43/EG. The implementing regulation came into effect in the Netherlands on August 7, 2008. The duties of the audit committee rest with the managing director.

Subsequent Events

Amsterdam,

Intertrust Management B.V.

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3. Other information

3.1 Statutory provisions

In accordance with article 23 of the deed of incorporation 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 the distribution received by that party and with due observance of the provisions of prevailing law.

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3.2 Independent auditor's report

Independent auditor's report

To: the shareholder and the director of VCL Master Netherlands B.V.

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 of VCL Master Netherlands B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of VCL Master Netherlands B.V. as at 31 December 2020 and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- ▶ The balance sheet as at 31 December 2020
- ▶ The statement of income for the year ended 31 December 2020
- ▶ The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing.

Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of VCL Master Netherlands B.V. (the company) in accordance with the EU 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 assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€8,000,000
Benchmark applied	0.9% of the total assets
Explanation	We have used total assets as benchmark as we believe total assets is the most important metric for the users of the financial statements.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the director that misstatements in excess of €400,000, which are identified during the audit, would be reported to the director, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the director. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation and existence of the deemed loan to the originator

Risk

The principal activity of VCL Master Netherlands B.V. is the financing of and providing liquidity to Volkswagen Pon Financial Services B.V. using the funds raised from the issued debt. VCL Master Netherlands B.V. runs the risk that Volkswagen Pon Financial Services B.V. fails to meet its contractual obligations.

The outstanding deemed loan to the originator is significant to the company as this represent approximately 93% of the total assets of the company. The deemed loan to the originator is initially valued at the purchase price (fair value). After initial recognition the deemed loan to the originator is measured at amortized cost minus a provision for impairment.

We consider the valuation and existence of the deemed loan to the originator as disclosed in note 1 to the financial statements a key audit matter as valuation is an area that involves significant judgement and due to its relative size of the account compared to the other assets, especially taking into consideration that an incorrect purchase price (fair value) for the underlying lease receivables to the deemed loan to the originator may have a material effect on the financial position and results of the company.

Our audit approach

Our audit procedures included, amongst others, evaluating the appropriateness of the company's accounting policies related to the valuation of deemed loan to the originator in accordance with Part 9 of Book 2 of the Dutch Civil Code. We also evaluated the design of internal controls of the processes underlying the valuation process, as relevant to our audit of the financial statements.

Furthermore, we have performed the following substantive audit procedures:

- ▶ Reconciliation of the deemed loan to the originator to the Servicer Report prepared by Volkswagen Pon Financial Services B.V. listing all the underlying lease receivables.
- ▶ Test of details for a sample of the underlying lease agreements by agreeing them to the lease contracts.
- ▶ Verification that additional lease receivables are aligned with the terms and conditions as included in the Prospectus and Master hire purchase agreement.
- ▶ Recalculation and verification of the fair value calculation performed by Volkswagen Pon Financial Services B.V. and its alignment with the underlying lease contracts relating to the minimum lease payments and an evaluation of the estimation of residual values.
- ▶ Evaluation of the accuracy and completeness of related disclosures.

Valuation and existence of the deemed loan to the originator

Key observations	Based on our procedures performed, we concur with the director's valuation and the existence of the deemed loan to the originator and evaluated that the related disclosures are in accordance with Part 9 of the book 2 of the Dutch Civil Code.
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Report on 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 director's report
- ▶ Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ Contains the information as 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 through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these 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 the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

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

Report on other legal and regulatory requirements

Engagement

We were engaged by the director as auditor of VCL Master Netherlands B.V. on 8 September 2021 as of the audit for the year 2020 and have operated as statutory auditor since then.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of the director for the financial statements

The 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. Furthermore, the director is responsible for such internal control as the 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 director is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the director should prepare the financial statements using the going concern basis of accounting unless the director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The 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 objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- ▶ 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 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 the purpose of 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 the director;
- ▶ Concluding on the appropriateness of the director's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events 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. However, future events or conditions may cause a company to cease to continue as a going concern;
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures;
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the director regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the director 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 the director with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the director 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 the director, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements.

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.

Amsterdam, 11 November 2021

Ernst & Young Accountants LLP

signed by M.L. Milet de St Aubin