VCL Master Netherlands B.V.

Annual Report for the period March 3, 2016 until December 31, 2016

Amsterdam, the Netherlands

VCL Master Netherlands B.V.
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The Netherlands
Chamber of Commerce Amsterdam 65.49.09.16

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1. Director's report

1.1 Activities and results

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

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

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

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

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

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

As this is the Company's first Annual Report, the Statement of income and Statement of cash flows encompass the period from March 3, 2016 to December 31, 2016.

Interest Rates
In the year the average annualized interest rate on the Deemed loan to the Originator amounted to 3.1% and the average annualized funding rate amounted to 0.54%. The resulting net interest margin was EUR 8.4 million, before the hedging result. The average interest rates approximate the effective rates.

Performance of underlying lease vehicle contract portfolio
The Company initially purchased a portfolio of leased vehicle contracts and accompanying lease receivables for an amount of EUR 254,509,900. During the year, new contracts and accompanying receivables were purchased by way of hire purchase within the meaning of the transaction for a total amount of EUR 233,603,465.

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

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

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

As detailed in the Future developments section below, the Dutch economy has continued its recovery in 2016 and 2017 and most macro economic developments are showing positive trends. The profitability of companies in the Netherlands has been increasing the last couple of years. These trends are expected to have a positive effect on car Lease Receivables loss levels and on new business, though there are some clear variations in the individual sectors.

Whilst this has the effect of reducing the Company’s exposure to credit and concentration risk, it will not eliminate it. Management is aware of variations within the sector as well as regional variations in both developments and future expectations and so not all Lease Receivables will be so positively influenced. Moreover, the expectations are contingent on a number of local and global developments which may not materialise and over which the Company has no control.

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

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

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

Liquidity risk
Matching maturities of assets and liabilities and related cash flows is fundamental to the management of the Company. This risk is addressed and mitigated by a General Cash Reserve and credit enhancements. If the receipt of funds from the underlying Lease Receivables is insufficient to meet the Company's obligations under the Notes, the Company may apply amounts standing to the credit of the General Cash Reserve to make payments in respect of the Notes.

Residual value risk
The Company is exposed to a residual value risk on the Leased Vehicles. This risk is addressed and mitigated by the Master Hire Purchase Agreement under which 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.

1.2 Future developments

In 2016, the Dutch economy continued the positive underlying trends of recent years. The Gross Domestic Product (“GDP”) increased by 2.1% in 2016, surging in the second half of that year despite the uncertainties caused by international events such as Brexit and the presidential elections in the USA. The trend was mostly fuelled by consumer confidence and investments in the housing market and is expected to continue with an increase of GDP of 2.3% expected in 2017 before levelling off thereafter. These expectations reflect those of the EU as a whole but these too are much dependent on developments in the rest of the world.

Growing confidence is also a noticeable trend in the business and commerce sectors and investment levels are also expected to rise. The conservative attitude of banks, especially towards SMEs is seen as a potential brake on these developments.

Unemployment levels reduced from 6.9% to 6.0% during 2016 and this trend has continued in 2017. The trend to a more flexible workforce of recent years has continued and is contributing to the positive outlook.

Inflation is expected to rise moderately from the 0.1% in 2016 to 1.4% in 2017. Much will depend on developments in areas like energy prices and the growing effects of e-commerce.

The 2016 level of sales of new vehicles hit its lowest point since 1969 with just 383,000 new registrations. New car registrations have been strongly affected in recent years by changes in fiscal rules and regulations for the lessee and transitional rules. From 2017 onwards, clarity and predictability in this area is largely restored and new registrations are reached 414,538 in 2017.

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

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

Amsterdam, January 31, 2018

Managing Director
Intertrust Management B.V.

2. FINANCIAL STATEMENTS

2.1 Balance sheet as at December 31, 2016

(Before result appropriation)

		December 31, 2016	
ASSETS		€	€
Fixed assets	[1]		
Financial fixed assets			
Deemed loan to the Originator		425,134,565	
			425,134,565
Current assets	[2]		
Receivables			
Other receivables		2,152,819	
			2,152,819
Cash and cash equivalents	[3]		38,469,272
			465,756,656
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity	[4]		
Share capital		1	
Other reserves		-	
Net result		1,660	
			1,661
Long-term liabilities	[5]		
Notes payable		329,400,000	
Subordinated Loan		101,756,264	
			431,156,264
Current liabilities	[6]		
Derivative instruments		1,680	
Maintenance Reserve Advance		17,918,133	
General Cash Reserve		3,952,800	
Taxes		415	
Interest payable		1,227,205	
Accrued expenses and other liabilities		11,498,498	
			34,598,731
			465,756,656

2.2 Statement of income for the period from March 3, 2016 to December 31, 2016

		March 3, 2016 to December 31, 2016	
		€	€
Interest income			
Interest income	[7]	10,360,710	
			10,360,710
Interest expenses			
Interest expense Notes	[8]	-631,664	
Interest expense Subordinated Loan	[9]	-1,216,342	
Interest expense bank accounts		-81,211	
Interest Rate Swap	[10]	-76,514	
			-2,005,731
Interest margin			8,354,979
Operating income			
Servicing collections	[11]	60,098,412	
			60,098,412
Operating expenses			
Senior Maintenance Coordinator fees	[12]	-52,584,238	
Other operating expenses	[13]	-8,516,722	
			61,100,960-
			7,352,431
Final Success Fee			-7,350,356
Income before taxation			2,075
Corporate income tax	[14]		-415
Net result			1,660

2.3 Statement of cash flows for the period from March 3, 2016 to December 31, 2016

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

		March 3, 2016 to December 31, 2016	
		€	€
Net result			1,660
Adjustments to statement of income:			
Interest income	[7]	-10,360,710	
Interest expense		1,929,217	
Corporate income taxes		415	
			-8,431,078
Movements in working capital			
Change in receivables	[2]	-2,152,819	
Change in derivative instruments	[6]	1,680	
Change in accrued expenses and other liabilities	[6]	11,498,498	
			9,347,359
Cash flow from operating activities			917,941
Cash flow from investing activities			
Initial investment in Deemed loan to the Originator	[1]	-254,509,900	
Additional lease receivables purchased	[1]	-233,603,465	
Repayments Deemed loan to the Originator	[1]	42,360,067	
Repurchased Deemed loan to the Originator	[1]	9,277,378	
Discount Deemed loan to the Originator	[1]	11,341,355	
Interest income received		10,360,710	
Cash flow from investing activities			-414,773,855
Cash flow from financing activities			
Issued and paid-up capital		1	
Notes issued	[5]	329,400,000	
Drawdown of Subordinated Loan	[5]	101,756,264	
Change in Maintenance Reserve Advance	[6]	17,918,133	
Change in General Cash Reserve	[6]	3,952,800	
Interest expenses paid		-702,012	
Cash flow from financing activities			452,325,186
Movements in cash			38,469,272
Notes to the cash resources			
Starting balance			-
Movements in cash			38,469,272
Closing balance			38,469,272

2.4 General notes to the Financial statements

GENERAL INFORMATION

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

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

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

TRANSACTION STRUCTURE, MANAGEMENT AND RELATED PARTIES

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

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

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

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

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

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

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

Limited recourse

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

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

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

Credit and concentration risk

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

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

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

As detailed in the Future developments section below, the Dutch economy has continued its recovery in 2016 and 2017 and most macro economic developments are showing positive trends. The profitability of companies in the Netherlands has been increasing the last couple of years. These trends are expected to have a positive effect on car Lease Receivables loss levels and on new business, though there are some clear variations in the individual sectors.

Whilst this has the effect of reducing the Company's exposure to credit and concentration risk, it will not eliminate it. Management is aware of variations within the sector as well as regional variations in both developments and future expectations and so not all Lease Receivables will be so positively influenced. Moreover, the expectations are contingent on a number of local and global developments which may not materialise and over which the Company has no control.

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

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

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

Liquidity risk
Matching maturities of assets and liabilities and related cash flows is fundamental to the management of the Company. This risk is addressed and mitigated by a General Cash Reserve and credit enhancements. If the receipt of funds from the underlying Lease Receivables is insufficient to meet the Company's obligations under the Notes, the Company may apply amounts standing to the credit of the General Cash Reserve to make payments in respect of the Notes.

Residual value risk
The Company is exposed to a residual value risk on the Leased Vehicles. This risk is addressed and mitigated by the Master Hire Purchase Agreement under which 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.

FAIR VALUE FINANCIAL INSTRUMENTS

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

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

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

Derivative instruments
The estimated fair value of the derivative instruments closely approximate the balance sheet amount.

PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue recognition
Interest income and expenses are recognised in the Statement of income on an accruals basis. Operating income and expenses are accounted for in the year in which these are incurred. Losses are accounted for in the year in which they are identified.

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

CORPORATE INCOME TAX

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

CONTINGENT LIABILITIES AND COMMITMENTS

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

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

STATEMENT OF CASH FLOWS

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

2.5 Notes to the Balance sheet

ASSETS

FIXED ASSETS [1]

Financial fixed assets

Deemed loan to the Originator

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

	31-12-2016
	€
Opening Balance	-
Initial Purchase of Lease Receivables	254,509,900
Repayments Lease Receivables	-42,360,067
Additional purchased Lease Receivables	233,603,465
Repurchased Lease Receivables	-9,277,378
	436,475,920
Discount	-11,341,355
Closing balance	425,134,565

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

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

CURRENT ASSETS [2]

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

Other Receivables

	31-12-2016
	€
Lease receivables	2,152,819

The Lease receivables relate to the Lease Collections that have been transferred to the Originator by the lessees and were received in January 2017.