LeasePlan Annual Report 2018

Delivering *What's next* in mobility

Chapters

View 2018 Report at
www.leaseplan.com/corporate

Chapter 1

LeasePlan at a glance

LeasePlan at a glance

Our businesses are Car-as-a-Service for new cars, serving a €75bn market, and CarNext.com, an independent marketplace for flexible used-car mobility solutions, serving a €65bn market.

World leader

World leader in Car-as-a-Service[1]

Major reseller

Major reseller of high-quality used cars

1963

Founded

€75 billion

Car-as-a-Service addressable market

€65 billion

CarNext.com for 3-4 year-old high-quality cars addressable market

32 countries

Served worldwide

€185 million

Total savings from the 'Power of One LeasePlan'

7,000+

Employees

1.8 million

Fleet size

Key business segments

Corporates

International and domestic corporates

SME

Business customers with < 25 vehicles

Private individuals

Customers who lease one vehicle

Mobility providers

Mobility platform customers

1. *Based on FY 2016 fleet size*

Global reach

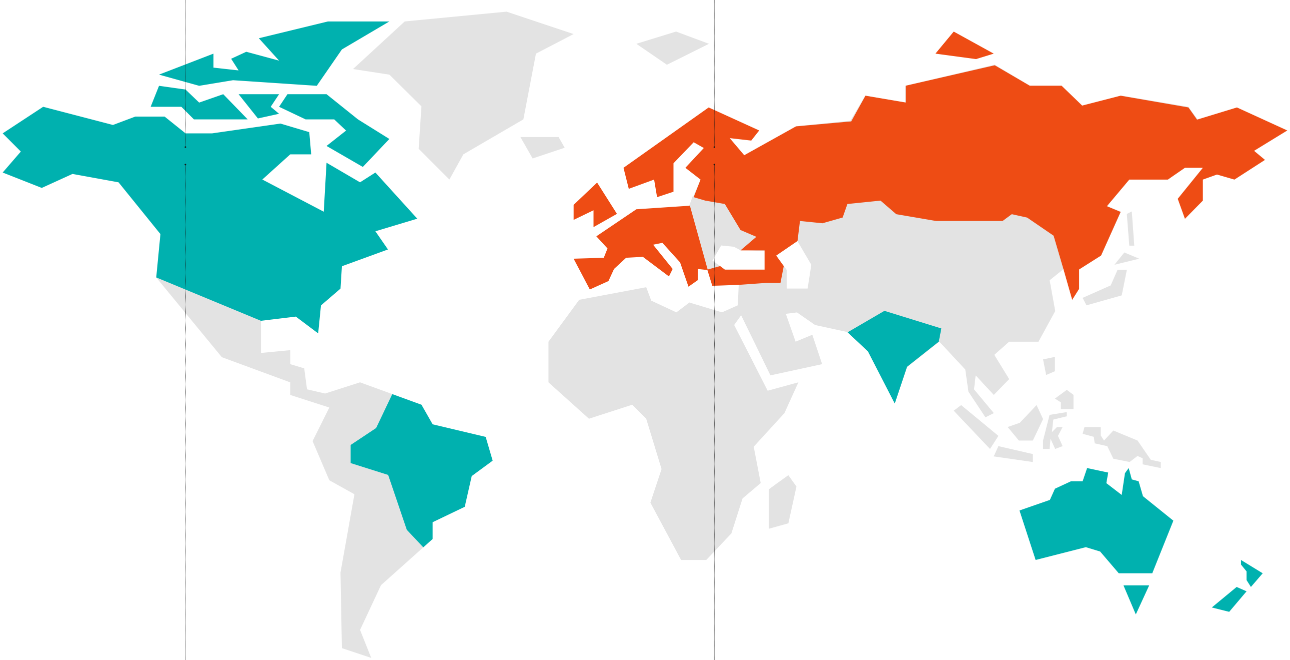
LeasePlan operates across more than 30 countries. With over 55 years' experience, LeasePlan's mission is to provide *What's next* in mobility via an 'any car, anytime, anywhere' service.

400,000

Serviced fleet in Rest of the world

1.4 million

Serviced fleet in Europe



€1.0 billion

Revenue in Rest of the world

10.9%

as % of business

€8.5 billion

Revenue in Europe

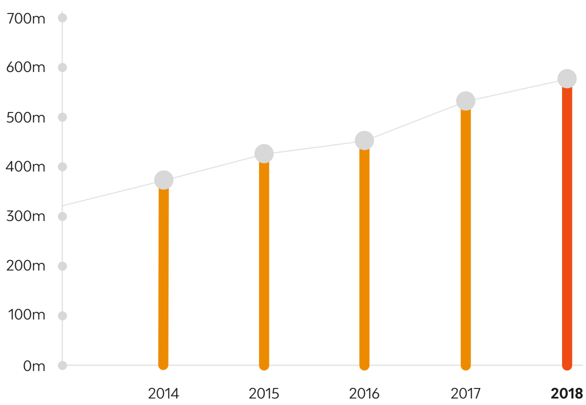
89.1%

as % of business

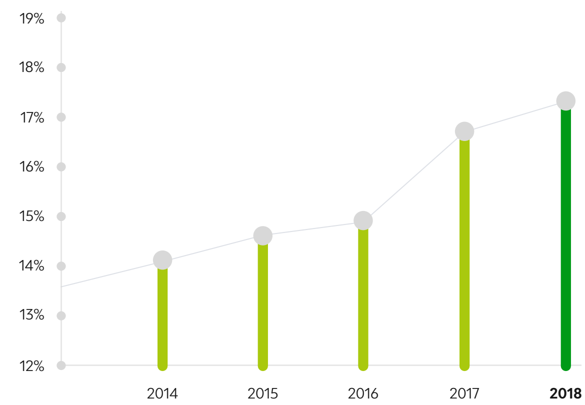
Performance highlights 2018

Our strong results in 2018 underscore the strength of our strategy to lead the megatrend from ownership to subscription services in both the new and high-quality used car markets.

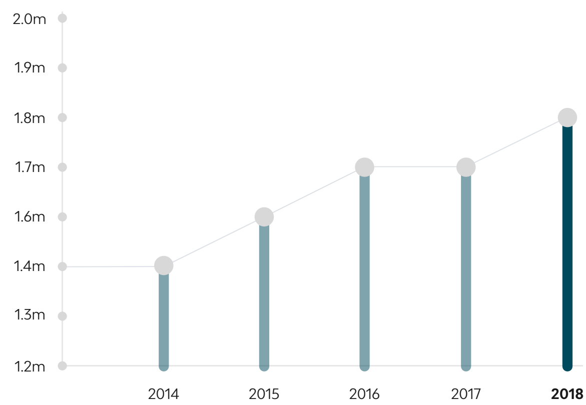
€576m — Underlying net result (EUR)
+8.4% — % growth on 2017



17.3% — Underlying return on equity
+60bps — growth on 2017



1.8m — Number of vehicles
+4.4% — % growth on 2017



Chapter 2

CEO statement

LeasePlan has delivered a consistent track record of sustainable growth and profitability

WATCH: CEO STATEMENT

CEO statement

Throughout its more than 55 years of history, LeasePlan has delivered a consistent track record of sustainable growth and profitability.

Dear stakeholder,

Throughout its more than 55 years of history, LeasePlan has delivered a consistent track record of sustainable growth and profitability. 2018 was no exception, with our team delivering another strong set of underlying results, yet again demonstrating the core strengths of our business. We now have more cars on the road than ever before, while our underlying net result and return on equity continued to increase. We operate in not one, but two large and structurally growing markets: Car-as-a-Service for new cars under the LeasePlan brand and, following the launch of our CarNext.com business in late 2017, the high-quality 3-4 year old used car market. As the leader of LeasePlan, I am very proud to be part of such a strong and innovative company and recognise that our performance in 2018 could not have been achieved without the many important contributions from my colleagues across the company and the support of our customers, suppliers and investors.

Of course, the year was not without its challenges; we saw a large impairment in Turkey caused by a sharp depreciation in the Lira and further impairments in Germany due to an unusually high number of loss-making contracts. However, we have taken swift action to address the issues in Germany (strengthening the leadership team) and Turkey (changing the way FX exposure is managed for new contracts) and I am confident these businesses are now on a much more stable footing and well positioned for profitable growth.

We were also forced to withdraw our plans for an IPO in October due to unfavourable market conditions. While disappointing for everyone involved, the process of preparing the business for the listing helped us to enhance and refine our strategic priorities and has placed us in a much stronger position moving forward.

Looking ahead, we can achieve so much more in both of our markets. There is a clear megatrend from ownership to usership and subscription models taking place in both the new and high-quality used car markets that should underpin a sustained period of market growth. Furthermore, this shift towards subscription models will only accelerate, enabled by an ever-increasing rate of technological developments, including the emergence of autonomous electrified cars and the shift towards clean, renewable energy sources.

LeasePlan will look to lead these developments and enhance its position in both of its large and growing markets. Of central importance here will be our Digital LeasePlan programme, which I was delighted to see go from strength to strength over the year. The objective of Digital LeasePlan is to achieve nothing less than the total transformation of LeasePlan from an analogue business into a fully digitally-enabled business, delivering digital services through digital platforms and leveraging the latest digital intelligence technologies. Ultimately, we aim to become the leading 'digital services integrator' in the automotive space, bringing together our core Car-as-a-Service expertise with an exciting range of new and highly specialised services, some of which will be developed and offered jointly with third-parties. Furthermore, by fully automating every aspect of our business to the deepest and most granular level, we will be able to ensure not only that we offer the best possible service to our customers, but that we can also further grow our businesses cost-efficiently, while unlocking significant additional value for our customers and investors.

Excellent progress was made in implementing Digital LeasePlan in 2018. We now have a fully staffed Digital LeasePlan Hub in Amsterdam and have begun to digitise our core customer journeys. We also set up a LeasePlan Global Data Hub in 2018, which will enable us to leverage our proprietary digital intelligence and data and create a new range of 'smart' products and services (including, for example, predictive insurance and maintenance products), as well as entirely new marketplaces based on our core competencies. Most importantly our investment in Digital LeasePlan will allow us to be more responsive, agile and flexible, so that we are well positioned to capitalise on the significant opportunities we see from the inevitable technological disruption ahead.

From a commercial perspective, our Car-as-a-Service business for new cars showed good growth in 2018. We now have close to a EUR 10 billion revenue business and 1.8 million cars in our fleet across more than 30 countries, with our corporate and SME segments growing well in 2018. The Car-as-a-Service market was forecast at around EUR 75 billion in 2018 and is expected to grow at a 5.3% CAGR between 2018 and 2025[1], supported by the megatrend from car ownership to car usership and car subscription models.

Going forward, we will benefit from our leadership position in this large and growing market and target disciplined profitable growth, particularly in our SME and corporate segments in Europe, while continuing to offer innovative new products and services, increasingly in partnership with highly specialised third parties. For example, in 2018 we set up strategic partnerships with SAIC (to bring the first large electric light commercial vehicles to Europe), Lightyear (to deliver the world's first electric solar car to LeasePlan customers) and Fiat Chrysler Automotive, under a scheme whereby LeasePlan has become the preferred partner to FCA's European dealer network for operational leases. Our Car-as-a-Service business will also continue to benefit from the positive impact of our 'Power of One LeasePlan' operational excellence programme, which is now largely embedded in the organisation and which generated an additional EUR 55 million in benefits in 2018.

Launched just over a year ago, we also saw good progress in our new CarNext.com business. CarNext.com enables customers to buy, lease or subscribe to a wide range of high-quality used cars from LeasePlan's European Car-as-a-Service fleet and the fleet of trusted third-party suppliers. We believe that with CarNext.com we are providing our customers with good-value, high-quality used cars through our trusted CarNext.com brand in a market that has been characterised by mistrust and opacity.

CarNext.com grew with 14 new locations in 2018 taking the total network to 32 delivery stores across 22 countries. This has allowed CarNext.com to begin to scale up its B2C operations, with close to 50,000 cars sold B2C in 2018, which is 65% over 2017, while B2B sales totalled approximately 200,000 in the year. CarNext.com's Used Car-as-a-Service proposition also grew by 150% to 8,000 cars in 2018, reflecting the growing demand for subscription services in the high-quality used car segment. In addition, more third-party suppliers are now benefiting from an end-to-end solution to resell their cars in an efficient and financially attractive way via CarNext.com. Going forward, the team will be enhancing our B2C offer by investing in our digital customer acquisition strategy, rolling out more delivery stores in Europe and developing new, innovative used car subscription products and services.

This would not be LeasePlan without talking about how proud we are as a company to lead the transition towards zero emission mobility in our industry. Climate change is one of the biggest challenges we face as a society, and road transport accounts for around 20% of global carbon dioxide emissions. We have therefore set ourselves the ambitious goal of achieving net zero emissions from our total fleet by 2030, supporting the effective implementation of the Paris Agreement and climate-related Sustainable Development Goals. To make this happen, we are transitioning LeasePlan's own employee fleet to an electric vehicle (EV) fleet by 2021 so we can 'learn by doing'. We are also educating our customers on *What's next* in low-emission vehicles and facilitating the uptake of low-emission vehicles with attractive customer propositions. For example, in 2018, we were proud to introduce our 'full package' EV product – now available in 10 countries across Europe – to make the transition to EVs hassle free.

1. *Source: Embracing the Car-as-a-Service model – the European Leasing and fleet management market, Roland Berger Jan. 2018, commissioned by LeasePlan*

The product is underpinned by our partnership with Allego, through which we provide LeasePlan EV customers with access to personal charge points at home and at work. In addition, to support our customers with their sustainability ambitions as they make the transition to zero emission mobility, we have introduced carbon neutral contracts through our partnership with Land Life Company. Under the partnership, LeasePlan customers will be able to offset their fleet emissions through Land Life Company's innovative reforestation programme.

LeasePlan has big plans for the future, but these cannot be achieved without the dedication of our people across the world. It is our belief that 'you cannot grow a business; you can only grow people who grow businesses'. This is true now more than ever: in a highly competitive and disruptive digital environment, it is our people that will make the difference between winning or losing, and to delivering our vision of 'any car, anytime, anywhere'. In 2018, we therefore made a number of significant changes to our People Strategy and took steps to enhance LeasePlan's unique culture of care, accountability and mutual dependence.

For example, we have ensured the voice of our country management teams are heard loud and clear at the centre of our organisation and continued to roll out our Leadership Journeys across the organisation. Around 800 of our people have now taken part in their own Leadership Journey, helping them to understand more about themselves, their colleagues and what is required for *What's next*. Taken together, our People Strategy initiatives will ensure we have the right people in place with the right competencies and mindsets for the next – digital – phase of our journey.

All our employees around the world deserve tremendous credit for the energy, commitment and dedication they have shown this year. Together, we have achieved so much. I would also like to thank our customers, suppliers and investors for their trust and cooperation. For my own part, I am proud to be leading such a great company at such an exciting and dynamic time in its history and look forward to contributing to *What's next*.

Sincerely,

Tex Gunning.

Tex Gunning

CEO, LeasePlan Corporation N.V.
Amsterdam, the Netherlands

Chapter 3

Our business

We operate in two large and growing markets: Car-as-a-Service for new cars, through our LeasePlan business, and the high-quality 3-4 year old used car market, through our CarNext.com business

Our business

We operate in two large and growing markets: Car-as-a-Service for new cars, through our LeasePlan business, and the high-quality 3-4 year old used car market, through our CarNext.com business.

Our Car-as-a-Service business purchases, funds and manages new vehicles for our customers, providing a complete end-to-end service for a typical contract duration of three to four years. With over 55 years' experience and 1.8 million vehicles under management in over 30 countries, LeasePlan is a trusted partner for its corporate, SME, private and mobility customers.

CarNext.com is a pan-European digital marketplace for high-quality used cars, seamlessly delivering any car, anytime, anywhere, and is supplied with vehicles from LeasePlan's own fleet as well as third-party suppliers.

Through these two businesses, LeasePlan plays across the entire automotive value chain outside of car manufacturing and distribution, and is a trusted partner for its corporate, SME, private and mobility customers.

Car-as-a-Service

Purchasing

Vehicle purchasing

Financing

Financing solutions with or without services attached

Fleet management

Best-in-class fleet management software, Consultancy services

Maintenance management (RMT)

Access to large network of third-party service providers for repair maintenance and tyres

Insurance and damage handling

Third-party motor insurance coverage and own damage insurance. Accident management and claim handling services

Fuel, accident and rental management

Fuel management, roadside assistance, replacement of vehicle, access to large network of third-party providers

CarNext.com

High-quality used cars

B2B and B2C used cars platform for buying, renting and leasing three-to-four year-old cars

Section 3 .1

Car-as-a-Service

A resilient and cash-generative business that provides long-term subscription-based mobility solutions with integrated services

In our core Car-as-a-Service business for new cars, we literally turn cars into a service. If a customer wants a car, we take care of everything: we buy the car, finance the car, insure the car, take care of any maintenance and repairs; we also put tyres on the car in the winter and the summer, we give road assistance if somebody needs it, and we provide fleet management services. Essentially, we provide car subscriptions and offer a complete end-to-end service for a typical contract duration of three to four years.

LeasePlan also offers fleet management and consulting services, fuel and mileage management and short-term rental solutions. In recent years, we have introduced telematics and 'connected car' solutions to provide digital services to customers, including driver services, salary sacrifice schemes and fleet logistics services. These enhanced capabilities allow us to further optimise our operational efficiency.

Our global scale and local leadership are key success factors. We manage over 1.8 million vehicles across more than 30 countries in Europe, the Americas and Asia Pacific and we believe we are the largest participant globally in the Car-as-a-Service market based on the number of cars and trucks in our serviced fleet. We address the needs of our international customers with global harmonised procedures that allow us to provide fleet services across several jurisdictions. At the same time, we provide domestic customers a range of innovative products and services.

Demand for Car-as-a-Service is being driven by a number of key trends. These include an increasing focus on the sustainability and CO_2 footprints of customer fleets; a focus on reducing the cost of fleet ownership; the growing importance of safety and driver satisfaction; and the broader megatrend of 'ownership to usership' that is also visible in other industries.

A high-quality and diversified customer base

Our high-quality customer base is spread across numerous end-markets and sectors of the economy. We offer our services on either a bundled or stand-alone basis and aim to meet the specific needs of our customers wherever they are. Thanks to our track record of more than 55 years among corporates and SMEs, we also have a loyal customer base.

LeasePlan distinguishes between four customer segments: Corporates, SMEs, Mobility providers and Private individuals.

Corporates

This segment consists of international and domestic corporate customers leasing more than 25 vehicles. Corporates benefit from our tailored products and services, and our 'one contract, one contact' approach that provides consistency, continuity and cost efficiency, in tandem with state-of-the-art fleet reporting and driver support.

SMEs

Business customers with 25 or fewer vehicles in their fleet require simple products that are easy to access and delivered quickly. We service SMEs through a range of standardised products and services that meet local standards and industry-specific needs.

Mobility providers

We provide services to new mobility providers in several European countries. Under a partnership with Uber, LeasePlan offers full service solutions to Uber partner-drivers. We also have partnerships with other mobility providers, including Lyft in the United States.

WATCH: UBER PARTNERSHIP

Private individuals

This segment consists of customers who lease one vehicle. LeasePlan offers standardised products and services to private customers, as well as individual employees via their employer. We reach these customers through our omnichannel distribution strategy.

Customer base by segment

76.9%
Corporates

18.4%
SMEs

4.7%
Private individuals

Mobilty Providers are currently included within SME & Private segments

Customer base spread across sectors of the economy

20%
Services

15%
Consumer Durables

13%
Capital Goods

8%
Construction & Infrastructure

7%
Chemicals

6%
Technology

5%
Transport & Logisitics

26%
Other

Customer base spread across geographies

12%
United Kingdom

12%
Netherlands

9%
Italy

8%
United States

7%
Germany

7%
France

6%
Spain

39%
Other

Fleet split by type

77%
Passenger vehicles

22%
Light Commercial Vehicles

1%
Others

A diverse and sustainable fleet

Our fleet is well diversified in terms of types of vehicle, countries of registration, brands and models, which helps us to meet the needs of our diverse customer base. We mainly manage passenger vehicles and light commercial vehicles and operate independently from any vehicle manufacturer. We typically lease vehicles for three to four years, before selling them on through CarNext.com, which means our fleet turns over quickly and therefore contains only the latest and cleanest models.

Fleet diversified across a variety of brands

13% Volkswagen

12% Ford

8% BMW

8% Audi

7% Mercedes

7% Renault

5% Peugeot

5% Skoda

35% Others

Transitioning to zero emissions mobility

Climate change is one of the biggest challenges we face as a society. LeasePlan is therefore proud to be taking an industry leadership role in the transition from internal combustion engines to electric and other alternative powertrains. We have set ourselves the ambitious goal of achieving net zero emissions from our total fleet by 2030.

Key elements of our sustainability strategy include educating customers on *What's next* in low-emission vehicles, facilitating the uptake of low-emission vehicles with attractive customer propositions and transitioning LeasePlan's own employee fleet to an electric vehicle (EV) fleet by 2021 so we learn by doing.

We recently introduced a 'full package' EV product which is now available in 10 countries in Europe, to make the transition to EVs hassle free for our customers. The product is underpinned by our partnership with Allego, through which we provide LeasePlan EV customers with access to personal charge points at home and at work. In addition, we have introduced carbon-neutral contracts through our partnership with Land Life Company.

These steps, among many others, are helping to ensure our shift to zero emission mobility becomes a significant source of profitable growth in the future.

Diesel

By year end 2018 the portion of Euro V diesels in our fleet had declined to 3% compared to almost 9% in 2017, while the total share of diesels in the portfolio fell from 76.4% in 2017 to 73.5% in 2018[2].

The latest and cleanest Euro VI diesels, which account for almost all our diesel fleet, were not subject to any legislative restrictions and still offer customers cost of ownership benefits relative to other powertrains. Our exposure continues to be limited to the latest and cleanest diesel models.

2. Based on the book value of LeasePlan's funded fleet

Section 3 .2

CarNext.com

Through CarNext.com, customers can now buy, lease or subscribe to high-quality used cars from LeasePlan's Car-as-a-Service fleet and trusted third-party suppliers

CarNext.com provides LeasePlan with a channel to expand its Car-as-a-Service proposition from new vehicles to used vehicles. It also provides access to third-party suppliers that are unable to replicate this model or find it elsewhere.

Through CarNext.com, customers can now buy, lease or subscribe to a wide range of high-quality used cars both from LeasePlan's European Car-as-a-Service fleet and the fleet of trusted third-party suppliers.

CarNext.com uses its data science capabilities to determine the best channel, geography and business model to maximise each car's value. Its B2B marketplace has long been the largest for 3-4-year-old used cars in Europe and operates in 36 countries.

The CarNext.com B2C marketplace operates in 22 countries with 32 delivery stores. Cars in the B2C channel are reconditioned in one of our 70 industrialised compounds. Our B2C customers mostly source their cars online, and our website offers 360 degree photography and video content. The car is then delivered directly to their home, or to one of our 32 delivery stores across Europe, where customers can try before they buy.

CarNext.com is managed as a separate business with its own dedicated management team. LeasePlan intends to separately report CarNext.com's financial results in the course of 2019.

€65 bn

CarNext.com addressable market

WATCH:
OUR RECONDITIONING PROCESS

WATCH:
THE CUSTOMER JOURNEY

Section 3 .3

Our organisation

LeasePlan is a multi-local business, operating across more than 30 countries

LeasePlan is committed to achieving operational excellence through the implementation of an integrated pan-European operating model and by leveraging scale and best practices across European countries, allowing us to achieve optimal service delivery at the lowest possible cost.

To deliver this, LeasePlan is managed as a multi-local business supported by five Value Drivers and thirteen Corporate Functions. In addition, our Country Managing Directors are now supported by five new regional Cluster Leads. Cluster Leads are the first point of contact for our Country Directors and provide advice and guidance on the implementation of our strategy and related initiatives. The day-to-day responsibilities of the Country Managing Directors remain unchanged and they continue to report to the CEO.

LeasePlan identifies Europe and Rest of the World as its reportable segments.

Value Drivers

Commerce

Commerce focuses on attracting new customers, retaining existing customers, and optimising the range of services and increasing the number of products purchased. It is responsible for delivering customised fleet management advice on topics such as sustainable fleet management (CO_2 reduction), the transition to EVs, cost management, enhancing driver safety and embedding company vehicle policies.

Procurement

Procurement acquires and distributes products and services across LeasePlan's operating countries. This centralised approach delivers a competitive advantage through preferential access to the latest technology, vehicles and related goods and services. Sourcing strategies supported by policies and compliance controls ensure sustainable value creation.

Insurance

Insurance and damage services are offered to our customers in over 30 countries. In most cases, LeasePlan damage and third-party liability cover are an integral part of our fleet management proposition. Drivers are supported with accident management services such as roadside assistance, replacement vehicle and repairs through LeasePlan's preferential network of Independent Service Providers (ISPs). Claim handling services ensure that – where applicable – costs are recovered from third parties.

RMT

RMT supports customers with a full range of services, including repair and maintenance of the vehicle and replacement of tyres. It enables us to provide our customers with access to a large network of more than 70,000 ISPs at competitive rates and within short timeframes. This function is organised both globally and on a local level. Globally, the function is also responsible for monitoring market-specific needs, data analytics and telematics.

CarNext.com

CarNext.com is a pan-European digital marketplace for high-quality used cars. Through CarNext.com, customers can now buy, lease or subscribe to a wide range of high-quality used cars both from LeasePlan's European Car-as-a-Service fleet and the fleet of trusted third-party suppliers.

Corporate Functions

Audit

Audit provides internal audit services and is recognised as the third line of defence for LeasePlan's risk management. It conducts independent audits of LeasePlan's activities and provides independent assurance by assessing the effectiveness of governance, risk management and internal control processes.

Company Secretary & Regulatory Affairs

Company Secretary & Regulatory Affairs advises, guides and steers the Managing Board and the Supervisory Board on corporate law, (financial) regulatory law and corporate governance rules. In addition, it addresses the increasing demand for an overarching function to deal with banking supervision and related regulations.

Corporate Affairs

Corporate Affairs aims to enhance LeasePlan's brand and reputation among all key stakeholder groups. It is responsible for building and implementing a strong and consistent communications positioning across all internal and external platforms and stakeholder groups. Corporate Affairs is also responsible for our international public affairs partnerships, including with the World Economic Forum (WEF), World Business Council for Sustainable Development and the United Nations.

CSR

CSR coordinates the roll-out of LeasePlan's sustainability strategy relating to low emission mobility, societal wellbeing and reducing overall environmental impact, making sure material topics are adequately addressed. It supports various business areas in defining action plans, monitors progress and reports on agreed KRIs and KPIs. It also interacts with different stakeholder groups to stay informed about their expectations and to elaborate on LeasePlan's sustainability activities.

Digital

Digital is responsible for transforming LeasePlan into a fully digitally-enabled business, delivering digital services through digital platforms, leveraging the latest digital intelligence technologies. In addition, the Digital function is responsible for implementing a Core Leasing Solution covering all business processes across our value chain. It also operates effective mitigating measures for risks posed by cybercrime and GDPR based on our technology and organisational capabilities and following best market practices. The LeasePlan Digital Hub in Amsterdam supports our Car-as-a-Service businesses through the development of new optimised business models and innovative solutions and services.

Finance

Finance oversees LeasePlan's financial budgeting and planning, reporting, consolidation and administration. It is responsible for consolidating financial results for management information and external reporting to the Dutch Central Bank (DNB) and other regulators. This function also includes tax management and the set-up and maintenance of financial reporting systems.

HR

HR supports the execution of our corporate strategy through the creation of a highly effective leadership culture. Our focus is on the growth and development of our people, increasing digital competence across the organisation, and promoting diversity and inclusion. We believe a diverse workforce contributes to well-balanced decision-making and a proper functioning of the organisation.

International Asset Management

International Asset Management was established in January 2019. This Function determines, monitors and steers the future value of our entire fleet. Its aim is to provide the most accurate residual value predictions based on data and state-of-the-art analytics. By establishing a real-time monitoring of the fleet's market value, LeasePlan can develop and apply effective strategies and interventions to steer fleet value and have a consistent baseline for finance, controlling and risk assessment purposes.

Legal

Legal provides independent, in-house legal advice. It aims to avoid and mitigate legal risks by promoting compliance with applicable laws and regulations, and is in close contact with our value drivers and functions. The legal charter provides a clear allocation of roles and responsibilities and reporting lines by the local legal counsels to local management and the General Counsel.

Marketing

Marketing develops, governs and strengthens the global LeasePlan brand. It provides the strategic framework for our common identity, brand positioning, products and services and our commercial approach.

Privacy & Compliance

Privacy & Compliance safeguards LeasePlan's integrity and reputation and helps protect against financial loss and reputational damage. This is achieved by integrating privacy and compliance in daily business activities and strategic planning within the set risk appetite, as well as promoting awareness at all levels within LeasePlan.

Risk

Risk is responsible for effective risk management within LeasePlan, which is vital to LeasePlan's functioning as a business. Controlled and balanced risk taking – accommodated by a strong independent risk organisation (on corporate and entity level) and risk governance, supported by clear direction from our senior management – are key elements in driving our strategy.

Strategic Finance

Strategic Finance oversees our funding and treasury operations, and houses our investor relations and corporate development functions. Through this function, we access a resilient, low-cost and highly diversified funding base, which includes retail deposits through LeasePlan Bank, unsecured debt capital markets funding, securitisations and bank funding.

Section 3.4

LeasePlan Bank

LeasePlan Corporation N.V. has a banking licence and operates LeasePlan Bank

As part of our unique independent funding platform, LeasePlan Corporation N.V. has a banking licence and operates LeasePlan Bank. As such it is regulated as a financial institution by the DNB and the AFM.

LeasePlan Bank is an online-only savings bank that offers flexible saving accounts and term deposits to retail customers. It is an integral part of our funding diversification strategy and has operated in the Netherlands since 2010 and in Germany since 2015.

As of 31 December 2018, LeasePlan Bank had approximately 124,000 retail accounts in the Netherlands (2017: 113,000) and 30,000 in Germany (2017: 25,000), with total savings deposits of EUR 5.29 billion (2017: EUR 4.65 billion) and EUR 1.11 billion (2017: EUR 1.25 billion) respectively.

Unique independent funding platform

Funding mix by December 2018

39%
Unsecured DCM

31%
Retail deposits

13%
Securitisation (incl. warehouse facilites)

17%
Bank lines / Other

Chapter 4

Our markets

LeasePlan operates in two large and growing markets: the EUR 75 billion Car-as-a-Service market through the LeasePlan brand, and the EUR 65 billion market for high-quality used cars through CarNext.com

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LeasePlan operates in two large and growing markets: the EUR 75 billion Car-as-a-Service market through the LeasePlan brand, and the EUR 65 billion market for high-quality used cars through CarNext.com.

01. The Car-as-a-Service market

Car-as-a-Service is a segment of the evolving automotive landscape, which lies between the historical model of outright ownership and the emerging model of mobility-as-a-service. Car-a-as-Service comprises a variety of services which allow for the long-term use of a vehicle without the onerous obligations of ownership. It comprises the funding of a vehicle with the provision of additional services which may include, but are not limited to: vehicle procurement and sale, telematics, fuel and mileage management, vehicle maintenance and repair, insurance, fleet management services, vehicle recovery and damage management services.

The Car-as-a-Service market was forecast at around EUR 75 billion in 2018 and is expected to grow at a 5.3% CAGR between 2018 and 2025[3]. The following key trends are driving growth and shaping the Car-as-a-Service market:

Ownership to subscription megatrend

The term 'Car-as-a-Service' is relatively new, but the market has been developing for more than 80 years. OEMs first began providing car financing solutions to corporate customers and were soon followed by banks and other financial institutions. By the 1960s large companies were outsourcing their fleet management to focus on their core businesses, and by the 1980s were transferring vehicle ownership to financing providers as a way of reducing risk.

As vehicles become more complex to own and maintain (e.g., insurance, tax, servicing, changing regulation, software upgrades, electric vehicles (EVs), customers are opting for hassle-free subscriptions that offer more flexibility. This shift has continued, particularly among millennials, who are less interested in vehicle ownership. This is part of a broader megatrend of ownership to usership and subscription that is visible in other industries. The Car-as-a-Service market is expected to grow as it moves from corporates to SMEs and now private individuals both directly and through mobility providers.

3. Source: Roland Berger Report Jan. 2018

Mobility providers

Urbanisation, digitalisation and new consumer trends are driving the rapid growth of (new) mobility providers such as ride-hailing and ride-sharing platforms such as Uber, Zip Car, Car2Go and DriveNow. Over time, this growth will increase total passenger kilometres travelled and lower levels of vehicle ownership. There is a growing trend for (new) mobility providers to direct their drivers to large, international Car-as-a-Service providers to ensure high quality, well-maintained and safe fleets, as demonstrated by Uber's pan-European partnership with LeasePlan. This trend represents a significant market opportunity for LeasePlan to leverage its strengths in managing large fleets and corporate relationships and strike multi-national contracts. As mobility players continue to take market share, the fleets under their management will also continue to grow and represent a key focus area for LeasePlan.

Autonomous vehicles

Autonomous vehicles (AVs) can offer safety, efficiency gains and lower costs for end-customers and passengers. Although widespread adoption of fully automated (level 5) autonomous vehicles is not expected before 2030[4], AVs could become a growth catalyst for the Car-as-a-Service market by transforming the economics of ride-hailing services and reducing personal car ownership. LeasePlan will be ready to step in to fund the vehicles that will replace drivers at the appropriate time

Digitalisation

Fleet Management Companies (FMCs) increasingly offer digital products and services that add value to the Car-as-a-Service market. Digitalisation is not only providing new opportunities to enhance the customer experience, it is also automating processes to reduce costs and utilise internal and external data sources to facilitate better informed and more agile decision making. Our aim through Digital LeasePlan is to deliver best-in-class digital services to our customers through digital platforms in all areas of our business and with the latest digital technologies, such as artificial intelligence, algorithms and deep learning.

Sustainability

Sustainability is of growing importance across all products and services as customers look to operate responsibly by ensuring their cars are efficient and sustainable. Although EVs, including plug-in hybrids and battery-only powered EVs, are still a small part of the market, adoption will rise as emission regulations increase and EV costs fall. LeasePlan is taking a leading role in driving the shift to more sustainable powertrains and is a founding partner of EV100, a new global business initiative designed to fast-track the uptake of EVs and infrastructure among large global corporations, launched by The Climate Group around the UN General Assembly.

4. Source: Roland Berger Report Jan. 2018

02. The CarNext.com landscape

CarNext.com is active in the inefficient, fragmented European market for 3-4 year old vehicles. The key characteristics of the used car market in which CarNext.com operates are described as follows.

Large, growing and predictable

The used car market is a very large, highly fragmented and attractive market. LeasePlan believes the used car market offers potential in both selling LeasePlan's own high-quality 3-4 year old used cars B2B and B2C, as well as opening up to third-parties on a commission basis. Total market volume is expected to grow by 4.6% CAGR from 2016 to 2020[5].

Fragmented, opaque and suffering low customer trust

The EU-wide used car market is highly fragmented and consists of intermediaries, traders and dealerships. The industry is also opaque and has low levels of customer trust.

Digitalisation is driving transparency, efficiency and disintermediation

A growing number[6] of customers are using internet searches to find and purchase used cars, while online car sale platforms can facilitate cross-border sales. Digital technologies also enable greater transparency and efficiency, as well as disintermediation between the wholesaler and the local dealer.

5. Source: Roland Berger Report Jan. 2018
6. Deutsche Automobil Treuhand GmbH (DAT Group) 2016

Chapter 5

Our strategy

We are leading the megatrend from ownership to subscription models in the new and high-quality used car markets

Our strategy

We are leading the megatrend from ownership to subscription models in the new and high-quality used car markets

Today, LeasePlan operates in two large and growing markets: Car-as-a-Service for new cars under the LeasePlan brand and, with CarNext.com, we are active in the high-quality 3-4 year old used car market.

There is a clear megatrend from ownership to usership and subscription models taking place in both the new and high-quality used car markets. Increasingly, our customers – whether they are Corporates, SMEs, Mobility providers or Private individuals; whether they want a new car or a high-quality used car – want a Car-as-a-Service with no strings attached. In short, they want 'any car, anytime, anywhere'. This development is being accelerated and enabled by digital disruption, market disintermediation, and the 'blitzscaling' of entirely new business models.

To deliver our vision of providing our customers with 'any car, anytime, anywhere' in a changing automotive landscape, we have identified the following strategic priorities, each of which is supported by a detailed implementation roadmap.

Our strategic pillars

01. Implement Digital LeasePlan

Become a digital service integrator through Digital LeasePlan

02. Grow Car-as-a-Service

Capitalise on our leadership position in the large and growing Car-as-a-Service market

03. Grow CarNext.com

Further grow our high-quality used car business through CarNext.com

04. Achieve net zero emissions

Aim to achieve net zero emissions from our total fleet by 2030

05. Drive operational excellence

Drive further operational excellence through the 'Power of One LeasePlan'

01. Become a 'Digital Service Integrator' through Digital LeasePlan

New technologies such as artificial intelligence, advanced robotics, blockchain, autonomous electrified cars, hyper connectivity, the internet of cars, and the emergence of clean, renewable energy sources are collectively creating massive disruption and uncertainties. These developments are enabling new products, services and business models, including Batteries-as-a-Service, Tyres-as-a-Service and new approaches to financing and insurance services.

LeasePlan aims to lead these developments and enhance its leadership position in our large and growing markets by becoming a digital services integrator. We will achieve this through our total transformation from an analogue business into a fully digitally-enabled business, delivering digital services through digital platforms and leveraging the latest digital intelligence technologies.

Digital LeasePlan will bring together our core Car-as-a-Service product offering with an exciting range of new and highly specialised services, some of which will be developed and offered jointly with third-parties. These products and services will all be logical adjacencies to our current business and leverage our core competencies and proprietary data.

Furthermore, through Digital LeasePlan, we will fully automate every aspect of our business to the deepest and most granular level. This will enable us to not only further grow our businesses efficiently, but also provide the best possible service to our customers.

Digital LeasePlan consists of several implementation horizons, with the first horizon focusing on delivering fully digitised customer journeys and the complete automation of every aspect of our business. Additional horizons focus on leveraging our proprietary digital intelligence and data – all of which is now being brought together in our new LeasePlan Global Data Hub – to develop a range of 'smart' products and services (e.g., predictive insurance and maintenance products), as well as entirely new marketplaces.

In addition to delivering cost-reduction opportunities, we expect Digital LeasePlan to generate significant long-term commercial and competitive benefits.

WATCH:
DIGITAL LEASEPLAN

02. Continue to grow our core Car-as-a-Service business

In our core Car-as-a-Service business for new cars, we literally turn cars into a service. If a customer wants a car, we take care of everything: we buy the car, finance the car, insure the car, take care of any maintenance and repairs; we also put tyre on the car in the winter and the summer, we give road assistance if somebody needs it, and we also provide fleet management services to our customers. Essentially, we provide car subscriptions – like you have for your iPhone, for Netflix or for Spotify – and offer a complete end-to-end service for a typical contract duration of three to four years.

LeasePlan has been providing Car-as-a-Service for more than 55 years. We now have close to a EUR 10 billion revenue business and 1.8 million cars in our fleet. Going forward, we will benefit from our leadership position in this large and growing market by targeting disciplined profitable growth in the most attractive and service-intensive segments of the market: Corporate, SME and Mobility provider customers. Within these segments, we will build on our current offering with innovative new products and services in areas including repairs and maintenance, insurance, and low-emission vehicles. LeasePlan's leadership position will also be further enhanced by our Digital LeasePlan programme, which will enable us to continue to grow our business in a cost-efficient manner and deliver a superior online and offline service to all our customers.

Looking further ahead, we expect autonomous vehicles to be a source of profitable growth for LeasePlan with asset-light mobility providers – such as Uber and Lyft – requiring a specialist like LeasePlan to provide the backbone to their autonomous vehicle fleets. LeasePlan is currently exploring partnerships in this area.

03. Grow CarNext.com

Launched just over a year ago, CarNext.com is a pan-European digital marketplace for high-quality used cars.

Through CarNext.com, customers can now buy, lease or subscribe to a wide range of high-quality used cars both from LeasePlan's European Car-as-a-Service fleet and the fleet of trusted third-party suppliers. In doing so, we are disintermediating the wholesaler and the local dealer market and building out a pan-European digital marketplace.

Leveraging the data analytics of its 'Asset Control Tower', CarNext.com maximises the value of third-party suppliers' cars between B2B, B2C, Used-Car-as-a- Service (UCaaS) and by determining the best geography in which the cars should be channeled. CarNext.com also provides third-party suppliers an end-to-end solution to resell their cars in an efficient and financially attractive way and has been successful in signing up third-party suppliers to its platform.

CarNext.com has a guaranteed supply of cars from LeasePlan's Car-as-a-Service business. As part of a global and independent player with a long operational track record and digital focus, CarNext.com benefits from key competitive advantages. These include scale; wider remarketing and partner support networks worldwide; a larger and more predictable supply of high-quality used cars; and more options to steer these used cars to the most valuable channel at the end of the initial lease contract (B2C or B2B, domestic or cross-border, buy, lease or subscribe).

04. Aim to achieve net zero emissions from our total fleet by 2030

Climate change is the biggest challenge we face as a society. LeasePlan is therefore proud to be taking a leadership role in the transition from internal combustion engines to electric and other alternative powertrains. We have set ourselves the ambitious goal of achieving net zero emissions from our total fleet by 2030, supporting the effective implementation of the Paris Agreement and climate-related Sustainable Development Goals.

Key elements of our sustainability strategy include educating customers on *What's next* in low-emission vehicles, facilitating the uptake of low-emission vehicles with attractive customer propositions and transitioning LeasePlan's own employee fleet to an electric vehicle (EV) fleet by 2021 so we can walk the talk and learn by doing.

In 2018, we were proud to introduce our 'full package' EV product – now available in 10 countries across Europe – to make the transition to EVs hassle free. The product is underpinned by our partnership with Allego, via which we provide LeasePlan EV customers with access to personal charge points at home and at work. In addition, to support our customers with their sustainability ambitions as they make the transition to zero emission mobility, we have introduced carbon neutral contracts through our partnership with Land Life Company. Under the partnership, LeasePlan customers will be able to offset their fleet emissions through Land Life Company's innovative reforestation programme. Land Life Company is a leader in the sustainable and technology-driven reforestation of degraded land in the EU and US.

05. Drive further operational excellence through the 'Power of One LeasePlan'

LeasePlan is committed to achieving operational excellence through the implementation of an integrated pan-European operating model and by leveraging scale and best practices across European countries, allowing us to achieve optimal service delivery at the lowest possible cost.

To achieve these objectives, in 2016 LeasePlan launched its 'Power of One LeasePlan' operational excellence programme in Europe. This has enabled us to re-design our organisational set-up, further centralising key functions, implementing proven best practices across European countries and capturing efficiency gains at a headquarter as well as at country level. The 'Power of One LeasePlan' has now been largely embedded in the organisation.

Chapter 6

People

At LeasePlan, we believe 'you cannot grow a business; you can only grow people who can grow the business'

People

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At LeasePlan, we believe 'you cannot grow a business; you can only grow people who can grow the business.' Only employees who are given excellent opportunities to develop their potential can drive business performance.

LeasePlan is proud of its culture of service and care towards customers and each other, which has endured for over 55 years. These same values will be instrumental as we tackle the challenges and opportunities of the digital age.

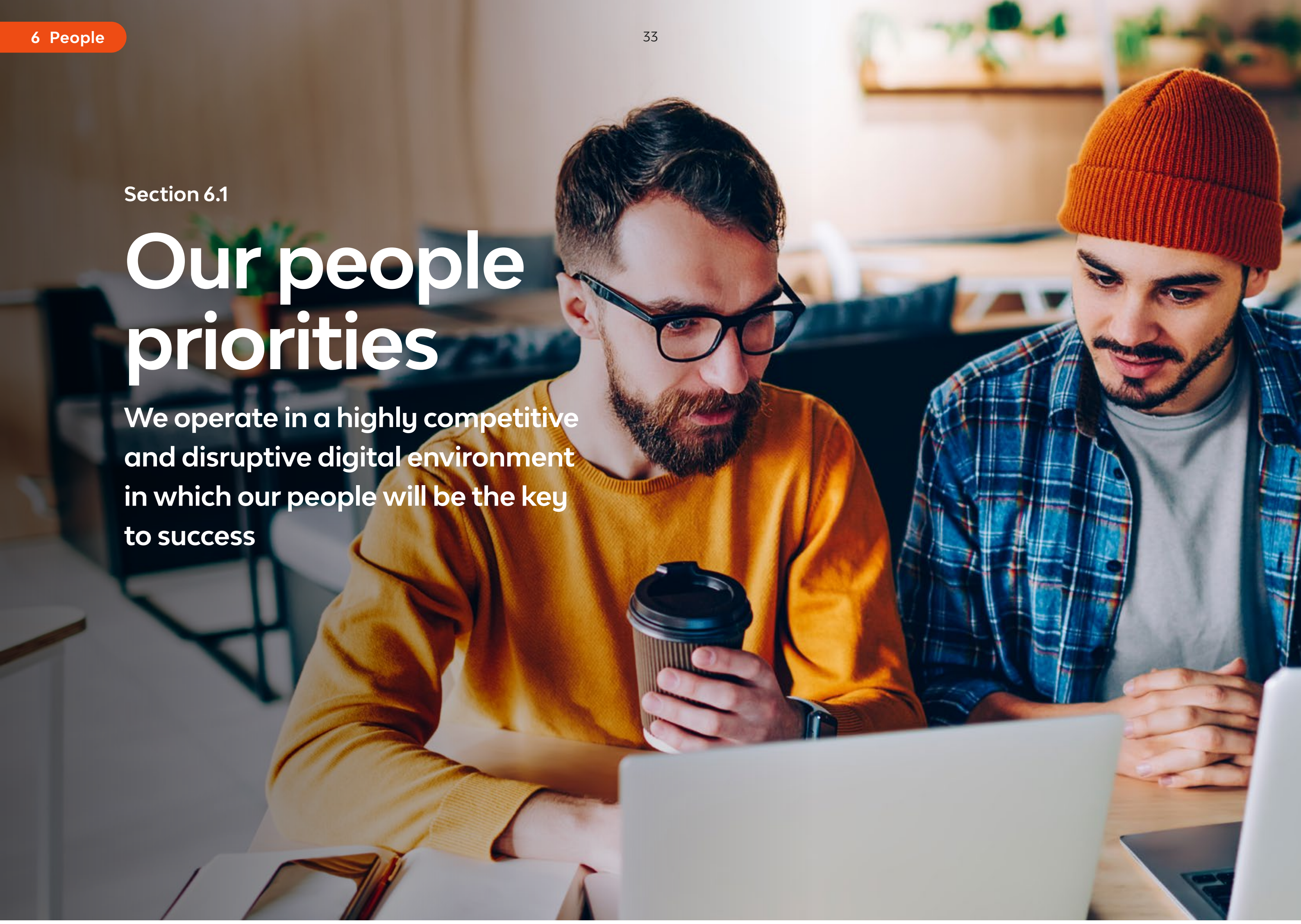
A transformational year

Our aim is to create a highly effective leadership culture in which people take responsibility for their careers and are empowered to be innovative and creative. These changes are instrumental to our overarching goal of cultural change, as we switch from an analogue to a digital business with the competencies that make us fit for our future.

We have taken a major leap forward in our HR transformation in the year, establishing a solid foundation for the global People Agenda including global best practices in leadership, talent management, performance management, competency frameworks and job family modelling. We have also implemented a new global HR cloud system, which will provide an efficient backbone for the delivery of digital HR services in LeasePlan.

Employee base

The average number of FTEs in 2018 totalled 7,158 (2017: 6,615). Of this number approximately 51% were male and 49% were female at the end of year. While LeasePlan's overall workforce, Managing Board and Supervisory Board have a strong balance of gender diversity, we are aware that in our senior management community there is room for improvement. We are currently assessing ways to address this.



Section 6.1

Our people priorities

We operate in a highly competitive and disruptive digital environment in which our people will be the key to success

Our People organisation focuses on enabling LeasePlan employees to develop the in-house skills and competencies it needs to implement Digital LeasePlan and deliver on our 'any car, anytime, anywhere' vision. We have defined the following four priorities:

Strengthen our leadership

Strengthen our leadership: we look to empower our leaders with senior positions where they can make an impact, while building a pipeline of great people to meet our needs in the future.

Learning and development

Build digital competencies as part of our strategy: our digital ambitions require us to build a new range of skills and competencies across the organisation in the years ahead.

Effective compensation and benefits

Develop a highly effective leadership culture with a new approach to compensation and benefits: we are creating a high degree of ownership and responsibility among our people by recognising and rewarding excellent performance.

Talent management

Strong focus on education and development for highly effective leadership: we aim to grow our people's professional skills and competencies, as well as their character and attitude. Offering support in achieving the full potential of all our employees via a personal development plan.

Section 6.2

Diversity and inclusion

None of us are as smart as all of us. We are committed to building a culture in which everyone can be themselves and where everyone gets an equal chance to make their journey count – regardless of race, nationality, gender, age or sexual orientation.

We believe that a diverse workforce, including one which is gender diverse, contributes to a well-balanced decision-making process and the proper functioning of our organisation. Fresh ideas, different perspectives and valuable experiences contribute to making better decisions and meeting our customers' demand for innovative services.

We have recently updated our Diversity & Inclusion policy for the entire company, based on input from all countries and entities. In addition to this policy, we have created an 'activity calendar' to raise the awareness and increase the engagement on this issue. This includes the following initiatives:

- A new recruitment strategy for employees with a diverse background at all levels of our company and in all countries
- Planning feedback training, including non-biased behaviour and communication, to be provided globally

One of the highlights in the year was LeasePlan's participation in Pride Amsterdam 2018. This parade is one of the world's most distinctive annual celebrations of diversity and acceptance and is supported by a variety of prominent multinational companies, charities and government organisations. Our involvement has sent a strong message that diversity and inclusion is important to us in all our markets.

In 2019, LeasePlan will join 'Talent naar de Top' ('Talent to the Top'), a foundation providing advice and training on gender and cultural diversity, including cross-company mentoring. By signing their Charter, we will join a network of companies exchanging experiences and commit to actively work to reach our targets. Our progress will be monitored on an annual basis.

Highlights 2018

We are transforming every aspect of our people organisation and strategy to create a highly effective leadership culture by 2020. Among the most significant developments were:

Global performance management

For the first time in our LeasePlan history we have launched a Global Performance Management process. The Global Performance Management process will support the development of LeasePlan employees by changing performance management from a yearly 'event' to an on ongoing meaningful dialogue.

Management by objectives

The roll out of the new 'Management By Objectives' (MBO) methodology in 11 countries, including support for Commerce, RMT, Procurement, Insurance and CarNext.com. This enables us to take the best operational actions to achieve our results and embed operational targets into our performance management. Our Agile way of working has been rolled into this system to further support the unlocking of individual and team potential.

Global HR systems

We have successfully rolled out our new global HR cloud system with modules on core human capital management, performance and talent management, compensation and expenses. The system will be further expanded in 2019 with modules for learning, recruitment and compensation.

Leadership Journeys

We continued rolling out our Leadership Journeys in 2018. Around 800 of our people have now taken part in their own Leadership Journey, helping them to understand more about themselves, their colleagues and what is required for *What's next*. In 2019, we will continue to cascade these journeys across the organisation in more across countries.

Employee engagement

Throughout the transformation process our employee engagement has been a constant important focus. In May we conducted our annual Global Engagement and Integrity Survey. With a response rate of 80.8% of employees we scored a solid 68% on Engagement Performance and a 70% on Integrity.

GDPR compliance

Enriched Employee and Applicant data privacy statements were made effective in all our countries and entities, in accordance with GDPR. A full Data Processing Register including Data Processing Impact Assessments and a legal scan of the high and medium risk contracts has been rolled out globally. Data Subject Access Request procedures have been updated and tested. Employee data privacy are an ongoing point of attention as is digitisation with our new HR cloud system, which uses privacy by design.

Employee sustainability policy

We began rolling out our electric vehicle (EV) programme to meet our global target to make our entire employee fleet fully electric by 2021. Implementation is now underway in the Netherlands and at our Corporate headquarters. The rollout approach is now being assessed for other LeasePlan countries.

Chapter 7

Sustainability

We aim to achieve net zero emissions from our total fleet by 2030

WATCH: OUR SUSTAINABILITY STRATEGY

Sustainability

In our sustainability strategy, we outline the decisive steps we are taking to deliver *What's next* in sustainability, in alignment with the broad environmental, social and governance (ESG) interests of our key stakeholders.

LeasePlan operates in an industry at the crossroads of a rapid and far-reaching transformation. Automotive manufacturers are responding to the challenges of the Paris Agreement and to ever-greater demands for safer, more efficient and cleaner vehicles, while national and local authorities look to enhance mobility, reduce congestion levels and harmful pollutants.

In our sustainability strategy, we outline the decisive steps we are taking to deliver *What's next* in sustainability, in alignment with the broad ESG interests of our key stakeholders. Our commitment to sustainability is not an optional add-on to our current business activities but a vital enabler of our overall strategy towards all stakeholder groups.

Central to this strategy is the role we are playing in the transition from internal combustion engines to alternative powertrains in support of the Paris Agreement and the climate-related Sustainable Development Goals. Our commitment is to achieve net zero emissions from our total fleet by 2030 by facilitating the uptake of low and zero-emission vehicles in our customers' fleets. We are also transitioning LeasePlan's own employee fleet to an electric vehicle (EV) fleet by 2021.

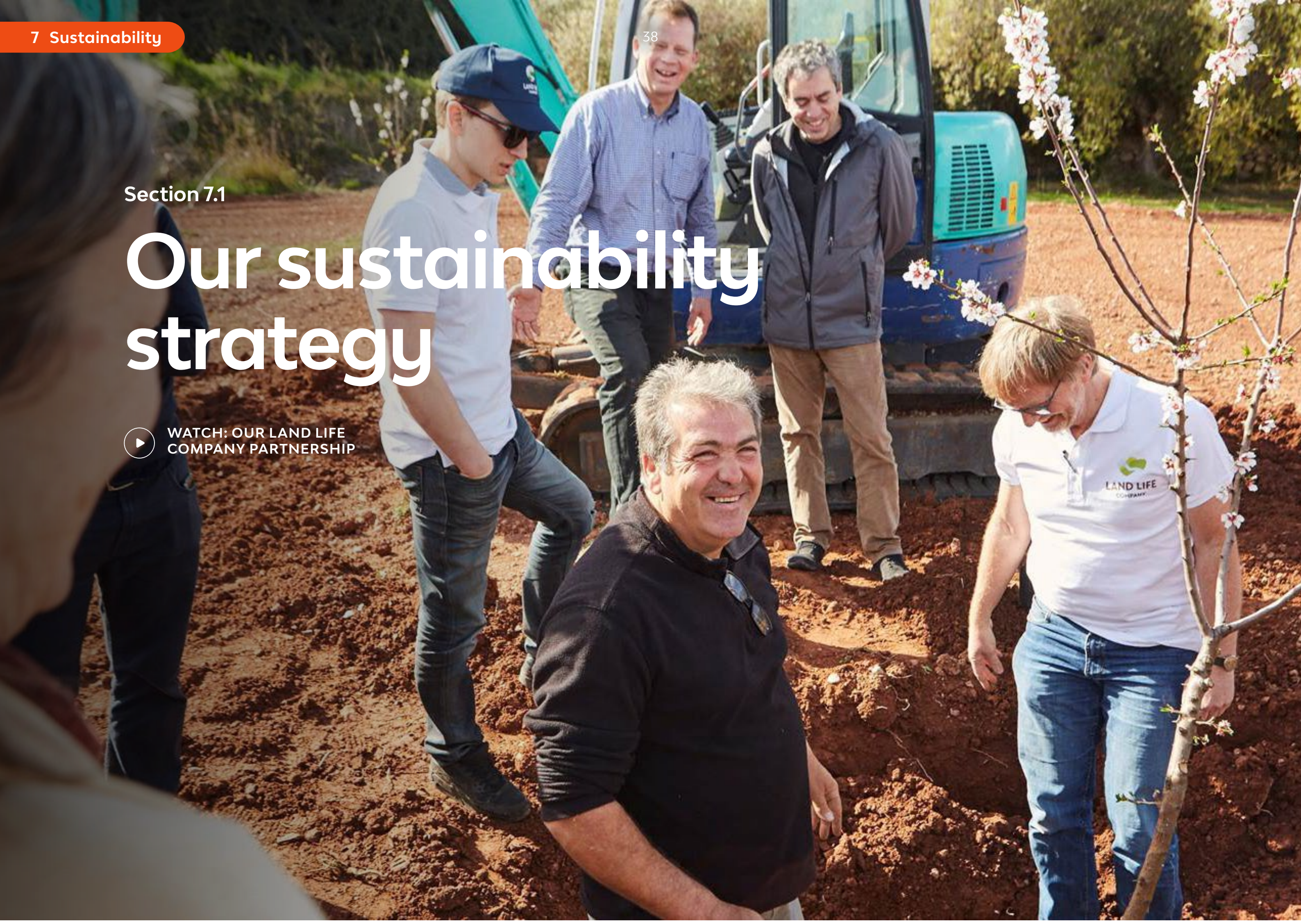
Disclosure and reporting

We are committed to adopting and maintaining best practices across all areas of our non-financial disclosure. We have begun to prepare the groundwork for reporting according to the guidelines of the General Reporting Initiative (GRI) in the future.

In 2018, we took the important first steps towards this goal, including the creation of a materiality matrix based on input from external stakeholders. We also set up structural and central reporting on topics such as carbon footprint, fleet electrification, diversity and talent development. We created a baseline inventory, defined ambition levels and developed action plans, which we are preparing to roll-out to the countries.

These actions will significantly improve the level and depth of our contributions to the Carbon Disclosure Programme (CDP), in which we have participated since 2010.

We have also improved our disclosures to EcoVadis, the sustainability ratings and scorecard company that helps procurement teams monitor CSR and ESG practices in the supply chain.



Section 7.1

Our sustainability strategy

WATCH: OUR LAND LIFE COMPANY PARTNERSHIP

Planting trees to capture carbon with the Land Life Company.

The LeasePlan sustainability strategy is focused on three priorities. We have developed action plans for each focus area, and completed our implementation plan in the first half of 2018. Our strategy now comprises clear targets with clear milestones, resourcing and timelines. The basis of the strategy is clear governance, consistent reporting and an open stakeholder dialogue.

01. Low-emission mobility

LeasePlan is commited to taking a leadership role in the transition from internal combustion engines to alternative powertrains. We have set ourselves the ambitious goal of achieving net zero emissions from our total fleet by 2030.

02. Societal wellbeing

LeasePlan believes that human rights should be considered fundamental and universal as stated in the United Nations' Universal Declaration of Human Rights and the principles of the International Labour Organisation.

03. Reduce environmental impact

LeasePlan wants to lead by example when it comes to reducing our overall environmental impact by increasing the proportion of renewable energy used across the business.

01. Help shape the future of low emission mobility

Access to clean, safe and affordable automotive transportation is essential to the effective functioning of our cities, societies and economies. As a responsible company, LeasePlan is committed to taking a leadership role in the transition from internal combustion engines to alternative powertrains. We have set ourselves the ambitious goal of achieving net zero emissions from our total fleet by 2030, supporting the effective implementation of the Paris Agreement and climate-related UN Sustainable Development Goals. Our aim is to help create healthier environments in our towns and cities by promoting cleaner, low-emission vehicles and the infrastructure required to make these cars a viable option for our customers.

Key actions in 2018:

- Rolling out our EV proposition and actively engaging with clients on the subject. Our proposition – which is now available in 10 countries – includes vehicles, charging infrastructure and high-impact carbon offsetting (via our partnership with Land Life Company) to make it as easy as possible for LeasePlan customers to make the switch to low emission mobility.
- Advocating the implementation of policies to encourage the adoption of low-emission mobility via organisations including the World Economic Forum and The Climate Group's EV100 initiative. In the year, for example, our CEO Tex Gunning became the Automotive Sector Champion for the World Economic Forum's Alliance of CEO Climate Leaders. He also spoke about LeasePlan's commitment to zero emission mobility at the Fleet Europe Summit in Barcelona, at which LeasePlan won the second place prize for its EV programme.
- Implementing LeasePlan's commitment to transition its employee fleet to an 100% EV fleet by 2021.
- Training LeasePlan commercial staff to ensure they can provide up-to-date advice and guidance to customers on *What's next* in zero-emission mobility.
- In early 2019 we successfully issued our first-ever Green Bond, a EUR 500 million 5-year fixed rate note. An industry first, the proceeds from the Green Bond will only be used to finance or refinance the purchase of Battery Electric Vehicles (BEVs), speeding up the transition to electric driving and helping to tackle climate change.

02. Strengthen our contribution to societal wellbeing

As one of the world's largest Car as-a-Service companies and as an employer of approximately 7,000 people, LeasePlan has an important responsibility to strengthen the wellbeing of both its employees and the communities it serves. While many of our country operations have long been active in social and community developments, we are planning to introduce a number of new global programmes and initiatives in this area.

LeasePlan believes that human rights should be considered fundamental and universal as stated in the United Nations' Universal Declaration of Human Rights and the principles of the International Labour Organisation. It therefore avoids being complicit in human rights abuses of any kind. It does not use forced or compulsory labour and nor do it employ child labour. Human rights are also part of the LeasePlan Supplier Code of Conduct.

Key actions in 2018:

- Strengthened the LeasePlan culture of service, engagement and care via our Leadership Journeys, which continued in 2018.
- Developed road safety programmes for customers and employees via our Active Prevention five-step approach. We are currently piloting the programme with three international clients.
- Reviewed the Supplier Code of Conduct, which helps us to ensure all our suppliers act in accordance with our high ethical standards and all applicable law. LeasePlan will now structurally add its Supplier Code of Conduct to all (bigger direct spend) contracts going forward and will monitor the portion of spend that this covers.
- Supported the development of a diverse and inclusive workplace via the implementation of a company-wide Diversity & Inclusion policy. This included the adoption of a recruitment strategy for employees with diverse backgrounds, plans for feedback training for non-biased behaviour and communication.

- Continued to enhance our talent management and succession planning activities to ensure our people can learn and grow on the job and are promoted to bigger roles or special assignments as appropriate. Our activities here include the enhancement of the LeasePlan Academy and the roll out of the Digital People Strategy to ensure our people have the skills to thrive in the era of the Fourth Industrial Revolution.
- Ensured the consistent implementation of our Occupational Health & Safety policy across LeasePlan globally.

03. Reduce our overall environmental impact

LeasePlan wants to lead by example when it comes to reducing our overall environmental impact, by increasing the proportion of renewable energy used across all LeasePlan operations by at least 10% in 2022, while reducing our overall consumption of energy by at least 10% by that same year. At the same time, we will reduce waste and water consumption wherever possible.

Key actions 2018:

- Began to assess energy consumption in our office buildings, ICT and other facilities (e.g., CarNext.com Experience Centres) with a view to establishing baseline metrics and transitioning to suppliers of renewable energy wherever possible. Our progress here will be reported and aligned with the Carbon Disclosure Programme (CDP).
- Reduced waste and water consumption wherever possible in LeasePlan buildings.
- Internally reviewed the UN's Task Force Climate Related Financial Disclosure guidelines. For LeasePlan, this means we have to assess the impact of the transition to a low carbon economy. We are in the process of creating a cross-functional team (Commerce, Risk, CSR, Finance) to have a better understanding of the size and impact of the risks and opportunities.

Materiality

Assessing materiality make us aware of the topics that stakeholders deem relevant, where we have the most impact and how we can add focus to our efforts and report on them.

The relevant stakeholder groups for this exercise were LeasePlan employees worldwide, suppliers and international clients. Our materiality process consisted of three steps:

01. Identifying relevant topics

We assessed the non-financial topics most relevant to our sector. Taking into account various frameworks, input from our customers, supply chain partners and our strategy. We shortlisted a selection of these, which we validated via an internal consultation.

02. Determine priorities

We assessed the relative impact that LeasePlan can have on society in each of these topics.

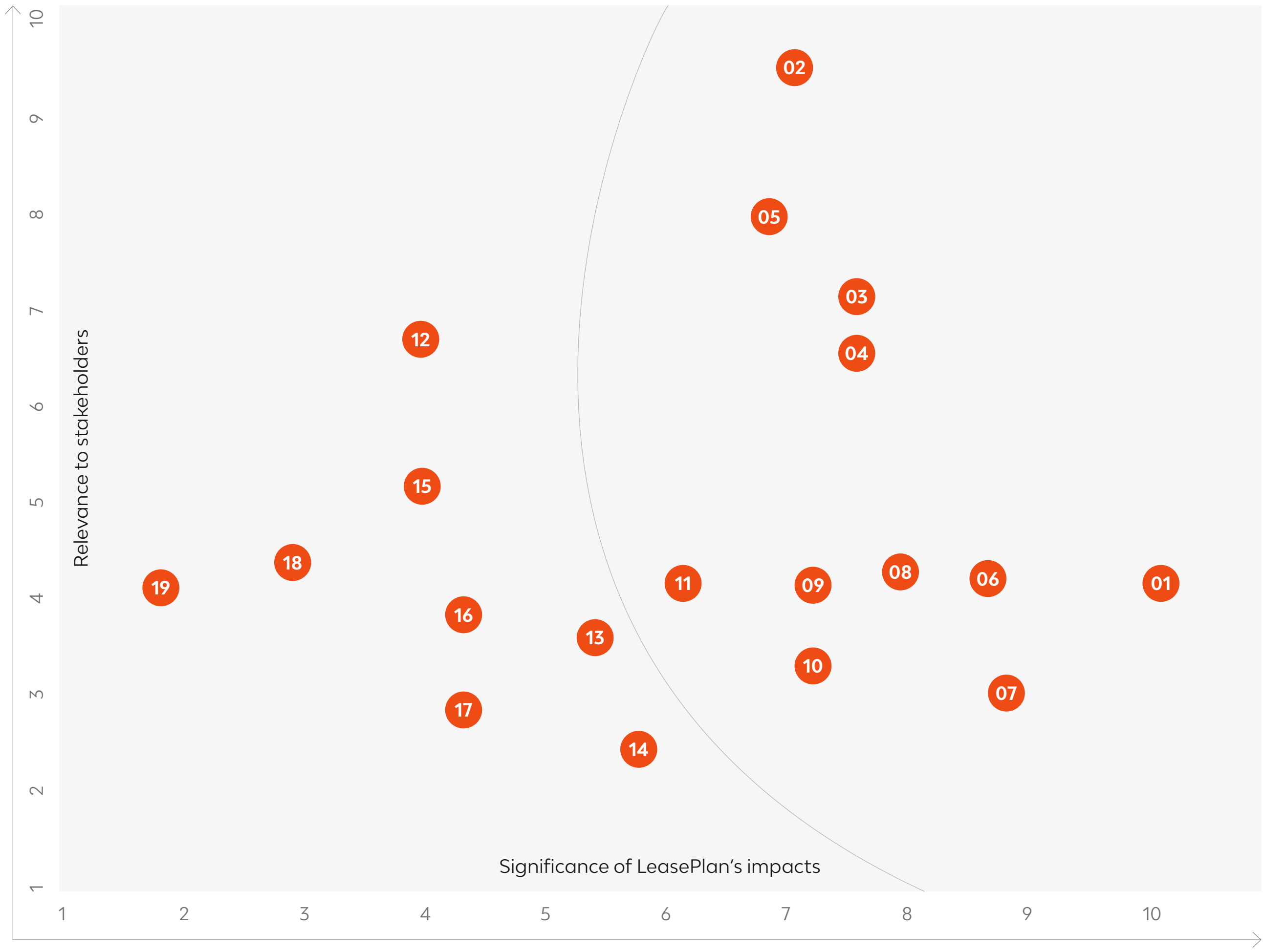
The results of this analysis are presented in the materiality matrix. This involved an internal consultation with LeasePlan employees and an online survey to external stakeholders.
A total of 289 stakeholders, including customers, suppliers and employees, completed our online survey.

03. Implementation

Based on the outcome we determined the 10 highest scoring topics as most material topics to be addressed in our reporting. All 19 topics proved to be highly relevant and high in impact and ended in the upper right quartile if plotted on a scale of 1-10. The matrix as depicted is a zoom-in and shows the relevant positioning of the topics to one another.

This matrix therefore becomes the basis for our implementation of relevant policies, target setting and defining of KPIs to monitor and report on progress in the future. It is our intention that, over time, more non-financial information will also be incorporated into our overall risk assessment process.

Materiality Matrix LeasePlan



The combination of the horizontal and vertical axis determines the degree of impact that LeasePlan has on society with each topic. LeasePlan divides these results into two categories; high material topics in which we aim to fulfil a leading role, and low material topics which we monitor, but do not necessarily report on.

Topics	
01	Sustainable products & services
02	Customer satisfaction
03	Privacy & data security
04	Product differentiation & innovation
05	Business ethics & integrity
06	Educate customers
07	Sustainable growth
08	Co-creation through strategic partnerships
09	Road safety
10	Sustainable procurement

Topics	
11	Reducing climate impact
12	Human rights
13	Talent management & development
14	Diverse & inclusive workforce
15	Digital services
16	Responsible risk management
17	Societal wellbeing
18	Occupational health & safety
19	Corporate culture & engagement

CSR governance

To help us better guide and monitor sustainability progress, we implemented a new governance structure with cross functional workstreams, task force and a steering committee. This includes the appointment of a dedicated CSR manager reporting to the Chief Risk Officer (CRO), who is the member of the Managing Board responsible for Corporate Social Responsibility. In addition, we have established a global network of coordinators based at each LeasePlan country. The CSR Steering Committee is chaired by the CRO and meets on a quarterly basis. CSR is a recurring item on the agenda of the Managing Board.

Supply chain and clients

The LeasePlan Supplier Code of Conduct was reviewed in 2018. It establishes the minimum standards we expect our suppliers to abide by and reflects the values and behaviours that apply within our organisation. The Code outlines our principles in 10 key areas; honesty & trust, respect for the law, human rights, responsibilities to employees, environmental sustainability, confidentiality and intellectual property, privacy of individuals and data protection, fair competition, conflicts of interest and bribery prevention.

Other than ensuring that the Supplier Code of Conduct will be part new contracts that we sign with suppliers, we are looking for ways to monitor its adoption and compliance in the long term.

LeasePlan recently approved an Observation and Exclusion List that will become the basis for improving our screening of business partners on the basis of environmental, social and governance criteria. With the principles now in place, we will now look at ways to manage its implementation.

Highlights 2018

We undertook numerous engagements in the public space in 2018 to progress our sustainability ambitions.

Member of WBCSD

In January 2018, we also became a member of the World Business Council for Sustainable Development (WBCSD) – one of nearly 200 forward-thinking companies looking to take a leadership role in the transition to sustainable development.

Sustainability whitepapers

In June, we issued a whitepaper about the factors still affecting the business case for EVs and the transition to electric mobility. With zero tail pipe emissions, a decreasing total cost of ownership, ever-wider availability and an improved range, the question is not if, but when the time is right to switch.

Silver rating from EcoVadis

Later in June, LeasePlan received a silver rating by EcoVadis, a leading sustainability index, for our sustainability performance. The new rating places us in the top 30% of suppliers rated by EcoVadis and is a clear recognition of our commitment to lead the transition to zero emission mobility.

Allego partnership

In July, we announced a new partnership with Allego to provide LeasePlan EV customers with access to personal charge points at home and at work. Under the agreement, LeasePlan's EV drivers will also receive a charge card giving them access to more than 65,000 charging points across Europe, helping to address driver 'range anxiety'.

Zero emission vehicle challenge

Also in July, we became a founding partner of the Zero Emission Vehicle (ZEV) Challenge, a new global coalition organised by The Climate Group and C40. The aim of the ZEV Challenge is to bring together states, regions, cities, businesses and NGOs around policies and solutions that will stimulate increased demand for EVs.

Carbon Disclosure Programme

In August, we participated in the Carbon Disclosure Programme.

SAIC partnership

In September, we signed a Memorandum of Understanding with SAIC Mobility Europe, a division of China's largest vehicle manufacturer to bring the first large full electric Light Commercial Vehicle (LCV) to continental Europe. Under the exclusive partnership, LeasePlan will provide operational leasing solutions for SAIC's Maxus zero emission electric LCVs.

Land Life Company partnership

Also in September we signed an agreement at the Global Climate Action Summit with Land Life Company, a leading nature restoration venture, to help our customers make their trips carbon neutral. Under the partnership, they will be able to offset their fleet emissions through Land Life Company's innovative reforestation programme.

Electric vehicle award

In November, LeasePlan's EV programme was awarded a second prize in the Fleet Industry Awards at the Fleet Europe Forum.

EV Readiness Index

In January 2019 we published LeasePlan's EV Readiness Index 2019, a comprehensive analysis of the preparedness of 22 European countries for the EV revolution. The Index shows that Norway, the Netherlands, Sweden and Austria are now the best prepared countries in Europe for the EV revolution, and for the first time, all countries in the Index have shown an improved score compared to last year.

World Economic Forum

Also in January 2019, we participated in the World Economic Forum (WEF) Annual Meeting in Davos, using the platform of the event to advocate for the adoption of zero emission mobility among the world's leading companies. The WEF is an International Organisation for Public-Private Cooperation that engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.

Chapter 8

Financial and business review

LeasePlan reported another set of solid results for its Car-as-a Service and CarNext.com businesses in 2018

Financial and business review

We now have over 1.8 million cars on the road in more than 30 countries, our underlying net result continued to increase and our underlying return on equity is 17.3%.

These results underscore the strength of our strategy to lead the megatrend from ownership to subscription models for both new and high-quality used cars.

Financial highlights

- Net result were down 9.2% to EUR 424 million which includes impairments in Turkey and Germany
- Underlying[7] net result up 8.4% to EUR 576 million after strong underlying performance in Car-as-a-Service (CaaS) and CarNext.com
- Serviced fleet up 4.4% to 1.82 million vehicles driven by demand for CaaS from corporate and SME segment
- Lease & Additional Services (CaaS) underlying gross profit up 6.6% to EUR 1,489 million
- CarNext.com B2C volumes up 65% to approximately 50,000 vehicles and a 21% run-rate for B2C sales penetration[8]. Used Car-as-a-Service (UCaaS) contracts were up 150% for the full year to 8,000. B2B sales totalled approximately 200,000 vehicles
- The 'Power of One LeasePlan' operational excellence programme delivered approximately EUR 55 million of benefits over 2018 bringing the total to EUR 185 million, a portion of which were passed on to customers in the form of efficiencies

	2018	2017	% YoY Growth
PROFITABILITY			
Underlying net result (EUR million)	576.2	531.5	8.4%
Net result (EUR million)	423.6	466.6	-9.2%
Underlying return on equity	17.3%	16.7%	
VOLUME			
Serviced fleet (thousands), as at 31 December	1,822.2	1,745.3	4.4%
Number of vehicles sold (k)	260.2	259.6	0.2%

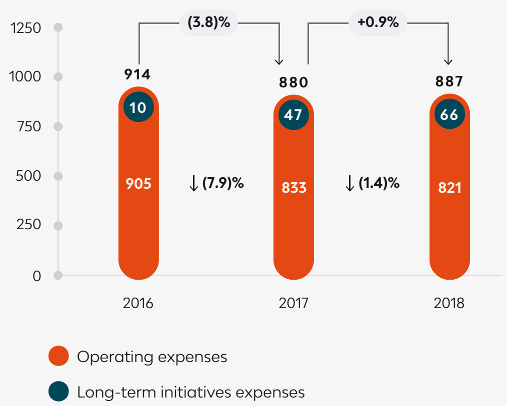
7. LeasePlan uses certain Alternative Performance Measures to present and discuss our underlying performance and value creation, in addition to the IFRS financial statements. For this purpose net result has been adjusted to arrive at underlying net result for impacts related to unrealised results on financial instruments, one-time items related to the acquisition or sale of subsidiaries, large restructuring and consultancy programmes (e.g. those related to the 'Power of One LeasePlan'), transaction costs (e.g. the costs incurred in preparation for a potential IPO) and other items which are large and can vary significantly and for which such variability may not relate to LeasePlan's ongoing net result or trends. For this reason, impairment charges for Turkey and Germany have been taken out retrospectively as from Q4 2018. Please see Note 2 in the Financial Statements release for a reconciliation to IFRS.

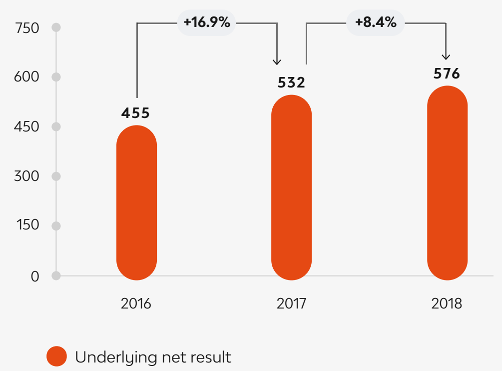
8. Number of vehicles sold directly to consumers as a percentage of total vehicles sold in the period

Group performance

In millions of euros, unless otherwise stated	2018	2017	% YoY Growth
Lease & Additional Services income	6,528.1	6,497.8	0.5%
Vehicle Sales & End-of-contract fees	2,990.3	2,863.1	4.4%
REVENUES	**9,518.4**	**9,360.9**	**1.7%**
Underlying cost of revenues	7,920.8	7,806.8	1.5%
Lease Services	617.0	575.6	7.2%
Fleet Management & other Services	280.2	276.6	1.3%
Repair & Maintenance Services	322.4	307.0	5.0%
Damage Services and Insurance	269.4	237.8	13.3%
UNDERLYING LEASE AND ADDITIONAL SERVICES	**1,489.0**	**1,397.0**	**6.6%**
End-of-Contract fees	123.5	115.9	6.6%
Profit/Loss on disposal of vehicles	-14.9	41.2	-136.2%
PROFIT/LOSS ON DISPOSAL OF VEHICLES & END-OF-CONTRACT FEES	108.6	157.1	-30.8%
UNDERLYING GROSS PROFIT	**1,597.6**	**1,554.1**	**2.8%**
Underlying operating expenses	887.5	879.9	0.9%
Other income	0.1	–	
Share of profit of investments accounted for using the equity method	3.3	2.3	
UNDERLYING PROFIT BEFORE TAX	**713.5**	**676.6**	**5.5%**
Underlying tax	137.3	145.0	-5.3%
UNDERLYING NET RESULT	**576.2**	**531.5**	**8.4%**
Underlying adjustments	-152.6	-64.9	
REPORTED NET RESULT	**423.6**	**466.6**	**-9.2%**
Staff (FTE's at year end)	7,508	6,660	12.7%
Impairment pre-tax/net of tax (included in underlying adjustments)	-132.0 / -108.9	–	

LeasePlan uses certain Alternative Performance Measures to present and discuss our underlying performance and value creation, in addition to the IFRS financial statements. (See Note 2 in the Financial Statements)





Financial performance 2018

Serviced fleet grew 4.4% in 2018 to 1.822 million vehicles with strong growth across most countries in Europe and particularly strong growth from the SME and corporate segments.

Revenues overall were up 1.7% for the full year to EUR 9,518 million. Lease & Additional Services income was up 0.5% (up 1.6% on a constant currency basis) and Vehicles sales & End of contract fees were up 4.4% versus 2017.

Underlying gross profit on Lease & Additional Services grew 6.6%, driven by excellent performance in Damage Services & Insurance and Lease Services, driven by Power of One initiatives such as higher insurance penetration. A decline in PLDV was partially offset by uplift from Carnext.com, as we saw a predictable normalisation in PLDV results.

Operating Expenses increased 0.9% for the year, reflecting the effectiveness of LeasePlan's cost control programme while operating expenses related to key long-term initiatives including CarNext.com, the Core Leasing System (CLS) and Digital LeasePlan increased. The number of FTEs increased due to hiring for long term initiatives including CarNext.com and Digital LeasePlan as well as our shared service centre in Romania.

Underlying Net Result increased 8.4% year-on-year driven by a combination of strong Lease & Additional Services gross profit, tight cost control and a favourable tax rate.

Underlying tax rate improved by 2% to 19.2% driven by a favourable impact of the Italian Stability law and lower corporate income tax rates in France, the United States and Norway.

Net results for the full year were down 9.2% as growth in the underlying net results and reduced restructuring-related expenses were more than offset by the impairments in Turkey and Germany.

For the full-year 2018, **impairments** were taken to recognise losses in Germany related to a number of loss-making contracts (EUR 29 million pre-tax, EUR 20 million net of taxes) and in Turkey related to the severe depreciation of the Turkish lira and local used-car prices stemming from the recent period of exceptional economic and political volatility as outlined in our Q3 report (EUR 103 million pre-tax, EUR 89 million net of taxes).

Underlying Return on Equity (ROE) over the full year 2018 was up 60 bps to 17.3%.

Business and operational highlights

Car-as-a-Service

LeasePlan's Car-as-a-Service business for new cars showed strong growth throughout the year, particularly in our SME and corporate segments in Europe. As part of the 'Power of One LeasePlan' programme, steering of Repair & Maintenance Services towards Independent Service Providers (ISPs) continued to increase, as well as the purchase of new vehicles from our preferred dealer network. Insurance penetration continued to rise, and customer satisfaction programmes were rolled out throughout the organisation. Over the course of 2018, the 'Power of One LeasePlan' generated EUR 55 million in benefits, which brings the total 'Power of One LeasePlan' benefits to EUR 185 million since the inception of the program in early 2017. A portion of these benefits have been passed on to customers as efficiencies.

LeasePlan continued to innovate its service offering over 2018, particularly in the area of sustainable mobility solutions as LeasePlan works towards its ambition of achieving net zero emissions from its total fleet by 2030. Key actions included setting up strategic partnerships with SAIC (to bring the first large electric light commercial vehicles to Europe), the Land Life Company (to offer our customers carbon neutral contracts), and Lightyear (to deliver the world's first electric solar car to LeasePlan customers). LeasePlan also concluded an operational lease partnership with Fiat Chrysler Automotive, making LeasePlan the preferred partner to FCA's European dealer network. Unlike traditional white label agreements, the operational lease will be directly managed by LeasePlan. This is the first partnership of its kind for LeasePlan with a major European OEM.

CarNext.com

CarNext.com, LeasePlan's pan-European used car digital marketplace, aims to become the most trusted pan-European marketplace for high-quality used cars, seamlessly delivering 'any car, anytime, anywhere'. CarNext.com continued its growth in both the B2B and B2C segments. B2C volumes grew by 65% to approximately 50,000 cars sold B2C in 2018. Over 2018, the CarNext.com marketplace expanded from 10 to 22 countries in Europe, with both a digital and physical presence. Increasingly, CarNext.com customers have started to buy or lease their cars online and are opting for at home delivery of their cars. For those customers preferring advice on their purchase or lease, the number of delivery stores has increased from 18 to 32 in 2018. B2C penetration increased to a run-rate of 21% of vehicles sold by the end of 2018 vs 15% in 2017. Our used Car-as-a-Service contracts have grown by 150% to 8,000 in the full year and are now available in 20 countries. CarNext.com also launched a marketplace app for professional buyers, which it rolled-out to 36 countries, allowing seamless bidding on 'any car, anytime, anywhere.

Funding and capital position

LeasePlan continued its diversified funding activities over 2018 raising a total of EUR 4.2 billion in retail deposits, secured and unsecured debt. LeasePlan concluded two public senior unsecured transactions totalling EUR 1.0 billion with a further EUR 0.9 billion placed in private placement format across six separate currencies. LeasePlan's retail bank increased its retail deposits in the Netherlands and Germany by EUR 505 million to EUR 6.4 billion (2017: EUR 5.9 billion) while the company successfully raised EUR 1.8 billion from its Asset Backed Securities (Bumper) programme, including Bumper 10 in France for a total of EUR 524 million, Bumper 11 in Germany for a total of EUR 540 million, Bumper NL 2018 in The Netherlands for a total of EUR 400 million and Bumper AU in Australia for a total amount of AUD 600 million.

LeasePlan's liquidity position remains strong with a liquidity buffer of EUR 4.96 billon as at 31 December 2018, consisting of cash balances as well as access to its EUR 1.5 billion committed revolving credit facility. In November 2018, S&P revised LeasePlan's outlook to stable from positive. The BBB-/A-3 long and short term issuer credit ratings were affirmed. The ratings and outlook from Moody's and Fitch have remained unchanged (Baa1/P-2/ Stable respectively BBB+/F2/Stable).

Following the Supervisory and Evaluation Process (SREP) by the Dutch Central Bank (DNB), LeasePlan's minimum requirements for 2019 were set at 10.0% for the CET1 capital ratio and 13.5% for the total SREP Capital Ratio. The total SREP capital ratio excludes the combined buffer requirement (i.e., counter-cyclical buffer and capital conservation buffer). LeasePlan currently exceeds its regulatory capital requirements and its capital position remains solid, with a CET1 capital ratio and total capital ratio of 18.3% as at 31 December 2018. We are continuously monitoring and reviewing our regulatory capital position under the applicable regulatory framework in light of our strategic objectives. Options we are actively evaluating include the issuance of hybrid capital (for example additional tier 1 and/or tier 2 instruments) by LeasePlan Corporation N.V.

LeasePlan, supported by its shareholders, has decided that no final dividend will be paid for 2018 in order to further strengthen the company's capital position, to fund investments in initiatives such as digital and CarNext.com and to compensate for expenses related to 2018 strategic initiatives such as the IPO preparation.

Outlook

In the year ahead LeasePlan will focus on its strategic priorities to deliver on its long-term vision to provide customers with 'any car, anytime, anywhere' in a changing automotive landscape. We believe the megatrend from ownership to usership and subscription models will continue to accelerate, driven by digital disruption, market disintermediation and new business models.

In our core Car-as-a-Service business for new cars, we will target disciplined profitable growth in the most attractive and service-intensive segments of the market, and continue to explore partnerships among asset-light mobility providers. We will also look to strengthen our leadership role in the shift towards more sustainable powertrains. Although EVs are still a small part of the market, we believe adoption will rise as emission regulations increase and EV costs fall. We facilitate EV adoption by developing attractive customer propositions and by transitioning our own employee fleet to EVs. In addition, we will continue to implement our Digital LeasePlan programme so that our business continues to grow efficiently and offers a superior service to our customers.

In CarNext.com, we will continue to build out our pan-European digital marketplace.

We are currently reviewing various strategic alternatives with respect to CarNext.com. As part of this strategic review, we may decide to separate CarNext.com as an asset light, commission-based online sales platform, whereby LeasePlan and other third-party vendors would sell their used cars via the CarNext.com platform. The review is still in a preliminary stage and no decisions have yet been reached.

Chapter 9

Risk management

Ensuring the responsible and effective management of risk is a crucial enabler of our *What's next* strategy

Section 9.1

Risk management

We are committed to ensuring all our activities are executed within a defined risk management framework that has been approved by the Managing and Supervisory Boards.

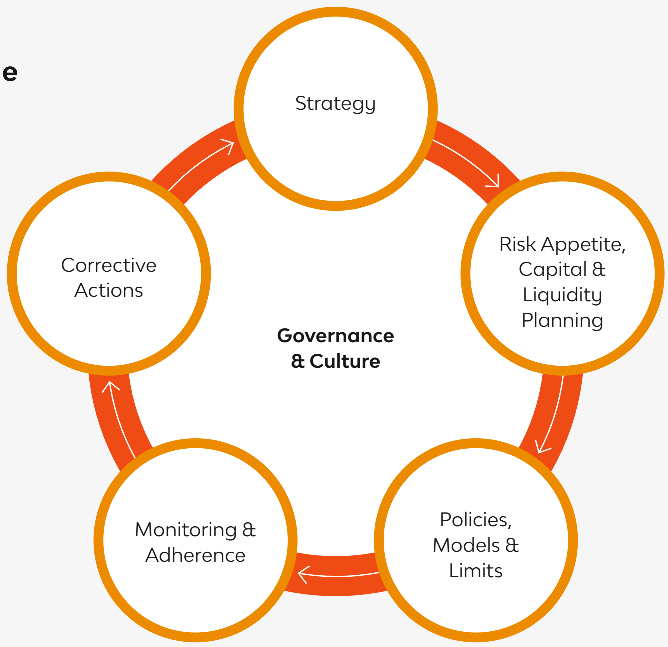
In this section we describe this framework, including the improvements made to further enhance its effectiveness and the most important developments in our risk appetite and profile.

LeasePlan uses the Enterprise Risk Management ('ERM') Framework and principles of the Committee of Sponsoring Organisations of the Treadway Commission ('COSO') updated in 2017, as its reference model. The COSO definition of ERM is 'a process affected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives'.

The ERM Framework is about managing risks while supporting the realisation of the entities' targets. The Framework addresses 'the evolution of enterprise risk management and the need for organisations to improve their approach to managing risk to meet the demands of an evolving business environment'.

At LeasePlan, risk management and control are closely linked with LeasePlan's strategic aims. We consider controlled and balanced risk taking – accommodated by a strong risk organisation and risk governance, and supported by a clear direction from our senior management – key elements in driving our strategy. Using COSO ERM (2017) as a reference model, LeasePlan has introduced a Risk Management Cycle that links the various building blocks of the risk process and risk governance.

Risk management cycle



01. Lines of defence

LeasePlan's control framework includes three lines of defence supported by investments in information technology and people.

This model distinguishes among functions that own and manage risks (first line), functions that oversee and advise on risk management practices (second line) and functions that provide internal assurance (third line).

The three lines of defence model is illustrated below.

The following overview outlines the composition and responsibilities of the key parties involved in executing the three lines of defence with the Group:

Local & corporate management

Local & corporate management ('the business') have full ownership of all risks at entity level and are responsible for complying with Group policies and standards and for the management of risks encountered while performing the business. Risk management activities include identifying and assessing potential risks, taking steps to mitigate negative influences tin order to adhere to the applicable risk limits and tolerance levels. Furthermore, local management is responsible to complete and accurately register all risks, potential incidents and threats in a timely fashion. It also includes maintaining a comprehensive risk management system that covers all risks inherent to the business. As such, local & corporate management are considered the first line of defence.

The Strategic Finance department is responsible for the overall liquidity management and funding strategy within LeasePlan. Strategic Finance is considered a first line of defence, and as such in a similar way is responsible for risk management as described above.

Local management, in close consultation with Group Risk and Group Privacy & Compliance, ensures the set-up of an independent risk function and an independent privacy & compliance function at entity level. These functions are considered part of the second line of defence, which coordinate, oversee and challenge the execution, management, control and reporting of risks.

The three lines of defence

1st line of defence	2nd line of defence	3rd line of defence
Local & Corporate Management	Risk Management	Group Audit
Strategic Finance	Privacy & Compliance	

Group Risk and the independent risk function at entity level

Group Risk and the independent risk function at entity level, are jointly referred to as Risk Function. Group Risk challenges and creates awareness around risk within LeasePlan and is responsible for coordinating and executing the Risk Management Cycle and the Risk Decision Framework. Group Risk ensures that the Managing Board and the Supervisory Board, are made aware of all material risk developments. Within LeasePlan, the risk types as included in the Risk Type Universe, are considered on an integrated basis. The Risk Function is responsible for aggregating these risk types and providing an integral view.

The Risk Function, which co-operates with all relevant disciplines within LeasePlan, is independent from the business functions and is represented by the Chief Risk Officer (CRO) at the Managing Board level.

Group Audit Department

LeasePlan's Group Audit Department (GAD) provides internal audit services and is recognised as the third line of defence for LeasePlan's risk management. GAD conducts independent audits of LeasePlan's activities and provides independent assurance by assessing the effectiveness of governance, risk management and internal control processes. GAD reports its findings to the Managing Board and provides quarterly updates to the Supervisory Board Audit Committee.

02. Risk appetite

During 2018 we managed our risk appetite based on three pillars

During 2018 we managed our risk appetite based on the following pillars:

- Long-term debt rating (stand-alone);
- Financial return on risk-adjusted capital (i.e. economic return);
- Diversified share of funding layers.

An institution's target credit rating is an indication of the overall risk appetite a company may have and the level of capital it will need to hold. In addition, a specific risk appetite has been set for each underlying risk category.

The Supervisory Board approves LeasePlan's risk appetite annually based on the recommendation of the Risk Committee, and approves any changes required throughout the year.

Depending on the risk metric, compliance with the risk appetite statement is monitored on a daily, monthly or quarterly basis and non-compliance is reported to the risk committees, the Managing Board and the Risk Committee of the Supervisory Board. The principal financial risks inherent to our business activities are discussed further in the Financial Risk Management section of the Financial Statements on *page 90*.

Breaching of risk tolerance levels is always subject to a materiality check. If the breach is a non-material variation, then no specific management action is required. Examples of such non-material breaches are variations caused by a process timing issue or rounding.

Principal risks and uncertainties

Listed below are the main risk categories and opportunities known to LeasePlan, which could hinder the company in achieving its strategic and financial business objectives. This may, however, not include all the risks that may ultimately affect LeasePlan. For further analysis, please refer to the Financial Risk Management section of the financial statements.

- Strategic risks
- Operational risks
- Financial risks
- Strategic use of financial instruments

In addition to these risks, we have begun assessing the risks to LeasePlan and its stakeholders that are associated with the transition to zero emissions mobility. To this end, we are putting together a cross-functional team that will look at these risks and at following the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) set up by the Financial Stability Board (FSB).

03. Highlights 2018

In addition to its Car-as-a-Service and CarNext.com businesses, LeasePlan also has a banking licence and operates LeasePlan Bank. As such it is regulated as a financial institution by the DNB and the AFM. LeasePlan's risk profile therefore differs from most other financial institutions due to the nature of its business.

The largest part of its portfolio consists of the operational leasing of vehicles, in which LeasePlan bears the residual value risk.

Risk Management highlights for 2018 include the following:

- We have continued to update our monitoring systems, sharing of best practices, training staff and the development of our statistical techniques. We put Local Technical Pricing Committees in place for matrix pricing. The Residual Value Risk Balance[9] is used as a monitoring and measurement system for pricing and risk mitigation, while the Group Risk Committee defines the limits at the beginning of the year.
- We carried out a change process to reorganise the previous risk committee structure to ensure a proper fit with the current strategic and functional value drivers of LeasePlan. This change process resulted in the formation of four new risk committees; the Group Risk Committee, the Group Model Risk Committee, Group Tactical Risk, and Asset and Liability Committee (ALCO). These risk committees are mirrored at entity level. In addition, asset risk and pricing are discussed in a dedicated business committee.
- LeasePlan met the liquidity survival horizon at a minimum of nine months at all times. Prudent liquidity management and controls are in place to ensure compliance with regulatory requirements. Based on the 2018 Internal Liquidity Adequacy Assessment Process (ILAAP), we concluded that we are adequately funded and that our liquidity buffer is more than sufficient to meet internal and prudential requirements.
- Prudent capital management and controls are in place to ensure compliance with regulatory requirements. Based on the 2018 Internal Capital Adequacy Assessment Process (ICAAP), we concluded that we are adequately capitalised. The Common Equity Tier 1 capital increased in 2018 by EUR 182 million to EUR 3.03 billion resulting in a Common Equity Tier 1 ratio at year-end of 18.3%.
- As from 1 January 2018, LeasePlan adopted IFRS 9. This new reporting standard introduces the 'expected credit loss' model for the impairment of financial assets. It replaces the 'incurred loss' model of the previous standard IAS 39. Consequently, LeasePlan has significantly changed its use of estimation techniques and assumptions for the impairment of lease receivables and other debt financial assets.

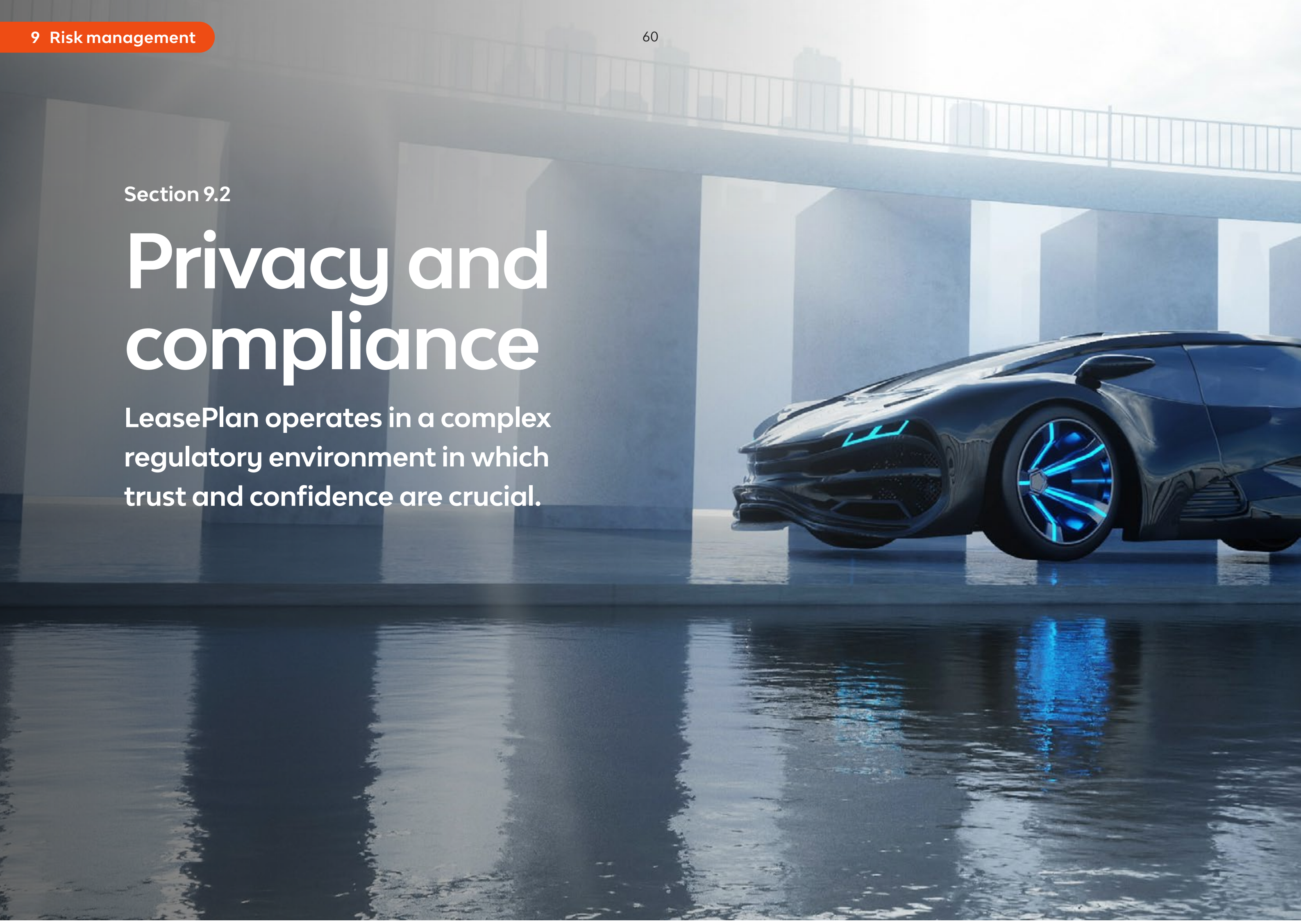
9 The Residual Value Risk Balance is net of the average level of effective residual value pricing and the average level of effective residual value risk mitigation.

- LeasePlan began a Definition of Default Project. The objective of this Project is to align the Definition of Default applied by LeasePlan with the Capital Requirements Regulation ('CRR') and with the European Banking Authority ('EBA') guidelines and standards. The Project mainly includes updating LeasePlan's Definition of Default and related policies, updating and enforcing processes and procedures for all Local LeasePlan entities, updating LeasePlan's AIRB models, updating where relevant IT-systems, and updating LeasePlan's IFRS 9 Expected Credit Loss Models.
- We have continued to maintain a solid platform of diversified funding sources that include debt capital markets, securitisation, bank credit lines and an internet savings bank in the Netherlands and Germany. With this as an underlying strategy, we ensured the availability of funding to meet our ongoing liquidity needs and match our asset profile. Our liquidity position remained solid and we safely comply with CRR/CRD IV requirements.
- The DNB has reviewed and assessed the Advanced Measurement Approach (AMA) model in November. We have worked with the DNB to assess their findings and are preparing a plan with various scenarios to assess the best future option for LeasePlan. This planning takes into account that the Standardised Approach will replace AMA in the near future for all financial institutions with a banking license.
- We are enhancing our cyber security framework to protect, detect and respond to potential cybercrime threats. LeasePlan infrastructure relates to public networks and this introduces a constant threat of cybercrime. Examples of such threats are virus infection, computer hacking, denial of service attacks, fake emails (phishing) and malicious software (malware), the frequency and intensity of which are increasing on a global scale. LeasePlan's information assets are appropriately secured to protect against the consequences of breaches of confidentiality, failures of integrity or interruptions to the availability of that information.
- Our remuneration framework continued to reflect the right incentives for managing risk and return in alignment with risk appetite objectives in a sustainable and healthy manner, while discouraging excessive risk taking. Risk is an essential building block in the Group Remuneration Framework, although balanced risk-taking is required to grow the business profitably.
- While the UK's planned exit from the EU will inevitably create uncertainties, we expect the potential impact on our global business to be limited. Even so, we continue to monitor the associated risks. Our Brexit working group has developed plans for a range of scenarios to ensure LeasePlan as a whole is well placed to navigate any uncertainty. We are working with our supply chain to ensure that we understand the different scenarios for importing and exporting vehicles and components from and to the UK.

In 2019, LeasePlan will continue to shift its Risk Management from a decentralised function to a centralised integrated risk approach, which was started in 2018 with the implementation of a new Risk Charter. The Risk Charter describes the governance as of 2018. On several elements, this charter differs from previous practices. The Risk Charter defines the general principles, the mandate and key responsibilities of the Risk Function and the risk framework (at Group and entity level), which consists of the Risk Management Cycle and the Risk Decision Framework. The purpose of the risk decision framework is to provide clarity on the risk delegation within LeasePlan and to provide detailed Terms of Reference for risk committees.

Furthermore, the changing requirements arising from CRR / CRD IV are being taken in account in a timely way, and developments and changes will be monitored to ensure LeasePlan is well prepared for future regulatory changes.

LeasePlan will continue to allocate the necessary time, resources and investment to maintain and further strengthen its risk management framework, and support its business ambitions and regulatory compliance. To see a comprehensive overview of our risk management framework, including details on key risks inherent to our business activities, please refer to the Financial Risk Management section of the Financial Statements and the Pillar III Disclosures, which are available at *www.leaseplan.com/corporate*



Section 9.2

Privacy and compliance

LeasePlan operates in a complex regulatory environment in which trust and confidence are crucial.

Only by conducting our business based on high ethical standards and in compliance with applicable laws, directives and regulations will we win and retain trust, and succeed in our mission. By setting high standards, LeasePlan gives its clients, suppliers and business partners the confidence to work with LeasePlan. It is therefore essential to ensure the effective management of privacy and compliance risks.

Management and mitigation

The Managing Board is responsible for privacy and compliance risks, while Group Privacy & Compliance coordinates, oversees, controls and reports on these risks. As part of the CRO domain, Privacy & Compliance has the objective to support LeasePlan's overall strategy by enabling controlled risk taking, utilising the 'Power of One LeasePlan' and ensuring our aim of making risk everyone's responsibility under the banner 'Just do the right thing!'.

The strategy of Privacy & Compliance is to safeguard LeasePlan's integrity and reputation and to help protect against financial loss and reputational damage. This is achieved by integrating privacy and compliance in daily business activities and strategic planning within the set risk appetite, as well as challenging and assisting the business and promoting awareness at all levels within LeasePlan.

We do this by:

- Supporting LeasePlan to ensure a proper control environment is in place for complying with applicable laws, rules, regulations and LeasePlan's internal standards
- Supporting the business with managing day-to-day Compliance Risks
- Helping to maintain the integrity of the products and services offered and received

The basis for mitigating compliance and privacy risks is the Privacy & Compliance Charter and Framework.

The Privacy & Compliance Function operates within the context of LeasePlan's broader risk management framework. It is responsible for (parts of) the effective management of four related areas:

- Counterpart and external conduct, for risks of money laundering, terrorist financing and sanctions;
- Employee conduct and internal culture, for risks of internal fraud and bribery;
- Products and services, for risks of insufficient duty of care
- Organisation, for risks of breach of privacy or data protection

Our compliance risk appetite is set on a yearly basis (low in 2018) and an overall compliance risk assessment is executed twice a year. On that basis, we formulate further mitigating actions and key risk performance indicators for each area.

As of the first quarter of 2018, we prepared integrated quarterly reports for the Managing Board, the Supervisory Board and our external auditor to provide a holistic overview of the developments and topics within Legal, Privacy & Compliance and Risk.

Focus areas in 2018

GDPR / Privacy

In May 2018 the General Data Protection Regulation (GDPR) took effect impacting most of the markets in which LeasePlan is active. Even though GDPR resulted in a number of changes in data privacy management activities, it did not change LeasePlan's approach when processing personal data. The basis for this had already been laid down in its group-wide Binding Corporate Rules, which will be further enhanced to continue operating along the following principles:

- Transparent: we help individuals understand how data is collected and used
- Privacy as starting point: we ensure our services are privacy friendly
- Control: we aim to provide easy ways to access, correct or delete data
- Safe with LeasePlan: we secure data as best as we can and personal data is only shared with third parties when necessary and under appropriate conditions.
- Innovating and responsive: we keep thinking of ways how to improve our services and privacy and are open for all suggestions and complaints

A project was set up to assess the impact of new requirements for following GDPR and to determine required actions for LeasePlan entities. To better manage privacy risks within acceptable risk levels, a Group Privacy Office (GPO) was established and the respective vacancies were filled. In addition, a single Data Protection Officer – within the meaning of GDPR – has been appointed and is reporting to the CRO.

The focus of the GPO has been to roll out a readiness project for the key requirements of GDPR and the enhancement of data management activities in alignment with local privacy officers in the entities and supervision by a steering committee, with the assistance of external consultants. These actions enable LeasePlan to set a consistent baseline for further implementation. In addition, LeasePlan obtained a license for a data privacy management tool allowing for the automation of a number of privacy management activities. The next phase mainly rolls over to 2019, utilising LeasePlan's digitalisation strategy.

Several training and communication initiatives took place in 2018 to further increase awareness and knowledge on handling personal data. This also resulted in an increased involvement of the GPO and local privacy officers in a wide range of projects, as well as product development initiatives and closer alignment with HR regarding the handling of personal data of (future) employees.

Fight Fraud campaign

In order to increase awareness about Fraud, we launched a Global Anti-Fraud Campaign between February and July 2018.

The campaign focused on:

- Increasing awareness and understanding of Fraud risks
- Training LeasePlan employees on how to spot Fraud and identify the 'red flags'
- Making employees feel comfortable in talking about Fraud

The campaign comprised several modules and a variety of communication tools, such as articles, interviews on our global intranet, an online interactive game and an animation.

In addition, we published a Fraud Risk Management Framework and Fraud Risk Management Guidelines for governance and incident handling. Furthermore, an in-depth Fraud Risk Assessment was completed to identify areas of possible exposure, and assess the adequacy of our current measures for mitigating fraud.

Anti-Money Laundering and Counter Terrorism

LeasePlan began an Anti-Money Laundering and Counter Terrorism (AML, CFT) Project. Its main goals included:

- Ensuring compliance with the Dutch Wet ter voorkomen van witwassen en financieren van terrorisme (WWFT) which became effective per July 2018 and the EU Anti-Money Laundering Directive 4;
- Ensuring the company combats and lowers the risk of money laundering and terrorist financing that may occur through its business activities

The relevant LeasePlan Policy and Standard will be updated as part of these projects and a detailed Risk Analysis is being prepared, which includes, at a minimum, the relevant risk factors relating to LeasePlan products, counterparties and country risks.

Insurance Distribution Directive

The Insurance Distribution Directive (IDD) 2016/97/EU took effect in most of LeasePlan's European markets in late 2018. The Directive introduces new rules in relation to the distribution of insurance, particularly in the areas of transparency, provision of information and business conduct. The Directive primarily aims to increase levels of consumer protection.

In preparation for this, we launched an IDD Project in 2017 to assess the impact of IDD on our European operating companies and their insurance operations, and to identify and take action where required at country level.

A central compliance team conducted the group gap analysis against the IDD Directive. This was cascaded down to the compliance functions of the European operating companies where local analysis was added with the assistance of local legal advisers and central compliance as appropriate. Required actions were identified and taken locally.

Next to the four themes mentioned, the following actions were taken:

- Implemented a new Anti-bribery and anti-corruption policy, with new KPIs/KRIs and monitoring plan
- Conducted the Global Integrity Survey to gain insight into the perception of Integrity within LeasePlan and if necessary take additional measures
- Updated the Compliance Risk Assessment on a bi-annual basis
- Appointed a DPO to the Group Privacy Office
- Updated several policies and governance-related documents including the Privacy & Compliance charter/framework, the Code of Conduct, the whistleblowing policy and multiple polices for privacy requirements
- Refined the risk appetite statement for compliance risks
- Updated the Compliance chart, which contains an overview of the applicable and relevant laws and regulations

Chapter 10

Leadership team

Leadership team

Managing Board

Tex Gunning

CEO and Chairman of the Managing Board

Tex Gunning (1950, Dutch national), was appointed chief executive officer and chairman of LeasePlan Corporation N.V. in September 2016. Previously he served as CEO of TNT Express between 2013 and 2016, guiding its merger with FedEx to create a global network for express parcel deliveries. Mr Gunning served on the supervisory board of TNT Express from 2011 to 2013, prior to his appointment as CEO. In his role as managing director of the Decorative Paints Division of AkzoNobel between 2008 and 2013, he integrated ICI in AkzoNobel's decorative paints business with ICI. Between 2007 and 2008, he was CEO of Vedior, overseeing its acquisition by Randstad in 2008, which saw Randstad become the second largest recruitment company in the world. He also has 25 years of experience with Unilever, where his last role was business group president in Asia. In addition, Mr Gunning was supervisory board member of Stichting Nederlandse Vrienden der SOS Kinderdorpen from 2012 to 2013 and of Stichting dance4life from 2013 to 2017. Currently, he is still supervisory board member of Koninklijke FrieslandCampina N.V. (from 2011), Vereniging Erasmus Trustfonds (from 2014), Stichting Nexus Instituut (from 2015) and Stichting Het Wereld Natuur Fonds-Nederland (from 2016). He is also chairman of the jury of the Effie awards (from 2016); chairman of the Board of Stichting Grachtenfestival (from 2017); and World Economic Forum Climate Sector Leader Automotive (from 2018). Mr Gunning is an Economics graduate of Erasmus University.

Yolanda Paulissen

Chief Strategic Finance and Investor Relations Officer

Yolanda Paulissen (1969, Dutch national) became chief strategic finance and investor relations officer and member of the managing board of LeasePlan Corporation N.V. in January 2017. She has over 20 years' experience in finance, beginning her career as international funding manager at ABN AMRO Lease Holding, a position she held from 1993 to 1997. She then served as senior consultant corporate finance at Van den Boom Groep, which later became NIBC Bank N.V., from 1997 to 2004. She joined LeasePlan in 2004 as senior manager corporate strategy and development and was subsequently appointed director mergers and acquisitions in 2006 and senior corporate vice-president strategic finance in 2010, which she did until 2017. Ms Paulissen holds a Master's degree in Business Economics from Maastricht University.

Franca Vossen

Chief Risk Officer

Franca Vossen (1972, Dutch national) became chief risk officer and member of the managing board of LeasePlan Corporation N.V. in September 2017. She has held various international senior management positions in finance and risk at global organisations including ABN AMRO, Fortis, ING and De Lage Landen. Between 2004 and 2007, Ms Vossen led the worldwide implementation of Sarbanes Oxley legislation at ABN AMRO and between 2007 and 2008, she was head of integrated risk management at ABN AMRO Asset Management. In addition, Ms Vossen was chief risk officer at Fortis Investments between 2008 and 2009 and global head of risk governance at ING Investment Management between 2009 and 2011. Prior to joining the group, Ms Vossen was chief risk officer and executive vice-president of DLL, the leasing arm of Rabobank, where she managed the global risk function and was a member of the supervisory board of various DLL subsidiaries between 2011 and 2017. She was also a member of the supervisory board of Stichting Pensioenfonds Openbaar Vervoer between 2014 and 2017. Ms Vossen holds a Master's degree in Russian and German Studies from Leiden University and an MBA from EuroMBA. Ms Vossen successfully completed the supervisory board programme of Erasmus University Rotterdam.

Supervisory Board

Jos Streppel

Chairman of the Supervisory Board

Appointed Chairman of the Supervisory Board on 21 March 2016. Chairman of the Selection and Appointment Committee, member of the Remuneration Committee and member of the Risk Committee.

Jos Streppel, chairman of the Supervisory Board since 2016, is a Dutch national. His previous positions include CFO of FGH Bank N.V. from 1986 to 1987 and CFO of AEGON N.V. from 1998 to 2009. He has also previously served as member of the management board of FGH Bank N.V. from 1987 to 1991, and as chairman of the management board of Bank Labouchere N.V. from 1991 to 1997. From 2003 to 2015, Mr Streppel was a member and chairman (from 2010) of the supervisory board of KPN. From 2005 to 2017, he was vice-chairman of the supervisory board of Van Lanschot N.V. In addition, Mr Streppel has previously served as a member of the working committee of the International Accounting Standards Board from 2005 to 2009, member and chairman (from 2009) of the Monitoring Committee Corporate Governance Code from 2005 to 2013, chairman of the Economics and Finance Committee (Econfin Insurance Europe) from 2005 to 2009, chairman of the board of Duisenberg School of Finance from 2007 to 2018 and as a member of the state commission on insurance from 2014 to 2015. He also served as chairman of the advisory board of Koninklijk Actuarieel Genootschap from 2013 till 2017. Mr Streppel became member of the board of the Amsterdam Center for Corporate Finance in 2004, member of the advisory board of the supervisory board programme by Erasmus University Rotterdam in 2010, non-executive director of RSA Insurance Group plc in 2011, member of the supervisory board of Stichting Arq, a mental hospital, in 2011, member of the board of the Gieskes-Strijbis foundation in 2013, deputy councillor of the Enterprise Chamber in 2014, chairman of Stichting Continuïteit Philips Lighting in 2016 and member of the advisory board of Van Lanschot Kempen N.V. in 2018, and currently still holds these positions. Mr Streppel holds a Master’s degree in Economics from Tilburg University.

Steven van Schilfgaarde

Appointed member of the Supervisory Board on 21 March 2016, reappointed on 31 December 2018. Vice-Chairman of the Supervisory Board. Chairman of the Audit Committee, member of the Risk Committee and member of the Selection and Appointment Committee.

Steven van Schilfgaarde, vice-chairman of the Supervisory Board since 2016, is a Dutch national. He began his career in 1990 within the finance function at KPN and held various roles at KPN affiliates until 2014. He served as senior executive vice president of KPN Corporate Market B.V. from 2011 to 2013 and as senior executive vice president IT Solutions of KPN in 2013. In 2012 and from 2013 to 2014, Mr van Schilfgaarde was CFO and member of the board of management ad interim of Royal KPN N.V. He also previously served as member of the board and member of the Investment Committee of KPN Company Pension Fund from 2007 to 2015. He further was CFO (2007 to 2011) and CEO (2011-2013) of Getronics N.V. From 2016 to 2017, Mr van Schilfgaarde was CFO of Royal FloraHolland U.A., of which he has been CEO as of 2018. He has also been treasurer/secretary of the Van Schilfgaarde Stichting (a family foundation) since 2004 and director of two private companies, Rietland Investments B.V. since 2013 and Rietland Advisory B.V. since 2015. Previously, Mr van Schilfgaarde was a member of the supervisory board at Digitenne Holding B.V. from 2005 to 2008, at SNT Deutschland AG from 2006 to 2015, at Eplus Mobilfunk GmbH & Co. KG from 2013 to 2014 and at KPMG N.V. from 2015 to 2016. Mr Van Schilfgaarde holds a Master's degree in Economics from Erasmus University Rotterdam. He has also completed the Postgraduate degree of Controller at the Vrije Universiteit Amsterdam and the New Board Program at Nyenrode Business University.

Manjit Dale

Appointed member of the Supervisory Board on 21 March 2016. Member of the Remuneration Committee, member of the Selection and Appointment Committee and member of the Risk Committee.

Manjit Dale, member of the Supervisory Board since 2016, is a British national. He has also been member of the supervisory board of LeasePlan Corporation N.V. since 2016. Mr Dale founded TDR Capital LLP in 2002 alongside Stephen Robertson. Prior to that, Mr Dale was managing director and head of DB Capital Partners Europe and predecessor firm BT Capital Partners from 1995 to 2002. Mr Dale holds an honours degree in Economics from Cambridge University.

Allegra Cristina Carla van Hövell-Patrizi

Appointed member of the Supervisory Board on 21 March 2018. Chairperson of the Risk Committee.

Allegra van Hövell-Patrizi, member of the Supervisory Board since 2018, is a Belgian and Italian national. She has been chief risk officer and member of the management board of Aegon N.V. since 2016. She has been a member of the supervisory board of Aegon Ireland from 2017 to 2018. Previously, she was business analyst corporate finance at JP Morgan (1995), up to partner level at McKinsey (1996 to 2007), head of product management and head of client solutions and chief administrative officer at F&C Investment (2007 to 2009), member of the CEO office and business representative US and risk (2009 to 2013) and group risk director at Prudential Plc (2013 to 2015). Ms van Hövell-Patrizi was also a member of the founding board of the Women's Forum for Economy and Society. She holds a Master degree and DEA in Engineering/Applied Physics from Ecole Normale Supérieure in Paris, as well as an MBA from INSEAD.

Herta von Stiegel

Appointed member of the Supervisory Board on 25 March 2015, reappointed on 25 March 2018. Chairperson of the Remuneration Committee as per 22 October 2018, member of the Selection and Appointment Committee and member of the Audit Committee.

Herta von Stiegel, member of the Supervisory Board since 2015, is a British and American national. She has also been member of the supervisory board of LeasePlan Corporation N.V. since March 2015. She currently serves on the board of the London Metal Exchange, where she chairs the Technology Advisory Panel and serves on the Audit Committee and Britam Asset Managers (K) Limited, where she serves on the Investment & Strategy Committee. During her 17 years in the banking sector before 2000, she held senior positions at Citibank, Rabobank and JP Morgan. From 2000 to 2005, she was a director and then managing director at AIG Financial Products Corporation. From 2013 to 2017, Ms von Stiegel served as chairperson of CHAPS Clearing Company Ltd. and led the sale of the company to the Bank of England. In addition, she was a non-executive director of Camco Clean Energy plc (renamed RedT Energy plc) from 2006 to 2012. In 2006, Ms von Stiegel founded the Prince's Trust Women's Leadership Group, where she served as chairperson from 2006 to 2010. Since 2015, she has been serving as chairperson of the Women Corporate Directors Kenya. In 2008, she founded Ariya Capital Group Ltd., and became executive chairperson. Since 2016, she has been an adjunct professor and academic director at Strathmore Business School. Ms von Stiegel holds a J.D. degree from Thomas M. Cooley Law School and an LLM degree in Taxation from New York University School of Law. She also completed the Executive Programme in Corporate Finance at the London Business School. She is a member of the bar association of Michigan and New York.

Eric-Jan Boudewijn Vink

Appointed member of the Supervisory Board on 21 March 2016. Member of the Audit Committee.

Eric-Jan Vink, member of the Supervisory Board since 2016, is a Dutch national. He has further been head of private equity at PGGM N.V. since 2012 and member of the private equity board of Stichting Pensioenfonds TNO since 2016. His previous positions include investment director and partner at Gilde Buy Out Partners B.V (where he worked from 1997 until 2011), senior investment manager of private equity at PGGM N.V. from 2011 to 2012 and director of LP Group B.V. from 2016 to 2018. Mr Vink holds a Master's degree in Business Administration from Erasmus University Rotterdam.

Ada van der Veer-Vergeer *(Resigned)*

Appointed member of the Supervisory Board on 10 December 2010; reappointed on 22 October 2014 (resigned as per 22 October 2018) Member of the Remuneration and Nomination Committee (Chairperson of the Remuneration Committee until 22 October 2018).

Ms van der Veer – Vergeer (1959) is a Dutch national and has over 25 years' experience in the financial services industry, including a strong background in the banking sector. Her previous positions at financial institutions include CEO of Currence Holding, Chairperson of the Board of Staal Bankiers and member of the Executive Board of Achmea Bank Holding. Since 2007, she has been a Director of Stranergy, a company specialising in independent boardroom consultancy in the areas of strategy and corporate governance. She is currently Chairperson of the Supervisory Board of Arcadis Nederland Holding and member of the Supervisory Board of Alliander N.V. Furthermore, Ms. Van der Veer-Vergeer is a Board member of the Foundation of Preference Shares Nedap N.V., an advisor to the National Register of Directors and Supervisors, Visiting Lecturer at the Erasmus University and Nyenrode Business University and Chairperson of the Dutch Monitoring Committee Accountancy.

Stefan Orlowski *(Resigned)*

Appointed member of the Supervisory Board on 21 March 2016 (resigned as per 21 March 2018). Chairman of the Risk Committee.

Mr Orlowski (1966) is a Polish and Australian national and has over 20 years' experience in global and local brand and portfolio management, as well as commercial fields such as sales and distribution. After beginning his career as an attorney in Australia with Arthur Robinson & Hedderwicks, Mr Orlowski has spent the majority of his career with various affiliates of Heineken N.V., including as regional president of the Americas in New York City and a member of the executive committee until 2015. In 2015, he moved to a European role with Heineken and currently is based in Amsterdam. Mr Orlowski currently serves as a member of the Supervisory Board of Żywiec S.A. (a Polish brewer controlled by Heineken), where he was previously employed as a vice-president, and as a member of the Supervisory Board of Paulaner Brauerei Gruppe GmbH & Co. KgaA. He is also a Board member of the AIM – European Brands Association, and Supervisory Board member of Heineken Nederland. Previous board positions include roles as Vice-Chairman of Compañía Cervecería Costa Rica, Director of Compañía Cervecería de Colombia, and Chairman of the Marketplace Committee for Business in the Community, a charity under the patronage of the Prince of Wales.

Chapter 11

Chairman of the Supervisory Board statement

Chairman of the Supervisory Board statement

LeasePlan has delivered another strong performance in its core business and continued to strengthen its position despite several challenges in the year.

The 'Power of One LeasePlan' programme for operational excellence, which it launched in late 2016, is now largely embedded, and LeasePlan has begun accelerating its digital transformation as it prepares for its next phase of development.

These ingredients are central to its long-term strategy to lead the megatrend from ownership to usership and subscription in its markets, and to actively support the industry's transition to zero emissions mobility.

LeasePlan today is operating more efficiently as a global organisation than ever before. It is leveraging its scale, sharing best practices, reinvesting its savings and most importantly, delivering tangible benefits to customers.

In our CarNext.com business, we expanded our marketplace from 10 to 22 countries in Europe and now have 32 delivery stores in operation. Demand for its Used Car-as-a-Service proposition also grew rapidly and it is well on track to deliver on its mission to become the most trusted pan-European marketplace for high quality used cars.

The decision not to proceed with the Initial Public Offering (IPO) due to unfavourable market conditions in October was entirely understandable. Of course it was disappointing at the time, as many people had worked extremely hard to make it happen, but the reality is that our preparations for the listing have helped us to create a far more effective business. For example, we have shortened our financial reporting cycle in line with stock-market listed companies and have adopted a number of the principles and best practices of Dutch Corporate Governance Code.

Looking ahead, our vision is clear: to deliver 'any car, anytime, anywhere'. The key here will be the delivery of our Digital LeasePlan programme, which is the second part of our strategic journey and will see us develop best-in-class digital services by leveraging the latest digital intelligence technologies.

We will also continue to spearhead the transition to zero emission mobility in our industry, and it has been gratifying for the Supervisory Board to see the progress we have made and our vocal support for electric vehicle (EV) adoption. In early 2019, for example, we were present again at the World Economic Forum in Davos. Our CEO was there to help educate the leaders of over 1,800 organisations about the importance of switching to sustainable fleets.

While we are proud of the role we are taking to promote sustainable mobility, we know that we will not be able to deliver the future of mobility by ourselves. Whether it's EVs, autonomous cars or car-sharing platforms, all stakeholders, especially the public sector, have important roles to play. For example, when it comes to EVs, zero emission mobility will only become a viable option for many when the right infrastructure and incentives are there to support it. That is why we continue to advocate for a wider availability of charging stations, greener electricity grids and supportive long-term government policies.

We are satisfied that our people and leadership are preparing the foundations for our long-term growth and success. They are also responding admirably to the inevitable bumps in the road along the way. That is why I would like to thank LeasePlan's dedicated people who have once again demonstrated the resilience, flexibility and customer focus that are the hallmarks of our unique culture. I would also like to thank our customers and shareholders for continuing to place their trust in us. LeasePlan has a bright future and every reason to be confident about achieving its long-term objectives.

Jos Streppel
Chairman of the Supervisory Board

Chapter 12

Report from the Supervisory Board

Report from the Supervisory Board

This report contains an overview of the activities of the Supervisory Board and its committees in 2018. A description of the composition and operation of the Supervisory Board is set out in this report and in the chapter on governance *(see page 85)***.**

Profile and composition of the Supervisory Board

The Supervisory Board of LeasePlan has been composed to warrant proper execution of the function of the Board and its committees. Its size and composition are attuned to the nature and characteristics of the business as well as the required expertise and background of each member.

In 2018, the Supervisory Board consisted of Mr J.B.M. Streppel (Chairman), Mr S. van Schilfgaarde, Mr M. Dale, Mr S. Orlowski (until 21 March) and Mr E.J.B. Vink, Ms H. von Stiegel and Ms A.P.M. van der Veer – Vergeer (until 22 October). On 21 March 2018, Mrs. A. van Hövell-Patrizi was appointed to replace Mr. S Orlowski, who stepped down the same day.

Independence

All members of the Supervisory Board perform their duties independently and critically. In the event of a conflict of interest with regard to a particular topic, the Supervisory Board member in question may not participate in discussions or decision-making on that topic. Five members are independent (two of which were appointed following the specific right of recommendation by the Works Councils) and two are associated with the consortium of shareholders.

Diversity

The members of the Supervisory Board have a diverse and balanced mix of knowledge, skills, and expertise, in line with the required profiles.

The Supervisory Board aims to ensure that its members represent a good balance in terms of diversity (including nationality, gender, and area of expertise) to warrant proper supervision of the overall management of the Group by the Managing Board.

Responsibilities of the Supervisory Board

The Supervisory Board supervises the policies of the Managing Board and the general conduct of affairs of LeasePlan and its Group companies.

In its role, it acts as an advisory partner to the Managing Board in determining the company's strategic direction.

Regular topics for discussion and, where necessary, approval, are the annual and quarterly financial statements, operating and financial performance, organisation and people, strategy, funding, potential acquisitions and major investments, objectives, business plans, budgets, IT infrastructure, risk management, risk appetite, governance, internal controls, and any other organisational developments of the business.

The Chairman of the Supervisory Board is in close contact with the Chairman of the Managing Board. There are close relations with the Works Councils, not only safeguarded by the two Supervisory Board members who were appointed following the specific right of recommendation of the Works Councils, but also through direct and regular contacts from the Chairman of the Supervisory Board with the Works Councils. The Chairman of the Managing Board and the Company Secretary ensure that the members of the Supervisory Board receive timely and clear information on all relevant matters. LeasePlan's internal Control functions have direct access to the Chairmen of the relevant committee or Supervisory Board, as applicable.

Certain resolutions of the Managing Board, specified in the Articles of Association of LeasePlan and in the Managing Board regulations, are subject to approval by the Supervisory Board. The Supervisory Board may discuss and, where necessary, approve certain decisions by way of written resolutions outside of the scheduled meetings.

Terms of appointment of members of the Supervisory Board

Members of the Supervisory Board are appointed for a maximum term of four years and may be reappointed following the expiry of the first term.

01. Assuring supervision quality

The members of the Supervisory Board take part in the Lifelong Learning (LLL) programme during the year. The Chairman of the Supervisory Board decides on the contents of the Supervisory Board's LLL, with the aim of maintaining and, where necessary, improving the expertise of the Supervisory Board members at the standards that are generally imposed.

The learning programme covers relevant developments in the company and corporate governance as well as specific topics relating to the financial sector, integrity, risk management, financial reporting and audits.

Assessment of the Supervisory Board

The Supervisory Board carries out an annual assessment of its own performance, its composition and effectiveness, as well as the effectiveness of the LLL programme. Every three years, the self-assessment is performed with the assistance of independent supervision by a professional party selected by the Supervisory Board. In this triennial assessment, focus lies on the evaluation of the performance of individual Supervisory Board members, the culture within the Supervisory Board and the relationship between the Supervisory Board and the Managing Board. The Supervisory Board also performs an assessment of the Managing Board and its individual members, including its LLL programme. The Supervisory Board carried out its self-assessment on 20 March 2018.

The Supervisory Board is of the opinion that it meets the required profile in terms of suitability, expertise and diversity, and also complies with the Dutch Corporate Governance Code in this respect. The Supervisory Board Chairman prioritised bilateral contacts with the other Supervisory Board members to make sure everybody had the required information and knowledge, and there have been regular discussions with the Managing Board, the consortium of (indirect) shareholders and the Works Councils.

02. Supervisory activities

Meetings of the Supervisory Board and attendance

Since February 2018, the Supervisory Board held 12 meetings.

Date	
6 FEBRUARY 2018	20 JULY 2018
9 FEBRUARY 2018	3 AUGUST 2018
20 MARCH 2018	11 SEPTEMBER 2018
24 APRIL	2 OCTOBER 2018
4 MAY 2018	12 NOVEMBER 2018
13 JUNE 2018	21 NOVEMBER 2018

Committee	Number of meetings
AUDIT COMMITTEE	9
REMUNERATION AND NOMINATION COMMITTEE	5
REMUNERATION COMMITTEE	1
SELECTION AND APPOINTMENT COMMITTEE	1
RISK COMMITTEE	4
SUPERVISORY BOARD	12

Name	Attendance
JOS STREPPEL	100%
STEVEN VAN SCHILFGAARDE	91,67%
MANJIT DALE	83,33%
ERIC-JAN VINK	100%
HERTA VON STIEGEL	100%
ALLEGRA PATRIZI	100% as of appointment on 21 March 2018
ADA VAN DER VEER	91,67% until resignation on 22 October 2018
STEFAN ORLOSWKI	33% until resignation on 21 March 2018

Meetings held by the Supervisory Board in 2018

Senior management was frequently invited to make presentations on a range of topics to the Supervisory Board and its committees. Members of the Supervisory Board, the Managing Board and senior management also held relevant discussions throughout the year that were not part of the formally scheduled meetings and calls.

The combination of regular meetings / conference calls and the various informal consultations ensured that the Supervisory Board was well informed about the running of the business. The Supervisory Board additionally held several discussions among its members without members of the Managing Board being present.

03. Supervision: topics discussed

The recurring items on the quarterly agenda include the financial and commercial results, market developments, developments related to funding and liquidity (including quarterly approval of the funding framework), performance of the group companies, and risk management with a specific focus on the performance against the approved risk appetite, asset risk management, and credit risk management including approval of credit exposures above EUR 100 million.

Management of the company

The Supervisory Board is satisfied by the company's overall performance, by the successful embedding of the 'Power of One LeasePlan' initiative in the year, and which has now largely been delivered. It is also satisfied by the progress made with the implementation of the Digital LeasePlan strategy, which began last year. Digital LeasePlan represents the next stage in the company's transformation and will enable the business to deliver on its 'any car, anytime, anywhere' aspiration.

Financial reporting

Financial reporting is discussed regularly at meetings and calls of the Supervisory Board. All interim financial statement reports and related review reports of the external auditor were discussed in the presence of the external auditor. Also the financial reporting control framework, any deficiencies and improvement actions were discussed. The Supervisory Board approved the financial statements for 2018 on 13 March 2019. KPMG acted as external auditor for the 2018 financial year. For each reappointment of the external auditor the Audit Committee will make a recommendation for the year under review in their March meeting, which will then be decided upon during the General Meeting of Shareholders.

Legal

The Legal Function, reporting directly to the CEO, has continued to evolve rapidly to keep pace with the changing needs of the business by becoming a strategic partner and business enabler. Legal is working to ensure its team members have the necessary skills to manage the transition from being the sole source of legal services to one in which they are managing an ecosystem of legal service providers. These services will be underpinned by innovative technology processes and solutions.

Recent developments in the global legal function include:

- The launch and ongoing development of several legal tech solutions, such as a global litigation tracking tool, new global online corporate housekeeping tool, e-signing capabilities, smart contracting and a global One Legal sharepoint communication platform
- New team dedicated to digital, technology and intellectual property providing focused support on all technology and intellectual property initiatives and supporting a digital customer journey across the LeasePlan group
- Cross jurisdictional (EU) harmonisation of contract terms for international product offering
- Appointment of a dedicated competition law expert acting as LeasePlan's global competition lead, further enhancing LeasePlan's competition compliance framework and awareness
- Updating various policies and charters, including the Legal Charter, the Dawn Raid Policy and the Global Signing Authority Policy
- Appointment of an employment law specialist supporting HR in its global and central initiatives and developments
- Supporting the 'Power of One' Legal 2.0; and ongoing dialogue across Group Legal and the local legal teams

Regulatory compliance

As LeasePlan complies with the Banking Code, thorough attention is paid to discussions with the DNB and its requirements. The SREP letter and outcome are discussed, also by representatives of the Supervisory Board directly with DNB.

Risk

In 2018 the Risk Organisation continued its transition from a decentralised to a centralised organisation by implementing a new Risk Charter. Most notable changes included in the Risk Charter are in the risk governance (at Group level as well as at entity level), changes in the structure and set up of the risk committees, and the formal introduction of LeasePlan's Risk Management Cycle and Risk Decision Framework. In addition, a new policy framework was developed and implemented. An integrated in control framework project was started to align and optimise the various control frameworks. The information security strategy was revised which also resulted in a new target operating model. And as part of its business as usual tasks the Risk Organisation concentrated on ensuring the company's timely readiness for upcoming regulatory changes and contributed to many business and digital initiatives.

Privacy & compliance

The Privacy & Compliance function began working as a single global team in 2018 and its primary focus was on GDPR readiness. In addition, it addressed other key risk areas including fraud, money laundering/terrorist financing/ sanctions and insurance compliance (IDD) and continued to strengthen its overall effectiveness. Measures taken included; implementing a new Anti-bribery and anti-corruption policy with new KPIs/KRIs and monitoring plan; conducting a Global Integrity Survey; updating a Compliance Risk Assessment; appointing a DPO to the Group Privacy Office and an anti-money laundering officer; and updating several policies and governance-related documents, including the Privacy & Compliance charter/ framework, the Code of Conduct, the whistleblowing policy and multiple polices for privacy requirements.

04. Composition and reporting by committees

Composition

In order to enhance the efficiency of its work, the Supervisory Board has in Q4 of 2018 split the Remuneration and Nomination Committee into two, resulting in a total of four committees instead of three: the Audit Committee; the Risk Committee; the Nomination Committee and the Selection and Appointment Committee.

Each committee prepares the Supervisory Board's decision-making in its designated area of interest. The Supervisory Board remains fully responsible, however, for the decisions prepared by these committees.

Each Supervisory Board member is entitled to attend the committee meetings, and receives the minutes of each committee meeting and, if so desired, all documentation. The Chairman of the Supervisory Board regularly attends the Audit Committee meetings as a guest.

Audit Committee

The Audit Committee (AC) met nine times during the year. In addition to re-occurring items, such as the yearly assessment of internal audit function, the LeasePlan Group control measures, and the financials, the AC discussed the impact of the new (upcoming) legislation, such as IFRS 9, IFRS 15 and IFRS 16. The external auditor attended all meetings of the AC.

Risk Committee

There were four Risk Committee meetings in 2018. A cycle of risk-related matters is addressed with a frequency of four times during the year (and more often if so desired), with specific items to be tabled upon request, such as IT security, resourcing and Pillar III.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee was divided into two committees in 2018: Selection and Appointment Committee and the Remuneration Committee. The final Remuneration and Nomination Committee meeting took place in Q3 2018. The Remuneration Committee and the Selection and Appointment Committee had their first meetings in Q4 2018.

For more information on remuneration matters please refer to the Remuneration Report on the next page.

Annual report and financial statements for 2018

In accordance with the relevant provisions of the Articles of Association of LeasePlan, the Supervisory Board has reviewed the annual report and the financial statements for 2018.

The Supervisory Board discussed these documents with the Managing Board and KPMG, the external auditor, and took note of the external auditor's report that it issued on the financial statements of 2018, as included as from *page 90* of this report.

The Supervisory Board proposes that the shareholders adopt the financial statements and the proposed profit appropriation contained therein, and recommends the endorsement of the Managing Board's conduct and the supervision thereof as provided by the members of the Supervisory Board.

Amsterdam, the Netherlands, 13 March 2019

The Supervisory Board

Jos Streppel (Chairman)
Steven van Schilfgaarde (Vice-Chairman)
Manjit Dale
Allegra van Hövell-Patrizi
Herta von Stiegel
Eric-Jan Vink

Chapter 13

Remuneration report

Remuneration report

The remuneration report sets out LeasePlan's remuneration policy, as laid down in the Group Remuneration Framework, which is in accordance with all relevant legal requirements and guidelines, including the Banking Code, the Regulation on Sound Remuneration Policies pursuant to the Financial Supervision Act 2014, the Dutch Act on Remuneration Policies for Financial Enterprises (the WBFO) and Book 2 of the Dutch Civil Code (DCC).

LeasePlan's Group Remuneration Framework

The Group Remuneration Framework is designed to provide appropriate, restrained and sustainable remuneration for all employees in support of LeasePlan's long-term strategy, risk appetite, objectives and values.

The Framework applies to all entities and staff members within LeasePlan, including the Managing Board. It includes (i) general remuneration principles applicable to all staff and (ii) specific details about the remuneration structure of the Identified Staff, i.e. staff considered to have a material impact on the risk profile of LeasePlan.

General remuneration principles

The following general remuneration principles apply to all staff:

- The remuneration policy and structure are aligned with LeasePlan's business strategy, long-term interests, objectives, corporate values and risk appetite and support robust and effective risk management
- Fixed and variable remuneration will be used to align individual performance with aforementioned strategy and objectives
- The remuneration positioning will, in general, be set at the median of the relevant market, assuming a comparable split between fixed and variable remuneration
- Variable remuneration is performance-related, consists of a well-thought-out mix of financial (at maximum 50%) and non-financial elements and reflects both short- and long- term strategic goals
- Variable remuneration targets are specific, measurable, attainable, relevant and time- bound
- Variable remuneration can never exceed 100% of fixed remuneration. For staff who are employed by one of the Dutch operating companies this maximum is further capped at 20% on average
- Pension schemes are recognised in accordance with the applicable accounting standards. LeasePlan does not award discretionary pension benefits as part of the variable remuneration
- Other benefits for staff are provided in line with local market practice
- Severance payments reflect performance over time and do not reward for failure or misconduct. For LeasePlan's daily policymakers severance payments are capped at 100% of fixed remuneration
- Claw back and malus provisions are applicable to all variable remuneration awarded

Remuneration Identified Staff

In addition to the general remuneration principles applicable to all staff, for Identified Staff the following principles apply:

- Variable remuneration is capped at 50% for the heads of Risk Management, Compliance and Audit (jointly referred to as Control Functions)
- The remuneration positioning for Identified Staff is based on a relevant peer group as approved by the (Remuneration Committee of the) Supervisory Board
- Variable remuneration for Identified Staff consists of cash (50%) and non-cash elements (50%), i.e. phantom share units (PSUs)
- 60% of the variable remuneration for Identified Staff is paid upfront and 40% of the variable remuneration of Identified Staff is deferred for a period of three years, whereby every year one-third vests
- PSUs have a retention period of one year after vesting
- For variable remuneration that deviates from the Framework, approval is required by the (Remuneration Committee of the) Supervisory Board

Remuneration Managing Board

In addition to the general remuneration principles applicable to all staff and Identified Staff, for the Managing Board the following principles apply:

- In line with the Dutch Banking Code the remuneration positioning of the Managing Board is set below the median for comparable positions in- and outside the financial industry, taking into account the relevant international context
- Managing Board members are entitled to a variable remuneration of 50% at target and 100% at maximum, with the exception of the chief risk officer, being a control function, who is subject to a 50% maximum
- Each Managing Board Member has agreed to voluntarily cap its variable remuneration at 20% of its base salary until a change of control, asset sale, winding-up or IPO ("Settlement") and to fully waive any possible rights under the relevant remuneration policies of the Company to a variable remuneration that would exceed such 20% cap for the period until Settlement, which waiver has been accepted by the Supervisory Board
- Managing Board members are appointed for the duration of four years
- A fixed notice period of 3 months in case of termination by a Managing Board member and 6 months in case of termination by the Employer applies
- Managing Board members in principle fully participate in LeasePlan's pension scheme. Where the applicable retirement age ('pensioenrichtleeftijd') is however reached during the appointment period, a fixed allowance of 18.7% over the gross annual salary is paid
- Managing Board members are entitled to a net expense allowance of EUR 550 on a monthly basis

Remuneration governance

The remuneration governance within LeasePlan is as follows:

The Remuneration Committee of the Supervisory Board

The main responsibilities of the Remuneration Committee of the Supervisory Board concerning the Framework are the following:

- Reviewing and approving the Framework and supervising its implementation (if it includes changes applicable to the Managing Board, in addition the General Meeting of Shareholders will be requested for approval)
- Approving the selection of Identified Staff on an annual basis
- Approving the financial and the non-financial target areas and levels for Identified Staff
- Reviewing and approving the award of any fixed and variable remuneration for Identified Staff
- Reviewing and approving significant severance payments for Identified Staff

In order to support sound decision making, external advice may be sought by the (Remuneration Committee of the) Supervisory Board.

The Managing Board

The main responsibilities of the Managing Board concerning the Framework are the following:

- Developing and adopting the Framework
- Recommending fixed and variable remuneration levels/ payments for Identified Staff, other than for Managing Board members, in line with the Framework
- Setting the financial and non-financial targets for Identified Staff, excluding those of Managing Board members, in line with the short- and long-term corporate strategy and objectives

Control Functions

In line with remuneration regulations, the Control Functions Risk, Compliance and Audit review and monitor the execution of the Framework together with the Human Resource department.

Performance targets

Global performance targets are set by the (Remuneration Committee of the) Supervisory Board for the Identified Staff on an annual basis. The targets need to comply with relevant remuneration regulations set to support the achievement of the long-term strategy of LeasePlan and consider the interests of all relevant stakeholders..

After the performance year the performance achievement of the Identified Staff is reviewed by HR. Separately, the Control Functions Risk and Compliance perform an ex ante risk analysis and report their findings to the (Remuneration Committee of the) Supervisory Board.

In case of deferred variable remuneration, the ultimate payment is also subject to an ex post risk analysis, as performed by the Control Functions Risk and Compliance and subject to approval by the (Remuneration Committee of the) Supervisory Board. The extent to which the performance targets have been achieved by each individual Identified Staff member is ultimately determined and approved by the (Remuneration Committee of the) Supervisory Board after the end of each performance period.

The table below provides an overview of the global performance targets that are derived from LeasePlan's business strategy:

STRATEGY	Financial growth		Growth in volume, efficiency and customer satisfaction	
	Financial		Non-Financial	
TARGET	Net Result	Return on Equity (MB only)	Weighted Fleet Growth	One LP + Trim

For all targets, a threshold and stretch level is defined. In addition, for all non-financial targets a financial threshold applies. Where appropriate, more specific and personal targets may apply for certain Identified Staff positions.

The targets for Control Functions exclude any targets that may create a conflict of interest and the function holders are remunerated on the basis of the achievement of non-financial Group objectives and non-financial targets relevant to their position.

Share-based payments

Selected managers of the LeasePlan Management, including the Managing Board members, participate in the share capital of an indirect parent company of The Group. The Company or another group entity will under no circumstances be required to settle the shares in cash with the participating managers. Accordingly, this arrangement is classified as an equity-settled share-based payment arrangement.

Execution in 2018

In 2018, LeasePlan's Remuneration Framework was updated to remain in alignment with the European Banking Authority Remuneration Guidelines, the organisational changes and corporate strategy.

Remuneration disclosures

In line with the Wbfo, we summarise the following remuneration disclosures;

- The total aggregated variable remuneration expenses for all staff within LeasePlan globally: EUR 56.9 million
- The number of individuals that received (i.e. were awarded) more than EUR 1 million of total remuneration: 1 head office

More remuneration information can be found in:

- *Note 5* of the consolidated Financial Statements as included in the Annual Report: Staff expenses;
- *Note 24* of the consolidated Financial Statements as included in the Annual Report: Trade and other payables and deferred income;
- *Note 32* of the consolidated Financial Statements as included in the Annual Report: Managing Board and Supervisory Board Remuneration;
- Pillar III report, remuneration section, as published on 13 March. qualitative and quantitative remuneration information with respect to Identified Staff.

Chapter 14

Governance

LeasePlan has a well-defined and well-structured corporate governance infrastructure in place which supports its business model and strategy

Overview

We believe that a robust infrastructure supported by the right culture, values and behaviours, both at the top and throughout the entire organisation is an imperative. A well-defined and well-structured corporate governance structure ensures good long-term relationships within the organisation, with internal and external stakeholders and with society at large.

LeasePlan is incorporated under the laws of the Netherlands. Its head office is in Amsterdam, the Netherlands as well as its statutory seat. LeasePlan operates in over 30 countries across the globe. These operations are conducted through various local LeasePlan companies.

Supervision

In addition to an effective global corporate governance infrastructure, LeasePlan is subject to supervision by competent supervisory authorities worldwide. In the Netherlands, we are supervised by among others the Dutch Authority for the Financial Markets (AFM) and the Dutch Central Bank (DNB). In Ireland, where LeasePlan Insurance is located, the Central Bank of Ireland (CBI) supervises the insurance activities of the company. Several other LeasePlan companies are being supervised by relevant local supervisory authorities.

Applicable laws and codes

As LeasePlan meets the criteria listed in the Dutch Civil Code, we have been subjected to the large company regime (structuurregime) since 9 February 2013. As of 21 March 2016, we comply with the full large company regime. Additionally, we are subject to certain EU legislation (including amongst others CRR/ CRD IV), which has an impact on the regulation of our businesses in the EU, and the regulations and supervision by local supervisory authorities of the various countries in which we do business.

As LeasePlan is not a listed entity we are not subject to the Dutch Corporate Governance Code (Code). However, we do use the Code as a reference point for good corporate governance and therefore apply the principles and best practice provisions of the Code. Since 2017 we have used the new Dutch Corporate Governance Code, placing more emphasis on long-term value creation and risk management as a benchmark for assessing any further improvements to our governance framework and policies.

As part of our diversified funding strategy, we obtain funds from savings deposits in the Netherlands and Germany through LeasePlan Bank. We have a banking licence pursuant to which we are obliged to comply with banking regulations such as the Banking Code. This code covers areas such as governance, remuneration, audit and risk management. On an annual basis, we are obliged to disclose information on how we have complied the = Banking Code in practice.

More information with respect to corporate governance and our compliance therewith (documents such as Code of Conduct, Supplier Code of Conduct, Banking Code Compliance and Articles of Association) can be found on our website: *www.leaseplan.com*

01. Shareholders

LP Group B.V. is the sole shareholder of LeasePlan Corporation N.V., with TDR Capital, sovereign wealth funds ADIA and GIC and pension funds PGGM and ATP amongst the indirect shareholders of LeasePlan Corporation N.V. None of these investors alone has a direct or indirect controlling interest in LeasePlan.

02. Governance structure

LeasePlan is governed by a two-tier board comprising a Supervisory Board and a Managing Board. Both boards perform their duties and powers as laid down in the relevant laws, rules, regulations and our Articles of Association.

Supervisory Board

The Supervisory Board is responsible for supervising the Managing Board and the general course of affairs of LeasePlan and its Group companies. In addition, the Supervisory Board advises the Managing Board in determining the strategic direction.

It also is responsible for the appointment, yearly assessments of the remuneration and other conditions of employment of the Managing Board members.

As of December 31, 2018, the Supervisory Board consisted of six members with one vacancy outstanding. More detailed information with respect to the members of the Supervisory Board can be found in the Supervisory Board report and on *page 67*.

LeasePlan believes that the Supervisory Board has sufficient diversity in the background, knowledge and expertise of the individual members to warrant proper supervision of the overall management of the Group by the Managing Board.

Managing Board

The Managing Board's responsibility is -inter alia, setting the overall strategy, the resulting business approach and policies for LeasePlan and its Group companies. It is well aware of the importance of the right tone at the top and the positive effects thereof for the rest of the organisation.

Moreover, the Managing Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities.

It is responsible for selecting suitable accounting policies and applying them on a consistent basis and making judgments and estimates that are prudent and responsible.

It is also responsible for establishing and maintaining internal procedures that ensure the Managing Board is informed of all major information, to ensure the timeliness, completeness and accuracy of external financial reporting.

This means the Managing Board is responsible for the system of internal control that is designed to safeguard controlled and sound business operations and ensure the quality of internal and external reporting and compliance with applicable laws, regulations and codes of conduct.

In devising internal controls, the company has taken into account the nature and extent of the risks that may affect the soundness of the entire enterprise, the likelihood of risks occurring and the cost of control.

In 2018, the Managing Board consisted of Mr L.W. (Tex) Gunning as Chairman and Chief Executive Officer, M.T.A. (Marco) van Kalleveen as Chief Operating Officer Europe (until 7 November), Ms Y.J.M.A. (Yolanda) Paulissen as Chief Strategic Finance and Investor Relations Officer, Mr G. (Gijsbert) de Zoeten as Chief Financial Officer (until 7 November) and Ms F.P.C.G. (Franca) Vossen as Chief Risk Officer. As of 7 November, the Managing Board has a vacancy for the position of the Chief Financial Officer. Toine van Doremalen, from LeasePlan's finance function, is acting as SVP Corporate Control and interim Chief Financial Officer and is directly reporting to the Managing Board.

More detailed information with respect to the members of the Managing Board can be found on *page 65*. The Managing Board continues to have sufficient diversity in background, knowledge and expertise of the individual members to warrant proper execution of the overall management of the Group. The division of tasks within the Managing Board is determined by the Board itself and has been approved by the Supervisory Board. The members of the Managing Board are fully supported in performing their duties by the advice and services provided by a mixed and diverse management team.

LeasePlan operates a lifelong learning programme for the members of the Managing Board and the Supervisory Board. The various training sessions are conducted by internal and external experts.

Gender diversity

LeasePlan is committed to attracting and retaining the finest human talent as this ensures top business performance and delivers a competitive advantage. We recruit from all cultural, linguistic and national backgrounds as this allows us to meet the needs of our customers, whilst also providing us with valuable knowledge for understanding complex markets. Taking into account the above, LeasePlan aims to obtain an equal division of gender in the Managing Boards and Supervisory Boards and operates a formal policy to this end. This means that every time a position within either a Managing Board or a Supervisory Board becomes vacant, the gender diversity aspect will be taken into account during the procedure of selection and appointment of the candidates.

03. Statement of the Managing Board

The Managing Board is responsible for designing, implementing and maintaining the internal risk management and control systems. The purpose of these systems is to adequately and effectively manage the risks associated with the strategy and activities of the company. In this respect the Managing Board has made an assessment of the design and effectiveness of the internal control and risk management systems, which is described in more detail below.

On the basis of this assessment and in accordance with best practice provision 1.4.3 of the Dutch Corporate Governance Code and Article 5:25c of the Financial Supervision Act, the Managing Board believes, to the best of its knowledge, that:

- the annual report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems during the financial year 2018;
- the internal risk management and control systems provide reasonable assurance that the financial statements do not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial statements are prepared on a going concern basis; and
- the annual report states those material risks and uncertainties that are relevant to the expectations of the company's continuity for the period of twelve months after the preparation of this report.

It should be noted that the above does not imply that these internal risk management and control systems provide absolute assurance as to the realization of the business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliance with legislation, rules and regulations. Nor can they provide certainty that we will achieve our objectives. It is also the case that evaluations of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In view of all the above the Managing Board confirms that to the best of its knowledge that the LeasePlan financial statements give a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2018 and the subsidiaries included in the financial statements, together with a description of the principal risks that LeasePlan is being confronted with.

Amsterdam, the Netherlands, 2019

Tex Gunning
Yolanda Paulissen
Franca Vossen

Background and explanation

The Managing Board is accountable for the management of all risks associated with our company's strategy and activities. To this end, appropriate risk management and internal control systems are in place.

The responsibility for identifying and managing risks lies with LeasePlan's entities. These entities are supported by the Group Risk department and Privacy & Compliance department and are periodically assessed by the Group Audit Department (GAD). Group Risk and Privacy & Compliance report directly to the CRO, and GAD has direct access to the CEO as well as to the Audit Committee of the Supervisory Board.

LeasePlan entities are responsible to set up, maintain, operate and monitor an appropriate risk management and internal control system within their area of responsibility. This responsibility includes the management, monitoring, reporting and controlling of risks. The entities are supported in this by local risk functions. GAD in its role as third line of defence, closes the control cycle through regular assessments of the design and operational effectiveness of the risk management and internal control system.

An In Control Statement (ICS) provides sufficient insights into any failings in the effectiveness of internal risk management and control systems, based on the results of several Risk Management Instruments like identification, registration, assessments and reporting of risks, controls and losses. The aforementioned systems furthermore provide reasonable assurance that the financial reporting does not contain any material inaccuracies.

The risk management and internal control system cover a broad set of risk types, primarily divided in:

- Strategic Risks;
- Financial risks, which covers: Asset Risk, Credit Risk, Treasury Risk and Motor Insurance Risk;
- Non-Financial Risks, which covers: Operational Risk (incl. Business Continuity, Financial Reporting, Model & HR Risks), Information Security Risk, Compliance, Legal and Reputation Risk.

The Group has a framework in place which is continuously being improved and enhanced. Important instruments for the ICS within the Group Include:

- Internal Audit: In the LeasePlan Group, internal audits are performed by GAD through a risk-based audit methodology. The objective of the risk-based audit is to reach opinions of the internal control quality of the company. The quality review of the design and effectiveness of internal control procedures has to be planned in such a way that all major entities and processes in these organisations will be analysed periodically. Group Audit Department executes on a yearly basis the internal audit plan, as approved by and after consideration of the various stakeholders, including the internal audit meeting, the external auditor, the Audit Committee and other global departments.
- Risk Control Self-Assessments (RCSA's): RCSA's provide insight into current and potential risk exposures, identify gaps and help prioritise an action plan set out to meet the strategic objectives and appetite thresholds. On an entity level, management performs periodical assessments of Operational Risks and related controls. Every entity needs to use the risk and control register defined in the Governance, Risk & Compliance (GRC) tool for performing these RCSA's. These are linked to entities of the Group and processes as defined under the LeasePlan Global Process Structure (GPS) linking the risk management cycle with day-to-day business initiatives and priorities.
- Closing The Book Standard: LeasePlan has a uniform set of accounting and reporting principles applied (e.g. Accounting and Reporting Manual and our Closing The Books Standard) throughout the Group based on its application of International Financial Reporting Standards. During the year, financial reporting control deficiencies have been identified, specifically related to the limitations of legacy IT systems and control documentation. Control deficiencies are remediated as part of the the ongoing finance improvement processes as described on *page 124*.
- Letter of Representation: Managers of the entities submit a letter of representation emphasising the compliance with the uniform set of accounting and reporting principles. The Group of entities that is included in the consolidated financial statements is comprised of subsidiaries acting as separate entities selling LeasePlan's core products.
- Scenario analysis: LeasePlan defines capital risk scenarios on a Group level. The process is run by Group Risk by aggregating bottom-up various inputs from LeasePlan Entities and other subject matter experts from the Group. Entity scenario analysis is used locally to better understand certain risks and scenario's.
- Strategic Risk Assessment (SRA): As part of the risk strategy process, LeasePlan identifies and assesses the risks it is exposed to on an annual basis via a SRA. To ensure that we actively manage and mitigate the impact of these risks on our strategic goals, reputation and financial results. The SRA considers the current business, external trends and emerging development and includes a heatmap of the environment (in terms of probability and impact), concludes which risks are part of the risk universe and as such under active management, and defines the taxonomy.
- Key Risk Indicator (KRI's): LeasePlan uses KRI's enabling senior management at Group level to monitor and manage early warning signals preventing key risks to materialise. KRI's track changes in important risk exposures, signalling changes in the risk profile of which the boundaries are set in the Risk Appetite Statement., The KRI's help to ensure that exposure levels stay within the Risk Appetite.

Chapter 15

Financial statements

Chapters

Chapters

Consolidated statement of profit or loss

for the year ended 31 December 2018

In thousands of euros	Note	2018	2017
Operating lease income		3,973,110	3,846,599
Finance lease & other interest income		132,542	124,514
Additional services income		2,422,469	2,526,702
Vehicle sales & end of contract fees		2,990,322	2,863,105
REVENUES	*3*	**9,518,443**	**9,360,920**
Depreciation cars		3,288,215	3,069,892
Finance cost		303,769	306,170
Unrealised (gains)/losses on financial instruments	*12*	11,409	–9,378
Impairment charges on loans and receivables	*4*	28,705	19,452
Lease cost		3,632,097	3,386,136
Additional services cost		1,550,420	1,705,256
Vehicle & disposal cost		2,881,696	2,706,033
DIRECT COST OF REVENUES	*3*	**8,064,213**	**7,797,425**
Lease services		473,555	584,977
Additional services		872,049	821,446
Profit/loss on disposal of vehicles & end of contract fees		108,626	157,072
GROSS PROFIT	*3*	**1,454,230**	**1,563,495**
Staff expenses	*5*	571,241	570,615
Other operating expenses	*6*	318,288	357,023
Other depreciation and amortisation	*7*	45,104	55,935
TOTAL OPERATING EXPENSES		**934,634**	**983,572**
Other income	*8*	128	5,057
Share of profit of investments accounted for using the equity method	*19*	3,284	2,301
PROFIT BEFORE TAX		**523,008**	**587,281**
Income tax expenses	*9*	99,381	120,675
NET RESULT ATTRIBUTABLE TO OWNERS OF THE PARENT		**423,627**	**466,606**

Consolidated statement of comprehensive income

for the year ended 31 December 2018

In thousands of euros	Note	2018	2017
NET RESULT		**423,627**	**466,606**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit reserve, before tax	*29*	2,301	2,557
Income tax on post-employment benefit reserve	*9*	–654	–998
SUBTOTAL CHANGES POST EMPLOYMENT BENEFIT RESERVE, NET OF INCOME TAX		**1,647**	**1,559**
Items that may be subsequently reclassified to profit or loss			
Changes in cash flow hedges, before tax		–4,778	4,296
Cash flow hedges recycled from equity to profit and loss, before tax		–	15
Income tax on cash flow hedges	*9*	1,195	–1,078
SUBTOTAL CHANGES IN CASH FLOW HEDGES, NET OF INCOME TAX	*9*	**–3,584**	**3,233**
Exchange rate differences	*29*	–14,676	–46,214
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX		**–16,614**	**–41,422**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**407,014**	**425,184**
Comprehensive income attributable to:			
Owners of the parent		407,014	425,184

Consolidated statement of financial position

as at 31 December 2018

In thousands of euros	Note	2018	2017
ASSETS			
Cash and balances at central banks	*10*	3,167,831	2,349,162
Investments in debt securities		24,709	–
Receivables from financial institutions	*11*	518,318	547,296
Derivative financial instruments	*12*	98,517	103,458
Other receivables and prepayments	*13*	1,150,155	1,178,859
Inventories	*14*	467,071	384,775
Lease receivables from clients	*16*	3,279,487	3,260,694
Property and equipment under operating lease and rental fleet	*17*	17,818,976	16,708,694
Other property and equipment	*18*	102,882	93,982
Loans to investments accounted for using the equity method	*15*	151,300	140,500
Investments accounted for using the equity method	*19*	15,874	12,983
Intangible assets	*20*	256,128	185,679
Corporate income tax receivable	*9*	48,096	33,320
Deferred tax asset	*21*	141,135	122,453
Assets classified as held-for-sale	*22*	39,259	20,107
TOTAL ASSETS		**27,279,736**	**25,141,962**
LIABILITIES			
Trade and other payables and deferred income	*24*	2,290,482	2,408,074
Borrowings from financial institutions	*25*	3,788,873	3,323,132
Derivative financial instruments	*12*	112,656	80,369
Funds entrusted	*23*	6,490,204	6,002,501
Debt securities issued	*26*	10,449,447	9,337,826
Provisions	*27*	495,672	454,057
Corporate income tax payable	*9*	24,462	37,994
Deferred tax liabilities	*21*	292,347	274,023
TOTAL LIABILITIES		**23,944,143**	**21,917,976**
EQUITY			
Share capital	*28*	71,586	71,586
Share premium	*28*	506,398	506,398
Other reserves	*29*	–67,760	–51,147
Retained earnings	*30*	2,825,370	2,697,149
TOTAL EQUITY		**3,335,594**	**3,223,986**
TOTAL EQUITY AND LIABILITIES		**27,279,736**	**25,141,962**

Consolidated statement of changes in equity

In thousands of euros	Share capital	Share premium	Other reserves	Retained earnings	Equity of owners of the parent
BALANCE AS AT 1 JANUARY 2017	**71,586**	**506,398**	**−9,725**	**2,507,443**	**3,075,702**
Net result	–	–	–	466,606	466,606
Other comprehensive income	–	–	−41,422		−41,422
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**−41,422**	**466,606**	**425,184**
Final dividend relating to 2016	–	–	–	−112,000	−112,000
Interim dividend relating to 2017	–	–	–	−164,900	−164,900
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT	**–**	**–**	**–**	**−276,900**	**−276,900**
BALANCE AS AT 31 DECEMBER 2017	**71,586**	**506,398**	**−51,147**	**2,697,149**	**3,223,986**
Adoption of IFRS 9	–	–	–	−3,906	−3,906
BALANCE AS AT 1 JANUARY 2018	**71,586**	**506,398**	**−51,147**	**2,693,243**	**3,220,080**
Net result	–	–	–	423,627	423,627
Other comprehensive income	–	–	−16,614	–	−16,614
TOTAL COMPREHENSIVE INCOME	**–**	**–**	**−16,614**	**423,627**	**407,014**
Final dividend relating to 2017	–	–	–	−120,100	−120,100
Interim dividend relating to 2018	–	–	–	−171,400	−171,400
TOTAL TRANSACTIONS WITH OWNERS OF THE PARENT	**–**	**–**	**–**	**−291,500**	**−291,500**
BALANCE AS AT 31 DECEMBER 2018	**71,586**	**506,398**	**−67,761**	**2,825,370**	**3,335,594**

Consolidated statement of cash flows

for the year ended 31 December 2018

In thousands of euros	Note	2018	2017
Operating activities			
Net result		423,627	466,606
Adjustments			
Interest income and expense	3	171,227	181,656
Impairment charges on receivables	4	28,705	19,452
Depreciation operating lease portfolio and rental fleet	17	3,362,673	3,167,014
Depreciation other property, plant and equipment	7	26,570	26,607
Amortisation and impairment on intangibles	7	18,534	29,501
Share of profit in investments accounted for using the equity method	19	–3,284	–2,301
Gain on sale of subsidiaries/associates	8	–128	–5,057
Financial instruments at fair value through profit and loss	12	11,409	–9,378
Income tax expense		99,381	120,675
Changes in			
Provisions		48,599	–44,921
Derivative financial instruments		36,716	116,186
Trade and other payables and other receivables		–124,057	–46,564
Inventories	14	251,784	150,856
Amounts received for disposal of objects under operating lease	17	2,285,950	2,173,709
Amounts paid for acquisition of objects under operating lease	17	–7,187,078	–6,621,364
Acquired new finance leases		–1,470,827	–1,186,794
Repayment finance leases		1,503,728	1,205,203
Income taxes received		6,798	35,828
Income taxes paid		–134,774	–121,525
Interest received		132,388	124,616
Interest paid		–308,016	–323,939
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		**–820,075**	**–543,935**

See continuation of this table on the next page.

Consolidated statement of cash flows continued

for the year ended 31 December 2018

In thousands of euros	**Note**	**2018**	**2017**
Investing activities			
Investment in debt securities		–24,709	
Proceeds from sale of other property and equipment	18	26,323	24,461
Acquisition of other property and equipment	18	–62,651	–54,574
Acquisition of intangible assets	20	–89,039	–42,590
Loans provided to investments accounted for using the equity method	15	–71,800	–71,475
Redemption on loans to investments accounted for using the equity method	15	61,000	56,250
Dividend received from associates and jointly controlled entities	15	1,031	1,420
Changes in held-for-sale investments		–16,858	–8,499
Proceeds from disposal of subsidiaries		280	17,500
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**–176,422**	**–77,507**
Financing activities			
Receipt from receivables from financial institutions		429,427	385,181
Balances deposited with financial institutions		–381,250	–384,418
Receipt of borrowings from financial institutions		5,061,224	3,756,794
Repayment of borrowings from financial institutions		–4,532,691	–3,672,830
Receipt of funds entrusted		2,358,245	2,317,779
Repayment of funds entrusted		–1,870,579	–1,795,935
Receipt of debt securities		3,302,332	3,602,148
Repayment of debt securities		–2,208,649	–2,774,552
Dividends paid to Company's shareholders		–291,500	–276,900
NET CASH INFLOW FROM FINANCING ACTIVITIES		**1,866,560**	**1,157,267**
CASH AND BALANCES WITH BANKS AS AT 1 JANUARY		**2,481,998***	**1,945,608**
Net movement in cash and balances with banks		870,063	535,825
Exchange gains/(losses) on cash and balances at banks		–492	565
CASH AND BALANCES WITH BANKS AS AT 31 DECEMBER	10	**3,351,570**	**2,481,998***

** Prior year comparatives have been restated. Please refer to the Basis of preparation for further details.*

General notes

for the year ended 31 December 2018

1 GENERAL INFORMATION

LeasePlan Corporation N.V.

LeasePlan Corporation N.V. (the 'company') is domiciled in Amsterdam, the Netherlands, and is registered at the Commercial Register of Amsterdam under number 39037076, where its statutory seat is located. The address of its registered office is Gustav Mahlerlaan 360, 1082 ME Amsterdam. The consolidated financial statements of the company as at and for the year ended 31 December 2018 comprise the company and its subsidiaries (together referred to as the 'Group') and the Group's interest in investments accounted for using the equity method. The Group consists of an international network of companies engaged in fleet management and mobility services, mainly through operating leasing. At the end of the year 2018, the Group employed just over 7,500 people worldwide and had offices over 30 countries. A list of the principal consolidated participating interests is included in *Note 25* of the company financial statements.

The company has held a banking licence in the Netherlands since 1993 and is regulated by the Dutch Central Bank.

Ownership of the company

On 21 March 2016 LP Group B.V. acquired 100% of the shares of the Company from Global Mobility Holding B.V.

LP Group B.V. is the parent of the company and indirectly represents a group of long-term responsible investors. None of these investors alone has a direct or indirect controlling interest in the company:

- *ADIA:* Since 1976, the Abu Dhabi Investment Authority (ADIA) has been prudently investing funds on behalf of the Government of Abu Dhabi, with a focus on long-term value creation. ADIA manages a global investment portfolio that is diversified across more than two dozen asset classes and sub categories, including quoted equities, fixed income, real estate, private equity, alternatives and infrastructure.
- *ATP:* ATP was established in 1964 and is Denmark's, and one of Europe's, largest pension funds.
- *Broad Street Investments:* A Singapore based holding company.
- *GIC:* GIC is a leading global investment firm with well over US$100 billion in assets under management. Established in 1981, the firm manages Singapore's foreign reserves and is positioned for long-term and flexible investments across a wide range of asset classes, including public equities, fixed income, real estate; and private equity. In private equity, GIC invests through funds as well as directly in companies, partnering with fund managers and management teams to help businesses achieve their objectives. GIC employs more than 1,300 people.
- *PGGM:* PGGM is a cooperative Dutch pension fund service provider. Institutional clients are offered asset management, pension fund management, policy advice and management support. Either alone or together with strategic partners, PGGM develops innovative future provisions by linking together pension, care, housing and work.
- *TDR Capital:* TDR Capital LLP is a highly selective private equity firm with a track record of investing in businesses. TDR Capital LLP was founded in 2002 and currently manages funds totalling over EUR 8.0 billion on behalf of a range of sophisticated investors.

2 BASIS OF PREPARATION

Statement of compliance and restatements

The consolidated financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on March 13 2019.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as endorsed by the European Union (EU) and Part 9 of Book 2 of the Dutch Civil Code.

Functional and presentation currency

Items included in the financial statements of each of the Group companies are measured using the currency of the primary economic environment in which the company operates (the functional currency). The consolidated financial statements are presented in euro, which is the company's functional and presentation currency. Financial information presented in euro has been rounded to the nearest thousand, unless otherwise indicated. Due to rounding, numbers presented throughout these financial statements may not add up precisely to the totals provided.

Use of estimates, assumptions and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The main estimates and underlying assumptions relate to the residual values at the end of the contract date, the valuation and impairment of fixed assets from operating leases, impairment of finance lease receivables, defined benefit pensions obligations, the fair value of the derivatives, the assessment of the income tax position and damage risk retention provision, the impairment of intangibles and goodwill, revenue recognition, the assessment of restructuring provisions and litigation provisions. Information on the above-mentioned areas of estimation and judgement is provided in *Note T* – Critical accounting estimates, assumptions and judgements.

The estimates and underlying assumptions are reviewed each financial reporting period. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period of the revision, or in any future periods affected if the revision affects both current and future periods.

General notes continued

for the year ended 31 December 2018

2 BASIS OF PREPARATION CONTINUED

Effective as from 1 January 2018, the Group has adopted IFRS 9. This new reporting standard introduces the 'expected credit loss' model for the impairment of financial assets, replacing the 'incurred loss' model of the previous standard IAS 39. Consequently, the Group has made significant changes to its use of estimation techniques and assumptions for the impairment of lease receivables and other debt financial assets. Further details on the change in estimation techniques and assumptions are disclosed as part of *Note T*.

New and amended standards adopted by the Group effective as from 1 January 2018

The following new or revised standards, amendments and interpretations to published standards became effective as per 1 January 2018 (and are endorsed by the EU). The impacts of those standards and new accounting policies implemented by the Group are disclosed below.

Restatement in the presentation of the cash and balances at bank for the purposes of cash flow statements

Comparative amounts have been restated as a result of the Group's revised interpretation of the classification of 'Cash and balances at bank for the purpose of the statement of cash flows'. The changes are reflected in the table below:

	Previously reported	Re-classification of Deposits with banks	Adjusted
Cash and balances at bank for the purposes of the statement of cash flows at 1 January 2018	2,224,729	257,269	2,481,998

IFRS 9 – Financial Instruments

The Group has implemented IFRS 9 Financial Instruments (which replaces IAS 39) as from 1 January 2018 without restatement of comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised against the opening balance of retained earnings as at 1 January 2018.

The Group elected to continue to apply the hedge accounting requirements of IAS 39 in their entirety until the standard resulting from the IASB's separate project on macro hedge accounting becomes effective. The Group has implemented the revised hedge accounting disclosures that are required by IFRS 7 'Financial Instruments: Disclosures'.

The adoption of IFRS 9 resulted in the following key changes to the Group's accounting policies:

Classification and measurement

The classification and measurement of debt financial assets depends on how these are managed (the business model test) and their contractual cash flow characteristics (the solely payment of principal and interest test). The outcome of the test will drive how financial assets are subsequently measured: at amortised cost, fair value through other comprehensive income (OCI) or fair value through profit or loss. The classification and measurement requirements for financial liabilities remained substantially unchanged from the previous standard, IAS 39.

Impairment

The IFRS 9 expected credit loss (ECL) model has replaced the 'incurred loss' model of IAS 39.

The ECL model requires the recognition of ECLs upon initial recognition of a debt financial asset. It contains a three-stage approach which is based on the change in credit quality of financial assets. Depending on the stage, the ECL allowance is measured either as 12-months (stage 1) or lifetime expected credit losses (stage 2 and 3).

Reference is made to *Note C* – Financial assets and liabilities for additional disclosures on the specific application of IFRS 9 in relevant asset categories.

Transition

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- If a receivable from a financial institution had low credit risk at the date of initial application of IFRS 9, then the Group assumed that credit risk on the asset had not increased significantly since its initial recognition.

The Group has concluded that the IFRS 9 transition amount reduces shareholders' equity by EUR 3.9 million after tax as at 1 January 2018. The impact relates solely to the implementation of the new expected loss impairment requirements by the Group. The impact on the CET1 ratio is limited, with no phase-in applied. The following table analyses the impact, net of tax, of transition to IFRS 9 on retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 on 1 January 2018
RETAINED EARNINGS	
CLOSING BALANCE UNDER IAS 39 (31 DECEMBER 2017)	2,697,149
Net impact of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(3,906)
OPENING BALANCE UNDER IFRS 9 (1 JANUARY 2018)	2,693,243

General notes continued

for the year ended 31 December 2018

2 BASIS OF PREPARATION CONTINUED

The Group's efforts to test and refine the IFRS 9 expected credit loss models have continued over the course of the year. As a result, the impact of the IFRS 9 implementation on opening balance retained earnings changed to EUR 3.9 million compared to what was reported in the interim financial statements of EUR 5.1 million as published in 2018.

There are no changes in the measurement of financial assets or financial liabilities compared to IAS 39, as summarised in the table below.

Measurement of financial assets and financial liabilities on the date of initial application of IFRS 9

1 January 2018	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and balances at central banks	*10*	Loans and Receivables	Amortised Cost	2,349,162	2,349,162
Receivables from financial institutions	*11*	Loans and Receivables	Amortised Cost	547,296	546,957
Derivative financial instruments	*12*	FVTPL	FVTPL	103,458	103,458
Other receivables and prepayments					
Rebates and bonusses and commissions receivable	*13*	Loans and Receivables	Amortised Cost	297,063	297,063
Reclaimable damages	*13*	Loans and Receivables	Amortised Cost	30,900	30,900
Loans to other third parties	*13*	Loans and Receivables	Amortised Cost	16,904	16,904
Other receivables	*13*	Loans and Receivables	Amortised Cost	20,852	20,852
Lease receivables from clients					
Amounts receivable under finance lease contracts	*16*	Loans and Receivables	Amortised Cost	2,608,572	2,598,889
Trade receivables	*16*	Loans and Receivables	Amortised Cost	652,122	656,569
Loans to investments accounted for using the equity method	*19*	Loans and Receivables	Amortised Cost	140,500	140,500
TOTAL FINANCIAL ASSETS[1]				6,766,829	6,761,254
Trade and other payables and deferred income	*24*	Amortised Cost	Amortised Cost	834,495	834,495
Borrowings from financial institutions	*25*	Amortised Cost	Amortised Cost	3,323,132	3,323,132
Derivative financial instruments	*12*	FVTPL	FVTPL	80,369	80,369
Funds entrusted	*23*	Amortised Cost	Amortised Cost	6,002,501	6,002,501
Debt securities issued	*26*	Amortised Cost	Amortised Cost	9,337,826	9,337,826
TOTAL FINANCIAL LIABILITIES[2]				**19,578,323**	**19,578,323**

[1] *Includes financial assets in scope of IFRS 9 – Classification and measurement requirements.*

[2] *Includes financial liabilities in scope of IFRS 9 – Classification and measurement requirements.*

The impact of the application of IFRS 9 on the impairment loss allowance is presented in the table below.

Reconciliation impairment loss allowance IAS 39 vs IFRS 9	31 December 2017 (Impairment allowances under IAS 39)	Transitional Adjustments	1 January 2018 (IFRS 9)
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9:			
Receivables from financial institutions	–	337	337
Lease receivables from clients	21,887	10,678	32,565
Release of IBNR	7,075	(7,075)	–
Loan commitments and financial guarantee contracts issued	–	1,011	1,011
TOTAL	28,962	4,950	33,914

General notes continued

for the year ended 31 December 2018

2 BASIS OF PREPARATION CONTINUED

Transitional adjustments of EUR 4,950 thousand include the deferred tax amount of EUR 1,046 thousand. The adjustment on the opening balance of retained earnings amounting to EUR 3,906 thousand represents the after-tax impact.

IFRS 15: Revenue from Contracts with Customers

The Group has implemented IFRS 15 Revenue from Contracts with Customers as from the effective date of 1 January 2018.

IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer and prescribes more informative and relevant disclosures. IFRS 15 provides significantly more guidance particularly with respect to the identification of performance obligations, determination of the transaction price, and allocation of value within multiple element arrangements.

As a full-service provider, the Group's arrangements with customers impacted by IFRS 15 are those generating additional service income for fleet management services, repair & maintenance services, rental activities and damage & insurance services as disclosed in *Note P* – Revenue and direct cost of revenues.

The Group's policies for the identification of performance obligations, determination of the transaction price and the resulting allocation of value were already largely aligned with the requirements of IFRS 15. Furthermore, a significant portion of the Group's revenue is recognised under IAS 17 (lease elements) and the revenue recognition under the predecessor standard IAS 18 does not carry a significant impact in comparison to IFRS 15.

The Group has elected not to restate comparative results as permitted by the transitional provisions of IFRS 15 and has concluded that there is no significant impact on shareholders' equity or comprehensive income or the Group's financial statements as a whole upon the implementation of IFRS 15.

Other changes

Other changes that became effective after 1 January 2018 (and are endorsed by the EU) do not have a significant impact on shareholders' equity or comprehensive income or are not relevant to the Financial Statements of the Group. Those changes relate to:

- Amendments to IAS 40: Transfers of Investment Property;
- Amendments to IFRS 2: Classification and Measurement of Share based Payment Transactions;
- IFRIC 22: Foreign Currency Transactions and Advance Consideration;
- Improvements to IFRS (2014-2016 cycle): IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investment in Associates and Joint Ventures; and
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 are not applicable to the Group.

New and amended standards issued but not yet effective for the financial year as from 1 January 2018

A number of new standards, amendments to existing standards and interpretations have been published and are mandatory beginning on or after 1 January 2019 or later periods. The Group has not early adopted them. The new standards which may be most relevant to the Group are set out below.

IFRS 16: Leases

The Group has implemented IFRS 16 (as issued by the IASB on 13 January 2016 and subsequently endorsed by the European Union in October 2017) by the required effective date of 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. Off-balance sheet operating leases will be included in the consolidated statement of position and will result in an increase in non-current assets and financial liabilities. These operating leases are capitalised and depreciated over the contractual term. The lease liabilities result in finance charges. These depreciation charges and financial charges will replace current operating lease expenses.

The depreciation charge is constant over the lease period, although finance charges decrease as the remaining lease liability decreases, resulting in a net reduction in profit before tax in the early part of a lease arrangement but a positive profit impact towards the end of the lease in contrast to the typical straight-line treatment of existing operating lease expenses.

The Group applies the modified retrospective approach with no restatement of comparative information and will make use of the following practical expedients:

- Measurement of the right-of-use asset at an amount equal to the lease liability.
  - Excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application on 1 January 2019.
  - Application of the incremental borrowing rate as of 1 January 2019 on a single discount rate basis to a portfolio of leases with reasonably similar characteristics such as the property asset class.
- Grandfather the definition of a lease on transition.
  - Use of hindsight in determining the lease term where leases contain extension, renewal or termination options.

The Group applies the recognition exemption for short-term and for low-value leases and reassessed the classification of sub-leases in which the Group is a lessor.

The expected impact of the transition to IFRS 16 regarding lease contracts is the following, based on our contract analysis as per 31 December 2018:

General notes continued

for the year ended 31 December 2018

2 BASIS OF PREPARATION CONTINUED

- Assets and liabilities are expected to increase by an amount close to the net present value of future lease payments, which is expected to be approximately EUR 300 million. The increase compared to the off-balance lease commitments of EUR 278 million as per December 2018 is mainly due to the effect of including renewal options in the calculations of the lease assets and liabilities.
- The total expected impact on retained earnings is expected to be nil as IFRS 16 is applied using the modified retrospective transition approach option 2.

IFRS 17: Insurance Contracts

The Group will implement IFRS 17 (as issued by the IASB in May 2017 but not yet endorsed by the EU) by the expected effective date of 1 January 2022, as published on 14 November 2018 by the IASB. Set out below is an overview of IFRS 17 as well as the impact of the adoption of IFRS 17 on the Group.

IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts, which was issued in 2005.

The main features of the new accounting model for insurance contracts are as follows:

- the present values of future cash flows, incorporating an explicit risk adjustment, are remeasured every reporting period (the fulfilment cash flows);
- a Contractual Service Margin (CSM) that is deferring any day one gain in the fulfilment of cash flows of a group of contracts, representing the unearned profitability of the insurance contracts, is to be recognised in profit or loss over the service period (i.e. coverage period);
- certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;
- the effect of changes in discount rates will be reported in either the profit or loss or other comprehensive income, determined by an accounting policy choice;
- a simplified premium allocation approach (PAA) may be applied for contracts that meet specific conditions. An important condition is that the coverage of the contracts does not exceed one year. The PAA is quite similar to current accounting under IFRS 4 for non-life products;
- the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period;
- insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
- extensive disclosures will provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The standard is expected to impact the damage risk retention provision.

The Group is currently assessing the impact on shareholders' equity or comprehensive income of IFRS 17, and as such is not able to quantify its impact, nor specify any policy choice that will be made.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements, unless otherwise stated.

Note A – Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries.

Subsidiaries

Subsidiaries are all companies (including special purpose companies) over which the Group has control. The Group controls a company when the Group is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Subsidiaries are fully consolidated from the date on which control commences until the date on which control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured at the aggregate of the fair values at acquisition date of the assets transferred, the liabilities incurred to the former owners of the entity acquired and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the entity acquired either at fair value or at the non-controlling interest's proportionate share of the entity's net assets. Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the statement of profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognised in the statement of profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Accounting policies of acquired subsidiaries were changed to ensure consistency with the policies adopted by the Group.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Associates

Associates are those companies over which the Group has significant influence but no control, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses exceeds its interest in an equity accounted associate, including any other unsecured receivables, the Group does not recognise further losses, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The accounting policies applied for the associates are in line with the policies adopted by the Group.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

For the impairment of non-financial assets, reference is made to *Note L* – Impairments.

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method as associates.

Special purpose companies

Special purpose companies are companies created to accomplish a narrow and well-defined objective, such as the securitisation of leased assets. The financial statements of special purpose companies are included in the Group's consolidated financial statements where the substance of the relationship is that the Group continues to be exposed to risks and rewards from the securitised leased assets. The Group uses various legal entities, which have been incorporated specifically for the Group's securitisation transactions, and these companies are therefore regarded as subsidiaries and included in the consolidated financial statements of the Group.

Note B – Foreign currency

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss under the caption 'Finance lease and other interest income', except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign operations

The results and financial position of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into euro (the presentational currency of the Group) as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. Such translation differences are recognised in the translation reserve of equity. When a foreign operation is disposed of or sold, in part or in full, the relevant amount of this reserve is reclassified in the statement of profit or loss as part of the gain or loss on disposal or sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Note C – Financial assets and liabilities

Recognition

A financial asset is recognised if the Group becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets at fair value through profit or loss, fair value through other comprehensive income and amortised cost are recognised on settlement date, i.e. the date that a financial asset is delivered to the company that purchased this financial asset. Loans are recognised when cash is advanced to the borrowers.

A financial liability is recognised when the Group becomes party to a contractual obligation to deliver cash or another financial instrument to another entity.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Our forbearance policy is based on European banking regulations from the Capital Requirements Directive IV and Capital Requirements Regulation and reported in the credit risk management section.

Classification and measurement

Financial assets are initially recognised at fair value. Subsequent measurement of debt financial assets depends on the classification, driven by cash flow characteristics and the business model in which an asset is held. The classification categories are held at fair value through profit or loss (P&L), fair value through other comprehensive income (OCI) or amortised cost, and are determined at initial recognition.

A debt financial asset is measured at amortised cost only if both of the following conditions are met:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows
- The contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Financial liabilities are initially recognised at fair value net of transaction costs incurred and are subsequently carried at amortised cost, except for derivatives which are classified at fair value through profit and loss. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the financial liability using the effective interest method.

Financial assets and financial liabilities at fair value through profit or loss

Derivatives are categorised as fair value through profit or loss unless these are designated as hedging instrument in a hedge. Reference is made to *Note D* – Derivative financial instruments and hedge accounting.

Gains and losses arising from changes in the fair value of the 'Financial assets and financial liabilities at fair value through profit or loss' category are included in the statement of profit or loss in the period in which these gains and losses arise and are included in the caption 'Unrealised gains/losses on financial instruments' in the statement of profit or loss.

Financial assets measured at amortised cost

Financial assets measured at amortised costs are measured after initial recognition at fair value carried at amortised cost using the effective interest method less any impairment losses. The following balance sheet items are classified at amortised cost: cash and balances at central banks, receivables from financial institutions, investments in debt securities, loans to investments accounted for using the equity method and other receivables.

Financial liabilities measured at amortised cost

The following balance sheet items classified as financial liabilities are measured at amortised cost: borrowings from financial institutions, funds entrusted, debt securities issued, and certain items included in trade and other payables and deferred income (trade payables, interest payable).

Impairment of financial assets

The following debt instruments measured at amortised cost are in scope of the impairment requirements:

- Cash and balances at central banks
- Receivables from financial institutions
- Investments in debt securities
- Loans to investments accounted for using the equity method
- Other receivables
- Trade receivables
- Loan commitments and financial guarantee contracts issued that are not measured at fair value through P&L

Lease receivables from clients, both finance lease receivables and operating lease receivables as included in trade receivables in scope of IAS 17, are brought in scope of IFRS 9 impairments. Reference is made to *Note E* – Lease receivables from clients.

An expected credit loss (ECL) is recognised upon initial recognition of a financial asset and subsequently remeasured at each reporting date. ECL is calculated by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD):

- PD represents the likelihood of a counterparty defaulting on its financial obligations.
- LGD represents the Group's expectation of the extent of the loss on a defaulted exposure. LGD varies by type of counterparty and is expressed as a percentage loss per unit of exposure at the time of default.
- EAD is based on the expected exposure amount at the time of a default.

To measure the ECL based on the General Approach, assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-months expected credit losses

This stage includes financial assets that have not had a significant increase in credit risk since initial recognition and that are not credit impaired upon origination. For these financial assets, the expected credit losses that result from default events that are expected within 12 months after the reporting date are recognised. Interest revenue is recognised based on the gross carrying amount, that is, without deduction for expected credit losses.

Stage 2: Lifetime expected credit losses – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition of the financial asset but that are not credit impaired, a lifetime expected credit loss is recognised. Interest revenue is recognised based on the gross carrying amount, that is, without deduction for expected credit losses.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition. The Group uses both quantitative and qualitative information to determine if there is a significant increase in credit risk based on the characteristics of the financial asset. Quantitative information could be a decrease in credit rating below investment grade. Qualitative information is obtained from the monitoring of existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant (negative) change in the debtor's ability to meet its obligations towards the Group. In general, the Group will apply the backstop of 30 days past due as an automatic trigger for significant increase in credit risk.

The Group has exposures to internal counterparties consisting of financial guarantees, loans to subsidiaries and loans to jointly controlled entities. As the credit risk is highly dependent on the financial performance of the underlying lease portfolios these credit risk exposures are monitored following qualitative factors in assessing the significant increase in credit risk:

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant (negative) change in the entity's ability to meet its debt obligations towards LeasePlan Corporation; and
- An actual or expected significant (negative) change in the operating results of the entity.

In addition, the Group uses its internal credit rating scale to apply quantitative factors in assessing whether there is a significant increase in credit risk. The Group considers that credit risk has increased significantly if the internal credit rating has significantly deteriorated at the reporting date relative to the original internal rating. If a significant increase in credit risk is identified, this triggers a transfer for all instruments in scope held with this counterparty from stage 1 to 2.

Stage 3: Lifetime expected credit losses – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a significant impact on the estimated future cash flows of that asset have occurred. Interest revenue is recognised based on the lower amortised cost, including the impairment expected credit losses.

The Group identifies credit impaired assets under IFRS 9 by applying the default definition used for credit risk management purposes. The Group defines a default as: Any counterparty that is either unable to fulfil its obligations (irrespective of the amount involved or the number of days outstanding), or when counterparties are over 90 days in arrears, or local judgement determines that there is a reasonable chance that the amount will be collected.

In applying this definition, the following information may serve as evidence that a financial asset is credit impaired:

- Contract breach such as a default or past due event;
- It is probable that the borrower will enter bankrupcy or other financial reorganisation; or
- The borrower faces a significant financial difficulty due to disappearance of an active market.

For credit impaired financial assets, interest is recognised in profit or loss based on the amortised cost (net of impairment allowance) rather than the gross carrying amount (gross of impairment allowances) which is the case for stage 1 and 2 assets.

Lease receivables from clients

Lease receivables consist of receivables under finance lease contracts and trade receivables, consisting of amounts invoiced for financial and operating lease receivables. For lease receivables, the Group elected to adopt an accounting policy choice to use the simplified approach, which means recognition of lifetime expected credit losses, irrespective of whether or not a significant increase in credit risk has taken place.

The amount of ECL for lease receivables is measured at the contract level as the probability weighted present value of all cash shortfalls over the expected life of the financial asset discounted at the original implicit interest rate embedded in the lease contract. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive.

Leveraging the existing risk measurement systems in place for regulatory capital purposes (see Credit Risk Management section on Financial risk management note section 'E'), the Group has developed IFRS 9 ECL models for its lease receivables.

As the internal regulatory based AIRB models used for calculating regulatory capital do not suffice for IFRS 9, they have been amended in the following areas:

- Removal of conservatism from the models;
- Switching from through-the-cycle (TTC) to point-in-time (PIT) estimates and incorporating forward-looking macroeconomic scenarios;
- Switching from a one-year prediction horizon to a multi-year forecast over the entire lifetime of the lease contracts.

An expected credit loss (ECL) is recognised upon initial recognition of a financial asset and subsequently remeasured at each reporting date. The amount of ECL is measured as the probability weighted present value of all cash shortfalls over the expected life of the financial asset discounted at the original implicit interest rate embedded in the lease contract.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Group has developed three models for the PD: corporate counterparties in all countries, retail counterparties in the Netherlands and retail counterparties in the United Kingdom. The PD forecasts are made individually for each counterparty depending on its internal credit rating. The calculation of expected credit losses also includes the explicit incorporation of forecasts of future economic conditions in all of our subsidiaries, incorporating specific macroeconomic variables that are relevant to each portfolio per country. Key economic variables that are considered in the development of IFRS 9 models include interest rates, Gross Domestic Product, unemployment rates, consumer price indices, house price indices and headline equity indices. Forecasts are developed internally considering external data to arrive at a view of future economic conditions. Experienced credit judgement is used to incorporate multiple economic forecasts which are probability weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecasts and the probability weight assigned to each forecast scenario.

The LGD model is based on a component approach, which takes into account multiple possible outcomes of a default event, including the possibility of a counterparty returning back to non-defaulted status, and the possibility of a default ending in the repossession of the collateral. For finance leases, LGD is calculated individually for each lease contract and is highly dependent on the expected sale price of the vehicle at the moment of default. The sales price depends on the characteristics of the leased vehicle, such as the type, the age and the mileage of the vehicle. Characteristics which change over time, such as age and mileage, are forecast over the expected lifetime of the lease contract to derive multi-year LGD estimates. The expected sales prices of the vehicles in the LGD model are also dependent on future economic conditions and on the situation in the market for used vehicles, which are assessed by the Group individually for each country over the expected life horizon of its lease contracts. In addition, since LGD is measured as a percentage of the exposure at the time of default, the LGD forecast over time is highly dependent on the EAD forecast for each specific contract. In the case of an operating lease, the impairment is combined with the impairment calculation of non-financial assets on a counterparty level.

EAD is the exposure amount outstanding at the default date. The EAD calculation is split into a trade receivable component and a book value component. For operating lease contracts, only trade receivables outstanding at the reporting date are taken into consideration, while for finance lease contracts, both the trade receivables outstanding at the reporting date as well as the expected book value over the lifetime of the contract are taken into consideration. The expected book value takes into account the residual value of each contract and expected future lease payments. The book value is predicted using the depreciation scheme of each specific contract, adjusted for the possibilities that the contract will be extended or prepaid. In addition to this, the EAD forecast takes into account the expected arrears over the lifetime of the instrument, and a credit conversion factor which measures possible changes in the exposure amounts between a reporting date and a default date.

The PD, LGD and EAD forecasts are combined to produce the ECL estimate. As such, ECL is highly dependent on the credit quality of counterparties in the portfolio at the reporting date, the types and characteristics of vehicles in the portfolio, the expected maturities and repayment terms of the contracts, the forecasts of future macroeconomic variables in various scenarios, the forecast market developments and residual values for used vehicles in various scenarios, and the probability weight assigned to each forecast scenario. The model is further developed based on back-testing of previous forecasts.

Measurement of ECL is based on individual assessment of counterparties subject to the abovementioned models. For counterparties where credit rating information is not available to LeasePlan, ECL is measured on a collective basis. For measurement of the ECL, average PD and LGD of the lease portfolio for each country is applied to the carrying value of the non-credit rated lease receivables of that country.

Where there are no reasonable expectations of recovering outstanding receivables that are considered credit-impaired, the gross carrying amount is reduced. Such a write-off constitutes a derecognition of the receivable and is in general recognised 12 months after the debtor is considered in default. The collection management and efforts to recover the asset may still be ongoing after the write-off.

Loan commitments and financial guarantees

A liability that results from a loan commitment (issued with a below-market interest rate) or financial guarantee requires to be measured, after initial recognition, at the higher of:

- The amount of the provision for expected credit losses; and
- The amount initially recognised, less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Financial guarantees have been provided to subsidiaries and joint ventures in relation to the lease contracts. These commitments and guarantee contracts are reported under Note 27 – Provisions.

Receivables from financial institutions

For receivables from financial institutions, the Group applies the General Approach using the low credit risk assumption. At each reporting date, the Group assesses the appropriateness of this exemption.

Investments in debt securities

The Group applies the General Approach using the low credit risk assumption for its investments in bonds and notes. At each reporting date, the Group assesses the appropriateness of this exemption.

Cash and balances at banks

For deposits at central banks, the Group has assumed that there is no credit risk as central banks are guaranteed by governments.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Reversal of impairment

An impairment loss is reversed if there has been a change in the estimated expected credit loss and the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

Presentation

The amount of expected credit losses on financial assets is presented in the statement of financial position as a deduction from the gross carrying amount of the assets. Impairment losses recognised in the statement of profit or loss form part of the 'direct cost of revenues'.

Transition

Upon the adoption of IFRS 9, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 have been recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

Derecognition

A financial asset is derecognised when and only when the contractual right to receive cash flows expires or when the financial asset, together with all the risks and rewards of ownership, has been transferred.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and liability simultaneously.

Income and expenses are presented on a net basis only when permitted by IFRS.

Previous accounting policy for impairment of financial assets under IAS 39 as applied in the comparative period

At each balance sheet date, the Group assesses whether there is a loss event that has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

An impairment of a receivable is recognised if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of the receivable. The amount of the impairment is the difference between the carrying amount and the recoverable amount, being the value of future cash flows, including amounts recoverable from guarantees and collateral. For finance lease receivables, the impairment is the difference between the carrying value of the asset and the present value of the future cash flows, discounted at the original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses these for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Note D – Derivative financial instruments and hedge accounting

Derivative financial instruments (derivatives) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of currency, interest rate and currency/interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date. The fair values of not-actively-traded instruments are calculated using a generally accepted discounted cash flow method, while considering relevant market observable data such as quoted forward prices and interest rates.

The Group uses derivatives to hedge its exposure to interest rate and foreign exchange rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the Group does not hold derivatives for trading purposes.

The Group applies cash flow hedge accounting and fair value hedge accounting.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The Group designates certain derivatives as hedging instrument either in: (i) hedges of changes in future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge); or (ii) hedges of the fair value of recognised assets or liabilities, or firm commitments (fair value hedge).

Derivatives are used as hedging instruments designated in this way provided certain criteria are met.

The Group documents the relationship between hedging instruments and hedged items at inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in a hedge are highly effective in offsetting changes in fair values or cash flows of hedged items.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash flow hedging

When derivatives are designated as a hedging instrument in a cash flow hedge, the effective portion of changes in the fair value of derivatives is recognised directly in the related hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss in the caption 'Unrealised gains/losses on financial instruments'.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the forecast transaction in a hedge will affect the statement of profit or loss (i.e. when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the statement of profit or loss when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, hedge accounting should cease retrospectively and the cumulative unrealized gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

Where ineffectiveness arises because insufficient cash flows are available but forecast cash flows are still likely to occur or when a hedge no longer meets the criteria for hedge accounting then the amounts in equity are amortised only as and when the forecast cash flows will occur.

Fair value hedging

The Group applies fair value hedge accounting to eliminate the statement of profit or loss volatility arising from different measurement principles applied by IFRS 9 to some issued fixed rate notes and to all issued structured notes (hedged items measured at amortised cost) and related derivatives (hedging instruments measured at fair value through profit or loss).

The future cash flows on the fixed leg of the swaps (hedging instrument), which the Group will apply to change the interest profile of the notes, will match the cash flows of the notes but in an opposite way, thus creating a highly effective hedge. The change in the fair value of the debt attributable to the change of the underlying swap rate is in principle equal and opposite to the change in the fair value of the swap. As the hedging period always matches the period of life-time of the note, the basis adjustments are fully reversed at maturity and no further amortisation of basis adjustments is necessary.

Changes in the fair value of a hedging instrument designated as fair value hedge are recognised in the statement of profit or loss. The carrying amount of the hedged item measured at amortised cost has been adjusted by gains or losses attributable to the hedged risk. These gains or losses are recognised in the statement of profit or loss in the caption 'Unrealised gains/(losses) on financial instruments'.

Derivatives

Changes in the fair value of derivatives that are not designated as a hedging instrument in a cash flow hedge are recognised immediately in the statement of profit or loss in the caption 'Unrealised gains/losses on financial instruments'.

Note E – Lease receivables from clients

This caption includes lease receivables from the finance lease portfolio and trade receivables. Trade receivables represent unpaid, current lessee receivables under existing (operating and finance lease) contracts or receivables related to inventory sales. The receivable balances are shown after any accumulated impairment losses and are initially measured at fair value and subsequently at amortised cost using the effective interest method.

Reference is made to *Note C* for the impairment of Lease Receivables From Clients.

Finance lease receivables

Leases where substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases. The Group as a lessor records a finance lease receivable at the amount of its net investment which equals the present value of the future minimum lease payments receivable (including any guaranteed residual value by the lessee) and the unguaranteed residual value accruing to the Group, after any accumulated impairment losses. Unearned finance income is the difference between the gross investment in the lease and the net investment in the lease.

Over the lease term, the instalments charged to clients are apportioned between a reduction in the net investment in the lease and finance lease income. The finance lease income is calculated using the effective interest method.

Note F – (Non-current) assets held-for-sale and discontinued operations

A non-current asset or disposal group is classified as held-for-sale when its carrying amount will be recovered principally through a sale transaction, whereby the expectation is that the sale will be completed within one year of the classification of assets or disposal groups as held-for-sale, subject to extension in certain circumstances.

On initial and subsequent classification as held-for-sale, (non-current) assets and disposal groups are recognised at the lower of the carrying amount and the fair value less costs to sell. Impairment losses on initial classification as held-for-sale are included in the statement of profit or loss.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier, and is presented in the balance sheet separately. When an operation is classified as a discontinued operation, the comparative statement of profit or loss is restated as if the operation had been discontinued from the start of the comparative period.

Depreciation and amortisation of assets ceases at the moment of initial classification as held-for-sale.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Note G – Intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill is recognised on acquisitions of subsidiaries. Goodwill represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired. Goodwill is measured at cost less any accumulated impairment losses. When the excess is negative (bargain purchase gain), it is recognised immediately in the statement of profit or loss.

Goodwill is allocated to cash generating units and is tested for impairment annually and whenever there is an indication that the unit may be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. Impairment losses are charged to the statement of profit or loss and are not subsequently reversed. Gains and losses on the disposal of a company include the carrying amount of goodwill relating to the company sold.

Software

Capitalised software relates to purchased software from third parties and to internally developed software for Group use. Expenditure on research activities undertaken to gain new technical knowledge and understanding is recognised in the statement of profit or loss when incurred. Expenditure on development of software is recognised as an asset when the Group can demonstrate its intention and ability to complete the development and use of the software in a manner that will generate future economic benefits and can measure the costs to complete the development. The capitalised cost of internally developed software includes all costs directly attributable to developing software and is amortised over its useful life. Capitalised internally developed and externally purchased software are measured at cost less accumulated amortisation and any accumulated impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. When subsequent expenditure is capitalised, the carrying value of the replaced part is derecognised. All other expenditure is expensed when incurred.

The estimated useful lives of software for the current and comparative period are between three and ten years.

Other intangible assets

Other intangible assets include customer relationship intangible assets, customer contract intangible assets and brand name acquired as part of business combinations and recognised separately from goodwill. Customer relationship intangible assets are amortised over 20 years, brand name is amortised over the useful life of 40 years and customer contracts are amortised over the remaining contract period (on average five years).

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and impairment.

Amortisation

Intangible assets other than goodwill are amortised on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use. The estimated useful life for software is generally three to ten years. The capitalised intangible assets have no estimated residual value.

Note H – Other property and equipment

Measurement

Items of property and equipment owned and for Group use are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset.

Subsequent expenditure on property and equipment is recognised in the carrying amount of the item only when it increases the future economic benefits embodied in the specific asset to which it relates and its costs can be measured reliably. All other expenditure is expensed when incurred. The costs of the day-to-day servicing of property and equipment are recognised in the statement of profit or loss as incurred.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in operating income in the statement of profit or loss during the year of disposal.

Depreciation

The carrying amount of other property and equipment is depreciated to its estimated residual value and recognised in the statement of profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

The estimated useful lives for the current and comparative periods are as follows:

Property	30 – 50 years
Furniture and fixtures	3 – 12 years
Hardware	3 – 5 years
Company cars	3 – 4 years

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Note I – Property and equipment under operating lease and rental fleet

Lease classification

The lease classification is determined on a contract-by-contract basis, taking into consideration the substance of the transaction and the specific details of each lease contract. The key factor is if substantially all of the risks and rewards incidental to ownership are transferred.

Various criteria are used to determine the lease classification of which the two most important are:

- whether the lease term is for the major part of the economic life of the asset; and
- whether the present value of minimum lease payments amounts to at least substantially all of the fair value of the asset.

Finance lease portfolio

Leases where substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases. Reference is made to *Note E* – Lease receivables from clients.

Operating lease portfolio

An operating lease is different from a finance lease and is classified as such if it does not transfer substantially all the risks and rewards incidental to ownership. The Group as a lessor presents the assets subject to operating leases in the balance sheet according to the nature of the asset.

The carrying amount of property and equipment under operating lease and rental fleet is depreciated to its estimated residual value during the lease term or the useful life of the asset. Depreciation is recognised in the statement of profit or loss.

The operating lease instalments are recognised in the financial statements in their entirety on a straight-line basis over the lease term. The instalments are classified and presented in the 'Operating lease income' revenue category of the statement of profit or loss.

The Group leases assets to its clients for durations that normally range between three to four years. In almost all cases, the leased assets are returned to the Group at the end of the contract term. There are two main types of operating leasing products offered:

(a) Closed calculation contracts

Closed calculation contracts are typically leasing contracts whereby the client is charged a fixed fee for the use of the asset over a period of time. At the end of the lease, the asset is normally returned to the Group and then sold in the second-hand car market. In all cases, the overall risk on the result of the contract, both positive and negative, is borne by the Group.

(b) Open calculation contracts

Open calculation contracts are leasing contracts whereby the client, under particular circumstances, may share a portion of any positive upside potential resulting from the exploitation of the lease contract. The specifics of each contract can differ by country and/or by client. However, in most of these contracts, the result on service income and the sale of the leased asset at the end of the lease are combined and a net positive result is returned to the client. Most contracts contain certain requirements that the client must fulfil to receive the net positive result, such as maintaining a certain number of leased objects during the year or that a certain number of leased objects must be included in the calculation of the net result. Open calculation contracts are classified as operating leases based on the (negative) risks being borne by the Group.

Property and equipment under operating lease and rental fleet

Property and equipment under operating lease and rental fleet are measured at cost less accumulated depreciation and impairment losses. Cost consists of the purchase price and directly attributable costs. The assets subject to operating leases are presented in the balance sheet according to the nature of the asset. The depreciation policy for depreciable leased assets is consistent with the company's normal depreciation policy for similar assets. The leased assets are depreciated on a straight-line basis over their contract period to their residual value. The contract period ranges on average between three to four years. Upon termination of the lease or rental contract the relevant assets are reclassified to the caption 'Inventories' at their carrying amount. Leased assets are depreciated over the shorter of the lease term and their useful lives. The residual value and the useful life of the leased assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in accounting estimate (so-called prospective depreciation).

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Note J – Inventories

Inventories are stated at the lower of cost and net realisable value. Upon termination of the lease or rental contract the relevant assets are reclassified from the caption 'Property and equipment under operating lease and rental fleet' to the caption 'Inventories' at their carrying amount. Net realisable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses. Valuation allowances on cars and trucks from terminated lease contracts are included in 'direct cost of revenues'.

Note K – Other receivables and prepayments

Other receivables and prepayments include prepayments in respect of expenses attributable to a subsequent period plus amounts still to be received. These amounts are valued at cost.

Reference is made to *Note N* – Provisions for reinsurance assets.

Note L – Impairment of Tangible Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In the annual assessment of whether there is any indication that an asset may be impaired, the Group considers both external as well as internal sources of information.

If such indication for impairment exists, an analysis is performed to assess whether the carrying value of the asset or cash generating unit under an operating lease exceeds the recoverable amount, being the higher of the fair value less costs to sell and the value in use. The value in use is determined as the present value of the future cash flows expected to be derived from the object or cash generating unit.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

The recoverable amount of lease contracts is determined as the value in use at customer level. As debt funding and interest payments are considered to be operational in nature, the assessment of the value in use is performed based on a discounted cash-flow-to-equity model.

Reversal of impairment

An impairment loss in respect of goodwill is not reversed. Any impairment loss on other non-financial assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Note M – Capital and dividends

Ordinary shares are classified as equity. Dividends are recognised as a liability in the balance sheet after approval by the shareholders.

Note N – Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Damage risk retention

The provision for damage risk retention is a contract provision and includes provisions for insurance risk and own material damage provision. The risk included in the provision are those for motor third party liability, legal defence, motor material damage and passenger indemnity.

Insurance contracts

Insurance contracts are accounted for in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, the Group may continue its existing pre-IFRS accounting policies for insurance contracts provided that certain minimum requirements are met. In accordance with this standard, the Group continues to apply the existing non-uniform accounting policies that were applied prior to the adoption of IFRS-EU with certain modifications allowed by IFRS 4 for standards effective after adoption. As a result, specific methodologies applied may differ between the Group's operations as they may reflect local regulatory requirements and local practices for specific product features in these local markets.

Insurance contracts are contracts under which the Group accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance contracts are recognised when the contract is entered into and the premiums are due. The liability is derecognised when the contract expires, is discharged, is disposed or cancelled.

Non-life insurance contract provisions generally include reserves for unearned premiums and outstanding claims and benefits. The reserve for unearned premiums includes premiums received for risks that have not yet expired and inadequate premium levels. Generally, the reserve is released over the coverage period of the premium and is recognised as premium income.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The liability for outstanding claims and benefits is established for all reported claims and damages that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported (IBNR) to the Group. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions to settle all claims, including related internal and external damages handling expenses. The liability may include a prudential margin. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied if allowed by the local accounting principles used to measure the insurance liabilities. Discounting of liabilities at a risk-free rate of interest is generally applied where there is a particularly long period from incident to damage settlement.

The adequacy of the insurance liabilities is evaluated at each reporting period at the level of the individual claims by each subsidiary based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligations resulting from the insurance contracts based on current assumptions.

Reinsurance assets

Reinsurance assets are balances due from reinsurance companies for ceded insurance liabilities. These balances are not offset against the related insurance liabilities and are separately reported as part of 'Other receivables and prepayments'. Reinsurance contracts are contracts entered into by the Group to receive compensation for claims/benefits incurred on contracts written by the Group (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognised for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investments or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. The insurance premiums for the original contracts are presented gross of reinsurance premiums paid in the consolidated statement of profit or loss. Reinsurance contracts are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Annually the Group assesses whether its amounts recoverable under a reinsurance contract are subject to impairment. The focus of the test is credit risk, which arises from the risk of default by the reinsurer and from disputes regarding coverage. Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract may be received. In such a case, the value of the reinsurance asset recoverable is determined based on the best estimate of future cash flows, taking into consideration the reinsurer's current and expected future financial conditions plus any collateral held in trust for the Group's benefit. The carrying value is reduced to this calculated recoverable value, and the impairment loss recognised in the statement of profit or loss.

Post-employment benefits

Group companies operate various employee benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has defined benefit and defined contribution pension plans as well as other post-employment benefits.

Defined contribution pension plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate company. The Group has no further payment obligations once the pension contributions have been paid. Contributions to defined contribution pension plans are recognised as expenses in the statement of profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their services in the current and prior periods. The present value of the defined benefit obligation is calculated using the projected unit credit method. The benefit is discounted at the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefits will be paid.

The net benefit obligation recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. For determining the pension expense, the expected return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Actuarial gains and losses from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise without recycling to the statement of profit or loss. Past service costs are recognised in the statement of profit or loss when due.

Settlements and curtailments invoke immediate recognition in the statement of profit or loss of the consequent change in the present value of the defined benefit obligations and in the market value of the plan assets. A settlement is an early termination of all or part of the defined benefit obligation. A curtailment occurs when the company is demonstrably committed to materially reducing the number of employees in the defined benefit plan or the pension benefits for future services.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Other provisions

Other provisions include amounts for other long-term employment benefits plans, termination benefits, litigations, ECL for financial guarantees, restructuring as well as onerous contracts. These provisions have been estimated based on the best estimate of expenditure required to settle the present obligation at the reporting date considering risks and uncertainties and the effect of time value of money. For ECL on financial guarantees see *Note C* – Financial assets and liabilities.

Some Group companies provide other post-employment benefits to their employees based on local legal requirements. These benefits mainly comprise termination indemnities which are either payable at retirement age or if the employee leaves. Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the event when an offer is made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Regarding onerous contracts, the present obligation under a contract that is onerous is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Note O – Trade and other payables and deferred income

Other liabilities

The Group recognises a liability and an expense for variable remuneration to employees based on a comparison made at the end of the year between the criteria applied for granting variable remuneration and an assessment of the relevant performance. The Group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

The variable remuneration award for the Identified Staff consists of a direct payment in cash and a deferred payment in cash and Phantom Share Units (PSUs). The PSUs represent the underlying value of the company shares which entitle the participant to a payment in cash after a specified period and are recognised as a cash-settled share based payment arrangement. The PSU part of the deferred award is revalued annually by estimating the company's equity value for determining the fair value of the outstanding PSU awards. Liabilities recognised for PSUs are measured at the estimated fair value. This fair value is established once a year by the (Remuneration Committee of the) Supervisory Board and is based on comparing financial performance of the company to publicly available valuation and financial performance of a selected peer group of comparable companies. All changes to the PSUs' liabilities are recognised in the statement of profit or loss under staff expenses.

Note P – Revenues and direct cost of revenues

Revenues

Revenues represent the fair value of the consideration received or receivable for the sale of goods and services in the Group's ordinary course of business. The Group has initially applied IFRS 15 at 1 January 2018. Under the transition method chosen, comparative information has not been restated.

Operating lease income

Leasing income from operating lease instalments is recognised on a straight-line basis over the lease term, based on the total of the contractual payments divided by the number of months of the lease term.

Charges to clients may include passed on costs such as fuel, road taxes and other taxes which do not represent the inflow of economic benefits and/or are collected on behalf of third parties and are therefore not presented as revenues.

Finance lease & other interest income

Interest income from finance lease contracts is recognised using the effective interest method. Payments collected from the lease are allocated between reducing the net investment in the lease and recognising interest income.

Other interest income mainly includes income from interest-bearing assets, which is recognised using the effective interest method.

Additional services income

Additional services include fees charged for fleet management services, repair & maintenance services, rental activities and damage & insurance services.

Fleet management & other services

Revenue from fleet management services is recognised on a straight-line basis over the term of the fleet management agreement.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Repair & maintenance services

Income related to repair & maintenance services is recognised of the term over the lease contract. The allocation of income over the term is based on the normal repair and maintenance cost profile supported by historical statistics and expected service costs. The difference between the amounts charged to clients and amounts recognised as income is accounted for as deferred leasing income. Cost profiles are reviewed periodically to ensure they remain a fair representation of historical repair and maintenance expenditures, adjusted for reasonable expectations of changes in cost profiles.

Income related to services surrounding open calculation contracts is not certain until final settlement takes place. As such, this income is not recognised until that time and is presented within the sales result. For open calculation contracts, expected losses are recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenues.

Rental

Rental revenues are recognised on a straight-line basis over the term of the rental agreement.

Damage & insurance services

The revenue from the risk retention schemes is recognised based on the monthly lease instalment. This applies for third-party liability and own damage insurance products. Revenue recognition will cease when the contract is terminated by a client or at the end of the contractual term.

Lease incentives

Amounts paid or value provided to lessees as lease incentives are capitalised. Lease incentives are amortized on a straight-line basis over the term of the related lease as a reduction in revenue.

Vehicle sales and End of contract fees

Vehicle sales revenue includes the proceeds of the sale of vehicles from terminated lease contracts. The proceeds from the sale of vehicles are recognised when the objects are sold and the risk and rewards are transferred. End of contract fees may consist of fees charged to clients for deviations from the contractual terms related to contract duration, mileages and extensive wear and tear of the vehicle. The fees are recognised upon termination of the lease contract.

Direct cost of revenues

Direct cost of revenues comprises the cost associated with providing the above-mentioned service components of the lease instalment. Any (volume related) bonuses related to these expenses, including those earned on the purchase of leased objects, are credited directly to expenses. Bonuses received on purchases of objects for operating lease contracts are deducted from the purchase consideration and as such result in lower depreciation. Bonuses received on purchases of objects for finance lease contracts are recognised immediately in the statement of profit or loss.

Cost of revenues also includes the carrying amount of the sold vehicles and the costs associated with the rental activities, finance costs for interest-bearing liabilities, impairment charges on loans and receivables and unrealised (gains)/losses on financial instruments.

Finance cost

Finance cost consists of interest expenses and similar charges for interest-bearing liabilities and is recognised in the statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees and points, paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Note Q – Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the income tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax

Current income tax is the expected income tax payable or receivable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to income tax payable or receivable in respect of previous years.

Current income tax assets and current income tax liabilities are only offset if there is a legally enforceable right to offset the recognised amounts and if a subsidiary intends either to settle on a net basis; or to realise the asset and settle the liability simultaneously.

Deferred tax

Deferred tax is recognised, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and providing for unused tax losses and unused tax credits.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered. Deferred tax assets are reviewed annually and reduced to the extent that it is no longer probable that the related income tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are only offset if there is a legally enforceable right to offset the tax assets against tax liabilities relating to income taxes levied by the same taxation authority on either the same taxable company or different taxable companies which intend either to settle current income tax assets and liabilities on a net basis, or to realise the asset and to settle the liabilities simultaneously (often within one fiscal unity).

Note R – Statement of cash flows

The consolidated statement of cash flows has been drawn up in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. Changes in balance sheet items that have not resulted in cash flows have been eliminated for preparing this statement.

Operating cash flows

Operating cash flows comprise all cash flows during the period that do not qualify as either investing cash flows or financing cash flows. In the net cash flow from operating activities, the result before profit is adjusted for those items in the statement of profit or loss and changes in balance sheet items, which do not result in actual cash flows during the year. As the main operating activity of the Group is to provide operating and finance leases, cash payments to acquire underlying assets under operating lease and finance lease are classified as an operating activity. A similar approach is followed for interest received and interest paid, even though these arise on financing balances.

Investing cash flows

Investing activities include cash flows with respect to acquisition and sale of assets under other property and equipment, intangible assets and other long-term assets. Investing activities also include cash flows relating to acquisition, disposal and dividend of equity interests in investments accounted for using the equity method and held-for-sale investments.

Finance cash flows

Finance cash flows include cash flows relating to obtaining, servicing and redeeming sources of finance, but exclude interest received and interest paid as these are included in the operating cash flows. The sources of finance include amounts borrowed from financial institutions and dividends paid. The cash flows related to LeasePlan Bank are included in the cash flow of funds entrusted on a net basis. Next to the cash flows relating to the sources of finance, the cash flows relating to balances deposited to financial institutions are included in the finance cash flows, even though these arise from investing activities.

Cash and balances with banks

Cash and balances with central banks are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The short-term characteristic of a cash equivalent is generally taken as a term of three months or less from the date of acquisition. The balance includes cash, central bank deposits, call money and cash at banks. Bank overdrafts and call money that are repayable on demand are included in the cash flows with respect to borrowings from financial institutions.

Note S – Segment reporting

Segment reporting is based on the internal reporting to the Group's Managing Board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assesses the performance of the reportable segments. Consequently, segment information is presented in the consolidated financial statements in respect of the Group's leasing activities in Europe and the Rest of the world.

Leasing activities comprise the main activity of the Group which is providing fleet management services including the purchase, financing service and remarketing of vehicles. The Group offers a mono-line product through all of its subsidiaries. Segmentation is presented based on the two geographical segments distinguished by management: Europe and Rest of the world. The segment disclosure is included in *Note 2*.

Inter-segment sales are carried out at arm's length and are eliminated on consolidated level. Inter-segment revenues are not presented separately given their insignificance. The revenue from external parties is measured in the same way as in the statement of profit or loss.

Note T – Critical accounting estimates, assumptions and judgements

Preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These include, but are not limited to, the following areas:

Impairment of goodwill and intangible assets

Determining whether goodwill or intangible assets are impaired requires an estimation of the value in use of the groups of cash generating units to which the goodwill and intangible assets have been allocated. The key assumptions calculating the value in use are those regarding discount rates, growth rates and other expected changes in cash flows. The estimates and assumptions used are disclosed in *Note 20* of the consolidated financial statements of the company.

General notes continued

for the year ended 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Review of depreciable amount and depreciation period of (leased) assets

The basis for the depreciation of an operating lease contract and rental contracts is the investment value at cost less the estimated residual value as included in the contract, in combination with the contract duration. A change in these accounting estimates leads to a change in depreciation that has an effect in the current period and/or in subsequent periods.

Statistical models and calculations (regression analysis) are used to calculate a vehicle's future value as accurately as possible. The Group has an advanced management information system that closely monitors changes in the contractual residual values used in lease contracts. The existing residual value risks are also periodically assessed at a portfolio level.

Impairment losses on property and equipment under operating lease

In the annual assessment of whether there is any indication that an asset may be impaired, the Group considers both external as well as internal sources of information. If such indication for impairment exists, an analysis is performed to assess whether the carrying value of the asset or cash generating unit under an operating lease exceeds the recoverable amount, being the higher of the fair value less costs to sell and the value in use. The value in use is determined as the present value of the future cash flows expected to be derived from the object or cash generating unit. Important input is the expected residual value of the assets under operating leases.

Impairment losses on (lease) receivables

The measurement of the ECL allowance for financial assets is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Judgement is required from management for applying appropriate models and setting assumptions for the measurement of ECL.

The methodology and assumptions, including any forecasts of future economic conditions, are reviewed regularly by management.

Details about the assumptions and estimation techniques used in measuring ECL for finance lease receivables and trade receivables from operating lease contracts are provided in section Credit risk management.

The impairment models are subject to annual review to ensure they remain current and fit for purpose and the use and performance continue to meet the Group's standards. In case of significant changes, external model validation is performed.

Post-employment benefits

The actuarial valuation of post-employment benefits and other long-term employee benefits is based on assumptions regarding inflation, discount rates, expected return on plan assets, salary rises and mortality rates. The assumptions may differ from the actual data because of changes in economic and market conditions.

Damage risk retention

The damage risk retention provision is based on estimations with respect to reported and incurred but not reported claims. Techniques applied are statistical modelling based on empirical data and assumptions on future claim development, policyholder behaviour and inflation. The assumptions may differ from the actual data as a result of changes in economic and market conditions.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes and the deferred tax positions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The Group recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences are analysed and will impact the income tax and deferred tax provisions in the year in which such determination is made.

Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has mainly used discounted cash flow analysis for calculating the fair value of the derivatives.

Revenue recognition

Income related to lease services is recognised over the term of the contract based on historical statistics and on assumptions regarding expected service costs. The assumptions may differ from the actual data as a result of changes in economic and market conditions and are periodically back tested and adjusted if considered necessary. For details in relation to the accounting of revenue recognition, please refer to *Note P*.

Other provisions

For litigation, the best estimate of the future outflow of resources has been recognised. In situations that no proper estimate can be made yet on claims expected, no provision is recognised in the balance sheet but information about a contingent liability is disclosed.

Financial risk management

All amounts are in thousands of euros, unless stated otherwise

Introduction

The Group recognises ten risk management areas, being asset risk, credit risk, operational risk, treasury risk, motor insurance risk, ICT risk, legal risk, compliance risk, reputation risk and strategic risk.

Of the ten risk management areas, asset risk, operational risk and liquidity risk (which is part of treasury risk) are considered to be primary risks. This section of the financial statements describes in detail the Group's approach to capital management and the risk management objectives and organisation in general, as well as the Group's policy, appetite and measurement of risks over the year 2018. Reputation risk, legal risk and compliance risk are discussed in other sections of the Annual Report.

In line with IFRS 7, the Group's strategy in using financial instruments and various disclosures on the Group's financial assets and liabilities are included in this section. The Group is mainly transacting operating leases, which under IFRS do not qualify as financial assets, resulting in a significant difference between financial assets and financial liabilities.

as at 31 December	2018	2017
FINANCIAL ASSETS		
Cash and balances at central banks	3,167,831	2,349,162
Investments in debt securities	24,709	–
Receivables from financial institutions	518,318	547,296
Derivative financial instruments	98,517	103,458
Rebates and bonuses & commissions receivable	332,689	297,063
Reclaimable damages	38,701	30,900
Lease receivables from clients	3,279,487	3,260,694
Loans to investments accounted for using equity method	151,300	140,500
Investments accounted for using the equity method	15,874	12,983
Loans to other third parties	11,240	16,904
Other receivables	25,306	20,852
Assets classified as held-for-sale	39,259	20,107
TOTAL	**7,703,231**	**6,799,919**
Non-financial assets	19,576,506	18,342,043
TOTAL ASSETS	**27,279,736**	**25,141,962**
FINANCIAL LIABILITIES		
Funds entrusted	6,490,204	6,002,501
Derivative financial instruments	112,656	80,369
Trade payables	783,648	834,295
Interest payable	75,168	80,314
Borrowings from financial institutions	3,788,873	3,323,132
Debt securities issued	10,449,447	9,337,826
TOTAL	**21,699,996**	**19,658,437**
Non-financial liabilities	2,244,147	2,259,539
TOTAL LIABILITIES	**23,944,143**	**21,917,976**

For the purposes of this disclosure, the Group's 'Other Receivables and prepayments' (*Note 13*) are disclosed in four categories that represent significant financial asset components of the balance sheet caption. These comprise Rebates and bonuses & commissions receivable, Reclaimable damages, Loans to other third parties and Other receivables.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

A. Capital Management

A financial institution is expected to enhance the link between its risk profile, risk management and risk mitigation systems and its capital. The main principle is that a banking institution assesses the adequacy of its available capital in view of the risks to which it is exposed. The Group's capital management consists of internal quantification of risk capital associated with its business activities, capital planning and monitoring of developments in exposures and capital adequacy ratios, based on targets set during the annual Internal Capital Adequacy Assessment Process (ICAAP).

Internal Risk Capital

Internal Risk Capital is the Group's internal quantification of risk capital associated with its business activities. This internal capital is considered the cushion that provides protection against the various risks inherent in our business, to maintain its financial integrity and remain a going concern even in the event of a near-catastrophic 'worst-case' scenario. It is calculated in such a way that we can absorb unexpected losses up to a level of confidence in line with regulatory requirements. Internal Risk Capital measures risk using economic realities rather than accounting and regulatory rules which show actual capital level included in the balance sheet.

The capital components included are based on the same components as used in ICAAP for the Group and cover asset risk, credit risk, operational risk, motor insurance risk, treasury risk, information security risk, legal risk, compliance risk, reputational risk and strategic risk. Risk management (both at entity and Group level) is responsible for the periodical assessment of the (material) risks stemming from LeasePlan's activities.

Capital planning

Based on the strategic management outlook, a forecast of the regulatory Common Equity Tier 1 (CET1) and Total Capital (TC) ratio is prepared. The projections of the CET1/TC ratios are performed to ensure ongoing compliance with the minimum requirements set by the Dutch Central Bank (DNB). Next to the projections of the CET1 /TC ratio, a forecast of the development of the minimum requirement is made; based on the latest estimates the Group will remain above the minimum CET1/TC requirement.

The Capital Contingency Plan ('CCP') is an important element within the capital risk management framework and sets out the strategies for addressing stress on capital in emergency situations (tactical level). The CCP enforces readiness of the LeasePlan organisation to deal with events of severe stress originated from both company specific and market-wide events. The CCP ensures that contingencies are in place when necessary to ensure the Group will meet the capital requirements on a continuous basis, such as additional capital instruments.

Primary objective of the CCP is to ensure both awareness and readiness in the organisation with respect to the ability of the Group to deal with unexpected deterioration of its capital adequacy. The CCP sets the framework for managing the risk of a loss of confidence due to existing or expected capital adequacy issues. To that end, the CCP sets the crisis governance to discuss and implement pre-emptive and corrective actions that could be undertaken to prevent or mitigate a capital adequacy confidence threat and to prepare for capital restoration in case of a weakening capital position.

The CCP strengthens and broadens the scope of the monitoring processes of the capital adequacy of LeasePlan and ensures immediate reporting of any irregularities in capital ratios. The capital position is monitored and reported monthly. In addition, the Group has developed a set of key triggers, Early Warning Indicators ('EWI') and their respective trigger levels. Key triggers comprise several events which would prompt an immediate action. These are seen as more abrupt and severe. Among others, they include the deterioration of the CET1 ratio and a credit rating downgrade. Early warning indicators are to serve as warning signals following specific internal and external developments.

Capital adequacy

On 1 January 2014 the EU's adoption of the third Basel capital accord (Basel III) was implemented, by means of the amended Capital Requirements Directive (Directive 2013/36/EU) and the Capital Requirements Regulation (Regulation No 575/2013). The Group reports its capital metrics and risk exposures under this framework, comparing the Group's eligible regulatory capital with its risk-weighted assets for credit risk, operational risk and market risk (currency risk). Furthermore, banking institutions are required to assess the adequacy of available capital in view of the risks to which they are exposed. The periodic process in achieving this objective is referred to as ICAAP.

Total risk exposure amount (TREA)

To determine risk-weighting, the Group applies the AIRB approach for credit risk for the corporate portfolio and for the trade receivables and for the retail portfolios in the United Kingdom and the Netherlands. For the exposures related to governments, banks and other retail clients, the Group applies the Standardised Approach of the CRR/CRD IV framework which prescribes fixed percentages for risk weighting depending on characteristics and conditions of the exposure.

In December 2017 LeasePlan requested the DNB to approve the update of its AMA model. The assessment of the updated AMA model was conducted by the DNB in the course of 2018. At the end of 2018 the DNB provided the final Assessment Report to LeasePlan. As a result of this decision, LeasePlan is reconsidering its AMA status. In 2019, LeasePlan will decide if it will redevelop the AMA model or move to a less sophisticated approach, also knowing that AMA will be replaced by the Standardised Approach in the near future for all institutions with a banking licence.

For the calculation of risk-weighting of other balance sheet and off-balance sheet exposures, the standardised approaches as described in the CRR/CRD IV framework are used.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

A. Capital management continued

The following table illustrates the comparison between the carrying amount of assets and the risk weighted assets.

	2018			2017		
As at December 31	Carrying amount	Risk-weighted	Risk weight	Carrying amount	Risk-weighted	Risk weight
Lease assets	20,460,335	11,183,428	55%	19,337,373	10,329,739	53%
Other assets	6,819,401	2,512,031	37%	5,772,497	2,466,606	43%
TOTAL ASSETS	**27,279,736**	**13,695,459**	**50%**	**25,109,870**	**12,796,345**	**51%**
Off-balance sheet exposures and other capital requirements		2,877,343			2,941,799	
TOTAL RISK EXPOSURE AMOUNT		**16,572,802**	**61%**		**15,738,145**	**63%**

[1] *Includes the lease assets classified as held for sale. Please refer to Note 22 of the consolidated financial statements.*

Common Equity Tier 1 (CET 1)

The Group's eligible regulatory capital consists of CET 1 capital, which is derived from its IFRS equity position. The following table illustrates the reconciliation between Total equity and CET-1 capital.

As at December 31	2018	2017
Total IFRS equity	3,335,594	3,223,986
Results for the year	-423,627	-466,606
Interim dividend paid	171,400	164,900
TOTAL IFRS EQUITY EXCLUDING RESULTS AND INTERIM DIVIDEND PAID	**3,083,367**	**2,922,280**
Eligible results for year net of interim and foreseeable dividend	252,227	181,606
Regulatory adjustments	-304,474	-255,068
COMMON EQUITY TIER 1 CAPITAL	**3,031,120**	**2,848,818**

Based on EU endorsed frameworks for Basel III (CRR/CRD IV), the Group's CET-1 ratio as at 31 December is as follows:

As at 31 December	2018	2017
Total risk exposure amount	16,572,802	15,738,145
Common Equity Tier 1 capital	3,031,120	2,848,818
COMMON EQUITY TIER 1 RATIO	*** 18.3%**	**18.1%**

** Subject to approval by DNB*

The Group has applied a TREA methodology for currency risk which is built on ratio protection, considering the absolute mismatch between the capital adequacy ratio per currency and the Group's overall ratio. The Group has applied this approach since the year 2017.

The Group has continued to improve the management of asset-related exposures with investments in systems and further development of (statistical) techniques.

The regulatory scope of consolidation comprises LeasePlan Corporation N.V. and its subsidiaries ('sub-consolidated level'). L.P. Group B.V. also submits regulatory reporting on a consolidated level and on a company only level (L.P. Group B.V. stand-alone). The consolidated level of L.P. Group B.V. is equal to the IFRS scope of consolidation as applied in these consolidated financial statements.

The Group analyses the development in (risk-weighted) exposures and in eligible capital; stress testing is an important part of this analysis. Developments in (risk-weighted) exposures typically represent relative movements in the lease portfolio, whereas eligible capital normally grows with retained profits after dividend distribution.

Based on the 2018 ICAAP, the Group concludes that it is sufficiently capitalised and resilient to future plausible stress scenarios. This conclusion is based on the Group's internal control framework and its capital assessment methodologies.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

B. Risk management

Risk management framework and objective

The Group uses the principles of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and ERM Enterprise Risk Management (ERM) as a basis and reference model for the risk management frameworks. A risk management framework aims at reducing the frequency and/ or the consequences of risk events, and enables management to evaluate and balance the risks and returns related to business operations.

The Managing Board of LeasePlan Corporation N.V. has implemented corporate risk policies for all the Group's entities pursuant to its risk management strategy. The policies describe the minimum activities, controls and tools that must be in place within all the Group's entities. It is the responsibility of local management to ensure personnel are kept informed of strategy and policies relevant to them and complying with these corporate policies.

Risk, being the chance of occurrence of an event that will have a negative impact on the objectives of the organisation, is inherent to the Group's business operations. The Group's risk strategy is to support the business in achieving all strategic aims, such as achieving its target Return on Equity (RoE), while adhering to the risk appetite.

Risk appetite

During 2018 we managed our risk appetite based on the following pillars:

i. Long-term debt rating (stand-alone);

ii. Financial return on risk-adjusted capital (i.e. economic return);

iii. Diversified share of funding layers.

An institution's rating target is an indication of the overall risk appetite a company may have and the level of capital it will hold. In addition, a specific risk appetite has been set for each underlying risk category.

The Risk Committee of the Supervisory Board approves the risk appetite for the Group annually, and approves any changes required throughout the year. Depending on the risk metric, compliance with the risk appetite statement is monitored on a daily, monthly and quarterly basis and non-compliance is reported to the risk committees, the Managing Board and the Risk Committee of the Supervisory Board.

Risk governance

In 2018 the Group implemented a new Risk Charter which is the leading document for all risk governance and as such supersedes previous risk governance documents. The Risk Charter describes the governance as of 2018. On several elements, this charter differs from previous practices. Most notable are changes in the risk organisation and governance (at Group level as well as at entity level), changes in the structure and set up of the risk committees, and the formal introduction of LeasePlan's Risk Management Cycle and Risk Decision Framework. The Group has the following risk governance in place through its LeasePlan Corporation N.V. entities:

Supervisory Board of LeasePlan Corporation N.V.

The Supervisory Board of LeasePlan Corporation N.V. supervises the direction pursued by the Managing Board of LeasePlan Corporation N.V. and the general course of affairs. The risk strategy, risk appetite and risk policy for the medium and long term are discussed once a year; the Supervisory Board of LeasePlan Corporation N.V. approves any material changes to the risk strategy, risk appetite and risk policy. The (Risk Committee of the) Supervisory Board of LeasePlan Corporation N.V. is authorised to decide on credit acceptance and renewal above limits as set out in the Regulations for the (Risk Committee of the) Supervisory Board of LeasePlan Corporation N.V.

The Supervisory Board of LeasePlan Corporation N.V. has a Remuneration and Nomination Committee, an Audit Committee and a Risk Committee. The Risk Committee's role is to review the Group's risk appetite and to monitor performance of key risk indicators against the targets and tolerance levels set, to support the Supervisory Board's supervision of risk management.

Managing Board of LeasePlan Corporation N.V.

The Managing Board is responsible for the risk strategy and risk management systems and controls. It is also responsible for defining the risk appetite and approving the overall risk management framework. Within the Managing Board of LeasePlan Corporation N.V., the Chief Risk Officer (CRO) is responsible for the management and control of risk on a consolidated level, to ensure that the Group's risk profile is consistent with risk appetite and risk tolerance levels. The CRO can independently decide to escalate risk related issues to the chairman of the Risk Committee of the Supervisory Board.

Risk committees of LeasePlan Corporation N.V.

During 2018 LeasePlan changed its previous risk committee structure to ensure a proper fit with the current strategic and functional value drivers of LeasePlan. This change process resulted in the formation of four new risk committees: the Group Risk Committee, the Group Tactical Risk Committee, the Group Model Risk Committee and the Asset and Liability Committee (ALCO).

The main task of the Group Risk Committee is to enable controlled risk taking and ensure regulatory compliance. The key mandate and purpose of the Group Tactical Risk Committee is to monitor risk exposures and emerging risks in compliance with risk appetite. The Group Model Risk Committee has a delegated authority to oversee the Group risk models in the domain of credit risk, asset risk, operational risk, strategic risk and stress testing. The ALCO has a delegated authority to take decisions in the field of funding strategy, liquidity management, capital allocation and structuring.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

B. Risk management continued

The newly formed Group Risk Committee acts within its mandated authority and supports and advises the (Risk committee of the) Supervisory Board and the Managing Board with respect to all matters related to Group risk.

The key mandate and purpose of the Group Tactical Risk Committee is to monitor risk exposures and emerging risks in compliance with risk appetite. The Group Risk Committee and the Group Tactical Risk Committee are mirrored at entity level and in addition to these committees, asset risk and pricing are overseeing the day to day operations.

Lines of defence

Risk governance is based on the three lines of defence model as set out in the European Banking Authority ('EBA') Guidelines on Internal Governance ('GL 44'). The three lines of defence model distinguishes among functions that own and manage risks (first line), functions that oversee and advise on risk management practices (second line) and functions that provide internal assurance (third line). The following overview outlines the composition and responsibilities of the key parties involved in executing the three lines of defence within LeasePlan:

First line

Local & corporate management ('the business') have the full ownership of all risks at entity level and are responsible for complying with all corporate policies/standards and for the management of risks encountered while performing the business. The risk management activities comprise identifying (potential) risks, assessing (potential) risks and taking adequate measures to mitigate negative influences to adhere to the applicable risk limits and risk tolerance levels. Furthermore, local management is responsible for the timely, complete and accurate registering of all risks, (potential) incidents and threats, and for maintaining a comprehensive risk management system that covers all risks inherent to the business. As such, local & corporate management are considered the first line of defence.

The Strategic Finance department is responsible for the overall liquidity management and funding strategy within LeasePlan. Strategic Finance is the overarching department on a corporate level, encompassing LeasePlan Treasury (LPTY), LeasePlan Bank (LBNL) and the Structured Finance and Securitisation department. Strategic Finance is considered as a first line of defence, and as such in a similar way responsible for risk management as described above.

Local management, in close consultation with Group Risk and Group Compliance, ensures the set-up of an independent risk function and an independent compliance function at entity level. These functions are considered as part of the second line of defence, and coordinate, oversee and challenge the execution, management, control and reporting of risk.

Second line

Group Risk and the independent risk function at entity levels are jointly referred to as Risk Function. A detailed description of the Risk Function can be found in chapter 3. Group Risk challenges and creates awareness for risk within LeasePlan and is responsible for coordination and execution of the Risk Management Cycle (see chapter 4) and the Risk Decision Framework (see chapter 5). Group Risk ensures that the Managing Board and the Supervisory Board are made aware of all material risk developments. Within LeasePlan, the risk types as included in the Risk Type Universe are considered on an integrated basis. The Risk Function is responsible for aggregating these risk types and providing an integral view.

The Risk Function, which cooperates with all relevant disciplines within LeasePlan, is independent from the business functions and is represented by the CRO at the Managing Board level.

Third line

LeasePlan's Group Audit Department (GAD) provides internal audit services and is recognised as the third line of defence for LeasePlan's risk management. GAD conducts independent audits of LeasePlan's activities and provides independent assurance by assessing the effectiveness of governance, risk management and internal control processes. GAD reports its findings to the Managing Board and provides quarterly updates to the Supervisory Board Audit Committee.

In addition to the internal lines of defence, LeasePlan also considers the external auditor and the regulatory supervisors, as components of the overall defence framework.

It is important to understand that all lines of defence need to be effective next to each other, which means that the first line of defence work cannot be delegated to the second line, nor the second line work to the third line.

C. Strategic Risk

Strategic risk is defined as the current or prospective risk to earnings and capital arising from changes in the business environment, lack of responsiveness to changes in the business environment, from adverse business decisions or improper implementation of decisions.

LeasePlan recognises three types of strategic risk:

- Macro environment risks – the current or prospective risk to earnings and capital arising from uncontrollable external forces affecting LeasePlan;
- Micro environment risks – the current or prospective risk to earnings and capital arising from factors or elements directly in LeasePlan's immediate area of operations affecting its performance and decision-making processes;
- Corporate governance risk – the current or prospective risk to earnings and capital arising from the manner in which LeasePlan's governance structure is set, communicated, implemented and reviewed.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

C. Strategic Risk continued

In 2016, LeasePlan launched its 'The Power of One LeasePlan' programme to optimise its internal operations, to leverage its scale and implement best practices across countries, including its transition from a multi-local organisation to a fully integrated matrix organisation. Furthermore, LeasePlan launched its 'Digital LeasePlan' programme which aims to move the Group towards a data driven company delivering digital car services at digital cost levels, steered by the latest digital technology of data analytics and artificial intelligence.

LeasePlan also intends to further develop its business through selective expansion into new markets, an increased focus on SME and mobility provider customers, and attracting and retaining corporate customers, including as a result of the anticipated expansion of its CarNext.com business.

Senior leadership is aware of the effects that potential changes in the economy, consumer behaviour and technology can have on the future of LeasePlan's business. Although the future impact and development of many of these forces cannot as yet be quantified, senior leadership is taking focused actions as articulated in 'The Power of One LeasePlan' and 'Digital LeasePlan' to prepare the company for the future.

D. Operational Risk

Operational risk definitions

Operational risk involves the risk of a positive, negative or potential loss resulting from inadequate or failed internal processes, human behaviour and systems or from external incidents. Business continuity risk, financial reporting risk, model risk and HR risk are within the scope of LeasePlan's operational risk management.

Operational incidents and losses in all (risk) areas are recorded in the Operational Incident Database

Operational risk management structure and organisation

Local management is responsible for managing the operational risks in their local entity. In all local entities a formal operational risk management role is in place. This function is the driving force behind the increase in risk awareness and the improvement of operational risk management within the local entity. Group Risk Management is responsible for monitoring the operational risk profile and the collation and validation of operational risk reporting. Group Risk Management analyses the operational risk incidents reported by local entities and reports subsequently to the Group Risk Committee. On a quarterly basis Group Risk Management reports on actual performance against the risk appetite to the Risk Committee of the Supervisory Board. This report includes the operational risk position of the Group.

AMA activities and projects

As mentioned above, the DNB informed LeasePlan that it will not approve the updated AMA model. As a result of this decision, LeasePlan is reconsidering its AMA status. In 2019, LeasePlan will decide if it will redevelop the AMA model or move to a less sophisticated approach, also knowing that AMA will be replaced by the Standardised Approach in the near future for all institutions with a banking licence.

Operational risk management policy

The Group's operational risk policy, as set by the Managing Board, includes requirements on creating awareness, sufficient staffing and governance (including the existence of a local risk committee), incident identification and reporting, risk assessment and the definition of operational risk appetite. This policy prescribes the requirements for the organisation of the operational risk management activities in each local entity.

Operational risk incidents reports are continuously analysed, while operational risk incidents are reported on a monthly basis to the Group Tactical Risk Committee ('GTRC') Operational risk incidents with a net impact exceeding EUR 100,000 are reported on a quarterly basis to the Group Risk Committee ('GRC') and Risk Committee of the Supervisory Board. The overall impact of the mitigating activities is assessed by analysing the frequency and impact of operational risk incidents prior to and after implementation of the additional controls. Once it is established that certain controls have a distinguishable effect on the impact or frequency of the identified operational risks, it is the task of Group Risk Management to communicate and advise local entities with similar risks about the additional controls. The local entities are required to report all operational risk incidents above the amount of EUR 1,000. Reporting of incidents below this threshold is encouraged. The Group distinguishes between gross impact (the maximum estimated impact known at the moment of identification, irrespective of any potential recovery) and net impact (gross impact minus recovered amounts).

Operational risk measurement

During 2018 the Group recorded 2,554 (1,159 incidents with a gross impact above EUR 1,000) operational risk incidents with a total net impact of EUR 15.5 million in 2018 (EUR 16.7 million in 2017). The slight decrease is mainly due to a slight reduction in large losses compared to 2017.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

D. Operational Risk continued

The majority of the operational risk incidents recorded (85% from the total amount and 84% of the total number) are classified in the event category 'Execution: Delivery and Process Management'. The impact of external fraud incidents decreased over the year in terms of impact, while their number was slightly lower. The distribution of the Group's operational risk incidents is as follows:

	2018		2017	
Basel Category	**% total (EUR)**	**% total (nr)**	**% total (EUR)**	**% total (nr)**
Business Disruption and System Failures	0%	5%	7%	5%
Clients: Products and Business Practices	6%	7%	12%	7%
Damage to Physical Assets	0%	1%	1%	2%
Employment practices and Workplace Safety	0%	0%	1%	0%
Execution: Delivery and Process Management	85%	84%	65%	83%
External Fraud	5%	3%	14%	3%
Internal Fraud	4%	0%	0%	0%
TOTAL	**100%**	**100%**	**100%**	**100%**

Financial Reporting Risk

Like other companies, the Group faces financial reporting risks resulting from operational failures or external events, such as changes in regulations, acts from personnel and system issues. The finance systems and processes are designed to support the accounting and reporting of products and transactions and to avoid issues as non-compliance with regulations and the Group accounting and reporting policy, system failures and human errors. The Group has processes in place to update and improve these finance systems and processes when required.

During the year, financial reporting control deficiencies have been identified, specifically related to the limitations of legacy IT systems and control documentation. These deficiencies are subject to remediation as part of the ongoing finance improvement processes. These finance improvement initiatives and the implementation of the new Core Leasing Solution will further improve and harmonize data quality as well as accounting & reporting processes across the operating companies. In 2018 a number of initiatives were undertaken:

- Completion of a new corporate wide consolidation system
- First phase implementation of a new finance control framework across all operating entities, which includes quarterly self-assessments for key accounting and reporting controls. Next phases will follow in 2019
- Harmonization of various accounting policies

E. Financial risk

Credit Risk

Credit risk definition

As a result of its normal business activities, LeasePlan is exposed to credit risk, which is the risk that a counterparty will not be able to fulfil its financial obligations when due. In LeasePlan's core business, this credit risk mainly relates to objects leased to clients, represented by the amortisation of leased objects that still needs to be invoiced in future lease rentals and lease rentals that have become due. Within the leasing industry, credit risk is mitigated materially by the underlying value of the available collateral (i.e. leased object).

In addition, the Group is exposed to credit risk originating from its banking and treasury activities, which includes deposits placed with financial institutions and hedging instruments, such as derivatives and reinsurance activities. Finally, the Group is exposed to credit risk because of insurance activities as well as to rebates and bonuses to be received from vehicle manufacturers and other suppliers.

For purposes of assessing, recognising and reporting defaults, the Group defines a default as:

any customer that is considered unable to pay its credit obligations is considered to be in default (irrespective of the amount involved or the number of days outstanding). Next to this, customers are considered to be in default when they comply with all of the following rules:

- Arrears over 90 days, and
- Local judgement

The latter is the result of an internal assessment with regard to arrears to establish whether the customer is unable to pay and will be phased out gradually until January 2021. From 2021, a client will be deemed in default when there are arrears exceeding 90 days past due (as per CRR/CRD IV definition).

In 2018 LeasePlan started a Definition of Default Project. The objective of this Project is to align the Definition of Default applied by LeasePlan with the Capital Requirements Regulation ('CRR') and with the European Banking Authority ('EBA') guidelines and standards. The Project mainly includes updating LeasePlan's Definition of Default and related policies, updating and enforcing processes and procedures for all local LeasePlan entities, updating LeasePlan's AIRB models, updating where relevant IT systems, and updating LeasePlan's IFRS 9 expected credit loss models.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

Credit risk management structure and organisation

The Group's Managing Board sets authority levels for all of the Group's entities, allowing to decide on counterparty acceptance and renewal. The authority levels are granted based on the relative size of the LeasePlan entity and the quality of credit risk management. If a requested facility exceeds the local authority level, the underwriting team of Group Risk Management, Group (Tactical) Risk Committee, the Risk Committee of the Supervisory Board or the Supervisory Board is authorised to decide on credit acceptance and renewal thereof. The Group has a custom built web-based global credit risk management system in place in order to efficiently, and in accordance with granted authorities, handle and monitor credit requests and defaults.

Quantitative specialists within the Group are responsible for monitoring and analysing performance of the internal risk models and underlying risk components. In the model development phase, this function performs an internal pre-validation of the model and advises on the expected performance of the models to be validated and implemented. The quantitative specialists work in consultation with several Group risk management disciplines and are supported by external parties, among others, for validation of the models.

Credit risk management policy

The Group has issued policies and standards which regulate the governance of the local credit risk management organisation. Group entities are required to define their credit acceptance criteria and set their limits on counterparty and concentration risks as well as the types of business and conditions thereof in local policies.

For its credit risk management, the Group distinguishes between corporate clients, retail clients, governments, banks and others. In this respect, retail clients are from a regulatory point of view defined as small and medium entities (SMEs) and private households. Except for retail clients, which are assessed whenever a credit application is received, the credit risk of all counterparties is assessed at least once a year.

For corporate counterparties, the Group has an internal rating system in place, segmented into 14 non-default rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. The governance framework built around models ensures that the rating tools are kept under constant review and are renewed when necessary. For this purpose, the Group monitors on a quarterly basis whether the performance of the models meets internal and external requirements. The Group's internal ratings scale for corporate counterparties and mapping of external ratings are as follows:

Group's rating	Description of the grade	External rating: Standard & Poor's equivalent
1	Prime	AAA/AA-
2A	Very Strong	A+
2B	Strong	A
2C	Relatively Strong	A-
3A	Very Acceptable	BBB+
3B	Acceptable	BBB
3C	Relatively Acceptable	BBB-
4A	Very Sufficient	BB+
4B	Sufficient	BB
4C	Relatively Sufficient	BB-
5A	Somewhat Weak – Special Attention	B+
5B	Weak – Special Attention	B
5C	Very Weak – Watch	B-
6A	Sub-Standard Watch	CCC+/C

The ratings of Standard & Poor's shown in the table above are mapped to the Group's rating classes based on the long-term average default rates for each external grade. LeasePlan uses the external ratings where available to benchmark its internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

The Group also applies internal models to determine the credit risk to retail exposures in the United Kingdom and the Netherlands. Where the Group uses internal models to determine the credit rating of a counterparty, capital is calculated based on AIRB models. The models for credit risk relate especially to the determination of:

- Probability of Default – the likelihood of the default of a client in the next 12 months (expressed in %).
- Loss Given Default – being the loss the Group expects to incur at the moment of a default (expressed in %).
- Exposure Default – is the expected amount the Group is exposed to when a client goes into default.
- Remaining maturity – the contractual remainder of the lease contract.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

These internal models are used as a basis to comply with IFRS 9 requirements. Reference is made to *Note C* – Financial assets and liabilities.

For government, bank and other retail customers' counterparty exposures, the Group does not use internal models, as development of internal models for these counterparty classes is not cost-effective based on the Group's relatively low exposures to these counterparties. The credit rating of these exposures is determined based on external ratings, being the lowest rating of Standard & Poor's and Moody's. For the determination of the risk-weight of these exposures, the Group applies the Standardised Approach (which prescribes fixed percentages for risk weighting depending on characteristics and conditions of the exposure) to determine capital requirements.

For further details regarding capital requirements, reference is made to the Group's Pillar 3 report in accordance with the disclosure requirements of Regulation (EU) 575/2013 part eight.

Each local entity is required to maintain a special attention list and a watch list, which are based on the internal rating grades and other available information. These lists are reviewed in regular meetings by the credit committees. Credit risk exposures and news on companies included in these lists are monitored daily by the respective risk management teams both at local entity and at Group level. A qualitative analysis of total credit exposures, defaults and losses is reported on a quarterly basis to the Group's Risk Committee.

As per above, credit risk arising from the use of the relationship with banking and treasury counterparties is laid down in a specific counterparty risk standard. Limits are set on a legal entity basis and are included in the Group's risk appetite and approved on a yearly basis. Key criteria used in setting limits are, among others, large exposure rule, long-term debt ratings, credit risk assessments on the related banks and participation in the revolving credit facility. The Group, equally, puts in place acceptance criteria for reinsurance of motor insurance risks. The Group's treasury risk management monitors the exposures, against the approved limits, on an ongoing basis.

On a daily basis, the treasury risk management department reviews the current spread on credit default swaps (CDS) of all relevant banking counterparties and sovereigns in the market. The spread of a CDS, securing debt holders against a counterparty or sovereign defaulting on its debt, highlights the market participant's perceived credit risk on such a counterparty. Large or unusual volatility is raised to the Senior Treasury Risk Manager for review. For credit risk in reinsurance, reference is made to the section on motor insurance risk.

Credit risk measurement

In accordance with the CRR/CRD IV regime, the Group measures its credit risk items in the following categories: exposure classes, geographic segmentation, industry segmentation and client concentration (single customers and groups of customers).

For the purpose of the financial statements, credit risk exposure on lease receivables is reflected in two separate items based on the accounting classification of the lease, as either a finance or operating lease receivable (see *Note C* – Financial assets and liabilities). The property and equipment under operating lease and rental fleet (*Note I* – Property and equipment under operating and rental fleet) are reported as non-financial fixed assets.

The Group's credit risk exposure can be detailed as follows:

	2018	2017
Amounts receivable under FL	2,602,876	2,608,572
Property and equipment under operating lease and rental fleet	17,818,976	16,708,694
Assets classified as held-for-sale	38,483	20,107
TOTAL LEASE ASSETS	**20,460,335**	**19,337,373**
Trade receivables	676,611	652,122
TOTAL CREDIT RISK EXPOSURE	**21,136,946**	**19,989,495**

By geography

The following table shows the concentration of the financial assets (see Financial risk management Introduction on *page 118*) in geographical sectors as at 31 December:

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

	Member states of the European Union (euro)	Member states of the European Union (non-euro)	Rest of the world	Total
FINANCIAL ASSETS				
Cash and balances at central banks	3,167,812	18	–	3,167,831
Investments in debt securities	24,709	–	–	24,709
Receivables from financial institutions	438,042	66,299	13,977	518,318
Derivative financial instruments	97,820	697	–	98,517
Rebates and bonuses & commissions receivable	281,138	40,361	11,189	332,689
Reclaimable damages	33,403	4,914	384	38,701
Lease receivables from clients	820,481	758,832	1,700,174	3,279,487
Loans to investments accounted for under the equity method	151,300	–	–	151,300
Investments accounted for under the equity method	15,874	–	–	15,874
Loans to other third parties	10,830	410	–	11,240
Other receivables	22,156	3,150	–	25,306
Assets classified as held-for-sale	776	–	38,483	39,259
TOTAL AS AT 31 DECEMBER 2018	**5,064,341**	**874,682**	**1,764,208**	**7,703,231**
FINANCIAL ASSETS				
Cash and balances at central banks	2,349,128	17	17	2,349,162
Receivables from financial institutions	469,912	63,168	14,216	547,296
Derivative financial instruments	102,233	1,225	–	103,458
Rebates and bonuses & commissions receivable	252,168	39,643	5,252	297,063
Reclaimable damages	26,428	3,068	1,404	30,900
Lease receivables from clients	826,535	769,103	1,665,056	3,260,694
Investments accounted for under the equity method	12,983	–	–	12,983
Loans to investments accounted for under the equity method	140,500	–	–	140,500
Loans to other third parties	16,574	330	–	16,904
Other receivables	20,852	–	–	20,852
Assets classified as held-for-sale	–	–	20,107	20,107
TOTAL AS AT 31 DECEMBER 2017	**4,217,313**	**876,554**	**1,706,052**	**6,799,919**

By industry

A summary of the approximation of the concentration of the financial assets per industry as at 31 December can be shown as follows:

	Financial institutions	Manufacturing	Wholesale trade	Transport and public utilities	Public sector	Other industries	Total
FINANCIAL ASSETS							
Cash and balances at central banks	3,167,831	–	–	–	–	–	3,167,831
Investments in debt securities	24,709	–	–	–	–	–	24,709
Receivables from financial institutions	518,318	–	–	–	–	–	518,318
Derivative financial instruments	98,517	–	–	–	–	–	98,517
Rebates and bonuses & commissions receivable	–	332,689	–	–	–	–	332,689
Reclaimable damages	38,701	–	–	–	–	–	38,701
Lease receivables from clients	76,834	737,828	106,309	159,677	31,789	2,167,050	3,279,487
Investments accounted for using the equity method	–	–	–	–	–	15,874	15,874
Loans to other third parties	–	–	–	–	–	11,240	11,240
Loans to investments accounted for using equity method	–	–	–	–	–	151,300	151,300
Other receivables	–	–	–	–	–	25,306	25,306
Assets classified as held-for-sale	–	–	–	–	–	39,259	39,259
TOTAL AS AT 31 DECEMBER 2018	**3,924,910**	**1,070,517**	**106,309**	**159,677**	**31,789**	**2,410,029**	**7,703,231**
TOTAL AS AT 31 DECEMBER 2017	**3,297,100**	**697,783**	**110,723**	**165,596**	**40,880**	**2,487,837**	**6,799,919**

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

Information on past due and/or impaired financial assets and total allowance for impairment (including allowance for non-defaulted financial assets) as at 31 December can be shown as follows:

	Carrying amount	Neither past due nor impaired	Past due but not impaired	Impaired	Allowance for impairment
FINANCIAL ASSETS					
Cash and balances at central banks	3,167,831	3,167,831	–	–	–
Investments in debt securities	24,709	24,709	–	–	–
Receivables from financial institutions	518,318	518,318	–	–	–
Derivative financial instruments	98,517	98,517	–	–	–
Rebates and bonuses & commissions receivable	332,689	330,272	–	2,417	-2,417
Reclaimable damages	38,701	33,166	–	5,535	-5,535
Lease receivables from clients	3,279,487	2,736,166	513,273	30,048	-41,711
Investments accounted for using the equity method	15,874	15,874	–	–	–
Loans to investments accounted for using the equity method	151,300	151,300	–	–	–
Loans to other third parties	11,240	11,240	–	–	–
Other receivables	39,259	39,259	–	–	–
Assets classified as held-for-sale	25,306	25,306	–	–	–
TOTAL AS AT 31 DECEMBER 2018	**7,703,231**	**7,151,958**	**513,273**	**38,000**	**-49,663**
FINANCIAL ASSETS					
Cash and balances at central banks	2,349,162	2,349,162	–	–	–
Receivables from financial institutions	547,296	547,296	–	–	–
Derivative financial instruments	103,458	103,458	–	–	–
Rebates and bonuses & commissions receivable	297,063	296,028	–	1,035	-1,035
Reclaimable damages	30,900	24,779	–	6,121	-6,121
Lease receivables from clients	3,260,694	2,962,806	266,511	31,377	-37,273
Investments accounted for using the equity method	12,983	12,983	–	–	–
Loans to investments accounted for using the equity method	140,500	140,500	–	–	–
Loans to other third parties	16,904	16,904	–	–	–
Other receivables	20,852	20,852	–	–	–
Assets classified as held-for-sale	20,107	20,107	–	–	–
TOTAL AS AT 31 DECEMBER 2017	**6,799,919**	**6,494,875**	**266,511**	**38,533**	**-44,429**

More detailed information regarding the exposure split in the following categories: exposure classes, geographic segmentation, industry segmentation and client concentration (single customers and groups of customers), is included in the Group's Pillar 3 report.

Cash and balances at central banks/receivables from financial institutions

LeasePlan maintains liquid assets at central banks and a diversified group of solid commercial banks. These exposures are monitored against predefined limits daily and are part of the liquidity buffer the Group maintains to reduce liquidity risk. All balances included under the heading central banks are deposited at the DNB.

Derivative financial instruments

The Group is exposed to credit risk resulting from the use of derivative financial instruments and because of excess cash being deposited with banks. Both credit risks arising from the Group's central Treasury operations are controlled by setting specific nominal limits for the financial institutions that such transactions are being concluded with and the requirement of minimal external rating grades that such counterparties are assigned.

Exposures on derivative financial instruments are mitigated by using CSAs (Credit Support Annex, reference is made to paragraph 'Derivatives and hedge accounting') where the financial instruments are not centrally cleared under the regulations of the EMIR (European Market Infrastructure Regulation).

As per EMIR legislation, the Group is required to clear all eligible OTC (over-the-counter) trades with a central clearing house, the objective of which is to significantly reduce systemic counterparty default risk. In the Group's case, plain vanilla interest rate swaps (IRS) can be cleared through the central clearing house.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

As at 31 December 2018, 69% of the total notional amount of derivatives was centrally cleared for which the Group placed EUR 2.5 million (net) in collateral and 31% was uncleared for which the Group received EUR 33 million in cash collateral.

'In terms of notional amount, as at 31 December 2018, 69% of the total notional amount of derivatives was centrally cleared for which the Group placed Eur 2.5 million (net) in collateral and 31% was uncleared for which the Group received Eur 33 million in cash collateral.'

Lease receivables from clients

Lease receivables from clients related to operating leases are individually assessed on indications for impairment. The sources for such indications can be internal, such as internal credit rating, payment behaviour and receivable ageing, or external, such as external credit ratings and solvency information. Impairment is recognised when collection of receivables is at risk and when the recoverable amount is lower than the carrying amount of the receivable.

Lease receivables from clients related to finance lease receivables are brought in scope of IFRS 9 impairments. An expected credit loss (ECL) is recognised upon initial recognition of a financial asset and subsequently remeasured at each reporting date. ECL is calculated by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD):

Gross amounts of lease receivables from clients that were past due but not impaired were as follows:

as at 31 December	2018	2017
RECEIVABLES FROM CLIENTS PAST DUE, BUT NOT IMPAIRED		
Past due to up to 90 days	486,045	236,199
Past due between 90-180 days	14,976	18,637
Past due between 180 days-1 year	8,872	7,662
Past due 1-2 years	2,253	3,314
Past due over 2 years	1,127	697
TOTAL	**513,273**	**266,510**

When invoiced lease instalments for finance leases are past due, the remaining not-yet-invoiced finance lease receivables (relating to the remaining contract duration) also become past due, and are included in the above balance of receivables from clients past due but not impaired. This balance of not-yet-invoiced finance lease receivables amounts to EUR 355 million (2017: EUR 261 million).

Lease receivables from clients impaired and the allowance for impairment are included as part of the disclosures made in *Note 16* – Lease receivables from clients.

The Group assessed the levels of forbearance activities. The financial impact of forbearance is not significant.

Loans to investments accounted for using the equity method

Credit risk for the Group also arises on lending to associates and jointly controlled companies. The underlying business of the respective associates and jointly controlled companies is very similar to the core activities conducted through wholly owned Group entities. In shareholder agreements, the Group has agreed with its respective partners the ability to provide debt funding under specific credit documentation. Such provision of credit is committed and established limits are reviewed regularly. In the control of its investments in associates and jointly controlled entities, the Group also monitors and manages its credit exposure to such entities.

Credit risk measurement including non-financial assets

As at 31 December 2018, the number of corporate defaults reported over the year 2018 was lower than in 2017, while the number of retail defaults increased. The yearly default rate was 0.73% for the corporate fleet as at 31 December 2018 (0.87% as at 31 December 2017). The yearly default rate was 2.4% for the retail fleet as at 31 December 2018 (2.30% as at 31 December 2017).

The table below summarises the credit rating of the other most relevant financial assets and financial guarantees of the Group, including the lease contract portfolio (which includes both financial assets (finance leases) and non-financial assets (operating leases), as credit risk management is performed on the total lease contract portfolio. The credit risk management of the finance lease portfolio is, however, not substantially different from the credit rating of the total lease contract portfolio.

For counterparties included in the lease contract portfolio that are subject to the AIRB models, and for which no external rating is available, the 'external' rating is based on the internal Group rating equivalent as mentioned in the mapping table above. Internally scored relates to AIRB retail counterparties in the United Kingdom and the Netherlands. The unrated part mainly includes the lease contract portfolio to retail clients for which the Standardised Approach is applied. For these clients, the expected credit loss is estimated based on the provision rate per country.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

Credit risk exposure and concentrations

	2018				
	Not credit impaired (12-months ECL)	Not credit impaired (Lifetime ECL)	Credit impaired	Not in scope IFRS 9	Total
RECEIVABLES FROM FINANCIAL INSTITUTIONS					
AAA-A	447,985				447,985
BBB-B	65,158				65,158
Other	5,175				5,175
INVESTMENTS IN DEBT SECURITIES					
AAA-A	20,160				20,160
BBB-B	4,557				4,557
LEASE RECEIVABLES FROM CLIENTS					
AAA-A		846,127	178		846,305
BBB-B		1,673,172	6,927		1,680,099
CCC-C		267	149		416
Other		771,582	22,794		794,377
Future operating lease receivables					
AAA-A				5,230,435	5,230,435
BBB-B				7,396,981	7,396,981
CCC-C				2,538	2,538
Other				5,189,022	5,189,022
LOANS TO INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD					
BBB-B	151				151
LOAN COMMITTMENTS/FINANCIAL GUARANTEES					
BBB-BB	1,495,684				1,495,684
TOTAL	**2,038,870**	**3,291,149**	**30,048**	**17,818,976**	**23,179,043**
Loss allowance	−1,531	−11,878	−24,317	-5,516	-43,242
CARRYING AMOUNT	**2,037,339**	**3,279,271**	**5,731**	**17,813,460**	**23,135,801**

The following table represents 2017 before adoption of IFRS 9.

	2017		
	Lease contract portfolio	Derivative financial instruments	Receivables from financial institutions
AAA to AA-	1,110,573	22,651	60,585
A+ to A-	4,960,658	77,905	358,672
BBB+ to BBB-	6,931,473	2,902	119,737
BB+ to BB-	1,619,398		3,272
B+ to B-	102,149		
CCC+ to C	4,031		1,038
At default	17,929		
Internally scored	765,587		
Unrated	3,825,574		3,992
TOTAL	19,337,373	103,458	547,296

In addition to the (financial) assets included in the table above, the Group recognises other unrated financial assets such as (i.) rebates and bonuses and commissions receivable and (ii.) loans to investments accounted for using the equity method. The receivables are due from counterparties that are contracted for purchasing goods and rendering services.

Loss Given Default is the loss the Group expects to incur at the moment of a default. It is expressed as the percentage loss of the exposure at the time a counterparty is declared in default and typically varies by country and transactional features like the leased object. The average credit risk exposure-weighted estimated Loss Given Default percentage of the AIRB portfolio, and applicable to the capital calculation of the Group in 2018, amounted to 29% (2017: 28% for the AIRB corporate portfolio). The remaining maturity of the lease portfolio on average amounts to 1.97 years (2017: 2.07 years).

On a quarterly basis the Group's risk management performs stress testing on the AIRB lease portfolio by assuming deterioration in counterparties' scores and ratings in combination with a deterioration of LGDs. The worst-case scenario calculated under these stress tests assumes the following: (i) for all counterparties in countries with a Standard & Poor's rating equal to or higher than BBB a decrease of 1 notch of the counterparties' rating and in countries with a Standard & Poor's rating below BBB a decrease of 2 notches of the counterparties' rating, and (ii) in all countries a deterioration of the average LGD by 5% for corporate counterparties and 10% for retail counterparties. Such a scenario would, result in an increase of required capital amounting to approximately EUR 73 million (2017: EUR 94 million including EUR 13 million in additional AIRB provision shortfall) which includes an additional AIRB provision shortfall of EUR 1.4 million.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

Asset Risk

Asset risk definition

The term asset risk is used within LeasePlan as a combination of residual value risks and risks on RMT services. Residual value risk is considered the main risk and is defined as LeasePlan's exposure to potential losses due to the resale value of assets declining below the estimates made at lease inception minus risk mitigation. The risk related to RMT is LeasePlan's exposure to potential loss due to the actual costs of the services, repair and maintenance and tyres (over the entire contractual period) exceeding the estimates made at lease inception.

Asset risk management policy

The Group has a policy in place with respect to asset risk management, based on principles developed under its Risk Charter. The policy describes, inter alia, the roles and responsibilities within its organisation for asset risk management, the minimum standards for risk mitigation of market prices of used vehicles and the mandatory frequency of asset risk measurement and reporting. The asset risk management policy is applicable to all Group companies and focuses on all leases (funded or unfunded) that may expose the Group to market price risk of used vehicles and/or repair, maintenance and tyre risk. Furthermore, this policy describes a limit structure based on the Group's defined appetite for market price risk of used vehicles, whereby the level of risk taking is determined for two echelons within the Group (i.e. Group companies and Group management). As mentioned above and as a part of the asset risk management policy, all Group companies have established a local risk management committee, chaired by either the managing director or the entity risk officer and in which all relevant disciplines involved in the asset risk management process must be represented. This committee will have the responsibility of overseeing the adequate management of asset risks on behalf of the local management team. This includes but is not limited to reporting on asset risk measurements and trends in risk mitigation, market prices of used vehicles and vehicle repair, maintenance and tyre replacement results. The local committee will assess asset risk exposure by taking into account both internal influences and external influences (e.g. supply and demand) and, based on its assessment, will decide on the appropriate market prices of used vehicles and repair, maintenance and tyre cost estimates and risk mitigating measures to be applied. The local committees can also decide on the limits regarding price adjustments to any commercial contracts both in allowed maximum frequency as well as maximum height. The local committees are responsible for informing the Group companies' management team on all relevant asset risk issues. The policy also establishes minimum standards with respect to mitigating techniques for the market price risk of used vehicles that the Group companies are expected to have in place and the reporting that must be provided to the Group.

As mentioned above, technical pricing of vehicles, repair, maintenance and tyre replacement can be directly overseen by the local risk committees or delegated on an operational level to a local technical pricing committee ('TPC'). In the latter case, the local risk committee will retrospectively sign off on technical pricing of used vehicles. The TPC defines the technical pricing of used vehicles for all individual makes, models and types and develops and maintains adequate matrices for the pricing of used vehicles. Termination result analysis distinguishes internal and external influences in a quantified manner. The vehicle pricing is based on a combination of historical actual costs, statistical analysis and external car market pricing benchmarking and is combined with expert judgement. Finally, external benchmarks are used in many countries as an additional point of reference and expert judgements are applied to challenge the outcome of statistical analysis and to overcome any shortcomings therein.

Asset risk measurement

The asset risk profile of the Group's portfolio is analysed (locally and centrally) throughout the term of the lease contracts: starting at lease inception, following it through its term up to lease termination. Measuring asset risk at all three stages of the lease contracts assists in tracing developments in asset risk elements and identifying adverse trends.

The Group monitors the asset risk exposure and its pricing level against current and expected future market development on a continuous basis and adjusts its residual values for new leases accordingly. New leases are originated in general for original terms of three to five years, but are in practice also regularly adjusted during the term of the lease as part of the interim contract adjustments.

On a quarterly basis, all Group entities assess the exposures in the existing lease portfolios for future years using a global platform, assessing contracted residual values considering the latest expectations regarding future market prices.

In determining additional impairment, not only the outcome of the comparison between residual value and fair value is relevant, but the risk mitigating measures which are actively being pursued to manage residual value exposure during and at the end of a lease contract are also of importance. Examples of risk mitigating measures are included in forecasts of estimated numbers of early contract terminations, mileage variation adjustments to lease rentals and amounts of end of contract damages invoiced after the end of the contract. Additional management actions and compensating elements as well as other risk bearing elements of the product (i.e. maintenance, tyre replacement and repair) are included in the exposure. Although expected benefits from future management actions and compensating elements are included in the exposure, they are excluded from the assessment of additional depreciation charges.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

We are investing in the LeasePlan data science team, continuously monitoring consumer mobility and car preferences and their potential impact on current and future used car prices. As part of this initiative, we are closely analysing the developments in for example diesel prices by market, car and engine type and reflecting our observations in the setting of residual values on new contracts, customer incentives towards certain car types and the management of existing lease agreements and our fleet value.

Asset risk position

The Group is currently exposed to residual value risk in all 31 countries. The Group is not exposed to residual value risk for the Canadian entity. This geographical diversification, in conjunction with being an independent multi-brand company with well-diversified brand portfolio, partly mitigates the risk related to residual values.

The Group's residual value position in relation to the total lease assets can be illustrated as follows:

	2018	2017
Future lease payments	7,933,265	7,765,877
Residual value	12,527,070	11,571,496
TOTAL	**20,460,335**	**19,337,373**

In addition to the above-mentioned on-balance sheet residual value risk, the Group has also provided off-balance sheet residual value commitments for non-funded vehicles up to an amount of EUR 0.3 billion (2017: EUR 0.4 billion). The above table includes both operating and finance leases.

As the value of the Group's residual value portfolio is exposed to the used-car market, adverse developments in this market can therefore affect the Group's gross results on vehicle re-sales. A one percentage point movement in the estimated sales ratio (the fair value as a percentage of the list price) could lead to a EUR 65.5 million (2017: EUR 60.3 million) movement in estimated gross sales results expected for the year 2018.

As explained under asset risk measurement, the Group has a number of risk mitigating instruments available to reduce the exposure to residual value risk. These instruments allow the Group to adjust its pricing to compensate for the effects of (interim) deviations from the contractual mileage and duration by customers or allow for charging of fees to compensate for excessive wear and tear to the vehicle and excess mileages at contract-end. These instruments therefore mitigate the asset risk associated with deviations from the original contract terms.

Treasury Risk

Treasury risk definitions

Treasury risk consists of three individual risks, being liquidity risk, interest rate risk and currency risk. Liquidity risk is the risk that the Group are not able to meet its obligations for (re)payments, due to a mismatch between the run-off of its assets and liabilities. Interest rate risk is the risk that the profitability and shareholders' equity of the Group is affected by movements in interest rates. Currency risk is the risk that currency fluctuations have an adverse impact on the Group's capital ratios, result and shareholders' equity. The Group's risk appetite for treasury risks is low.

Treasury risk management structure and organisation

The Group's treasury risk management is driven by monitoring of regulatory and operational (mismatch) limits as set in the risk appetite statement. Compliance with the risk appetite statement of the Group and its entities (including LeasePlan's central Treasury and LeasePlan Bank) is monitored on, at least, a monthly basis by the Group's risk management department, whereas treasury risk positions of the Group's central Treasury are monitored daily.

The Group risk management department has the responsibility to monitor treasury risk limits, achievement of liquidity targets, and to identify control breakdowns, inadequacy of processes and unexpected events. The treasury risk positions, non-compliance and follow-up measures are discussed within the ALCO and, if necessary, shared with the Managing Board.

Whereas the ALCO is meant for going-concern situations, a Crisis Management Response Team (CMRT) is established to manage liquidity and capital levels in crisis scenarios. The Group has developed a trigger and early warning indicator framework. The CMRT decides on the activation of the Alarm Phase 'amber' or Recovery Phase 'red' depending on breached trigger levels. The role and mandate of the CMRT are governed by the Liquidity Contingency Plan (LCP) and the Capital Contingency Plan (CCP), which together with the Recovery Plan are integrated in the Group's risk management framework.

On a quarterly basis the Group's risk management department reports on actual performance of treasury risk positions against the risk appetite limits to the Risk Committee of the Supervisory Board.

Treasury risk management policy

Liquidity risk policy

Liquidity risk is governed by the Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP encompasses all underlying elements of liquidity risk management such as liquidity risk appetite, tolerance levels and limits, funding strategy, contingency funding plan and stress testing. The ILAAP is an ongoing process embedded within liquidity risk management, which is part of the overall risk management framework.

The liquidity risk appetite and tolerance levels are based on the following key principles:

1. the primary (overarching) objective in managing funding and liquidity risk is to accommodate the going concern business objectives without incurring unduly exposure to liquidity or refinancing risk;
2. LeasePlan aims to be matched or longer funded with reasonable (relative) funding costs;
3. the primary objective of the funding strategy is to maintain good market access at all times; and
4. compliance with minimum regulatory liquidity and funding requirements at all times.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

As liquidity risk is not perceived by the Group as a driver for profit, the policy aims at matched funding and diversification of funding sources. Liquidity risk is managed by seeking to conclude funding that matches on average to the estimated run-off profile of the leased assets. This matched funding principle is applied both at a consolidated Group and at entity level, considering specific mismatch tolerance levels depending on the total of interest bearing assets of the subsidiary. Local management of Group entities is responsible for adhering to the matched funding policy. To fund its business, local management can take intercompany funding at LeasePlan's central Treasury or bi-lateral funding with third-party banks. A Fund Transfer Pricing methodology governs the pricing of intercompany funding, with pricing determined and approved by the Managing Board monthly.

The Group holds a liquidity buffer to mitigate liquidity risk. The liquidity buffer consists of unencumbered cash, cash equivalents and committed facilities. Liquid assets are maintained to meet regulatory liquidity requirements at all times.

Within the pre-conditions of the ILAAP, the Strategic Finance department executes the funding strategy. A key instrument in liquidity risk management is the funding planning, which is a recurring item on the ALCO agenda. The funding planning forecasts issuances and redemptions for each funding source, resulting in a multi-year projection of the liquidity position. Apart from a going concern forecast, a forecast based on stress scenario assumptions is calculated monthly. The governance of the liquidity stress testing process is outlined in the liquidity stress testing policy.

The Group maintains a number of stress scenarios addressing idiosyncratic and market wide risk drivers in both specific and combined scenarios. The monthly stress testing has been further enhanced by including the estimated compliance of the '9 months survival period' requirement over a five-year forward-looking horizon. Stress testing results are used both for contingency planning as for going-concern funding and risk activities, for instance, to set the target level for the liquidity buffer to meet financial and regulatory obligations during a period of severe stress. Furthermore, these results are used as input for the periodic recalibration of the risk appetite for liquidity risk.

In addition to the Group's own internal policies and controls, liquidity risk is also supervised by and reported to the DNB monthly. Liquidity supervision by the DNB is focused on identifying available sources of liquidity and required liquidity for weekly and monthly periods. Additionally, the ILAAP is subject to the yearly Supervisory Review and Evaluation Process (SREP) conducted by the DNB. Furthermore, a Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), both of at least 100%, and a survival period requirement are binding regulatory requirements. These regulatory liquidity requirements are embedded in the Group's liquidity and cash management processes.

Interest rate risk policy

The Group accepts and offers lease contracts to clients at both fixed and floating interest rates, for various durations and in various currencies. Interest rate risk within LeasePlan is managed separately for:

- Group entities and jointly controlled entities, carrying interest-bearing assets (mainly lease contracts) and funding on their balance sheet, which mainly is intercompany funding supplied by LeasePlan's central Treasury;
- LeasePlan's central Treasury, concluding external funding, external derivatives and granting intercompany loans to LeasePlan entities;
- LeasePlan Bank (LPB), supporting the diversified funding strategy by raising retail saving deposits.

The interest rate risk policy is to match the interest rate profile of the lease contract portfolio with a corresponding interest rate funding profile to minimise the interest rate risk, as measured by interest rate gap reports per Group entity. Group entities carry interest-bearing assets on their balance sheet, funded by interest-bearing liabilities (loans and other indebtedness). Where interest-bearing sensitive liabilities fall short to cover interest-bearing assets, non-interest sensitive working capital and subsidiaries' equity are allowed to cover interest-bearing assets, as part of the matched funding policy.

LeasePlan's central Treasury provides loans to LeasePlan entities and attracts funds from the market in conjunction with interest rate derivatives entered into for hedging purposes. Derivative financial instruments are concluded by LeasePlan's central Treasury as an end-user only; the Group does not hold a trading book. Due to the accounting treatment of derivative financial instruments, the Group is exposed to some volatility in its statement of profit or loss, particularly regarding the derivatives that do not qualify for hedge accounting.

To enable LeasePlan's central Treasury to achieve economies of scale, smaller intercompany loans are grouped and financed through larger-sized external funding transactions. Interest rate risk inherent to the central treasury process, such as timing differences and mismatches of interest rate re-pricing, are accepted within set currency and duration limits.

The liquidity and interest typical duration of LPB's flexible savings are modelled and measured from a behavioural perspective. LPB invests the flexible savings funds received by placing deposits with LeasePlan's central Treasury in line with the modelled interest profile of the flexible savings, thereby replicating the flexible savings' maturity profile. In 2018, model performance, investment rule and outflow assumptions have been revalidated.

In addition, the Group risk management department monitors the effect of a gradual movement in market interest rates on its profitability and the effect of a sudden parallel shift of the yield curve on its equity.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

Currency risk policy

LeasePlan's functional currency and the reporting currency for its consolidated financial statements is the euro. However, because of its presence in a significant number of countries outside the Eurozone, the Group has substantial assets, liabilities, revenues and costs denominated in currencies other than the euro. The global nature of LeasePlan's operations therefore exposes LeasePlan to exchange rate volatility as a result of potential mismatches between the currencies in which assets and liabilities are denominated, and as a result of the translation effect on its reported earnings, cash flow and financial condition.

LeasePlan is exposed to transactional foreign exchange rate risk when a subsidiary enters into a transaction in a currency other than the subsidiary's functional currency. LeasePlan seeks to manage its transactional foreign exchange rate risk by attempting to limit LeasePlan's exposure to the effects of fluctuations in currencies on its financial condition and cash flows through funding its debt directly or through derivatives in the currency in which assets are originated and allocating capital in the currencies in which assets are denominated.

LeasePlan is also subject to translation risk, which is the risk associated with consolidating the financial statements of subsidiaries that conduct business in currencies other than the euro or have a functional currency other than the euro. On 31 December 2018, 31.8% (2017: 31.1%) of LeasePlan's equity capital was denominated in currencies other than the euro. Leaseplan Turkey and Leaseplan Romania have the euro as functional currency as, amongst others, their funding and local contracts are denominated mainly in euro. As LeasePlan does not hedge its equity positions, fluctuations in the value of the euro relative to currencies in which LeasePlan conducts operations will affect LeasePlan's consolidated financial statements as a result of translation exposure and may adversely affect LeasePlan's financial condition and net equity position resulting from these foreign operations.

LeasePlan hedges against the adverse effect of foreign currencies on LeasePlan's capital adequacy ratio by taking structural equity positions in the local entities, to match the entities' capital adequacy ratio with LeasePlan's capital adequacy ratio. In short, LeasePlan has the following risk management approach regarding currency risk:

- Matched funding: The assets on the entity's balance sheet should always be financed in the same currency in which the lease contracts are denominated;
- Structural positions: The positions in non-euro currencies are of a non-trading and structural nature. As a result hereof, the ratio protection method is applied;
- Ratio protection: Protect the capital ratios rather than the absolute amount of LeasePlan's equity.

As a result of this currency risk approach, and by taking structural equity positions in foreign currencies (FX) to hedge against the adverse effect of exchange rates, LeasePlan's capital adequacy ratio is not (or as little as possible) affected by any changes in the exchange rates it is exposed to. The logic behind this is that if the relative assets/equity position in an entity are the same as for the Group, both assets and equity allocated to the non-functional currency will deviate but will not impact LeasePlan's CET1 ratio. In other words, an currency shock will shift TREA and CET1 capital in the opposite direction.

It is LeasePlan's policy to protect the capital ratios rather than the total absolute amount of equity. Therefore the non-euro equity investments are not hedged; fluctuations in the equity position, resulting in translation reserve movements, are accepted. Translation risk materialises when LeasePlan translates each subsidiary's monthly financial data to the Group functional currency (euro) for consolidated financial reporting. As LeasePlan invests equity in various countries' local currencies there is a risk that the equity invested and result for the year become less or more valuable due to currency exchange movements.

In order to manage its currency risk, LeasePlan has defined triggers and limits on the overall risk exposure, being the sum of all absolute deviations between the local ratios and the Group's capital ratio and a trigger on the underlying absolute deviation between the local ratios in comparison to the Group's capital ratio.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

Treasury risk measurement

Liquidity risk measurement

The table below presents the Group's contractual undiscounted cash flows payable of the financial liabilities in the relevant contractual maturity groupings. The cash flows do not reconcile to the balance sheet because the balance sheet amounts are presented on an amortised cost basis. In 2018 funds entrusted, funding in the debt capital markets and borrowings from financial institutions increased as a result of a combination of the growth of the lease portfolio and the utilisation of funding levers.

	0-3 months	3-12 months	1-5 years	> 5 years	Total
FINANCIAL LIABILITIES					
Funds entrusted	4,618,654	1,343,746	527,388	416	6,490,204
Trade payables	783,648				783,648
Borrowings from financial institutions	432,106	793,599	2,563,168		3,788,873
Debt securities issued	683,373	1,590,059	7,841,323	334,692	10,449,447
Future payments (interest and commitments fees)	47,159	136,520	248,048	36,790	468,517
TOTAL AS AT 31 DECEMBER 2018	**6,564,940**	**3,863,925**	**11,179,927**	**371,898**	**21,980,689**
FINANCIAL LIABILITIES					
Funds entrusted	4,136,364	1,304,401	561,642	94	6,002,501
Trade payables	834,295				834,295
Borrowings from financial institutions	623,915	838,766	1,860,451		3,323,132
Debt securities issued	237,847	1,917,979	6,841,878	340,122	9,337,826
Future payments (interest and commitments fees)	94,571	190,173	259,591	26,758	571,093
TOTAL AS AT 31 DECEMBER 2017	**5,926,992**	**4,251,319**	**9,523,562**	**366,974**	**20,068,847**

In the table below, for interest rate swaps the undiscounted cash inflows and outflows are presented on a net basis into the relevant maturity groupings, whereas the undiscounted cash flows on currency swaps are presented on a gross basis.

In thousands of euros	0-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate swaps/forward rate agreements	2,603	15,208	24,204	24,615	66,631
Currency swaps inflows	3,562,159	270,394	815,989	55,233	4,703,776
Currency swaps outflows	(3,586,553)	(278,654)	(826,419)	(54,112)	(4,745,738)
TOTAL AS AT 31 DECEMBER 2018	(21,791)	6,948	13,775	25,737	24,669

In thousands of euros	0-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate swaps/forward rate agreements	(2,449)	10,928	48,512	29,386	86,376
Currency swaps inflows	2,815,537	115,479	895,461	46,390	3,872,867
Currency swaps outflows	(2,813,858)	(123,038)	(905,615)	(45,445)	(3,887,956)
TOTAL AS AT 31 DECEMBER 2017	(769)	3,369	38,358	30,331	71,288

The Group held the following hedging instruments, presented in relevant maturity groupings with their nominal amounts.

As of 31 December 2018	0-3 months	3-12 months	1-5 years	> 5 years
INTEREST RATE RISK				
Interest rate swaps in fair value hedge	437,139	548,862	3,309,480	242,600
Average fixed interest rate (%)	0.96	1.11	1.76	2.94
Interest rate swaps in cash flow hedge	–	279,644	1,173,127	–
Average fixed interest rate (%)	–	0.60	0.29	–
INTEREST RATE & FOREIGN CURRENCY RISK				
Cross currency interest rate swaps in fair value hedge	–	154,447	291,066	–
Average fixed interest rate (%)	–	0.12	1.11	–
Average exchange rate EUR/SEK	–	9.71	9.64	–
Average exchange rate EUR/NOK	–	–	9.44	–

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

As a precaution to the risk of not having continued access to financial markets for funding, the Group maintains a liquidity buffer. This buffer includes unencumbered cash and committed (standby) credit facilities to reduce the Group's liquidity risk. The liquidity buffer as per 31 December is specified as follows:

in millions of euros	2018	2017
Unencumbered cash at banks	353	333
Unencumbered cash at the Dutch Central Bank	3,103	2,289
Total on balance liquidity buffer	3,456	2,622
Committed facilities	1,500	1,967
TOTAL	**4,956**	**4,589**

The Group holds a revolving credit facility with a consortium of 12 banks (EUR 1.5 billion) maturing in November 2022. During 2018 no amounts were drawn under this facility.

LeasePlan entered into a warehouse facility in December 2017 with a limit of A$ 560 million for the Class A Notes. The facility is a single-sided commitment from the Class A Noteholder to provide funding on a secured basis to LeasePlan up to the A$ 560 million limit. In April 2018 LeasePlan drew down under its Australian warehouse facility of A$ 560 million (approx. EUR 350 million equivalent). In the third quarter of 2018, LeasePlan successfully negotiated an increase to its existing warehouse facility in Australia of A$ 40 million (approx. EUR 25 million equivalent) to AUD A$ 600 million. The increase of A$ 40 million was drawn in the third quarter. The facility matures in December 2019. As per 31 December 2018, an amount of A$ 600 million was drawn under this facility.

The Dutch Central Bank sets out minimum liquidity level requirements demanding that available liquidity exceeds required liquidity at all times as well as a Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) of 100%; LeasePlan is in compliance with these minimum liquidity requirements.

The Group's liquidity stress testing programme includes the integration of risk drivers and review of stress scenarios, governance, tools used and documentation of the stress testing process. Stress testing is embedded in the funding planning, taking into account the nine months minimum liquidity buffer requirement, in line with the Group's risk appetite statement. At all times during 2018 the Group held enough liquidity to continue business as usual during the most severe stress scenario for a minimum period of nine months.

Interest rate risk measurement

The Group manages interest rate risk by matching the interest typical run-off of its interest-bearing assets with interest-bearing liabilities within specified limits. LeasePlan entities' interest rate exposure as per reporting date (not including LeasePlan's central treasury and LeasePlan Bank positions), resulting from covering interest-bearing assets by both interest-bearing liabilities and non-interest bearing working capital and equity, is EUR 313.2 million (2017: EUR 514.4 million), in relation to an amount of risk bearing assets of EUR 31.1 billion as per 31 December 2018 (2017: EUR 25.6 billion). Due to the accounting treatment of operating lease contracts, this does not result in gains or losses in the Group's statement of profit or loss or in shareholders' equity.

In addition, the Group monitors the effect of a gradual movement in interest rates on its profitability and the effect of a sudden parallel shift to the yield curve on the Group's capital. The impact of a 200-basis points interest rate shock on the Group's result and capital is shown below:

	Earnings at risk	
Gradual shock on the yield curve (in million EUR as at 31 December)	**2018**	**2017**
EFFECT WITHIN 1 YEAR		
-200 bps	2.0	-9.0
+200 bps	-2.0	9.0
EFFECT WITHIN 2 YEARS		
-200 bps	-0.0	-22.2
+200 bps	0.0	22.2

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

The impact of a gradual movement on the Group's profitability is as follows:

	Equity at risk	
	2018	2017
-200 bps	287.4	240.8
+200 bps	–263.2	–220.0

Due to the Group's estimated overall cash flow profile, an increase in market rates has a negative impact on equity. The movement between the periods mainly results from changes in the underlying cash flow profiles of Group entities; the impact resulting from the development in market rates is relatively stable.

Currency risk measurement

The table below details the Group's net currency positions as at 31 December:

	EUR	GBP	USD	AUD	TRY	Other	Total
Cash balances at central banks	3,167,814	–	–	–	–	17	3,167,831
Receivables from financial institutions	400,942	49,098	3,414	8,879	5,351	50,635	518,318
Derivatives – long	3,571,278	2,787	12,984	154,329		1,146,958	4,888,337
Rebates and bonuses & commissions receivable	281,057	9,866	9,912	175	1,714	29,964	332,689
Reclaimable damages	33,403	–	–	–23	1,153	4,169	38,701
Receivables from clients	826,326	407,795	1,361,201	302,426	7,305	374,433	3,279,487
Investments (equity method)	15,874	–	–	–	–	–	15,874
Loans to other third parties	–	–	–	–	–	11,240	11,240
Loans (equity method)	151,300	–	–	–	–	–	151,300
Lease contracts FL held-for-sale	–	–	38,483	–	–	–	38,483
Assets classified as held-for-sale	776	–	–	–	–	–	776
Non-financial assets	13,204,311	2,258,309	384,082	474,806	71,495	3,233,518	19,626,521
FINANCIAL ASSETS	**21,653,081**	**2,727,855**	**1,810,077**	**940,592**	**87,018**	**4,850,934**	**32,069,557**
Funds entrusted	6,488,083	–	–	–	–	2,121	6,490,204
Derivatives – short	1,207,395	1,937,996	965,784	155,480	39,564	596,257	4,902,476
Trade payables	554,096	26,566	22,091	28,884	6,235	145,776	783,648
Interest payable	48,953	131	5,831	336	30	19,887	75,168
Borrowings from fin. institutions	2,551,743	20,573	17,096	131,057	1,327	1,067,077	3,788,873
Debt securities issued	7,048,159	267,020	546,204	369,663	–	2,218,402	10,449,447
NON-FINANCIAL LIABILITIES	488,426	453,837	242,532	261,597	4,711	793,043	2,244,147
FINANCIAL LIABILITIES	18,386,856	2,706,123	1,799,538	947,017	51,867	4,842,562	28,733,963
Net position (excl.net invest. in subsidiaries)	3,266,225	21,732	10,539	–6,425	35,151	8,372	3,335,594
Currency position		308,261	143,387	146,591	117,340	526,297	
Net investments in subsidiaries		286,529	132,848	153,016	82,189	517,925	
Other positions		21,732	10,539	–6,425	35,151	8,372	
As at 31 December 2017:							
FINANCIAL ASSETS	6,941,866	493,324	1,714,239	314,936	13,124	1,458,599	10,936,089
NON-FINANCIAL ASSETS	12,258,925	2,061,301	37,062	470,050	81,156	3,073,587	17,982,081
FINANCIAL LIABILITIES	**15,596,548**	**2,077,491**	**1,529,019**	**513,043**	**33,106**	**3,717,538**	**23,466,744**
Non-financial liabilities	445,258	455,790	209,556	266,631	54,227	795,978	2,227,440
NET POSITION (EXCL.NET INVEST. IN SUBSIDIARIES)	**3,158,985**	**21,344**	**12,726**	**5,312**	**6,947**	**18,671**	**3,223,986**
CURRENCY POSITION		**244,880**	**125,857**	**138,365**	**103,251**	**455,919**	
Net investment subsidiaries		223,536	113,131	133,053	96,303	437,248	
Other		21,344	12,726	5,312	6,947	18,671	

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

The Group monitors the relative currency exposure; by comparing its capital adequacy ratio per currency to the Group's overall ratio. The Group's aim is to neutralise its capital ratio for currency exchange rate fluctuations. Taking a 10% presumed currency shock on all currencies against the euro, an instantaneous impact on the Group's capital would be EUR 32.9 million (2017: EUR 33.0 million). The following table shows the net currency position versus the risk exposure amount for which, in absolute terms, under a shock of 10%, the Group's capital can be impacted (considered for the main currencies).*

	2018		2017	
	Net open position	Currency shock	Net open position	Currency shock
Great British Pound ('GBP')	304.8	1.7	269.1	3.5
United States Dollar ('USD')	132.8	0.5	114.7	0.3
Australian Dollar ('AUD')	140.4	6.4	133.1	5.8
Turkish Lira ('TRY')	82.2	0.9	96.3	0.3
Other	486.8	23.4	469.7	23.0
TOTAL	**1,147.0**	**32.9**	**1,082.9**	**33.0**

** The 'Other' category consists of smaller entities with corresponding currencies. The category ' other' does not reconcile with the table showing the Group's net currency position due to the inclusion of an off-balance sheet commitment as part of the total FX risk positions, whereas the position on the previous page only includes on-balance positions.*

Although LeasePlan is aware that, from an absolute equity perspective, currency exposures exist; these exposures are deliberately not fully mitigated following the ratio protection strategy.

Insurance Risk

The Group has minimal appetite for insurable risks (outside of motor insurance risk). As such, the Group arranges multi-national insurance programmes to protect all its entities. Insurance policies issued, are written by leading global insurance companies, on a 'Freedom of Services' basis and apply to all European Union (EU) countries and Norway. For non-EU countries or where local regulations require, the Group has arranged for local policies to be issued, by the same insurers or their authorised agents. Insurance covers purchased on a global level are: Property, Combined General Liability, Employment Practices Liability, Crime, Directors & Officers Liability and Professional Indemnity cover. Additionally, where local legislation requires a policy to be in place in a particular entity, such as Employers' Liability Insurance or Workers' Compensation Insurance, such cover is arranged by the local entity and confirmation of the same is provided to the risk department at corporate centre.

Motor insurance risk definition

As a result of its normal business activities the Group is exposed to motor insurance risk. Motor insurance risk is the exposure to potential loss, due to costs related to damages incurred by drivers insured by the Group, exceeding the premiums paid for insurance coverage. This risk consists of long-tail risks (e.g. motor third party liability and legal defence) and short-tail risks (e.g. motor material damage and passenger indemnity).

Additionally, some local entities offer a non-insurance solution referred to as 'risk retention'. For non-compulsory lines of cover, where local regulations permit, the Group may offer a warranty for damage sustained to a vehicle, up to a pre-defined limit, in return for a higher lease charge. This risk also consists of long-tail risks (e.g. motor third party liability and legal defence) and short-tail risks (e.g. motor material damage and passenger indemnity).

Motor insurance risk management structure and organisation

Group risk management is responsible for establishing and maintaining the motor insurance risk framework and monitoring the motor insurance risk profile. Motor insurance risks (referred to as insurance risk) are underwritten by the Group's insurance subsidiary, LeasePlan Insurance (Euro Insurances DAC), based in Dublin, Ireland. In addition, some local entities have a local risk retention scheme for motor material damages and retain the damage risk, whilst also offering additional insurance coverage through either LeasePlan Insurance or external providers. LeasePlan Insurance is regulated by the Central Bank of Ireland and its 'European passport' enables it to support LeasePlan entities in all EU countries and Norway. LeasePlan Insurance is capitalised in accordance with the Standardised Approach of Solvency II. LeasePlan Insurance maintains external reinsurance cover on an excess of loss basis for motor third party liability risks and catastrophic events. LeasePlan Insurance purchases reinsurance cover for these risks up to prescribed coverage limits with an external reinsurance panel to minimise the financial impact of a single large accident and/or event.

Annually, the Group risk management department prepares the risk appetite statement, which includes all risk areas and requires approval of the Managing Board and the Risk Committee of the Supervisory Board. On a quarterly basis, the Group risk management department reports to the Risk Committee of the Supervisory Board on performance against the risk appetite, including developments within motor insurance. The motor insurance position is further discussed in the Group (Tactical) Risk Committee and shared with the Managing Board and the Risk Committee of the Supervisory Board.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

E. Financial risk continued

Motor insurance risk management policy

The overall approach of the Group is to selectively accept damage and insurable risk within LeasePlan entities and/or LeasePlan Insurance. The Group's objective is to identify and develop the motor insurance risk profile and to continuously monitor and manage these risks in line with the risk appetite for motor insurance risk. Generally, the Group only accepts damage and insurance risk positions arising from its own operating and (to a lesser extent) finance lease portfolio. Damage and insurance specialists in each Group entity accept damage or insurance risks in accordance with the strict Risk Selection and Pricing Procedures issued by LeasePlan Insurance, or in accordance with criteria set by the Group risk department for the risk retention schemes. These procedures set out the scope and nature of the risks to be accepted (or not) as well as the local authority rules.

Settlement of damages is generally outsourced to specialised independent damage handling companies in accordance with service level agreements, although some local entities have a specialist team in place to perform this activity. Settlement of damages is performed by specialised damage handling teams, within the Group, when a local risk retention scheme is in place.

To clearly identify, monitor, manage and limit the risks, principles are laid down in a motor insurance risk policy that must be adhered to by all Group entities. The main requirements are the existence of a motor insurance risk function within all Group entities, which is independent from the insurance pricing department and the existence of a local risk committee to monitor insurance risk, which is required to monitor exposure and discuss trends and developments within the portfolio. Clear authorisation structures are in place for intended launches of and changes in insurance structures and programmes. (Re) insurers are selected on the basis of their financial strength, price, capacity and service and are monitored, in respect of credit ratings, on a quarterly basis.

Motor insurance risk measurement

The Group monitors the damage and insurance risk acceptance process and the financial performance using actuarial and statistical methods for estimating liabilities and determining adequate pricing levels. Regular analysis of damage, loss ratio statistics, strict compliance with damage handling procedures and policies, and when necessary, reviews of damage and insurance risk pricing ensure a healthy balance between revenues and damages at both an aggregate level and an individual fleet level. The provision for damages is regularly assessed and periodically verified by external actuaries.

The price for acceptance of damage and insurance risk is set in each market based on prevailing local market conditions after determining appropriate levels of reinsurance cover and the expected costs of managing and settling damages. Regular external actuarial assessments support internal actuarial assessments of the individual programme loss ratios, which are influenced by statistical evidence of accident frequency in the local market and the cost per claim of expected and large damages. These support the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) factors used to determine appropriate reserve levels necessary to meet projected short-tail and long-tail damages.

Under the motor insurance risk policy, Group entities measure and monitor their motor insurance risk exposure by performing a yearly damage and insurance risk self-assessment. On a quarterly basis, LeasePlan Insurance and Group entities measure and report their risk exposures by means of premium developments and loss ratio developments to central management. These loss ratios are consolidated and monitored against the Group's risk appetite.

Year	Premium	Av number of cars insured	Loss ratio (Q4 2018)
2014	422,381	432,867	75.4%
2015	460,427	486,150	78.7%
2016	513,132	484,997	79.3%
2017	568,885	595,530	78.3%
2018	**642,360**	**659,564**	**80.7%**

Annually, Group entities, Group Risk and LeasePlan Insurance agree, a Country Based Risk Appetite (CoBRA) for motor insurance risk, for each entity, in which a loss ratio limit for motor insurance risk, against which entities are monitored, is defined for the forthcoming year.

F. Other risks

Information Security Risk

Information security risk definition

LeasePlan defines information security risk as 'the risk of loss due to inadequate ICT controls, failed components, human behaviour or external events, resulting in a loss of information confidentiality and/or integrity and/or availability'. The availability, integrity and confidentiality of information assets are essential in maintaining LeasePlan's competitive edge, cash flow, profitability, regulatory and legal compliance and LeasePlan's overall brand image.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

F. Other risks continued

Information security risk management structure and organisation

The Group Risk Management – Information Security & Governance (ISG) department at Corporate level is responsible for the information security strategy, specific input into the Risk Appetite Statement, information security policies and standards, monitoring and reporting. This to ensure that adequate security controls are defined and implemented. ISG monitors implementation and adherence at entity level and reports periodically.

ISG monitors that all local entities appoint an Information Security Officer (ISO) and Information Security Administrator (ISA) and that the local ISOs can work independently from IT. ISG is responsible for the regular communication and interaction between Group risk management and the local ISO/ISA functions. In cooperation with IT, ISG will ensure that the appropriate security services and tools are defined and delivered to the entities in order to implement the adequate security controls. On a quarterly basis Group Risk Management – ISG reports on information security status levels within the Group; this includes reporting upon performance against the risk appetite to the Risk Committee of the Supervisory Board.

Similar to operational risk, all Group entities, including LeasePlan Bank, structurally identify, assess and report their information security risks. On a day-to-day basis, information security issues and risks are typically identified and established via information technology infrastructure library ('ITIL') ICT management processes (especially incident management and problem management), upon which the ICT management processes are based. Risk analysis activities are incorporated within the ITIL processes.

Information security risk management policy

The Group's information security policy and standards, as set by the Managing Board, include requirements on creating awareness, sufficient staffing and governance, security incident reporting and risk assessment. The policy and standards prescribe the requirements for the organisation of information security in each Group entity. Local management is responsible for managing and implementing the security requirements as defined in the information security policy and standards.

ISG organises various security awareness activities (e-learnings, security awareness campaigns regarding phishing etc) to increase security awareness among LeasePlan staff.

Information security risk measurement

Information security risk incidents need to be registered in the Governance, Risk and Compliance (GRC) system which LeasePlan has implemented.

Information security risk incidents (which have also resulted in a loss event) are also reported as an operational risk, so the financial impact of security incidents is considered in the overall operational risk results.

All local entities perform a self-assessment on their local information security controls on a quarterly basis. ISG performs a quality assurance on these self-assessments and prepares a consolidated report. The results are reported on a quarterly basis to the Group Risk Committee.

G. Derivatives and hedge accounting

The Group's activities are principally related to vehicle leasing and fleet management. The Group accepts and offers lease contracts to clients at both fixed and floating interest rates, for various periods and in various currencies. For a major part of the funding of the cars, the Group has entered into borrowings from external parties or issued notes to third parties. The Group seeks to balance the spread between interest rates charged in lease contracts and the interest rates paid on various borrowings and, at the same time, needs to control its exposure towards future movements in interest rates and currency exchange rates. The risk control is important to continuously meet the solvency and liquidity requirements and targets as set by the DNB and as expected by external stakeholders. The Group uses various non-derivative and derivative financial instruments to achieve that goal.

Derivatives are financial instruments, of which the value changes in response to underlying variables. Derivatives require little to no initial investment and are settled at a future date. Under IFRS, derivatives are initially and subsequently recognised on the balance sheet at fair value. Derivatives are used to mitigate the interest rate and currency exposures associated with the funding of lease contracts. Interest rate swaps cover interest rate positions between lease contracts and borrowed funds and currency interest rate swaps cover currency exposures between lease contracts and borrowed funds.

The Group has applied hedge accounting if requirements in IFRS are met. Reference is made to *Note D* – Derivative financial instruments and hedge accounting.

The Group applies cash flow hedges to the interest rate risk and currency risk on the issued debt securities and other borrowings, to mitigate both current and future statement of profit or loss volatility arising from the variability of cash flows attributable to currency and interest rate movements. In cash flow hedging, Group has agreed to exchange interest and currency cash flows, based on an underlying nominal amount. The Group applies fair value hedges to mitigate exposure to changes in fair value of recognised liabilities. It should be noted that while as a result of the above the Group mitigates interest rate risk and currency risk from an economic perspective, these derivatives do not always qualify for hedge accounting from an accounting perspective.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

G. Derivatives and hedge accounting continued

The extent of exposure management is in line with internal risk appetite and limits determined by the Group risk management and reviewed on a regular basis. The Group uses a mixture of one-to-one relationships (for fair value hedging), as well as many-to-many macro hedging (for cash flow hedging). The hedge ratio is calculated by analysing the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting. For fair value hedges the hedge ratio is calculated as 1:1, whereas for cash flow hedges the ratio is 0.48:1.

The contracted notional amounts of all derivatives are listed below:

	2018			2017		
	Interest rate contracts	**Currency contracts**	**Total**	**Interest rate contracts**	**Currency contracts**	**Total**
Fair value hedge	4,538,083	445,513	4,983,596	5,116,881	434,434	5,551,315
Cash flow hedge	1,452,771	–	1,452,771	1,380,000	–	1,380,000
Not in hedge	19,368,837	4,252,156	23,620,993	18,177,904	3,409,241	21,587,145
TOTAL	**25,359,691**	**4,697,669**	**30,057,360**	**24,674,785**	**3,843,675**	**28,518,461**

i. Cash flow hedges

The Group hedges the exposure to variability in future interest payments on recognised floating rate bonds and notes issued and on highly probable forecast transactions (short-term rolling over liabilities) attributable to changes in underlying interest rates. In cash flow hedging, the hedged risks are future changes in cash flows stemming from anticipated repricing and/or roll-overs of borrowings due to interest rate movements. To apply highly effective cash flow hedges the forecast cash flows which are subject to a hedge, must be 'highly probable'. Based on the Group's business activities and the financial/operational ability to carry out the transactions, the likelihood that forecast cash flows will take place is very high. These forecast cash flows are expected to occur and to affect the statement of profit or loss over the maturity of the loans. The Group applies cash flow hedging as an aggregate hedging of a similar group of assets/liabilities. A group of derivatives sharing the same characteristics is designated to the hedge with a group of borrowings with the same characteristics. These represent many-to-many hedge relationships. Any ineffectiveness resulting from these cash flow hedges is recognised in the statement of profit or loss when incurred.

ii. Fair value hedges

For fair value hedge relationships, the Group Treasury's risk management policy is to hedge the interest rate risk component of debt capital markets transactions, to comply with the risk objectives as set and reviewed periodically by the Group risk management, and to achieve economic hedging of such transactions.

Fair value hedge accounting is applied in such a way that the changes in fair value of the recognised liability (issued note) attributable to the hedged interest rate and currency risk fully offsets the changes in fair value of the receive leg of the derivative transaction (interest rate swap or cross currency interest rate swap). In other words, the fair value change from the cash flows on the note and the receive leg of the swap are equal and opposite.

Fair value hedge accounting entails that the hedged item (i.e. the note) that is measured at amortised cost is adjusted for gains/losses attributable to the risk being hedged. This adjustment is booked in the statement of profit or loss, where it offsets the measurement of the fair value change of the hedging instrument that is also recorded in the statement of profit or loss.

iii. Risk-weighting

The notional amounts of the derivatives provide an indication of the size of the contracts but do not indicate the extent of the cash flows and risks attached thereto. In determining the capital adequacy requirement, both existing and potential future credit risk is considered. The current potential loss on derivatives, which is the positive fair value at the balance sheet date (positive replacement cost), is increased by a percentage of the relevant notional amounts, depending on the nature and remaining term of the contract (potential future credit risk). This credit risk is risk-weighted based on the credit rating of the counterparty and the remaining term.

The Group maintains control limits from a credit risk point of view and (for a significant part of the derivative portfolio) uses Credit Support Annexes (CSAs) to International Swaps and Derivatives Association (ISDA) master agreements to mitigate the credit risk through regular margin calls. This credit risk exposure is managed as part of the overall lending limits with financial institutions.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

H. Fair value of financial instruments

The table below summarises the Group's financial assets and financial liabilities of which the derivatives are measured at fair value and the other financial assets and other financial liabilities are measured at amortised cost on the balance sheet as at 31 December 2018.

Fair value of financial instruments

	Carrying value	Fair value		
As at 31 December 2018		Level 1	Level 2	Total
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Derivative financial instruments in hedge	57,254	–	57,254	57,254
Derivative financial instruments not in hedge	41,263	–	41,263	41,263
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE				
Cash and balances at central banks	3,167,831	3,167,831	–	3,167,831
Investments in debt securities	24,709	24,737	–	24,737
Receivables from financial institutions	518,318	–	518318	518,318
Receivables from clients	3,279,487	–	3,355,467	3,355,467
Investments accounted for using the equity method	15,874	–	15,874	15,874
Loans to investments using the equity method	151,300	–	153,567	153,567
Other receivables and prepayments	521,440	–	521,539	521,539
Assets held-for-sale	39,259	–	39,259	39,259
TOTAL FINANCIAL ASSETS	**7,816,734**	**3,192,568**	**4,702,541**	**7,895,109**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE				
Derivative financial instruments in hedge	31,150	–	31,150	31,150
Derivative financial instruments not in hedge	81,506	–	81,506	81,506
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE				
Funds entrusted	6,490,204	–	6,507,800	6,507,800
Trade and other payables and deferred income	856,661	–	858,816	858,816
Borrowings from financial institutions	3,788,873	–	3,842,505	3,842,505
Debt securities issued	10,449,447	–	10,383,961	10,383,961
TOTAL FINANCIAL LIABILITIES	**21,697,842**	**–**	**21,705,738**	**21,705,738**

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

H. Fair value of financial instruments continued

Fair value of financial instruments

As at 31 December 2017	Carrying value	Fair value		
		Level 1	Level 2	Total
FINANCIAL ASSETS MEASURED AT FAIR VALUE				
Derivative financial instruments in hedge	54,690	–	54,690	54,690
Derivative financial instruments not in hedge	48,768	–	48,768	48,768
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE				
Cash and balances at central banks	2,349,162	2,349,162		2,349,162
Receivables from financial institutions	547,296	–	547,296	547,296
Lease receivables from clients	3,260,694	–	3,273,332	3,273,332
Investments accounted for using the equity method	12,983	–	12,983	12,983
Loans to investments using the equity method	140,500	–	143,774	143,774
Receivables and prepayments[1]	365,720	–	366,021	366,021
Assets held-for-sale	20,107	–	20,654	20,654
TOTAL FINANCIAL ASSETS	**6,799,920**	**2,349,162**	**4,467,518**	**6,816,680**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE				
Derivative financial instruments in hedge	25,937	–	25,937	25,937
Derivative financial instruments not in hedge	54,432	–	54,432	54,432
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE				
Funds entrusted	6,002,501	–	6,162,088	6,162,088
Trade and other payables and deferred income[2]	914,609	–	914,609	914,609
Borrowings from financial institutions	3,323,132	–	3,223,358	3,223,358
Debt securities issued	9,337,826	–	9,464,504	9,464,504
TOTAL FINANCIAL LIABILITIES	**19,658,437**	**–**	**19,844,928**	**19,844,928**

[1] *Other receivables that are not financial assets are not included*

[2] *Other payables that are not financial liabilities are not included*

There were no changes in valuation techniques during the years.

Financial instruments in level 1

The fair value of financial instruments that are traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Cash and balances with central banks are the only financial instruments held that are included in level 1.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

H. Fair value of financial instruments continued

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of the interest rate swaps and cross currency swaps calculated as the present value of the estimated future cash flows based on observable yield curves at commonly quoted intervals, while considering the current creditworthiness of the counterparties.
- The yield curve for all collateralised derivatives is based on the overnight index swap (OIS) rate (the vast majority of the Group's derivatives are collateralised).
- The valuation methodology of the cross-currency swaps includes a liquidity premium (which swaps less liquid currencies into those that are considered more liquid in the market and vice versa).
- The counterparty's Probability of Default is estimated using market CDS spreads resulting in credit valuation adjustments.
- The Group's own creditworthiness and Probability of Default are estimated using input such as secondary spreads and cost of funding curve as well as information from counterparties resulting in a debit valuation adjustment.
- Other techniques, such as discounted cash flow analysis based on observable yield curves at commonly quoted intervals, are used to determine the fair value for the remaining financial instruments.
- For certain other receivables (Rebates and bonuses and commissions receivable, Reclaimable damages and Interest to be received) and payables (Trade payables and Interest payable) with a remaining term well below one year, the carrying value is deemed to reflect the fair value.

Financial instruments in level 3

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. Unobservable in this context means that there is little or no current market data available from which to derive a price that an unrelated, informed buyer would purchase the asset or liability at. No financial instruments are included in this category.

I. Offsetting financial assets and financial liabilities

The following financial assets and financial liabilities are subject to offsetting, enforceable master netting agreements and similar agreements.

	Related amounts not offset in the balance sheet					
	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
AS AT 31 DECEMBER 2018						
Derivative financial assets – 2018	98,517	–	98,517	–98,517	–	–
Derivative financial liabilities – 2018	112,656	–	112,656	–98,517	–29,950	–15,811
AS AT 31 DECEMBER 2017						
Derivative financial assets – 2017	103,458	–	103,458	–80,369	–43,523	–20,434
Derivative financial liabilities – 2017	80,369	–	80,369	–80,369		–

Next to legal right to offset the criteria intend to settle net missing. For the financial assets and liabilities subject to enforceable master netting agreements or similar agreements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both intent to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Except for derivative financial instruments, there are no other financial assets or liabilities subject to offsetting.

Financial risk management continued

All amounts are in thousands of euros, unless stated otherwise

J. Transfer of (financial) assets

The Group engages in various securitisation transactions (reference is made to *Note 11* and *Note 17* of the consolidated financial statements of the Group and *Note 12* of the company financial statements). Because of such transactions (financial) assets are transferred from the originating LeasePlan subsidiaries to special-purpose companies. The special-purpose companies are controlled by the company and included in the consolidated financial statements, and, in view of this, the transferred (financial) assets are not de-recognised in their entirety from a Group perspective.

	Loans and receivables			
	Receivables from clients (finance leases)	Receivables from financial institutions (collateral deposited)	Property and equipment under operating lease	Total
AS AT 31 DECEMBER 2018				
Carrying amount				
Assets	288,783	105,888	3,507,979	3,902,649
Associated liabilities				
Bonds and notes originated from securitisation transactions				2,328,187
Borrowings from financial institutions				400,000
NET CARRYING AMOUNT POSITION				**1,174,462**
For those liabilities that have recourse only to the transferred assets				
Fair value				
Assets	297,396	105,888	3,518,222	3,921,506
Associated liabilities				
Bonds and notes originated from securitisation transactions				2,333,493
Borrowings from financial institutions				392,094
NET FAIR VALUE POSITION				**1,195,919**
AS AT 31 DECEMBER 2017				
Carrying amount				
Assets	47,002	176,558	2,084,448	2,308,008
Associated liabilities				
Bonds and notes originated from securitisation transactions				1,503,758
Borrowings from financial institutions				
NET CARRYING AMOUNT POSITION				804,250
For those liabilities that have recourse only to the transferred assets				
Fair value				
Assets	46,847	180,869	2,088,253	2,315,969
Associated liabilities				
Bonds and notes originated from securitisation transactions				1,504,970
Borrowings from financial institutions				
NET FAIR VALUE POSITION				**810,999**

Specific notes

All amounts are in thousands of euros, unless stated otherwise

1 COUNTRY BY COUNTRY REPORTING

This note is pursuant to the 'Besluit uitvoering publicatieverplichtingen richtlijn kapitaalvereisten' that implements articles 89 and 90 of the Capital Requirement Directive (CRD IV). The list of entities is equal to the 'List of principal consolidated participating interests' and 'Principal associates and jointly controlled entities that are accounted for under the equity method', except for entities that have been disposed during the period. The amount of government subsidies is negligible and therefore not disclosed.

2018

Country of activity	Principal subsidiary or participating interest	Main activity	Average FTE (ytd)	Revenues	Profit before tax	Income tax expenses
NETHERLANDS	LeasePlan Corporation N.V. LeasePlan Finance N.V. LeasePlan Global B.V. LeasePlan International B.V. LeasePlan Nederland N.V. LeasePlan Digital B.V. Mobility Mixx B.V.1 (sold in 2018)	Holding/Treasury/ Retail banking Holding International client coordination Leasing Digital business & services Mobility services	1,243	1,138,415	30,649	3,824
UNITED KINGDOM	LeasePlan UK Limited	Leasing	527	1,123,368	54,834	–12,132
ITALY	LeasePlan Italia S.p.A.	Leasing	513	1,045,259	65,293	14,594
FRANCE	LeasePlan France S.A.S. PLease S.C.S.[1]	Leasing	413	728,224	58,446	–16,578
SPAIN	LeasePlan Servicios S.A.	Leasing	433	546,068	72,122	–18,108
GERMANY	LeasePlan Deutschland GmbH	Leasing	403	724,468	–1,541	499
AUSTRALIA	LeasePlan Australia Limited	Leasing	343	353,210	21,741	–6,583
BELGIUM	LeasePlan Fleet Management N.V.	Leasing	242	430,716	52,395	–15,410
PORTUGAL	LeasePlan Portugal Comericio e Aluguer de Automobeis e Equipamentos Uniperssoal Lda.	Leasing	364	448,675	52,848	–14,645
NORWAY	LeasePlan Norge A/S	Leasing	124	283,279	15,598	–1,936
UNITED STATES	LeasePlan USA Inc.	Leasing	514	377,818	21,238	–4,664
SWEDEN	LeasePlan Sverige AB	Leasing	115	188,103	13,357	–2,951
FINLAND	LeasePlan Finland Oy	Leasing	84	188,643	17,551	–3,514
AUSTRIA	LeasePlan Osterreich Fuhrparkmanagement GmbH Flottenmanagement GmbH1	Leasing Leasing Leasing	155	179,605	5,545	–1,388
SWITZERLAND	LeasePlan (Schweiz) AG	Leasing	60	94,469	9,227	–925
DENMARK	LeasePlan Denmark A/S	Leasing	97	210,652	11,411	–2,537
POLAND	LeasePlan Fleet Management (Polska) Sp.z.o.o.	Leasing	148	185,116	–1,230	–1,085
CZECH REPUBLIC	LeasePlan Ceska republika s.r.o.	Leasing	134	161,781	13,011	–2,567
NEW ZEALAND	LeasePlan New Zealand Limited	Leasing	80	98,442	4,775	–1,219
SHARED SERVICES CENTER	LeasePlan Service Center S.R.L.	Administration Services	85	0	–1,792	–9
IRELAND	Euro Insurances DAC LeasePlan Information Services Limited LeasePlan Fleet Management Services (Ireland) Limited	Motor Insurance Information services Leasing	231	124,063	57,187	–7,407
LUXEMBOURG	LeasePlan Luxembourg S.A.	Leasing	47	86,080	5,120	–259
GREECE	LeasePlan Hellas S.A.	Leasing	105	122,430	20,126	–6,375
BRAZIL	LeasePlan Brasil Ltda.	Leasing	93	76,779	10,202	–4,377
HUNGARY	LeasePlan Hungaria Gempjarmupark Kezelo es Finanscirozo Zartkoru Reszvenytarsasag	Leasing	70	73,847	6,550	–786
ROMANIA	LeasePlan Romania SRL	Leasing	73	57,481	6,202	–1,090
SLOVAKIA	LeasePlan Slovakia s.r.o.	Leasing	49	54,866	2,902	–613
INDIA	LeasePlan India Private Limited	Leasing	77	58,993	–612	–1,990
MEXICO	LeasePlan Mexico S.A. de C.V.	Leasing	138	64,457	4,769	–1,491

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

1 COUNTRY BY COUNTRY REPORTING CONTINUED

Country of activity	Principal subsidiary or participating interest	Main activity	Average FTE (ytd)	Revenues	Profit before tax	Income tax expenses
RUSSIA	LeasePlan Rus LLC	Leasing	56	36,034	2,509	-839
TURKEY	LeasePlan Otomotiv Servis ve Ticaret A.S.	Leasing	140	257,100	-109,318	13,180
UNITED ARAB EMIRATES	LeasePlan Emirates Fleet Management – LeasePlan Emirates LLC1	Leasing	–	–	1,858	–
MALAYSIA	LeasePlan Malaysia	Leasing	–	–	34	–
TOTAL AS AT 31 DECEMBER			7,158	9,518,443	523,008	-99,381

[1] *Associates and jointly controlled entities that are accounted for using the equity method*

2017

Country of activity	Principal subsidiary or participating interest	Main activity	Average FTE (ytd)	Revenues	Profit before tax	Income tax expenses
NETHERLANDS	LeasePlan Corporation N.V. LeasePlan Finance N.V. LeasePlan Global B.V. LeasePlan International B.V LeasePlan Nederland N.V LeasePlan Digital B.V. Mobility Mixx B.V.1 (sold in 2018)	Holding/Treasury/Retail banking Treasury Holding International client coordination Leasing Digital business & services Mobility services	934	1,171,267	-73,289	15,415
UNITED KINGDOM	LeasePlan UK Limited	Leasing	526	1,111,721	57,479	-12,361
ITALY	LeasePlan Italia S.p.A.	Leasing	489	958,081	69,288	3,962
FRANCE	LeasePlan France S.A.S. PLease S.C.S.1	Leasing	401	674,926	64,994	-20,634
SPAIN	LeasePlan Servicios S.A.	Leasing	446	611,984	68,473	-15,531
GERMANY	LeasePlan Deutschland GmbH	Leasing	378	661,709	31,203	-9,903
AUSTRALIA	LeasePlan Australia Limited	Leasing	344	360,807	22,777	-7,395
BELGIUM	LeasePlan Fleet Management N.V.	Leasing	225	443,026	60,062	-19,848
PORTUGAL	LeasePlan Portugal Comericio e Aluguer de Automobeis e Equipamentos Uniperssoal Lda.	Leasing	345	447,784	46,916	-11,583
NORWAY	LeasePlan Norge A/S	Leasing	111	309,097	18,753	-2,960
UNITED STATES	LeasePlan USA Inc.	Leasing	544	394,705	-5,225	17,013
SWEDEN	LeasePlan Sverige AB	Leasing	106	196,865	11,481	-2,543
FINLAND	LeasePlan Finland Oy	Leasing	79	173,316	16,905	-3,387
AUSTRIA	LeasePlan Osterreich Fuhrparkmanagement GmbH Flottenmanagement GmbH1	Leasing Leasing Leasing	146	177,946	10,882	-3,217
SWITZERLAND	LeasePlan (Schweiz) AG	Leasing	105	103,766	39,041	-4,525
DENMARK	1	Leasing	85	214,638	16,481	-3,664
POLAND	LeasePlan Fleet Management (Polska) Sp.z.o.o.	Leasing	121	145,379	10,915	-2,493
CZECH REPUBLIC	LeasePlan Ceska republika s.r.o.	Leasing	123	148,961	14,335	-2,830
NEW ZEALAND	LeasePlan New Zealand Limited	Leasing	85	96,738	5,674	-1,594
IRELAND	Euro Insurances DAC LeasePlan Information Services Limited LeasePlan Fleet Management Services (Ireland) Limited Motor Insurance Information services	Leasing	282	143,132	43,203	-5,667
LUXEMBOURG	LeasePlan Luxembourg S.A.	Leasing	54	84,429	4,125	-1,406
GREECE	LeasePlan Hellas S.A.	Leasing	88	104,535	18,397	-7,217
BRAZIL	LeasePlan Brasil Ltda.	Leasing	86	94,865	10,289	-4,115

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

1 COUNTRY BY COUNTRY REPORTING CONTINUED

Country of activity	Principal subsidiary or participating interest	Main activity	Average FTE (ytd)	Revenues	Profit before tax	Income tax expenses
HUNGARY	LeasePlan Hungaria Gempjarmupark Kezelo es Finanscirozo Zartkoru Reszvenytarsasag	Leasing	61	69,343	6,017	–779
ROMANIA	LeasePlan Romania SRL	Leasing	69	55,141	5,383	–806
SLOVAKIA	LeasePlan Slovakia s.r.o.	Leasing	42	51,828	4,598	–973
INDIA	LeasePlan India Private Limited	Leasing	63	58,903	–6,268	–1,111
MEXICO	LeasePlan Mexico S.A. de C.V.	Leasing	126	59,770	3,161	–2,274
RUSSIA	LeasePlan Rus LLC	Leasing	35	25,167	129	–568
TURKEY	LeasePlan Otomotiv Servis ve Ticaret A.S.	Leasing	116	211,102	10,233	–7,681
UNITED ARAB EMIRATES	LeasePlan Emirates Fleet Management – LeasePlan Emirates LLC[1]	Leasing	–	–	1,769	–
MALAYSIA	LeasePlan Malaysia	Leasing	0	–11	–900	–
TOTAL AS AT 31 DECEMBER			**6,615**	**9,360,920**	**587,281**	**–120,675**

[1] *Associates and jointly controlled entities that are accounted for using the equity method*

2 SEGMENT INFORMATION

LeasePlan's core business activity consist of providing leasing and fleet management services, including the purchase, financing, insurance, maintenance and remarketing of vehicles, to external customers. The Group offers a mono-line product through all its LeasePlan subsidiaries allowing for some differentiation based on the maturity of local markets. The Group's key management is responsible for allocating resources to the segments and assesses its performance. The Group identified Europe and Rest of the world as reportable segments. Operating segments are reported in accordance with the internal reporting provided to the Group's key management.

Europe

Geographies in this segment are all European countries where the Group operates including Turkey, Russia and United Arab Emirates.

Rest of the world

Geographies in this segment are Australia, Brazil, India, Mexico, New Zealand and the United States.

The performance of the segments is measured based on the combination of IFRS and non-GAAP measures, such as serviced fleet, revenue and underlying net result. The performance measures are obtained from the internal system of management accounting. All relevant revenues and related costs of the central managed activities, like borrowings, treasury, insurance, information services, supply services and holding activities are allocated to the individual segments. This provides management with a comprehensive view of the performance of the segments. Inter-segment revenues are not presented separately given their insignificance.

The segment information is presented in the table below.

Country of activity	Europe		Rest of world		Total	
In millions of euros	2018	2017	2018	2017	2018	2017
Serviced fleet (in thousands) as at 31 December	1,406	1,333	416	412	1,822	1,745
REVENUES	**8,485**	**8,296**	**1,034**	**1,065**	**9,518**	**9,361**
Finance lease & other interest income	55	58	78	66	133	124
Finance cost	198	206	106	100	304	306
Car and other depreciation and amortisation	2,908	2,854	248	263	3,156	3,117
Underlying taxes	116	143	21	2	137	145
Underlying net result	533	501	43	31	576	532
Total assets	23,365	21,779	3,915	3,363	27,280	25,142
Total liabilities	20,394	18,939	3,550	2,979	23,944	21,918

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

2 SEGMENT INFORMATION CONTINUED

The table below presents information about the major countries in which the Group is active. The Netherlands is the domicile country of the Group.

Country of activity	FTE's		Revenues		Lease assets	
In millions of euros	2018	2017	2018	2017	2018	2017
Netherlands	1,243	934	1,138	1,172	2,397	2,194
LeasePlan UK	527	526	1,123	1,111	2,533	2,367
LeasePlan Italy	513	489	1,045	958	1,822	1,621
Other	4,875	4,666	6,211	6,120	13,708	13,155
TOTAL	**7,158**	**6,615**	**9,518**	**9,361**	**20,460**	**19,337**

CarNext.com

Over the course of 2018 LeasePlan has created its CarNext.com business and intends to separately report CarNext.com's financial results in the course of 2019 after it has completed the necessary accounting system changes and all required information is available for segment disclosure. The required information for a separate segment disclosure was not available in 2018.

Non-GAAP measures

In the Director's Report we use certain Alternative Performance Measures to present and discuss our underlying performance and value creation, in addition to the IFRS financial statements. For this purpose net result has been adjusted to arrive at underlying net result for impacts related to unrealised results on financial instruments, one-time items related to the acquisition or sale of subsidiaries, large restructuring and consultancy programmes (e.g. those related to the Power of One LeasePlan), transaction costs (e.g. the costs incurred in preparation for a potential IPO) and other items which are large and can vary significantly and for which such variability may not relate to LeasePlan's ongoing net result or trends. For this reason, impairment charges for Turkey and Germany have been taken out retrospectively as from Q4 2018.

The reconciliation from IFRS measures to non GAAP measures for 2018 and 2017 is included in the tables below:

	IFRS results December 2018	Underlying adjustments			Underlying results December 2018
		Power of One LeasePlan	Unrealised results on financial instruments	Impairment	
REVENUES	**9,518,443**				**9,518,443**
DIRECT COST OF REVENUES	**8,064,213**		**–11,409**	**–132,000**	**7,920,804**
GROSS PROFIT	**1,454,230**		**11,409**	**132,000**	**1,597,639**
Total operating expenses	934,634	–47,089			887,545
Other income	128				128
Share of profit of investments accounted for using the equity method	3,284				3,284
PROFIT BEFORE TAX	**523,008**	**47,089**	**11,409**	**132,000**	**713,506**
Income tax expenses	99,381	13,845	989	23,094	137,309
NET RESULT ATTRIBUTABLE TO OWNERS OF THE PARENT	**423,627**	**33,244**	**10,420**	**108,906**	**576,197**

	IFRS results December 2017	Underlying adjustments			Underlying results December 2017
		Power of One LeasePlan	Unrealised results on financial instruments	Sale of Terberg	
REVENUES	**9,360,920**				**9,360,920**
DIRECT COST OF REVENUES	**7,797,425**		**9,378**		**7,806,803**
GROSS PROFIT	**1,563,495**		**–9,378**		**1,554,117**
Total operating expenses	983,572	–103,707			879,865
Other income	5,057			–5,057	–
Share of profit of investments accounted for using the equity method	2,301				2,301
PROFIT BEFORE TAX	**587,281**	**103,707**	**–9,378**	**–5,057**	**676,553**
Income tax expenses	120,675	27,254	–1,628	–1,264	145,036
NET RESULT ATTRIBUTABLE TO OWNERS OF THE PARENT	**466,606**	**76,453**	**–7,750**	**–3,793**	**531,517**

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

3 REVENUES AND DIRECT COST OF REVENUES

Revenues (lease income, additional services and vehicle sales)

Revenues comprise the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

	2018	2017
Operating lease income	3,973,110	3,846,599
Finance lease and other interest income	132,542	124,514
Additional services income	2,422,469	2,526,702
Vehicle sales & End-of contract fees	2,990,322	2,863,105
REVENUES	**9,518,443**	**9,360,920**

Finance lease and other interest income includes an amount of EUR 8.5 million (2017: EUR 6.0 million) related to Other interest income.

The Group uses a business function based approach in presenting its revenue streams. Gains and losses upon derecognition of financial assets and those arising from modification of finance lease contracts are not separately disclosed given the undue cost and effort required to produce this information.

Operating lease income includes an amount of EUR 663.8 million (2017: EUR 647.0 million) related to interest component.

The Group has applied IFRS 15 as of 1 January 2018. Under the selected transition method, comparative information has not been restated.

Direct cost of revenues

Direct cost of revenues comprises the costs associated with providing the above-mentioned lease and additional services, the sale of vehicles and related finance cost and impairment charges.

	2018	2017
Depreciation cars	3,156,215	3,063,687
Impairment on assets*	132,000	6,205
Finance cost	303,769	306,170
Impairment charges on loans and receivables	28,705	19,452
Unrealised (gains)/losses on financial instruments	11,409	-9,378
LEASE COST	**3,632,097**	**3,386,136**
Additional services cost	1,550,420	1,705,256
Vehicle & disposal costs	2,881,696	2,706,033
DIRECT COST OF REVENUES	**8,064,213**	**7,797,425**

** Impairment on assets is included in the line item Depreciation cars in the consolidated statement of profit or loss. Refer to Note 17 for additional details on impairment on cars and inventory under operating leases.*

Gross profit (net lease income and vehicles sales income)

The gross profit (revenues less cost of revenues) can be shown as follows:

	2018	2017
Lease services	616,964	581,804
Impairment on assets	-132,000	-6,205
Unrealised gains/(losses) on financial instruments	-11,409	9,378
Lease	473,555	584,977
Fleet management & other services	280,222	276,649
Repair & maintenance services	322,443	306,965
Damage & Insurance	269,385	237,832
Additional services	872,049	821,446
End of contract fees	123,535	115,770
Profit/loss on disposal of vehicles	-14,909	41,302
Profit/loss on disposal of vehicles & End of Contract fees	108,626	157,072
GROSS PROFIT	**1,454,230**	**1,563,495**

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

3 REVENUES AND DIRECT COST OF REVENUES CONTINUED

Net finance income

As part of the analysis of the revenues and direct cost of revenues LeasePlan also considers net finance income as a relevant metric for financial reporting purposes. The Net finance income is presented below:

	2018	2017
Operating lease – interest income	663,837	646,510
Finance lease & other interest income	132,542	124,514
Finance cost	-303,769	-306,170
NET INTEREST INCOME	**492,610**	**464,854**
Unrealised gains/(losses) on financial instruments	-11,409	9,378
Impairment charges on loans and receivables	-28,705	-19,452
NET FINANCE INCOME	**452,496**	**454,780**

4 IMPAIRMENT CHARGES ON LOANS AND RECEIVABLES

Net impairment charges can be detailed as follows:

	Note	2018	2017
Trade receivables			
Impairment		44,703	44,455
Reversal of impairment		-16,801	-25,766
	16	**27,902**	**18,689**
Other			
Reclaimable damages		-388	473
Rebates and bonuses		1,190	290
TOTAL		**28,705**	**19,452**

5 STAFF EXPENSES

	2018	2017
Wages and salaries	400,344	411,697
Social security charges and taxes	61,699	60,724
Defined contribution pension costs	20,997	20,205
Defined benefit post-employment costs	2,834	4
Other staff expenses	85,367	77,984
TOTAL	**571,241**	**570,614**

The average number of staff (FTEs) employed (including temporary staff) by the Group at the end of the year was 7,158 (2017: 6,615), of whom 1,243 (2017: 934) were employed in the Netherlands. At 31 December the nominal number of staff employed by the Group was 7,535 (2017: 6,843). In 2018, restructuring related expenses relating to the 'Power of One LeasePlan' initiative are included in the staff expenses for EUR 17 million (2017: EUR 28 million).

The breakdown of post-employment costs is as follows:

	Note	2018	2017
Current service cost	*27*	2,363	3,099
Interest expense/income	*27*	402	346
Curtailments and settlements	*27*	68	-3,441
Defined benefit post-employment costs		2,834	4
Defined contribution pension costs		20,997	20,205
TOTAL POST-EMPLOYMENT COSTS		**23,831**	**20,209**

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

6 OTHER OPERATING EXPENSES

The breakdown of other operating expenses is as follow:

	2018	2017
Professional services expenses	194,562	221,417
Housing and other office expenses	66,446	58,631
Marketing expenses	32,186	41,345
Other general and administrative expenses	25,094	35,630
TOTAL	**318,288**	**357,023**

Restructuring related expenses relating to the Power of One LeasePlan are included in professional services expenses for EUR 22 million for 2018 (2017: EUR 61 million). Other operating expenses include travel and entertainment expenses and non-profit related tax.

7 OTHER DEPRECIATION AND AMORTISATION

	Note	2018	2017
Depreciation other property and equipment	*18*	26,570	26,434
Amortisation intangible assets	*20*	18,534	22,643
Impairment charges intangible assets	*20*	–	6,858
TOTAL		**45,104**	**55,935**

8 OTHER INCOME

Other income includes the result on the sale of the Group's subsidiary Mobility Mixx B.V.

In the financial year 2017 other income includes the result from the sale of the 24% interest in Terberg Leasing B.V (Terberg). Terberg was sold for EUR 17.5 million from which the gain on the sale was EUR 5.1 million.

9 INCOME TAX EXPENSES

The income tax expenses in the statement of profit or loss can be shown as follows:

	2018	2017
Current tax		
Current tax on profits for the year	104,797	114,662
Adjustments in respect of prior years	-4,826	4,550
TOTAL CURRENT TAX	**99,971**	**119,212**
Deferred tax		
Origination and reversal of temporary differences	10,970	13,113
Changes in tax rates	-8,558	-20,411
Adjustments in respect of prior years	-3,002	8,761
TOTAL DEFERRED TAX	**-590**	**1,463**
TOTAL	**99,381**	**120,675**

The revaluation of LeasePlan's deferred tax liabilities in certain countries are caused by changes in tax rates, primarily France and Norway. The deferred tax adjustments in respect of prior years mainly include: (i) valuation allowances on deferred tax assets in relation to tax losses and tax credits resulting in a tax charge of EUR 5.1 million (2017: tax charge of EUR 5.4 million), and (ii) a tax charge of EUR 1.8 million mainly due to adjustments in respect of prior years. For 2017 there was a tax charge of EUR 3.3 million.

Further information on deferred tax assets and liabilities is presented in *Note 21*.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

9 INCOME TAX EXPENSES CONTINUED

Effective tax rate reconciliation

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic nominal tax rate of the domicile country (25.0%) of the parent and is as follows:

	2018		2017	
PROFIT BEFORE TAX:		523,008		587,281
Tax calculated at domicile country nominal tax rate	25.0%	130,752	25.0%	146,820
Effect of different tax rates in foreign countries		9,334		745
WEIGHTED AVERAGE TAXATION	**26.8%**	**140,086**	**25.1%**	**147,565**
Income not subject to tax		–41,431		–30,364
Expenses not deductible for tax purposes		17,112		10,574
Changes in tax rates		–8,558		–20,411
Adjustments in respect of prior years:				
Current tax		–4,826		4,550
Deferred tax		–3,002		8,761
TOTAL EFFECTIVE TAXATION	**19.0%**	**99,381**	**20.5%**	**120,675**

The weighted average of the local tax rates applicable to the Group for 2018 is 26.8% (2017: 25.1%), which is higher than the domicile country nominal tax rate of 25.0% predominantly because of the fact that the Group realises on average, relatively more profits in jurisdictions with a tax rate higher than 25.0%.

Income not subject to tax over 2018 includes the effect of the temporary tax facility in Italy resulting in extra depreciation on new investments.

The tax charge/credit relating to components of other comprehensive income is as follows:

	2018			2017		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
Cash flow hedges	–4,778	1,195	–3,584	4,311	–1,078	3,233
Post-employment benefit reserve	2,301	–654	1,647	2,557	–998	1,559
Exchange rate differences	–14,676	–	–14,676	–46,214	–	–46,214
TOTAL	**–17,154**	**540**	**–16,614**	**–39,346**	**–2,076**	**–41,422**

10 CASH AND BALANCES AT BANKS

	Note	2018	2017
Cash and balances at central banks		3,167,831	2,349,162
Deposits with banks		277,657	257,269
Call money, cash at banks	*11*	75,589	76,253
Call money and bank overdrafts	*25*	–169,506	–200,687
BALANCE AS AT 31 DECEMBER FOR THE PURPOSES OF THE STATEMENT OF CASH FLOWS		**3,351,570**	**2,481,998**

All cash and balances at (central) banks are available at call except for the mandatory reserve deposits at the Dutch Central Bank. A monetary policy instrument of the European Central Bank is the minimum reserve requirement, whereby credit institutions in the euro area are obliged to maintain a specified average amount of cash reserves – the so-called minimum reserves – with their respective national banks for successive periods of four to five weeks. The cash reserve requirements serve to create a liquidity shortage in the euro area, so that banks depend on the European Central Bank's liquidity-providing mechanism for their liquidity needs. The mandatory reserve deposits amounting to EUR 65 million (2017: 60 million) form part of the 'Cash and balances at central banks'.

The average interest rate on the outstanding cash and balances at central banks is -0.4% (2017: -0.4%).

No impairment is recognised.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

11 RECEIVABLES FROM FINANCIAL INSTITUTIONS

This caption includes amounts receivable from Dutch and foreign banks. Amounts receivable from financial institutions includes call money and current account bank balances that form part of the cash and balances with banks in the cash flow statement.

	Note	2018	2017
Deposits with banks		277,657	257,269
Call money, cash at bank	*10*	75,589	76,253
Cash collaterals deposited for securitisation transactions		105,888	176,558
Cash collateral deposited for derivative financial instruments		55,351	33,848
Other cash collateral deposited		3,834	3,367
BALANCE AS AT 31 DECEMBER		**518,318**	**547,296**

The cash collateral deposited for securitisation transactions relates to the Bumper securitisation transactions, reference is made to the financial risk section (treasury risk). The cash collateral deposited for derivative financial instruments originates from Credit Support Annexes (CSAs) to International Swaps and Derivatives Association (ISDA) master agreements and reference is made to the financial risk paragraph (strategy in using financial instruments).

The average interest rate on the receivables from financial institutions is -0.1% (2017: -0.2%).

The receivables from financial institutions have no significant credit risk and are modelled in Stage 1: 12-months expected credit losses. The allowance measured for the 12-months period at 31 December 2018 amounted to EUR 0.4 million.

The maturity analysis is as follows:

	2018	2017
Three months or less	369,627	364,508
Longer than three months less than a year	93,406	143,633
Longer than a year, less than five years	55,077	39,052
Longer than five years	207	103
BALANCE AS AT 31 DECEMBER	**518,318**	**547,296**

12 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are carried at fair value and are made up as follows:

	Notional amounts	Fair value		Change in value used in calculating hedge ineffectiveness	Hedging gains/(losses) recognised in OCI	Hedge ineffectiveness recognized in profit & loss
		Assets	Liabilities			
FAIR VALUE HEDGES						
Interest rate risk						
Interest rate swaps	4,538,083	56,494	1,517	14,136	–	197
Cross currency interest rate swaps	445,513	592	23,644	115	–	–210
CASH FLOW HEDGES						
Interest rate risk						
Interest rate swaps	1,452,771	168	5,989	–5,258	–4,779	1
TOTAL DERIVATIVES IN HEDGE	**6,436,367**	**57,254**	**31,150**			
Interest rate swaps	19,368,837	12,093	31,670			
Currency swaps/currency forwards	4,252,156	29,170	49,836			
TOTAL DERIVATIVES NOT IN HEDGE	**23,620,993**	**41,263**	**81,506**			
TOTAL	**30,057,360**	**98,517**	**112,656**			

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

12 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

	2017		
	Notional amounts	Fair value	
		Assets	Liabilities
FAIR VALUE HEDGES			
Interest rate risk			
Interest rate swaps	5,116,881	54,227	14,018
Cross currency interest rate swaps	434,434	–	10,272
CASH FLOW HEDGES			
Interest rate risk			
Interest rate swaps	1,380,000	463	1,647
TOTAL DERIVATIVES IN HEDGE	**6,931,315**	**54,690**	**25,937**
Interest rate swaps	18,177,904	14,164	19,970
Currency swaps/currency forwards	3,409,241	34,604	34,462
TOTAL DERIVATIVES NOT IN HEDGE	**21,587,145**	**48,768**	**54,432**
TOTAL	**28,518,460**	**103,458**	**80,369**

Certain derivative contracts are used by the Group as part of its Interest and Liquidity Risk Management Strategy. These economic hedges do not qualify for hedge accounting under the Group's accounting policy which is driven by the requirements as set under IFRS 9. These derivatives are therefore deemed as not in hedge.

The fair value is based on the price including accrued interest (dirty price). Reconciliation between the fair value of the derivative financial instruments and the hedging reserve included in Group equity is as follows:

	2018	2017
Fair value derivatives in cash flow hedge – assets	168	463
Fair value derivatives in cash flow hedge – liabilities	–5,989	–1,647
Less: accrued interest payable net	–95	525
TOTAL CUMULATIVE FAIR VALUE GAINS/LOSSES ON DERIVATIVES IN CASH FLOW HEDGES	**–5,916**	**–660**
Less: cumulative fair value gains through profit or loss	112	–367
Total cumulative fair value gains/losses through equity	–5,805	–1,026
Deferred tax	1,451	257
HEDGING RESERVE (EQUITY)	**–4,354**	**–770**
MOVEMENT IN HEDGING RESERVE	**–3,584**	**3,233**

Hedging instruments

Carrying amounts of all hedging instruments of the Group are included in the balance sheet line item 'Derivative financial instruments' for both asset and liability positions.

Hedging gains and losses recognised from cash flow hedges are presented as part of the consolidated statement of comprehensive income.

Hedge ineffectiveness

Effectiveness of hedge relationships is determined prospectively at inception for all relationships, and retrospectively at each reporting date.

For fair value hedges, hedge ineffectiveness can arise primarily due to differences in discounting techniques applied to the hedged item and hedging instruments, as well as different sensitivities to the changes in external market conditions. The Group uses regression testing for comparing correlation between the hedged item and hedging instrument, in assessing hedge effectiveness.

For cash flow hedges, the potential reasons for ineffectiveness are mainly insufficient cashflows, or forecasted cashflows which are no longer highly probable. The Group uses the outstanding exposures method to determine a relationship between the hedge item(s) and hedging instrument(s), whereby total exposures on hedged item(s) will be assessed (by currency, re-pricing tenor and maturity) against the hedging instrument(s), to ensure cashflows are equal and opposite.

No other sources of ineffectiveness have been observed during the year 2018.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

12 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Results from the hedge ineffectiveness are presented in the statement of comprehensive income line item 'Unrealised gains/losses financial instruments' for all hedging instruments.

The unrealised gains/losses on financial instruments recognised in the statement of profit or loss break down as follows:

	2018	2017
Derivatives not in hedges	−11,397	14,253
Hedge ineffectiveness cash flow hedges	1	−15
Derivatives fair value hedging instruments	14,251	−25,496
Financial liabilities fair value hedged items	−14,264	20,636
HEDGE INEFFECTIVENESS FAIR VALUE HEDGES	**−13**	**−4,860**
UNREALISED GAINS/LOSSES FINANCIAL INSTRUMENTS	**−11,409**	**9,378**

Hedged Items

The amounts related to items designated as hedged items were as follows.

Interest Rate Swaps hedging interest rate risk (FVH)	**2018**
Carrying amount in assets	–
Carrying amount in liabilities	−4,610,238
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount	−43,426
Line item in the statement of financial position in which the hedged item is included	Debt securities issued
Change in value of the hedged item used for calculating hedge ineffectiveness	−13,858
Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses	–

Cross Currency Swaps hedging interest rate and currency risk (FVH)	**2018**
Carrying amount in assets	–
Carrying amount in liabilities	−422,331
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount	223
Line item in the statement of financial position in which the hedged item is included	Debt securities issued
Change in value of the hedged item used for calculating hedge ineffectiveness	-458
Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses	−196

A number of fixed rate bonds are included in fair value hedges whereby the bonds (the hedged items) are measured at amortised cost and are constantly being adjusted for gains/losses attributable to the risk being hedged. This adjustment is recognised in the statement of profit or loss, where it offsets the re-measurement of the fair value of the hedging instruments that is also recognised in the statement of profit or loss.

Interest Rate Swaps hedging interest rate risk (CFH)	**2018**
Change in value of the hedged item used for calculating hedge ineffectiveness	5,501
Balances remaining in the cash flow hedge reserve from hedging relationships for continuing hedges	4,466
Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied	−112

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

13 OTHER RECEIVABLES AND PREPAYMENTS

This item includes prepayments in respect of expenses attributable to a subsequent period and amounts still to be received, as well as to amounts that are not classified under any other asset.

	2018	2017
Rebates and bonuses & commissions receivable	332,689	297,063
Prepaid lease related expenses	413,428	411,746
VAT and other taxes	146,966	177,140
Reclaimable damages	38,701	30,900
Other prepayments and accrued income	140,324	146,726
Interest to be received	1,316	1,164
Reinsurance assets	20,077	17,455
Other receivables	56,652	96,665
BALANCE AS AT 31 DECEMBER	**1,150,155**	**1,178,859**

Interest to be received is mainly related to receivables from joint ventures and associates of EUR 0.9 million (2017: EUR 0.8 million).

Other receivables include amongst others receivables from investments accounted for using the equity method and loans and deposits to employees and third parties. The majority of the other receivables and prepayments have a remaining maturity of less than one year.

Balances written-off from other receivables were not significant for the years 2018 and 2017.

The expected credit losses for Rebates and bonuses and commission receivable, Reclaimable damages and Reinsurance assets is determined by local models based on historical data. The total allowance amounted to EUR 8 million.

14 INVENTORIES

	Note	2018	2017
Cars and trucks from terminated lease contracts	17	427,715	306,350
Valuation allowance		–13,527	–8,200
CARRYING AMOUNT CARS AND TRUCKS FROM TERMINATED LEASE CONTRACTS		**414,188**	**298,150**
New cars and trucks in stock	17	52,883	86,625
BALANCE AS AT 31 DECEMBER		**467,071**	**384,775**

The valuation allowance of EUR 13.5 million as at 31 December 2018 is driven by market circumstances leading to lower sales prices in certain regions.

15 LOANS TO INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The loans to investments accounted for using the equity method are accounted for at amortised cost (less impairment) and the maturity analysis is as follows:

	2018	2017
Loans deposited	151,300	140,500
CARRYING AMOUNT AS AT 31 DECEMBER	**151,300**	**140,500**

	2018	2017
Three months or less	15,800	7,700
Longer than three months, less than a year	55,000	47,800
Longer than a year, less than five years	80,500	85,000
BALANCE AS AT 31 DECEMBER	**151,300**	**140,500**

No impairment is recognised in 2018 (nil in 2017).

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

16 LEASE RECEIVABLES FROM CLIENTS

This item includes amounts receivable under lease contracts and trade receivables, after deduction of allowances for impairment, where necessary.

	2018	2017
Amounts receivable under finance lease contracts	2,616,077	2,608,572
Trade receivables	705,120	689,395
Impairment	–41,711	–37,273
BALANCE AS AT 31 DECEMBER	**3,279,487**	**3,260,694**

The maturity analysis is as follows:

	2018	2017
Less than three months	1,118,872	1,113,403
Longer than three months less than a year	745,693	706,284
Longer than a year, less than five years	1,442,089	1,464,123
Longer than five years	14,543	14,157
Impairment	–41,711	–37,273
BALANCE AS AT 31 DECEMBER	**3,279,487**	**3,260,694**

The fair value of the receivables does not significantly differ from the carrying amount, as a significant part of these receivables is contracted at a floating interest rate and due to the short-tail of the average remaining term. Reference is made to the financial risk section (Credit risk).

Trade receivables represent unpaid, current lease receivables under existing operating lease contracts or receivables related to inventory sales.

Impairment of EUR 41.7 million includes EUR 5.5 million related to invoices under commercial disputes and EUR 36.2 million of expected credit loss allowances recognized on a counterparty level under IFRS 9.

Impairment allowance

The table below summarises the movements in the expected credit loss allowances related to lease receivables.

Changes in loss allowance	Lease receivables from clients that are not credit impaired	Lease receivables from clients that are credit impaired	Total
BALANCE AS AT 1 JANUARY	**9,529**	**23,037**	**32,565**
Transfers (credit impaired vs non-credit impaired)	–102	102	–
Increases due to origination and acquisition of lease contracts	4,554	–	4,554
Decreases due to derecognition of lease contracts	–1,542	–5,558	–7,100
Changes due to change in credit risk (net remeasurement)	–2,345	23,420	21,075
Changes due to modifications without derecognition (net)	1,208	–37	1,171
Decrease in allowance due to write-offs	–	–13,475	–13,475
Exchange rate and other	576	–3,171	–2,595
BALANCE AS AT 30 DECEMBER	**11,878**	**24,317**	**36,195**

The following table provides information on the movements of gross carrying amounts of lease receivables.

Changes in gross carrying values	Lease receivables from clients that are not credit impaired	Lease receivables from clients that are credit impaired	TOTAL
BALANCE AS AT 1 JANUARY	**3,269,081**	**28,886**	**3,297,967**
Transfers between stages	–19,296	19,296	–
Additions	1,477,234	–	1,477,234
Terminated contracts	–852,817	–5,628	–858,445
Redemptions	–671,322	–1,260	–672,581
Write-offs	–	–13,137	–13,137
Exchange rate movements	35,892	–47	35,846
Other movements	52,376	1,939	54,315
BALANCE AS AT 30 DECEMBER	**3,291,149**	**30,048**	**3,321,197**

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

16 LEASE RECEIVABLES FROM CLIENTS CONTINUED

The following table provides information on the movements of impairment charges of lease receivables for the year 2017 applying IAS 39. These receivables can be compared to credit-impaired receivables in 2018.

as at 31 December	2017
Impaired loans and lease receivables from clients	31,377
Specific impairment allowances	30,197
Incurred but not reported loss provision	7,076
TOTAL ALLOWANCE FOR IMPAIRMENT	**37,273**

For a description of the criteria used to determine whether receivables to clients are impaired, reference is made to the financial risk section (Credit risk). Prior to the adoption of IFRS 9, the Group recognised next to specific impairment allowances of EUR 30 million an incurred but not reported loss provision of EUR 7 million based on the Probability of Default (PD) and the Loss Given Default (LGD) as of 31 December 2017.

The Group has developed three models to estimate expected credit losses for lease receivables that are not in default. For corporate clients in all countries, retail clients in the Netherlands and retail clients in the United Kingdom. The calculation of expected credit losses also includes the explicit incorporation of forecasts of future economic conditions in all of our subsidiaries with different scenario weighting applied. Reference is made to *Note C* – Financial assets and liabilities. Sensitivities of ECL amounts calculated via these models to different macro-economic scenarios are analysed in the following table. Base scenario represents the expected developments in future economic conditions, whereas optimistic scenario assumes the most favourable outcome and adverse scenario reflects the least favourable outcome for the Group. The amounts represent the expected credit loss on the portfolio that is assessed individually for non-default lease receivables, and ignores the collective assessment applied for a part of the lease portfolio (EUR 0.2 million) that is not considered to be significant for this analysis.

	Corporate clients		Retail clients – UK		Retail clients – NL		Total	
In thousands of euros	ECL	Sensitivity	ECL	Sensitivity	ECL	Sensitivity	ECL	Sensitivity
ECL base	6,362	–	4,789	–	21	–	11,712	–
Optimistic scenario	-2,277	-36%	1,053	-22%	-4	-19%	-3,335	-30%
Adverse scenario	2,831	44%	1,319	28%	4	19%	4,155	37%

Finance lease contracts

The amounts receivable from clients include finance lease receivables, which may be analysed as follows:

Gross investment in finance leases, with remaining maturities.

	2018	2017
Not longer than a year	1,152,767	1,159,795
Longer than a year, less than five years	1,610,726	1,674,032
Longer than five years	31,379	45,356
	2,794,873	**2,879,183**
Unearned finance income on finance lease	191,997	270,611
NET INVESTMENT IN FINANCE LEASES	**2,602,876**	**2,608,572**

Net investment in finance leases, with remaining maturities.

	2018	2017
Not longer than a year	1,116,623	1,024,313
Longer than a year, less than five years	1,450,450	1,514,420
Longer than five years	35,803	69,839
BALANCE AS AT 31 DECEMBER	**2,602,876**	**2,608,572**

A part of the finance lease assets is encumbered (securitised) because of the asset backed securitisation transactions concluded by the Group. The total value of the securitised finance lease assets amounts to EUR 327 million (2017: EUR 47 million). For further details on the transactions reference is made to the financial risk section (Transfer of (financial) assets) and *Note 17* of the consolidated financial statements.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

17 PROPERTY AND EQUIPMENT UNDER OPERATING LEASE AND RENTAL FLEET

	Note	Operating leases	Rental fleet	Total
Cost		21,343,482	108,897	21,452,379
Accumulated depreciation and impairment		–5,516,766	–16,184	–5,532,950
CARRYING AMOUNT AS AT 1 JANUARY 2017		**15,826,716**	**92,713**	**15,919,429**
Purchases/additions		6,523,144	98,221	6,621,364
Transfer from inventories	*14*	34,619	–	34,619
Transfer to inventories	*14*	–306,350	–	–306,350
Disposals		–2,138,931	–34,778	–2,173,709
Depreciation and impairment		–3,147,000	–20,014	–3,167,014
Exchange rates differences		–247,805	709	–247,097
Reclassifications		24,048	3,403	27,451
CARRYING AMOUNT AS AT 31 DECEMBER 2017		**16,568,441**	**140,253**	**16,708,694**
Cost		22,534,379	164,184	22,698,562
Accumulated depreciation and impairment		–5,965,938	–23,931	–5,989,868
CARRYING AMOUNT AS AT 1 JANUARY 2018		**16,568,441**	**140,253**	**16,708,694**
Purchases/additions		7,074,531	112,547	7,187,078
Transfer from inventories	*14*	86,625	–	86,625
Transfer to inventories	*14*	–427,715	–	–427,715
Disposals		–2,253,317	–32,633	–2,285,950
Depreciation		–3,204,764	–25,909	–3,230,673
Impairment charge		–132,000	–	–132,000
Exchange rates differences		–86,236	–847	–87,083
CARRYING AMOUNT AS AT 31 DECEMBER 2018		**17,625,566**	**193,411**	**17,818,976**
Cost		24,191,609	230,315	24,421,924
Accumulated depreciation and impairment		–6,566,043	–36,905	–6,602,948
CARRYING AMOUNT AS AT 31 DECEMBER 2018		**17,625,566**	**193,410**	**17,818,976**

The Group periodically assesses whether, as a result of changes in the estimated residual value and/or the useful life of the property and equipment under operating leases, prospective adjustments to the depreciation charges are required. For 2018 this did not result in prospective adjustments (2017: nil).

Equipment under operating lease contracts in Turkey and Germany was impaired in 2018 for an amount of EUR 132 million. Both countries are presented in the segment Europe. In 2017 the impairment was in the amount of EUR 6.2 million. The impairment is related to a specific number of vehicles for which unfavourable sales terms are agreed upon, new legislation or unfavourable foreign exchange rates impacted the recoverability. The impairment is recognised in the consolidated statement of profit or loss in the line-item Depreciation cars.

Further information about asset risk is included in the financial risk management section.

The depreciation of the rental fleet is presented in the consolidated statement of profit or loss in the line item 'Additional service cost'.

Impairment in Turkey

Due to a sharp depreciation of the Turkish lira in 2018 an impairment charge of EUR 103.5 million is recognised for loss-making lease contracts in the Turkish fleet (2017: nil) . The total cumulative impairment per 31 December 2018 on the Turkish lease contracts amounts to EUR 88 million and inventory write-down amounts to EUR 15 million. Based on a combined residual value and inventory balance sheet position of about EUR 451 million in Turkey, the cumulative impairment and write-down is approximately 23% of the gross carrying value.

Local market convention was to price lease contracts in euro, whereas vehicles at contract-end are sold in Turkish lira. Historically, used-vehicle prices in lira and the EUR/TRY exchange rate have been correlated. However, during the period of severe and rapid lira depreciation, increases in lira prices for used cars did not fully offset this currency depreciation. New legislation from the Turkish government requires new lease contracts to be priced and/or indexed in Turkish lira (existing contracts are exempted from this legislation).

The recoverable amount is determined as the value in use at the customer level.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

17 PROPERTY AND EQUIPMENT UNDER OPERATING LEASE AND RENTAL FLEET CONTINUED

As debt funding and interest payments are considered to be operational in nature, the valuation of the Turkish leasing portfolio and the assessment of the value in use is performed based on a discounted cash-flow-to-equity model. Since our functional currency in Turkey is euros, a euro based (equity) discount rate of 9.49% pre-tax is used. The Turkish lira forward rate (source: Bloomberg) at reporting date is used to translate any Turkish lira related cash flows to euros.

The rate of inflation in Turkey is a key assumption underlying future cash flows and a major input of the calculation of the recoverable amount. To calculate the Turkish lira based cash flows we apply the inflation assumptions as published by the International Monetary Fund (IMF) in October 2018. The applied inflation rates for 2018 and 2019 are 15% and 17% and decrease to 13% towards 2022.

The sensitivity of the impairment on Turkish lease contracts to an increase / (decrease) of the inflation rate of 5% (applying the same forward exchange rate curve) amounts to a decrease / (increase) of the impairment amount between EUR 10 and 20 million.

The sensitivity to an increase / (decrease) in spot and forward rates (EUR/TRY) of 5 % in each year in the projection, applying the same inflation rates, results in an increase / (decrease) in the impairment amount between EUR 10 and 20 million.

Impairment in Germany

In Germany a number of loss making contracts generated an impairment in 2018 of EUR 28.5 million (2017: nil). The total cumulative impairment per 31 December 2018 on the German lease contracts amounts to EUR 21.9 million.

The recoverable amount is determined as the value in use at the customer level.

The valuation of the German leasing portfolio and the assessment of the value in use is performed based on a discounted cash-flow-to-equity model. A pre-tax discount rate of 5.2 % is applied.

The sensitivity of the impairment to an increase / (decrease) in expected net sales results of 5% is a decrease (increase) of the impairment provision of approximately EUR 15 to 25 million.

Asset backed securitisation transactions

The Group concluded a number of asset backed securitisation transactions here in after identified as the Bumper transactions. These transactions involve the sale of future lease instalment receivables and related residual value receivables originated by various LeasePlan subsidiaries to special purpose companies (which are included in the consolidated financial statements of the company).

As a result of this sale this caption includes encumbered (securitised) operating lease assets amounting to EUR 3.5 billion (2017: EUR 2.1 billion), which can be detailed as follows:

	2018	2017
Bumper Australia Trust No.1	283,165	–
Bumper 7 S.A.	297,670	522,417
Bumper 11 S.A.	738,908	–
Bumper 10 France FCT	669,856	–
Bumper 6 (NL) Finance B.V.	-	236,100
Bumper 9 (NL) Finance B.V.	596,761	699,862
Bumper NL 2018 B.V.	520,098	-
Bumper 8 (UK) Finance plc	401,520	626,069
TOTAL	**3,507,979**	**2,084,448**

For further information about the asset backed securitisation transactions reference is made to *Note 26*.

An approximation of the future minimum lease payments under non-cancellable operating leases in aggregate and for each of the following periods can be summarised as follows:

	2018	2017
Not longer than a year	2,871,303	2,925,912
Longer than a year, less than five years	5,164,062	5,708,067
Longer than five years	41,365	73,535
TOTAL	**8,076,729**	**8,707,514**

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

18 OTHER PROPERTY AND EQUIPMENT

	Notes	Property	Equipment	Total
CARRYING AMOUNT AS AT 1 JANUARY 2017		**14,022**	**77,784**	**91,806**
Purchases/additions		394	54,180	54,574
Disposals		-1	-24,460	-24,461
Depreciation	7	-1,421	-25,013	-26,434
Currency translation adjustments		-307	-1,196	-1,503
CARRYING AMOUNT AS AT 31 DECEMBER 2017		**12,687**	**81,295**	**93,982**
Cost		28,898	216,741	245,639
Accumulated depreciation and impairment		-16,211	-135,446	-151,657
CARRYING AMOUNT AS AT 31 DECEMBER 2017		**12,687**	**81,295**	**93,982**
Purchases/additions		623	62,028	62,651
Disposals		-1	-26,322	-26,323
Depreciation	7	-2,341	-24,229	-26,570
Currency translation adjustments		-691	-166	-857
CARRYING AMOUNT AS AT 31 DECEMBER 2018		**10,277**	**92,605**	**102,882**
Cost		28,829	252,280	281,109
Accumulated depreciation and impairment		-18,551	-159,676	-178,227
CARRYING AMOUNT AS AT 31 DECEMBER 2018		**10,277**	**92,604**	**102,882**

The title to the other property and equipment is not restricted and these assets are not pledged as security for liabilities.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Principal investments in the consolidated financial statements are:

	% of ownership interest			
	2018	**2017**	**Country of incorporation**	**Activity**
Jointly controlled entities				
LeasePlan Emirates L.L.C.	49.0%	49.0%	Emirate of Abu Dhabi	Leasing
Flottenmanagement GmbH	49.0%	49.0%	Austria	Leasing
Please S.C.S.	99.3%	99.3%	France	Leasing

All jointly controlled entities in the table are interests in joint ventures.

PLease S.C.S

PLease is a Société en Commandite Simple (SCS) under French law, whereby the Group is one of the partners. PLease is governed by a steering committee and a strategic committee whereby the Group can nominate two of the four members of each committee. In the steering committee decisions require a majority of its member votes and in the strategic committee decisions can only be taken unanimously.

The amounts recognised in the balance sheet are as follows:

	2018	2017
Jointly controlled entities	15,874	12,983
BALANCE AS AT 31 DECEMBER	**15,874**	**12,983**

The amounts recognised in the statement of profit or loss are as follows:

	2018	2017
Jointly controlled entities	3,284	2,301
BALANCE AS AT 31 DECEMBER	**3,284**	**2,301**

There are no material contingent liabilities of the investments accounted for using the equity method other than loan commitments (reference is made to *Note 31*).

The summarised financial information below does not represent the proportionate share of the entity but the actual amount included in the separate financial statements of the material interests in investments accounted for using the equity method.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

	2018	2017
	Jointly controlled entities	Jointly controlled entities
Cash and cash equivalents	–	–
Other current assets	32,557	28,399
TOTAL CURRENT ASSETS	**32,557**	**28,399**
Total non-current assets	246,442	225,430
Current financial liabilities	9,506	6,609
Current liabilities other	46,095	41,979
TOTAL CURRENT LIABILITIES	**55,601**	**48,588**
Non-current financial liabilities	189,661	177,291
Other non-current liabilities	1,891	1,989
TOTAL NON-CURRENT LIABILITIES	**191,552**	**179,280**
NET ASSETS (100%)	**31,787**	**25,961**

The total assets of jointly controlled entities amount to EUR 279 million (2017: EUR 254 million), of which EUR 190 million (2017: EUR 171 million) relate to PLease S.C.S.

The summarised statement of comprehensive income below does not represent the proportionate share of entity but the actual amount included for the material interests in investments accounted for using the equity method.

	2018	2017
	Jointly controlled entities	Jointly controlled entities
REVENUES	**130,821**	**100,676**
Depreciation and amortisation	–19,830	–189
Interest income	535	1,028
Interest expense	–9,814	–8,133
Profit before tax	5,731	4,826
Income tax expenses	853	–151
PROFIT FOR THE PERIOD	**6,584**	**4,675**
Other comprehensive income net of tax	124	–
TOTAL COMPREHENSIVE INCOME	6,708	4,675
Dividends received	1,031	1,420

The reconciliation to the proportional share of the Group included in the summarised financial information is as follows:

	2018			2017		
	Associates	Jointly controlled entities	Total	Associates	Jointly controlled entities	Total
Net assets (100%) as at 1 January	–	25,961	25,961	51,850	29,945	81,795
Result for the year	–	6,584	6,584	–	4,675	4,675
Dividend paid	–	–2,061	–2,061	–	–5,303	–5,303
Exchange rate differences	–	1,354	1,354	–	–3,356	–3,356
Sale of associate	–	–	–	–51,850	–	–51,850
Net assets (100%) as at 31 December	–	31,838	31,838	–	25,961	25,961
Percentage of interest	–	various	–	–	various	–
'Interest in associates/jointly controlled entities'	–	15,874	15,874	–	12,983	12,983
CARRYING VALUE	**–**	**15,874**	**15,874**	**–**	**12,983**	**12,983**

The amount of net assets is mainly related to LeasePlan Emirates L.L.C. EUR 29.9 million (2017: EUR 24.8 million).

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

20 INTANGIBLE ASSETS

	Note	Internally generated software development	Software licenses	Customer relationship	Customer contract	Goodwill	Assets under constr. – Intangible	Total
CARRYING AMOUNT AS AT 1 JANUARY 2017		**33,849**	**8,019**	**6,282**	**7,770**	**98,604**	**19,655**	**174,179**
Purchases		2,696	4,267	–	–	–	36,010	42,973
Divestments		-815	-268	–	–	–	–	-1,083
Amortisation	7	-10,390	-4,374	-968	-6,911	–	–	-22,643
Impairment charge	7	-6,724	-134	–	–	–	–	-6,858
Assets available for use		6,925	1,912	–	–	–	-8,837	–
Exchange rate differences		-1,553	-122	–	790	–	-3	-889
CARRYING AMOUNT AS AT 31 DECEMBER 2017		**23,988**	**9,300**	**5,314**	**1,648**	**98,604**	**46,825**	**185,679**
Cost		140,568	62,040	14,441	21,894	98,604	46,825	384,372
Accumulated amortisation and impairment		-116,580	-52,740	-9,127	-20,246	–	–	-198,693
CARRYING AMOUNT AS AT 31 DECEMBER 2017		**23,988**	**9,300**	**5,314**	**1,648**	**98,604**	**46,825**	**185,679**
Purchases		2,568	3,858	–	–	–	82,612	89,039
Amortisation	7	-10,799	-5,493	-963	-1,280	–	–	-18,534
Assets available for use		8,947	5,144	-1	–	–	-14,091	-0
Exchange rate differences		-45	-8	–	–	–	-1	-55
CARRYING AMOUNT AS AT 31 DECEMBER 2018		**24,660**	**12,801**	**4,350**	**369**	**98,604**	**115,345**	**256,128**
Cost		149,289	68,400	14,441	21,894	98,604	115,345	467,972
Accumulated amortisation and impairment		-124,629	-55,598	-10,090	-21,526	–	–	-211,844
CARRYING AMOUNT AS AT 31 DECEMBER 2018		**24,660**	**12,801**	**4,350**	**369**	**98,604**	**115,345**	**256,128**

The remaining amortisation period for the majority of the intangible assets with a finite life is approximately six years. The title to the intangible assets is not restricted and the intangible assets are not pledged as security for liabilities.

Assets under construction intangible mainly include the investments in the core leasing system.

The goodwill relates to the acquisition in previous years. All acquired companies were engaged in providing lease services. Goodwill is allocated to the Group's cash generating units which have incorporated the acquisitions. Cash generating units are the individual countries LeasePlan is operating in. The cash generating units to which goodwill is allocated are listed in the table below:

		Key assumptions applied in fair value less cost of disposal		
	Goodwill	Post-tax discount rate	Pre-tax discount rate	Terminal growth rate
LeasePlan Italy	46,646	9.7%	11.1%	1.0%
LeasePlan Portugal	27,232	9.7%	13.0%	1.0%
LeasePlan Spain	14,413	9.0%	11.9%	1.0%
LeasePlan France	10,313	7.8%	10.8%	1.0%
TOTAL	**98,604**			

Annually, or more frequently if events or changes in circumstances indicate a potential impairment, goodwill is assessed for impairment. There was no impairment recognised in 2018 (2017: nil). The impairment test is identical for all cash generating units and is based on fair value less cost of disposal. The fair value less cost of disposal was determined by discounting future cash flows generated from the continuing use of the cash generating units in which the acquired operating companies were incorporated. Cash flows were projected based on actual results and three-year business plans and forecasts. The growth rates included in the business plans and forecasts exceed the long-term average growth rate for this business. The business plans and forecasts were composed with active involvement from the shareholders of LP Group B.V. Under the new ownership a restructuring was carried out, which includes significant personnel reductions and reshaping internal processes. As a result of these changes and as a result of new commercial initiatives to increase market share, such as the Power of One LeasePlan initiative, further improvement in profitability in 2019 is anticipated with continued benefits in the following years. After the three-year forecast period a terminal growth rate of 1.0% was assumed.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

A post-tax discount rate was applied which is built up of a (i) risk free rate (1.0%), (ii) a market premium (6.0%) multiplied by a market specific beta (1.04) and (iii) a country risk premium (ranging between 0.6% and 2.5%).

The recoverable amount of all cash generating units with goodwill exceeds their carrying amounts.

21 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets and deferred tax liabilities as at 31 December are attributable to the following:

	Deferred tax assets		Deferred tax liabilities	
	2018	**2017**	**2018**	**2017**
Goodwill	5,005	6,696	–	–
Property and equipment under operating lease	24,928	21,158	496,751	339,667
Other property and equipment	6,507	6,802	4,684	4,101
Provisions	29,705	21,439	54	–
Deferred leasing income	62,027	66,313	2,274	2,923
Tax value of losses carry forward recognised	212,359	80,329	–	–
Tax credits and prepayments	6,827	1,056	6,322	–
Other receivables	10,910	11,135	25,552	22,524
Other payables	34,561	33,245	8,405	30,528
TAX ASSETS/LIABILITIES	**392,829**	**248,173**	**544,042**	**399,743**
Offset of deferred tax assets and liabilities	–251,694	–125,720	–251,694	–125,720
BALANCE AS AT 31 DECEMBER	**141,135**	**122,453**	**292,347**	**274,023**
NET TAX POSITION:			**151,212**	**151,570**
MOVEMENT NET TAX POSITION	**358**	**2,975**		

The movement in the net deferred tax position can be summarised as follows:

	Note	2018	2017
Balance as at 1 January		–151,570	–154,545
Statement of profit or loss (charge)/credit	*9*	590	–1,463
Tax (charge)/credit relating to components of other comprehensive income	*9*	541	–2,076
Exchange rate differences		–773	6,514
BALANCE AS AT 31 DECEMBER		**–151,212**	**–151,570**

The statement of profit or loss (charge)/credit can be broken down as follows:

	Deferred tax assets		Deferred tax liabilities	
in thousands of euros	**2018**	**2017**	**2018**	**2017**
Goodwill	–1,690	–1,744	–	–
Property and equipment under operating lease	3,770	–9,061	154,049	–15,617
Other property and equipment	–295	1,524	511	–1,112
Provisions	8,266	–2,341	–66	–347
Deferred leasing income	–4,286	–11,494	–1,197	1,164
Tax value of losses carry forward recognised	129,264	31,652	–	–3,739
Tax credits and prepayments	5,771	–1,194	5,979	–
Other receivables	–1,420	–13,186	3,018	18,282
Other payables	728	–3,268	–22,776	–6,280
TAX (ASSETS)/LIABILITIES	**140,108**	**–9,112**	**139,518**	**–7,649**
Movement in deferred tax liabilities	–139,518	7,649		
STATEMENT OF PROFIT OR LOSS (CHARGE)/CREDIT	**590**	**–1,463**		

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

21 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES CONTINUED

Exchange rate differences can be broken down as follows:

	Deferred tax assets		Deferred tax liabilities	
in thousands of euros	**2018**	**2017**	**2018**	**2017**
Property and equipment under operating lease	–	11,799	3,035	–
Other property and equipment	–	–	72	166
Provisions	–	–	120	347
Deferred leasing income	–	–	548	1,291
Tax value of losses carry forward recognised	2,766	–	–	3,739
Tax credits and prepayments	–	695	343	–
Other receivables	–	54	10	–
Other payables	588	–	–	492
TAX (ASSETS)/LIABILITIES	**3,355**	**12,548**	**4,128**	**6,034**
Offset of deferred tax assets and liabilities	–4,128	–6,034		
EXCHANGE RATE DIFFERENCES	**–773**	**6,514**		

The Group recognises deferred tax assets for the tax value of losses and tax credits carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred tax assets in respect to tax losses of EUR 66.3 million (2017: EUR 63.6 million) and has not recognised tax credits for an amount of EUR 19.9 million (2017: EUR 24.2 million) as the Group considers it is not probable that future taxable profits will be available to offset these tax losses and to settle tax credits with current tax liabilities (also taking into account expiry dates when applicable). The unrecognised losses of EUR 66.3 million do not have an expiry date and tax credits can be utilised limited in time.

The expiration profile of the tax credits not recognised can be illustrated as follows:

In millions of euros	**2018**	**2017**
Expires after a year, less than 5 years	8	9
Expires after 5 years	12	15
TOTAL	**20**	**24**

The expiration profile of the losses carried forward can be illustrated as follows:

	2018	**2017**
Expire after a year, less than five years	36,279	20,064
Expire after five years	739,585	193,954
No expiry date	197,898	121,575
TOTAL	**973,763**	**335,593**
TAX VALUE	**212,359**	**80,329**

The total tax value of losses carried forward is presented before offsetting the corresponding deferred tax liabilities (which are reflected in the offset of deferred tax assets and liabilities as shown in the first table of this note).

The deferred tax liability relating to property and equipment under operating leases reverses over the remaining term of the operating lease contracts, which ranges from three to four years.

Breakdown of certain net deferred tax asset positions by jurisdiction:

	2018	**2017**
Netherlands	29,165	26,432
Spain	41,705	49,089
Italy	37,656	17,237
TOTAL	**108,526**	**92,758**

The table above includes a breakdown of certain net deferred tax asset positions by jurisdiction for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current or the preceding year. In 2018, the aggregate amount for the most significant entities is EUR 108.5 million (2017: EUR 92.8 million). Recognition is based on the fact that it is probable that the entity will have taxable profits before expiration of the deferred tax assets.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

22 ASSETS CLASSIFIED AS HELD-FOR-SALE

Assets held-for-sale include parts of the business expected to be sold within a year whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations.

This category mainly includes operating leases that the Group entered into in the United States with the aim to sell onward to debt investors for an amount of EUR 39.3 million (2017: EUR: 20.1 million).

23 FUNDS ENTRUSTED

This item includes non-subordinated loans from banks and saving deposits.

The maturity analysis of these loans is as follows:

	2018	2017
Three months or less	4,618,654	4,136,364
Longer than three months less than a year	1,343,746	1,304,401
Longer than a year, less than five years	527,388	561,642
Longer than five years	416	94
BALANCE AS AT 31 DECEMBER	**6,490,204**	**6,002,501**

Savings deposits raised by LeasePlan Bank amounts to EUR 6.4 billion (2017: EUR 5.9 billion) of which 40.3% (2017: 45.6%) is deposited for a fixed term. LeasePlan Bank is the brand name under which savings deposits are raised by LeasePlan Corporation N.V., which holds a banking licence in the Netherlands. As of September 2015, LeasePlan Bank also operates on the German savings deposit market with a cross border offering from the Netherlands.

The average interest rates on the outstanding balances of the savings deposits in original maturity terms are as follows:

	2018	2017
Three months or less	0.32%	0.52%
Longer than three months less than a year	0.68%	0.79%
Longer than a year, less than five years	1.17%	1.39%

The interest rate of the on-demand accounts is set monthly.

The interest payable in the amount of EUR 15.1 million (2017: EUR 18.4 million) is presented in the line item trade and other payables and deferred income of the statement of financial position.

The funds entrusted include an outstanding balance of EUR 2.1 million (2017: EUR 2.2 million) which is non-euro currency denominated as at 31 December. The remainder of the funds entrusted is denominated in euro. Reference is made to the financial risk section (Treasury risk).

Supplemental cash flow information is as follows:

Funds entrusted	Balance as at 1 January	Financing cash flows	Foreign exchange adjustment	Other non-cash movements	Balance as at 31 December
2018	6,002,501	487,667	36	–	6,490,204
2017	5,480,777	521,845	–	-121	6,002,501

24 TRADE AND OTHER PAYABLES AND DEFERRED INCOME

	2018	2017
Trade payables	783,648	834,295
Deferred leasing income	494,396	556,818
Lease related accruals	558,216	524,140
Other accruals and other deferred amount owed	279,429	290,633
Interest payable	75,168	80,314
Accruals for contract settlements	67,568	82,179
VAT and other taxes – payable	32,056	39,695
TRADE AND OTHER PAYABLES AND DEFERRED INCOME	**2,290,482**	**2,408,074**

The majority of the trade and other payables and deferred income, except for deferred leasing income, have a remaining maturity of less than one year. Deferred leasing income relates to amounts received in advance, as part of the monthly lease instalments, to cover lease expenses in a subsequent period. Lease related accruals mainly consist of accruals for lease related service expenses.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

24 TRADE AND OTHER PAYABLES AND DEFERRED INCOME CONTINUED

Other accruals and other deferred amounts owed contain accruals for a number of different staff expenses, including for the variable remuneration. The accrual for variable remuneration contains also the liability for Phantom Share Units ('PSUs') measured at fair value, for an amount of EUR 10.1 million at the end of 2018 (2017: EUR 12.3 million).

Variable remuneration

Variable remuneration can never exceed 100% of fixed remuneration. For staff who are employed by one of the Dutch operating entities this maximum is further capped at 20% on average and for some specific Control Functions it is capped at 50%. Variable remuneration for Identified Staff consists of cash (50%) and non-cash elements (50%), i.e. PSUs. 60% of the variable remuneration of Identified Staff is paid upfront and 40% of the variable remuneration of Identified Staff is deferred for a period of three years, whereby every year one-third vests. PSU's have a retention period of one year after vesting.

The movements in the number of PSUs outstanding are as follows:

Number of PSU's

	2018	2017
OUTSTANDING AS PER 1 JANUARY	154,256	167,595
Granted	52,511	76,803
Settled during the year	-75,407	-90,142
OUTSTANDING PER 31 DECEMBER	**131,360**	**154,256**

The PSU expenses recognised during 2018 relating to PSU revaluation amount to EUR 1.0 million (2017: EUR 4.6 million).

25 BORROWINGS FROM FINANCIAL INSTITUTIONS

This item includes amounts owed to banks under government supervision.

The maturity analysis of these loans is as follows:

	2018	2017
On demand	169,506	200,687
Less than three months	262,599	423,228
Longer than three months less than a year	793,599	838,766
Longer than a year, less than five years	2,563,168	1,860,451
BALANCE AS AT REPORTING DATE	**3,788,873**	**3,323,132**

On demand amounts owed to financial institutions relating to call money and bank overdraft balances form part of the cash and balances with banks in the cash flow statement. Borrowings from financial institutions include an outstanding balance of EUR 1.2 billion (2017: EUR 1.2 billion) which is non-euro currency denominated as at 31 December. The remainder of the borrowings from financial institutions is denominated in euro. Reference is made to the financial risk section (Treasury risk).

The interest payable in the amount of EUR 11.9 million (2017: EUR 13.6 million) is presented in the line item trade and other payables and deferred income of the statement of financial position.

In May 2016 the company concluded a term loan with three banks amounting to EUR 1,050 million. At 31 December 2018 and 31 December 2017 this term loan was fully drawn.

In December 2014 Bumper NL concluded an asset backed securitisation warehousing facility of EUR 250 million with a bank. In December 2016, the revolving period of this committed facility was extended until December 2017 and increased to EUR 400 million. This facility was fully drawn in January 2017 for an amount of EUR 400 million. In the third quarter of 2017, this amount was fully redeemed. In October 2018, Bumper NL 2018 concluded an asset backed securitisation warehousing facility of EUR 400 million with a bank. This facility has been fully drawn since October 2018.

In June 2015 the company concluded a committed revolving credit facility with a consortium of 12 banks (EUR 1.25 billion) maturing in December 2018. Following the completion of the change in ownership on 21 March 2016, the company acceded to a second committed revolving credit facility with a consortium of 12 banks (EUR 1.25 billion) also maturing in December 2018. In November 2017, the company renewed both committed revolving credit facilities into one new committed revolving credit facility with a consortium of 12 banks (EUR 1.5 billion) maturing in November 2022. The 12 banks in this consortium largely consist of the banks that also participate in the committed revolving credit facility concluded in June 2015. During 2018 and 2017 no amounts were drawn under these facilities.

In addition to centrally arranged credit facilities at a Group level, the Group also has credit facilities in place at the level of some of its subsidiaries.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

25 BORROWINGS FROM FINANCIAL INSTITUTIONS CONTINUED

The supplemental cashflow information is as follows:

Borrowings from financial institutions	Balance as at 1 January	Financing cash flows	Foreign exchange adjustment	Other non-cash movements	Balance as at 31 December
2018	3,122,446	528,533	-31,612	-	3,619,366
2017	3,074,308	83,964	-35,826	-	3,122,446

The supplemental cashflow information excludes call money and bank overdrafts (see *Note 10*).

26 DEBT SECURITIES ISSUED

This item includes negotiable, interest bearing securities.

	2018	2017
Bonds and notes – originated from securitisation transactions	2,328,187	1,507,832
Bonds and notes – other	8,077,861	7,800,858
Bonds and notes – other (AC) – FV adjustment	43,399	29,136
BALANCE AS AT 31 DECEMBER	**10,449,447**	**9,337,826**

There is no pledge nor security for these debt securities except for the bonds and notes which are originated from securitisation transactions.

The debt securities issued include an outstanding balance of EUR 3.4 billion (2017: EUR 3.6 billion) which is non-euro currency denominated as at 31 December. The remainder of the debt securities is denominated in euro. The fair value adjustment is attributable to the hedged risk on bonds and notes in fair value hedges. This fair value hedging policy is described in the financial risk section (Strategy in using financial instruments).

The average interest rates applicable to the outstanding balances can be summarised as follows:

	2018	2017
Bonds and notes – originated from securitisation transactions	1.2%	1.4%
Average interest rate	1.2%	1.4%

The interest payable in the amount of EUR 47.9 million (2017: EUR 47.6 million) is presented in the line item trade and other payables and deferred income of the statement of financial position.

The maturity analysis of these debt securities issued is as follows:

	2018	2017
Three months or less	683,373	237,847
Longer than three months less than a year	1,590,059	1,917,979
Longer than a year, less than five years	7,841,323	6,841,877
Longer than five years	334,692	340,123
BALANCE AS AT 31 DECEMBER	**10,449,447**	**9,337,826**

The caption 'Bonds and notes – originated from securitisation transactions' can be detailed as follows:

	2018	2017
Bumper 10 France FCT	524,000	-
Bumper 7 S.A.	145,952	381,295
Bumper 11 S.A.	540,000	-
Bumper 6 (NL) Finance B.V.	-	73,331
Bumper 9 (NL) Finance B.V.	483,741	574,000
Bumper 8 (UK) Finance plc	267,357	479,206
Bumper Australia Trust No.1	369,663	-
TOTAL	**2,330,713***	**1,507,832**

** excludes transaction costs to the value of EUR 2.5m.*

These Bumper transactions involve the sale of future lease instalment receivables and related residual value receivables originated by various LeasePlan subsidiaries to special purpose companies. Debt securities were issued by most of these special purpose companies to finance these transactions. The special purpose companies are responsible for making interest and principal payments to the noteholders. The noteholders do not have recourse to the company or other Group companies in case of non-performance or default by the special purpose companies. The Group has deposited cash collateral for these securitisation transactions; reference is made to *Note 11* of the consolidated financial statements. The higher rated notes are sold to external investors and the other (non-rated) notes are bought by the company. The company provided funding to facility the purchase of Bumper notes by Group companies.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

26 DEBT SECURITIES ISSUED CONTINUED

A number of fixed rate bonds are included in a fair value hedge whereby the bonds (hedged items) are measured at amortised cost and are constantly being adjusted for gains/losses attributable to the risk being hedged. This adjustment is recognised in the statement of profit or loss, where it offsets (to a large extent) the re-measurement of the fair value of the hedging instruments that is also recognised in the statement of profit or loss.

The supplemental cashflow information is as follows:

Debt securities issued	Balance as at 1 January	Financing cash flows	Foreign exchange adjustment	Other non-cash movements	Balance as at 31 December
2018	9,337,826	1,093,683	3,483	14,455	10,449,447
2017	8,805,351	827,596	-267,850	-27,271	9,337,826

27 PROVISIONS

	2018	2017
Damage risk retention provision	439,208	389,574
Post-employment benefits	23,206	26,421
Other provisions	33,257	38,062
BALANCE AS AT 31 DECEMBER	**495,672**	**454,057**

The majority of provisions are expected to be recovered or settled after 12 months.

i. Damage risk retention provision

	2018	2017
Provision for third party liability (TPL)	156,807	145,456
Provision for damage claims	82,547	71,813
Incurred but not reported (IBNR)	199,854	172,305
BALANCE AS AT 31 DECEMBER	**439,208**	**389,574**

The damage risk retention provision breaks down as follows:

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Damages reported	239,354	-13,456	225,898	217,269	-11,722	205,547
Damages IBNR	199,854	-6,621	193,233	172,305	-5,733	166,572
TOTAL DAMAGE RISK PROVISIONS	**439,208**	**-20,077**	**419,131**	**389,574**	**-17,455**	**372,119**
Current	128,605	-	128,605	107,741	-	107,741
Non-current	310,603	-20,077	290,526	281,833	-17,455	264,378
TOTAL DAMAGE RISK PROVISIONS	**439,208**	**-20,077**	**419,131**	**389,574**	**-17,455**	**372,119**

The development of the third-party liability (TPL) exposures provides a measure of the Group's ability to estimate the ultimate value of damages. The top half of the table below illustrates how the Group's estimate of total damages outstanding for each accident year has changed at successive year ends. The bottom half of the table below reconciles the cumulative damages to the amounts appearing in the balance sheet for TPL. The accident year basis is considered the most appropriate for the business written by the Group.

	<2012	2013	2014	2015	2016	2017	2018	Total
At end of accident year	429,736	109,967	84,813	91,211	114,677	153,266	166,308	
– one year later	502,253	119,917	101,449	99,089	133,315	144,870		
– two years later	479,555	100,475	88,791	89,710	124,011			
– three years later	433,231	106,472	88,555	85,797				
– four years later	440,359	98,984	84,131					
– five years later	469,106	97,873						
– more then five years later	469,522							
Estimate of cumulative claims	469,522	97,873	84,131	85,797	124,011	144,870	166,308	
Cumulative payments to date	-436,309	-84,883	-67,389	-58,491	-86,947	-79,348	-48,543	
GROSS OUTSTANDING CLAIM LIABILITIES	**33,214**	**12,990**	**16,742**	**27,306**	**37,064**	**65,522**	**117,765**	**310,603**
Less: IBNR	7,825	4,020	6,972	9,025	20,949	37,431	67,573	153,796
TOTAL PROVISION FOR TPL, EXCLUDING IBNR	**25,389**	**8,969**	**9,770**	**18,281**	**16,115**	**28,091**	**50,192**	**156,807**

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

27 PROVISIONS CONTINUED

The total provision for TPL, excluding IBNR for the year prior to 2012 can be detailed as follows:

	Gross outstanding damage liabilities	Less: IBNR	Total provision for TPL, excluding IBNR
2012	8,747	2,926	5,821
2011	3,647	978	2,669
2010	1,723	671	1,052
2009	3,101	1,277	1,824
2008	2,253	906	1,347
<2007	13,743	1,067	12,676
TOTAL	**33,214**	**7,825**	**25,389**

The expected maturity analysis of the gross outstanding damage liabilities is as follows:

	2018	2017
Not longer than a year	170,440	152,405
Between 1-2 years	40,662	47,859
Between 2-5 years	56,704	43,068
Longer than 5 years	42,797	38,501
TOTAL	**310,603**	**281,833**

Provision for post-employment benefits

The provision for post-employment benefits comprises both defined benefit pension plans and other post-employment benefits. The Group operates a number of pension plans around the world. Most of these pension plans are defined contribution plans. The Group has sponsored defined benefit pension plans, for which the majority are not open to new participants. The total number of participants in these pension plans is 346 (2017: 370) of whom 285 are active employees and 61 are inactive participants. The plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the plans, pensions generally do not receive inflationary increases once in payment. The benefit payments are from trustee administered funds. Plan assets held in trusts are governed by local regulations and practice, as is the nature of the relationship between the company and the trustees (or equivalent) and their composition. In addition, the Group operates other post-employment benefit plans in five countries for legally required termination indemnities, which are payable at either the retirement date or the date the employee leaves the Group. The amount of the benefit depends on the length of service of the employee at the dismissal or retirement date. The majority of these plans is unfunded where the company meets the benefit payment obligation as it falls due. The total number of participants of these other post-employment benefit plans is 1,230 (2017: 1,114).

The amounts recognised in the balance sheet are as follows:

	2018	2017
Present value of funded obligations	37,028	38,908
Fair value of plan assets	-28,829	-28,520
Deficit of funded plans	8,199	10,388
Present value of unfunded oblligations	15,007	16,033
TOTAL DEFICIT OF DEFINED BENEFIT PLANS AS PER 31 DECEMBER	**23,206**	**26,421**

The impact of minimum funding requirement/asset ceiling is nil in 2018 (2017: nil).

The valuations of provisions for post-employment benefits are performed by independent qualified actuaries on an annual basis.

The following tables summarise the impact on the balance sheet, payment obligations, assets and economic assumptions in respect of the main post-employment benefits in the various countries.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

27 PROVISIONS CONTINUED

	Note	Present value of obligation	Fair value of plan assets	Total
BALANCE AS AT 1 JANUARY 2017		67,176	–34,694	32,482
Current service cost	5	3,096	3	3,099
Interest expense/income	5	690	–344	346
Past service cost and gains and losses on settlements	5	–3,441	–	–3,441
		345	**–341**	**4**
Remeasurements				
Return on plan assets, excluding amounts included in interest expense/income		–	–491	–491
Gain/loss from changes in demographic assumptions		145	–	145
Gain/loss from changes in financial assumptions		–1,543	–3	–1,546
Experience gain/losses		–558	–55	–613
		–1,956	**–549**	**–2,505**
Exchange differences		–796	614	–182
Contributions				
Employers		711	–2,596	–1,885
Payments from plans		462	–462	–
Plan participants		–11,001	9,508	–1,493
Balance as at 31 December 2017		54,941	–28,520	26,421
Balance as at 1 January		54,941	–28,520	26,421
Opening value Adjustment		–594	–	–594
Sale of subsidiary		–3,310	3,270	–40
Current service cost	5	2,363	–	2,363
Interest expense/income	5	737	–335	402
PAST SERVICE COST AND GAINS AND LOSSES ON SETTLEMENTS	5	**68**	**–**	**68**
		–735	2,935	2,200
Remeasurements				
Return on plan assets, excluding amounts included in interest expense/income		–	–883	–883
Gain/loss from changes in demographic assumptions		69	–	69
Gain/loss from changes in financial assumptions		–483	–	–483
Experience gain/losses		1,599	–2,605	–1,006
		1,185	–3,489	–2,304
Exchange differences		229	–142	87
Contributions				
Employers		–1	–2,197	–2,197
Payments from plans		297	–296	1
Plan participants		–3,881	2,880	–1,001
BALANCE AS AT 1 JANUARY		**52,035**	**–28,829**	**23,206**

In 2017 the pension plan in LeasePlan Supply Services (Switzerland) was settled by means all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions. All employees in Switzerland have terminated their employment during 2017/2018. The impact amounts to EUR 3.4 million.

Reference is made to *Note 5* for the details on the amounts recognised in the statement of profit or loss in respect of the Group's post-employment defined benefit plans. Expected contributions to post-employment defined benefit plans are EUR 2.3 million for the year ending 31 December 2018.

There are no defined benefit pension plans that are wholly unfunded and none of the collective and individual pension plans in the various countries are fully funded.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

27 PROVISIONS CONTINUED

The weighted averages of the main actuarial assumptions used to determine the value of the provision for post-employment defined benefits as at 31 December were as follows:

	2018	2017
Discount rate	2.6%	2.0%
Inflation	2.4%	1.9%
Salary growth rate	3.4%	2.9%
Pension growth rate	1.8%	1.0%

The rates used for interest discount factors, inflation, salary developments and future pension increases reflect country specific conditions. The expected return on plan assets is determined by considering the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk-free premium associated with the respective asset classes and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets. The expected returns of the individual plans have been weighted based on the fair value of the assets of the plans to determine the average expected return on plan assets. All other assumptions are weighted based on the post-employment benefit obligations.

	2018	
	0.5% decrease of assumption	0.5% increase of assumption
Discount rate change	18,668	24,908
Inflation change	22,048	19,650
Salary growth rate change	22,857	19,099
Pension growth rate change	17,044	16,552

Assumptions regarding future mortality experience are set based on published statistics and actuarial advice. The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2018	2017
Male	22.9	22.1
Female	25.3	24.9

Plan assets comprise the following:

	2018			2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	745	–	745	173	–	173
Debt instruments	2,972	–	2,972	1,777	–	1,777
Property	608	–	608	202	–	202
Investment funds	2,156	22,348	24,504	3,217	23,151	26,368
TOTAL ASSETS	**6,481**	**22,348**	**28,829**	**5,369**	**23,151**	**28,520**

The expected maturity analysis of undiscounted post-employment benefits is:

	Not longer than a year	Between 1-2 years	Between 2-5 years	Longer than 5 years	Total
Expected maturity undiscounted post-employment benefits	1,276	1,511	5,644	85,249	93,679

The cumulative actuarial gain recognised in the combined statements of comprehensive income is EUR 2.3 million (2017: EUR 2.5 million).

Expected contributions to post-employment defined benefit plans for the year ending 31 December 2018 are EUR 2.3 million.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

27 PROVISIONS CONTINUED

ii. Other provisions

	Other long-term employee benefits	Termination benefits	Litigation	Miscellaneous	Total
BALANCE AS AT 31 DECEMBER 2016	**11,379**	**2,061**	**13,866**	**54,480**	**81,785**
Charge/credit to the statement of profit or loss					
Additional provisions	788	437	3,773	3,460	8,458
Unused amounts reversal	-257	-137	-3,388	-3,805	-7,587
Usage during the year	-934	-1,680	-988	-40,214	-43,816
Exchange rate differences	-193	-23	-231	-331	-778
BALANCE AS AT 31 DECEMBER 2017	**10,782**	**658**	**13,032**	**13,590**	**38,062**
Adoption of IFRS 9				1,011	1,011
Charge/credit to the statement of profit or loss					
Additional provisions	819	6,543	915	8,556	12,077
Unused amounts reversal	173	-37	-8,440	-1,228	-4,186
Usage during the year	-675	-3,630	-612	-7,748	-12,666
Exchange rate differences	-173	77	-172	-182	-450
BALANCE AS AT 31 DECEMBER 2018	**10,925**	**3,611**	**4,722**	**13,999**	**33,257**
Usage within a year	2,755	3,464	285	6,307	12,810
Usage after a year	8,170	147	4,437	7,693	20,447

Other long-term employee benefits

Other long-term employee benefits include provisions for medium-term bonus schemes, jubilee payments and extra leave entitlements.

Termination benefits

The provision for termination benefits relates to expected payments to terminate the employment of an employee or group of employees before the normal termination date. The balance relates to a small number of employee related litigations and obligations of relatively small size.

Litigation

Litigation provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of business. These provisions are not employee related. Legal provision depends on court proceedings so no assumptions related to future events have been disclosed.

Miscellaneous

Miscellaneous provisions include a provision for restructuring related expenses as well as items which cannot be classified under one of the other captions such as provisions for guarantee payments and onerous contracts. The provision for restructuring related expenses of EUR 3.6 million (2017: EUR 7.8 million) mainly related to the Power of One LeasePlan initiative.

ECL for financial guarantees

With the adoption of IFRS 9, the Group recognised an expected credit loss allowance of EUR 1.1 million for its off-balance sheet credit risk exposures.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

28 SHARE CAPITAL AND SHARE PREMIUM

At 31 December 2017, the authorised capital amounted to EUR 250 million (2017: EUR 250 million), divided into 250,000,000 ordinary shares with a nominal value of EUR 1.00 each, of which EUR 71.6 million is issued and paid up. The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote per share at meetings of the company. The share premium includes the amount paid in excess of the nominal value of the share capital.

29 OTHER RESERVES

	Translation reserve	Post-employment benefit reserve	Hedging reserve	Total
BALANCE AS AT 31 DECEMBER 2016	**1,546**	**–7,268**	**–4,003**	**–9,725**
Gaines/losses arising during the year	–46,214	2,557	4,311	–39,346
Related income tax	–	–998	–1,078	–2,076
BALANCE AS AT 31 DECEMBER 2017	**–44,668**	**–5,709**	**–770**	**–51,147**
Gaines/losses arising during the year	–14,676	2,301	–4,778	–17,153
Related income tax	–	–654	1,195	541
BALANCE AS AT 31 DECEMBER 2018	**–59,344**	**–4,063**	**–4,353**	**–67,760**

Translation reserve

The significant movement in 2018 and 2017 is mainly caused by depreciation of the euro against the pound sterling and United States dollar.

Post-employment benefit reserve

The post-employment benefit reserve comprises the actuarial gains and losses recognised on defined benefit post-employment plans.

Hedging reserve

The hedging reserve comprises the effective portion of cash flow hedging instruments. Gains/losses on the cash flow hedge reserves in their entirety relate to the interest rate swaps hedging interest rate risk.

30 RETAINED EARNINGS

Dividend

In March 2018 a final dividend of EUR 120.1 million (EUR 1.68 cent per share) was paid relating to 2017. In October 2018 an interim dividend was paid in the amount of EUR 171.4 million, or 60% of the Group's reported net income over the first half year of 2018. In March 2017 a final dividend of EUR 112.0 million (EUR 1.56 cent per share) was paid relating to 2016. In September 2017 an interim dividend of EUR 164.9 million (EUR 2.30 cent per share) was paid for 2017.

Profit appropriation

Reference is made to the company financial statements on the appropriation of profits for the year and the movements in the reserves.

31 COMMITMENTS

The Group has entered into commitments in connection with the forward purchase of property and equipment under operating lease and rental fleet amounting to EUR 2 billion (2017: EUR 2 billion) as at the balance sheet date. These commitments are entered into in the ordinary course of business and the majority are back-to-back matched with lease contracts entered into with customers.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

31 COMMITMENTS CONTINUED

Furthermore, the Group has entered into commitments in connection with long-term rental and lease contracts. The future aggregate minimum lease payments under these contracts are as follows:

	2018	2017
Not longer than a year	41,907	31,673
Longer than a year, less than five years	125,342	85,447
Longer than five years	111,095	56,551
BALANCE AS AT 31 DECEMBER	**278,344**	**173,671**

For a number of clients, residual value guarantees have been given to a total of EUR 371 million (2017: EUR 364 million).

Credit facilities have been concluded with investments accounted for using the equity method amounting to EUR 160 million (2017: EUR 145 million) of which EUR 151 million (2017: EUR 141 million) is drawn as at 31 December

32 RELATED PARTIES

Identity of related parties

Related parties and enterprises, as defined by IAS 24, are parties and enterprises which can be influenced by the company or which can influence the company.

As of 21 March 2016, LP Group B.V. became the shareholder of the company. LP Group B.V. represents a group of long-term responsible investors and includes ADIA, ATP, Broad Street Investments, GIC, PGGM and TDR Capital. None of these investors has a(n indirect) controlling interest in the company. Business relations between the company, LP Group B.V. and their indirect shareholders are handled on normal market terms. Apart from the transaction related to the change of shareholder no other transactions occurred in 2017. No transactions occurred in 2018.

Transactions between the company and its subsidiaries mainly comprise long-term funding and cost allocation of Group activities as described in *Note 2*. All business relations with the Group's subsidiaries are conducted in the ordinary course of business and on arm's length basis.

Transactions between LeasePlan Corporation N.V. and its subsidiaries are eliminated on consolidation. Reference is made to *Note 10* of the company financial statements for further details with respect to investments in and loans to subsidiaries. For a list of the principal consolidated participating interests, reference is made to Other information to the financial statements.

All business relations with investments accounted for using the equity method are in the ordinary course of business and are handled on normal market terms. An amount of EUR 151.3 million (2017: EUR 141 million) is provided as loans to investments accounted for using the equity method (*Note 15*). In relation to the loans to investments accounted for using the equity method in the company financial statements, reference is made to its *Note 11*.

The interest income recognised by the Group on these funding transactions amounts to EUR 2.0 million (2017 EUR: 2.1 million). Furthermore, the Group charged a service fee amounting to EUR 0.5 million (2017: EUR 0.5 million) to the investments accounted for using the equity method.

Transactions with the Managing Board

The Managing Board consists of the key management personnel. In addition to their salaries, the Group provides non-cash benefits to the Managing Board and contributes to post-employment defined contribution plans on their behalf. The Managing Board is also the statutory executive board of the Company.

The statutory board remuneration is as follows:

	2018	2017
Fixed remuneration	4,147	3,534
Other short-term employee benefits	1,194	1,405
Post-employment benefits	62	63
Other long-term employee benefits	550	496
Termination benefits	* 2,383	** 1,255
TOTAL	**8,336**	**6,753**

** includes remuneration (relating to the period after the board membership ended) and severance of two former board members.*

*** updated termination benefits with severance payments related to 2017 to provide better insight.*

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

32 RELATED PARTIES CONTINUED

The Group has not granted any loans, guarantees or advances to members of the Managing Board. The Managing Board does participate in a management investment plan (details provided in the Management Investment Plan section below).

For information on the remuneration policy of the Managing Board, please refer to the Remuneration Report.

Remuneration of the members of the Supervisory Board

The following table summarises the income components for the five independent members of the Supervisory Board.

in euros	2018	2017
Mr Jos Streppel	150,000	150,000
Ms Ada van der Veer-Vergeer	60,685	75,000
Dr Herta von Stiegel	75,000	75,000
Mr Steven van Schilfgaarde	75,000	75,000
Mr Stefan Orlowski	18,750	75,000
Mrs Allegra van Hovell-Patrizi	56,250	–

MANAGEMENT INVESTMENT PLAN

Selected members of LeasePlan management, including the Managing Board members, (the 'participants) have been provided with an opportunity to make an indirect investment alongside a consortium of financial investors (the 'Consortium') in LeasePlan through a Management Investment Plan (the 'MIP'). To facilitate the allocation of the MIP investment to individual employees, the investment in the MIP is held indirectly via a management holding company ('ManCo'). ManCo issues shares to a specially incorporated foundation that issues depositary receipts to each participant as evidence of the investment. These depositary receipts entitle a participant to the full economic benefit of the underlying shares held by ManCo in an indirect parent company of LeasePlan.

The ability of a participant to dispose of the share investment is linked to the Consortium's exit. Typically, a participant will be able to sell a proportion of the investment equal to the proportion sold by the Consortium at exit. Furthermore, there are specific provisions governing an exit through an IPO where the ability to dispose of shares may be restricted by customary lock-up periods. If a participant ceases to be employed by a LeasePlan group company prior to an exit, the participant may be required to sell part or all of the shares. The price payable for the shares will depend on a vesting schedule where 20% of the shares vest each year over a period of five years. Vested shares would be sold at fair market value and unvested shares would be sold at the lower of i) cost and ii) fair market value. As LeasePlan has no obligation to repurchase shares from a participant or to make any other cash payments to the participants under the MIP, the arrangement is classified as an equity-settled share-based payment.

ManCo is capitalised with a mix of ordinary shares and preference shares. Management participants subscribed for ordinary shares, while the Consortium subscribed for ordinary shares and preference shares in ManCo. When the Consortium exits its investment in LeasePlan, the preference shares will automatically convert into ordinary shares in ManCo. The rate at which the preference shares convert will depend on the returns achieved by the Consortium at the time of exit. If the Consortium's returns at exit are above a pre-defined threshold, the conversion ratio will be adjusted to deliver a greater share of the equity value to the management investors.

The movements in the number of shares that the participants have indirectly acquired under the MIP are as follows:

	2018	2017
BALANCE AS AT 1 JANUARY	**28,725,000**	**25,320,000**
Issued	–	3,405,000
Re-purchase by indirect parent company	-5,785,000	–
BALANCE AS AT 31 DECEMBER	**22,940,000**	**28,725,000**

The participants have indirectly invested EUR 22.9 million via ManCo in LeasePlan Corporation N.V. (2017: EUR 28.7 million) Of that amount, the total aggregated investment amount of Managing Board members amounts to EUR 6.0 million (2017: EUR 9.3 million).

The acquisition price of the ordinary shares in ManCo represents the fair market value of those shares, being the same subscription price as paid by the Consortium for their interest in the ordinary shares. Accordingly, there is no impact on the Group's results or its financial position from the MIP. Repurchase of the shares represent the buy-back of the shares by the shareholder from the Managing Board members who resigned during 2018.

The company or another Group entity will under no circumstances be required to settle in cash. Accordingly, this arrangement is classified as an equity-settled share-based payment arrangement. The company therefore determines the fair value of the shares at the grant date and recognises, if applicable, an expense for the services received over the service period with a corresponding increase in equity.

Specific notes continued

All amounts are in thousands of euros, unless stated otherwise

32 RELATED PARTIES CONTINUED

The total amount to be expensed is determined by reference to the fair value of the awards granted including the impact of any non-vesting conditions and market conditions. For this purpose, the company analyses whether the price paid by a manager is in line with the market price of the shares acquired. If a positive difference exists between (i) the actual market value of the shares and (ii) the purchase price; this results in a fair value to be reported as a share-based payment expense.

Service conditions and non-market performance conditions are taken into account in the number of awards expected to vest. At each reporting date, the company revises its estimates of the number of awards that are expected to vest. The impact of the revision of vesting estimates, if any, is recognised in the statement of profit or loss for the period.

33 CONTINGENT ASSETS AND LIABILITIES

As at 31 December 2018, guarantees had been provided on behalf of the consolidated subsidiaries in respect of commitments entered into by those companies with an equivalent value of EUR 1.5 billion (2017: EUR 1.4 billion). Out of this total amount of credit risk exposure, EUR 442 million resides in Stage 2. Exposures in Stage 2 comprise of the guarantees provided to subsidiaries in Germany, India, Romania and United Kingdom. Remainder of the exposure resides in Stage 1. The company charges a guarantee fee to the respective subsidiaries based on normal market terms.

The probability of any inflow of economic benefits arising from the contingent assets is difficult to estimate and remote. Accordingly, no asset is recognised in the balance sheet.

Following an investigation in July 2015 by the Italian competition authority (ICA) into a possible infringement of EU competition law by all members (including LeasePlan Italy (LPIT)) of the Italian car leasing association ANIASA, LPIT was served with a Statement of Objections on 7 December 2016. Pursuant to the Statement of Objections, the ICA was of the opinion that an infringement of competition law had taken place. LPIT has defended its position. Following a hearing on 1 March 2017 and LPIT's statement of defence, the ICA Decision was served to LPIT on 13 April 2017 which established that LPIT is totally cleared of the alleged infringements of antitrust rules. More specifically the ICA announced that, following an in-depth investigation, it had found no evidence to prove the existence of an exchange of commercially sensitive information by LPIT within the framework of ANIASA.The LPIT anti-trust case has been closed.

In respect of the widely-publicised vehicle emissions controversy affecting our former co-shareholder Volkswagen AG, to date the Group has not seen any significant impact on the residual values of our vehicles or on the demand for certain types of our vehicles in the second-hand vehicle market as a result thereof. As this is a developing issue, the full scope of any impact on the residual values of our vehicles might not yet be fully apparent. Accordingly, we continue to monitor closely all developments with respect to this issue.

On 1 August 2016 the Group entered into a share purchase agreement ('SPA') with FleetCor Technologies Inc. and sold its subsidiary Travelcard Nederland B.V. As part of this SPA the Group has a tax contingent liability for a specific period. Based on current knowledge the Group assesses the probability of any economic outflow to be limited.

34 EVENTS OCCURRING AFTER BALANCE SHEET DATE

No other material events occurred after 31 December 2018, that require disclosure in accordance with IFRS, nor events affecting the financial position of the Group as at 31 December 2018 or the result for the period ended 31 December 2018.

Company financial statements

Statement of profit or loss of the company

For the year ended 31 December

Amounts in thousands of euros	Note	2018	2017
REVENUES		**275,996**	**266,808**
Finance Cost	*3*	224,091	238,452
Unrealised gains/losses financial instruments		11,336	-2,988
DIRECT COST OF REVENUE		**235,428**	**235,464**
GROSS PROFIT		**40,568**	**31,344**
Other operating expenses	*5*	14,152	13,341
Other depreciation and amortisation	*13*	1,161	6,197
TOTAL OPERATING EXPENSES		**15,312**	**19,538**
Impairment charges on loans & receivables	*1*	9,595	–
RESULT BEFORE TAX AND SHARE IN RESULT OF INVESTMENT PARTICIPATIONS		**15,660**	**11,806**
Income tax expenses	*7*	1,289	-5,521
Share in result of participations	*10&11*	406,678	460,321
NET RESULT		**423,627**	**466,606**

Statement of financial position of the company

As at 31 December

	Note	2018	2017
ASSETS			
Cash and balances at central banks	*8*	3,167,804	2,349,118
Loans to special purpose companies	*12*	319,703	135,416
Receivables from financial institutions	*9*	61,722	36,209
Loans to subsidaries	*10*	13,196,990	13,465,916
Investments in subsidiaries	*10*	3,160,960	2,845,991
Loans to investments accounted for using equity method	*11*	151,300	140,500
Investments in jointly controlled entities	*11*	14,638	12,142
Intangible assets	*13*	2,217	3,357
Other assets	*14*	231,820	288,451
TOTAL ASSETS		20,307,155	19,277,100
LIABILITIES			
Borrowings from fin. institutions	*15*	1,084,174	1,093,605
Funds entrusted	*16*	6,399,423	5,896,462
Debt securities issued	*17*	8,126,245	7,834,068
Provisions	*18*	21,765	18,725
Other liabilities	*19*	1,339,955	1,210,254
TOTAL LIABILITIES		16,971,561	16,053,114
EQUITY			
Share capital		71,586	71,586
Share premium		506,398	506,398
Legal reserves		1,009,564	636,498
Other reserves		-67,760	-51,147
Retained earnings		1,392,179	1,594,045
Profit for the year	*23*	423,627	466,606
SHAREHOLDERS' EQUITY		3,335,594	3,223,986
TOTAL EQUITY AND LIABILITIES		**20,307,155**	**19,277,100**

Notes to the company financial statements

All amounts are in thousands of euros, unless stated otherwise

1 GENERAL

For certain notes to the company's balance sheet, reference is made to the notes to the consolidated financial statements.

The company's financial statements are prepared pursuant to the provisions in Part 9, Book 2, of the Dutch Civil Code, by applying the accounting policies used in the consolidated financial statements under IFRSs pursuant to the provisions of Article 362 sub 8, Part 9, Book 2, of the Dutch Civil Code.

In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in these Company financial statements are the same as those applied in the Consolidated financial statements, reference is made to Note 2 'Basis of preparation' of the Consolidated financial statements.

Under reference to Article 362 sub 8, Part 9, Book 2 of the Dutch Civil Code, the investments accounted for using the equity method are measured and valued in accordance with the same IFRS as adopted in the consolidated financial statements of the company.

Investments in subsidiaries and in investments accounted for using the equity method

The investments in subsidiaries are accounted for in accordance with the net value of assets and liabilities, based upon accounting policies used in the consolidated financial statements.

If the valuation of a subsidiary, jointly controlled entity or associate, based on the net asset value is negative, it will be stated at nil. If and insofar as the Group can be held fully or partially liable for the debts of the subsidiary, or has the firm intention of enabling the subsidiary to settle its debts, a provision is recognised for this.

Adoption of IFRS 9

The company has adopted IFRS 9 as from its effective date 1 January 2018. Reference is made to '*Note C* – Financial assets and liabilities' in the consolidated financial statements for additional disclosures on the specific application of valuation principles for the Group which are also applicable for the company.

Classification and Measurement

Compared to the consolidated financial statements, there are two loans provided to special purpose companies included in the subsidiaries that do not meet the condition in IFRS 9 that the cash flows represent solely payments of principal and interest. As a consequence these loans are measured at fair value through profit or loss as per 1 January 2018. The original measurement as reported in the comparable period is amortised cost. The impact of the change in measurement of these intercompany loans from amortised cost to fair value is adjusted in the investments in subsidiaries. As a result there is no additional impact on company equity.

Impairment

The IFRS 9 expected credit loss (ECL) model has replaced the current 'incurred loss' model of IAS 39.

The ECL model will require the recognition of ECLs upon initial recognition of a financial asset. It contains a three-stage approach which is based on the change in credit quality of financial assets. Depending on the stage, the ECL allowance is measured either as 12-months (stage 1) or lifetime expected credit losses (stage 2 and 3). Reference is made to '*Note C* – Financial assets and liabilities' for the valuation principles applied by the company.

Loans to subsidiaries

The company applies the option in RJ-Uiting 2018-1: ontwerp-Richtlijn 100.107a 'verduidelijking van de verwerking van te verwachten kredietverliezen (expected credit loss) in de enkelvoudige jaarrekening bij toepassing van combinatie 3'. This implies that the expected credit losses on intercompany loans and receivables in the company financial statements as prescribed in IFRS 9 are eliminated according to the Dutch accounting standards chapter 260 'De verwerking van resultaten op intercompany-transacties in de jaarrekening'. The incurred loss on the intercompany loans is eliminated in the allowance of the loan and as a result the valuation of the investments in subsidiaries and the value of the loans to subsidiaires are not impacted by transition to IFRS 9.

Transition

The company has concluded that the IFRS 9 transition amount will reduce shareholders' equity by EUR 3.9 million after-tax as at 1 January 2018. The impact relates solely to the implementation of the new expected loss impairment requirements by the Group and no additional impact arises for the company. The following table analyses the impact of transition to IFRS 9 on retained earnings. There is no impact on other components of equity.

The impact of the application of IFRS 9 on the credit impairment is presented in the table below.

Reconciliation of impairment loss allowance IAS 39 vs IFRS 9	31 December 2017 (Impairment allowances under IAS 39)	Transitional adjustments	1 January 2018 (IFRS 9)
NET IMPACT OF EXPECTED CREDIT LOSS UNDER IFRS 9 IN CONSOLIDATED EQUITY			
Loans commitments and financial guarantee contracts issued	–	1,011	1,011
Financial instruments included in investments in subsidiaries	–	2,895	2,895
TOTAL IMPACT OF EXPECTED CREDIT LOSSES UNDER IFRS 9	**–**	**3,906**	**3,906**

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

2 INTEREST AND SIMILAR INCOME FROM SUBSIDIARIES & OTHER INTEREST INCOME

In 2018 the company recognised EUR 4.1 million (2017: EUR 2.1 million) as other interest income.

3 FINANCE COST

In thousands of euros	2018	2017
Interest expenses on debt securities	111,061	123,071
Interest expenses on funds entrusted	36,587	44,995
Interest expenses on borrowings from financial institutions	76,443	70,386
TOTAL	**224,091**	**238,452**

4 MANAGING BOARD REMUNERATION

The Managing Board comprises the key management personnel. In addition to their salaries, the Group provides non-cash benefits to the Managing Board and contributes to post-employment defined contribution plans on their behalf.

The statutory board remuneration is as follows:

	2018	2017
Fixed remuneration	4,147	3,534
Other short-term employee benefits	1,194	1,405
Post-employment benefits	62	63
Other long-term employee benefits	550	496
Termination benefits	* 2,383	** 1,255
TOTAL	**8,336**	**6,753**

** includes remuneration (relating to the period after the board membership ended) and severance of two former board members.*

*** updated termination benefits with severance payments related to 2017 to provide better insight.*

Detailed information on remuneration of the Managing Board and the members of the Supervisory Board is included in *Note 32* – Related parties to the consolidated financial statements. For information on the remuneration policy of the Managing Board, please refer to the Group remuneration report.

5 OTHER OPERATING EXPENSES

Other operating expenses include professional fees, office overheads and other general expenses. The company does not directly employ any staff.

6 AUDIT FEES

The table below shows the fees attributable for services provided by the Group auditors. The fees are presented as part of the caption Other operating expenses.

	2018			2017
	KPMG accountants N.V.	Other KPMG network	Total KPMG network	Total KPMG network
Audit services	2,310	4,571	6,881	6,578
Audit related services	248	43	291	407
Tax advice	–	17	17	45
Other (non-audit) services	–	47	47	–
TOTAL SERVICES	**2,558**	**4,679**	**7,236**	**7,030**

From the total fee of 2018 the amount of EUR 0.4 million is related to audit scope extensions for 2017.

For the period to which the statutory audit relates, KPMG has provided the following services to LeasePlan Corporation:

- Audit of financial statements;
- Quarterly reviews and the audit for regulatory purposes;
- Procedures relating to prospectuses;
- Agreed upon procedures for regulatory purposes;
- Agreed upon procedures on certain intercompany cost charging for foreign tax purposes.

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

7 INCOME TAX

The company forms a fiscal unity with LeasePlan Corporation. N.V. regarding corporate income tax and VAT. Reference is made to *Note 9* of the consolidated financial statements.

	2018	2017
CURRENT TAX		
Current tax on result for the year	4.318	3,440
Adjustment in respect of prior years	13	2,081
TOTAL CURRENT TAX	**4,331**	**5,521**
Deferred tax		
Origination and reversal of temporary differences	-1,886	-
Changes in tax rates	-808	-
Adjustments in respect of prior years	-2,926	-
TOTAL DEFERRED TAX	**-5,619**	**-**
TOTAL	**-1,289**	**5,521**

8 CASH AND BALANCES AT CENTRAL BANKS

The majority of this amount is cash deposited at the Dutch Central Bank of which a part is the mandatory reserve deposit that amount to EUR 65 million (2017:EUR 60 million) which is not available for use in the Group's day-to-day operations.

9 RECEIVABLES FROM FINANCIAL INSTITUTIONS

A breakdown of this caption is as follows:

	2018	2017
Call money, cash at banks	6,371	2,361
Cash collateral derivatives financial instruments	55,351	33,848
BALANCE AS AT 31 DECEMBER	**61,722**	**36,209**

10 INVESTMENTS IN SUBSIDIARIES

Movements in investments in Group companies are as follows:

	2018	2017
BALANCE AS AT 1 JANUARY	**2,845,991**	**2,692,523**
Adoption of IFRS 9	-2,885	-
Capital reduction	-	-80,000
Capital Contributions	109,421	10,794
Dividend received	-215,504	-186,645
Direct changes in equity	1,647	1,624
Revaluations	16,471	4,431
Result for the year	421,300	435,054
Exchange rate differences	-15,481	-31,790
CLOSING	**3,160,960**	**2,845,991**

Reference is made to the List of principal consolidated participating interests.

Revaluations relate to the negative net asset value of subsidiaries based on Group accounting standards. The direct changes in equity relate to fair value changes in cash flow hedges.

The maturity analysis on the loans is as follows:

	2018	2017
Less than three months	2,018,942	2,070,758
Longer than three months less than a year	3,529,487	3,972,758
Longer than a year, less than five years	7,647,095	7,420,875
Longer than five years	1,465	1,525
BALANCE AS AT 31 DECEMBER	**13,196,990**	**13,465,916**

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

10 INVESTMENTS IN SUBSIDIARIES CONTINUED

The Company's loans receivable from subsidiaries amounting to EUR 10.3 billion reside in Stage 1. Remainder of the loans amounting to EUR 2.9 billion reside in Stage 2. Receivables in Stage 2 comprise of loan facilities provided to subsidiaries in Germany, Turkey, Mexico, Romania, Switzerland and United Kingdom as of 31 December 2018.

Reference is made to '*Note 1* – General: Adoption of IFRS 9' for the accounting principles applied regarding the impairment requirements under IFRS 9 on 'Loans to subsidiaries'. Calculated expected credit losses amount to EUR 11.2 million for loans in Stage 1 (12-month ECL) and EUR 5.2 million for loans in Stage 2 (Lifetime ECL) as of 31 December 2018.

11 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The investment relates to a jointly controlled entity in the United Arab Emirates.

Movements are as follows:

	2018	2017
BALANCE AS AT 1 JANUARY	**12,142**	**13,438**
Transfer of equity interest to subsidiaries		
Dividend received	–	–1,420
Adoption of IFRS 9	–8	–
Share of results	1,858	1,769
Exchange rate differences	646	–1,644
BALANCE AS AT 31 DECEMBER	**14,638**	**12,142**

The loans relate to jointly controlled entities of the company (United Arab Emirates) and of the Group (France).

The maturity analysis on the loans is as follows:

In thousands of euros	2018	2017
Less than three months	15,800	7,700
Longer than three months less than a year	55,000	47,800
Longer than a year, less than five years	80,500	85,000
BALANCE AS AT 31 DECEMBER	**151,300**	**140,500**

The company has entered into loan commitments of EUR 160 million (2017: EUR 145 million) of which EUR 151 million has been drawn at 31 December 2018 (2017: EUR 141 million). There are no other material contingent liabilities of the jointly controlled entities.

12 LOANS TO SPECIAL PURPOSE COMPANIES

This caption includes investments in special purpose companies involved in securitisation programmes concluded by LeasePlan Group. The Group consolidates the special purpose entities as control is retained. LeasePlan Corporation N.V. (the company) provided a subordinated loan to the special purpose companies:

Bumper 7 with a floating interest rate and a legal maturity date of March 2026

Bumper 11 with a floating interest rate and a legal maturity date of December 2017.

The subordinated loans to the Bumper are measured at fair value through profit and loss. Year-to-date impact on profit and loss arising from the change in fair values was not material as of 31 December 2018.

	2018	2017
Bumper 7	135,416	135,416
Bumper 11	184,287	–
TOTAL	**319,703**	**135,416**

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

13 INTANGIBLE ASSETS

	Software licences	Customer relationship	Customer contract	Total
Cost	4,432	3,659	13,104	21,195
Accumulated depreciation and impairment	-3,995	-732	-6,994	-11,721
CARRYING AMOUNT AS AT 1 JANUARY 2017	**437**	**2,927**	**6,110**	**9,474**
Amortisation	-291	-366	-5,460	-6,117
CARRYING AMOUNT AS AT 31 DECEMBER 2017	**146**	**2,561**	**650**	**3,357**
Cost	2,112	3,659	13,104	21,195
Accumulated depreciation and impairment	-1,966	-1,098	-12,454	-17,838
CARRYING AMOUNT AS AT 31 DECEMBER 2017	**146**	**2,561**	**650**	**3,357**
Amortisation	-124	-366	-650	-1,140
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**22**	**2,195**	**–**	**2,217**
Cost	2,112	3,659	13,104	18,875
Accumulated depreciation and impairment	-2,090	-1,464	-13,104	-16,658
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**22**	**2,195**	**–**	**2,217**

14 OTHER ASSETS

Besides derivative financial instruments this caption includes a corporate income tax receivable from fiscal authorities and Group companies forming part of the fiscal unity. The company settles corporate income tax due or receivable on taxable income with its Group companies forming part of the fiscal unity as if these Group companies were responsible for their tax filings on a stand-alone basis.

The other assets are made up as follows:

	2018	2017
Derivative financial instruments	100,791	104,003
Tax receivable	3,352	2,095
Accounts receivables from group companies	6,494	33,326
Loans to other third parties	12,908	19,971
Other	108,276	129,056
BALANCE AS AT 31 DECEMBER	**231,820**	**288,451**

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

14 OTHER ASSETS CONTINUED

Derivative financial instruments are carried at fair value and are made up as follows:

	2018	Fair value		2017	Fair value	
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate swaps	4,538,083	56,494	1,517	5,116,881	54,229	14,018
Currency swaps	445,513	592	23,644	434,434	–	10,272
Interest rate swaps	1,452,771	168	5,989	1,380,000	463	1,647
TOTAL DERIVATIVES IN HEDGE	**6,436,367**	**57,254**	**31,150**	**6,931,315**	**54,692**	**25,937**
Interest rate swaps	21,541,602	14,367	27,301	18,854,481	14,707	20,896
Currency swaps/currency forwards	4,252,156	29,169	49,835	3,409,241	34,604	34,462
TOTAL DERIVATIVES NOT IN HEDGE	**25,793,758**	**43,537**	**84,067**	**22,263,722**	**49,311**	**55,358**
TOTAL	**32,230,125**	**100,791**	**115,218**	**29,195,037**	**104,003**	**81,295**

The fair value is based on the price including accrued interest (dirty price).

The unrealised gains/(losses) on financial instruments recognised in the statement of profit or loss are as follows:

	2018	2017
Derivatives not in hedges	-11,325	7,847
Hedge ineffectiveness cash flow hedges	1	–15
Derivatives fair value hedging instruments	14,251	–25,203
Financial liabilities fair value hedged items	–14,264	20,359
Hedge ineffectiveness fair value hedges	–13	–4,845
UNREALISED GAINS/LOSSES FINANCIAL INSTRUMENTS	**–11,336**	**2,988**

15 BORROWINGS FROM FINANCIAL INSTITUTIONS

This caption includes amounts owed to credit institutions under government supervision.

The maturity of these loans are as follows:

	2018	2017
Less than three months	224	43,605
Longer than three months less than a year	29,950	–
Longer than a year, less than five years	1,054,000	1,050,000
BALANCE AS AT REPORTING DATE	**1,084,174**	**1,093,605**

Amounts due to banks include no outstanding balance which is non-euro currency denominated as at 31 December (2017: nil). The related interest rate ranges from -0.4% to 1.1% (2017: from -0.4% to 1.1%).

16 FUNDS ENTRUSTED

The maturity analysis of funds entrusted is as follows:

	2018	2017
Three months or less	4,610,278	4,127,522
Longer than three months less than a year	1,323,823	1,281,125
Longer than a year, less than five years	464,968	487,816
Longer than five years	354	–
BALANCE AS AT 31 DECEMBER	**6,399,423**	**5,896,462**

This caption shows deposits raised by LeasePlan Bank. of which 40.3% (2017: 45.6%) is deposited for a fixed term. LeasePlan Bank is the brand name under which savings deposits are raised by LeasePlan Corporation N.V. which holds a banking licence in the Netherlands. The LeasePlan Bank also operates on the German banking market with a cross border offering from the Netherlands.

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

16 FUNDS ENTRUSTED CONTINUED

The average interest rates on the outstanding balances of the savings deposits in original maturity terms are as follows:

	2018	2017
Three months or less	0.32%	0.52%
Longer than three months less than a year	0.68%	0.79%
Longer than a year, less than five years	1.17%	1.39%
Longer than five years	n/a	n/a

The interest rate of the on-demand accounts is set monthly. The funds entrusted are denominated in euro.

17 DEBT SECURITIES ISSUED

This caption includes negotiable, interest-bearing securities.

	2018	2017
Bonds and notes (other) at AC	8,082,846	7,804,933
Bonds and notes other (AC) – FV adjustment	43,399	29,135
BALANCE AS AT 31 DECEMBER	**8,126,244**	**7,834,068**

The average interest rates applicable to the outstanding balances can be summarised as follows:

	2018	2017
Bonds and notes – originated from securitisation transactions	1.3%	1.5%
AVERAGE INTEREST RATE	**1.3%**	**1.5%**

The maturity analysis of the debt securities issued is as follows:

	2018	2017
Three months or less	514,439	140,685
Longer than three months less than a year	991,683	1,435,732
Longer than a year, less than five years	6,285,431	5,917,529
Longer than five years	334,692	340,122
BALANCE AS AT 31 DECEMBER	**8,126,244**	**7,834,068**

The debt securities include an outstanding balance of EUR 2.8 billion (2017: EUR 3.6 billion) which is non-euro currency denominated as at 31 December. The remainder of the debt securities is denominated in euro.

18 PROVISIONS

The provision relates to subsidiaries with a negative net asset value based on Group accounting standards.

19 OTHER LIABILITIES

The other liabilities are composed of:

	2018	2017
Loans from group companies	1,037,466	898,172
Accounts payable to group companies	82,857	129,284
Derivative financial instruments	115,218	81,295
Other accruals and deferred income	71,685	71,270
Corporate income tax payable	32,729	30,233
BALANCE AS AT 31 DECEMBER	**1,339,955**	**1,210,254**

Other accruals and deferred income mainly includes accrued interest payable. For derivative financial instruments reference is made to the table in *Note 14*.

The maturity analysis of the loans from Group companies is as follows:

	2018	2017
Three months or less	128,725	47,842
Longer than three months, less than a year	10,000	266,331
Longer than a year, less than five years	898,741	584,000
BALANCE AS AT REPORTING DATE	**1,037,466**	**898,172**

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

20 EQUITY

Share capital

As at 31 December 2018, the authorised capital amounted to EUR 250 million, divided into 250,000,000 ordinary shares with a nominal value of EUR 1.00 each, of which EUR 71.6 million is issued and paid up. There were no movements in the issued and paid up capital in 2018 and 2017.

The movement in shareholders' equity is as follows:

In thousands of euros	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings excluding net result	Net result current year	Total equity
BALANCE AS AT 1 JANUARY 2017	**71,586**	**506,398**	**484,244**	**–9,725**	**1,597,733**	**425,466**	**3,075,702**
Net result						466,606	466,606
Other comprehensive income				–41,422			–41,422
TOTAL COMPREHENSIVE INCOME				**–41,422**		**466,606**	**425,184**
Transfer from/to			152,254		–152,254		–
Appropriation of net result					425,466	–425,466	–
Final dividend relating to 2016					–112,000		–112,000
Interim dividend relating to 2017					–164,900		–164,900
BALANCE AS AT 31 DECEMBER 2017	**71,586**	**506,398**	**636,498**	**–51,147**	**1,594,045**	**466,606**	**3,223,986**
Adoption IFRS 9					–3,906		–3,906
BALANCE AS AT 1 JANUARY 2018	**71,586**	**506,398**	**636,498**	**–51,147**	**1,590,139**	**466,606**	**3,220,079**
Net result			–	–	–	423,627	423,627
Other comprehensive income			–	–16,613	–	–	–16,613
TOTAL COMPREHENSIVE INCOME			**–**	**–16,613**	**–**	**423,627**	**407,014**
Transfer from/to			373,066	–	373,066	–	–
Appropriation of net result			–	–	466,606	–466,606	–
Final dividend relating to 2017			–	–	–120,100	–	–120,100
Interim dividend relating to 2018			–	–	–171,400	–	–171,400
BALANCE AS AT 31 DECEMBER 2018	**71,586**	**506,398**	**1,009,564**	**–67,760**	**1,392,179**	**423,627**	**3,335,594**

Other reserves amounting to EUR 68 million (negative) include Translation adjustment reserve of EUR 59 million (negative). The Translation adjustment reserve is considered a legal reserve in accordance with Dutch Law. Legal reserves are non-distributable reserves required for specific purposes in line with Part 9, Book 2, of the Dutch Civil Code and/or by local law. The legal reserves are the minimum reserves to be maintained for the non-distributable share in cumulated profits of subsidiaries and investments accounted for using the equity method. Increase in legal reserves in 2018 mainly driven by investments in intangible assets for CLS in a subsidiary entity and increased required capital for Solvency II in our insurance entity.

21 COMMITMENTS

Loan commitments have been concluded with investments accounted for using the equity method amounting to EUR 160 million (2017: EUR 145 million) of which EUR 151 million (2017: 141million) is drawn (reference is made to *Note 11*).

Furthermore, the company has entered into commitments in connection with long-term rental and lease contracts of which the future aggregate minimum lease payments amount to EUR 11 million (2017: EUR 12 million).

22 CONTINGENT LIABILITIES

Pursuant to the provisions of Article 403 f, Part 9, Book 2, of the Dutch Civil Code, the company has filed a declaration of joint and several liabilities with respect to the majority of the subsidiaries in the Netherlands. Abridged financial statements have accordingly been prepared for these subsidiaries.

The company forms a fiscal unity with a number of Group companies in the Netherlands regarding corporate income tax and VAT. As a result, the company can be held jointly liable for tax returns of those subsidiaries.

As at 31 December 2018 guarantees had been provided on behalf of the consolidated subsidiaries outside the Netherlands. These guarantees had been provided in respect of commitments entered into by those companies and amount to a value of EUR 1.5 billion (2017: EUR 1.4 billion).

Notes to the company financial statements continued

All amounts are in thousands of euros, unless stated otherwise

23 DISTRIBUTION OF PROFIT

Provision of the Articles of Association on the profit appropriation, Article 31

1. The Managing Board shall in respect of distributable profits make a proposal for the distribution of a dividend and the allocation to the general reserve. Such a proposal is subject to the approval of the General Meeting.
2. With due observance of paragraph 1 of this article, the distributable profits shall be at the disposal of the General Meeting for distribution of dividend or to be added to the reserves or for such other purposes within the company's objectives as the meeting shall decide. In calculating the amount of profit to be distributed in respect of each share, only the amount of the mandatory payments towards the nominal amount of the shares shall be considered.
3. The company may make distributions to shareholders and other persons entitled to distributable profits only to the extent that the shareholders' equity exceeds the sum of the paid and called-up part of the share capital and the reserves which must be maintained by law. In calculating the appropriation of profits, the shares held by the company in its own share capital shall not be considered.
4. Distribution of profits shall take place after the adoption of the annual accounts which show that the distribution is permitted.
5. The General Meeting may resolve to distribute one (1) or more interim dividends and/or other interim distributions, provided that the requirement laid down in paragraph 3 of this article has been met as shown in an interim statement of assets and liabilities as referred to in Article 2:105(4) of the Dutch Civil Code.
6. Dividends shall be payable immediately after they have been declared, unless the general meeting provides otherwise.
7. The claim for payment of dividends shall lapse on the expiry of a period of five (5) years.

Proposed profit appropriation

The total dividend for the year was EUR 171.4million. This was approved by the general meeting of shareholders on 13 March 2019. The remainder of the net result for 2018 amounting to EUR 252.2 million will be added to the general reserves (retained earnings).

24 SUBSEQUENT EVENTS

No material events occurred after 31 December 2018 that require disclosure in accordance with the provisions in Part 9, Book 2, of the Dutch Civil Code, by applying the accounting policies used in the consolidated financial statements under IFRS pursuant to the provisions of Article 362 sub 8, Part 9, Book 2, of the Dutch Civil Code, nor events affecting the financial position of the company as at 31 December 2018 or the result for the year then ended.

Amsterdam, 13 March 2019

Managing Board
Tex Gunning, CEO and Chairman
Yolanda Paulissen, CSFIRO
Franca Vossen, CRO

Supervisory Board
Jos Streppel, Chairman
Steven van Schilfgaarde, Vice-Chairman
Manjit Dale
Allegra Cristina Carla van Hövell-Patrizi
Herta von Stiegel
Eric-Jan Vink

List of principal consolidated participating interests

Pursuant to Article 379, Part 9, Book 2, of the Dutch Civil Code a full list of Group companies and investments accounted for using the equity method complying with the relevant statutory requirements has been filed with the Chamber of Commerce. Unless stated otherwise, the percentage interest is 100% or nearly 100%.

All holdings are in the ordinary share capital of the undertaking concerned. Reference is made to *Note 8* of the consolidated financial statements for disposals of subsidiaries. Mobility Mixx B.V. was sold in 2018 and Terberg Leasing B.V and Overlease S.r.L were sold in 2017 and are therefore no longer part of the list below.

Principal subsidiaries, which are fully included in the consolidated financial statements, are:

LeasePlan Australia Limited, Australia

LeasePlan Brasil Ltda., Brazil

wLeasePlan Česká republika s.r.o., Czech Republic

LeasePlan Danmark A/S, Denmark

LeasePlan Deutschland GmbH, Germany

LeasePlan Digital B.V, the Netherlands

LeasePlan Finland Oy, Finland

LeasePlan Fleet Management N.V., Belgium

LeasePlan Fleet Management (Polská) Sp. z.o.o., Poland

LeasePlan Fleet Management Services Ireland Limited, Ireland

LeasePlan France S.A.S., France

LeasePlan Hellas S.A., Greece

LeasePlan Hungária Gépjárműpark Kezelö és Finanszírozó Zártkörű Részvénytársaság, Hungary

LeasePlan India Private Limited, India

LeasePlan Italia S.p.A., Italy

LeasePlan Luxembourg S.A., Luxembourg

LeasePlan Malaysia, Malaysia

LeasePlan México S.A. de C.V., Mexico

LeasePlan Nederland N.V., the Netherlands

LeasePlan New Zealand Limited, New Zealand

LeasePlan Norge A/S, Norway

LeasePlan Österreich Fuhrparkmanagement GmbH, Austria

LeasePlan Portugal Comércio e Aluguer de Automóveis e Equipamentos Unipessoal Lda., Portugal

LeasePlan Romania S.R.L., Romania

LeasePlan Rus LLC, Russia

LeasePlan (Schweiz) AG, Switzerland

LeasePlan Servicios S.A., Spain

LeasePlan Slovakia s.r.o., Slovakia

LeasePlan Sverige AB, Sweden

LeasePlan Otomotive Servis ve Ticaret A.Ş. Turkey

LeasePlan UK Limited, United Kingdom

LeasePlan USA, Inc., USA

Euro Insurances DAC, Ireland

LeasePlan Finance N.V., the Netherlands

LeasePlan Information Services Limited., Ireland

LeasePlan Global B.V., the Netherlands

LeasePlan International B.V., the Netherlands

LeasePlan Supply Services AG, Switzerland

CarNext B.V, the Netherlands

Special purpose companies with no shareholding by the Group are:

Bumper Australia Trust N0.1, Australia

Bumper 7 (DE) S.A., Luxembourg

Bumper NL 2018 B.V., the Netherlands

Bumper 8 (UK) Finance plc, England

Bumper 9 (NL) Finance B.V., the Netherlands

Bumper 10 France FCT, France

Bumper 11 S.A., Luxembourg

Principal investments accounted for using the equity method in the consolidated financial statements are:

LeasePlan Emirates Fleet Management – LeasePlan Emirates LLC, United Arab Emirates (49%)

PLease S.C.S., France (99.3%)

Flottenmanagement GmbH, Austria (49%)

Pursuant to the provisions of Article 403 f, Part 9, Book 2, of the Dutch Civil Code, a declaration of joint and several liability with respect to the financial obligations of the majority of the participating interests in the Netherlands is filed. Such declaration is filed for the following participating interests.

AALH Participaties B.V.

Accident Management Services B.V.

Firenta B.V.

LeasePlan Digital B.V.

Lease Beheer Holding B.V.

Lease Beheer Vastgoed B.V.

LeasePlan Finance N.V.

LeasePlan Global B.V.

LeasePlan International B.V.

LeasePlan Nederland N.V.

LPC Auto Lease B.V.

Transport Plan B.V.

Independent auditor’s report

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of LeasePlan Corporation N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

In our opinion:

— the consolidated financial statements included in this annual report give a true and fair view of the financial position of LeasePlan Corporation N.V. as at 31 December 2018 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code; and

— the company financial statements included in this annual report give a true and fair view of the financial position of LeasePlan Corporation N.V. as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2018 of LeasePlan Corporation N.V. (‘LeasePlan’ or ‘the Company’) based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2018;

2 the following consolidated statements for 2018: the statements of profit or loss, comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the statement of financial position of the company as at 31 December 2018;

2 the statement of profit or loss of the company for 2018; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Independent auditor's report continued

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 LeasePlan in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij 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.

Audit approach

Summary

Materiality
— Materiality of EUR 30 million
— 5.7% of profit before tax
— 4.8% of normalised profit before tax

Group audit
— 99% of total assets
— 98% of revenue
— 97% of profit before tax

Key audit matters
— Asset impairment risk
— Revenue recognition for service income
— Information technology and system development
— Implementation of IFRS 9

Opinion
Unqualified

Independent auditor's report continued

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 30 million (2017: EUR 27 million). The materiality is determined with reference to normalised profit before tax (4.8%). We generally consider profit before tax as the most appropriate benchmark because we believe that it is a relevant metric for assessment of the financial performance of LeasePlan. We have normalised the profit before tax for the impairment loss recognised in Turkey of EUR 104 million. Without normalisation materiality would have been 5.7% of profit before tax. We consider the impairment loss for operating lease assets in Turkey as an isolated event to the extent that it is directly linked to the sharp devaluation of the Turkish Lira against the Euro. Normalising is therefore relevant and appropriate. 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 Supervisory Board that misstatements in excess of EUR 1.5 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

LeasePlan is at the head of a group of components. The financial information of this group is included in the financial statements of LeasePlan.

The group is engaged in fleet and vehicle management services, mainly through operating lease and is active in 32 countries.

We performed an audit of the complete reporting package of all 14 significant components, located in 14 different countries. At the request of the Supervisory Board we also performed a full scope audit on 17 out of 20 of the non-significant components. We have identified components as significant when they are either individually financially significant due to their relative size compared to LeasePlan as a whole or because we assigned a significant risk of material misstatement to one or more account balances of the component.

Group entities located in the Netherlands are audited by KPMG Accountants N.V. Components located abroad in scope for group reporting are audited by KPMG Member firms. We sent detailed instructions to all component auditors, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to us. In addition, on 8 and 9 November 2018, we hosted a global audit planning meeting for the senior staff involved in the audit at group level and components of the group. Purpose of this meeting was to discuss and agree our audit risk assessment and our global audit approach. Representatives of the LeasePlan organisation in finance, risk, IT and CarNext provided an overview on key developments in the organisation.

We set component materiality levels, which ranged from EUR 2 million to EUR 10 million, based on the mix of size and financial statement risk profile of the components within the group to reduce the aggregation risk to an acceptable level.

Independent auditor's report continued

For the execution of our group audit we:

- visited significant components in the US, Turkey, Germany, Portugal and France;
- visited LPIS in Ireland for group wide IT services;
- performed off-site file review of the work performed by component auditors in the US, Turkey, Germany, Portugal and France;
- held conference calls with components in the US, Turkey, Germany, Portugal, France, Italy, Spain, Australia, Belgium, treasury activities in Ireland, insurance activities in Ireland Denmark, Sweden, United Kingdom, Romania, Poland, Brazil, India and Mexico; and
- held conference calls with the IT audit team in Ireland for group wide IT services.

By performing the procedures mentioned at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

The consolidation of the group, the disclosures in the financial statements and certain accounting topics that are performed at group level are audited by the group engagement team at the headquarter in Amsterdam, where central functions such as Control, Reporting and Tax, risk management, strategic finance and group internal audit are located. The items audited by the group audit team, include, but are not limited to, assessment of the use of the going concern assumption, assessment of the necessity of a prospective depreciation, the valuation and impairment of operating lease assets, write-down of cars in stock, goodwill impairment testing, recoverability of deferred tax assets and the adequacy of the provisions for tax exposures and corporate income tax for the Dutch fiscal unity. In addition, in 2018 special attention was given to the implementation of the new accounting standards that are effective as from 1 January 2018.

Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with management and the Supervisory Board. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Indications for suspected frauds from the past are included in this evaluation, amongst others in relation to media reports and internal investigations. We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements.

Independent auditor's report continued

Based on the auditing standards we addressed the following fraud risks that were relevant to our audit:

- fraud risk in relation to the revenue recognition for service income;
- fraud risk in relation to management override of controls; and
- fraud risk in relation to the recognition of impairment losses for operating lease assets.

Our audit procedures with respect to these fraud risks included an evaluation of the internal controls relevant to mitigate these risks and supplementary substantive audit procedures, including detailed testing of high risk journal entries (i.e. based on journal entry description or for unusual general ledger accounts) and an evaluation of key estimates and judgements by LeasePlan (including retrospective review of prior period estimates) and related documentation for the mentioned fraud risks. Data analytics are part of our audit approach to address fraud risks which could have a material impact on the financial statements. This also relates to audit procedures carried out to address the risk of management override of controls. For further details in relation to our procedures performed in respect of revenue recognition for service income and impairment losses for operating lease assets we refer to the respective key audit matters as set out below.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address the fraud risks did not result in findings to be included in this audit report.

We have not identified a risk of non-compliance with laws and regulations.

Our key audit matters

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

These matters were 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 these matters.

Asset impairment risk

Description

The operating lease assets amounting to EUR 17.8 billion as at 31 December 2018 are measured at cost less accumulated depreciation and impairments. Management is required to assess the residual value and the useful life of an asset at least each financial year. Changes should either be accounted for as an impairment charge or as a change in accounting estimate through prospective depreciation. The impairment risk with regard to operating lease assets is primarily dependent on the residual value achievable at the end of the lease.

Independent auditor's report continued

These future residual values depend on the situation in the used-vehicle markets prevailing when the vehicles are returned. The future-oriented valuation as performed by management is based on a number of discretionary assumptions. The risk for the financial statements is that impairment losses will not be recognised on a timely basis or that amounts recognised will not be measured correctly. LeasePlan reported impairment losses in Turkey and Germany of EUR 132 million. This consists of EUR 104 million for Turkey and EUR 28 million for Germany.

Due to the significance of the operating lease assets, the related fraud risk and the significance of the estimation uncertainty, we consider the valuation of the operating lease assets as key audit matter.

For more information, reference is made to general note 3-T, note E-Asset risk of the financial risk management paragraph and specific note 17 to the consolidated financial statements.

Our response

Our audit approach included obtaining an understanding of the asset risk management framework as designed and implemented at group and entity level.

We assessed that management actions and compensating elements as well as other risk bearing elements of the product (i.e. repair, maintenance, tyre replacement), are included in the exposure, but excluded from the assessment of prospective depreciation at group level.

We have evaluated and challenged management's periodic impairment trigger assessment of leased assets, with a focus on the timely detection of impairments existing at client lease contract level as cash generating unit. For this purposes we have assessed the profit or loss from disposal of vehicles ('PLDV') for the most recent months, assessed changes in regulation that may impact residual values, inspected if customers are overall loss-making and assessed management's back testing of its ability to reduce losses over the lifetime of the lease term.

We tested the appropriateness of the impairment model used and key parameters applied by management for measurement of impairments in accordance with IAS 36. For that purpose we involved KPMG valuation specialists to assess the technical soundness and effectiveness of the models used. We engaged local KPMG teams to vouch the correctness of key data used as input to the impairment model.

We assessed whether the disclosures appropriately address the uncertainty which exists when determining the impairments and draw attention to note 17 of the financial statements, which describes management's approach to determine the amount of the impairment of the operating lease portfolio in Turkey and Germany and the key parameters and assumptions used to which the impairment is most sensitive.

Our observation

LeasePlan carried out its quarterly residual value assessment process aimed to identify the existence of impairment triggers and where applicable to determine the required level of impairments or adjust prospective depreciation. Furthermore, we have made recommendations to management to improve and tighten this quarterly process.

Independent auditor's report continued

Revenue recognition for service income

Description

As part of its Cars as Service offering LeasePlan offers a range of bundled and stand-alone services as part of the lease contracts to meet the specific needs of clients. Apart from financing of vehicles, these services can include maintenance, fuel, accident and fleet management, rental and insurance.

Any volume related bonuses related to expenses are credited directly to expenses. Purchase bonuses received on purchases of vehicles for operating lease contracts are deducted from the purchase consideration and result in lower depreciation, whereas for finance lease contracts these bonuses are immediately recognised in the statement of profit or loss. In addition services may include pass on costs, collected on behalf of third parties such as fuel and road taxes that are not presented as revenues.

The revenues and costs of these various service elements need to be recognised and considered on a separate basis, while the timing of the revenue recognition (over the term and/or at the end of the contract) of certain service elements can also be impacted by the selected pricing model, closed or open calculation. For closed calculation contracts the overall risk on the result, both positive and negative, is borne by LeasePlan. For open calculation contracts, under certain circumstances the portion of the positive result from the lease contract is shared with the client upon termination of the lease contract. In 2018 LeasePlan also implemented IFRS 15 Revenue from Contracts with Customers.

Consequently we assess the accounting of revenue and cost of revenue for service income as a complex and judgemental area that also includes a fraud risk and have therefore identified revenue recognition as key audit matter.

For more information, reference is made to general note 3-P and specific note 3 to the consolidated financial statements.

Our response

Our audit approach included testing of internal controls around the various revenue streams as well as substantive audit procedures on the correct recording of revenue from lease contracts.

Our procedures focused on the adequacy and consistency of the accounting policies applied including the appropriate interpretation and adoption of IFRS 15. In this context we paid particular attention to the revenue recognition over the term of the contract for closed calculation contracts in relation to repair, maintenance and tyres services (RMT). We specifically tested management estimates in relation to the estimated margins for RMT services both at group and at reporting entity level. We also performed substantive audit procedures on the cut-off results and related accruals on terminated contracts for both open and closed calculation contracts.

Independent auditor's report continued

Our observation

Overall we assess the assumptions applied in the revenue recognition for service income (RMT) to be mildly cautious. We have observed a more consistent application across all reporting entities of the group accounting policy for recognition of service income over the contractual lease term. We have shared our recommendations to management to reduce reliance on spreadsheets for this critical revenue stream.

Information technology and system development

Description

LeasePlan is highly dependent on its IT-infrastructure for the reliability and continuity of its operations and financial reporting. A new Core Leasing System (CLS) is under development with an expected phased roll-out starting in 2019. Management considers CLS and related Digital initiatives as the heart of the IT transformation as it is meant to deliver one common leasing platform for the group as a whole. Substantial amounts are invested in this large-scale and high profile development project amounting to EUR 115 million recorded as intangible assets under construction as at 31 December 2018.

Given the amounts involved we have marked as key audit matter investments in intangible assets for software development costs, with a focus on the risk of impairment and the accuracy of the applied distinction between operating expenses that are an immediate charge to the statement of profit or loss and capital expenditures that are capitalised as intangible assets.

Due to the dependency on IT, the impact of the ongoing IT transformation on the control environment and related outsourcing initiatives we have also identified the effectiveness of IT management as part of the general IT controls as a key audit matter.

Our response

For amounts capitalised as intangible assets, we tested the accuracy of investments through sampling of capitalised expenditure, among others against the registration of goods received, purchase invoices and testing that the capitalisation criteria of IAS 38 were met. We also vouched management's impairment and readiness assessment as at year-end. For that purpose we discussed and made inquiries about the analysis and conclusions of management's external advisor who recently concluded a comprehensive readiness and fit-for-purpose test.

We performed a Shared Service Centre Audit at LeasePlan Information Services and reported our findings to our local auditors where relevant. In addition, our local IT auditors assessed the reliability and continuity of the IT environment for systems hosted and managed locally. Central and local testing was performed within the scope of our audit of the 2018 financial statements. We tested the design and operating effectiveness of the controls over the integrity of the IT systems relevant for financial reporting locally and centrally and tested the relevant application controls for systems in scope.

Independent auditor's report continued

Our observation

The results of our procedures on the amounts capitalised as intangible assets were satisfactory. As in previous years we identified exceptions with respect to user access and change management. Through extended substantive testing we have been able to obtain sufficient audit evidence. We provided management with recommendations on IT controls and governance and on IT outsourcing risk.

Implementation of IFRS 9

Description

On 1 January 2018, the new accounting standard for financial instruments (IFRS 9) became effective, which introduced impairment based on expected credit losses, rather than the incurred loss model previously applied under IAS 39. Please refer to pages 100 up to and including 102 of the Notes to the financial statements for a description of the main features of this new standard for LeasePlan. This predominantly affects the measurement of impairments for finance lease receivables and trade debtors.

Given the complexity of the application of the new standard which required the development of three credit risk models and the use of various data elements, we have marked the first time adoption of IFRS 9 as key audit matter.

Our response

As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition.

We have involved our credit risk modelling experts to test and assess compliance of the credit loss models developed by LeasePlan against the detailed requirements of IFRS 9. Significant attention was given to the approach taken by management for model development and model validation, including the back testing of the Probability of Default, Exposure at Default and Loss Given Default. We assessed the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default.

We have also tested the approach towards the impact of macro-economic scenarios on the expected credit loss calculations.

We have inspected the model validations as performed by external management experts engaged by LeasePlan.

We have tested the accuracy and completeness of the data used for the calculations, especially in those countries with significant credit risk exposures in scope of IFRS 9. As part of that we performed tests of reconciliations between source data, data captured in risks systems and the general ledger.

Independent auditor's report continued

We assessed whether the disclosures appropriately address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear.

Next to our procedures with respect to expected credit loss we have performed the solely payment of principal and interest ('SPPI') test for the complete portfolio of investments in debt securities and, on a sample basis, for all other debt financial assets. This included the subordinated loans to securitisation vehicles in the company statement of financial position.

Our observation

The results of our procedures on the first time adoption of IFRS 9 were satisfactory. The impact of the first time adoption of IFRS 9 on the financial position of LeasePlan is limited as expected given the type of credit risks and the short duration of credit exposures which is typical to the business of car leasing. We have made recommendations to management to improve the quality of credit risk data including a more systematic group wide data capturing and to implement additional reconciliation controls. We have also made recommendations to management for the adoption of IFRS 9 in the day-to-day operations, such as SPPI testing on acquired investments in debt securities during the year.

Report on the other information included in the annual report

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

- chapters from 'At a glance' up to and including 'Governance', and
- chapters 'Other information' and 'Glossary'.

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

- is consistent with the financial statements and does not contain material misstatements; and
- 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 Managing Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Independent auditor's report continued

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of LeasePlan on 21 September 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

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 audits of public-interest entities.

Services rendered

For the period to which our statutory audit relates, in addition to this audit, we have provided the following services to the Company and its controlled undertakings:

- review of interim financial information for the first, second and third quarter in accordance with Dutch Standards on Auditing;
- audit of COREP and FINREP reporting to DNB in accordance with Dutch Standards on Auditing;
- agreed-upon procedures for the deposit guarantee scheme ('DGS') reporting to DNB;
- report on controls at a service organisation for the DGS reporting to DNB;
- agreed-upon procedures for the interest rate risk reporting to DNB;
- audits of securitisation vehicles controlled by LeasePlan;
- assurance engagements with respect to prospectuses, and
- agreed-upon procedures for cost-sharing engagements.

Description of responsibilities regarding the financial statements

Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report continued

As part of the preparation of the financial statements, the Managing Board is responsible for assessing the LeasePlan's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless the Managing Board either intends to liquidate the LeasePlan or to cease operations, or has no realistic alternative but to do so.

The Managing Board 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.

The Supervisory Board is responsible for overseeing the LeasePlan's financial reporting process.

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.

A further description of our responsibilities for the audit of the financial statements is located at the website of de 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our auditor's report.

Amstelveen, 13 March 2019

KPMG Accountants N.V.

D. Korf RA

Glossary

AFM	The Dutch Authority for the Financial Markets (AFM) has been responsible for supervising the operation of the financial markets since 1 March 2002
CaaS	LeasePlan purchases, funds and manages vehicles for its customers, providing a complete end-to-end service through its Car-as-a-Service (CaaS) business for a typical contract duration of three to four years
CAGR	Compound Annual Growth Rate
CLS	The SAP-based Core Leasing System (CLS) re-engineers the IT backbone of the Group and harmonises processes across all countries
DNB	The Dutch Central Bank (De Nederlandsche Bank N.V.)
Digital Power of One LeasePlan	This programme aims to move the Group towards becoming a data driven company delivering digital car services steered by the latest digital technology of data analytics, artificial intelligence and algorithms
EU-12	Austria, Belgium, Czech Republic, Denmark, Finland, Greece, Hungary, Norway, Portugal, Poland, Sweden and Switzerland
EU-18	EU-6 together with EU-12
EU-6	France, Germany, Italy, Spain, the Netherlands and the United Kingdom
FMCs	Fleet management companies
ICE	Internal combustion engine
LCV	Light commercial vehicles
OEMs	Vehicle original equipment manufacturers
PV	Passenger vehicle
RMT	Repair, maintenance and tyres
RV	Residual value of a vehicle
LeasePlan Bank	The online retail deposit bank operated by LeasePlan Corporation N.V. under a banking licence from DNB
Power of one LeasePlan	Power of one LeasePlan is our operational improvement programme via which we have created a fully integrated operating model. This initiative enables us to leverage the strength of our organisation across all LeasePlan countries, the value chain and our functional competencies
Roland Berger Report	Embracing the Car-as-a-Service model – the European Leasing and fleet management market is a report by leading global consultancy Roland Berger GMbH, which was commissioned by LeasePlan in early 2018 which embraces the Car-as-a-Service model. Please note that any reference to the Roland Berger report is made on a strict non-reliance basis and that Roland Berger does not accept any liability in connection with such references

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