PILLAR 3 REPORT
2013

It's easier to leaseplan

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LEASEPLAN IS A GLOBAL VEHICLE LEASING AND FLEET AND VEHICLE MANAGEMENT COMPANY OF DUTCH ORIGIN. WE OPERATE IN 31 COUNTRIES ACROSS EUROPE, NORTH AND SOUTH AMERICA AND THE ASIA-PACIFIC.

ESTABLISHED 50 YEARS AGO WE MANAGE A FLEET SIZE OF 1.37 MILLION MULTI-BRAND VEHICLES, MAKING US THE WORLD'S LARGEST FLEET AND VEHICLE MANAGEMENT PROVIDER IN TERMS OF FLEET SIZE. WE OFFER A COMPREHENSIVE PORTFOLIO OF FLEET MANAGEMENT SOLUTIONS COVERING VEHICLE ACQUISITION, LEASING, FULL SERVICE FLEET MANAGEMENT, STRATEGIC FLEET SELECTION AND MANAGEMENT ADVICE, FLEET FUNDING, ANCILLARY FLEET AND DRIVER SERVICES AND CAR REMARKETING.

TAKING CARE OF OUR NUMEROUS STAKEHOLDERS HAS ENABLED LEASEPLAN TO CONTINUE GROWING FOR MUCH OF ITS 50 YEARS IN BUSINESS. BY PAYING CLOSE ATTENTION TO THE NEEDS OF CLIENTS, EMPLOYEES, SUPPLIERS, INVESTORS AND THE GLOBAL COMMUNITY, WE HAVE REMAINED A STABLE AND RESILIENT ORGANISATION FOR HALF A CENTURY, EVEN THROUGH THE RECENT YEARS OF ECONOMIC TURBULENCE.

WE HAVE A PROVEN TRACK RECORD IN ENHANCING OUR PRESENCE IN TRADITIONAL MATURE FLEET MARKETS, AS WELL AS EXPANDING INTO NEW MARKETS AND GROWING OUR BUSINESS TO MARKET LEADING POSITIONS. WE ARE ABLE TO CAPITALISE ON OUR GLOBAL GROWTH PRESENCE AND INTERNATIONAL NETWORK BY PROVIDING EXPERTISE, SAVINGS AND OPPORTUNITIES TO MEET THE NEEDS OF LARGE AND MULTINATIONAL COMPANIES, SMALL AND MEDIUM SIZED ENTERPRISES AND PUBLIC SECTOR ENTITIES. WE AIM TO DO THIS BY USING OUR EXPERTISE TO MAKE RUNNING A FLEET EASIER FOR OUR CLIENTS. THIS IS REFLECTED IN OUR UNIVERSAL PROMISE TO ALL OUR CLIENTS:

'IT'S EASIER TO LEASEPLAN'.

1963

2013

'LeasePlan' and 'Group' is, where appropriate, used as a reference to LeasePlan Corporation N.V. as a group of companies forming part of LeasePlan Corporation N.V. 'Group company' as used in this document refers to a (partly) owned subsidiary of LeasePlan Corporation N.V. A list of principal consolidated companies within LeasePlan Corporation N.V. and a list of principal associates and jointly controlled subsidiaries that are accounted for under net equity accounting are included at the end of this document.

Figures reconciling with the annual financial statements are subject to an independent audit as part of the annual report. Remaining figures reconcile with the Group's management information.

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PILLAR 3
REPORT

1 INTRODUCTION

This Pillar 3 report is prepared in accordance with the disclosure requirements as included in the European Union's Capital Requirements Directive, as applicable at 31 December 2013. In addition to our Annual Report 2013, this Pillar 3 report describes our risk management framework, the measurement of risk positions into risk weighted assets and how these risk positions translate into capital requirements and subsequently, how these requirements relate to the actual capital position of the company.

The Capital Requirements Directive is based on the Basel framework, prepared by the Basel Committee on Banking Supervision. The fundamental objective of the Basel Committee was
to develop a framework that would further strengthen the soundness and stability of the international banking system. The framework aims at significantly more risk-sensitive capital requirements by the introduction of more diversification when translating risk positions into capital requirements. The framework promotes the adoption of stronger risk management practices by the banking industry by introducing greater use of assessments of risks provided by a bank's internal systems as input to capital calculations. The Basel II framework is built on three pillars:

Pillar 1 – defines the rules and regulations for calculating risk weighted assets and regulatory minimum capital requirements.
Pillar 2 – addresses a bank's internal process for assessing overall capital and liquidity adequacy in relation to its risks, as well as the Supervisory review process.
Pillar 3 – focuses on market discipline, a set of minimum disclosure requirements.

With the introduction of the third Pillar, the Basel Committee aimed at encouraging banking institutions to disclose information that will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of banking institutions. A basic principle is that a bank's disclosures should be consistent with how it assesses and manages the risks, meaning that it should be based largely on internally available risk management information.

Purpose

This document comprises our response to the requirements of Pillar 3 as laid out in Annex XII of the Capital Requirements Directive, as applicable at 31 December 2013.

Scope

This report focusses on our risk management framework and capital management. In our Annual Report 2013, we have in a summarised format also presented disclosure on our risk framework, our risk positions and our capital position as required under IFRS. In this Pillar 3 report we aim at providing more detailed insight on the risks inherent to our business, how these are managed and how these relate to capital and liquidity requirements.

Frequency

The Pillar 3 report will be made available at least annually in conjunction with our Annual Report via our website.

Structure of the report

In the second chapter LeasePlan's historic development, our strategy, our products and services and our operating structure is presented. The third chapter presents the capital adequacy and our approach towards economic capital and economic return. The fourth chapter details the general risk management approach and risk management framework implemented. In the final two chapters we focus on our risk areas, distinguishing our primary risk management areas (chapter 5) from our other risk management areas (chapter 6) as recognised as of the date of publication of this document. Furthermore, this document contains two appendices. Appendix A describes the governance, supervision and regulation which is or will become applicable to LeasePlan. Appendix B lists our principal associates and jointly controlled subsidiaries that are accounted for under net equity accounting are included at the end of this document.

2 LEASEPLAN PROFILE

2.1 Our history

LeasePlan was founded in 1963 in Amsterdam, the Netherlands. We began by offering basic leasing services for machine equipment and subsequently extended our offerings with operational as well as service leasing. Under this model, we provided not only financing but also management of the assets and we also accepted the asset risks. In 1970, we began leasing vehicles and in the following year we introduced the innovative “open calculation” model which allows customers to pay a fixed monthly fee and receive a rebate if the real servicing costs under their contract are lower than the provisioned costs. We began expanding internationally in the 1970s by entering the Belgian, U.K., French and German markets, followed by the U.S., Australian and other markets during the 1980s.

In 1992, we became part of ABN AMRO Bank and in the following year obtained a full banking license from the Dutch Central Bank following the introduction of Basel I. During this period, we started to access the inter-bank funding market independently. During the 1990s, we also established two specialised subsidiaries: our Irish insurance subsidiary Euro Insurances, supervised by the Central Bank of Ireland, to bolster our ability to offer integrated fleet service solutions and LeasePlan International to enable us to offer coordinated fleet management services to large international clients across our markets of operation.

In 2000, we began executing a new strategy which led us to increase our business focus by divesting our machine equipment leasing business and to extend our presence in fleet leasing in Europe and the United States by acquiring the Dial Group and Consolidated Service Corporation, respectively. Following these acquisitions, we became a leader in the European car leasing and fleet management market, strengthened our overall international market position and enhanced our ability to provide a wide range of product and service offerings across geographic regions in a cost-efficient manner.

In 2004, we were acquired by Global Mobility Holding B.V. (“Global Mobility Holding”), a consortium comprising the Volkswagen Group (50%), Mubadala Development Company (25%) and the Olayan Group (25%). In 2005, the Volkswagen Group sold the Italian, Portuguese and Spanish subsidiaries of EuropCar Fleet Management Services to LeasePlan. Our international expansion continued in 2007 with the acquisition in Turkey of a 51% share in vdf Holding A.S from the Volkswagen Group and in 2008 with the acquisition of Daimler Chrysler Fleet Management France S.A.S. from Mercedes-Benz Financial Services France S.A. and the commencement of our greenfield operations in Romania and Mexico.

As a result of the strategy commenced in 2000, we achieved a broad client reach and operational excellence which led to profitable growth and enabled us to become a global market leader by the mid-2000s. The global financial crisis which began in 2008 changed the fleet market environment and put pressure on the industry. In response, we adopted a selective growth strategy that strikes a balance between maintaining profitability and seizing upon attractive growth opportunities.

Following a series of transactions, in 2010 the shareholder structure of our direct parent, Global Mobility Holding, changed with the Volkswagen Group and Fleet Investments B.V. (“Fleet Investments”) each holding, directly or indirectly, a 50% stake. The Volkswagen Group comprises Volkswagen AG and its subsidiaries. Fleet Investments is an investment company indirectly owned by the German banker Mr. Friedrich von Metzler.

In 2010, we commenced internet retail banking operations in the Netherlands and began accepting savings deposits as part of our funding diversification strategy. In 2011, we expanded our Portuguese operations via the acquisition of the operational leasing and fleet management company Multirent. In 2012, we incorporated an operating legal entity in Russia and became fully operational in the Russian fleet and vehicle management market in 2013. In 2013 we also expanded both our Italian and Austrian operations through the acquisition of BBVA (Auto) Renting and BAWAG P.S.K. Fuhrparkleasing, respectively. In January 2014 LeasePlan expanded its North American service offering to include Canada. LeasePlan and the Canadian fleet management company Foss National Leasing Ltd. (“FNL”) entered into a licensing agreement whereby FNL will operate a newly formed subsidiary of FNL, LeasePlan Canada. With the launch of LeasePlan Canada, LeasePlan now has complete North American coverage with locations in the US, Mexico and Canada.

Core values

We have four core values that guide us in business and in the way we deal with all of our stakeholders. These values are: Commitment, Expertise, Passion and Respect.

Code of conduct

In 2010, we launched a renewed corporate Code of Conduct to employees that provides guidance on the principles that govern the way we conduct our business. The Code of Conduct is aligned with the principles of the Dutch Banking Code with respect to moral ethical conduct and the principle “Customer First”. In addition, the members of the Managing Board as well as the Senior Corporate Vice Presidents, Regional Senior Vice Presidents and the Senior Vice Presidents have signed the moral ethical statement as defined in the Dutch Banking Code with respect to moral ethical conduct as defined in the Dutch Banking Code.

2.2 Our strategy

We seek to grow by investing in our business and our people. Wherever they may be based in the world, we seek to connect our clients to leasing and mobility opportunities that make their lives easier. Our growth strategy is designed to strengthen our presence in current markets, develop new customer segments, expand further geographically and deliver innovative products and services. We seek to carefully priorities our investments in order to attempt to maximum the return on the investments we make. Finally, we seek to ensure that we have the right people and culture to continue our global growth strategy.

Growth

As a group we take a global approach to our business. Central to our decision making with regard to further growth plans is the potential to connect clients, both prospective and current, to leasing and mobility opportunities wherever they may be based. We consider the regions where we are currently active and then evaluate the options and opportunities for expanding into new geographies. We, therefore, take a selective approach to both expansion and foreign acquisitions. We also seek to deliver further market penetration through country-specific acquisitions, or organically by strengthening our offerings to customers with differentiated products and services.

Operational excellence

In connecting our clients to our leasing and driver services, there is a growing demand for data and analytics that provide efficient leasing solutions and enhance customer experience. The size of our fleet under management requires maintenance and replenishment with significant procurement of fleet services and commodities. By continuing to leverage the size and scale of our business, we seek to negotiate favourable pricing structures with our preferred network of suppliers which then translate into savings for clients. We are, therefore, continuously looking at alternative ways to optimise our size and scale by maturing our procurement activities across the entire value chain. We also have significant expertise in vehicles remarketing, which enables us to capture the residual value of a vehicle under management at the end of the service contract.

Customer-centric innovation

We invest in products, platforms and consultancy services that are designed to work in many markets around the world, taking the best products and ideas from one market and introducing these into new markets. Central to our client promise is connecting customers to leasing and mobility opportunities that make their lives easier. We also look for ways to become more efficient, for example, building a product once and then deploying it many times in different markets. In this way, our business becomes more scalable and cost-efficient. It also means we can build standardized products and services on which our clients can rely, enabling them to make more consistent decisions wherever they operate around the world. We are investing in the way we use data and telematics intelligently to improve services to clients and drivers.

Right people and culture

Our plans for further growth and the constant demand for new, innovative services require us to be agile enough to develop, move, adapt and recruit the right talent that fits with our culture. We are meeting this challenge by actively training our employees through development plans for the company and individuals. We are also empowering line managers to lead their people. Through global projects, cross-functional business initiatives and international job opportunities, we are actively encouraging our people to move around our global business. We are continuously looking at ways to share best practices through internal initiatives to create efficiencies and alignment across the business.

2.3 Our products and services

We operate across the automotive value chain by providing a variety of vertically integrated and stand-alone services. We are independent of vehicle brands and provide services for vehicles of a wide variety of makes and models in line with the specific needs of our customers. These services are coordinated across our markets of operation and include:

- purchasing and procurement of vehicles;
- financing of vehicles;
- comprehensive car insurance services;
- vehicle maintenance management and pick-up and delivery service;
- cost control systems and fuel purchase cards;
- accident management and claim handling services;
- providing rental management and temporary or short term rental of vehicles;
- fixed-fee fleet outsourcing services by handling all fleet-related matters for clients;
- fleet consulting services; and
- vehicle remarketing by selling used cars to drivers, traders and private persons.

In addition to providing the services described above, we focus on continuous innovation in order to keep up with customer developments and industry trends. This has resulted in the development of additional services, or the modification of existing services, in response to evolving client needs and concerns such as a greater environmental focus, cost savings initiatives and driver-focused fleet management platforms. One example is our fuel efficiency management system, "GreenPlan", which provides clients with a comparison of their fuel efficiency against market benchmarks and seeks to empower them to reduce their fuel costs while benefiting the environment.

Financial and operational leasing

Based on the accounting treatment under IFRS, the two major forms of vehicle leasing are financial and operational leasing. The major difference between financial and operational leasing lies in the economic ownership of the vehicle. Under a financial lease, the economic risk of ownership is borne by the customer and the vehicle is usually carried on the customer's balance sheet. Under an operational lease, the economic risk of ownership is borne by the lessor (i.e., LeasePlan) and the vehicle is carried on the lessor's balance sheet. While we are active in both forms of leasing, the majority of our leases are classified as operational leases. The accounting classification of the LeasePlan lease categories discussed below is determined based on the specific characteristics of the lease contract. As of December 31, 2013, 84% of the leases in our lease contract portfolio were classified as operational leases for accounting purposes.

Tailored customer offerings and pricing models

Our leasing offerings comprise a variety of bundled and stand-alone services tailored to the specific needs of our customers. Our full service offerings include a mixture of in-sourced and outsourced solutions and are based on two pricing models, open calculation and closed calculation. We also offer management-only as well as financing-only solutions.

The following table provides an overview of our contract mix for each of the periods indicated:

As at December 31, *(vehicles, in thousands)*	2013	2012
Funded with services (full service)	930	913
Services-only (management-only)	333	328
Funded without services (finance only)	81	85
Other	27	22
Total fleet[1]	**1,371**	**1,348**
Total funded fleet	**1,011**	**998**
Total serviced fleet	**1,344**	**1,326**

(1) In limited cases, we provide leasing of trucks and equipment as a service to selected clients and these are included in the overall numbers presented throughout this document. Trucks and equipment represent 2.5% of the book value of our funded fleet. These types of assets tend to be leased out for longer durations and are subject to risk mitigation such as prudent residual value setting and buy-back agreements with suppliers or customers.

The contracting models associated with our principal product and service offerings are described on the next page.

Funded with services – open calculation

The goal of the open calculation model is to partner with our customers to help them in reducing their total cost of vehicle ownership. This pricing model may be offered to customers who have a substantial number of vehicles managed by us and entails the payment of a fixed monthly management fee. As part of the partnership approach, customers are provided with information about the total costs of their fleet. In collaboration with our customers, we endeavour to keep costs as low as possible. By engaging our customer, we often manage to run their fleet at lower cost, due to active control from their side.

A typical open calculation contract includes certain baseline services (e.g., purchase, maintenance and damage repair), certain optional services (e.g., insurance or provision of replacement vehicles) and only a limited number of services that are settled at actual cost (e.g., fuel), though included in the fixed price. The optionality that is built into the open calculation model allows us to provide tailored customer solutions.

During the life of an open calculation contract, services are provided by our subsidiaries and third party vendors. Vendors set their own costs which are monitored by us. We build up a repair, maintenance and tires ("RMT") provision based on the fixed portion of the monthly fee, which is released over time as RMT is required (in effect, funding for RMT required in later years is built up in earlier years of a leasing contract). In certain cases, we benefit from our scale which enables us to pass on the savings to our customers at the end of the contract.

At the end of an open calculation contract, we prepare a final statement comparing the costs budgeted at the inception of a contract with the actual costs incurred during the life of the contract. If the difference is positive, it will be refunded to the

customer according to the percentage agreed in the contract, thereby allowing them to benefit from the cost savings. If the difference is negative, it is absorbed by LeasePlan. In principle, open calculation contracts with clients are settled in any year in which ten or more lease contracts expire. Positive differences are returned to the client and any remaining losses are borne by LeasePlan. In principle, if less than ten lease contracts expire in a year, no settlement is done and LeasePlan retains any remaining positive differences.

Funded with services - closed calculation

Under the closed calculation model, customers pay fixed fees for the services they use. We do not provide closed calculation customers with a breakdown of the actual costs of the services and absorb both positive and negative differences from the budgeted costs.

Services-only

The services-only model includes situations where another company, such as a bank, provides financing and we provide only the management of the fleet.

Funded witout services

Under the funded without services model, we provide financing but do not provide any management services.

Other

We provide additional stand-alone services on an exceptional basis. These services include all services other than the core services such as transition plan, road tax and road side assistance.

2.4 Our operating structure

Our main operating companies provide front-line fleet management services to diverse client segments in 31 countries, which are not always wholly owned or owned by us. The operating companies offer comprehensive fleet solutions covering strategic fleet advice, funding options, full service leasing, and ancillary fleet and driver services to large clients, public sector and small- to medium-sized businesses. The figure below provides an overview of the countries in which we are present as at December 31, 2013:

WHERE WE DELIVER SERVICES

LeasePlan Australia (LPAU)
LeasePlan Austria (LPAT)
LeasePlan Belgium (LPBE)
LeasePlan Brazil (LPBR)
LeasePlan Canada (LPCA)
LeasePlan Czech Republic (LPCZ)

LeasePlan Denmark (LPDK)
LeasePlan Finland (LPFI)
LeasePlan France (LPFR)
LeasePlan Germany (LPDE)
LeasePlan Greece (LPGR)
LeasePlan Hungary (LPHU)
LeasePlan India (LPIN)
LeasePlan Ireland (LPIE)
LeasePlan Italy (LPIT)
LeasePlan Luxembourg (LPLU)
LeasePlan Mexico (LPMX)
LeasePlan Netherlands (LPNL)
LeasePlan New Zealand (LPNZ)

LeasePlan Norway (LPNO)
LeasePlan Poland (LPPL)
LeasePlan Portugal (LPPT)
LeasePlan Romania (LPRO)
LeasePlan Russia (LPRU)
LeasePlan Slovakia (LPSK)
LeasePlan Spain (LPES)
LeasePlan Sweden (LPSE)
LeasePlan Switzerland (LPCH)
LeasePlan Turkey (LPTR)
LeasePlan United Arab Emirates (LPAE)
LeasePlan United Kingdom (LPUK)
LeasePlan United States (LPUS)

The 31 operating companies include subsidiaries and joint-ventures. In Canada we have entered into License agreement with Foss National Leasing Ltd. and do not own shares or maintain control in LeasePlan Canada. With LeasePlan Canada, LeasePlan's service offering covers 32 countries.

Corporate centre

The Corporate centre comprises central functions providing global policies, support services and Group-wide strategic projects to the operating countries of LeasePlan. The central functions include Audit; Business Development; Business Information Management; Car Remarketing, Operations & Procurement; Control, Reporting & Tax; Corporate Communications; Corporate Strategy & Development; Human Resources; Legal & Compliance; Regional Management; Risk Management, Strategic Finance and Corporate Insurance.

Group activities

We also use a number of subsidiaries and divisions to provide our products and services, as described below:

- *Euro Insurances* is our wholly owned specialist motor insurance company, underwriting in 23 countries, including the European Economic Area, Australia and New Zealand. LeasePlan is the main customer of Euro Insurances. Euro Insurances Ltd. is based in Dublin, Ireland and is regulated by the Central Bank of Ireland.
- *LeasePlan Bank* is our Dutch internet savings bank and a division of LeasePlan Corporation N.V. It offers straightforward savings products to private clients in the Netherlands. We established our internet retail banking activities in 2010 to provide an additional source of funding for our core business and to limit dependence on wholesale funding.
- *LeasePlan Information Services* is our shared data centre established in 2003. It helps to harmonise our various ICT applications and platforms in a robust ICT network for our entire business operations, clients and drivers. The company is based in Dublin, Ireland.
- *LeasePlan International* is a dedicated entity within LeasePlan focusing on the sale and marketing of international fleet management services and managing the accounts of large international clients worldwide. It was formed in 1996 in order to offer coordinated fleet management solutions at a global level.
- *LeasePlan Supply Services* is established to leverage our scale and purchasing power in the area of global procurement of fleet management services and international car remarketing.
- *LeasePlan Treasury* arranges and manages our funding programs and concludes our funding and financing transactions with Group companies and external counterparts in the financial markets.
- *Travelcard Nederland* is our fuel card innovation company offering ease of use, fuel monitoring and additional innovative mobility services to fleet managers and business drivers in the Netherlands.
- Globalines is our reinsurance subsidiary based in the Isle of Man. Euro Insurances is the only customer of Globalines. Globalines is subject to supervision by the Insurance and Pension Authority, the designated insurance authority of the Isle of Man.

2.5 Our partnership and joint ventures

We have entered into the following partnerships and joint ventures which we consider most significant:

- In the United Arab Emirates, we are active in the vehicle leasing market through our 49% stake in LeasePlan Emirates Fleet Management—LeasePlan Emirates LLC. The company was established in 2006, with Mubadala Development Company PJSC holding the remaining 51% of the shares. We hold two of the five seats on the board of management of this entity.
- In Turkey, we hold a 51% stake in LPD Holding A.S., with the remaining 49% held by Doğuş Otomotiv entities. The joint venture was established in 2007 aimed at the expansion into the Turkish leasing market.
- Excelease is a joint venture between LeasePlan and Toyota Belgium, a subsidiary of Inchcape Plc. Excelease was created in 1994, aimed at the Belgian leasing market. The partnership enables both shareholders to use the expertise and relationships they have established with the Toyota/Lexus dealer network to develop a formula to finance customers' vehicles. We hold a 51% stake in the company.
- Overlease S.r.L, is a joint venture between LeasePlan Italia S.p.A. and RCI Banque. We hold a 51% stake in the company, although it is currently in liquidation.
- P Lease S.C.S. is a joint venture with the car dealer PGA Motors S.A.S in France. We hold a 99.3% stake and Prophi S.A.S. (a 100% subsidiary of PGA Motors S.A.S.) holds the remaining shares. While we hold a majority of the shares, various agreements are in place such that the distribution of profits and the exercise of voting rights are divided 50-50%.
- We hold a 5% stake in E Lease S.A.S., France. The remaining shares are held by several organisations, being Sodetrel (70%), Arval (15%), Overlease (5%) and ALD (5%).
- Flottenmanagement GmbH is a joint venture between LeasePlan Osterreich Fuhrparkmanagement GmbH and EBV Leasing Gesellschaft m.b.h. & Co. KG. We hold a 49% stake in the company.
- We hold a 24% minority stake in Terberg Leasing B.V. The company is a significant player in the Dutch vehicle leasing market and is one of the ten largest vehicle leasing companies in the Netherlands (by number of contracts) with over 20,000 leasing contracts. Terberg Leasing B.V. is brand-independent and has its roots in the family-owned Terberg Groep N.V., who hold the remaining 76% of the shares.

3 CAPITAL ADEQUACY

To monitor the adequacy of our available capital, we use ratios established by the Basel Committee of the Bank for International Settlements ("BIS"). These ratios measure capital adequacy by comparing our eligible capital which consists only of Core Tier 1 capital as at 31 December 2012 and 2013 with our balance sheet assets and off-balance sheet commitments, both at weighted amounts to reflect their (mainly) relative credit risk and operational risk profile. Core Tier 1 capital is derived from our total equity position. In order to arrive at the Core Tier 1 capital, adjustments to the total equity are required for the IFRS prudential filters as implemented in the Decree on Prudential Rules pursuant to the Act on Financial Supervision (Wft). The following table illustrates the reconciliation between Total equity and Core Tier 1 capital:

As at 31 December, *(in millions of euro)*	2013	2012
ELIGIBLE CAPITAL		
Share capital and share premium	577,984	577,984
Translation reserve	-21,055	31,839
Hedging reserve	-15,309	-36,670
Post employment benefit reserve	-6,102	-8,408
Retained earnings	2,046,037	1,822,686
Total equity	**2,581,555**	**2,387,431**
Deduction goodwill	-98,604	-98,604
Prudential filter m-t-m derivatives	15,309	36,670
Deduction intangible assets	-16,287	-8,959
Dividend accrual	-134,000	-94,500
AIRB provision shortfall	-10,336	-8,243
BIS capital	**2,337,637**	**2,213,795**
Core Tier 1 capital	**2,337,637**	**2,213,795**

3.1 Capital requirements under Pillar 1

Under the Pillar 1 requirement of Basel II, we are required to calculate capital for credit, market and operational risk. We are, however, not exposed to market risk according to the Basel definition of market risk under Pillar 1. Credit risk, mainly in the form of leases to counterparties, is risk-weighted for our corporate lease portfolio based on the outcome of models developed by us. We use the Advanced Internal Rating Based Approach ("AIRB"), for which we received approval from the Dutch Central Bank in November 2008, for our corporate lease portfolio. In June 2013 we received approval from the Dutch Central Bank to use the Internal ratings Based (IRB) approach for the various retail portfolios in the United Kingdom and the Netherlands. The Company will implement this approach as from 1 January 2014. In respect of operational risk, we use the Advanced Measurement Approach ("AMA"). The required capital for operational risk is obtained from the outcome of models that track historic losses and anticipate potential low frequency, high risk events. The models predict the capital that is required to cover the operational loss we could incur under extreme circumstances. We have developed the capital models in use based on the requirements set out by the Basel Committee. We regularly monitor the performance of AMA and AIRB models against predetermined limits. In the case of underperformance, the models are redeveloped and require external validation prior to implementation. As of 2009, with the introduction of Basel II advanced measurements banking institutions in the Netherlands were required to continue applying a capital floor of firstly 90% and thereafter 80% of Basel I risk-weighted assets meaning that Basel 2 determined Risk Weighted Assets ("RWA") could never fall below this threshold. Under the capital floor regulation the risk weighted assets determined under Basel II advanced measurements to be used may not be below 80% of the risk weighted assets as calculated under the former Basel I methodologies. Legislation enforcing the use of this capital floor ended at the end of 2011 (after an extension for that year).

The following table illustrates the reconciliation between the total assets on the balance sheet and the risk weighted assets.

			2013			2012
	Nominal	Risk-weighted	Risk-weight	Nominal	Risk-weighted	Risk-weight
AIRB method applied	*11,110,129*	*5,365,790*	*48%*	*11,751,872*	*5,552,590*	*47%*
Corporates	11,110,129	5,365,790	48%	11,751,872	5,552,590	47%
Standard method applied	*3,424,725*	*2,936,512*	*86%*	*3,185,474*	*2,691,465*	*84%*
Corporates	238,795	178,123	75%	234,096	185,622	79%
Retail	2,092,135	1,914,693	92%	2,051,543	1,873,288	91%
Government	565,631	353,893	63%	638,577	406,998	64%
Banks	201,320	162,959	81%	180,416	144,715	80%
Other	326,844	326,844	100%	80,842	80,842	100%
Lease contract portfolio	**14,534,854**	**8,302,302**	**57%**	**14,937,346**	**8,244,055**	**55%**
Cash and balances at central banks	978,774	-	0%	1,015,429	-	0%
Receivables from financial institutions	1,439,051	339,577	24%	1,186,096	295,850	25%
Derivative financial instruments	120,438	35,129	29%	188,920	44,393	23%
Other assets	2,056,282	1,724,108	84%	2,160,140	1,802,793	83%
Total assets	**19,129,399**	**10,401,116**	**54%**	**19,487,931**	**10,387,091**	**53%**
Off-balance sheet commitments		285,933			298,493	
Currency risk		744,216			719,516	
Operational risk (AMA)		1,515,000			1,536,250	
Capital floor		898,712			1,235,987	
Risk-weighted assets Basel II		**13,844,977**	**72%**		**14,177,337**	**73%**
Capital floor		-898,712			-1,235,987	
Risk-weighted assets excluding capital floor		**12,946,265**	**68%**		**12,941,350**	**66%**

In monitoring the adequacy of our capital, we constantly review the development in risk-weighted exposures on the one hand and the development in eligible capital on the other hand. The eligible capital will normally grow with profits realised and retained as LeasePlan's shareholders seek to encourage a strong capital position for the company.

The following table analyses actual capital and the minimum required capital, which are based on Basel II (Pillar 1), as at 31 December.

		2013		2012
	Minimum required	Actual	Minimum required	Actual
Risk-weighted assets Basel II		13,844,977		14,177,337
Risk-weighted assets excluding capital floor		12,946,265		12,941,350
BIS capital	1,107,598	2,337,637	1,134,187	2,213,795
BIS ratio	8.0%	16.9%	8.0%	15.6%
Core Tier 1 capital		2,337,637		2,213,795
Core Tier 1 ratio		16.9%		15.6%
Core Tier 1 ratio excluding capital floor		18.1%		17.1%

The table on the next page reconciles the various capital requirement components per risk category with the consolidated minimum capital amount reported under Pillar 1. The individual risk areas are further described in the respective risk sections, like asset risk (section 5.1), credit risk (section 5.2), operational risk (section 6.5) and currency risk (section 6.4).

As at 31 December,	2013				2012			
	Minimum required			Actual	Minimum required			Actual
	Future lease payments	Residual value	Total		Future lease payments	Residual value	Total	
(in thousands of euro)								
Basel II								
Risk weighted assets				12,946,265				12,941,357
BIS capital (under Basel II):								
Credit risk leased assets AIRB	122,955	306,308	429,262		136,582	307,626	444,207	
Credit risk leased assets Standardised	88,159	146,763	234,922		69,708	145,609	215,317	
Sub total Leasing portfolio	*211,114*	*453,071*	*664,184*		*206,290*	*453,235*	*659,525*	
Credit risk other assets Standardised			190,780				195,322	
Sub total Credit risk			*854,964*				*854,847*	
Operational risk AMA			121,200				122,900	
Currency risk			59,537				57,561	
Capital floor			71,897				98,879	
Total Capital			**1,107,598**	**2,337,637**			**1,134,187**	**2,213,797**

With the adoption of CRR/CRD IV on 1 January 2014 and as available capital is largely above thresholds as determined by regulation, the capital floor ceases to have impact on our capital ratios. As a result the pro-forma Core Tier 1 ratio as per 2013 would be 18.1%. In addition, LeasePlan will process a number of other changes as per 1 January 2014 that will impact the risk-weighted assets such as (i) implementation of updated models for PD and LGD, (ii) implementation of IRB models for the main part of the retail portfolio, (iii) accounts receivables for all other portfolios, (iv) application of the 1/T formula for risk-weighting of the residual value of the portfolio for which the standardised method is applied, and (iv) inclusion of commitments in connection with the forward purchase of property and equipment under operating lease. Given the overall impact of these changes the Common Equity Tier 1 ratio under the CRR/CRD IV definition, is expected to be between 16% and 18%.

3.2 Capital requirements under Pillar 2

Under Pillar 2 of the Basel II framework, a banking 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 periodic process in achieving this objective is referred to as the Internal Capital Adequacy Assessment Process ("ICAAP"), whereby the assessment of risks goes beyond the minimum requirements as determined under Pillar 1. This process addresses broadly:

- Risks considered under Pillar 1 that are not fully covered under the Pillar 1 process;
- Risks not taken into account by the Pillar 1 process, and
- Risks external to the bank.

a. Risks considered under Pillar 1 that are not fully covered under the Pillar 1 process

For operational risk, outcomes of the Pillar 1 AMA calculation fully reflect the capital required for this risk type. For credit risk, however, the outcome of the Pillar 1 calculations is used only as a basis for the calculation of internal capital requirements under Pillar 2. With regards to credit risk under Pillar 1, a clear split is required to be made between the contractual amounts due from a client during the contract period (lease receivables) and the residual value as set in that contract at contract end. Lease receivables (credit risk) and residual value (residual value risk) have different risk weights in accordance with applicable regulations. Under Pillar 2, during the lease contract period, we consider the total investment for the purchase of the vehicle as credit risk for the following two reasons:

- the total investment of the vehicle is funded by us; and
- the residual value risk (e.g. in case of a termination of the contract by the client before the original expiry date) is (partly or totally) contractually transferred to the client.

In addition to credit risk, under Pillar 2, we calculate internally required capital for asset risk, covering residual value and RMT exposure at contract termination.

b. Risks not taken into account by the Pillar 1 process

Risk types that are not addressed under Pillar 1 and for which additional capital is maintained under Pillar 2 are:

- Concentration risk: the risk related to the degree of granularity in the lease portfolio, i.e. the exposure to an uneven distribution of business with customers, industries and/or geographical regions. Similar risk is assessed with respect to granularity of (large) treasury exposures (e.g. deposits, call money, and derivatives).
- Motor insurance risk: the possibility that damages incurred for our account exceed the compensations received in lease rentals for these risks.
- Interest rate risk: the risk that our capital is affected by movements in interest rates.

c. Risks external to the bank

We employ stress testing in order to address the risks external to the bank and the business cycle effects and to obtain additional insight into the Group's vulnerabilities. These tests are also further used to determine the potential effect on capital and test the effectiveness of the risk measures.

We employ stress testing in order to address the risks external to the bank and the business cycle effects and to obtain additional insight into the Group's vulnerabilities. These tests are also further used to determine the potential effect on capital and test the effectiveness of the risk measures. We perform three types of stress testing as part of our ICAAP:

- Stress tests on risk domains which are reflected in the (internal) capital requirements;
- Reverse stress tests on each risk domain individually to define which situations may impact our available capital in such a way that it is no longer sufficient to sustain normal business;
- Combined stress tests to define which situations may impact such that our available capital will no longer be sufficient to sustain normal business.

The final outcome of the ICAAP, including the outcomes of internal capital calculations by risk type and stress tests, is annually reviewed by the Dutch Central Bank through the Supervisory Review and Evaluation Process.

3.3 Economic capital and return within LeasePlan

Economic capital is LeasePlan's internal quantification of risk capital associated with its business activities. The level and the composition of economic capital are fully aligned with the annual ICAAP at LeasePlan Corporation level. Economic capital is considered the cushion that provides protection against the various risks inherent in our business in order to maintain our 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 the requirements of our firm's various stakeholders.

Economic capital for Group companies involved in leasing covers credit risk, asset risk, motor insurance risk and operational risk whereby, economic capital for credit risk is calculated using AIRB and standardised approaches, economic capital for operational risks is derived from AMA, economic capital for motor insurance risk uses a non-regulatory factor model and a non-regulatory Value at Risk model for asset risk is used for asset risk. The models are amended where deemed appropriate to better fit the risk profile of the company.

Next to the risks mentioned for Group companies involved in leasing, various other risks are recognised at LeasePlan Corporation N.V. level (e.g. credit risks in non leasing activities, stress tests for motor insurance, credit and operational risk). We use economic capital as the basis for economic return measurements within the Group which has become a leading risk-based performance measure in recent years.

4 LEASEPLAN RISK MANAGEMENT

LeasePlan is a vehicle leasing and vehicle management company with specialised Dutch banking operations regulated by the Dutch Central Bank. Our risk profile differs from most other banks due to the nature of our business. The largest part of our portfolio consists of operational leasing of vehicles, in which we bear the residual value risk. Residual value risk is the exposure to potential loss at contract end due to the resale values of assets declining below the estimates made at lease inception and this risk constitutes the main difference between our risk profile and most other banks' risk profiles.

4.1 Risk management framework

The Committee of Sponsoring Organisations of the Treadway Commission ("COSO") is a joint initiative of five private sector organisations to provide guidance on enterprise risk management, internal control and fraud deterrence for the development of risk frameworks. The COSO definition of Enterprise Risk Management (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". In other words, ERM is about managing risks whilst supporting the realisation of the companies targets. LeasePlan used COSO and ERM principles as basis and reference model for the risk management frameworks.

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

Risk management responsibilities are delegated in the different risk control phases between the corporate risk management department, the corporate risk committees and local (risk) management. Our group audit department regularly audits corporate and local risk management processes. Our risk management framework describes the following nine inherent risk types: strategic risk, asset risk, credit risk, treasury risk (which includes interest rate, currency and liquidity risks), operational risk, motor insurance risk, reputational risk, legal & compliance risk and ICT risk.

4.2 Risk areas

The management of LeasePlan believes our primary risks are:

- *Asset Risk* - We view asset risk as a combination of residual value risks and risks on repair and maintenance and tire replacement. We are exposed to potential loss from the sales proceeds of our vehicles declining below the estimates made at lease inception, which is our residual value risk. The risk related to vehicle repair, maintenance and tire replacement is our exposure to potential loss due to the actual costs of the services for repair and maintenance and tires (over the entire contractual period) exceeding the estimates made at lease inception. We consider both elements under asset risk as inextricably linked and manage asset risk accordingly;
- *Credit risk* - Credit risk is the risk that a counterparty will be unable to fulfil its financial obligations to us when due. We are exposed to credit risk for vehicles leased to counterparties through both receivables due under the lease and the book value of vehicles. The credit risk of the book value of vehicles is partly mitigated by the sales proceeds of vehicles returned to us. In addition to the credit risk arising from the lease portfolio, there is also credit exposure originating from our banking and treasury activities and (re-)insurance activities;
- *Liquidity risk* - Liquidity risk is the risk that we are not able to meet our obligations as they fall due. Our liquidity risk (which is managed as a part of treasury risk) mainly relates to funding liquidity risk, which is the risk that we will not be able to meet both expected and unexpected current and future cash flows without affecting either daily operations or our financial condition.

Our policies with respect to measurements of, exposures to and mitigation of these three risk areas are disclosed in further detail in chapter 5 'Primary Risk Management Areas'.

The exposure to strategic risk, interest rate risk, currency risk, reputational risk, operational risk, motor insurance risk, legal and compliance risk and ICT risk are described in more detail in Chapter 6 'Other Risk management Areas' of this document.

4.3 Risk management strategy and objective

Risk, being the chance of occurrence of an event that will have a negative impact on the objectives of the organisation, is inherent to our business operations. Our risk strategy is to support the business in achieving our profitable growth ambitions in fleet and vehicle management for mainly corporate and small fleet customers while adhering to our risk appetite commitments.

A risk management framework aims at reducing the frequency and/or the consequences of risk events, and enabling management to evaluate and balance the risks and returns related to business operations. As a result, a high quality risk management framework is also considered to offer opportunities. We seek to accurately assess the relevant inherent risks that LeasePlan considers part of its overall risk profile, at the inception of each lease and manage and control these risks thereafter to attempt to maintain a balance between risk and return.

4.4 Risk appetite

The risk appetite, or the amount and type of risk a company is willing to accept in pursuit of its business objectives, is set at two levels. First, the overall risk appetite is defined in terms of a long-term debt credit rating, supported by the financial return on risk adjusted capital (i.e. economic return) and the diversified share of funding levers. Secondly, risk appetite is set for the underlying key risks that LeasePlan is facing by using key risk indicators customary to measure these exposures. At least once a year, the Managing Board is required to submit our risk appetite and risk tolerance to the Supervisory Board for its approval.

We review and discuss potential corrective measures should any of the risk tolerance levels be exceeded. We have identified and implemented a set of key risk indicators in order to monitor our performance versus our risk appetite. The key risk indicators report, across all risk areas, is provided to the Supervisory Board on a quarterly basis where deviations and potential breaches of the set risk tolerance levels are disclosed and, if required, (mitigating) actions are discussed.

4.5 Risk governance

Supervisory Board

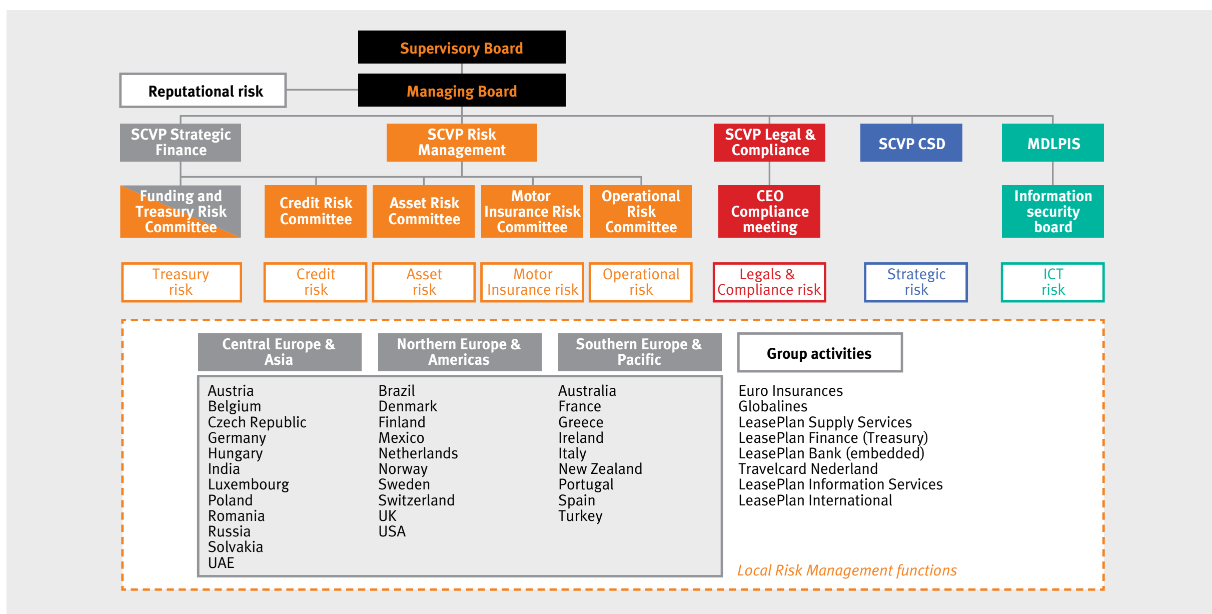
As per our Articles of Association, the Supervisory Board supervises the policy pursued by the Managing Board and the general course of affairs in the Group. The Supervisory Board is as per 2014 made up of six members and meets at least four times a year to review and discuss, among other matters, financial and commercial results, developments in the market and developments relating to our treasury and risk management. The risk strategy, risk appetite and risk policy for the medium and long term are discussed once a year, and the Supervisory Board approves any material changes to the risk strategy, risk appetite and risk policy. The (Credit Committee of the) Supervisory Board is authorised to decide on credit acceptance and renewal above limits as set in the Regulations for the Supervisory Board of LeasePlan Corporation NV.

Managing Board

The Managing Board is responsible for our risk strategy and our risk management systems and controls. They are also responsible for defining our risk appetite and approving the overall corporate risk management framework. Within the Managing Board, the Chief Financial Officer is responsible for the management and control of risk on a consolidated level to ensure that our risk profile is consistent with risk appetite and risk tolerance levels. The Managing Board is currently made up of three members and is scheduled to meet every other week.

Risk Committees

The Managing Board installed five separate risk committees, consisting of the Credit Risk Committee, the Asset Risk Committee, the Motor Insurance Risk Committee, the Operational Risk Committee and the Funding and Treasury Risk Committee. The Supervisory Board has a Remuneration Committee, an Audit Committee and a Credit Committee but no separate risk committees since the relevant risk management areas are reviewed and discussed by all members of the Supervisory Board.



The Managing Board committees act within their mandated authority and assist the Managing Board with respect to all matters related to their specific risk areas. All meetings have fixed agenda items relating to policies, exposure developments and risk reporting and minutes are made of all meetings. The Managing Board committees have a cross functional character as they are comprised of at least two members of the Managing Board and are chaired by the Senior Corporate Vice-President ("SCVP")

Risk Management, except for the Funding and Treasury Risk Committee which is chaired by our Chief Financial Officer and the Information Security Board, which is chaired by the Chief Operating Officer. Only one Managing Board member participates in the Information Security Board and Funding and Treasury Risk Committee.

In addition to the above committees with a specific focus, several other identified risks are monitored structurally. Strategic risk is monitored by our Corporate Management Team (CMT), which comprises the Managing Board and all SCVPs of Group activities and the Corporate Center, on behalf of the Managing Board, and monitoring is coordinated by our Corporate Strategy & Development department. Similarly, reputational risk is monitored by all CMT members on behalf of the Managing Board and monitoring is coordinated by the Corporate Legal & Compliance department. In addition to the periodic CEO Compliance meeting, a quarterly meeting is held with the Senior Corporate Vice-Presidents responsible for Legal & Compliance, Risk Management, Group Audit, Control, Reporting & Taxation and Human Resources Management.

All Risk Committees meet on a regular basis (minimum frequency of once per quarter) and have been given a mandated authority by our Managing Board.

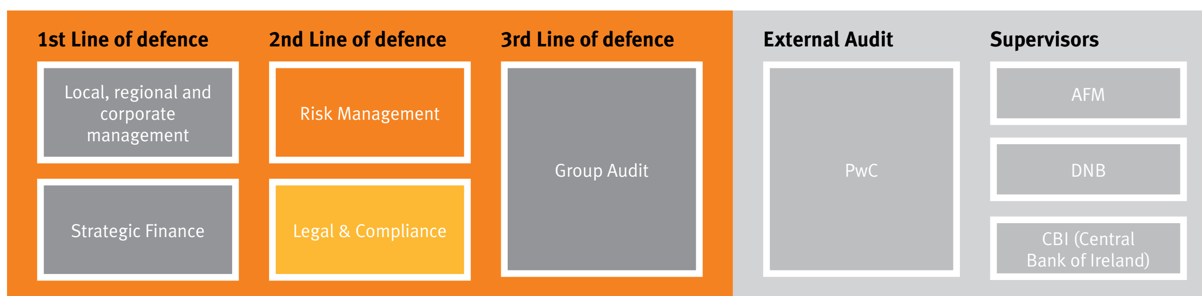
- The Credit Risk Committee meets on a quarterly basis to assist the Managing Board in its oversight responsibilities with regard to our credit risk. Further, the committee reviews on a yearly basis our credit risk appetite and credit risk management framework and makes recommendations to the Managing Board for approval. Also, the Credit Risk Committee monitors and decides upon Advanced Internal Rating Based (AIRB) matters. Separately and on need basis, the Credit Risk Committee meets and decides on credit proposals that exceed the local authority levels of Group companies and prepares for credit proposals that require approval of the (Credit Committee of the) Supervisory Board.
- The Asset Risk Committee meets on a quarterly basis to assist the Managing Board in its oversight responsibilities with regard to our asset risk. Further, the committee reviews on a yearly basis our asset risk appetite and asset risk management framework and makes recommendations to the Managing Board for approval.
- The Motor Insurance Risk Committee meets on a quarterly basis to assist the Managing Board in its oversight responsibilities with regard to our motor insurance risk including insurance risk exposure from Euro Insurances and reinsurance risk exposure of Globalines.. Further, the committee reviews on a yearly basis our motor insurance risk appetite and motor insurance risk management framework and makes recommendations to the Managing Board for approval. Also, the Motor Insurance Risk Committee monitors the preparation for Solvency II, which is being governed by an internal Solvency II project board.
- The Operational Risk Committee meets on a quarterly basis to assist the Managing Board in its oversight responsibilities with regard to our operational risks. Further, the committee reviews on a yearly basis our operational risk appetite and operational risk management framework and makes recommendations to the Managing Board for approval. Finally, all developments with respect to LeasePlan's Advanced Measurement Approach status are reviewed and recommended to the Managing Board.
- The Funding & Treasury Risk Committee is, amongst other things, established to monitor risks and set the treasury policies, related to liquidity, currency and interest rate risks. Furthermore, the committee assesses and steers the development of our funding and liquidity position as well as our overall treasury risk profile. The Funding & Treasury Risk Committee is the natural owner of the Internal Liquidity Adequacy Assessment Process (ILAAP), Internal Capital Adequacy Assessment Process (ICAAP) and Recovery Plan (including, capital contingency Plan, liquidity contingency plan and business continuity plan). New treasury related regulation is monitored and implemented by this committee, including Basel III (Capital Requirement Directive and Capital Requirement Regulation) and other liquidity and capital related guidelines and regulations issued by the BIS, EBA and DNB.
- The Information Security Board is responsible for ensuring thorough review of our ICT risk profile, whether our subsidiaries and third parties meet the expectations of legal, regulatory and compliance requirements, and that information security initiatives and strategy align to the expectations of the business, and our directors and shareholders. In addition, the board confirms the Group information security strategy and its objectives, agrees the budget and the priorities, and reviews any major incidents as well as makes sure the Group's response to incidents takes into account any lessons learned.

4.6 Lines of defence

In line with banking industry best practice and the European Banking Authority Guidelines on Internal Governance, our risk management includes three lines of defence that are supported by investment in information technology and our people. From a corporate perspective, these lines of defence mainly consist of:

(i) local, regional and corporate management heads of our businesses that have ownership, responsibility and accountability for assessing, controlling and mitigating risks;
(ii) corporate risk management functions, acting independently from risk originators who coordinate, oversee and objectively challenge the execution, management, control and reporting of risks; and
(iii) internal audit, which through a risk-based approach, provides independent and objective assurance to our Managing Board and the Audit Committee of the Supervisory Board, on how effectively we assess and manage our risks, including the manner in which the first and second lines operate.

We operate a decentralised governance model with support coming from a central corporate center. LeasePlan entities report to the corporate risk management functions on a regular basis regarding key issues and developments. The following overview outlines the composition and responsibilities of the main parties involved in executing the three lines of defense for risk management within LeasePlan.



First line of defence

Local and regional compliance and risk management

Local management is considered as a first line of defence in our risk management. Local management is responsible for complying with all corporate policies as set by the Managing Board and for the initial management of risks encountered while performing the regular tasks for the relevant Group company. These risk management activities comprise identifying potential risks, assessing potential risks and taking adequate measures in accordance with the relevant risk policies to mitigate any negative influences on realising the risk appetite limits and risk tolerance levels for the Group company. Finally, it is the responsibility of local management to timely and completely report all potential incidents and threats. As a result, local management is required to maintain comprehensive risk management systems that cover all risks inherent to the business, including setting up and maintaining local risk management and compliance functions. Regional management supervises all risk and compliance related activities of local management. The risk committees of local entities are responsible for discussing on at least a quarterly basis all the relevant risks for that entity as prescribed by corporate policies or identified by that entity.

Strategic Finance

The Strategic Finance (SF) department is responsible for overall liquidity management and funding strategy within the group. SF is the overarching department on corporate level, encompassing LeasePlan Treasury (LPTY), LeasePlan Bank (LPB), SF Almere and the Structured Finance and Securitisation department.

With the diversification of funding sources as an underlying strategy, SF ensures the availability of funding to meet the ongoing liquidity needs for the group. SF strives to create a stable, diversified and independent funding profile with cost of funding at a level playing field with industry competitors. It is the responsibility of SF to maintain LeasePlan's funding sources by tapping from them on a regular basis and keeping existing as well as potential investors in the relevant markets updated in order to ensure future market access to the best extent possible.

SF maintains a funding planning in line with the funding strategy and redemption limits in place. Furthermore, stress testing is performed on a monthly basis to ensure LeasePlan can meet its financial obligations during a period of pertaining stress of at least 9 months. SF updates the group's Fund Transfer Pricing calculation on a monthly basis, which pricing mechanism allocates liquidity costs, benefits and risks to the LeasePlan entities.

Second line of defence

Corporate risk management

The corporate risk management department is responsible for co-ordinating and maintaining the (overall) risk management framework set by the Managing Board and creating awareness and understanding of risks at all levels. The corporate risk management department is also responsible for measuring and reporting on our risk positions to the relevant risk committee of the Managing Board. It acts as a second line of defence in our risk management framework by monitoring adherence by Group companies to our risk management policies and risk appetite. The corporate risk management department ensures that the Managing Board and, as the case may be, the Supervisory Board, is made aware of business initiatives which affect our risk management framework, risk appetite or risk tolerance levels. The corporate risk management department is headed by the SCVP Risk Management who reports to our Chief Financial Officer.

Corporate Legal and Compliance

The corporate Legal and Compliance department is headed by the SCVP Legal and Compliance and is responsible for maintaining our legal and compliance risk management framework which consists, amongst others, of translating external compliance obligations into internal obligations for the Group and compliance specific to local offices, as necessary. As such, the corporate Legal and Compliance department acts as second line of defence through the review of the Managing Board's risk policies for conformance to external legal and compliance requirements in order to mitigate legal and compliance risks. Both the Group compliance function and the local compliance function support management of each entity on compliance issues. This includes identifying and enhancing awareness of compliance risks, and advising on whether or not to accept certain risks, on what mitigating measures to take, and in general on compliance matters. Furthermore, the department also monitors and reports on compliance risks and enforces rules. Measures are in place that maintain the independence of the compliance function. The LeasePlan Compliance Charter and the Compliance Risk Management Framework are the base documents to

control the risks of non-compliance. The compliance function also coordinates issues raised under the whistle blowing policy. The SCVP Legal and Compliance reports to the Chief Executive Officer on compliance matters and reports to the Chief Financial Officer on legal matters.

Third line of defence

Internal Audit

Our Group Audit Department provides internal audit services and is recognised as the third line of defence for our risk management. The internal audit activity is guided by the international standards for the professional practice of internal auditing. The scope of GAD includes all entities within LeasePlan Corporation (LPCorp), Group services entities, LeasePlan Bank as well as the LPCorp headquarter functions and responsibilities. The Group Audit Department conducts independent audits of our activities and is responsible for providing professional and independent assurance by evaluating the organisation's network of risk management, control, and governance processes, as designed and represented by management. This includes but is not limited to assessing the effectiveness of governance, risk management and internal control processes.

The Group Audit Department reports its findings to the Managing Board and provides quarterly updates to the Supervisory Board Audit Committee. The Group Audit Department is headed by the SCVP Audit who reports directly to the Chief Executive Officer. Regular internal audit meetings are scheduled between the Managing Board and the SCVP Audit in order to ensure sufficient attention and follow-up is given to the outcome of the audits. Measures are in place that are designed to maintain the independence of the audit function, including the right to directly approach the chairman of the Supervisory Board Audit Committee if circumstances so require.

External Control Functions

In addition to the internal lines of defence, we also consider the below external parties as components of our overall defence framework.

External Auditors

While the Managing Board is ultimately responsible for the preparation of our financial statements free from material misstatement, our external auditors provide an opinion on the fair presentation of our financial statements in conformity with IFRS. The external audit is conducted in accordance with generally accepted auditing standards. Reviews take place on quarterly, half-yearly and yearly basis. As part of the financial statements audit, the external auditor conducts an evaluation of the internal control system in order to assess the extent to which they can rely on the system in determining the nature, timing and scope of their own audit procedures. On a yearly basis, the overall scope of the external audit including identified risk areas and any additional agreed-upon procedures is discussed and agreed with the Audit Committee of the Supervisory Board.

Regulatory Bodies

In the context of our banking license held since 1993, our main regulators are DNB, which is the prudential supervisor and the Netherlands Authority for the Financial Markets, which supervises financial markets behaviour. In addition, Group companies are subject to external regulation from national governments, tax authorities or industry specific regulators, such as Euro Insurances, which is regulated by the Central Bank of Ireland.

Regulators are responsible for developing and maintaining a thorough understanding of the operations of individual banks, insurance companies and banking groups by collecting, reviewing and analysing prudential reports and analysis, conducting on-site and off-site supervision and conducting research into behaviour and culture at banks. Regular contact is maintained with our senior corporate management. The Basel Committee's Core Principles for Effective Banking Supervision (and specifically the Financial Markets Supervision Act for the Netherlands) outline the areas of attention and powers of the regulatory authorities. As a part of this process we communicate all relevant developments and initiatives with regard to our capital, liquidity, solvency and governance to DNB.

4.7 Risk and remuneration of Identified Staff members

The remuneration policy, which contains details about the remuneration structure of Identified Staff, is developed and adopted by the Managing Board. Identified Staff members are those members that have a material impact on our risk profile. Prior to adoption, the remuneration policy is reviewed by the Remuneration Committee and is approved by the Supervisory Board on an annual basis. The Remuneration Committee also reviews the decision making processes that relate to the execution of the remuneration policy, including the Identified Staff target setting and target achievement determination, application of any risk adjustment and the award of any variable remuneration in its various components. All variable remuneration of Identified Staff is subject to risk assessments at collective and individual performance levels. This means that the remuneration structure will reward according to performance at a Group, company and individual level as appropriate.

5 PRIMARY RISK MANAGEMENT AREAS

Our nine risk management areas are strategic risk, asset risk, credit risk, treasury risk (which includes interest rate, currency and liquidity risks), reputational risk, operational risk, motor insurance risk, legal and compliance risk and ICT risk. Of our nine risk management areas, we consider asset risk (which includes residual value risk), credit risk and liquidity risk (which is part of treasury risk) to be our primary risks.

5.1 Asset risk

Definition

Asset risk is defined internally as a combination of residual value risk and risk from vehicle repair, maintenance and tyre replacement, whereby residual value risk is considered the more prominent risk. Residual value risk is defined as our exposure to potential loss at contract end due to the resale values of assets declining below the estimates made at lease inception. The risk related to vehicle repair, maintenance and tyre replacement is defined as our exposure to potential loss due to the actual costs of the services for vehicle repair, maintenance and tyre replacement (over the entire contractual period) exceeding the estimates made at lease inception. We consider both elements under asset risk as being inextricably linked and manage asset risk accordingly.

Policy

We have a robust policy in place with respect to residual value risk management, based on principles developed under our risk management framework. The policy describes, inter alia, the roles and responsibilities within our organisation for residual value risk management, the minimum standards for residual value risk mitigation and the mandatory frequency of residual value risk measurement and reporting. The policy applies to all Group companies bearing residual value risk. Furthermore, this policy describes a limit structure based on our defined residual value risk appetite, whereby the level of risk taking is determined for three echelons within our Group (i.e. Group company, Regional and Group management). As a part of the residual value risk policy, all Group companies must establish a local Residual Value Risk Management committee chaired by either the Managing Director or the Finance Director and in which all relevant disciplines involved in the asset risk management process must be represented. This committee is required to convene at least once every quarter with the primary 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, residual values and vehicle repair, maintenance and tyre replacement results. The local Residual Value Risk Management Committees assess residual value risk exposure by taking into account both internal influences and external influences and, based on their assessment, decide on the appropriate residual value estimates and risk mitigating measures to be applied. The committees are responsible for informing the management team of such Group company on all relevant asset risk issues. The policy also establishes minimum standards with respect to residual value risk mitigating techniques that the Group companies are expected to have in place and the reporting that must be provided to the corporate centre.

Measurement

We analyse asset risk throughout the term of our lease contracts: starting at lease inception and following it through its term up to lease termination. Measuring asset risk at all three stages of our lease contracts assists us in tracking developments with respect to asset risk elements and identifying adverse trends.

Contract Inception - We review on a monthly and quarterly basis the contractual residual values and the pricing applied for vehicle repair, maintenance and tyre replacement of our Group companies. Any developments arising from the pricing reviews are then discussed with local and regional management.

During Contract Life - The Group companies measure the residual value risk and repair, maintenance and tyre replacement risk on vehicles under lease contract and report the estimated results of these exposures at lease termination to the corporate centre on a quarterly basis. We refer to these measurements as fleet risk assessments. In many cases these measurements are calculated by means of statistical analysis (such as generalised linear models or regressions) based on our own historical vehicle sales proceeds. Estimates in respect of sales results and results from vehicle repair, maintenance and tyre replacement are made at an individual vehicle level and aggregated to the portfolio level. The outcomes of these measurements are reviewed and discussed within local Residual Value Risk Management committees. The outcomes can also serve as a basis for the determination of any prospective depreciation adjustments for the consolidated portfolio.

Contract Termination - For vehicle leases terminated within the relevant monthly or quarterly reporting period, we monitor and review the termination result. Termination result is the realised sales proceeds from the sold vehicle and the actual costs from vehicle repair, maintenance and tyre replacement compared to the estimates made at lease inception and the adjustments thereto applied during the life of the lease. The resulting two components, being sales result and result on vehicle repair, maintenance and tyre replacement, are the main drivers behind our termination income in our financial statements.

On a quarterly basis, reports summarising the residual value pricing at lease inception, developments in the estimated sales result and vehicle repair, maintenance and tyre replacement results of the unsold vehicles in our portfolio (consisting of both vehicles still under lease contract and vehicles after lease termination but prior to disposal), and the actual sales results and vehicle repair, maintenance and tyre replacement results are provided for discussion at the meetings of the Group's Asset Risk Committee and are then provided to the Supervisory Board, the Dutch Central Bank and the external auditor.

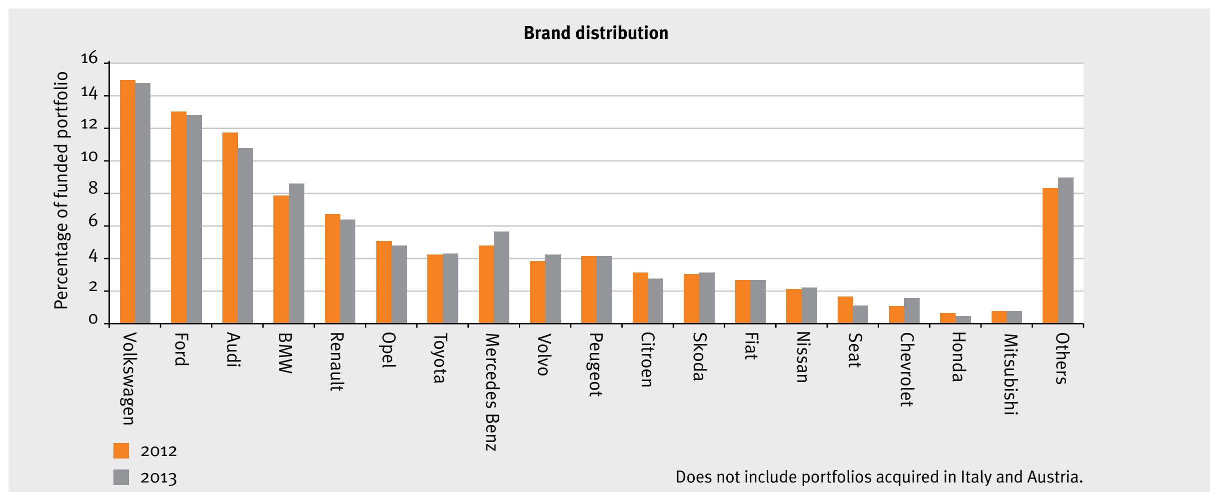
Exposure

Our asset risk exposure and mainly our residual value exposure is affected by many factors, including but not limited to changes in economic conditions, consumer confidence, consumer preferences, exchange rates, government policies, new vehicle pricing, new vehicle sales, new vehicle brand images or marketing programs, the actual or perceived quality, safety or reliability of vehicles, the mix of used vehicle supply, the levels of current used vehicle values and fuel prices. Asset risk represents one of the most significant risk exposures that we face. The sum of residual values amounted to EUR 8.4 billion as at the end of 2013 representing approximately 44% of total assets. The table below shows the amount of our residual value exposure for vehicles on our balance sheet as at December 31, 2013 and 2012 respectively.

As at December 31,

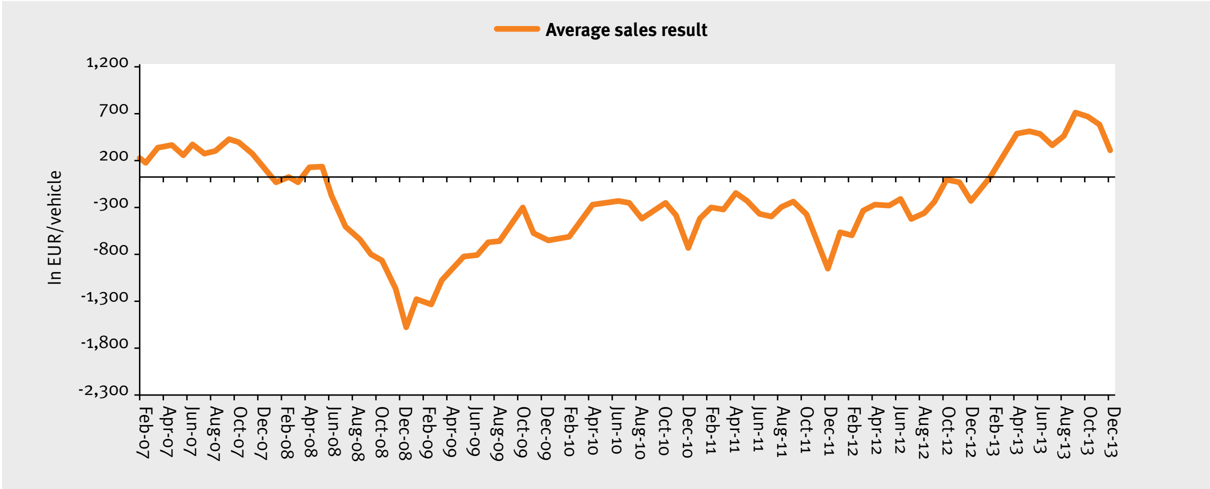
RESIDUAL VALUE EXPOSURE	**2013**	**2012**
(in millions of euro)		
Residual value	8,092.3	8,192.0

In addition to the above-mentioned on-balance residual value risk the Group has also provided off-balance residual value commitments for non-funded vehicles up to an amount of EUR 0.3 billion (2012: EUR 0.3 billion). The above table includes both operational and financial leases. The Group is therefore not effectively exposed to the entire residual value risk, since part of this represents its financial lease portfolio. We are currently present in 31 countries. This geographical diversification in conjunction with being an independent multibrand company with a well diversified brand portfolio (see bar chart below), partly mitigates the risk related to residual values.



Does not include portfolios acquired in Italy and Austria.

The adverse developments in the used vehicle markets worldwide that started in 2008 continued to have an impact in a limited number of countries in which we operate in. Although many markets started recovering after the low level of sales results at the end of 2008, the sales results at a Group level remained below the estimates made at lease inception up to and including the year 2013. As this risk was embedded in our product offering we had to absorb losses on sales during those years. Starting the year 2013, sales results -on the back of improved market circumstances, downwardly amended residual values (during the crisis referred to above) and slight improvement in risk mitigation- became positive again. The graph below presents, in euro per vehicle, a historical overview of the development of sales results (which is the difference between the net book value at termination and the actual vehicle sales proceeds achieved) from February 2007 to December 2013.



For the full risk bearing portfolio at the end of the fourth quarter of 2013, considering the latest trends in the used vehicle markets, we expect to generate termination result profits on a portfolio level across all future years.

Mitigation

We have the ability to adapt pricing of residual values and vehicle repair, maintenance and tyre replacement to changed market circumstances for newly to be concluded contracts. This limits our exposure for the remaining contract duration of the active portfolio. In addition, there are other ways to mitigate residual value risk. Each Group company is expected to pro-actively use the mitigating measures listed below, which are reflected in contracts with customers.

Early termination charging: In most cases, we charge for losses resulting from an early termination of a contract (i.e. the difference between net book values at lease termination and actual sales proceeds). Any vehicle repair, maintenance and tyre replacement result in relation to the lease contract generally, may not be offset with the early termination charge.

Charging for end of contract damage: We assess the wear and tear of the vehicle at the end of the contract and if such wear and tear is beyond the standards as set we generally invoice the customer for the excessive damages.

Mileage variation adjustments: Lease contracts typically set mileage variation limits within which we charge mileage variation adjustments based on the amount of miles driven. If the amount of miles driven passes the mileage variation limits, then a mileage variation adjustment is in principle not permitted and a recalculation should be performed on the lease contract. Our policy for Group companies recommends separate mileage variation adjustment limits for different cost components (such as depreciation, repair and maintenance, tyres and replacement vehicle service) as well as a prudent approach in case of under mileage.

Recalculation: Lease contracts typically allow for the recalculation during the life of the lease contract of the contractual terms and mileage when the actual mileage of a vehicle exceeds the contractually agreed mileage variation limits.

Minimum settlement account: Under some of our contracts with customers, if the settlement result (being the sum of sale results and results on services for vehicle repair, maintenance and tyre replacement) is positive we share the difference with the customer. However, if this settlement result is negative, the customer is not charged for the difference. Since under these contracts we are only exposed to downside risk, in general we require a minimum of 10 vehicles in final settlement per year so that any possible negative settlement result on individual vehicle level can be offset against any possible positive settlement result on vehicle level for that customer, if appropriate.

Governmental policy changes: We negotiate our contracts such that we are entitled to pass on any costs resulting from certain governmental policy changes.

We assess each of these measures individually upon the termination of lease contracts and depending on the type of lease contract and include the results from the mitigating measures in the sales result. We measure the effectiveness and impact of the main risk mitigating measures on a monthly basis.

Capital requirements

Under Pillar 1 residual values are considered to be non-credit obligation assets and are risk weighted at 100% under the standardised approach while under the advanced internal ratings based approach a risk weight is applied that depends on the remaining maturity of the underlying contract. For the majority of our assets, the advanced internal ratings based approach is applied; the regulatory capital related to residual values amounts to EUR 453 million (advanced internal ratings based and standardised approach combined) as at the end of 2013. This amount is included in the capital requirements amounting to EUR 664 million calculated for credit risk as shown in section 5.2, for all lease portfolios. The 100% risk weight for residual values under the standardised approach (versus the risk weighting under the advanced internal ratings based approach) will change at 1 January 2014 due to the CRR/CRD IV regulation and be equal to the advanced internal ratings based approach.

Under Pillar 2, we calculate internally required capital different from the methodology applied under regulatory requirements for Pillar 1. The methodology used under Pillar 2 assumes the residual value exposure to be a credit risk during the duration of the contract. Furthermore, asset risk capital is calculated to cover for possible losses when the vehicles are returned at contract maturity. Starting with 2012 the Pillar 2 capital calculated and held for asset risk was determined based on a Value at Risk (VaR) approach. As at the end of 2013, the internal capital calculated and held for asset risk was considered sufficient to cover a stressed scenario reflecting market circumstances similar to the end of 2008 and the beginning of 2009. We perform stress testing as part of our quarterly fleet risk assessment exercises on a Group level. The outcome of the stress testing is used as a benchmark for the Pillar 2 capital held for asset risk. A one percentage point movement in sales proceeds versus original list prices could lead to a EUR 51 million (before tax) movement in estimated termination income for the year 2014.

5.2 Credit risk

Definition

Credit risk is the risk that a counterparty will be unable to fulfil its financial obligations when due. We are exposed to credit risk for vehicles leased to counterparties through both receivables due under the lease and the book value of vehicles. The credit risk of the book value of vehicles is mostly mitigated by the sales proceeds of these vehicles. In addition, we are exposed to credit risk originating from our banking and treasury activities, which includes deposits placed with banks or other financial institutions and hedging instruments, such as derivatives and reinsurance activities. Finally, we are exposed to credit risk as a result of our insurance activities as well as to discounts to be received from vehicle manufacturers and other suppliers.

Policy

Our credit risk policy seeks to regulate the credit risk management limits for Group companies. While credit risk appetite is defined on a consolidated level, under our credit risk policy, Group companies define their risk appetite and their risk tolerance levels for counterparty and concentration credit risk, which is then monitored at a Group level. Group companies have a local credit committee and a local credit risk management function with authority to accept exposures from counterparties up to a certain level of exposure, whereby the authority level of risk taking depends on the size of the local portfolio, the characteristics of the local portfolio and the proven track record of the members of the local credit committee and local credit risk management organisation.

We distinguish in our policies and portfolio between corporate clients, retail clients, governments, banks and others. In this respect, retail clients are defined as clients with a vehicle fleet with an investment value not exceeding EUR 1 million with which there is no active commercial relationship. Except for retail customers, which are assessed whenever a credit application is received, the credit risk of all our counterparties is assessed at least once a year. If the credit risk of an approved counterparty exceeds the local credit risk authorisation level, then credit approvals for such counterparty are sent to the corporate head office for final decision. All Group companies use the same global credit risk management systems. Each Group company is required to maintain a special attention list and a watch list for corporate customers, which are based on our internal rating grades and other available information. These lists are reviewed in regular meetings by the credit committees. Credit risk exposures on companies included in these lists are monitored on a regular basis by the respective risk management teams on both Group company and Group level. With regard to retail customers, who in general pay by direct debit and depending on the credit quality are required to pay upfront deposits, strict payment monitoring is in place. In case of arrears, measures are taken to mitigate potential credit losses. A qualitative analysis of our total credit exposures, defaults and losses is reported on a quarterly basis to the Credit Risk Committee.

For the credit risks inherent to our treasury operations we established specific policies, among others, defining counterparties with which transactions can be concluded and limits for counterparties. The limits for a single counterparty are divided into a number of sub-limits based on the type of transaction such as deposits, financial instruments or other types of transactions. The limits and their usage are regularly reviewed by the Credit Risk Committee. Furthermore, amounts outstanding are closely monitored seeking to ensure that deposited funds can be transferred as soon as possible in case of an increase in counterparty risk. We have also put in place acceptance criteria for reinsurance of motor insurance risks.

Measurement

Effective December 1, 2008, we implemented Advanced Internal Rating Based ("AIRB") models for calculating the regulatory capital requirement for credit risk for our corporate fleet under Basel II. The models for credit risk relate especially to the determination of:

- *probability of default* - the likelihood of a counterparty going into default in the next twelve months based on the internal rating assigned to that counterparty;
- *loss given default* - the expected loss we would incur as a result of a default;
- *exposure at default* - the expected exposure to a counterparty at the moment of default; and
- *remaining maturity* - the contractual remainder of the lease contract derived from the start date of the lease contract and contract duration.

In 2011 a project was initiated to develop and implement internal scorecards, probability of default, loss given default and exposure at default models for the retail portfolio which is intended to increase the part of the assets that qualify for the AIRB approach. The focus is on the various retail portfolios in the United Kingdom and the Netherlands In June 2013 we received approval from the Dutch Central Bank to use the IRB approach for these portfolios. We will implement this approach at 1 January 2014.

The table below shows our aggregate credit risk exposure by exposure class and approach. The characteristics of our credit risk exposure will be further disclosed in the respective sections for probability of default, loss given default, exposure at default and remaining maturity.

As at 31 December,			2013			2012
Exposure class	**AIRB**	**Standardised**	**Total**	**AIRB**	**Standardised**	**Total**
(in thousands of euro)						
Corporates	11,110,128	238,795	11,348,924	11,751,872	234,096	11,985,968
Retail		2,092,135	2,092,135	-	2,051,543	2,051,543
Governments		565,631	565,631	-	638,577	638,577
Banks		201,320	201,320	-	180,416	180,416
Other[1]		326,844	326,844	-	80,842	80,842
Total	**11,110,128**	**3,424,725**	**14,534,854**	**11,751,872**	**3,185,475**	**14,937,346**

(1) The category 'Other' represents amongst others the acquired portfolios in Italy and Austria.

The exposure class Other represents amongst other the acquired portfolios in Italy and Austria for an amount of EUR 309,2 million.

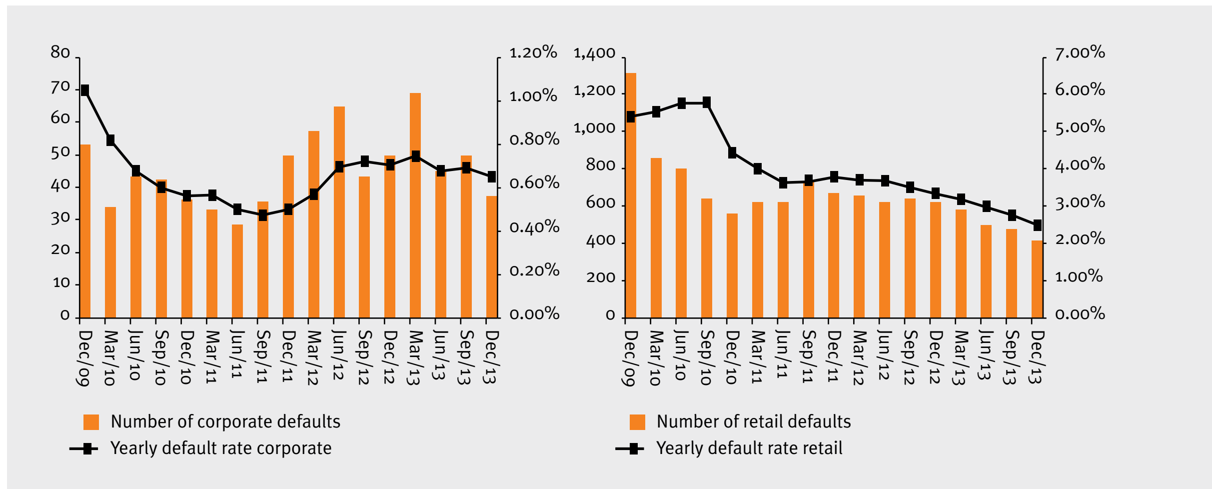
Default definition in use

For purposes of assessing, recognising and reporting defaults, we define a default as:

- any customer that is unable to fulfil its obligations (irrespective of the amount involved or the number of days outstanding); or
- when customers are over 90 days in arrears and local judgment so determines that there is a reasonable chance that the amount will not be collected; and
- the local judgment criterion is the result of an internal assessment with regard to arrears in order to establish whether the customer is unable to pay. The local judgment criterion is used to avoid disputes with counterparties being reported as defaults.

We monitor defaults on an ongoing basis with reports generated for the Credit Risk Committee and the Supervisory Board on a quarterly basis. As at 31 December, 2013, the number of corporate defaults reported over the year 2013 was lower than in 2012. The yearly default rate (equal to the number of defaults over the previous four quarters at quarter end divided by the average number of clients for the same period (the "yearly default rate") for 2013 was 0.6% for the corporate fleet as at 31 December, 2013 (0.7% as at 31 December, 2012). The moving average of the yearly default rate for 2013 was 2.4% for the retail fleet as at 31 December, 2013 (3.3% as at 31 December, 2012).

The tables on the next page show the number of defaults by quarter (at quarter-end) and the yearly default rate for our corporate and retail customers for the period from the last quarter of 2009 through 2013.



As a consequence of our local judgment criterion, the probability of default of our corporate counterparties is somewhat lower than when applying a default definition solely based on a definition of default as being over 90 days in arrears (as per the Basel II definition) whereas the loss given default of our corporate counterparties is somewhat higher.

Probability of default ("PD")

We assess the probability of default of corporate counterparties using internal rating tools tailored to the various categories of such counterparties. Our internal rating system for corporate counterparties is segmented into fourteen non-default rating classes. Our rating scale reflects the range of default probabilities defined for each rating class and as the assessment of the corporate counterparties' probability of default changes we may adjust our exposure between classes. These internally developed tools combine statistical analysis with in-house judgment and are compared with externally available data when possible.

The rating tools are regularly reviewed and are renewed when required under our governance framework. This includes monitoring on a quarterly basis whether the performance of the models meets internal and external requirements, such as those set by the Dutch Central Bank. All models are validated by an external audit firm other than the firm that audits our annual accounts. A table showing our internal ratings scale compared with external ratings is below.

LeasePlan's rating	Description of the rating 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 our rating classes based on the long-term average default rates for each external rating. Observed defaults by rating category vary year on year, especially over an economic cycle. External rating agencies, their rating framework and as a consequence their assessment of institutions could be subject to change which may impact any of our models, risk appetite, risk tolerance levels or internal ratings, which are set to such external ratings.

We assign a default probability to each rating grade based on historical default data. The exposure weighted average rating for the Corporate AIRB portfolio matches the 3A to 3C rating bucket. The table below summarises the probability of default ranges of our credit risk exposure in our lease contract portfolio:

As at 31 December,	2013			2012		
LeasePlan's rating	**Credit risk exposure**	**PD range**		**Credit risk exposure**	**PD range**	
(in thousands of euro)						
1	428,535	0.04%	0.04%	425,953	0.04%	0.04%
2A to 2C	3,744,439	0.04%	0.10%	3,868,429	0.04%	0.10%
3A to 3C	4,417,119	0.10%	0.28%	5,039,575	0.13%	0.28%
4A to 4C	2,255,826	0.28%	1.36%	2,119,178	0.43%	1.36%
5A to 5C	228,459	1.36%	16.31%	266,233	2.75%	16.31%
6A	4,918	16.31%	49.01%	6,275	16.31%	49.01%
Default	30,832	100.00%	100.00%	26,227	100.00%	100.00%
Unrated[1]	3,424,725			3,185,475		
Total	**14,534,854**			**14,937,346**		

(1) These figures include clients classified as retail, government, and banks for which there is not an approved internal ratings model. Some of the clients are rated by external rating agencies and are benchmarked against those.

For the application of probability of default in calculating capital requirements a distinction should be made between Pillar 1 and Pillar 2. According to Pillar 1 regulation, the residual values in our credit risk exposure are subject to a separate risk weighting calculation (depending on the remaining maturity of the contract) than the future lease payments. As a result, under Pillar 1, probability of default is only used for the calculation of risk weight of future lease payments. Under Pillar 2, these are applied to the full counterparty exposure.

The overview below shows the split of counterparty exposures between future lease payments and residual values in the contracts and their risk weights under Pillar 1. As per above, the calculation of risk weight for residual values under the AIRB approach is based on the remaining maturity of the underlying lease contract, whereby a shorter remaining maturity results in a higher risk weight. The risk weight for residual values under the Standardised approach is 100%. Since the average remaining maturity of lease contracts approximately two years, residual values have a relatively high risk weight when compared with the risk weight of future lease payments[1].

As at 31 December,	2013			2012		
	Credit risk exposure	**Risk weight**	**Risk weighted assets**	**Credit risk exposure**	**Risk weight**	**Risk weighted assets**
(in thousands of euro)						
Future lease payments	6,442,577	37.36%	2,407,156	6,745,323	37.40%	2,522,645
Residual value	8,092,277	72.85%	5,895,147	8,192,023	69.84%	5,721,423
Total	**14,534,854**	**57.12%**	**8,302,303**	**14,937,346**	**55.19%**	**8,244,068**

Loss Given Default ("LGD")

Loss given default is the loss we incur as the result of a default or the expected loss we would incur as a result of a default. Loss given default is expressed as the percentage loss of our exposure at the time the counterparty is declared in default and typically varies by country and transactional features, such as type of leased vehicle.

Loss given default expectations are arrived at by using historical default data gathered by our subsidiaries in a global default database. These loss given default expectations are calculated separately for each collateral type (cars and vans, trucks and equipment) and for each country in which we are active. The table on the next page sets forth our average exposure weighted loss given default estimate for corporate counterparties at the end of 2013 and 2012.

These figures include clients classified as retail, government, and banks for which there is not an approved internal ratings model. Therefore in the table below only an effective loss given default is disclosed for the Corporate AIRB portfolio. Most clients as part of the standardised approach are rated by external rating agencies and are benchmarked against those.

1 These figures include clients classified as retail, government and banks for which there is not an internal rating model. Also acquired portfolios which are not yet converted into our own operating systems are included here.

As at 31 December,				2013				2012
Exposure class	**AIRB**	**Effective LGD**	**Standar-dised**	**Total**	**AIRB**	**Effective LGD**	**Standar-dised**	**Total**
(in thousands of euro)								
Corporates	11,110,128	29.59%	238,795	11,348,924	11,751,872	29.71%	234,096	11,985,968
Retail	-	-	2,092,135	2,092,135	-	-	2,051,543	2,051,543
Governments	-	-	565,631	565,631	-	-	638,577	638,577
Banks	-	-	201,320	201,320	-	-	180,416	180,416
Other[1]	-	-	326,844	326,844	-	-	80,842	80,842
Total	**11,110,128**		**3,424,725**	**14,534,854**	**11,751,872**		**3,185,475**	**14,937,346**

(1) The category 'Other' represents amongst others the acquired portfolios in Italy and Austria.

Exposure at default ("EAD")

The original risk exposure is derived from the remaining amortising book value of lease contracts and arrears. The conversion factor (i.e. the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment) for the EAD is 1.0 of the original credit risk exposure. The main driver for this conversion factor is that in general we have no obligation towards counterparties to execute new orders at any time.

Remaining maturity

The exposure weighted remaining maturity as shown below is based upon residual contractual maturity which is calculated per single object and aggregated on a total consolidated level and includes all portfolios:

As at 31 December,				2013				2012
Exposure class	**AIRB**	**Standardised**	**Total**	**Maturity (in years)**	**AIRB**	**Standardised**	**Total**	**Maturity (in years)**
(in thousands of euro)								
Corporates	11,110,128	238,795	11,348,924	1.96	11,751,872	234,096	11,985,968	2.03
Retail	-	2,092,135	2,092,135	1.98	-	2,051,543	2,051,543	1.98
Governments	-	565,631	565,631	2.11	-	638,577	638,577	1.84
Banks	-	201,320	201,320	1.97	-	180,416	180,416	1.87
Other[1]	-	326,844	326,844		-	80,842	80,842	
Total	**11,110,128**	**3,424,725**	**14,534,854**	**1.97**	**11,751,872**	**3,185,475**	**14,937,346**	**2.01**

(1) The category 'Other' represents amongst others the acquired portfolios in Italy and Austria.

Exposure

In accordance with the Capital Requirements Directive (as described in Appendix A 'Government Supervision and Regulation'), we measure our credit risk items in the following categories: exposure classes, geographic segmentation, industry segmentation, and client concentration (single customers and groups of customers). Our credit risk exposure presented below differs in some areas from the credit risk exposure as presented in our Audited Consolidated Financial Statements due to certain accounting principles. The credit risk exposure presented below is divided by exposure classes, while in the Audited Consolidated Financial Statements our credit risk exposure is reflected in two separate items based on the accounting classification of the lease, as either a financial or operational lease. The two balance sheet items reflecting the credit risk exposure related to leasing exposures in the Audited Consolidated Financial Statements are: 'Amounts receivable under finance lease contracts' (under 'Receivables from clients') and 'Property and equipment under operational lease and rental fleet'. The total credit risk exposure with regard to the leasing portfolio as distributed in the Audited Consolidated Financial Statements is shown in the following table:

As at 31 December,	2013	2012
(in thousands of euro)		
CREDIT RISK EXPOSURE		
Amounts receivable under finance lease contracts	2,308,222	2,517,712
Property and equipment under operational lease and rental fleet	12,226,631	12,419,634
Total credit risk exposure	**14,534,854**	**14,937,346**

The amounts on the previous page represent our total on-balance sheet exposure to counterparties with respect to lease contracts as at the specified dates. In the remainder of this section, we will provide further information on these credit risk exposures.

Credit risk exposure by exposure classes and approach
We apply the AIRB models for credit risk to all corporate counterparty exposures. For government, bank and retail customers' counterparty exposure, we apply the standardised approach which prescribes fixed percentages for risk weighting depending on characteristics and conditions of the exposure; as development of internal models for these exposure classes is not cost effective based on our relatively low exposures to those counterparties.

In June 2013 we received approval from the Dutch Central Bank to use the Internal ratings Based (IRB) approach for the retail portfolios in the United Kingdom and the Netherlands. We will implement this approach at 1 January 2014. Out of EUR 2.1 billion in 2013 (2012: EUR 2.1 billion) EUR 1.2 billion (2012: EUR 1.2 billion) is due to the combined retail portfolios of LPUK and LPNL.

The table below summarises the external credit ratings of the counterparties of our financial assets as at 31 December, 2013 and 2012, except for the lease contract portfolio which includes both financial assets (financial leases) and non-financial assets (operational leases) as the credit rating is performed on the total lease contract portfolio.

As at 31 December,			**2013**			**2012**
	Lease contract portfolio	**Derivative financial instruments**	**Receivables from financial institutions**	**Lease contract portfolio**	**Derivative financial instruments**	**Receivables from financial institutions**
(in thousands of euro)						
External rating						
AAA to AA-	968,763	36,770	181,007	1,055,466	63,415	269,999
A+ to A-	3,810,872	79,671	1,218,289	3,939,949	115,015	896,805
BBB+ to BBB-	4,493,904	3,997	24,694	5,105,469	10,490	15,211
BB+ to BB-	2,280,998		5,399	2,129,471		3,779
B+ to B-	228,459		5,485	266,233		
CCC+ to C	5,213		181	6,537		302
Default	65,545			67,253		
Unrated[1]	2,681,100		3,996	2,366,968		
Total	**14,534,854**	**120,438**	**1,439,051**	**14,937,346**	**188,920**	**1,186,096**
Total credit risk exposure			**16,094,343**			**16,312,362**

(1) The category 'Other' represents amongst others the acquired portfolios in Italy and Austria.

Other credit risk exposures
Receivables from financial institutions: In addition to our exposure to credit risk in the leasing of vehicles, we are also exposed to credit risk due to the use of derivative financial instruments and cash being deposited with other banks. Both credit risks arising from our central treasury organisation are controlled by setting specific nominal limits for the limited number of financial institutions that such transactions may be concluded with and the requirement of minimal external credit ratings that must be assigned to such counterparties.

Credit risk exposure by exposure class and geography
The table on the next page shows the credit risk exposure distribution by exposure class and by geography of our lease contract portfolio based on the geographical location of the assets as at December 31, 2013. Distinction is made among Europe's euro-zone, Europe's non-euro-zone and the rest of the world:

- The "Europe – euro zone" segment contains the Group companies in Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Romania, Slovakia and Spain.
- The "Europe – non-euro zone" segment contains the Group companies in Czech Republic, Denmark, Hungary, Norway, Poland, Sweden, Switzerland and the United Kingdom.
- The "Rest of the world" segment contains the Group companies in Australia, Brazil, India, Mexico, New Zealand and the United States of America.

The category 'Other' is comprised of differences between local source and reporting data with regard to amongst others accounting and timing. These figures include clients classified as rental, government, and banks for which there is not an approved internal ratings model. Some of these clients are rated by external rating agencies and are benchmarked against those.

(in thousands of euro)	Europe (euro)	Europe (none-euro zone)	Rest of the World	Total	Percent of Total
Exposure class					
Corporates	6,784,906	2,531,677	2,032,341	11,348,924	78%
Retail	1,103,701	967,653	20,781	2,092,135	14%
Governments	176,024	282,423	107,184	565,631	4%
Banks	163,990	28,732	8,599	201,320	1%
Other[1]	319,426	4,727	2,691	326,844	2%
Total as at 31 December, 2013	**8,548,046**	**3,815,212**	**2,171,595**	**14,534,854**	
Percentage of total as at 31 December, 2013	58.8%	26.2%	14.9%	100%	100%
Total as at 31 December, 2012	**8,469,455**	**3,967,575**	**2,500,316**	**14,937,346**	
Percentage of total as at 31 December, 2012	56.7%	26.6%	16.7%	100%	100%

(1) The category 'Other' represents amongst others the acquired portfolios in Italy and Austria.

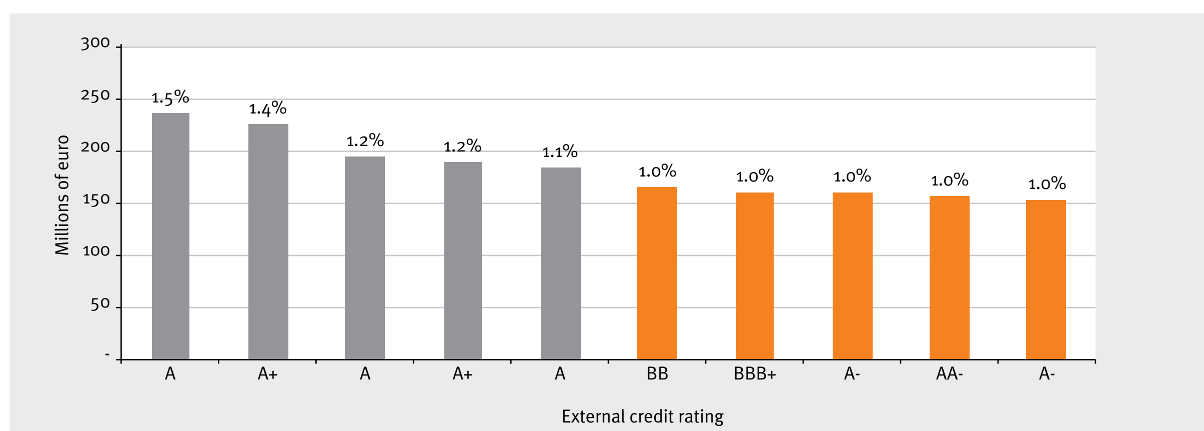
Credit risk exposure by industry

Credit risk exposure is broken down according to the industry segment in which the counterparties have their major business activity and by the type of counterparty (corporate, retail, governments, banks and other). The table below shows the breakdowns as at 31 December, 2013.

Distribution by exposure class and industry type (in thousands of euro)	Corporates	Retail	Governments	Banks	Other	Total	2013	2012
Services	1,841,479	557,374	-	-	-	2,398,853	17%	16%
Consumer Durables	1,902,896	285,078	-	-	-	2,187,974	15%	16%
Capital Goods	1,692,940	204,128	-	-	-	1,897,068	13%	13%
Construction and Infrastructure	886,040	161,611	-	-	-	1,047,651	7%	7%
Chemicals	836,345	33,751	-	-	-	870,096	6%	6%
Technology	691,576	65,753	-	-	-	757,329	5%	5%
Banks and financial intermediation	319,802	54,815	-	201,320	-	575,937	4%	4%
Transport & Logistics	513,786	61,222	-	-	-	575,008	4%	4%
Public Administration	2,262	4,336	565,631	-	-	572,229	4%	4%
Food Beverages and Tobaco	510,075	22,733	-	-	-	532,808	4%	4%
Other	179	88,848	-	-	326,844	415,871	3%	1%
Utilities	393,642	12,053	-	-	-	405,696	3%	3%
Retail	253,822	57,062	-	-	-	310,884	2%	2%
Telecom	239,639	10,683	-	-	-	250,322	2%	1%
Private Individuals	3,363	226,642	-	-	-	230,005	2%	2%
Insurance and Pensionfunds	208,583	17,462	-	-	-	226,045	2%	2%
Health Care	186,486	36,737	-	-	-	223,223	2%	1%
Natural Resources	190,512	20,943	-	-	-	211,455	1%	2%
Diversified-Others	117,159	45,658	-	-	-	162,817	1%	1%
Real Estate	114,876	40,980	-	-	-	155,857	1%	1%
Oil & Gas	133,048	7,168	-	-	-	140,216	1%	1%
Automotive	120,679	17,126	-	-	-	137,805	1%	1%
Media	71,033	16,296	-	-	-	87,329	1%	1%
Agriculture Forestry and Fishing	62,262	14,523	-	-	-	76,785	1%	1%
Leisure and tourism	36,361	24,140	-	-	-	60,501	0%	0%
Building Materials	20,079	5,009	-	-	-	25,088	0%	0%
Total as at 31 December 2013	**11,348,924**	**2,092,135**	**565,631**	**201,320**	**326,844**	**14,534,854**	**100%**	**100%**
Total as at 31 December, 2012	**11,985,968**	**2,051,543**	**638,577**	**180,416**	**80,842**	**14,937,346**	**100%**	

Counterparty concentration
Our 100 largest leasing counterparties or groups of counterparties represented 34% (2012: 36%) of the consolidated book value of our total lease portfolio, as at December 31, 2013. We believe the concentration risk in the consolidated client portfolio for lease contracts is limited as the largest leasing counterparty represented 1.1% (2012: 1.8%) of the consolidated book value of our total lease portfolio or 1.2% of our risk-weighted assets as at December 31, 2013.

Information on our 10 largest on-balance sheet credit risk exposures, including both our financial counterparties and lease counterparties in millions of euro as a percentage of total on-balance sheet credit risk exposures, by external S&P credit rating as at December 31, 2013 is shown in the table below, with the grey bars depicting our largest financial counterparties and the orange bars depicting our largest leasing counterparties.



Provisions and impairment
When a leasing client is considered to be in default, we calculate our exposure to such client by aggregating the outstanding invoices to that client and the book value of the vehicles currently under lease contracts for such client. The estimated sales proceeds of the vehicles under lease at the time of the default, instead of at the originally scheduled lease termination, are then deducted from the exposure at default to arrive at a provision amount. In general such exposure at default is intended to fully cover the expected loss. We individually assess receivables from clients (mainly lease rentals that have become payable) for indications of impairment. Receivables from clients impaired and the allowance for impairment were as follows:

As at 31 December, *(in thousands of euro)*	2013	2012
Impaired loans and receivables from clients	**87,409**	**78,900**
Provision on clients provided for	80,262	73,399
Expected loss provision	6,000	6,460
Total allowance for impairment	**86,262**	**79,859**

Loans to associates and jointly controlled subsidiaries
Credit risk for us also arises on lending to associates and jointly controlled Group companies. The underlying business of the respective associates and jointly controlled Group companies is very similar to our core activities conducted through wholly owned Group companies. In shareholder agreements we have agreed with our 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 our investments in associates and jointly controlled entities, we also monitor and manage our credit exposures to such entities. As at 31 December, 2013 the following exposures existed on associates and jointly controlled activities:

As at 31 December,	**2013**	**2012**
	Outstanding notional	**Outstanding notional**
(in thousands of euro)		
Counterparty		
LPD Holding A.Ş., Turkey	149,975	124,279
Please S.C.S., France	86,000	74,500
LeasePlan Emirates Fleet Management - LeasePlan Emirates LL, United Arab Emirates	20,119	22,136
Overlease S.r.L., Italy	2,275	2,775
Total	**258,369**	**223,690**

Mitigation

We are exposed to credit risk for vehicles leased to counterparties through both receivables due under the lease and the book value of vehicles. The credit risk of the book value of vehicles is mostly mitigated by the sales proceeds of these vehicles. Depending on the size and the quality of the client, additional risk mitigating measures are taken such as the requirement of parent company guarantees, bank guarantees, down payments or deposits or similar risk mitigation instruments. Furthermore, a significant part of our clients pay by direct debit. If a direct debit payment is denied, it is often an early indicator of a possible increase in credit risk. In such cases additional risk mitigating measures may be taken. In addition to these measures, each Group company also maintains a watch list and a special attention list of corporate customers compiled based on the internal risk indicators specific to the Group company's portfolio profile and geographical location. We monitor developments in the companies placed on such lists. The credit risks inherent in our treasury activities, and corresponding exposures to banks with which we place deposits or arrange derivative financial instruments, are mitigated by internal policies, rules and guidelines that set limits on the banks with which transactions can be concluded and the maximum amount of business that can be concluded with a single bank. The limits for a single bank are split into a number of sub-limits based on the type of business, such as deposits, financial instruments or other types of transactions. These limits are regularly reviewed by the Credit Risk Committee.

Furthermore, actual outstanding amounts are closely monitored to seek to ensure that deposited funds can be transferred to other parties as soon as possible in case of increases in counterparty risk.

Capital requirements

The regulatory capital requirement is calculated using the following formula 'Exposure x Risk weight x 8%'. The following table shows the minimum capital requirement for our credit risk exposure of our leased assets:

As at 31 December,				2013				2012
Exposure class	**Exposure**	**Average risk weight**	**Risk weighted assets**	**Regulatory capital requirement**	**Exposure**	**Average risk weight**	**Risk weighted assets**	**Regulatory capital requirement**
(in thousands of euro)								
AIRB approach								
Corporates	11,110,128	48.30%	5,365,790	429,263	11,751,872	47.25%	5,552,603	444,208
					-		-	-
Standardised Approach					-		-	-
Corporates	238,795	74.59%	178,123	14,250	234,096	79.29%	185,622	14,850
Retail	2,092,135	91.52%	1,914,693	153,175	2,051,543	91.31%	1,873,288	149,863
Governments	565,631	62.57%	353,893	28,311	638,577	63.74%	406,998	32,560
Banks	201,320	80.95%	162,959	13,037	180,416	80.21%	144,715	11,577
Other[1]	326,844	100.00%	326,844	26,148	80,842	100.00%	80,842	6,467
Subtotal	**3,424,725**	**85.74%**	**2,936,513**	**234,921**	**3,185,475**	**84.49%**	**2,691,465**	**215,317**
					-		-	-
Total	**14,534,854**	**57.12%**	**8,302,303**	**664,184**	**14,937,346**	**55.19%**	**8,244,068**	**659,525**

(1) The category 'Other' represents amongst others the acquired portfolios in Italy and Austria.

The risk weights as presented reflect both the future lease payments as well as the residual values included in the lease contracts. The calculation of risk weight for residual values differs between the advanced internal ratings based approach and the standardised approach. While under the advanced internal ratings based approach the risk weight is dependent on the remaining maturity of the underlying lease contract (risk weight = 1/remaining maturity in years x 100%), residual values under the standardised approach are risk weighted at 100%. The applicability of the 100% risk weight for residual values under the standardised approach (versus the risk weighting under the advanced internal ratings based approach) will change at 1 January 2014 due to the CRR/CRD IV regulation and be equal to the advanced internal ratings based approach. All other assets are subject to the standardised approach and can be summarised as follows:

As at 31 December,		2013		2012
Standardised Approach	**Risk weighted assets**	**Regulatory capital requirement**	**Risk weighted assets**	**Regulatory capital requirement**
(in thousands of euro)				
Other assets	2,047,695	163,816	2,098,642	167,891
Off-balance	285,932	22,875	298,493	23,879
Derivatives	35,129	2,810	44,393	3,551
Total	**2,368,756**	**189,500**	**2,441,528**	**195,322**

On a quarterly basis the Group's credit risk management department performs stress testing on the leasing portfolio by assuming deterioration in counterparty's' ratings in combination with a deterioration of LGDs. The worst case scenario calculated under these stress tests assumes an average decrease in counterparty's' ratings by 2 notches and a deterioration of the average LGD by 10% points. Such scenario would for LeasePlan result in an increase of required capital amounting to approximately EUR 150 million. The internal capital target calculated under Pillar 2 covers for such a scenario implying that LeasePlan aims for a minimum capital level that, in the event of such a scenario occurring in combination with stressed scenarios in other risk areas, will keep the capital ratio above the minimum required capital ratio of 8%. The currently available capital is well above the targeted capital.

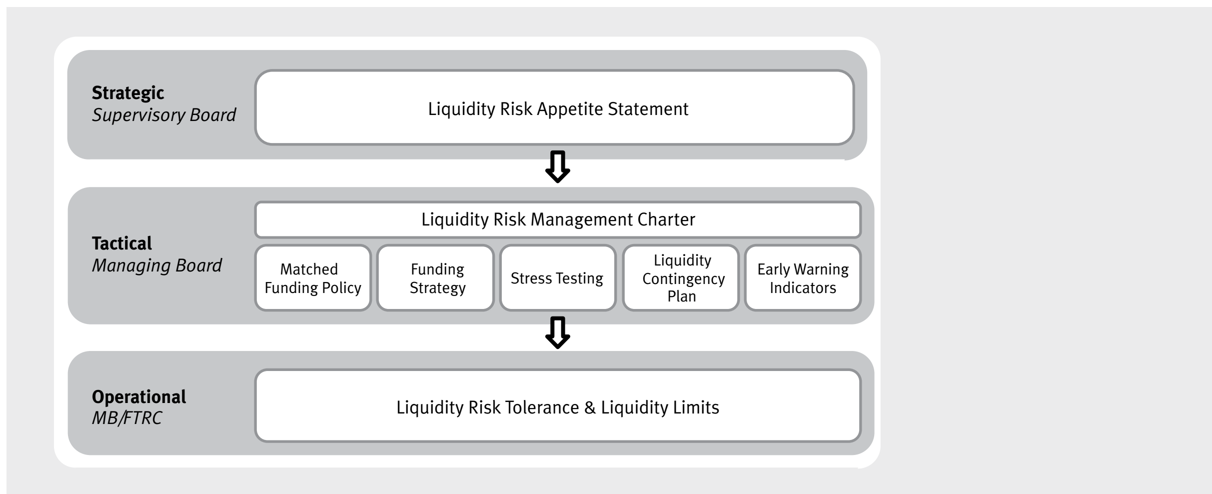
5.3 Liquidity risk

Definition

Liquidity risk is the risk that we are not able to meet our obligations as they fall due. Our liquidity risk mainly relates to funding liquidity risk, which is the risk that we will not be able to refinance maturing funding contracts in order to finance the on-going obligations our lease operations. Given the reliance on funding, limiting funding liquidity risk is a key element in the execution of LeasePlan's strategy.

We do not maintain trading and investment books. Furthermore our standing practice is not to commit to any undrawn leasing facilities which could impact our liquidity position significantly. Liquidity risks due to hedging activities resulting in margin calls for interest rate and foreign currency hedging are considered by management to be limited.

Policy



In line with DNB guidelines we conducted our third annual Internal Liquidity Adequacy Assessment Process ("ILAAP") in 2013. The ILAAP includes governance, a policy framework and an assessment on the liquidity position, both from a going-concern perspective and different stressed environments.

Our liquidity risk appetite and tolerance levels are based on the following key principles:

- Compliance with minimum regulatory liquidity requirements at all times;
- Holding sufficient liquid assets to meet financial obligations under severe but plausible stress events for a period of at least one month without negatively affecting on-going business; and
- Maintaining access to liquidity buffers and developing a set of possible management actions to meet our financial obligations during a period of continuing stress for at least nine months.

Our Managing Board sets the risk appetite, which is discussed and annually approved by the Supervisory Board. The risk appetite and limits are reviewed periodically and updated as a result of changes in market conditions and the impact on our liquidity and funding profile. The limits are differentiated between regulatory limits, liquidity mismatch limits, redemption limits, counterparty limits and settlement limits.

Liquidity risk is not perceived as a driver for our profit and hence our policy is aimed at matched funding and diversification of funding sources. We manage liquidity risk by seeking to conclude funding that matches the estimated run-off profile of the leased assets. The matched funding principle is applied both at consolidated level and at subsidiary level taking into account specific mismatch tolerance levels. The management of our Group companies is responsible for adhering to the Matched Funding and Interest Rate Risk Management Policy and attracting funding at the central treasury organisation, for which a fund transfer price is set, or directly via external banks. The fund transfer price for funds obtained at our central treasury is based on a full cost price calculation, adjusted monthly and approved by the Managing Board.

A key instrument in our liquidity risk management is the funding planning maintained at Group level and is a recurring item on the agenda of the Funding and Treasury Risk Committee ("FTRC"). The funding planning forecasts issuances and redemptions for each funding source, resulting in a multiyear projection of the liquidity position. Apart from the actual forecast, a stressed forecast is also calculated based on stress assumptions.

The stress testing program in 2013 includes integration of risk drivers and review of stress scenarios, governance, tools used and documentation of the stress testing process. We maintain a number of stress scenarios addressing idiosyncratic and market wide risk drivers in both specific and combined scenarios. On a monthly basis a high-level stress test is performed based on fixed parameterisation of cash flow forecasting, in addition to the quarterly stress testing cycle. Stress testing results are used both for contingency and going-concern funding planning and risk activities, for instance to set the target level for the liquidity buffer to meet a period of severe stress.

Both the compliance of LeasePlan as a group and of all Group companies (including our central treasury) is monitored on, at least, a monthly basis by the Group's Treasury Risk Management ("TRM") function. The TRM function is part of the (corporate) Risk Management department. Positions of the central treasury are monitored daily by TRM. The members of the FTRC are informed of the liquidity risk positions on at least a monthly basis. TRM has the responsibility to monitor liquidity risk limits and to report and investigate limit breaches, inadequacy of processes and unexpected events.

Measurement

We maintain management information systems that are intended to continuously provide reliable up to date information for the identification, measurement and monitoring of liquidity risk. Identification and measurement for liquidity risk positions takes place for:

- Future cash flows of assets and liabilities (from lease contracts and financial liabilities);
- Sources of contingent liquidity demand and related triggers associated with off-balance sheet positions (including early amortisation triggers, such as defaults, in securitisation transactions and collateral requirements resulting from derivative transactions); and
- Currencies in which we own assets that are funded in a currency different from the currency in which the assets are denominated.

We measure and forecast prospective cash flows for assets, liabilities, off-balance sheet commitments and derivatives over a variety of time horizons, under normal conditions and a range of stress scenarios, including scenarios of severe stress. Part of this involves creating cash-flow projections which cover expected cash inflows, expected cash outflows, and expected counterbalancing capacity, which is a combination of expected liquidity buffers and the expected ability to reduce or dispose of assets.

Exposure

The Dutch Central Bank sets out minimum regulatory liquidity level requirements for one week and one month periods and requires that available liquidity exceeds required liquidity, according to their definitions, at all times. Liquidity weights are prescribed for all asset and liability categories, resulting in available and required liquidity levels for a one week and one month period. The table below sets forth our liquidity position as reported to the Dutch Central Bank as at 31 December, 2013 and 2012.

As at 31 December,		2013		2012
	One week	**One month**	**One week**	**One month**
In thousands of euro				
Available liquidity	1,438,412	3,249,860	1,850,434	3,520,712
Required liquidity	615,346	2,190,707	898,315	3,078,272
Surplus (minimum requirement is above nil)	**823,066**	**1,059,153**	**952,119**	**442,440**

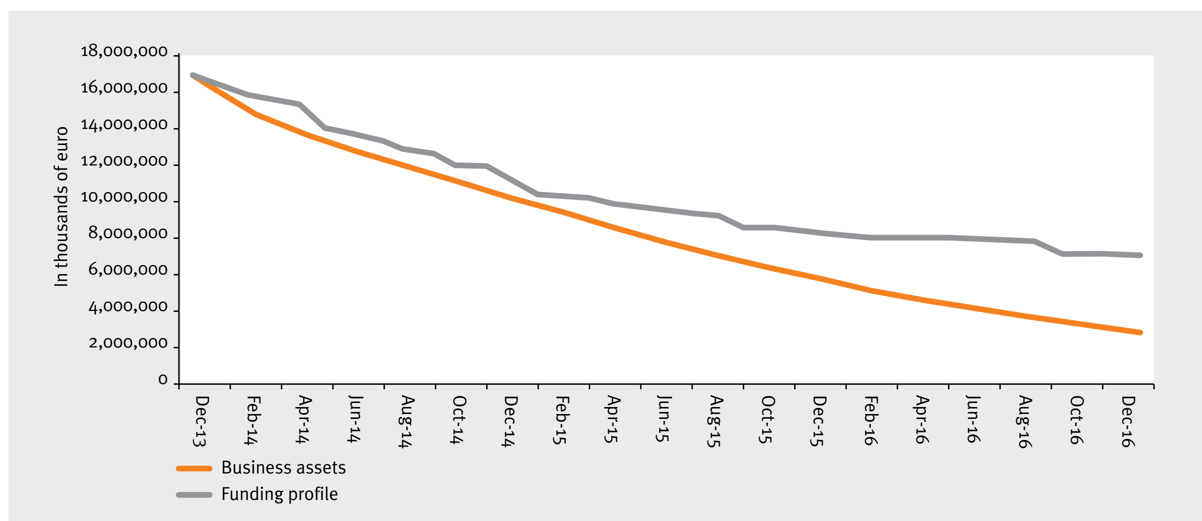
These figures show that we had a liquidity surplus as at 31 December, 2013, both for a one week and one month period. During the year the surplus showed some variation due to redemptions, but remained at a comfortable level at all times during the year.

The Dutch Central Bank regulatory liquidity limits are embedded in our liquidity and cash management processes. Apart from end of month reporting we monitor the development of the Dutch Central Bank liquidity levels on an on-going basis as part of the funding planning process. Dutch Central Bank liquidity forecasts are discussed in the FTRC and are part of the funding planning.

Mitigation

The first level of liquidity risk mitigation is our Matched Funding Policy, whereby we seek to align the maturity profile of our funding with the maturity profile of our business assets. The continuous financing and refinancing of new lease contracts is a major factor in managing liquidity risk. Pursuant to our Matched Funding Policy liquidity risk is primarily limited to the funding of new vehicles.

We apply the matched funding principle at both consolidated and subsidiary level. We seek to minimise liquidity risk on existing leased assets by concluding funding that matches the run-off profile of the leased assets. The relatively high turnover of new funding, compared to most banks, is due to the relatively short weighted average duration of our assets. The graph on the next page shows the redemption profile of our business assets and related funding as at 31 December, 2013 in thousands of euro.



The funding profile consists of borrowings from financial institutions, funds entrusted and debt securities issued with maturities calculated as at their contractual end date, except for funds entrusted which is calculated based on behavioural outflow. Business assets consist of all lease contracts and the liquidity buffer as at December 31, 2013 with maturities calculated as at their contractual termination date. This graph does not account for any new lease contracts.

The second level of liquidity risk mitigation is our funding diversification strategy, in place since 2009. As can be seen in the table below, our funding profile has become more diversified. If one of the funding sources is not available, we seek to ensure access to alternative funding sources or markets. Since the launch of the Dutch-based internet savings bank LeasePlan Bank in February 2010, we have been able to further diversify our funding profile by attracting funding through straightforward flexible and term savings products. We aim to collect up to 30-35% of our funding via LeasePlan Bank.

As at 31 December, 2013

Funding sources by volume	**2013**	**%**	**2012**	**%**
In thousands of euro				
Bonds and notes - originated from securitisation transactions	1,455,924	11%	1,894,865	13%
Bond and notes - other	5,462,202	39%	6,496,106	45%
Funds entrusted - term deposits	2,278,526	16%	2,714,931	19%
Funds entrusted - flexible savings	1,885,987	14%	1,234,489	9%
Funds entrusted - other	155,643	1%	161,999	1%
Borrowings from financial institutions	2,523,337	18%	1,776,693	12%
Commercial paper	70,614	1%	77,599	1%
Certificates of deposit	-		54,657	
Balance	**13,832,233**	**100%**	**14,411,339**	**100%**

Another major component in our funding diversification strategy is the ability to securitise leased assets. As at December 31, 2013 we concluded five asset backed securitisation transactions under the name of Bumper 2 (2008/2011), Bumper 4 (2011), Bumper 5 (2012) and Bumper France (2013) as well as a structured finance transaction under the name of Bumper CARS NL (2012). The latter is a warehouse transaction in the Netherlands. As per year-end 2013 the committed credit facility in this transaction is drawn for EUR 480 million (2012: nil). Bother Bumper France and Bumper CARS NL are private transactions. All securitisation 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 these special purpose companies to finance these transactions. The higher rated notes were sold to external investors and the subordinated notes were retained by the Group. We are obliged to fund various reserves for Bumper transactions (default & liquidity, set off, maintenance, commingling and tax) as a result of certain trigger events.

The table on the next page shows an overview of committed guarantees and the potential liquidity impact the Bumper transaction can have on us. The current outstanding exposure, remaining reserves to fund, is limited to EUR 147.3 million.

As at 31 December, 2013

Securitisation

Transaction	Country	Maximum guaranteed amount	Actual guaranteed amount	Drawn as cash	Potential exposure for LPC on stand-alone basis
In thousands of euro					
Bumper 2	Germany	102,137	102,137	90,137	12,000
Bumper 4	The Netherlands	46,148	46,148	6,000	40,148
Bumper 5	United Kingdom	62,123	62,123	62,123	-
Bumper CARS	The Netherlands	41,651	41,651	5,755	35,895
Bumper FRANCE	France	63,987	63,987	4,766	59,221
Total		**316,046**	**316,046**	**168,781**	**147,264**

In September 2013, we repurchased USD 500 million of bonds issued by us under the Credit Guarantee Scheme of the State of the Netherlands to reduce our cash balance and soften the redemption profile of our liabilities. The remaining bonds issued under the Credit Guarantee Scheme are EUR 1.02 billion maturing in May 2014. This redemption is taken into account in our funding planning.

The third level of our liquidity risk mitigation is our liquidity buffer, which consists of unencumbered liquid assets and amounts available under committed credit facilities. The buffer is maintained as a precaution in the event of disruption of continued access to funding sources. The overall liquidity buffer is intended to always be sufficient for us to continue our leasing business in a normal manner for at least nine months. Over time the composition of the liquidity buffer will change, in order to get aligned with the definition of the Liquidity Coverage Ratio, as to be endorsed by the European Banking Authority. The main deviation from last year is the undrawn commitment of Bumper CARS NL, that has been fully drawn during 2013 (as part of 'Other facilities').

As at 31 December, 2013

Liquidity buffer	**2013**	**2012**
In thousands of euro		
Liquid assets	2,099,420	1,827,443
RCF	1,250,000	1,250,000
VW facility	1,250,000	1,250,000
Other facilities	145,400	625,000
Total liquidity buffer	**4,744,820**	**4,952,443**

Collateral management:
The treasury risk related counterparty credit risks are governed by the Credit Committee. We maintain and accept cash as eligible collateral for derivative contracts. Whenever practicable we make use of Credit Support Annex's ("CSAs") in addition to ISDA-contacts, setting the bi-lateral collateral arrangements for OTC derivatives. In terms of notional amounts as at 31 December 2013 all derivatives are governed by ISDAs, of which 97% have CSAs. In addition to the current practice, we monitor the developments and prepare for central clearing, as defined by the European Market Infrastructure Regulation (EMIR).

Capital requirements

In respect of liquidity risk, we consider that our current measures taken are sufficient to cover for this risk and consider holding additional capital for liquidity risk unnecessary. Furthermore, due to the nature of the risks involved with securitisation (operational and legal risks) any capital for the complexity of the funding structure is considered to be part of the capital calculations for operational risk (project risk).

6 OTHER RISK MANAGEMENT AREAS

6.1 Strategic risk

We define strategic risk as the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. Strategic risk is reviewed along two dimensions being Strategy definition and Strategy execution.

Strategy definition

In line with our strategy we maintain a mono-line business model with diversified income streams. Within our mono-line business model we have the ambition to moderately grow our core business in the coming years while also increasing our efforts to expand our position in the SME sized fleet segment and execute further geographical expansion and enhance our profitability.

Our Corporate Strategy and Development department supports the Managing Board in determining our strategic direction. Our structured strategy planning cycle facilitates a dialogue on the strategy of the Group between relevant management layers. Strategy sessions are organised in a structured way to identify challenges and opportunities, strategic options and to define ambitions of the company. Annually, our short and long term vision, strategy and objectives are subject to approval of our Supervisory Board. In addition to approving our overall vision, strategy and objectives, the Supervisory Board is also requested to approve strategic decisions outside the agreed risk appetite framework. Equally, as a part of their planning cycle Group companies are required to perform a yearly Top Down Assessment, where the strategy is assessed by the management team and potential risks threatening the realisation of the strategy are identified, assessed and required mitigating actions are discussed. These assessments are part of our Operational Risk Management Policy and the output of Group companies is used in economic capital distribution within the Group.

Strategy execution

The implementation of our strategy depends on the impact and size of a strategic project. Strategic directions that have an impact on multiple Group companies are managed via a global projects approach for which we have established a Corporate Programme Management department allowing for managing and monitoring risks related to these global projects. To further address the occurrence of risks within the strategy implementation processes, e.g. in global projects and regional strategy sessions, we involve the relevant lines of defence during the development and implementation of strategic choices. In the event of execution of strategic global projects, governed by project boards, risks are reported and monitored on a periodic basis using the Prince II methodology.

Capital requirements

Under Pillar 1 no specific capital requirements for strategic risks need to be calculated for regulatory purposes. Losses following the execution of our strategy are considered to be operational losses within our definition of an operational loss and as such these events and their impact on LeasePlan's result are to be reported in the operational loss database. Consequently, the reporting of these losses results in capital requirements under the internal loss data model as described in section 6.5. Furthermore, in the determination of low frequency-high impact operational loss scenarios, execution of strategy are also considered.

We address capital requirements for strategic risk as part of the scenario approach as presented under the operational risk section. Therefore, strategic risk, is no separate risk under Pillar 2.

6.2 Reputational risk

Reputational risk within LeasePlan is defined as the current or prospective risk to earnings and/or capital arising from adverse perception of the image of LeasePlan on the part of clients, counterparties, shareholders, investors and regulators. The identification of potential risks are ensured by both the Group wide risk identification processes taking place annually and the local risk self assessment programs performed by all Group companies. Next to the existing controls in place as described under operational risk, we continuously monitor our internal controls to avoid our reputation being challenged.

We have embedded the safeguarding of our reputation in various policies. Furthermore the Code of Conduct was adopted in 2010 and integrity is the key focus. The Code is further embedded in the Group as a result of the LeasePlan dilemma game rolled out globally in 2012 as a part of our LeasePlan Identity Programme, as well as many local initiatives to further internalise integrity and our core values (respect, commitment, expertise and passion). In 2013 also a global e-learning training on the Code of Conduct was rolled out. Three principles form the basis of our Code of Conduct: honesty & trust, respect for the law and honouring human rights. There is a robust compliance awareness programme in place, which helps govern our reputation. Also the annual global Integrity Survey is a convincing tool to stress the importance of integrity as a measure to safeguard our reputation among each of our employees.

Capital requirements
Under Pillar 1 no specific capital requirements for reputational risk need to be calculated for regulatory purposes. The effects from incidents which may affect our reputation are considered to be operational losses within our definition of an operational loss and as such these events and their impact on our result are to be reported in the operational loss database. Consequently, the reporting of these losses results in capital requirements under the internal loss data model as described in section 6.5. Furthermore, in the determination of low frequency-high impact operational loss scenarios, incidents affecting our reputation are also considered.

We address capital requirements for reputational risk as part of the scenario approach as presented under the operational risk section. Therefore, repuational risk, is no separate risk under Pillar 2.

6.3 Interest rate risk
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:

I, Group companies and joint ventures, carrying interest bearing assets (mainly lease contracts),and funding on their balance sheet, which mainly is intercompany funding supplied by the Group's central treasury,
II. The central treasury, concluding external funding, external derivatives and granting intercompany loans to Group companies.

Interest rate risk policy
The Interest Rate Risk Management 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 company. Group companies 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 subsidiary's equity are allowed to cover interest bearing assets, as part of our matched funding policy. Given LeasePlan's capital position, the Group is comfortable by not fully hedging the interest rate exposure due to Group company's lease portfolios. Due to accounting treatment of lease contracts, this does not lead to gains or losses in the Group's income statement or on shareholder's equity. Thereby derivative financial instruments are entered into to mitigate or reduce interest rate exposures and are not used for trading purposes.

Due to the accounting treatment of derivative financial instruments, the Group is exposed to volatility in the Group's income statement due to interest rate fluctuations. Group companies' interest rate exposure resulting from covering interest bearing assets by both interest bearing liabilities and non-interest bearing working capital and equity is EUR 2.6 billion.

The Group's central Treasury provides loans to Group companies and attracts funds from the market in conjunction with interest rate derivatives entered into for hedging purposes. Derivative financial instruments are concluded by the Group's central Treasury as an end user only. To enable the Group's central Treasury to achieve economies of scale, smaller inter-company assets are grouped into larger size external funding transactions. Some timing differences are unavoidable in this process and interest rate risk exposures are inherent to the central treasury process. To manage this risk, limits are set for the level of mismatch of interest rate re-pricing that may be undertaken by currency and time period.

Capital requirements
Stress testing takes place regularly on central treasury exposures during the year by analysing the profit and loss effect of an unexpected increase of 200 basis points parallel yield curve shift in all currencies. The results on the interest positions are due to the fact that the Group's central Treasury leaves interest exposures partly open by not fully hedging the inter-company funding. These limited interest rate positions are held in different currencies yet mainly in EUR, USD, GBP and CHF, for which limits have been approved as part of risk appetite. The analysis is performed by calculating the impact of an increase in rates on the future cash flows of all transactions (including the off-balance transactions) categorised as open interest rate position. Based on this analysis it can be concluded that with an increase in interest rates of 200 basis points the results on the open interest positions will decrease by approximately EUR 6.9 million of our profit before tax for the year ending 31 December 2013 (2012: EUR 5.6 million). The calculation is based on a blended yield curve of cash rates and swap rates derived from Bloomberg. The 200 basis points parallel yield curve shift in all currencies is also used within the Pillar 2 capital calculation.

6.4 Currency risk
Currency risk is the risk that a business' operations or an investment's value will be affected by changes in exchange rates. It arises from the change in price of one currency against another, where positions are not hedged.

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Currency risk policy
Due to our activities in 31 countries, we as a Group, are exposed to currency exchange rates. We use the Euro as our functional currency. Whenever reasonably possible hedging is applied, naturally by means of matching assets and liabilities or by means of a financial derivate.

Our standing practice is to avoid any unnecessary currency risks. In order to facilitate the Group companies when obtaining funding in their local currencies, the central treasury organisation is permitted to run currency risk which allows minimal exposure per currency. TRM reviews positions on a monthly basis and reports to the SCVP Risk Management. Periodically the FTRC discusses the currency risk positions for the whole group, and potential measures to further mitigate such exposures if necessary.

Nearly all debt funding, directly or via derivatives, is concluded in the currency in which assets are originated, thereby protecting balance sheet ratio against currency fluctuations. This principle is applied both at Group level, and with the local Group companies. This is required both when obtaining funds at local banks or at our central treasury. In order to facilitate this, the central treasury organisation seeks to follow limits per currency in line with the risk appetite.

We are exposed to currency risk on our equity holdings of subsidiaries, including annual results, reflecting our global footprint. We keep open the possibility to hedge translation risk when operations are denominated in highly volatile currencies or a high inflation environment.

In view of the limited exposure to effects of fluctuations in currencies on our financial position we have not performed a sensitivity analysis on the impact of such fluctuations.

The table on the next page summarises our exposure to currency risk as at 31 December, 2013 and 2012.

As at 31 December 2013	EUR	GBP	USD	AUD	Other	Total
FINANCIAL ASSETS						
Cash and balances at central banks	978,558	46	1	22	147	978,774
Receivables from financial institutions	1,264,946	96,302		51,355	26,448	1,439,051
Rebates and bonuses and commissions receivable	139,859	3,805	7,022	2,140	20,220	173,046
Reclaimable damages	23,526				1,965	25,491
Interest to be received	1,383	1	51		30	1,465
Receivables from clients	868,967	249,080	1,014,732	242,632	454,538	2,829,949
Loans to associates and jointly controlled entities	226,013		12,237		20,119	258,369
Total	**3,503,252**	**349,234**	**1,034,043**	**296,149**	**523,467**	**5,706,145**
FINANCIAL LIABILITIES						
Trade payables	400,015	17,635	27,420	25,050	111,965	582,085
Interest payable	100,109	440	3,993	5,637	15,289	125,468
Borrowings from financial institutions	991,442	420,577	22,675	411,147	677,496	2,523,337
Funds entrusted	4,318,557				1,599	4,320,156
Debt securities issued	4,410,943	168,226	1,415,554	165,468	828,549	6,988,740
Total	**10,221,066**	**606,878**	**1,469,642**	**607,302**	**1,634,898**	**14,539,786**
NON-FINANCIAL ASSETS AND LIABILITES	**7,629,962**	**1,379,652**	**171,685**	**437,993**	**1,872,956**	**11,492,248**
Net on-balance position	**912,148**	**1,122,008**	**- 263,914**	**126,840**	**761,525**	**2,658,607**
Derivatives position	922,064	- 920,478	337,869	- 1,137	- 415,370	- 77,052
CURRENCY POSITION		**201,530**	**73,955**	**125,703**	**346,155**	
Net investment subsidiaries		194,260	77,307	126,626	342,850	
Other		7,270	- 3,352	- 923	3,305	
As at 31 December 2012						
Total financial assets	3,295,517	380,491	1,201,938	332,128	533,462	5,743,536
Total financial liabilities	11,277,179	918,870	765,158	715,994	1,469,019	15,146,220
Non-financial assets and liabilities	7,654,792	1,440,059	140,267	596,861	1,995,428	11,827,407
Net on-balance position	**- 326,870**	**901,680**	**577,047**	**212,995**	**1,059,871**	**2,424,723**
Derivatives position	1,994,904	- 723,030	- 508,228	- 82,883	- 718,055	- 37,292
CURRENCY POSITION		**178,650**	**68,819**	**130,112**	**341,816**	
Net investment subsidiaries		180,595	69,385	133,750	334,792	
Other		- 1,945	- 566	- 3,638	7,024	

Based on the table above, our currency risk exposures as at 31 December, 2013 mainly related to our net investment in subsidiaries.

Capital requirements
Our capital requirement under Pillar 1 reflects the investments in non-euro denominated Group companies. This is shown in the following table:

As at 31 December, 2013	2013		2012	
Currency	**Position in EUR**	**Minimum required capital**	**Position in EUR**	**Minimum required capital**
In thousands of euro				
GBP	201,530	16,122	178,650	14,292
USD	73,955	5,916	68,819	5,506
AUD	125,703	10,056	130,112	10,409
Other	343,028	27,442	341,935	27,355
Total	**744,216**	**59,537**	**719,516**	**57,561**

We allow currency exposure to exist as long as our foreign currency denominated assets are in line with foreign currency denominated Group companies' equity and liabilities, so balance sheet ratios remain within acceptable limits. Furthermore we keep open the possibility to hedge (remaining) translation risk or annual results when operations are denominated in highly volatile currencies.

Within the Pillar 2 capital calculation the relative currency position is assessed. At 31 December we have assessed the difference between RWA and regulatory capital at Group level and for individual currency areas, as the relative currency exposure. The logic behind this is that if the relative RWA/regulatory capital position is the same as for the Group, both RWA and regulatory capital allocated to the non-functional currency will deviate both, but will not impact the Group's capital ratio. Taking a 10% presumed currency shock on all currencies against euro, an instantaneous impact on the Group's capital ratio would be EUR 18.2 million.

Although the Group is aware (relative) currency exposure exists, for business and practical reasons, the exposure is not fully mitigated.

6.5 Operational risk
Operational risk is the risk of losses resulting from inadequate or failed internal processes, human behaviour and systems or from external events. An operational loss is the financial impact that arises from the occurrence of an operational risk event. Our 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), loss 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 Group company. Local management is responsible for managing the operational risks in their Group company.

In all Group companies 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 Group company. Our corporate operational risk management department is responsible for establishing and maintaining the operational risk framework, monitoring our operational risk profile and the collation and validation of operational risk reporting at Group level. This department prepares analyses of the operational losses reported by Group companies for the Group's Operational Risk Committee and initiates the overall assessment of risks in the Group as a basis for the annual ICAAP.
We apply the Advanced Measurement Approach ("AMA") in our operational risk framework. Methods deployed for risk identification are the operational risk scenario analyses, top-down assessments, operational risk self-assessments, operational loss data analysis and the performance of internal and external audits. Based upon the risks identified and losses reported, our operational risk profile is assessed. Operational loss data reported is analysed on a weekly basis and operational losses with a net impact exceeding EUR 100,000 are communicated to and discussed with relevant stakeholders. Furthermore, these events are reported on a monthly basis to the Managing Board, while the Operational Risk Committee and the Supervisory Board receive a quarterly update. The overall impact of the mitigating activities is assessed by analysing the frequency and impact of operational losses 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 the Group's operational risk management department to communicate and advise Group companies with similar risks about the additional controls. The Group companies are required to report all operational losses above the amount of EUR 5,000. Reporting of losses below this threshold is encouraged. We distinguish between gross operational losses (the maximum estimated loss amount known at the moment of identification, irrespective of any potential recovery) and net operational losses (gross loss amount minus recovered amounts).

During the year ended 31 December, 2013 we recorded 1,124 operational losses, compared with 1,132 losses recorded for the period of 1 January 2012 to 31 December, 2012. The majority of the losses reported (87%) remain below the threshold of EUR 5,000. In total 147 operational losses are reported with an impact above EUR 5,000. The 1,124 losses recorded amount to a total net loss amount of EUR 4.6 million in the year ended 31 December, 2013, whereas losses of EUR 5.5 million net were reported in the year ended 31 December, 2012. Although the majority of the operational losses recorded (62% from the total operational loss amount and 71% of the total number of operational losses) continue to be classified in the event category 'Execution: Delivery and Process Management', an increase of category 'Clients: Products and Business Practices' is noticeable compared to the previous reporting year. The distribution of LeasePlan's operational losses is as follows:

	2013		2012	
Basel II category	**% total (EUR)**	**% total (nr)**	**% total (EUR)**	**% total (nr)**
Business Disruption and System Failures	12%	7%	11%	7%
Clients: Products and Business Practices	18%	9%	10%	6%
Damage to Physical Assets	2%	5%	2%	2%
Employment practices and workplace safety	1%	3%	1%	1%
Execution: Delivery and Process Management	62%	71%	69%	79%
External Fraud	6%	5%	7%	5%
Internal Fraud	0%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**

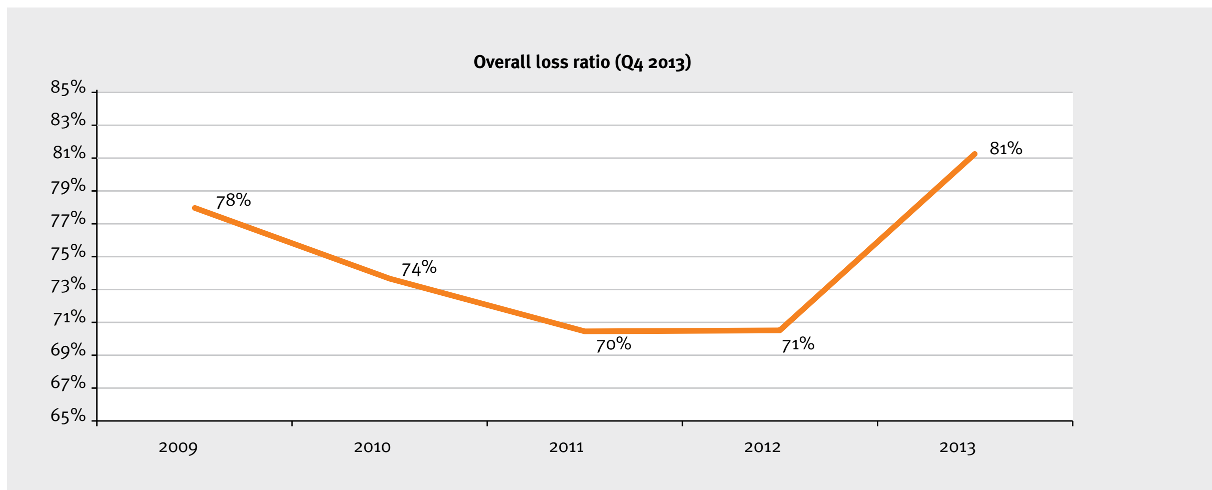
Capital requirements

We use a hybrid model to determine the required level of operational risk capital for regulatory purposes. This hybrid model consists of a purely quantitative analysis of our internal operational loss data and a more qualitative analysis of our specific operational risk scenarios. The quantitative analysis is performed by modelling the severity and the frequency of loss events, using the internal operational loss data recorded by us. The two distributions for the severity and the frequency are combined into one overall loss distribution by way of a Monte Carlo simulation. The resulting loss distribution determines the expected annual loss amount and the required capital at the 99.9th percentile confidence level. The qualitative analysis, or operational risk scenario analysis, is a process by which we consider the effect of extreme, but nonetheless possible operational risk scenarios on the organisation. During the analysis, the high impact, low frequency operational risk scenarios are supplemented with relevant internal and external loss data, a description of the business environment and internal control factors to support the expert based frequency and impact estimations for each scenario. For each single scenario the estimates are modelled to determine the regulatory capital required to be held by us at the 99.9th percentile confidence level. We started modelling our capital requirements under AMA in 2006. Since then a model governance structure has been developed and implemented that ensures an annual cycle of model monitoring, development, validation and implementation. Part of the model monitoring activities is the evaluation of the assumptions used in the capital modelling process. If the outcome of the model monitoring requires so, we adjust our assumptions and as a result will recalculate the corresponding capital requirements. This way we ensure that the capital continuously reflects our operational risk profile even after significant organisational changes or unexpected external developments. Under Pillar 1 the operational risk regulatory capital requirement as at the end of 2013 amounts to EUR 121.2 million (2012: EUR 122.9 million), which is the sum of our operational loss data model (EUR 38.7 million) and scenario model (EUR 82.5 million). The AMA model in itself already incorporates stress scenarios. These scenarios are explicitly identified and quantified (the operational risk scenarios). This stress testing is performed by our operational risk management department on a quarterly basis as part of the model governance cycle. The outcome is discussed in the Group's Operational Risk Committee. To further assess the sensitivity of the models, our operational risk management department performs additional tests including a sensitivity analysis of the scenario model by measuring the effect on the capital of doubling the original estimated severities ($p<0.5$) and original estimated frequencies. Even if assumed that all operational risk scenarios occur at the same time and the frequency and the average financial impact of all scenarios have been underestimated, the additional capital required amounting to EUR 32 million will be easily available (measured stand-alone for operational risk). As a result, LPC does not see the necessity to (at this stage) increase the internally required capital for operational risk under Pillar 2.

6.6 Motor insurance risk

Motor insurance risk is the exposure to potential loss due to costs related to damages incurred for our account exceeding the compensations included in lease rental payments. This risk consists of long-tail risks (motor third-party liability and legal defence) and short-tail risks (motor material damage and passenger indemnity). These risks are retained by our insurance subsidiary, Euro Insurances. In addition, some of our subsidiaries have a local risk retention scheme for motor material damages and retain the damage risk, while also offering insurance coverage through either Euro Insurances or external providers. Euro Insurances provides motor third party liabilities insurance to our operational vehicle leasing subsidiaries' customers. As a result, we have insurance risk on the insurance sold to customers through Euro Insurances for their vehicle lease rentals. However, once certain insurance risk limits are reached, it is our policy that the related risks be reinsured to the

extent they exceed such limits. Our reinsurance subsidiary, Globalines Reinsurance, seeks to reinsure the motor third party liability and catastrophic events liability of Euro Insurances up to certain defined limits of coverage, while external reinsurance providers are used for any coverage required outside of Globalines Reinsurance's coverage limits. Reinsurers are selected on the basis of their financial strength, price, capacity and service and are monitored, also in respect of credit ratings, on a quarterly basis. Our motor insurance risk policy seeks to regulate the motor insurance risk management activities for Euro Insurances, Globalines Reinsurance and Group companies. Under our motor insurance risk policy, Group companies measure and monitor their motor insurance risk exposure by performing a yearly damage and insurance risk self-assessment. The main other requirements are the existence of motor insurance risk function with all Group companies which is independent from the insurance (pricing) department and a local motor insurance risk committee which is required to monitor exposure and discuss trends and developments therein. Clear authorisation structures are in place for intended launches of and changes in insurance structures and programs. Furthermore, on a quarterly basis Euro Insurances, Globalines Reinsurance and Group companies measure and report their risk exposures by means of premium developments and loss ratios to central management. These loss ratios are consolidated on group level and monitored against our defined risk appetite. The following graph displays the Group's consolidated loss ratio measured at year's end 2013 for the underwriting years 2008 up to 2013, which has been calculated as our consolidated claim costs for the year divided by our consolidated net premiums for the year of all our motor material damages for local risk retention schemes, motor material damages, third motor party liability and other programmes for Euro Insurances.



Capital requirements
No specific capital requirements are applicable to our insurance risk activities under the Pillar 1 framework of Basel II. However, as Euro Insurances is regulated by Central Bank of Ireland, capital for those activities is held in line with the capital requirement regulations applicable to insurance companies, as laid down in the European Directive. Under Pillar 2, we calculate internally required capital for all our insurance risk activities. The methodology used is the regulation as laid down in the European Directive which basically requires a solvency margin expressed as a percentage of insurance premiums. Next to the aforementioned solvency margin approach, we employ stress testing in respect of motor insurance risk. The outcome of afore stress testing, although not material (EUR 12.5 million as at 31 December 2013), forms part of the calculated internal capital under Pillar 2 on LeasePlan Corporation level. As of 2014 motor insurance risk capital under Pillar 2 will be calculated using a factor approach based on amongst others damages instead of premiums Euro Insurances is preparing for the implementation of Solvency II. Any development relevant for the determination of capital requirements will be analysed to consider if a review of the current approach is necessary.

6.7 Legal and Compliance risk
Legal risk covers the financial and other losses we may suffer as a result of negligence in respect of, and/or failure to comply with, applicable laws and regulations. Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss, or loss to reputation we may suffer as a result of our non-conformance with the integrity, expertise and professionalism requirements of applicable laws, regulations, codes of conduct, good management practices and internal policies. The management of legal and compliance risks is assigned to the corporate Legal & Compliance department, which is headed by the SCVP Legal & Compliance. This role also acts as the Group Compliance Officer reporting directly to our Chief Executive Officer and has direct access to the Chairman of the Supervisory Board in specific circumstances. In each Group company a local compliance function is in place. The corporate compliance function cooperates closely with the local compliance functions.

The Group's Compliance Charter and Compliance Risk Management Framework form the basis for the governance of the function and compliance cycle. The Charter introduces a clear allocation of tasks and responsibilities of management and staff

involved in compliance within the Group. We follow a risk based approach along the lines of the compliance cycle, i.e. identifying risks, assessing risks and making, explaining, monitoring and enforcing rules. The independence of our compliance officers is embedded in the charter as well as their reporting lines. Twice per year the Group Compliance Officer provides updates on compliance matters to the meeting of the Managing Board. Annually, compliance topics are discussed with all Managing Directors of our operating companies during regionally held meetings. In addition to the informative reporting to senior management within LeasePlan, major risks and incidents related to compliance are discussed with our Chief Executive Officer on a quarterly basis and, if required, on an incidental basis. On an annual basis the Group Compliance Officer presents a report regarding compliance to the Supervisory Board.

The basis for mitigating compliance risk is formed by our compliance charter and compliance risk management framework, as well as the compliance risk policy, which are applicable to all LeasePlan Group companies. The Code of Conduct reflects the values and behaviours that apply within the organisation. The Code of Conduct adds to the afore-mentioned basis by ensuring ethical behaviour in the broadest sense, including corporate responsibility in doing business and customer focus. Furthermore, the corporate compliance function ensures that developments in regulations are captured in new or existing Group policies if necessary. After formal approval by LeasePlan's Managing Board, these policies are announced to the Group companies and their compliance officers. Each Group company performs an annual compliance risk assessment. All Group companies report on this assessment in their yearly compliance reports to the Group Compliance Officer. Those local compliance risk assessments also contribute the insight into the adequacy of the legal and compliance risk management organisation. Furthermore, identified risks are taken into consideration for inclusion in the Compliance Annual Plan. The compliance risk management framework is intended to further guide the Group companies in performing these risk self assessments. In addition, an annual global Integrity Survey was introduced in 2011. This global survey helps us in measuring the perceived level of integrity that exists in all parts of our business. Its outcome supports us to further steer our values and integrity and to enhance awareness of compliance risks.

Capital requirements
Under Pillar 1 no specific capital requirements for legal and compliance risk need to be calculated for regulatory purposes. The effects from legal and compliance incidents are considered to be operational losses within LeasePlan's definition of an operational loss and as such these events and their impact on LeasePlan's result are to be reported in the operational loss database. Consequently, the reporting of these losses results in capital requirements under the internal loss data model as described in section 6.5. Furthermore, in the determination of low frequency-high impact operational loss scenarios, legal and compliance incidents are also considered.

We address capital requirements for legal and compliance risk as part of the scenario approach as presented under the operational risk section. Therefore, legal and compliance risk, is no separate risk under Pillar 2.

6.8 ICT risk

We define ICT risk as any risk which is related to information and communication technology. As there is substantial overlap with (processes related to) operational risk such as self assessments, loss reporting and business continuity (including disaster recovery), ICT risk mainly focuses on information security. Our Information Security Policy, as set by the Managing Board, includes requirements on creating awareness, sufficient staffing and governance, security incident reporting and risk assessment. This policy prescribes the requirements for the organisation of information security in each Group company. Local management is responsible for managing information security in their Group company. Each Group company must have an information security officer ("ISO") role assigned. The ISO role reports to senior management or is assigned to a member of the senior management and cooperates closely with the Information Security & Governance department at our corporate centre. Our corporate Information security & governance department is responsible for establishing and maintaining the ICT Risk Framework, monitoring our ICT Risk profile and the collation and validation of ICT risk reporting at Group level. This department prepares on a bi-monthly basis a consolidated ICT Risk report (based upon the ICT risk reports reported by Group companies) for the Group's Information Security Board. Similar to operational risk, all Group companies including LeasePlan Bank, structurally identify, assess, and report their ICT risks. Each Group company is required to complete an annual ICT risk and control self assessment The resulting risk scorecard and action log provide a platform for mitigating any identified risks. Furthermore we have adopted a customised variant of the OCTAVE (Operationally Critical Threat, Asset and Vulnerability Evaluation) methodology and produced a toolkit of workflows and templates. Each Group company is responsible for producing an information asset inventory and it is recommended that the OCTAVE methodology is used to achieve this. The output from the information asset inventory is created, maintained and reviewed by the individual Group companies. On a day to day basis ICT 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 our ICT Management processes are based. Risk analysis activities are incorporated within ITIL processes. Under Pillar 1 no specific capital requirements for ICT risk need to be calculated for regulatory purposes.

Capital requirements

Within LeasePlan the financial impacts resulting from ICT risk incidents (also system unavailability, network communications failure and information security) are classified as operational losses. These events and their impact on our result are therefore to be captured in our operational loss database. Consequently, the reporting of these losses results in capital requirements under the internal operational loss data model as described in section 6.5. Furthermore, in the determination of low frequency-high impact operational loss scenarios, ICT risks are also considered.

We address capital requirements for ICT risk as part of the scenario approach as presented under the operational risk section. Therefore, ICT risk, is no separate risk under Pillar 2.

APPENDIX A. GOVERNMENT SUPERVISION AND REGULATION

LeasePlan is a bank incorporated under the laws of the Netherlands. The principal Dutch law on supervision applicable to us is the Dutch Financial Supervision Act (Wet op het financieel toezicht, the "FSA") which entered into force on 1 January 2007 and under which LeasePlan is supervised by the Dutch Central Bank (De Nederlandsche Bank N.V., "DNB") and the Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, "AFM"). We are also subject to certain EU legislation, which has an impact on the regulation of our businesses in the EU, and the regulation and supervision by local supervisory authorities of the various countries in which we do business.

Basel standards

The Basel Committee on Banking Supervision of the Bank for International Settlements (the "Basel Committee") develops international capital adequacy guidelines based on the relationship between a bank's capital and its credit risks. In this context, on 15 July 1988, the Basel Committee adopted risk-based capital guidelines (the "Basel guidelines"), which were implemented by banking regulators in the countries that have endorsed them. The Basel guidelines are intended to strengthen the soundness and stability of the international banking system. The Basel guidelines are also intended to reduce competitive inequality among international banks by harmonising the definition of capital and the rules for the evaluation of asset risks and by establishing a uniform target capital base ratio (capital to risk-weighted assets). Supervisory authorities in each jurisdiction have, however, some discretion in determining whether to include particular instruments as capital under the Basel guidelines and to assign different risk weights, within a prescribed range, to various categories of assets. The Basel guidelines were adopted by the European Community and applied to all banks and financial institutions in the EU, and on 1 January 1991, the DNB implemented them and they were made part of Dutch regulations.

In June 1999, the Basel Committee proposed a review of the Basel guidelines of 1988. A new accord ("Basel II"- the previous Basel guidelines being referred to as "Basel I") was published in June 2004. Basel II was structured as a flexible framework that was more closely in line with internal risk control and that resulted in a more sophisticated credit risk weighting. The Basel II framework, consisting of three "pillars", reinforced these risk sensitive requirements by laying out principles for banks to assess the adequacy of their capital ("Pillar 1") and for supervisors to review such assessments to ensure banks had adequate capital to support their risks ("Pillar 2"). It also sought to strengthen market discipline by enhancing transparency in banks' financial reporting ("Pillar 3").

Basel II provided a range of options for determining the capital requirements for credit risk and also operational risk. In comparison to Basel I, Pillar 1 of the Basel II capital framework aligned the minimum capital requirements more closely to each bank's actual risk of economic loss. Pursuant to Pillar 2, effective supervisory review of banks' internal assessments of their overall risks was exercised to ensure that bank management was exercising sound judgments and had reserved adequate capital for these risks. Pillar 3 used market discipline to motivate prudent management by increasing transparency in banks' public reporting.

Instead of the previous "one size fits all" approach, under Basel II banks had the option to choose between various approaches, each with a different level of sophistication in risk management, ranging from simple via intermediate to advanced, giving banks the possibility to select approaches that were most appropriate for their operations and their financial market infrastructure.

For credit risk, banks could choose between the "Standardised Approach", the "Foundation Internal Ratings Based Approach" and the "Advanced Internal Ratings Based Approach". The Standardised Approach was based on external credit ratings and was the least complex. The two Internal Ratings Based Approaches allowed banks to use internal credit rating systems to assess the adequacy of their capital.

The Foundation Internal Ratings Based Approach allowed banks to use their own credit rating systems with respect to the "Probability of Default". In addition to this component of credit risk, the Advanced Internal Ratings Based Approach allowed banks to use their own credit rating systems with respect to the "Exposure at Default" and the "Loss Given Default". As of the date hereof, we use an Advanced Internal Ratings Based Approach with respect to our corporate counterparty credit risk exposures, and the Standardised Approach with respect to our government, bank and retail counterparty credit risk exposure.

On 17 December 2009, the Basel Committee proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled "Strengthening the resilience of the banking sector". The Basel Committee published its economic impact assessment on 18 August 2010 and, on 12 September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced further details of the proposed substantial strengthening of existing capital requirements. On 16 December 2010 the Basel Committee issued its final view on the new regulatory capital framework ("Basel III"), with a revised version published on 1 June 2011. The framework sets out rules for higher and better quality capital, better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirements, measures to promote the build-up of capital that can be drawn down in periods of stress, and the introduction of two liquidity standards. The leverage ratio, which is calculated as Tier 1 capital against all of a bank's assets (unadjusted for risk weighting) and certain off-balance sheet exposures, has a minimum level of 3%. The Basel Committee's package of reforms includes increasing the minimum

common equity (or equivalent) requirement from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments which will be gradually phased in from 1 January 2013 until 1 January 2017). The total Tier 1 capital requirement will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity (or equivalent) requirements to 7%. If there is excess credit growth in any given country resulting in a system-wide build up of risk, a countercyclical buffer of up to 2.5% of common equity (or other fully loss absorbing capital) may be applied as an extension of the conservation buffer. Furthermore, banks considered to have systemic importance should have loss absorbing capacity beyond these standards. The capital requirements are supplemented by a leverage ratio, a liquidity coverage ratio and a net stable funding ratio. The Basel III reforms are implemented in the European Union via the new Capital Requirements Directive and the Capital Requirements Regulation, see below under "European Union Standards".

The Basel Committee's reforms have introduced two international minimum standards for liquidity risk supervision with the aim of ensuring banks have an adequate liquidity buffer to absorb liquidity shocks. The first one is the liquidity coverage ratio ("LCR"), to be introduced on 1 January 2015, which is a test to promote the short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficiently high-quality liquid assets to survive a significant stress scenario lasting for 30 days. The second one is a net stable funding ratio ("NSFR"), to be introduced on 1 January 2018, which is a test to promote resilience over a longer period by creating additional incentives for banks to fund their activities with more stable funding on an ongoing basis.

As part of the transition to the Basel III regime, all Dutch banks have been requested to take part in semi-annual monitoring of their capital buffers, leverage ratios, LCR and NSFR from 2011.

We believe that we are well capitalised for the implementation of the Basel III Standards. As at 31 December, 2013 our capital base consists solely of Common Equity Tier 1 capital elements. The impact on Risk Weighted Assets (RWA) would be limited and all capital adequacy ratios as at 31 December 2013 were above the 2019 minimum levels as currently proposed.

The difference between nominal assets and RWA has a relatively limited impact on us compared to other banks and as a result as at 31 December 2013 we met the new Basel III Standards leverage ratio minimum required level of 3%.
As at 31 December 2013 we had sufficient high-quality liquid assets available under the Basel III Standards to comply with the LCR requirement.

As at 31 December 2013, our NSFR calculated under the Basel III Standards as at that date would be below the prescribed minimum threshold and compliance with its ratio requirements may have an adverse effect on, among other things, the composition of the funding profile. We believe that the current calculation of the NSFR under the Basel III Standards does not work for our specific business profile of relatively short term lease contracts and relatively large amounts of working capital. We have a matched funding policy and believe that with this policy, for short and medium term liquidity, liquidity risk is reduced and the specific classification of certain assets and liabilities will in the case of enforced compliance with a 100% target level adversely impact our existing business model. Possible solutions could include extending the duration of our wholesale funding, which would cause funding mismatches with additional spread risks and increased volatility on our income statement. Another measure would be to increase the level of capital. The application of the NSFR requirements in their current form would lead to a fundamental change in our funding strategy and could have a significant negative effect on our risk profile, and we have entered into discussions on the target levels of and the classification of certain assets under this ratio with the appropriate regulators.

There can be no assurance that the Basel Committee will not (further) amend the package of reforms described above. For instance, in January 2014 the Basel Committee issued a consultation document on proposed revisions to the Basel framework's Net Stable Funding Ratio. Further, the European Commission and/or the Dutch Central Bank may implement the package of reforms in a manner that is different from that which is currently envisaged, or may impose additional capital requirements on Dutch banks.

European Union standards
The European Union adopted a capital adequacy regulation for banks in all its member states based on the Basel I guidelines. In 1989, the EC adopted the Council Directive of 17 April 1989 on the "own funds" of banks (the "Own Funds Directive"), defining qualifying capital ("own funds"), and the Council Directive of 18 December 1989 on a capital base ratio for banks (the "Capital Base Ratio Directive" and, together with the Own Funds Directive, the "Capital Directives"), setting forth the required ratio of own funds to risk-adjusted assets and off-balance sheet items. The Capital Directives required EU member states to implement the provisions of the Capital Base Ratio Directive and the provisions of the Own Funds Directive into national law directly binding on banks operating in the member states. The Capital Directives permitted EU member states, when implementing the Capital Directives into national law, to establish more stringent, but not more lenient requirements. In 1993, the EC adopted the Directive of 15 March 1993 on the capital adequacy of investment firms and banks ("EEC Directive 1993/6") and in 2000 the Directive of March 20 2000 on the taking up and pursuit of the Business of Credit Institutions ("EC Directive 2000/12"), which directive consolidated various previous directives, including the Capital Directives.

EC Directive 2000/12 and EEC Directive 1993/6 were recast by EC Directives 2006/48 and 2006/49 (the "Capital Requirements Directive"), respectively, to introduce the capital requirements framework agreed by the Basel Committee under Basel II. These rules on capital requirements reflected the flexible structure and the major components of Basel II, tailored to the specific features of the EU market. The simple and intermediate approaches of Basel II were available from January 2007 and the most advanced approaches since January 2008.

Since the adoption of the Capital Requirements Directive in June 2006 (CRD 1), the European Commission has proposed a series of amendments to repair shortcomings identified in the original Capital Requirements Directive, which resulted in 3 packages of amendments: CRD 2, CRD 3 and CRD 4. CRD 4 implements at the European Union level the capital requirements framework agreed by the Basel Committee under Basel III.

The CRD 4 package consists of a Capital Requirements Regulation (575/2013, "CRR") and a Directive (2013/36/EU, "CRD 4") and consolidates the previous Capital Requirements Directives (CRD 1, 2 and 3) into one package. CRR entered into force on 28 June 2013, and began to apply from 1 January 2014, with the exception of:

- Article 8(3) and Article 21 regarding the application of liquidity requirements and Article 451(1) regarding the leverage ratio, which shall apply from 1 January 2015;
- Article 413(1) regarding stable funding, which shall apply from 1 January 2016; and
- certain provisions of CRR that require the European Supervisory Authorities (ESAs) to submit to the European Commission draft technical standards and that empower the European Commission to adopt delegated acts or implementing acts by 31 December 2014.

CRD 4 entered into force on 17 July 2013, and is required to be transposed by Member States in accordance with Article 162, i.e. by 31 December 2013 Member States should have adopted and published the laws, regulations and administrative provisions necessary to comply with CRD 4, and they should apply those provisions from 1 January 2014. On 22 January 2014, the bill that, once enacted, would implement the CRD 4 package in the Netherlands was submitted to Dutch Parliament.
The key changes brought about by the CRD 4 package are: (i) an increase in the proportion of capital held by banks and investment firms required to be held in the form of common equity; (ii) introduction of EU liquidity requirements for banks, including the liquidity coverage ratio; (iii) introduction of a requirement to report the leverage ratio and providing for the future introduction of requirements on banks to maintain a specific leverage ratio and net stable funding ratio (each of which would require further measures); (iv) introduction of a capital conservation buffer, including the ability for member states to apply systemic risk capital buffers; and (v) implementation of a cap on bankers' bonuses at 100% of salary (which may be increased to 200% of salary with the approval of a majority of shareholders). In 2010, agreement was reached at EU level on the introduction of a new supervisory structure for the financial sector. The new European architecture consists of the existing national authorities and the newly created European Systemic Risk Board ("ESRB") and the following three European Authorities: Banking ("EBA"), Insurance and Occupational Pensions ("EIOPA") and Securities and Markets ("ESMA"). These institutions have been in place since 1 January 2011. Operational day-to-day supervision continues to be with national supervisors.

On 6 June 2012, the European Commission proposed a new Directive on a comprehensive framework for dealing with ailing banks (the "Bank Recovery and Resolution Directive"). The Bank Recovery and Resolution Directive includes proposals to give regulators resolution powers to write down ("bail-in") equity and debt (including notes traded on stock exchanges) issued by a failing bank (or to convert debt into equity) to strengthen its financial position and allow it to continue as a going concern subject to appropriate restructuring. It is currently unclear whether measures ultimately adopted in this area will apply retrospectively to any debt currently in issue. In December 2013, the EU Parliament and the Council Presidency negotiators reached a political agreement on the draft Bank Recovery and Resolution Directive. The Bank Recovery and Resolution Directive would enter into force on 1 January 2015 and the bail-in system would take effect on 1 January 2016. Within 6 months of the directive's entry into force, the EBA will issue guidelines on the circumstances in which precautionary recapitalization could be undertaken. By 2018, the European Commission will undertake a review to see whether use of this recapitalisation tool should continue to be permitted.

Similar recovery and resolution tools for ailing banks have been proposed in the context of the European Banking Union, which consists of the Single Supervisory Mechanism (SSM), conferring powers on the European Central Bank to supervise Euro Area banks, the European Stability Mechanism (ESM), providing for direct recapitalization for banks within the Banking Union, and the Single Resolution Mechanism (SRM), which would provide for similar tools as those in the Bank Recovery and Resolution Directive to be applied by the Single Resolution Board (as referred to in the proposal dated 10 July 2013 for a Regulation establishing uniform rules and a uniform procedure for the resolution of banks and certain investment firms in the framework of a SRM and a Single Bank Resolution Fund) to banks within the Banking Union. The Single Resolution Board would cooperate with the Commission and the resolution authorities of the participating Member States. Within the SRM context, for entities and groups established only within the SSM participating Member States, the SRM replaces the resolution colleges provided for in the proposal for the Bank Recovery and Resolution Directive. Instead, representatives from national resolution authorities are

involved in the Resolution Board. On 16 August 2012, the European Market Infrastructure Regulation ("EMIR") entered into force. EMIR, along with the Dodd-Frank Act in the US, responds to the G20 commitment, agreed in Pittsburgh in September 2009 that all standardised OTC derivative contracts should be cleared through central counterparties ("CCPs"), that all OTC derivative contracts should be reported to trade repositories, and that contracts that are not centrally cleared should be subject to higher capital requirements. Essentially, the aim is to achieve greater transparency in the opaque OTC derivatives markets and to reduce credit risk within such markets. EMIR has caused a significant impact of an operational nature for counterparties to (OTC) derivative contracts.

The obligations under EMIR have been progressively phasing in since the analogous provisions are contained in lower regulations under EMIR which came into force in batches starting on 15 March 2013. In respect of OTC derivative contracts which are not (required to be) cleared, EMIR imposes various additional requirements to ensure that counterparties have adequate procedures and arrangements in place to monitor and manage the risks involved with the entry into OTC derivative agreement. Such procedures and arrangements are twofold and consist of (i) arrangements to measure, monitor and mitigate the operational and credit risks and (ii) the valuation of the outstanding contracts on a day to day basis. The most recent obligation became effective on 12 February 2014 and requires reporting of transaction data to trade repositories.

Two further important dates are estimated to occur in Q4 2014 (for the clearing obligation) and on 1 December 2015 (for the collateralisation obligation). The clearing obligation applies to, inter alia, credit institutions authorised in accordance with CRD IV such as LeasePlan. This obligation has a significant impact on the derivatives trading as it means that counterparties will now need to post initial margin for all of their trades that fall within the scope of EMIR. The benefit is that, under CRD 4, capital requirements for cleared trades are set at 2% or 4%, depending on the level of protection provided by the client account at the CCP in which the initial margin is held.

In February 2012, the European legislator adopted Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro (the "SEPA Regulation"). SEPA - the single euro payments area - was originally conceived as a market-driven project, enabling credit transfers and direct debits with no distinction between national and cross-border transactions. Customers are provided with a single international bank account number (IBAN) that can be used for all SEPA credit transfers and direct debits. Article 6 (1) and (2) of the SEPA Regulation mandates that credit transfers and direct debits shall be carried out in accordance with the relevant requirements set out in Article 5 and in the Annex to the SEPA Regulation by 1 February 2014, subject to certain limited exemptions mentioned in the SEPA Regulation. In non-euro countries, the deadline will be 31 October 2016. Effectively, this means that as of these dates, existing national euro credit transfer and direct debit schemes would be replaced by SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD). However, on 9 January 2014 the European Commission published a press release which stated, among other things, that the Commission had adopted a proposal to give an extra transition period of six months during which payments which differ from the SEPA format could still be accepted so as to minimise any possible risk of disruption to payments for consumers and businesses. On 4 February 2014, the EU Parliament approved the Commission's proposal. On 18 February 2014, the Council of the EU finally adopted the formal regulation postponing to 1 August 2014 the end-date in the euro area for the migration of domestic and intra-European credit transfers and direct debits in euros to the new SEPA-standard-based credit transfers and direct debits.

In its press release of 18 February 2014, the Council of the EU stated that the Commission and the European Central Bank have closely monitored progress with the migration. On the basis of data compiled by national central banks, reports showed that a number of eurozone member states were well on track, with migration rates for credit transfers close to 100%. The large majority of payment service providers reported that they were already SEPA-compliant. However, in several other member states migration rates were not yet at the required level, in particular for direct debits. The new regulation adopted by the Council therefore amends the SEPA Regulation and extends its migration deadline of 1 February 2014 to 1 August 2014. The regulation contains no substantive amendments to the Commission's proposal of 9 January. It will apply with retroactive effect from 31 January 2014. Extension of the deadline will enable banks, payment service providers and users to exceptionally and temporarily continue using existing standards alongside the SEPA standard-based schemes. This will minimise disruptions that could particularly affect small and medium sized enterprises and consumers.

All LeasePlan subsidiaries will be SEPA compliant before the six month transitional period ends.

If the regulatory capital requirements, liquidity restrictions or ratios applied to us are increased in the future, any failure of LeasePlan to maintain such increased regulatory capital or other ratios could result in administrative actions or sanctions, which may have an adverse effect on our business, financial condition, results of operations and prospects.

The Solvency II program is driven by the Directive 2009/138/EC of the European parliament and proposes amendments for the rationalisation, harmonisation and modernisation of insurance regulation in the European Union. The Directive constitutes an ambitious and far-reaching, principles-based and risk-sensitive solvency regime ("Solvency II"). The amendments are planned to take effect from 2016. Solvency II's primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the company. It seeks to instill risk awareness into the governance, operations

and decision-making of the business. The Directive forms part of the drive towards a European single market for insurance, with more open competition and greater policyholder and investor security.
Solvency II is expected to be similar to Basel II in respect of the three pillar structure:

- Pillar 1 consists of the quantitative requirements (for example, the amount of capital an insurer should hold).
- Pillar 2 sets out requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers.
- Pillar 3 focuses on disclosure and transparency requirements.

Dutch regulation

General

As of September 2002, banking supervision in the Netherlands has been divided into prudential supervision, carried out by the DNB, and conduct of business supervision, carried out by the AFM. Pursuant to authority granted under the FSA, the DNB supervises and regulates LeasePlan's activities. The AFM supervises primarily the conduct of business. Set forth below is a brief summary of the principal aspects of the FSA.

Licensing

Under the FSA, a bank established in the Netherlands is required to obtain a license from the DNB before engaging in any banking activities. The requirements that must be satisfied in order to obtain a license, among others, are as follows: (i) the day-to-day policy of the bank must be determined by at least two persons; (ii) the bank must have a body of at least three members which has tasks similar to those of a board of supervisory directors; and (iii) the bank must have a minimum own funds (eigen vermogen) of EUR 5,000,000. Also, the DNB shall refuse to grant a license if, among other things, it is of the view that: (i) the persons who determine the day-to-day policy of the bank are not suitable to engage in the business of the bank; (ii) the trustworthiness of the persons who determine or co-determine the policy of the bank is not beyond doubt; or (iii) through a qualified holding in the bank, influence on the policy of such enterprise or institution may be exercised which is contrary to "controlled and sound banking policy" ("beheerste en integere bedrijfsuitoefening"). In addition to certain other grounds, the license may be revoked if a bank fails to comply with the requirements for maintaining it. We have held a Dutch banking license since 1993.

Reporting and investigation

A bank is required to file with the DNB its annual financial statements in a form approved by the DNB, which includes a statement of financial position and a statement of income that have been certified by an appropriately qualified auditor. In addition, a bank is required to file quarterly (and some monthly) statements, on a basis established by the DNB, which also has the option to demand more frequent reports.

We must file quarterly (and some monthly) reports as well as annual reports that provide a true and fair view of our financial position and results with the DNB. Our independent auditor audits our December reports to the DNB.

Under the FSA, we are required to make our annual financial statements and our semi-annual financial statements generally available to the public within four months and two months, respectively, of the end of the period to which the financial information relates. The annual and semi-annual financial statements must be filed with the AFM simultaneously with their publication.

Supervision

The DNB exercises supervision on Dutch banks with respect to their solvency and liquidity, their administrative organisation and their structure. To this end, the following general regulations apply under the FSA and implementing regulations issued by the DNB.

Solvency supervision

The regulations of the DNB on solvency supervision have required - in broad terms - that a bank maintained own funds in an amount equal to at least 8% of its risk-weighted assets and operations. These regulations also imposed limitations on the aggregate amount of claims (including extensions of credit) a bank might have against one debtor or a group of related debtors.

Since the implementation of the FSA, the regulations have become more sophisticated, being derived from the capital measurement guidelines of Basel II as described under "Basel standards" above and as laid down in EU directives described above under "European Union Standards". The solvency rules included in the FSA have been amended (and partly revoked) as per 1 January 2014 to implement the EU CRD 4 package as described above under "European Union Standards", and banks will be subject to the solvency rules of the CRD 4 package in 2014.

Liquidity supervision

Under the DNB's liquidity regulation (the "Liquidity Regulation"), banks are in principle required to report their liquidity position on an individual and a consolidated level to the DNB on a monthly basis. The Liquidity Regulation seeks to ensure, inter alia, that banks are able to meet their payment requirements on an ongoing basis, on the assumption that banks would remain solvent. The regulatory report also takes into consideration the liquidity effects of derivatives and the potential drawings under committed facilities. The Liquidity Regulation places emphasis on the short term by testing the liquidity position over a period of up to one month with a separate test of the liquidity position in the first week. For observational purposes, several additional maturity bands are included in the liquidity supervision standard (e.g. one to three months, three to six months, six months to one year and beyond one year). Available liquidity must always exceed required liquidity. Available liquidity and required liquidity are calculated by applying weighting factors to the relevant on- and off balance sheet items. The liquidity test includes all currencies. The Liquidity Regulation allows the DNB to impose additional liquidity requirements on a bank based on periodic reviews by the DNB of the strategies and procedures for risk management, which include the strategies and procedures of banks aimed at liquidity risk management.

Structure supervision

The FSA provides that a bank must obtain a declaration of no-objection from the DNB before, among other things, (i) reducing its own funds (eigen vermogen) by way of repayment of capital or distribution of reserves or making disbursements from the item comprising the cover for general banking risks as referred to in Article 2:424 of the Dutch Civil Code; (ii) acquiring or increasing a qualified holding (as defined in the FSA as set out below) in a bank, investment firm or insurer (with statutory seat in a country outside the EEA) or in a Dutch financial institution (financiële instelling) as referred to in Article 3:110 of the FSA which is not subject to voluntary oversight (waaraan geen verklaring van ondertoezichtstelling is verleend), if the balance sheet total of that bank, investment firm, insurer or financial institution at the time of the acquisition or increase amounts to more than 1% of the bank's consolidated balance sheet total; (iii) acquiring or increasing a qualified holding in any enterprise, other than a bank, investment firm, insurer or financial institution (as referred to in Article 1:1 of the FSA), if the amount paid for the acquisition or the increase together with any amounts paid for prior acquisitions and prior increases exceeds 1% of the consolidated own funds of the bank; (iv) acquiring directly or indirectly all or a substantial part of the assets and liabilities of another enterprise or institution if this amounts to more than 1% of the bank's consolidated balance sheet total; (v) merging with another enterprise or institution if the balance sheet total thereof amounts to more than 1% of the bank's consolidated balance sheet total; or (vi) proceeding with a financial or corporate reorganisation. For the purposes of the FSA, "qualified holding" is defined to mean the holding, directly or indirectly, of an interest of at least 10% of the issued share capital or voting rights in an enterprise, or a similar form of control. In addition, any person is permitted to hold, acquire or increase a qualified holding in a Dutch bank, or to exercise any voting power in connection with such holding, only after such person has obtained a declaration of no objection from the DNB.

Administrative supervision

The DNB also supervises the administrative organisation of individual banks, their financial accounting system and their internal controls. The administrative organisation must be such as to ensure that a bank has at all times a reliable and up-to-date overview of its rights and obligations. Furthermore, the electronic data processing systems, which form the core of the accounting system, must be secured in such a way as to ensure optimum continuity, reliability and security against fraud. As part of the supervision of the administrative organisation, the DNB has also stipulated that this system must be able to prevent conflicts of interests.

If, in the opinion of the DNB, a bank fails to comply with the rules and regulations regarding the above mentioned subjects, the DNB will notify the bank and may instruct the bank to behave in a certain manner. If the bank does not respond to any such instructions to the satisfaction of the DNB, the DNB is allowed to exercise additional supervisory measures that may include the imposition of fines.

The Dutch Intervention Act

The Dutch legislator has adopted legislation dealing with ailing banks and insurers (Wet bijzondere maatregelen financiële ondernemingen, the "Dutch Intervention Act"). Pursuant to the Dutch Intervention Act, substantial new powers have been granted to DNB and the Dutch Minister of Finance enabling them to deal with, inter alia, ailing Dutch banks prior to insolvency. The Dutch Intervention Act empowers DNB or the Minister of Finance, as applicable, to commence proceedings leading to: (i) transfer of all or part of the business (including deposits) of the relevant bank to a private sector purchaser; (ii) the temporary transfer of all or part of the business of the relevant bank to a "bridge bank" (a publicly controlled entity); and (iii) public ownership (nationalization) of the relevant bank. Subject to certain exceptions, as soon as any of these proceedings have been initiated by DNB or the Minister of Finance, as applicable, the relevant counterparties of such bank (or of any of its Dutch group companies) would not be entitled to invoke events of default or set off their claims against the bank or against any such group company).

The Dutch Intervention Act would be amended following the adoption of the Bank Recovery and Resolution Directive and the proposed Regulation establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain

investment firms in the framework of a SRM and a Single Bank Resolution Fund (as described above under European Union Standards). Ahead of these developments and the establishment of resolution funds by said Directive and Regulation, the Dutch government has imposed a temporary resolution charge on Dutch banks, calculated on the basis of the amount of deposits protected under the Dutch deposit guarantee scheme. The charge is meant to recover the government's expenses in connection with the nationalisation of SNS Reaal in February 2013.

Dutch Banking Code (2010)

On 9 September, 2009 the Board of the Dutch Banking Association adopted and presented the Dutch Banking Code (Code Banken). The Dutch Banking Code formulates principles for banks relating to, for instance, remuneration, internal supervision, risk management and audits. The Dutch Banking Code has been given a legislative basis by virtue of a decree (algemene maatregel van bestuur), in the same way as was done previously for the Dutch Corporate Governance Code. Under this decree banks are obliged to report, in their annual report, on their compliance with the principles of the Dutch Banking Code (2010). In this respect the Dutch Banking Code and the decree follow the "comply or explain" principle: banks are required to state in their annual report how they have applied the principles of the Dutch Banking Code in the previous year and, if they have not applied a principle or not done so in full, to provide a reasoned explanation for this. We comply with all of the principles of the Dutch Banking Code, with one exception where we chose to "explain": we have not established a separate risk committee for the Supervisory Board. In view of the importance of risk management and taking into account the size of the Supervisory Board, the Supervisory Board has determined that instead of a separate risk committee, all members will retain full responsibility for overseeing decisions concerning the risk management framework of the Group. Our globalCode of Conduct provides guidance on the principles that govern the way we conduct our business. The Code of Conduct is aligned with the principles of the Dutch Banking Code with respect to moral ethical conduct. In addition, the members of the Managing Board as well as the Senior Corporate Vice Presidents, Regional Senior Vice Presidents and the Senior Vice Presidents have signed the moral ethical statement as defined in the Dutch Banking Code. During its meetings of 19 January 2011 and 30 January 2012 the members of the Managing Board reconfirmed the moral ethical statement. In the meantime the members of our Supervisory Board and Managing Board also took the banker's oath which is similar to the wording of the moral-ethical statement.

On 1 January 2013 the "Regulation Oath or Promise Financial Sector" (Regeling eed of belofte financiële sector) entered into force requiring that Managing Board and Supervisory Board members take the banker's oath or declare the banker's promise (the "Oath"). The wording of the aforesaid moral ethical statement and the Oath are similar.

Remuneration

In 2010, guidelines related to the amended European Capital Requirements Directive ("CRD 3") on remuneration policies in the financial sector of the Committee of European Banking Supervisors ("CEBS"), succeeded by the European Banking Authority, were issued. In the Netherlands, the remuneration provisions of CRD 3 have been implemented effectively as from 1 January 2011 by way of the Dutch Decree on sound remuneration policies ("Besluit Beheerst Beloningsbeleid Wft") and the Regulation on sound remuneration policies (Regeling beheerst beloningsbeleid Wft 2011, issued by the DNB). LeasePlan has subsequently implemented a new remuneration policy and structure. Apart from the above-standing, there are also a number of other codes and regulations that LeasePlan takes into account in determining the remuneration policy. There are some other relevant laws and regulations that already existed before 2011, such as the Dutch Banking Code.

Remuneration rules for financial institutions are subject to change. The Capital Requirements Directive which was adopted in June 2006 and which was amended by CRD 3 has been repealed as per 1 January 2014. It has been succeeded by the CRD 4 package, consisting of the Capital Requirements Regulation and the Capital Requirements Directive (as described above under European Union Standards). CRD 4 contains new rules on the required remuneration policy of banks, e.g. it includes a cap on bankers' bonuses at 100% of fixed salary (which may be increased to 200% of salary with the approval of a majority of shareholders).

Dutch government is considering to lower the bonus cap for entities meeting certain criteria, to even 20% of fixed salary. A draft bill containing remuneration rules for the entire financial sector, including banks and investment firms, and which includes the 20% bonus cap, was issued for consultation in November 2013. Government has expressed its intention to let these rules become effective as from January 2015.

LeasePlan has furthermore taken due note of the fact that on June 13, 2012, a bill was enacted with retro-active effect for financial institutions up to and including October 6, 2011, referred to as the "Bonus Prohibition Bill", which seeks to ensure that financial enterprises no longer award or pay variable remunerations to board members as long as these enterprises are under state support. The prohibition relates to the "non-fixed" part of the remuneration, which becomes unconditional only upon the occurrence of performance related events or other events. It must be assumed that the term variable remuneration therefore covers all types of performance-related remuneration. Consequently, in compliance with the Bonus Prohibition Bill, no variable remuneration is awarded or paid to the Managing Board during the term of state support.

Finally, amendments to the Dutch Civil Code and the Dutch Financial Supervision Act allowing for the adjustment or recovery ("clawback") of excessive bonuses awarded to executives became effective on 1 January 2014. For banks the rules apply in respect of bonuses (i.e. the "non-fixed" part of the remuneration, which becomes unconditional only upon the occurrence of performance related or other events) (to be) paid to directors and day-to-day policy makers. Adjustment of unreasonable bonuses may be initiated by the body which has powers to establish the remuneration of directors, recovery/clawback may be effectuated by the company itself, in which case it may be represented by the board of supervisory directors (or non-executive directors) or by a special representative appointed by the shareholders meeting.

Regulation and Supervision of Euro Insurances

Our insurance subsidiary, Euro Insurances, is based in Dublin, Ireland and is subject to supervision by the Central Bank of Ireland, the designated EU insurance supervisory authority of Ireland. The Central Bank of Ireland is tasked with the prudential supervision of insurance companies with head offices in Ireland and of the Irish branches of companies with head offices outside of the EEA in accordance with EU Directives and the Irish Insurance Acts and Regulations.

Regulation and Supervision of Globalines Reinsurance

Our reinsurance subsidiary, Globalines Reinsurance, is based in the Isle of Man and is subject to supervision by the Insurance and Pension Authority, the designated insurance supervisory authority of the Isle of Man. The Isle of Man Insurance and Pension Authority is tasked with the prudential supervision of insurance entities with head offices in the Isle of Man in accordance with the Insurance Act 2008.

Act on Management and Supervision

This new act entered into force in the Netherlands on 1 January 2013. Some important features of this act which are relevant for us are (i) a limitation of the number of external supervisory board positions of board members, (ii) gender diversity in board composition and (iii) changes to rules regarding conflicts of interest of board members.

In the revised articles of association of LeasePlan Corporation N.V., reflecting the introduction of the large company structure regime, additional changes were made in respect of conflicts of interest in order to reflect the new legal requirements. These changes will be specified in more detail in the Regulations for the Supervisory Board and the Regulations for the Managing Board. Gender diversity is important for us and providing a non-discriminatory environment for our people is one of the principles of our Code of Conduct. The Act on Management and Supervision requires that LeasePlan and its Dutch "large entities" (as defined in the Act on Management and Supervision) aim in the years 2013-2015 to establish an equal division of gender in the Managing Boards and Supervisory Boards thereof, i.e. at least 30% male and at least 30% female members. The legislator will evaluate the effect of this temporary law at the end of 2015. The current composition of the Managing and Supervisory Board would not meet the gender diversity aim.

APPENDIX B. 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 associates and jointly controlled entities complying with the relevant statutory requirements has been filed with the Chamber of Commerce of Gooi-, Eem- en Flevoland. Unless stated otherwise, the percentage interest is 100% or nearly 100%.

Principal subsidiaries, which are fully included in the consolidated financial statements, are:
LeasePlan Australia Limited, Australia
LeasePlan Brasil Ltda., Brazil
LeasePlan Česká republika s.r.o., Czech Republic
LeasePlan Danmark A/S, Denmark
LeasePlan Deutschland GmbH, Germany
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 Gépjármű Kezelö és Finanszírozó Részvénytá, Hungary
LeasePlan India Private Limited, India
LeasePlan Italia S.p.A., Italy
LeasePlan Luxembourg S.A., Luxembourg
LeasePlan Mexico 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 SRL, 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 UK Limited, United Kingdom
LeasePlan USA, Inc., USA

Euro Insurances Limited, Ireland
Globalines Reinsurance Limited, United Kingdom
LeasePlan Finance N.V., the Netherlands
LeasePlan Information Services Limited, Ireland
LeasePlan International B.V., the Netherlands
LeasePlan Supply Services AG, Switzerland
Mobility Mixx B.V., the Netherlands
Travelcard Nederland B.V., the Netherlands

All holdings are in the ordinary share capital of the undertaking concerned and are unchanged from 2012.

Special purpose companies with no shareholding by the Group are:
Bumper 2 S.A., Luxembourg
Bumper Car Sales GmbH, Germany
Bumper 4 (NL) Finance B.V., the Netherlands
Bumper 5 Finance Plc, United Kingdom
Bumper CARS NL B.V., the Netherlands
Bumper France, France

Principal associates and jointly controlled entities that are accounted for under the equity method in the consolidated financial statements are:

LeasePlan Emirates Fleet Management – LeasePlan Emirates LLC, United Arab Emirates (49%)
LPD Holding A.Ş, Turkey (51%)
Excelease N.V., Belgium (51%)
Overlease S.r.L., Italy (51%)
PLease S.C.S., France (99.3%)
E Lease S.A.S., France (5%)
Flottenmanagement GmbH, Austria (49%)
Terberg Leasing B.V., the Netherlands (24%)

The net equity accounting treatment is based on whether the company has significant influence or joint control. In the situations where the Group has a majority shareholding in the companies listed above these companies still qualify as jointly controlled entities as the Group has contractually agreed to sharing of control whereby the strategic and operating decisions relating to the company require the unanimous consent of the parties sharing control.

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.
Energie LeasePlan B.V.
Firenta B.V.
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