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New Issue: VCL Multi-Compartment S.A., Compartment VCL 44

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New Issue: VCL Multi-Compartment S.A., Compartment VCL 44

Ratings Detail

Ratings							
Class	Rating*	Amount (mil. €)	Overcollateralization and subordination (%)	Cash reserve (%)	Available credit enhancement (%) §	Interest (%) †	Legal final maturity
A	AAA (sf)	1,192.50	4.60	1.20	5.80	1ME + 0.49	December 2030
B	AA (sf)	22.50	2.80	1.20	4.00	1ME + 0.90	December 2030
Subordinated loan	NR	24.50	N/A	N/A	N/A	N/A	N/A

*Our ratings address timely payment of interest and ultimate principal. §Includes subordination, overcollateralization (€10.50 million or 0.84% of the discounted pool balance), and a cash reserve (initial amount of €15.0 million or 1.20% of the discounted pool balance). †Subject to a floor of zero. 1ME--One-month Euro Interbank Offered Rate. NR--Not rated. N/A--Not applicable.

Transaction Summary

- S&P Global Ratings has assigned its credit ratings to VCL Multi-Compartment S.A., Compartment VCL 44's (VCL 44) class A and B notes. At closing, VCL 44 was granted an unrated subordinated loan.
- Our ratings address timely payment of interest and ultimate payment of principal on the class A and B notes.
- VCL 44's notes securitize a portfolio of German auto lease receivables, which Volkswagen Leasing GmbH (VW Leasing) originated to its mostly retail customer base in the ordinary course of business. The lease receivables arise from fixed-term, level payment lease contracts, with payments due monthly. The residual values of the leased vehicles corresponding to the lease receivables were not sold to VCL 44, so no direct residual value risk is present in this transaction.
- The transaction is static (i.e., it has no replenishment period), with the notes starting to amortize immediately after closing. Amortization will begin sequentially but will switch to pro rata after further overcollateralization has built up, assuming no performance triggers are breached.
- A combination of subordination, overcollateralization, and a cash reserve provide credit enhancement to the rated notes. VCL 44 benefits from excess spread if a servicer replacement event occurs or the cumulative net loss ratio exceeds 1.6%. There is no principal deficiency ledger mechanism in place.
- A fixed-to-floating interest rate swap agreement with a suitable counterparty, in line with our counterparty criteria, mitigates the risk of potential interest rate mismatches between the fixed-rate assets and floating-rate notes.
- All the securitized receivables were previously refinanced through the existing warehousing facility, VCL Master S.A. Compartment 1.
- The transaction's capital structure is unchanged from that of VCL Multi-Compartment S.A., Compartment VCL 42 (VCL 42), which we rated in June 2024. The cash reserve in VCL 44 amortizes at 1.2% of the aggregate discounted

receivables balance as of the end of the relevant monthly period. This is subject to a floor amount of the greater of (i) €12.5 million and (ii) the aggregate outstanding principal amount of the class A and B notes as of the end of the relevant monthly period, which remains unchanged from VCL 42's cash reserve mechanism.

- As in previous VCL transactions, the servicer, VW Leasing, will advance collections to cover potential commingling risk if our ratings on its parent company, Volkswagen Bank GmbH, fall below 'BBB/A-2' (or 'BBB+' in the absence of a short-term rating) or if we consider that the servicer is no longer deemed eligible under our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). The remedy period has been extended to 30 days from 14 days (VCL 42). This is in line with our counterparty criteria. We deem that this servicer advance mechanism fully mitigates commingling risk.
- Seller-related risks (German trade tax and value-added tax [VAT] risks) are mitigated by a non-amortizing seller risk reserve (1.10% of the initial discounted pool balance). In VCL 42, this reserve was posted at closing. In VCL 44, a conditional posting mechanism was introduced. The servicer would fund the seller risk reserve if our ratings on its parent company, Volkswagen Bank GmbH, fall below 'BBB/A-2' (or 'BBB+' in the absence of a short-term rating), or if we consider that the servicer is no longer deemed eligible under our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). As long as the servicer does not fall below our rating trigger, the issuer is indemnified for any seller-related risks (German trade tax and VAT risks). In our view, the reserve only partially mitigates the potential German trade tax and VAT risks. Therefore, we have considered the uncovered portion (approximately 0.6% of the initial discounted pool balance in a 'AAA' scenario) as a loss in our cash flow analysis.
- Given our unsolicited sovereign credit rating on Germany (AAA/Stable/A-1+), our ratings in this transaction are not constrained by our structured finance sovereign risk criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).
- The final documentation and the presented remedy provisions adequately mitigate counterparty risk in line with our counterparty criteria. The final legal documentation is in line with our legal criteria.

The Credit Story

Strengths, concerns, and mitigating factors

Strengths	Concerns and mitigating factors
In our view, VW Leasing has a strong market position as one of the largest leasing companies in Europe, with more than 50 years' business experience.	Although historical net loss data provided by VW Leasing covers a period of more than 10 years, it does not include any gross default or recoveries information. We have factored this into our analysis when deriving our credit and stress assumptions.
The pool is granular and diversified. As of Jan. 31, 2025, it comprised 136,975 lease contracts for a total of 107,950 lessees. The largest single lessee concentration is 0.12% and the top 20 lessees comprise just 1.36% of the pool's discounted principal balance.	The transaction's payment structure is not fully sequential. Once certain target overcollateralization levels have been reached (and as long as certain performance triggers are met), the issuer will pay pro rata principal on the class A and B notes. We have stress-tested appropriate cash flows for each rating level, which included modeling the potential effect of the pro rata payment structure with a back-loaded loss curve.
As of the pool cutoff date on Jan. 31, 2025, the pool did not contain any contracts with overdue payments.	The transaction is exposed to commingling risk (as the pool collections are paid to the servicer's accounts before being transferred to the issuer), VAT risk (in accordance with section 13c of the German VAT act), and German trade tax risk. A specific advance mechanism fully mitigates commingling risk, in our view. To mitigate the VAT and trade tax risks, the seller funded at closing, a non-amortizing seller risk reserve conditional upon Volkswagen Bank GmbH being downgraded below our rating trigger. The structure benefits from an amortizing liquidity reserve, initially sized at 1.10% of the initial discounted pool balance, which was fully funded at closing. In our view, the seller's risk reserve only partially mitigates the potential tax risks. Therefore, we stressed the uncovered portion (approximately 0.6% of the initial discounted pool balance in a 'AAA' scenario) as an additional loss in our cash flows.
The portfolio does not revolve, so a shift in pool quality due to substitution cannot occur.	
The structure benefits from an amortizing liquidity reserve, initially sized at 1.2% of the initial discounted pool balance, which was fully funded at closing. The liquidity reserve primarily serves as liquidity support to mitigate any cash strains. Ultimately, it is available to repay the notes at the end of the transaction's life.	

Environmental, Social, And Governance

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For the auto ABS sector, we view the exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," March 31, 2021). In our view, the exposure to ESG credit factors in this transaction is in line with our sector benchmark.

Environmental credit factors are generally viewed as above average given that the collateral pool primarily comprises vehicles with internal combustion engines (ICE), which create emissions of pollutants including greenhouse gases. While the adoption of electric vehicles and future regulation could in time lower ICE vehicle values, we believe that our current approach to evaluating recovery values adequately accounts for vehicle values over the relatively short, expected life of the transaction. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

Asset Description

As of the cutoff date, the collateral pool backing the notes comprised 136,975 lease contracts for a total of 107,950 lessees with a total discounted principal balance of €1,250 million.

Table 1

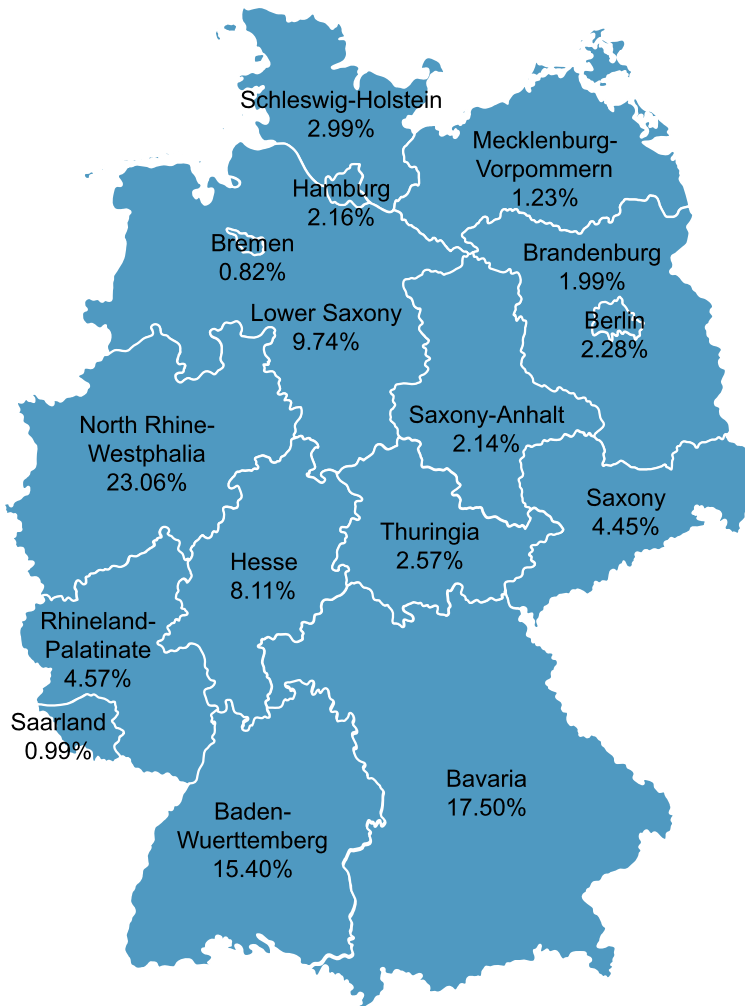
Collateral key features*						
	Compartment VCL 44§	Compartment VCL 42§	Compartment VCL 40§	Compartment VCL 38§	Compartment VCL 37§	Compartment VCL 35§
Originator	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH
Country	Germany	Germany	Germany	Germany	Germany	Germany
Type of assets	Auto leases	Auto leases	Auto leases	Auto leases	Auto leases	Auto leases
Pool cutoff (date)	Jan. 31, 2024	May 31, 2024	Sept. 30, 2023	Feb. 28, 2023	Oct. 31, 2022	Feb. 28, 2022
Closing date	Feb. 25, 2025	June 25, 2024	Oct. 25, 2023	March 27, 2023	Nov. 25, 2022	March 25, 2022
Pool volume (mil. €)	1,250	1,000	750	1,250	1,000	1,000
Number of receivables	136,975	99,799	70,860	129,356	108,887	118,391
Discount rate or weighted-average yield (%)	5.7	5.7	5.70	5.70	5.70	5.70
Buffer rate (%)	1.9	1.0	0.6	0.8	1.2	4.1
Discount rate minus buffer release rate (%)	3.8	4.7	5.1	4.9	4.5	1.6
Weighted-average original term (months)	39.9	39.6	39.5	39.6	39.6	39.8
Weighted-average remaining term (months)	30.3	31.7	32.8	32.7	32.3	31.6
Weighted-average seasoning (months)	9.6	7.9	6.8	6.9	7.3	8.2
Contract type (%)						
Amortizing	100	100	100	100	100	100
Balloon	0	0	0	0	0	0
Vehicle status (%)						
New	92.6	92.7	92.7	94.3	93.9	90.9
Used and demonstration	7.4	7.3	7.3	5.7	6.1	9.1
Vehicle type (%)						
Car	100	100	100	100	100	100
Business segment (%)						
Private	25.9	23.0	21.8	22.2	22.7	23.3
Commercial	74.1	77.0	78.2	77.8	77.3	76.7
Engine type (%)						
Gasoline	38.3	39.9	37.2	29.5	32.6	28.7
Diesel	37.5	39.5	39.3	35.7	40.1	41.5
Electric	17.5	15.0	17.1	17.7	13.3	12.5

Table 1

Collateral key features* (cont.)						
	Compartment VCL 44§	Compartment VCL 42§	Compartment VCL 40§	Compartment VCL 38§	Compartment VCL 37§	Compartment VCL 35§
Hybrid	6.6	5.6	6.2	16.9	13.8	17.1
Other	0.0	0.1	0.1	0.2	0.2	0.2
Vehicle brand (%)						
Audi	24.2	26.0	28.8	29.4	28.2	30.0
Volkswagen	37.7	36.8	37.9	36.8	35.6	34.2
Volkswagen LCV (%)	7.9	7.8	7.1	8.3	10.0	10.4
Seat (%)	11.5	12.7	14.4	14.2	14.7	15.9
Skoda (%)	18.6	16.5	11.5	11.2	11.1	9.1
Geographic concentration (%)						
Top 1	23.1	23.9	23.7	23.7	22.8	22.9
Top 2	17.5	17.7	17.9	17.5	17.7	17.2
Top 3	15.4	15.5	15.3	15.1	15.2	15.0

*Percentages are expressed as a percentage of the outstanding discounted principal balance. §Compartments of VCL Multi-Compartment S.A.
LCV--Light commercial vehicle.

Geographic distribution

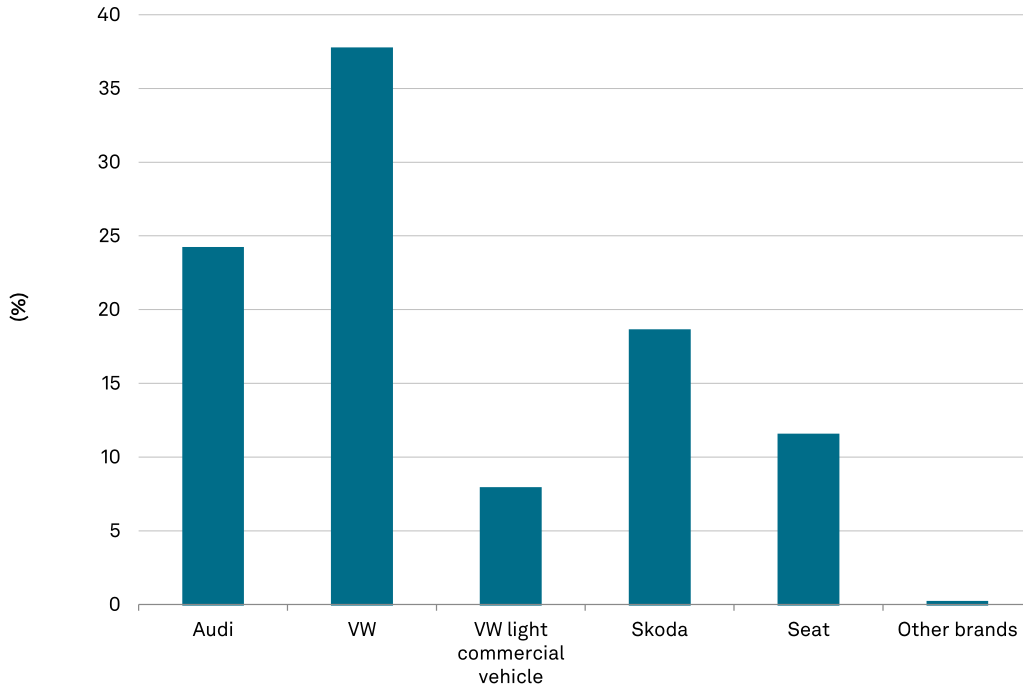


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Chart 2

Pool distribution by brand

As of Jan. 31, 2025



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Eligibility Criteria

The transaction documents set out the eligibility criteria for receivables in the pool. Simplified, these state that:

- Contracts are legally valid and binding agreements, and their enforceability is not impaired.
- Receivables are denominated and payable in euro.
- The leased vehicles are in Germany.
- The seller may freely dispose of the receivables.
- Receivables are free of defenses and from the rights of third parties. Lessees have no setoff claim.
- No receivable was overdue at the cutoff date.
- None of the lessees is an affiliate of Volkswagen AG, Family Porsche Stuttgart, or Family Piech Salzburg Group.
- Contracts are governed by the laws of Germany.
- Lessees have their registered office/place of residence in Germany.
- At least two lease instalments have been paid.
- Lease contracts require monthly payments to be made within 12 to 60 months after origination.
- The total amount of purchased lease receivables due from one and the same lessee does not exceed 0.50% of the

initial aggregate discounted pool balance.

- Acquisition of the leased vehicles by VW Leasing is financed in compliance with the requirements of section 108 (I) sentence 2 of the German Insolvency Code ("Insolvenzordnung").
- The share of the discounted pool corresponding to non-VW group vehicle does not exceed 5%.
- None of the lessees has exercised their right of revocation, if any.

Nature of the leases

A lease contract comprises two elements. The first, typically the regular lease instalments, relates to the payments from the lessee covering the vehicle's value depreciation over the contract's duration. The second relates to the vehicle's residual value when the lease contract expires. VCL 44 only purchased the regular lease instalments, and not the residual value. Furthermore, it also purchased rights associated with the premature termination of a lease receivable or with the transfer of the lease receivable, plus rights to payments from the realization of vehicles. It did not buy rights to insurance premiums, any VAT payments, and the residual value element.

Commercial retail lessees typically have no contractual right to prepay the lease contract. If VW Leasing allows prepayment, it will pay the outstanding net present value of the future lease payments due to VCL 44, discounted at the rate at which the issuer initially purchased the receivables.

VCL 44 purchased the lease receivables in this transaction from the VCL Master Compartment 1 securitization, where they have been warehoused. Furthermore, all of the corresponding residual values can be refinanced via the VCL Master Residual Value S.A. Compartment 2 securitization. The legal title over the leased vehicles is held by the trustee of VCL 44.

Originator/Seller

VW Leasing is a limited liability company and has underwritten auto leasing contracts in Germany since 1966. It is wholly owned by Volkswagen Bank GmbH, which is a 100% subsidiary of Volkswagen Financial Services AG, which in turn is fully owned by Volkswagen AG. In the overall car financing market, VW Leasing is the leading captive car leasing provider in Germany. Its objectives are to lease motor vehicles and other movable assets from brands such as Volkswagen, Audi, SEAT, Skoda, and Volkswagen Nutzfahrzeuge vehicles, service-leasing to commercial and non-commercial customers, and leasing of used vehicles of all makes, including demonstration vehicles as used vehicles.

In our view, the company's track record of stable, strong quality asset origination is among the best of all European auto ABS issuers.

Servicing

We conducted a review of VW Leasing's origination, underwriting, collections, and risk management practices. We consider these to be in line with general market practice and our criteria for assessing operational risk (see "Related Criteria"). In our operational risk analysis, we look at the risk that cash flows may be disrupted following an operational

failure of the servicer. Our ratings on the class A and B notes reflect our assessment of the company's origination policies, as well as our evaluation of VW Leasing's ability to fulfil its role as servicer under the transaction documents. Our operational risk analysis does not impose any cap on the maximum achievable rating.

At closing, no back-up servicer has been specified, but under the transaction documents the issuer is entitled to replace the servicer if a servicer replacement event occurs. We rely on the general availability of servicing in the German market to mitigate the risk of servicing disruption and have applied a stressed servicing fee in our cash flow analysis, in line with market standards.

Credit Analysis and Assumptions

We analyzed the transaction's credit risk under various stress scenarios by applying our global auto ABS criteria (see "Related Criteria").

Economic outlook

In our base-case scenario for Germany, we forecast GDP growth of -0.1%, 0.9%, and 1.1%, in 2024, 2025, and 2026 respectively. Our baseline forecast was informed by our economic outlook for the Eurozone published on Nov. 26, 2024 (see "Related Research").

We expect inflation to be 2.5%, 2.2%, and 1.9% in 2024, 2025, and 2026, respectively. Our credit assumptions reflect our economic outlook for Germany.

Defaults

A written-off purchased lease receivable is one that has been reduced by recoveries and that VW Leasing has finally written off in its capacity as servicer in accordance with its customary accounting practice. The net loss definition used in the performance data is in line with the net loss definition used in the transaction documents.

Cumulative net losses (VW Leasing's own books)

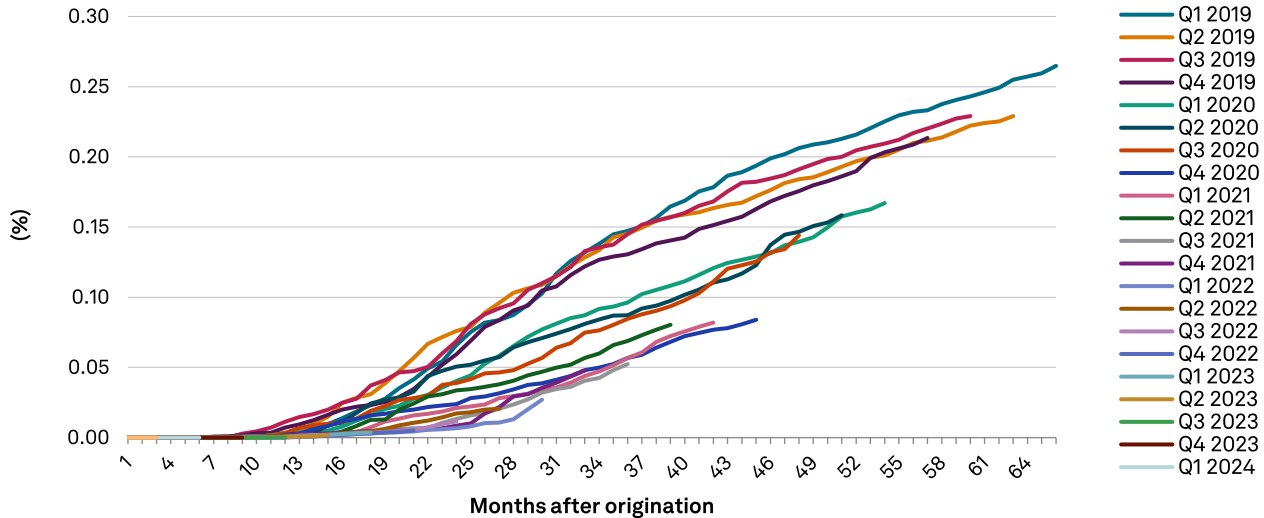
We received monthly static net loss data, showing cumulative net losses (i.e., actual write-offs after recoveries) as a percentage of VW Leasing's origination volume in its entire lease book. We received data from January 2019 to September 2024. The originator did not provide us with separate recovery or prepayment data. To arrive at a gross loss proxy, we "gross up" the net loss data, using a recovery rate assumption of 74%.

We have also used the performance information available from the predecessor transactions (from January 2007). The quality of data provided is in line with our standards in relation to quality, timeliness, and reliability.

Performance in the originators' books has significantly improved between 2007 and 2017 and has stabilized at very low levels since then. Chart 3 shows vintages starting from Q1 2019, as VW Leasing has changed its calculation approach, which had a non-material effect. Please refer to previous transactions for older vintages.

Chart 3

Cumulative net losses (VW Leasing's own books)



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Based on the historical performance of receivables originated by VW Leasing and of the outstanding VCL transactions, we sized an average net loss of 0.40% for the pool. We then derived a gross loss assumption of 1.54% by assuming a 74% recovery rate.

At the same time, we kept our base-case multiples unchanged at 4.8x and 3.7x for defaults at the 'AAA' and 'AA' rating levels, respectively.

Recoveries and recovery timing

Under our global auto ABS criteria, we establish recovery rate assumptions based primarily on an analysis of historical recovery rates for the issuer and the market, the volatility of past performance, and credit, operational, or other factors that might affect the timing, amount, and sustainability of recovery rates. Additionally, considering the share of ICE and BEV/hybrid engines, we set the weighted average recovery rate at 74%.

For VCL 42, we sized stressed recoveries of 37.0% and 44.4% for the 'AAA' and 'AA' rating levels, respectively, based on recovery data provided for previous VCL transactions, the share of engine types, and a peer comparison with other German auto leasing transactions. We keep these assumptions unchanged for VCL 44. Overall, our credit assumptions are unchanged compared to VCL 42, and any slight differences can be attributed to rounding.

Table 2 summarizes our credit assumptions.

Table 2

Credit assumption summary									
Rating level	Net loss base case (%)	Recovery rate (for gross up) (%)	Gross loss base case (%)	Multiple	Stressed cumulative default rate (%)	Recovery rate haircut	Stressed recovery rate (%) *	Stressed cumulative net losses (%)	
AAA (sf)	0.40	74	1.54	4.80	7.39	50.0	37.0	4.66	
AA (sf)	0.40	74	1.54	3.70	5.70	40.0	44.4	3.17	

*We assume that 100% of recoveries are realized nine months after default in our cash flow model.

Residual value risk

VCL 44 is not directly exposed to residual value risk as it has not purchased this type of receivables.

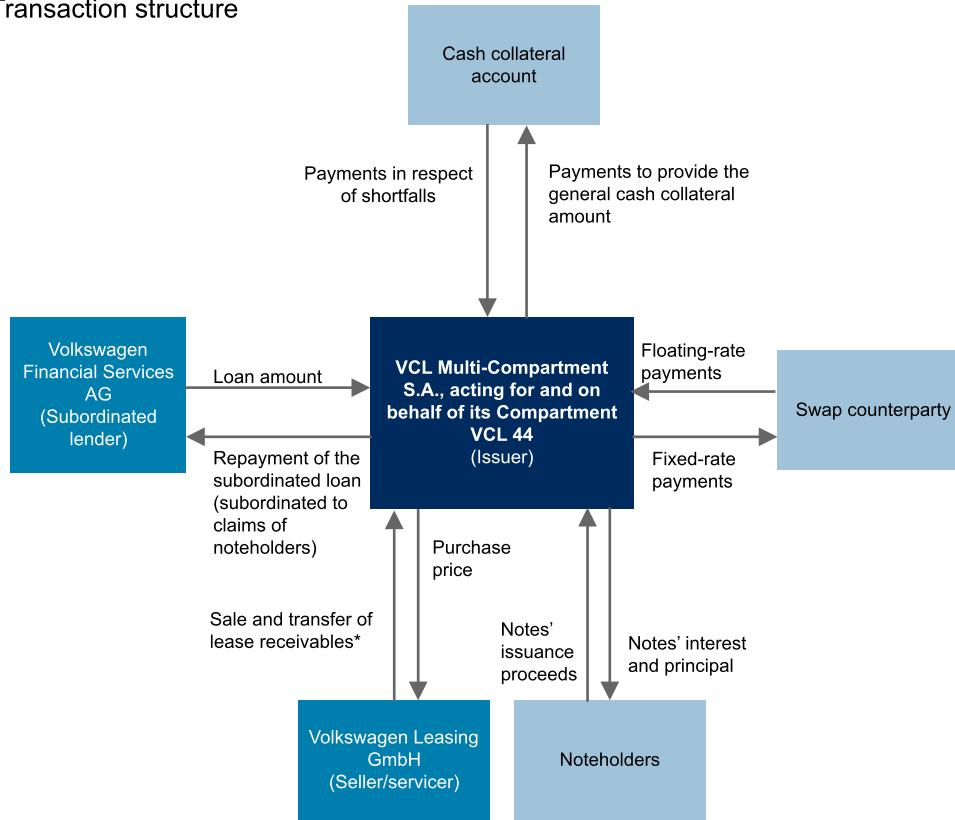
Transaction Structure

At closing, the issuer purchased a pool of auto lease receivables with a net present value of €1,250 million. The lease receivables were discounted at a fixed rate of 5.7016%. However, the effective interest available to the issuer will be reduced in a way to leave no excess spread in the transaction, unless VW Leasing becomes insolvent, or the cumulative net loss ratio exceeds 1.6% at any time. Therefore, interest receipts in practice are equal to the sum of:

- Administrative expenses and a servicing fee;
- The weighted-average interest due to the swap counterparty under the terms of the swaps on the class A and B notes; and
- The interest due under the subordinated loan considering a hypothetical hedging of the latter.

Chart 4

VCL Multi-Compartment S.A., Compartment VCL 44
Transaction structure



*Currently held by VCL Master S.A. acting for and on behalf of its Compartment 1 pursuant to the receivables purchase agreement / distribution of collections.

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The issuer is a Luxembourg special-purpose entity, which is bankruptcy remote under our legal criteria (see "Related Criteria"). The transaction legal opinion confirms that the sale of the assets would survive the seller's insolvency.

Cash Flow Mechanics

Priority of payments

The class A and B notes pay interest in arrears on a designated date each month, at the Euro interbank offered rate (EURIBOR) plus a respective margin. The first interest payment date (IPD) is March 21, 2025, and the legal final maturity of the notes will be in December 2030.

On each monthly IPD, the issuer applies to the priority of payments any asset collections (less the buffer release amount), net swap receipts, and amounts drawn from the cash reserve from the previous month, in the order outlined in table 3.

Table 3

Priority of payments (simplified)	
1	Taxes and payments to the trustee.
2	Senior fees, including payments to the corporate services provider, data protection trustee, and servicer.
3	Payments to the account bank.
4	Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party).
5	Interest on the class A notes.
6	Interest on the class B notes.
7	Top-up cash reserve (only if drawn upon previously).
8	Class A notes' principal (sequential or pro rata).
9	Class B notes' principal (sequential or pro rata).
10	Payments to the swap counterparty not paid above.
11	Interest on the subordinated loan.
12	Principal on the subordinated loan.
13	Final success fee to VW Leasing.

Repayment of the notes

From closing, the issuer will redeem the notes sequentially until it reaches the target overcollateralization levels for the class A and B notes. Once the target overcollateralization levels have been reached, the transaction will switch to pro rata pay-down. Moreover, the transaction will switch back to sequential pay-down if there is a credit enhancement increase condition level 1 or level 2, or if the servicer becomes insolvent (see table 4).

The target overcollateralization levels would increase if one of the following performance triggers is breached:

- Trigger level 1: The cumulative net loss ratio exceeds 0.50% before or during May 2026 or 1.15% between June 2026 (inclusive) and February 2027; or
- Trigger level 2: The cumulative net loss ratio exceeds 1.6% at any time.

Table 4

	Overcollateralization levels			
	Actual overcollateralization (%)	Target overcollateralization levels (%)		
	At closing	No trigger breach	Trigger level 1 breached	Trigger level 2 breached
Class A	4.60	12.25	14.00	100.00
Class B	2.80	7.50	8.25	100.00

Event of default

If interest on the most senior notes outstanding is not paid timely or principal is not fully paid by the legal maturity, the noteholders or the trustee can call an event of default. This could lead to multiple events, such as the swap terminating (with the issuer needing to make termination payments), and the post-enforcement priority of payments being applied. However, we consider these events as ratings remote, and as such, we do not model the post-enforcement priority of payments in our analysis. If the trustee were to call an event of default, it could affect the transaction's cash flows.

Cash reserve

The issuer deposited €15.0 million (1.2% of the initial discounted asset balance) as a general cash reserve at closing. Amounts deposited in the general cash reserve account are available to bridge any liquidity shortfalls in the payment of senior costs and expenses, and interest on the class A and B notes. On the earlier of (i) the legal maturity date, or (ii) the date on which the aggregate discounted receivables balance has been reduced to zero, the issuer can also use the cash reserve to redeem the class A and B notes. The cash reserve amortizes at 1.2% of the aggregate discounted receivables balance as of the end of the relevant monthly period. This is subject to a floor amount of the greater of (i) €12.5 million and (ii) the aggregate outstanding principal amount of the class A and B notes as of the end of the relevant monthly period.

Funds in this account can only be invested in cash. After all the lease receivables and notes have been repaid, VW Leasing is entitled to any outstanding balance in the cash collateral account.

Excess spread

There is initially no excess spread in the transaction. All receivables are discounted using a rate equal to 5.7016%. VW Leasing calculated this number for VCL Master Compartment 1 to cover swap, interest and costs, and a buffer in case of increased interest cost for the warehouse facility prior to the subsequent sale to VCL 44. The difference between the 5.7016% discount rate and total interest (i.e., swap payments) and senior costs for this transaction is taken out of the available distribution amount prior to applying the waterfall sequence. Following the servicer insolvency or if the cumulative net loss ratio exceeds 1.6% at any time, the buffer component will not be released, and it will be considered as cash available to the issuer.

Fixed-to-floating interest rate swaps

At closing, the issuer entered into fixed-to-floating interest rate swap agreements with a swap counterparty to hedge the risk between the assets' fixed-rate interest and the notes' floating-rate interest for the class A and B notes. Under the swap agreements the issuer pays a fixed rate on the class A and B notes' agreements. The swap counterparty pays one-month EURIBOR plus a class-specific margin. The notional in both contracts is the class A and B outstanding note balance, respectively.

Mitigation Of Seller Risks

Commingling risk

An advance mechanism will be applied to address servicer commingling risk if our issuer credit rating on Volkswagen Bank GmbH falls below 'BBB/A-2' (or 'BBB+' if no short-term rating is available) or if we consider that the servicer is no longer deemed eligible under our counterparty criteria. The remedy period for the posting of the advance mechanism has been increased to 30 days from 14 days (VCL 42) in VCL 44. We deem that this servicer advance mechanism fully mitigates commingling risk.

Setoff risk

The transaction's eligibility criteria for the pool exclude leases granted to VW employees, thereby mitigating employee setoff risk. We also do not believe any setoff risk would arise from lessee deposits, insurance, or maintenance/servicing agreements. Lastly, we are not currently aware of any setoff claims that have arisen due to

vehicle defects. As part of our ongoing surveillance of the transaction, we will monitor any potential setoff risk that could arise because of vehicle recalls and consider the mitigating factors available at that time to determine any potential ratings impact.

Tax risks

Similar to VCL 42, seller-related risks (German trade tax risks and VAT risks) are mitigated by a non-amortizing seller risk reserve (1.10% of the initial discounted pool balance). In VCL 42, this reserve was posted at closing. In VCL 44, a conditional posting mechanism was introduced.

The servicer would fund the seller risk reserve if our ratings on its parent company, Volkswagen Bank GmbH, fall below 'BBB/A-2' (or 'BBB+' in the absence of a short-term rating) or if we consider that the servicer is no longer deemed eligible under our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). As long as the servicer does not fall below our rating trigger, it will indemnify the issuer for any seller-related risks (German trade tax risks and VAT risks).

In our view, the seller risk reserve only partially mitigates the potential German trade tax and VAT risks. Therefore, we have considered the uncovered portion (approximately 0.6% of the initial discounted pool balance in a 'AAA' scenario) as a loss in our cash flow analysis.

Cash Flow Assumptions

In our cash flow modeling of this transaction, we applied stressed losses equally over the asset portfolio's weighted-average life (16 months). We also ran a back-loaded loss curve to test the impact of the pro rata pay-down mechanism on the available credit enhancement. We stressed the prepayment rates and ran different interest rate scenarios (stressed interest rate curve [up, down, up/down, down/up]). The model incorporates the notes' potential pro rata amortization, and the cash reserve's amortizing features. We did not model commingling losses because we consider that the advance mechanism will fully mitigate these losses. We also modeled tax losses amounting to approximately 0.6% ('AAA' scenario) of the portfolio's initial discounted value because we consider that the seller risk reserve only partially mitigates the related risks.

Table 5

Cash flow assumptions	
Recession start	At closing
Length of recession	WAL (16 months)
Cumulative gross loss curve 1	Evenly distributed over WAL
Cumulative gross loss curve 2	Back loaded
Recovery lag	9 months
Delinquency	Two-thirds of credit losses recovered six months later
Stressed servicing fees (%)	1.03
Fixed fees (EUR)	100,000
Replacement bank cost	80,000
Prepayments (high/low) (%)	16.0/0.5
Interest rate	Stressed interest rate curve (up, down, up/down, down/up)

Table 5

Cash flow assumptions (cont.)

Initial WAC (%)	3.77
Relative WAC compression (%)	N/A as purchased at discount
Commingling stress	None, mitigated through servicer advances subject to rating triggers.

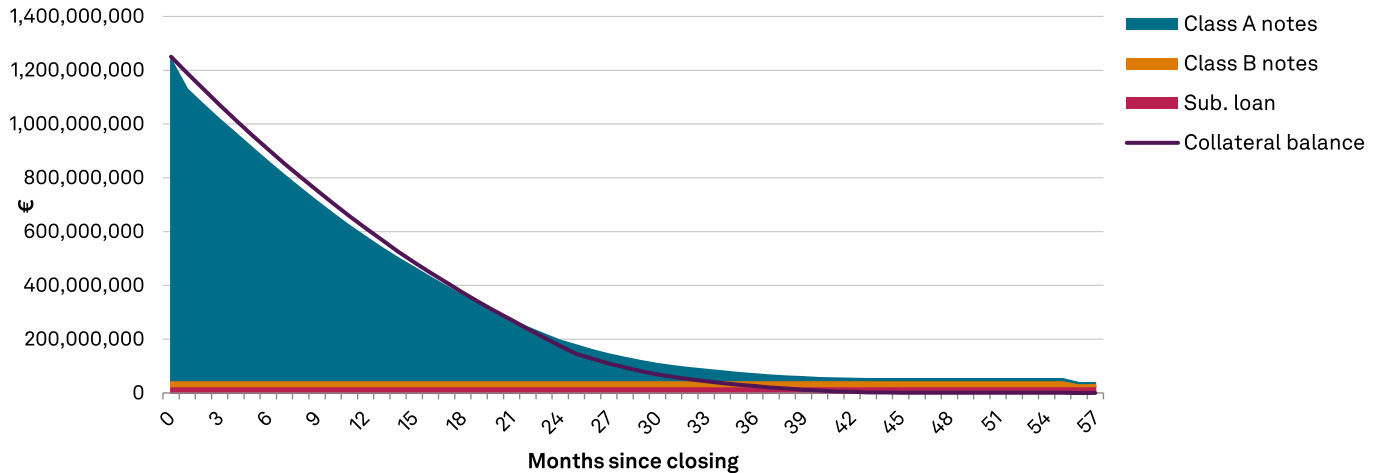
WAL--Weighted average life. WAC--Weighted average coupon. N/A--Not applicable.

The ratings scenarios address not only the availability of funds for full payment of interest and principal, but also the timeliness of these payments in accordance with the terms of the rated securities.

Chart 5 below shows the collateral and the note amortization profile under our most stressful scenario.

Chart 5

Collateral and note balances (end of period) in a 'AAA' rating scenario



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Counterparty Risk

Our ratings also reflect that the replacement mechanisms implemented in the transaction documents adequately mitigate the counterparty risks to which the transaction is exposed in line with our counterparty criteria.

Table 6

Supporting ratings

Institution/role	Ratings	Replacement trigger	Collateral posting trigger
Citibank Europe PLC as the transaction accounts provider	ICR: A+/Stable/A-1	A/A-1 (or 'A+' if no short-term rating available)	N/A

Table 6

Supporting ratings (cont.)			
Institution/role	Ratings	Replacement trigger	Collateral posting trigger
Skandinaviska Enskilda Banken AB as interest rate swap counterparty	RCR: AA-	BBB+	A-

ICR--Issuer credit rating. RCR--Resolution counterparty rating. N/A--Not applicable.

Sovereign Risk

Our long-term unsolicited sovereign rating on Germany is 'AAA'. Therefore, our ratings in this transaction are not constrained by our structured finance sovereign risk criteria.

Forward-Looking View

The transaction's resilience to additional stresses to some key variables, in particular defaults and recoveries, determines our forward-looking view.

In our view, borrowers' ability to repay their auto leases will be highly correlated to macroeconomic conditions, particularly the unemployment rate and, to a lesser extent, consumer price inflation and interest rates. Given the loans are fixed-rate, we believe rising interest rates will have a lower effect on these borrowers in the near term, while longer term, they will likely further stretch household finances. As of today, our unemployment rate forecasts for Germany are 3.4%, 3.5%, and 3.4% for 2024, 2025, and 2026, respectively. Our forecast for inflation in Germany is 2.5% in 2024 and we expect this to decline to 2.2% in 2025 and 1.9% in 2026.

Furthermore, a decline in second-hand car values typically impacts the level of realized recoveries. Although used car prices may decline moderately in Germany in 2025, we do not expect them to fall significantly.

Given our current macroeconomic forecast and forward-looking view of Germany's auto market, our sensitivity scenarios consider, all else being equal, the hypothetical effect on our credit ratings of:

- An increased gross default base case of up to 30%; and
- A maximum haircut of 30% to the recovery rate base case.

We therefore ran eight scenarios with increased gross defaults and/or reduced expected recoveries, as shown in the table below.

Sensitivity analysis

Class	Base case	1	2	3	4	5	6	7	8
Default rate base-case increase (%)	-	10	30	0	0	10	30	10	30
Recovery rate base-case decrease (%)	-	0	0	10	30	10	10	30	30
Gross default rate HT (%)	1.54	1.69	2.00	1.54	1.54	1.69	2.00	1.69	2.00
Recovery rate (%)	74	74	74	66.6	51.8	66.6	66.6	51.8	51.8

Class of notes	Initial rating	1	2	3	4	5	6	7	8
Class A	AAA	AAA	AA+	AAA	AAA	AAA	AA+	AA+	AA
Class B	AA	AA	AA-	AA	AA-	AA	A+	AA-	A

No change
 One-notch downgrade
 Two-notch downgrade
 Three-notch or more downgrade

Source: S&P Global Ratings.
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The results of the above sensitivity analysis indicate a deterioration of no more than three notches on the notes, which is in line with the credit stability considerations in our rating definitions.

The transaction embeds some strengths that may offset an increase of defaults. The transaction has a short weighted-average life and rapidly gains additional credit enhancement as the transaction amortizes. The underlying receivables and the notes pay a fixed rate of interest, which limits the effect of high interest rates on the transaction's performance in the near term. The interest rate swap mitigates the effect on note coupon payments from rising interest rates on the one-month EURIBOR they are linked to.

Monitoring And Surveillance

As part of our ongoing surveillance of this transaction, we will regularly assess:

- The performance of the underlying pool, including defaults, delinquencies, and prepayments;
- The supporting ratings in the transaction; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Appendix

Transaction participants	
Seller and servicer	Volkswagen Leasing GmbH
Arranger	Skandinaviska Enskilda Banken AB
Lead managers	Skandinaviska Enskilda Banken AB, Crédit Industriel et Commercial S.A., and BNP Paribas
Security trustee	CSC Trustees GmbH
Expectancy rights trustee	Intertrust Trustees Ltd.
Corporate services provider	Circumference FS (Luxembourg) S.A.
Bank account provider, cash administrator, principal paying agent, calculation agent, interest determination agent, and registrar	Citibank Europe PLC
Data protection trustee	Data Custody Agent Services B.V.
Swap counterparty	Skandinaviska Enskilda Banken AB

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, July 26, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- European Auto ABS Index Report Q4 2024, Feb. 14, 2025
- Presale: VCL Multi-Compartment S.A., Compartment VCL 44, Jan. 13, 2025

- S&P Global Ratings Definitions, Dec. 2, 2024
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- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
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