S&P Global
Ratings

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New Issue: VCL Multi-Compartment S.A., Compartment VCL 35

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New Issue: VCL Multi-Compartment S.A., Compartment VCL 35

Ratings Detail

Ratings							
Class	Rating*	Amount (mil. €)	Overcollateralization and subordination (%)	Cash reserve (%)	Available credit enhancement (%)§	Interest (%)†	Legal final maturity
A	AAA (sf)	941.10	5.89	1.20	7.09	1ME + 70 bps	January 2028
B	AA- (sf)	21.50	3.74	1.20	4.94	1ME + 85 bps	January 2028
Subordinated loan	NR	32.91	N/A	N/A	N/A	N/A	N/A

*Our ratings address timely payment of interest and ultimate principal. §Includes subordination, overcollateralization (€4.5 million or 0.45% of the discounted pool balance), and an amortizing cash reserve (initial amount of €12 million or 1.20% of the discounted pool balance). †Subject to a floor of zero. 1ME--One-month Euro Interbank Offered Rate. bps—Basis points. 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 35's (VCL 35) class A and B notes. At closing, VCL 35 was also 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 35's notes securitize a portfolio of German auto lease receivables, which Volkswagen Leasing GmbH (VW Leasing) originated to its mostly retail and commercial customer base in the ordinary course of its 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 35, so no direct residual value risk is present in this transaction.
- The transaction is static (i.e., it has no replenishment period), and the notes will start to amortize immediately after closing, with the first payment date being in April. 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 provides credit enhancement to the rated notes. The transaction does not have any excess spread as long as VW Leasing is not insolvent, nor a principal deficiency ledger mechanism.
- 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 liabilities.
- All of the securitized receivables have previously been refinanced through the existing warehousing facility, VCL Master S.A. Compartment 1.
- The transaction's capital structure is similar to that of VCL Multi-Compartment S.A., Compartment VCL 32, which we rated in March 2021. The cash reserve amortizes at 1.2% of the outstanding discounted asset balance, subject to

a floor of 1.0% of the initial discounted pool balance, like other recent VCL transactions we have rated.

- Similar to VCL 32, seller-related risks (German trade tax risks, and value-added tax [VAT] risks) are mitigated by a nonamortizing seller risk reserve (1.10% of the initial discounted pool balance), which VW Leasing funded at closing. 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 (0.55% of the initial discounted pool balance) as a loss in our cash flow analysis.
- In line with other recent VCL transactions we rated, the servicer will advance collections to cover potential commingling risk if our ratings on its parent company, Volkswagen Financial Services AG, 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). We deem that commingling risk is fully mitigated by this servicer advance mechanism.
- Given the sovereign rating on Germany (unsolicited; 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 at closing adequately mitigate counterparty risk in line with our counterparty criteria. It also adequately addresses operational risk in line with our 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 cover the period between 2011 to September 2021, it does not include any gross default or recoveries information. We have factored this when deriving our credit and stress assumptions.
The pool is granular and diversified. As of Feb. 28, 2022, it comprised 118,391 lease contracts for a total of 96,044 lessees. The largest single lessee concentration is 0.16% and the top 20 lessees comprise just 1.08% 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 cut-off date, the pool did not contain any contracts with overdue payments.	The cash reserve amortizes, subject to a floor amount equivalent to 1.0% of the initial discounted pool balance, resulting in diminishing protection for noteholders as the transaction nears maturity. We have incorporated the amortizing feature in our cash flow model to account for its effect on available credit enhancement.
The portfolio does not revolve, so a shift in pool quality due to substitution cannot occur.	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 servicer's advance mechanism fully mitigates commingling risk, in our view. To mitigate the VAT and trade tax risks, the seller funded at closing a nonamortizing seller risk reserve representing 1.10% of the initial discounted pool balance. In our view, the seller's risk reserve only partially mitigates these potential tax risks. Therefore, we stressed the uncovered portion (0.55% of the initial discounted pool balance) as an additional loss in our cash flows.
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 serves primarily as liquidity support to mitigate any cash strains. Ultimately, it is available to repay the notes at the end of the transaction's life.	We expect German inflation to reach 5.2% in 2022. Although elevated inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others. To the extent inflationary pressures materialize more quickly or more severely than we currently expect, risks may emerge. Lessees in this transaction are paying a fixed rate. As a result, in the short to medium term, they are protected from rate rises, but will be affected by cost-of-living pressures. We consider the debtors in the transaction to be prime and as such will generally have resilience to inflationary pressures.

Changes From The Predecessor Transaction

- Considering our macroeconomic outlook for Germany we removed the 0.25% of additional gross losses we considered in our base cases for VCL Multi-Compartment S.A., Compartment VCL 31 and VCL 32. This results in a 2.0% gross loss base-case assumption for VCL 35 (2.25% for VCL 31 and VCL 32). At the same time, we have reinstated our stress multiples to their pre-pandemic levels (4.3x and 3.0x at 'AAA' and 'AA-', respectively), such that the overall levels of stressed gross losses at these ratings remain unchanged from VCL 32 and VCL 31.
- The share of vehicles with alternative engines increased to about 30% of the discounted pool balance compared to about 11% in VCL 32. Most are hybrid vehicles (about 17%) with a smaller portion of pure electric vehicles (about 13%). To account for the uncertainty associated with the used electric vehicles prices, we have slightly adjusted downward our stressed 'AAA' recovery rate assumption to 38% from 40% for VCL 32 (see "What's It Worth? The Rise Of Electric Vehicles In European Auto ABS," published on Nov. 30, 2021).
- VCL 35's capital structure is identical to VCL 32's. The slightly higher credit losses we consider, coming from our lower stressed recovery rate assumption, are essentially offset by slightly lower uncovered seller's risks. Our analysis shows that the overall credit enhancement for the class A and B notes is sufficient to sustain 'AAA' and 'AA-' ratings, respectively.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to 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 and residual values adequately accounts for vehicle values over the relatively short expected life of the transaction. In addition, the transaction is not exposed to direct market value risk. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

Asset Description

As of the cut-off date, the collateral pool backing the notes comprised 118,391 lease contracts for a total of 96,044 lessees with a total discounted principal balance of about €1,000 million.

Table 1

Collateral Key Features*

Compartment of VCL Multi-Compartment S.A.	**VCL 35**	**VCL 32**	**VCL 31**	**VCL 30**	**VCL 29**	**VCL 26**
Originator	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH

Table 1

Collateral Key Features* (cont.)

Compartment of VCL Multi-Compartment S.A.	**VCL 35**	**VCL 32**	**VCL 31**	**VCL 30**	**VCL 29**	**VCL 26**
Country	Germany	Germany	Germany	Germany	Germany	Germany
Type of assets	Auto leases	Auto leases	Auto leases	Auto leases	Auto leases	Auto leases
Pool cut-off (date)	Feb. 28, 2022	Feb. 28, 2021	Oct. 31, 2020	Feb. 28, 2020	Oct. 31, 2019	Mar. 31, 2018
Closing date	March 25, 2022	March 25, 2021	Nov. 25, 2020	March 25, 2020	Nov. 25, 2019	April 25, 2018
Pool volume (mil. €)	1,000	1,000	1,064	1,000	1,000	1,596
Number of receivables	118,391	123,724	130,378	109,798	107,487	168,630
Discount rate or weighted-average yield (%)	5.70	5.70	5.70	5.70	5.70	5.70
Buffer rate (%)	4.06	4.49	4.49	4.50	4.45	4.50
Discount rate minus buffer release rate (%)	1.64	1.21	1.21	1.19	1.25	1.20
Weighted-average original term (months)	39.8	39.8	39.9	39.8	39.8	39.1
Weighted-average remaining term (months)	31.6	30.3	29.9	31.8	32.0	30.4
Weighted-average seasoning (months)	8.2	9.5	10.0	8.0	7.9	8.8
Contract type (%)						
Amortizing	100	100	100	100	100	100
Balloon	0	0	0	0	0	0
Vehicle status (%)						
New	90.9	91.9	90.8	92.7	94.6	95.3
Used and demonstration	9.1	8.9	9.2	7.3	5.4	4.7
Vehicle type (%)						
Car	100	100	100	100	100	100
Customer type (%)						
Private	23.3	21.1	19.8	13.1	11.5	69.5
Commercial	76.7	78.9	80.2	86.9	88.5	30.5
Engine type (%)						
Gasoline	28.7	31.8	34.7	31.8	30.1	24.1
Diesel	41.5	57.3	61.4	66.4	68.4	74.4
Electric	12.5	3.0	2.0	1.1	1.0	N.A.
Hybrid	17.1	7.5	1.4	0.3	0.1	N.A.
Other	0.2	0.4	0.4	0.4	0.4	1.5
Vehicle brand (%)						
Audi	30.0	33.1	31.8	31.7	32.4	33.8
Volkswagen	34.2	32.3	33.3	34.4	32.7	33.1
Volkswagen LCV (%)	10.4	11.9	12.6	12.9	14.3	15.9
Skoda (%)	15.9	14.9	14.3	13.8	13.3	13.3
Seat (%)	9.1	7.5	7.7	6.7	6.9	3.5

Table 1

Collateral Key Features* (cont.)

Compartment of VCL Multi-Compartment S.A.	VCL 35	VCL 32	VCL 31	VCL 30	VCL 29	VCL 26
Geographic concentration (%)						
Top 1	22.9	22.6	22.6	22.3	22.5	21.7
Top 2	17.2	17.0	17.2	17.6	17.5	17.7
Top 3	15.0	15.2	14.9	15.1	15.7	15.7

*Percentages are expressed as a percentage of the outstanding discounted principal balance. N.A.--Not available. LCV--Light commercial vehicle.

Chart 1

Geographic Distribution

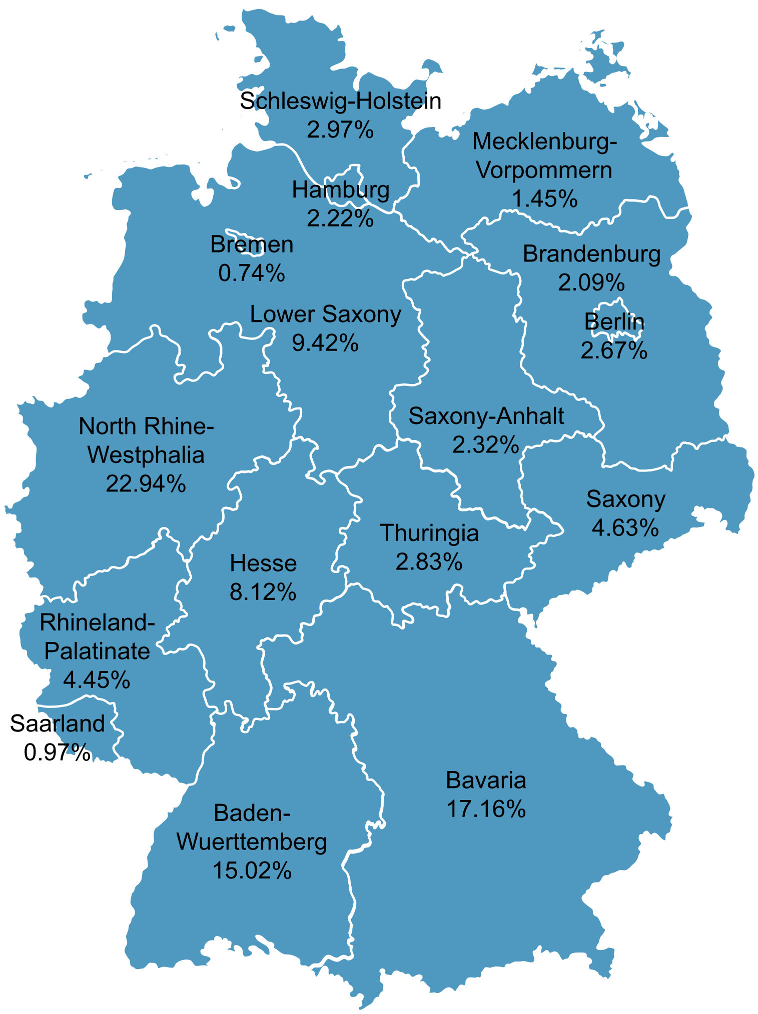
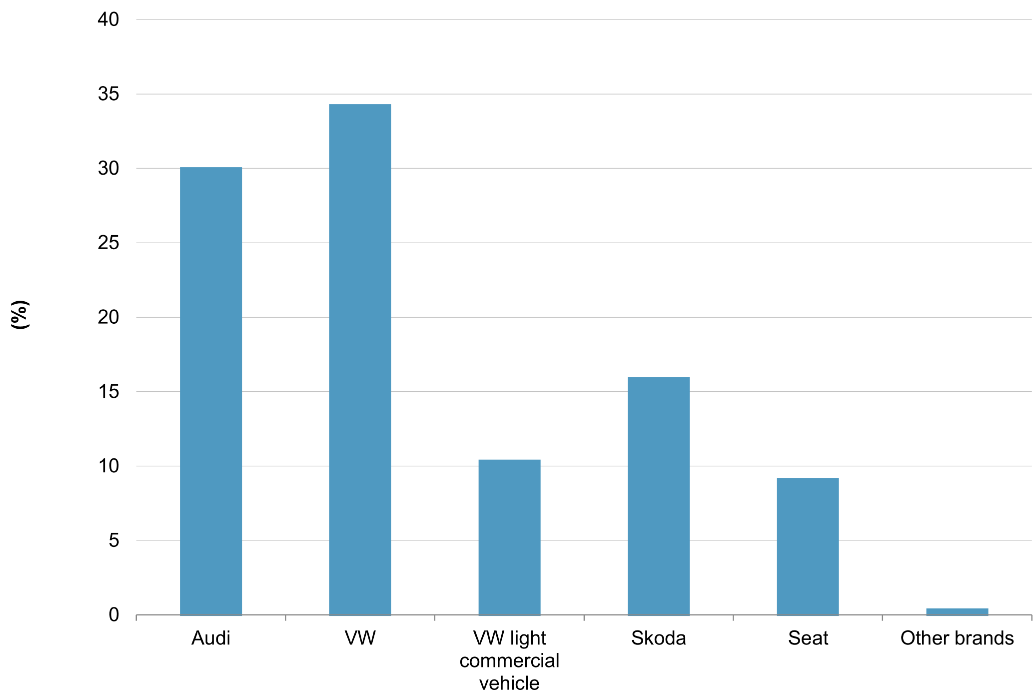


Chart 2

Pool Distribution By Brand
As of Feb. 28, 2022



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 situated 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 set-off claim.
- No receivable was overdue at the cut-off 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 35 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 35, discounted at the rate at which the issuer initially purchased the receivables.

VCL 35 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 35.

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 Financial Services AG, which in turn is a 100% subsidiary of 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 do not impose any cap on the maximum achievable rating.

The transaction does not have a back-up servicer at closing. 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 European auto ABS criteria (see "Related Criteria").

Economic outlook

In our analysis, we considered the following economic data in determining our credit assumptions (see "Related Research").

Table 2

Macroeconomic And Sector Outlook

	2022f	2023f	2024f
Real GDP (y/y growth; %)	2.9	2.6	1.9
Inflation (%)	5.2	N/A	N/A

Sources: S&P Global Ratings. N/A--Not applicable. y/y--Year over year. f--Forecast.

We expect German inflation to reach 5.2% in 2022. Although elevated inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others. To the extent inflationary pressures materialize more quickly or more severely than we currently expect, risks may emerge.

Lessees in this transaction are paying a fixed rate. As a result, in the short to medium term, they are protected from rate rises, but will be affected by cost-of-living pressures. We consider the debtors in the transaction to be prime and as such will generally have resilience to inflationary pressures.

We acknowledge a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine. Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. The potential effects could include dislocated commodities markets (notably for oil and gas) supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly. This transaction does not have direct exposure to collateral in the conflict region. Collateral-related pressures could, therefore, only come to bear through second-round effects, such as lower economic growth and higher inflation hurting consumers' ability to service their debt. However, we don't see this as a material risk in the short term (see "S&P Global Ratings Expects The Russia-Ukraine Conflict To Have Limited Direct Impact On Global Structured Finance," published on March 3, 2022).

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)

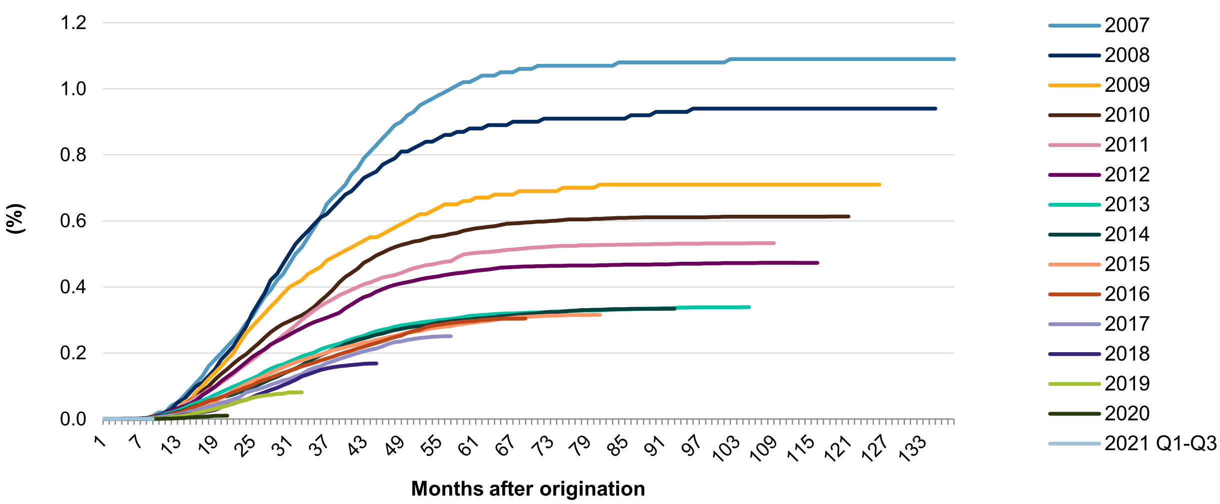
We received monthly static net loss data, showing cumulative net losses (i.e., actual write-offs after recoveries) as a percentage of VW Leasing's origination volume in its entire lease book. We received data from September 2011 to September 2021. The originator did not provide us with separate recovery or prepayment data. To arrive at a gross loss proxy, we "gross up" the net loss data, using a recovery rate assumption of 60%, which we derived from the historical recoveries of other VCL transactions.

We have also used the performance information available from the predecessor transactions (from January 2009). 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 2009 and 2017 and has stabilized at very low levels since then (see chart 3).

Chart 3

Cumulative Net Losses (VW Leasing's Own Books)



Based on the historical performance of receivables originated by VW Leasing and of the outstanding VCL transactions, we sized an average net loss of 0.80% for the pool. We then derived a gross loss assumption of 2.00% by assuming a 60% recovery rate. Given our macroeconomic forecast for Germany, we did not consider any additional COVID-19-related stresses to our base case, whereas we had considered a 0.25% add-on to our gross loss base cases in VCL 32 and VCL 31.

At the same time, we reverted to our pre-pandemic base-case multiples of 4.3x and 3.0 for defaults at the 'AAA' and 'AA-' rating levels, respectively, resulting in unchanged gross losses in these stress scenarios compared to VCL 32.

Recoveries and recovery timing

Under our European auto ABS criteria, we apply a uniform stressed recovery rate at all rating levels. 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 as well as credit, operational, or other factors that might affect the timing, amount, and sustainability of recovery rates. Typical stressed recovery rates assumed are in the range of 30% to 45%.

For VCL 35, we sized stressed recoveries of 38% for all rating levels based on recovery data provided for previous VCL transactions and a peer comparison with other German auto leasing transactions. VCL 35 has a higher share of electric vehicles and hybrids compared to VCL 32 (about 30% versus about 11%), including about 13% of pure electric vehicles. Our recovery rate assumption incorporates the risk of lower vehicle realization values for these latter engine types. This is a decrease from the 40% recovery rates from previous VCL transactions.

Table 3 summarizes our credit assumptions.

Table 3

Credit Assumption Summary

Rating level	Net loss base case (%)	Recovery rate (for gross up) (%)	Gross loss base case (%)	Multiple	Stressed cumulative default rate (%)	Stressed recovery rate (%)*	Stressed cumulative net losses (%)
AAA (sf)	0.80	60	2.00	4.30	8.60	38	5.33
AA- (sf)	0.80	60	2.00	2.97	5.93	38	3.68

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

Residual value risk

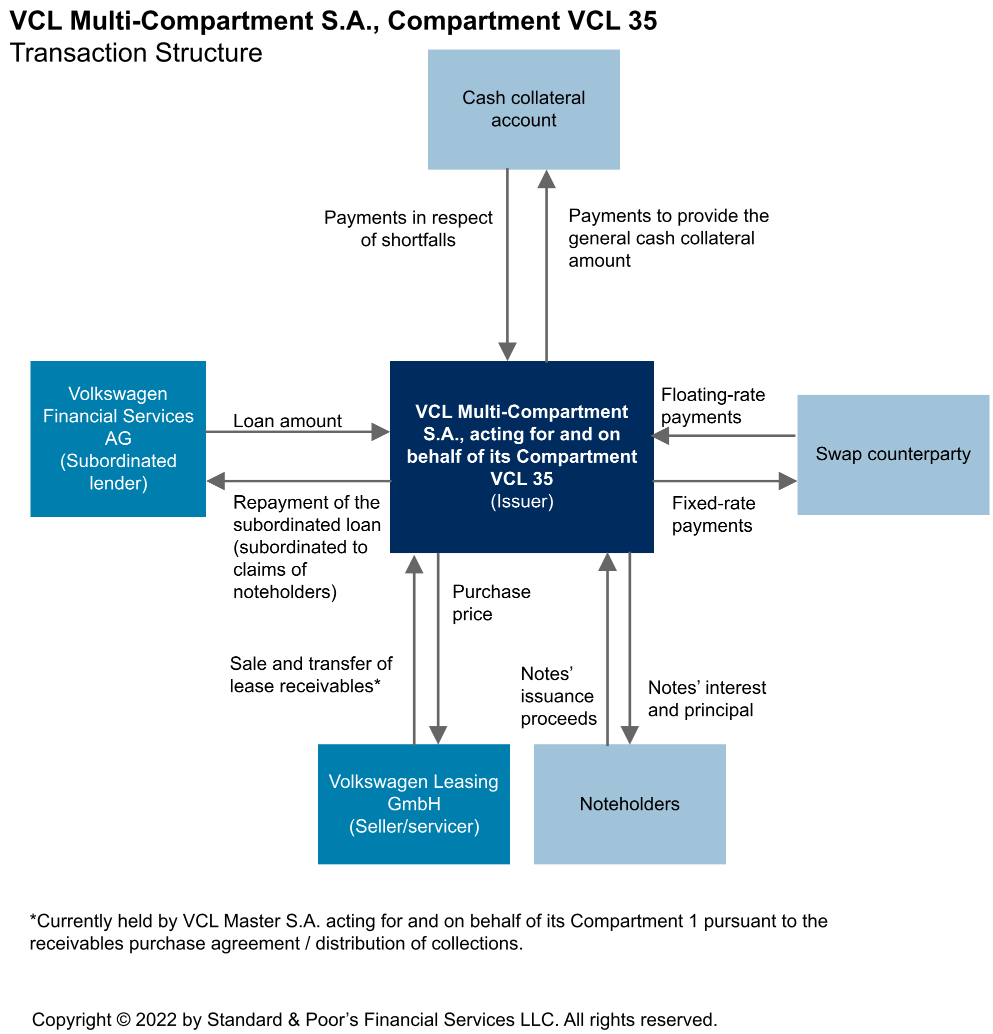
VCL 35 is not directly exposed to residual value risk as it has not purchased this type of receivables.

Transaction Structure

At closing, the issuer bought a pool of auto lease receivables with a net present value of €1,000 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. Therefore, interest receipts will be equal, in practice, 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



The issuer is a Luxembourg special-purpose entity, which we consider to be bankruptcy remote under our legal criteria (see "Related Criteria"). The transaction legal opinion at closing confirmed 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) will be on April 21, 2022, and the legal final maturity of the notes will be in January 2028.

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 4.

Table 4

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. Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party).
4	Interest on the class A notes.
5	Interest on the class B notes.
6	Top-up cash reserve (only if drawn upon previously).
7	Class A notes' principal (sequential or pro rata).
8	Class B notes' principal (sequential or pro rata).
9	Payments to the swap counterparty not paid above.
10	Interest on the subordinated loan.
11	Principal on the subordinated loan.
12	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 (see table 5), or if the servicer becomes insolvent.

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 June 2023 or 1.15% between June 2023 (exclusive) and March 2024; or
- Trigger level 2: The cumulative net loss ratio exceeds 1.6% at any time.

Table 5

Overcollateralization Levels

	Actual overcollateralization (%)	Target overcollateralization levels (%)		
	At closing	**No trigger breach**	**Trigger level 1 breached**	**Trigger level 2 breached**
Class A	5.89	12.25	14.00	100.00
Class B	3.74	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 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 scheduled maturity date, 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 outstanding discounted asset balance, subject to a floor amount of 1.0% of the initial discounted asset balance.

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 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 in order 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 35. 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, 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 Skandinaviska Enskilda Banken AB (publ) 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 the servicer commingling risk if our issuer credit rating on Volkswagen Financial Services 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. We deem that commingling risk is fully mitigated by this servicer advance mechanism.

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 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 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 32, seller-related risks (German trade tax risks, and VAT risks) are mitigated by a nonamortizing seller risk reserve (1.10% of the initial discounted pool balance), which VW Leasing funded at closing. In our view, the seller risk reserve only partially mitigates the potential German trade tax risk and VAT risks. Therefore, we have considered the uncovered portion (0.55% of the initial discounted pool balance) 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 (17 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 interest rate scenarios at current levels (with a 0% floor), down to 0%, and up to 12%. 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 0.55% of the portfolio's initial discounted value because we consider that the seller risk reserve only partially mitigates the related risks. In addition, we modeled the cash credit enhancement's erosion due to negative interest rate scenarios.

Table 6

Cash Flow Assumptions	
Recession start	At closing
Length of recession	WAL (17 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 (£)	100,000
Replacement bank cost	80,000
Prepayments (high/low)(%)	20.0/0.5
Interest rate	Up: current to 12% with 2% monthly increaseDown: current to 0% with 2% monthly decreaseFlat: at current level (with a floor of 0%)
Initial WAC (%)	1.64
Relative WAC compression (%)	N/A as purchased at discount
Commingling stress	None, mitigated through servicer advances subject to rating triggers.
Stressed tax losses	0.55% of initial pool discounted balance.

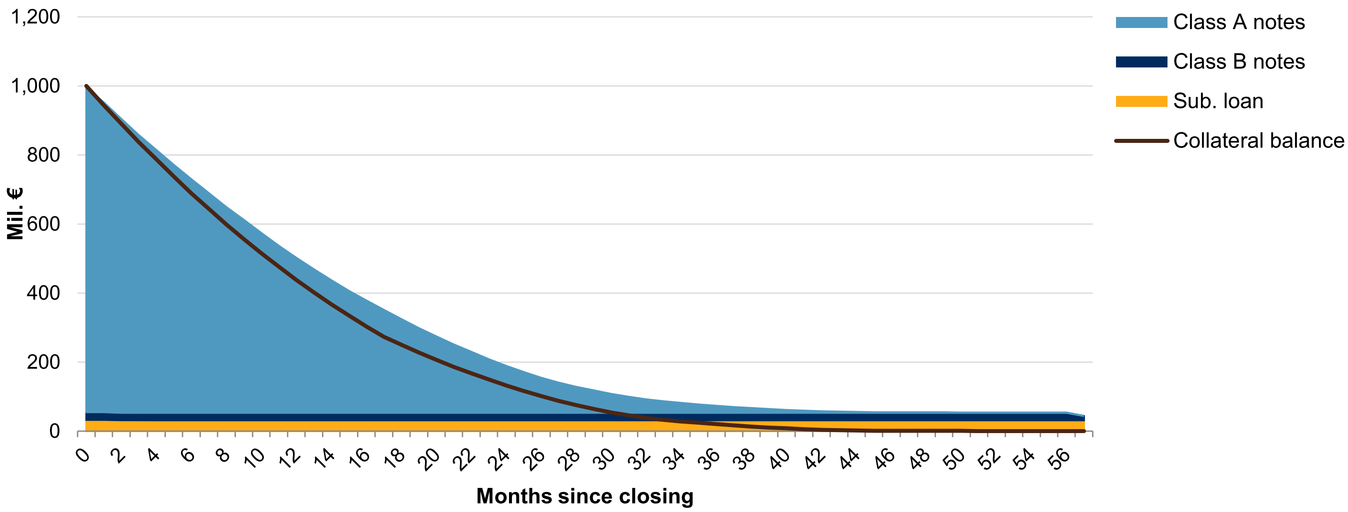
WAL--Weighted average life. WAC--Weighted average coupon. N/A--Not applicable.

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



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. There are no rating constraints due to counterparty risk exposures.

Table 7

Supporting Ratings

Institution/role	Ratings	Replacement trigger	Collateral posting trigger
The Bank of New York Mellon, Frankfurt Branch as the transaction accounts provider*	ICR: AA-/Stable/A-1+	A/A-1 (or 'A+' if no short-term rating available)	N/A
Skandinaviska Enskilda Banken AB (publ) as the interest rate swap counterparty	RCR: AA-	BBB+	A-

*After application of our bank branch criteria and considering the ratings on the parent company. ICR--Issuer credit rating. N/A--Not applicable. RCR--Resolution counterpary rating.

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.

Scenario Analysis

We analyzed the effect of a moderate stress on the credit variables (recovery rates and prepayment rates) and its ultimate effect on our ratings on the notes. We ran two scenarios to test the rating's stability, and the results are in line with our credit stability criteria (see tables 8 and 9).

Table 8

Scenario Stresses

12-month stress horizon

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	2.00	2.00	2.00
Stressed recovery rate (%)	38.00	29.13	23.22
Constant prepayment rate (%)	10.00	8.0	6.7

Table 9

Scenario Stress Analysis: Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AAA (sf)	AAA (sf)
	B	AA- (sf)	A+ (sf)
Scenario 2	A	AAA (sf)	AA (sf)
	B	AA- (sf)	A- (sf)

As part of our analysis we also conducted additional sensitivity analysis to assess the impact of, all else being equal, an increased gross default base case and a haircut to the recovery rate base case, on our ratings on the notes. For this purpose, we ran eight sensitivity runs by either increasing stressed defaults and/or reducing expected recoveries as shown in the tables below.

Table 10

Recovery Rates

	Recovery rate base case (%)		
Gross default rate base case (%)	0%	(10%)	(25%)
0%	Base case	3	4
10%	1	5	7
25%	2	6	8

The results of the above sensitivity analysis indicate a deterioration of no more than four notches on the notes (see table 11).

Table 11

Sensitivity Analysis

	Base Case	1	2	3	4	5	6	7	8
A	AAA	AAA	AA+	AAA	AA+	AA+	AA	AA	AA
B	AA-	A	A	A+	A	A	A-	A	BBB+

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.

Potential Effects Of Proposed Criteria Changes

Our ratings are based on our applicable criteria, including our European auto ABS criteria. However, these criteria are under review (see "Request For Comment: Global Auto ABS Methodology And Assumptions," published on Nov. 30, 2021).

As highlighted in that article, we are soliciting feedback from market participants on proposed changes to our criteria. We will evaluate the market feedback which may result in further changes to the criteria. As a result of this review, our future auto ABS criteria may differ from our current criteria. The criteria change may affect the ratings in this transaction. Until such time that we adopt new criteria, we will continue to rate and surveil these notes using our existing criteria (see "Related Criteria").

Appendix

Transaction participants

Transaction Participants	
Seller and servicer	Volkswagen Leasing GmbH
Arranger	UniCredit Bank AG
Lead managers	BNP Paribas S.A., DZ Bank AG, and UniCredit Bank AG
Security trustee	Intertrust Trustees GmbH
Expectancy rights trustee	Wilmington Trust (London) Ltd.
Corporate services provider	Circumference FS (Luxembourg) S.A.
Bank account provider and cash administrator	The Bank of New York Mellon, Frankfurt Branch
Principal paying agent, calculation agent, and interest determination agent	The Bank of New York Mellon, London Branch
Data protection trustee	Data Custody Agent Services B.V.
Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch
Swap counterparties	Skandinaviska Enskilda Banken AB (publ)

Related Criteria

- 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

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | ABS: Methodology And Assumptions For European Auto ABS, Oct. 15, 2015
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- 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 2021, March 23, 2022
- Global Macro Update: Preliminary Forecasts Reflecting The Russia-Ukraine Conflict, March 8, 2022
- S&P Global Ratings Expects The Russia-Ukraine Conflict To Have Limited Direct Impact On Global Structured Finance, March 3, 2022
- What's It Worth? The Rise Of Electric Vehicles In European Auto ABS, Nov. 30, 2021
- Request For Comment: Global Auto ABS Methodology And Assumptions, Nov. 30, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 26, 2021
- Credit FAQ: Questions Over Electric Vehicle Residual Values In European Auto ABS, May 31, 2019
- How Much Is Enough? Information Quality Standards For The EMEA RMBS And ABS Rating Process, Jan. 8, 2019
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS

Performance, May 12, 2009