S&P Global
Ratings

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New Issue: VCL Multi-Compartment S.A., Compartment VCL 38

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New Issue: VCL Multi-Compartment S.A., Compartment VCL 38

Ratings Detail

Class	Rating*	Amount (mil. €)	Overcollateralization and subordination (%)	Cash reserve (%)	Available credit enhancement (%)§	Interest (%)†	Legal final maturity
A	AAA (sf)	1,182.50	5.40	1.10	6.50	1ME + 43 bps	January 2029
B	AA (sf)	25.00	3.40	1.10	4.50	1ME + 130 bps	January 2029
Subordinated loan	NR	32.00	N/A	N/A	N/A	N/A	N/A

*Our ratings address timely payment of interest and ultimate principal. §Includes subordination, overcollateralization (€10.5 million or 0.84% of the discounted pool balance), and a cash reserve (initial amount of €13.75 million or 1.10% 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. Bps--Basis points.

Transaction Summary

- S&P Global Ratings has assigned its credit ratings to VCL Multi-Compartment S.A., Compartment VCL 38's (VCL 38) class A and B notes. At closing, VCL 38 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 38'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 38, 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 started to amortize immediately after closing. Amortization is sequential, 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. VCL 38 will benefit 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 liabilities.
- All the receivables securitized were previously refinanced through the existing warehousing facility, VCL Master S.A. Compartment 1.
- The transaction's capital structure is slightly different compared to that of VCL Multi-Compartment S.A., Compartment VCL 37 (VCL 37), which we rated in November 2022. The cash reserve in VCL 38 amortizes at 1.1%

of the aggregate discounted receivables balance as of the end of the relevant monthly period. This is subject to a floor amount of the lesser 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. VCL 37's cash reserve equaled 1.1% of the initial aggregate discounted receivables balance and did not amortize.

- Like VCL 37, seller-related risks (German trade tax risks and value-added tax [VAT] risks) are mitigated by a nonamortizing seller risk reserve (increased to 1.25% of the initial discounted pool balance from 1.1% in VCL 37), 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 (0.61% of the initial discounted pool balance in a 'AAA' scenario) as a loss in our cash flow analysis.
- Similar to 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. They also adequately address any operational risk in line with our operational risk 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 December 2022, 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 Feb. 28, 2023, it comprised 129,356 lease contracts for a total of 99,320 lessees. The largest single lessee concentration is 0.19% and the top 20 lessees comprise just 1.34% 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 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 nonamortizing seller risk reserve representing 1.25% 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 (0.61% 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.	

Strengths, Concerns, And Mitigating Factors (cont.)	
Strengths	**Concerns and mitigating factors**
The structure benefits from an amortizing liquidity reserve, initially sized at 1.1% 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.	

Changes From The Predecessor Transaction

- VCL 38's cash reserve will amortize at 1.1% of the aggregate discounted receivables balance as of the end of the relevant monthly period. This is subject to a floor amount of the lesser 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. VCL 37's cash reserve equaled 1.1% of the initial aggregate discounted receivables balance and did not amortize.

Environmental, Social, And Governance (ESG)

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 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 cut-off date, the collateral pool backing the notes comprised 129,356 lease contracts for a total of 99,320 lessees with a total discounted principal balance of €1,250 million.

Table 1

Collateral Key Features*

Compartment of VCL Multi-Compartment S.A.	VCL Multi-Compartment S.A., Compartment VCL 38	VCL Multi-Compartment S.A., Compartment VCL 37	VCL Multi-Compartment S.A., Compartment VCL 35	VCL Multi-Compartment S.A., Compartment VCL 32	VCL Multi-Compartment S.A., Compartment VCL 31
Originator	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH	Volkswagen Leasing GmbH
Country	Germany	Germany	Germany	Germany	Germany
Type of assets	Auto leases	Auto leases	Auto leases	Auto leases	Auto leases
Pool cut-off (date)	Feb. 28, 2023	Oct. 31, 2022	Feb. 28, 2022	Feb. 28, 2021	Oct. 31, 2020
Closing date	March 27, 2023	Nov. 25, 2022	March 25, 2022	March 25, 2021	Nov. 25, 2020
Pool volume (mil. €)	1,250	1,000	1,000	1,000	1,064
Number of receivables	129,356	108,887	118,391	123,724	130,378
Discount rate or weighted-average yield (%)	5.70	5.70	5.70	5.70	5.70
Buffer rate (%)	0.82	1.21	4.06	4.49	4.49
Discount rate minus buffer release rate (%)	4.88	4.49	1.64	1.21	1.21
Weighted-average original term (months)	39.6	39.6	39.8	39.8	39.9
Weighted-average remaining term (months)	32.7	32.3	31.6	30.3	29.9
Weighted-average seasoning (months)	6.9	7.3	8.2	9.5	10.0
Contract type (%)					
Amortizing	100	100	100	100	100
Balloon	0	0	0	0	0
Vehicle status (%)					
New	94.3	93.9	90.9	91.9	90.8
Used and demonstration	5.7	6.1	9.1	8.9	9.2
Vehicle type (%)					
Car	100	100	100	100	100
Business segment (%)					
Private	22.2	22.7	23.3	21.1	19.8
Commercial	77.8	77.3	76.7	78.9	80.2
Engine type (%)					
Gasoline	29.5	32.6	28.7	31.8	34.7
Diesel	35.7	40.1	41.5	57.3	61.4
Electric	17.7	13.3	12.5	3.0	2.0
Hybrid	16.9	13.8	17.1	7.5	1.4
Other	0.2	0.2	0.2	0.4	0.4
Vehicle brand (%)					
Audi	29.4	28.2	30.0	33.1	31.8

Table 1

Collateral Key Features* (cont.)

Compartment of VCL Multi-Compartment S.A.	VCL Multi-Compartment S.A., Compartment VCL 38	VCL Multi-Compartment S.A., Compartment VCL 37	VCL Multi-Compartment S.A., Compartment VCL 35	VCL Multi-Compartment S.A., Compartment VCL 32	VCL Multi-Compartment S.A., Compartment VCL 31
Volkswagen	36.8	35.6	34.2	32.3	33.3
Volkswagen LCV (%)	8.3	10.0	10.4	11.9	12.6
Skoda (%)	14.2	14.7	15.9	14.9	14.3
Seat (%)	11.2	11.1	9.1	7.5	7.7
Geographic concentration (%)					
Top 1	23.7	22.8	22.9	22.6	22.6
Top 2	17.5	17.7	17.2	17.0	17.2
Top 3	15.1	15.2	15.0	15.2	14.9

*Percentages are expressed as a percentage of the outstanding discounted principal balance. LCV--Light commercial vehicle.

Chart 1

Geographic Distribution

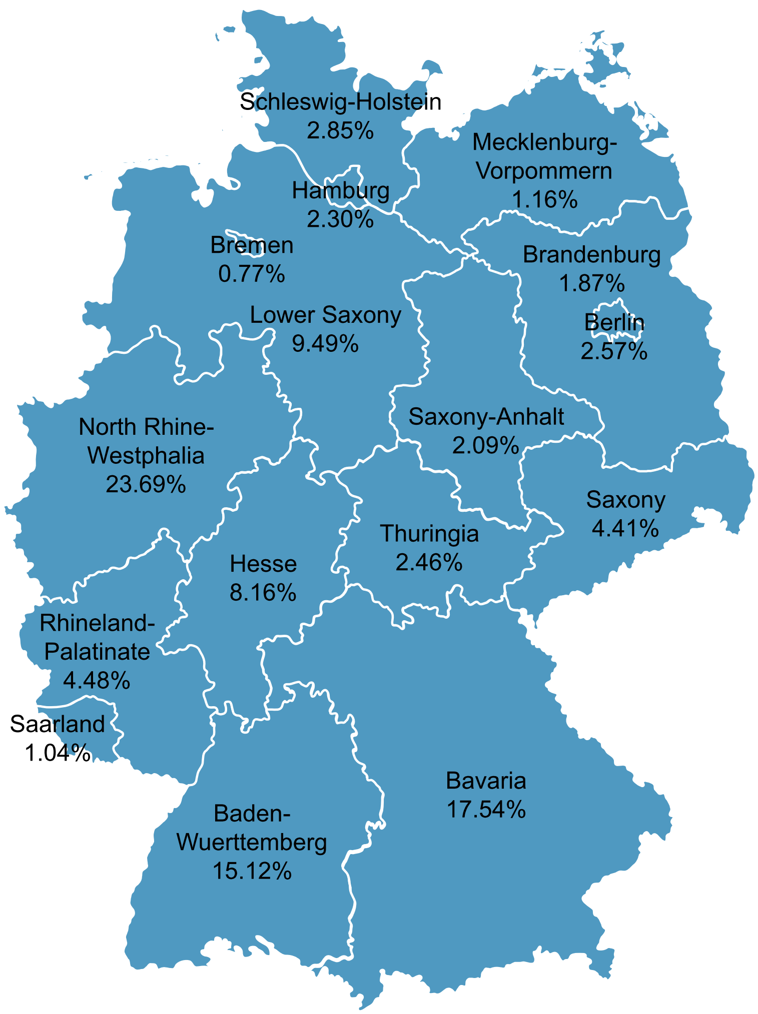
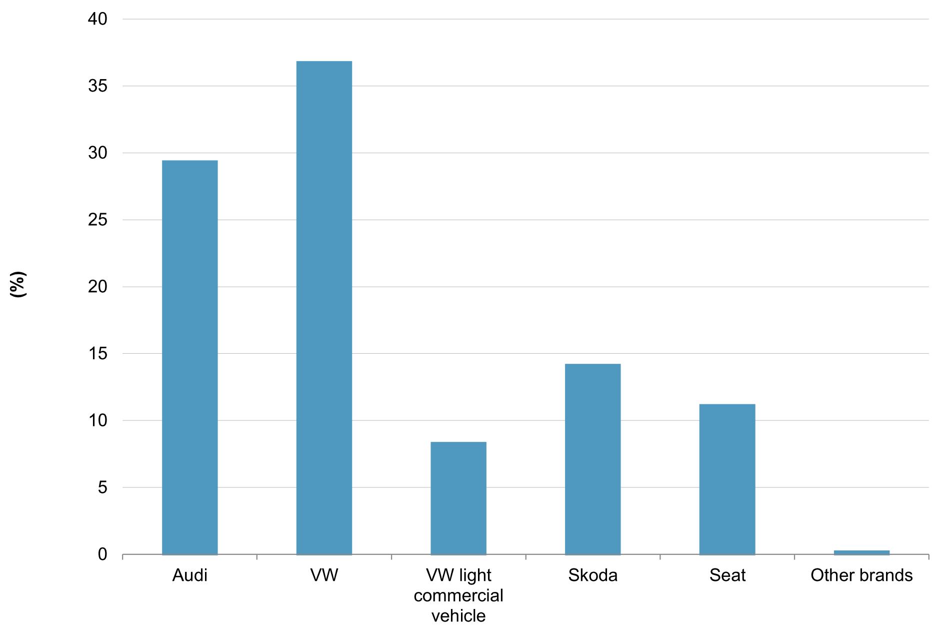


Chart 2

Pool Distribution By Brand
As of Feb. 28, 2023



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 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 38 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 38, discounted at the rate at which the issuer initially purchased the receivables.

VCL 38 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 38.

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 does not impose any cap on the maximum achievable rating.

The transaction does not have a back-up servicer. 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 -0.5%, 1.0%, and 1.3%, in 2023, 2024, and 2025, respectively. Our baseline forecast was informed by our economic outlook for the Eurozone published on Nov. 28, 2022 (see "Related Research"). Sticky inflation, stunted hiring, and higher interest rates will be clear negatives. But a substantial acceleration in wages and stronger public investment should support domestic demand and steer the economy toward a modest recovery from the middle of 2023.

We expect inflation to be 7.2%, 3.0%, and 1.8% in 2023, 2024, and 2025, respectively. We set our credit assumptions to reflect our economic outlook for Germany.

Lessees in this transaction pay a fixed rate. As a result, in the short to medium term borrowers are protected from rate rises but will face cost-of-living pressures. We consider these borrowers to be prime and as such generally resilient to inflationary pressures.

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)

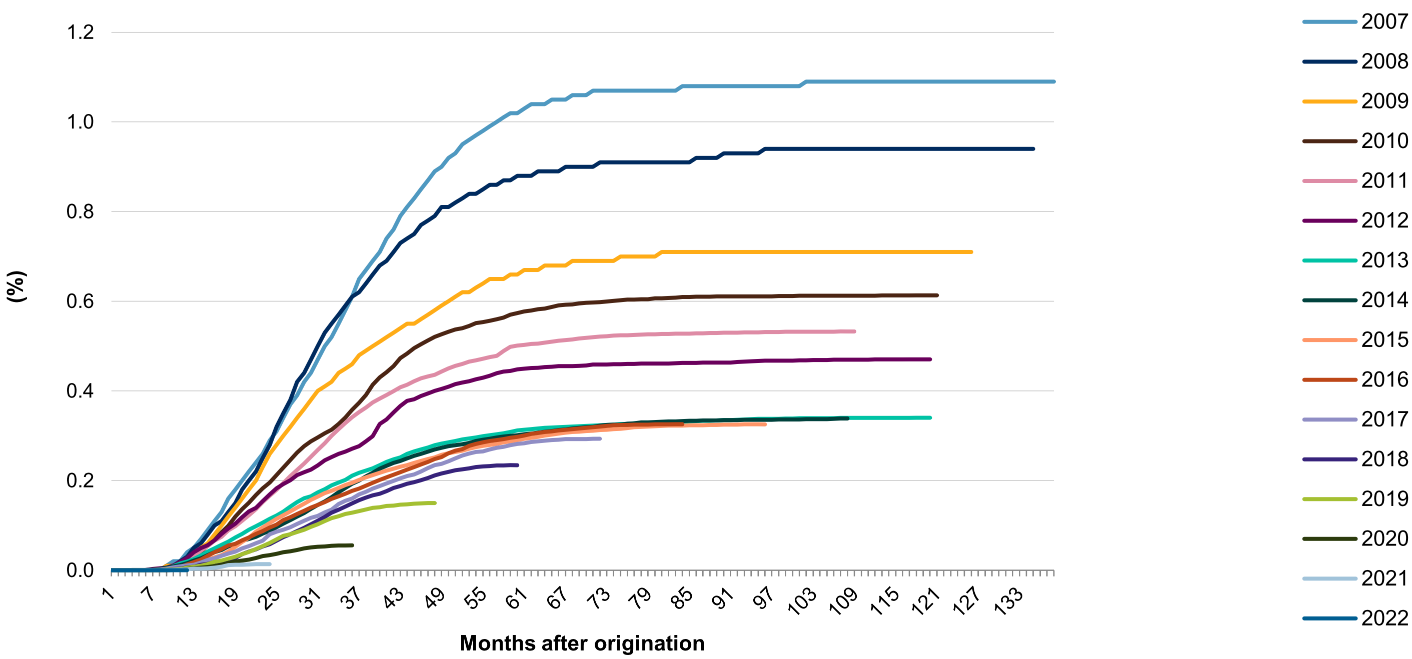
We received monthly static net loss data, showing cumulative net losses (i.e., actual write-offs after recoveries) as a percentage of VW Leasing's origination volume in its entire lease book. We received data from September 2011 to December 2022. The originator did not provide us with separate recovery 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 2007 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. Although the book's and predecessor transactions' performance are very good, we did not decrease the base-case gross loss assumption as we expect German inflation to reach 7.2% in 2023 under our baseline forecast. 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.

At the same time, we maintained our base-case multiples of 4.3x and 3.0x for defaults at the 'AAA' and 'AA-' ratings, respectively, resulting in unchanged gross losses in these stress scenarios compared to VCL 37.

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. After considering all this information we set the base-case recovery rate at 60%.

For VCL 38, we sized stressed recoveries of 38.1% and 40.2% for the 'AAA' and 'AA' ratings, respectively, based on recovery data provided for previous VCL transactions and a peer comparison with other German auto leasing transactions. VCL 38 comprises about 35% electric vehicles and hybrids, including about 18% of pure electric vehicles.

Our recovery rate assumption incorporates the risk of lower vehicle realization values for these latter engine types. This is in line with VCL 37.

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)	0.80	60	2.00	4.30	8.60	36.5	38.1	5.32
AA (sf)	0.80	60	2.00	3.30	6.6	33.0	40.2	3.95

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

Residual value risk

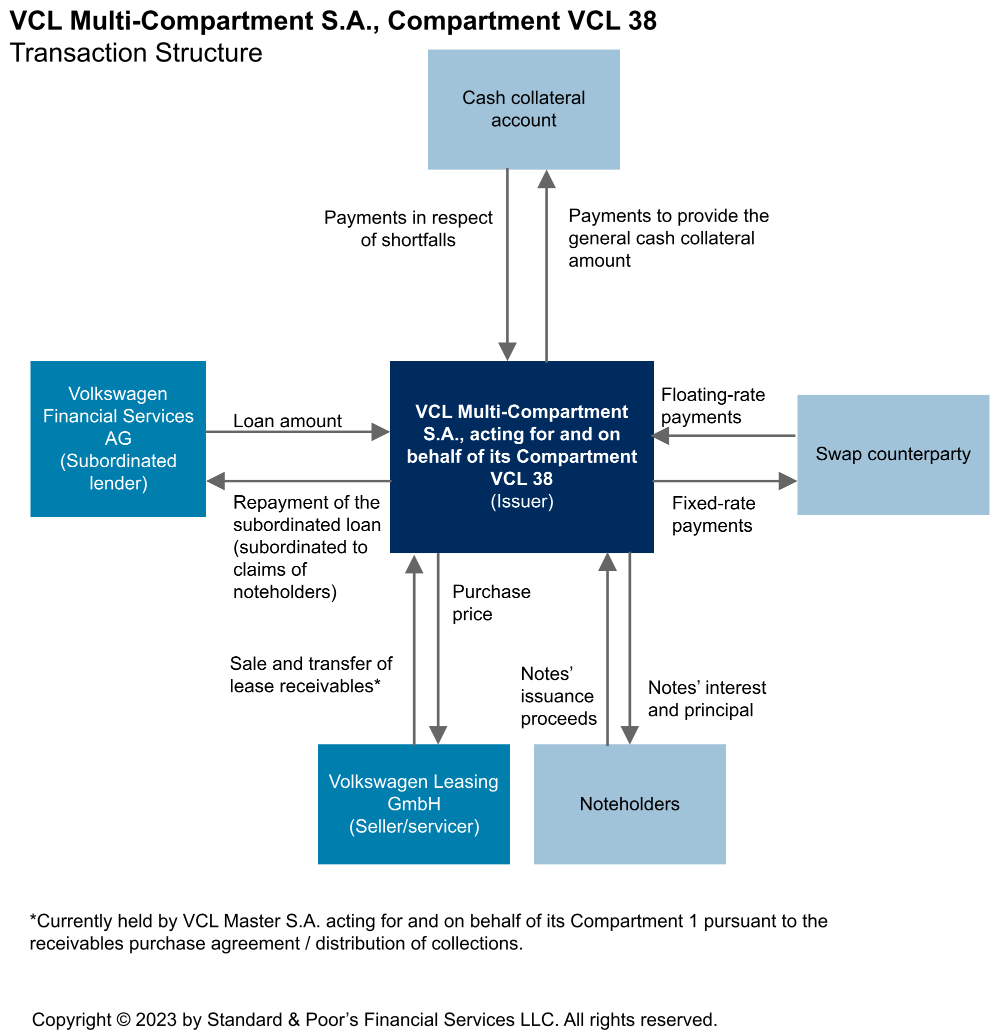
VCL 38 is not directly exposed to residual value risk as it has not purchased this type of receivables.

Transaction Structure

At closing, the issuer bought a pool of auto lease receivables with a net present value of €1,250 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 are 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, 2023, and the legal final maturity of the notes will be in January 2029.

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 June 2024 or 1.15% between June 2024 (exclusive) and March 2025; 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	5.40	12.25	14.00	100.00
Class B	3.40	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 €13.75 million (1.1% 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 will amortize at 1.1% of the aggregate discounted receivables balance as of the end of the relevant monthly period. This is subject to a floor amount of the lesser 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 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 38. 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 also entered into fixed-to-floating interest rate swap agreements with DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main 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.

Set-off risk

The transaction's eligibility criteria for the pool exclude leases granted to VW employees, thereby mitigating employee set-off risk. We also do not believe any set-off would arise from lessee deposits, insurance, or maintenance/servicing agreements. Lastly, we are not currently aware of any set-off claims that have arisen due to vehicle defects. As part of our ongoing surveillance of the transaction, we will monitor any potential set-off 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 37, seller-related risks (German trade tax risks, and VAT risks) are mitigated by a nonamortizing seller risk reserve (increased to 1.25% of the initial discounted pool balance from 1.1% in VCL 37), 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 (0.61% 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 (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 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 would fully mitigate these losses. We also modeled tax losses amounting to 0.61% ('AAA' scenario) 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 5

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)(%)	16.0/0.5
Interest rate	Stressed interest rate curve (up, down, up/down, down/up)
Initial WAC (%)	4.88
Relative WAC compression (%)	N/A as purchased at discount
Commingling stress	None, mitigated through servicer advances subject to rating triggers.

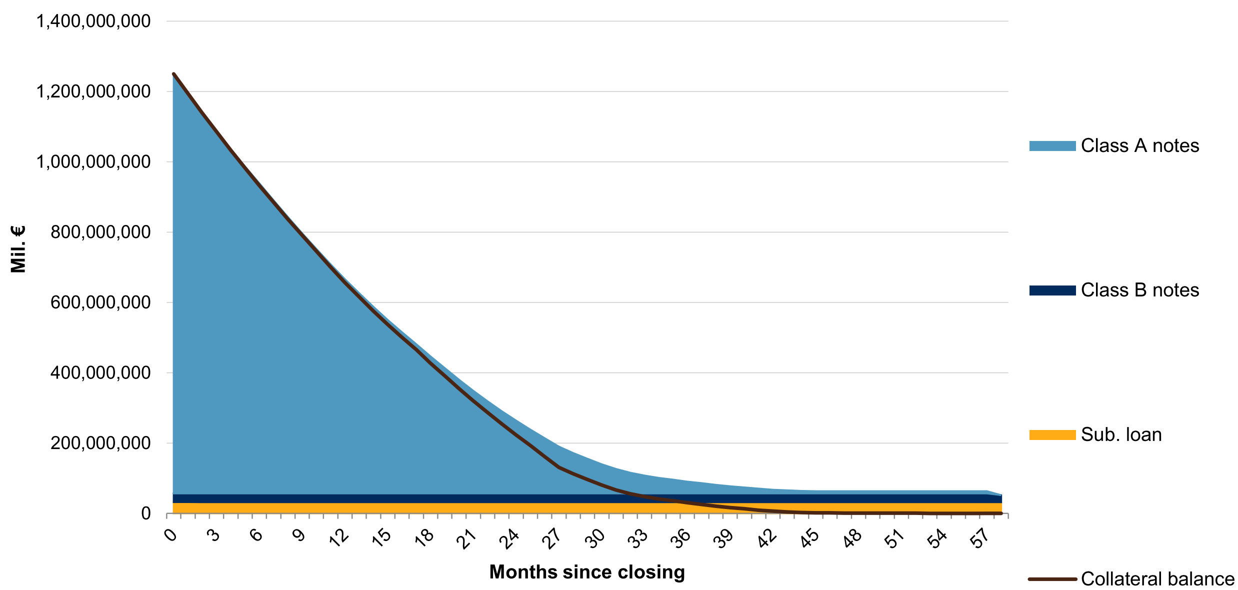
WAL--Weighted average life. WAC--Weighted average coupon. N/A--Not applicable.

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



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 6

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
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main	ICR: A+/Stable/A-1	A-	A-

*After application of our bank branch criteria and considering the ratings on the parent company. ICR--Issuer credit 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.

Scenario Analysis

As part of our analysis, we conducted 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.

The results of the above sensitivity analysis indicate a deterioration of no more than two notches on the notes (see table 7).

Table 7

Sensitivity Analysis

	Recovery rate base case (%)		
Gross default rate base case (%)	**0**	**(10)**	**(30)**
0	Base run	3	4
10	1	5	7
30	2	6	8

Table 8

Sensitivity Analysis Results

	Standard run	1	2	3	4	5	6	7	8
Gross loss base case (%)	2.0	2.2	2.6	2.0	2.0	2.2	2.6	2.2	2.6
Recovery rate base case (%)	60.0	60.0	60.0	54.0	42.0	54.0	54.0	42.0	42.0
A	AAA	AA+	AA	AAA	AA+	AA+	AA	AA	AA-
B	AA	AA-	A	AA-	A+	A+	A	A	A-

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	BofA Securities Europe SA
Lead managers	BofA Securities Europe SA, Mizuho Securities Europe GmbH and UniCredit Bank AG

Transaction Participants (cont.)	
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	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
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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 2022, Feb. 10, 2023
- European ABS Outlook 2023, Jan. 12, 2023
- Asset Price Risks: European Auto ABS Appear Resilient To A Potential Fall In Used Car Prices, Nov. 29, 2022
- Economic Outlook Eurozone Q1 2023: Reality Check, Nov. 28, 2022

- Credit FAQ: Understanding Pro Rata Amortization Profiles In EMEA ABS Transactions, Nov. 24, 2022
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Sept. 23, 2022
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- 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
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- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009