Fitch Ratings - Frankfurt am Main - 25 Nov 2020: Fitch Ratings has affirmed VCL Master Netherlands B.V.'s series A notes and downgraded the series B notes following an amendment of the structure in combination with an extension of the revolving period.

Fitch has simultaneously chosen to withdraw the rating of the series B 2016-1 for commercial reasons. A full list of rating actions is below.

<table>
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<tr>
<th>XS1419661035</th>
<th>Outlook</th>
<th>Stable</th>
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Series A 2016-3
XS1419662272
AAAsf Rating Outlook Stable
Affirmed
AAAsf Rating Outlook Stable

Series A 2016-4
XS1419662603
AAAsf Rating Outlook Stable
Affirmed
AAAsf Rating Outlook Stable
TRANSACTION SUMMARY

VCL Master Netherlands B.V. is a revolving securitisation of auto lease receivables granted to Dutch companies and individuals by Volkswagen Pon Financial Services B.V. (VWPFS). VWPFS is 60% owned by Volkswagen Finance Overseas B.V. (itself fully owned by Volkswagen Financial Services AG) and 40% owned by Dutch conglomerate Pon Holdings B.V.

Key changes to the structure since our last review are:

- Amortisation period target overcollateralisation (OC) levels have been reduced to 41.0% from 42.5% for the series A and to 33% from 35% for the series B;

- Minimum OC levels that trigger an early note amortisation have been reduced to 29.25% from 30.75% for the series A and to 21.25% from 23.25% for the series B;

- The revolving period has been extended by another year for all series of notes until the November 2021 interest payment date (IPD);

- The legal final maturity date for all series of notes has been shortened to the March 2028 IPD;

- The notes' margins have been adjusted to 75bp from 55bp for series A and 145bp from 110bp for series B;

- The cumulative default trigger has been replaced with a 12-months average default trigger;

- Revolving period target OC levels have been reduced to 30% from 31.5% for series A and to 22% from 24% for series B. Due to the dynamic nature of the notes' OC during the revolving period, we assume the minimum possible OC levels at the start of the amortisation period in our cash flow analysis. Therefore, the reduction of the revolving period target OC levels had no impact on Fitch's credit analysis;
- The maintenance reserve mechanism has been restructured so that the required maintenance reserve amount is dependent on the cumulative actual maintenance costs over the preceding six monthly reporting periods;

- Reserve fund-related credit enhancement increase condition has been amended to either reserve fund being funded below the target but above 0.8% of the then-outstanding series A and B notes principal balance (NPB) for three consecutive periods or reserve fund shortfall below 0.8% of the then-outstanding class A and B NPB;

- Clean-up call option exercise condition related to the outstanding discounted asset balance has been amended to 10% of the maximum discounted asset balance. This amendment had no impact on Fitch's credit analysis as we assume that the clean-up call option is not exercised in our cash flow analysis;

- Credit Agricole Corporate and Investment Bank will replace Skandinaviska Enskilda Banken AB as a swap counterparty.

Fitch has chosen to withdraw the rating of series B 2016-1 for commercial reasons.

**KEY RATING DRIVERS**

Residual Values Drive Risk

Securitised lease receivables include the residual value (RV) at contract maturity. There is no limit on the aggregate RV portion in the pool. Fitch has maintained the expectation of an increase in the RV portion to 60% of the overall pool during the revolving period. The seller is obliged to pay the contractual RV to the issuer, but a seller’s default would expose the issuer to the risk of RV losses if used vehicle prices decline. Fitch considers the servicer’s robust RV risk management and maintains its RV loss assumption at 19.7% in a 'AAA' scenario.

Downgrade of Class B Rating Reflects Structural Changes, Rating Withdrawn

As Fitch models the minimum OC structure at the start of the amortisation period, the reduction of the minimum OC levels that trigger an early note amortisation is reflected in the downgrade of the series B 2016-1. Fitch has simultaneously withdrawn the rating of this series for commercial reasons.
Asset Performance Deterioration Expected

Fitch revised the default base case to 2.3% from 1.75% and loss base case of to 0.9% from 0.7% for the total portfolio in October 2020. The assumptions reflect a degree of stress we expect to materialise, in particular for small commercial borrowers as a result of the coronavirus pandemic. Fitch applied a 'AAA' default multiple of 5.0x to reflect, among other things, the revolving period, available portfolio covenants and Fitch's through-the-cycle approach.

Over the past months, there has been a material increase in late delinquencies. According to the information provided to Fitch, the increase is administrative- and not credit-driven. Therefore, we have not yet reflected this increase in our assumptions, but continue monitoring the development.

Sensitivity to Pro-Rata Period

The transaction features a pro-rata allocation mechanism if certain target OC conditions are fulfilled and default triggers are not breached. The length of the pro-rata period and thus outflow of funds to junior positions in the waterfall is driven by lifetime defaults in combination with default timing and the amortisation profile together with prepayments.

As a result, lower defaults combined with a later occurrence may lead to a later switch back to sequential note amortisation and could be more detrimental for the notes than higher defaults with an early occurrence.

Liquidity and Seller Risks Addressed

A cash reserve is available to cover at least five months of senior fees, swap and notes' interest payments as calculated by Fitch and shield the transaction from payment interruptions. Commingling risk is reduced by a cash advance mechanism upon the sellers losing eligibility in line with Fitch's counterparty criteria.

Insurance and maintenance set-off risks in case services cease to be provided by the seller are covered by a dynamically adjusted cash reserve. In Fitch's view, the new maintenance reserve mechanism adequately protects the transaction from maintenance servicing interruptions and risk of contract termination by lessees in a servicer replacement event. Tail risks are addressed by the absolute floor is in place.

RATING SENSITIVITIES

No rating sensitivities are applicable for series B 2016-1 as the rating has been withdrawn.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The series A notes' rating is the highest on Fitch's scale and cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Unexpected increases in the frequency of defaults and decreases in recoveries and car market value could produce larger losses than the base case and could result in negative rating action on the notes. For example, a simultaneous decrease of the recovery base case and car market value by 25%, all else equal, would lead to a downgrade of the series A notes to 'AA+sf'.

Coronavirus Downside Scenario Sensitivity

Fitch has added a coronavirus downside sensitivity analysis that contemplates a more severe and prolonged economic stress caused by intensive social distancing and lockdown measures as in 1H20, restricting economic activity and delaying recovery to pre-crisis GDP levels until around the middle of the decade, as outlined in Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update.

In this downside scenario, Fitch assumes a sharper increase in delinquencies than was experienced during the financial crisis, leading to an increased default base case of 3% compared with 2.3% applied in the baseline scenario. The 'AAA' rating default rate increases to 13.5% from 11.5%. We also assume an increased pressure on used car prices, leading to a decreased sale proceeds base case of 95% compared with 100% applied in the baseline scenario. Under this downside scenario, the class A notes' rating would be unchanged.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical
performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third-party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Prior to the transaction closing, Fitch reviewed the results of a third-party assessment conducted on the asset portfolio information and concluded that there were no findings that affected the rating analysis.

Prior to the transaction closing, Fitch conducted a review of a small targeted sample of VWPFS's origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolio.

Overall, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg
REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

FITCH RATINGS ANALYSTS

Kateryna Wochner
Analyst
Surveillance Rating Analyst
+49 69 768076 164
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Eberhard Hackel
Senior Director
Committee Chairperson
+49 69 768076 117

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 29 Jan 2020)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 29 Jan 2020)
Global Structured Finance Rating Criteria (pub. 17 Jun 2020) (including rating assumption sensitivity)
Consumer ABS Rating Criteria (pub. 12 Nov 2020) (including rating assumption sensitivity)
Consumer ABS Rating Criteria – Residual Value Addendum (pub. 12 Nov 2020) (including rating assumption sensitivity)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 13 Nov 2020)
APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Multi-Asset Cash Flow Model, v2.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

ENDORSEMENT STATUS

VCL Master Netherlands B.V. EU Issued

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