Fitch Affirms VCL Master Netherlands B.V.'s Class A and B Notes; Withdraws Series B 2016-2's Rating

Fitch Ratings-Frankfurt am Main-25 November 2019:

Fitch Ratings has affirmed VCL Master Netherlands B.V.'s class A and B notes following an extension of the revolving period by one year, as shown below.

Fitch has simultaneously chosen to withdraw the rating of class B series 2016-2 for commercial reasons.

VCL Master Netherlands B.V.
---Series A 2016-2 XS1419661035; Long Term Rating; Affirmed; AAAsf; RO:Sta
---Series A 2016-3 XS1419662272; Long Term Rating; Affirmed; AAAsf; RO:Sta
---Series A 2016-4 XS1419662603; Long Term Rating; Affirmed; AAAsf; RO:Sta
---Series A 2016-5 XS1419662942; Long Term Rating; Affirmed; AAAsf; RO:Sta
---Series A 2016-6 XS1452378745; Long Term Rating; Affirmed; AAAsf; RO:Sta
---Series B 2016-1 XS1417318588; Long Term Rating; Affirmed; AAsf; RO:Sta
---Series B 2016-2 XS1419666851; Long Term Rating; Affirmed; AAsf; RO:Sta
---Series B 2016-2 XS1419666851; Long Term Rating; Withdrawn; WDsf

Transaction Summary

VCL Master Netherlands B.V. is a revolving securitisation of auto lease receivables granted to Dutch companies and individuals by VW Leasing B.V. (VWL) and DutchLease B.V. (DL). Following a reorganisation completed in November 2019, Volkswagen Pon Financial Services B.V. (VWPFS), as a resulting entity, remains the sole originator, seller, servicer and maintenance coordinator. 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.

The main changes to the structure since our last review are:

- The legal final maturity date for all series of notes was extended by one year until the June 2028 interest payment date (IPD);
- The revolving period was extended by another year for all series of notes until the November 2020 IPD;

- The notes' margins were adjusted to 55bp from 45bp for class A and 110bp from 90bp for class B notes;

- Following the merger of VWL, DL and VWPFS in November 2019, VWPFS started acting as originator, seller, servicer and maintenance coordinator for this transaction. This organisational change had no impact on Fitch's credit analysis;

- Elavon Financial Services DAC replaced its UK branch as account bank; and

- US Bank Global Corporate Trust Limited is new cash administrator.

Fitch has chosen to withdraw the rating of VCL Master Netherlands B.V.'s class B Series 2016-2 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 expects an increase of the RV portion to 60% from currently 56.7% of the overall pool during the revolving period. The sellers are 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 has lowered its RV loss assumption to 19.7% in a 'AAA' scenario from previously assumed 20.6%, reflecting updated selling cost data.

**Small Loss Expectation**

Fitch has maintained default and loss base cases of 1.75% and 0.7% for the total portfolio, reflecting the performance of this transaction, VWPFS's total lease book as well as our expectations of a deteriorating, but still benign Dutch economy over the short to medium term. Fitch applied a 'AAA' default multiple of 6.5x to reflect the low default base case, the revolving period, available portfolio covenants and Fitch's through-the-cycle approach.

**Sensitivity to Pro-Rata Period**

The transaction features a pro-rata allocation mechanism if certain target overcollateralisation
(OC) conditions are fulfilled and default and delinquency 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 such, smaller defaults in combination with a back-loaded timing may lead to a later switch back to sequential note amortisation and could be more detrimental for the notes than larger losses with a front-loaded timing.

Seller-Related 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. Set-off risks in case maintenance services cease to be provided by the sellers are covered by a dynamically adjusted cash reserve.

RATING SENSITIVITIES

Expected impact upon the class A / B notes' rating of increased defaults

Current ratings: 'AAAsf'/ 'AAsf'

Increase base case defaults by 25%: 'AAf'/ 'AAsf'

Increase base case defaults by 50%: 'AAAsf'/ 'AA-sf'

Expected impact upon the class A / B notes' rating of reduced recoveries

Current ratings: 'AAAsf'/ 'AAsf'

Reduce base case recoveries by 25%: 'AAAsf'/ 'AAsf'

Reduce base case recoveries by 50%: 'AA+sf'/ 'AA-sf'

Expected impact upon the class A / B notes' rating of reduced recoveries and increased used car market value decline (MVD)

Current ratings: 'AAAsf'/ 'AAsf'

Reduce base case recoveries and increase MVD by 10%: 'AAAsf'/ 'AA-sf'
Reduce base case recoveries and increase MVD by 25%: 'AA+sf'/Asf'

Reduce base case recoveries and increase MVD by 50%: 'AA-sf'/BBB+sf'

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.

Fitch conducted a review of a small targeted sample of 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.

SOURCES OF INFORMATION

- Monthly historical static gross and net loss data from January 2009-October 2019 for the total book as well as several sub-pools (i.e. new vs used; private vs commercial etc.);

- Monthly historical dynamic delinquency data from January 2014- August 2018 for the total book and several sub-pools;

- Origination volumes from January 2009-October 2019 for several sub-pools;

- Portfolio stratifications and amortisation schedule for the final pool as of 31 October 2019;
- Monthly total maintenance costs for the securitised portfolio from January 2017-October 2019; and

- Investor reports from closing in 2016 and till October 2019; provided by VWFS.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is typically a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on VCL Master Netherlands B.V., either due to their nature or to the way in which they are being managed by VCL Master Netherlands B.V.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

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Additional information is available on www.fitchratings.com

Applicable Criteria
Consumer ABS Rating Criteria (pub. 29 Jan 2019)
Consumer ABS Rating Criteria - Residual Value Addendum (pub. 18 Jan 2019)
Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (Excel) (pub. 28 Oct 2019)
Global Structured Finance Rating Criteria (pub. 02 May 2019)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 18 Apr 2019)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 18 Apr 2019)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 28 Oct 2019)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
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