FitchRatings

Structured Finance
Auto Leases
Germany

VCL Multi-Compartment S.A. – Compartment VCL 31

Inside This Report

Closing occurred on 25 November 2020. The transfer of the portfolio to the issuer occurred on 25 November 2020. The ratings assigned above are based on the portfolio information as of October 2020 and updated as of 13 November 2020, provided by the originator.

Capital Structure

Class	Rating	Outlook	Amount (EURm)	CE (%)	Interest Rate (%)	Legal Final Maturity
A	AAAsf	Stable	1,000.0	7.0	1m Euribor + 70bp	September 2026
B	AA-sf	Stable	24.1	4.7	1m Euribor + 110bp	September 2026
Subordinated loan	NRsf	n.a.	34.9		1m Euribor + 123bp	September 2026
Total (excluding sub-loan)			**1,024.1**			

Notes: Credit enhancement figure (CE) includes overcollateralisation (6.0% and 3.7% for classes A and B, respectively) and the reserve fund floor of 1% of the initial portfolio balance. The initial size of the reserve is 1.2%.

VCL Multi-Compartment S.A. – Compartment VCL 31 (VCL 31) is a securitisation of auto lease receivables originated to German companies and individuals by VW Leasing GmbH (VWL, the seller), a subsidiary of Volkswagen Financial Services AG (VWFS), itself a subsidiary of Volkswagen AG (VW, BBB+/Stable/F1).

Key Rating Drivers

Asset Performance to Deteriorate: Fitch Ratings increased its loss expectations to 0.65% for the portfolio from 0.5% for predecessor deals. The assumption reflects a degree of stress we expect to materialise in particular on small commercial borrowers as a result of the coronavirus pandemic.

We kept the recovery base case unchanged at 67.5% based on the performance of past VCL transactions and our used-car market outlook. These assumptions imply a default base case of 2.0% from 1.5% previously. Fitch applied a reduced 'AAA' default multiple of 4.75x to reflect Fitch's through-the-cycle approach, keeping 'AAA' defaults fairly stable.

Sensitivity to Pro-Rata Period: The transaction features a pro-rata allocation mechanism if certain target overcollateralisation (OC) conditions are fulfilled and loss 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 the lifetime loss in combination with loss timing and the amortisation profile together with prepayments.

Fitch's new methodology to derive weighted average life (WAL)-specific default timing vectors results in more front-loaded default allocation than assumed in the initial analysis of predecessor VCL transactions due to the assets' fairly short WAL of 15 months. This limits the pro-rata period in higher rating scenarios.

Liquidity Reduces Servicing Disruption Risk: A cash reserve provides sufficient coverage of at least 10 months of senior fees, swap payments, and class A and B notes' interest payments in case of servicing disruptions.

Seller-Related Risks Addressed: A dedicated risk reserve serves as protection against potential seller-related obligations, including tax risks. Commingling risk is reduced by a cash advance mechanism upon VW's rating falling below rating thresholds in line with Fitch's counterparty criteria. Fitch considers this mechanism to adequately address commingling risk.

Representations, Warranties and Enforcement Mechanisms Appendix

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Highlights

Effect	Highlight
+	**WAL-Specific Default Timings:** Class B notes' higher expected rating than predecessor transactions reflects the update of Fitch's *Consumer ABS Rating Criteria*. A new methodology to derive WAL-specific default timing vectors, assumed when cash flow modelling a transaction, results in more front-loaded default allocation than the allocation assumed in the initial analysis of the predecessor VCL transactions (see Fitch Ratings Updates Consumer ABS Rating Criteria).
-	**Lower Class B Initial OC:** Different from the predecessor deals, class B notes' initial OC is 3.7% (down by 30bp). Overall, the rating impact of this structural change is limited as it reduces cash outflows to the subordinated loan given unchanged target OC levels and sequential amortisation from closing (see Capital Structure and Credit Enhancement).
Neutral	**Structure Comparable to Prior Transactions:** This transaction is the second securitisation this year by the originator. We expect the transactions to be collateralised with comparable credit-quality assets, and to use almost identical structure (with the exception of class B notes' initial OC discussed above).
-	**Additional Coronavirus Sensitivity Analysis:** Fitch has added a Coronavirus Sensitivity Analysis (see Rating Sensitivity) that contemplates a more severe and prolonged economic stress caused by severe lockdown measures as in 1H20, before a halting recovery begins in 2Q21. Under this severe scenario, Fitch expects the class A and B notes' rating to remain unchanged.
Neutral	**Standard Auto Lease Pool:** The portfolio consists of German auto lease receivables with a WA seasoning of 10 months, WA remaining term of 30 months and 91% exposure to new vehicles. The pool composition is similar to previous German VCL transactions, as shown in the *Transaction Comparison* table.
Neutral	**Minimal Credit Impact from ESG:** The highest level of ESG credit relevance is a score of '3', meaning that ESG issues are credit neutral or have only a minimal credit impact on the transaction, either due to their nature or the way in which they are being managed (see ESG Navigator in *Appendix 2*).
Neutral	**Minimum Euribor Exposure:** The planned, reformed Euribor, which is based on a hybrid calculation, complies with the benchmark regulation (see *Uneven IBOR Progress Leaves Key Uncertainties for Structured Finance* (October 2019)), so the phase-out risk is lower than for Libor. However, fall-back provisions are still important to cover developments that could lead to a discontinuation of Euribor (see Euribor Fall-Back Provisions).

Source: Fitch Ratings

Euribor Exposure

Assets	Rated notes	Hedges
100% fixed instalments.	Reference 1m Euribor.	The fixed-rate asset will be swapped into 1m Euribor.

Source: Fitch Ratings, VCL 31

Key Rating Driver (Negative/Positive/Neutral)

Rating Impact	Key Rating Driver
Negative	Asset Performance to Deteriorate
Negative	Sensitivity to Pro-Rata Period
Positive	Liquidity Reduces Servicing Disruption Risk
Positive	Seller-Related Risks Addressed

Source: Fitch Ratings

Applicable Criteria

Global Structured Finance Rating Criteria (June 2020)

Consumer ABS Rating Criteria (November 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria (January 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (January 2020)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (November 2020)

Related Research

Global Economic Outlook (September 2020)

Germany (November 2020)

Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases – Update (September 2020)

Coronavirus to Weaken German ABS Asset Performance (May 2020)

Uneven IBOR Progress Leaves Key Uncertainties for Structured Finance (October 2019)

German Diesel ABS Risks May Be Easing, but Have Not Disappeared (March 2019)

Key Transaction Parties

Please see counterparty risk section for more detail.

Key Transaction Parties

Role	Name	Fitch Rating
Issuer	VCL Multi-Compartment S.A. - Compartment VCL 31	Not rated
Originator, seller and servicer	Volkswagen Leasing GmbH	Not rated
Security trustee	Intertrust Trustees GmbH	Not rated
Data protection trustee	Data Custody Agent Services B.V.	Not rated
Subordinated lender	Volkswagen Financial Services AG	Not rated
Account bank, paying and calculation agent	The Bank of New York Mellon	AA/Stable/F1+
Arranger	Credit Agricole Corporate and Investment Bank	A+/Negative/F1
Joint lead managers and bookrunners	Credit Agricole Corporate and Investment Bank MUFG Securities EMEA plc RBC Europe Limited	A+/Negative/F1 Not rated Not rated
Swap provider	ING Bank N.V.	AA-/Negative/F1+
Reference entity for remedial action on commingling	Volkswagen AG	BBB+/Stable/F1

Note: The Bank of New York Mellon's Frankfurt branch acts as account bank. The London branch acts as the paying and calculation agent. Both branches have a pass-through rating from the parent entity.
Source: Fitch Ratings, VCL 31

Transaction Comparisons

Next to the predecessor transaction, VCL 30, the comparison table includes two captive German auto loan deals. As no residual value (RV) is securitised, VCL's portfolio credit risk could be compared to an auto loan portfolio, though not identical given the customer and product characteristics.

Transaction Comparison

	VCL Multi-Compartment S.A. – Compartment VCL 31	VCL Multi-Compartment S.A. – Compartment VCL 30	Silver Arrow S.A. Compartment 11	Bavarian Sky S.A., Compartment German Auto Loans 10
Type	Static	Static	Static	Static
Closing date	November 2020	March 2020	May 2020	May 2020
Seller	VWL	VWL	Mercedes-Benz Bank	BMW Bank GmbH
Issuance volume (EURm)	1,024.1	960.0	1,889.9	756.8
Class A – rating	AAAsf	AAAsf	AAAsf	AAAsf
Class A – amount (EURm)	1,000.0	941.0	1,748.2	700.0
Class A – CE (%)	7.0	6.9	8.0	8.0
Class B – rating	AA-sf	A+sf		
Class B – amount (EURm)	24.1	19.0		
Class B – CE (%)	4.7	5.0		
Portfolio summary as of closing				
Type of receivables	Auto leases	Auto leases	Auto loans	Auto loans
Total outstanding balance (EURm)	1,064	1,000	1,890	757
Number of receivables	130,378	109,798	94,642	37,722
Average outstanding balance (EUR)	8,160	9,108	19,670	20,061
WA seasoning (months)	10	8	18	6

Transaction Comparison (Cont.)

	VCL Multi-Compartment S.A. – Compartment VCL 31	VCL Multi-Compartment S.A. - Compartment VCL 30	Silver Arrow S.A. Compartment 11	Bavarian Sky S.A., Compartment German Auto Loans 10
WA remaining term (months)	30	32	31	39
Age of vehicle (%)				
New vehicles	90.8	92.7	43.0	44.3
Used/demo vehicles	9.2	7.3	57.0	55.7
Debtor type (%)				
Private	19.8	14.6	56.1	73.4
Commercial	80.2	85.4	43.9	26.6
Type of repayment				
Direct debit payments	98.9	98.4	100.0	99.9
Fitch assumptions (%)				
Cumulative default rate assumption	2.0	2.0[a]	2.0	2.3
Recovery rate assumption	67.5	67.5	70.0	65.0
Prepayment rate assumption	4.0	4.0	9.0	15.0

[a] This assumption increased to 2.0% from 1.5% following the review of assumptions regarding the impact of the coronavirus outbreak.
Source: Fitch Ratings

Sector Risks: Additional Perspective

Key Sector Risks

Sector or asset outlook	Fitch's 2020 asset outlook for the consumer ABS is negative.
Macro or sector risks	In Fitch's opinion, unemployment levels and GDP growth rates are key drivers of consumer ABS performance. As most of the portfolio comprises micro, small and medium-sized companies, the corporate insolvency rate rather than unemployment rate is the main driver of the performance for VCL 31. Corporate insolvencies in Germany are at historic lows but Fitch expects it to increase once the forbearance measures and postponement of insolvency declaration are lifted. While we acknowledge downside risks, we currently do not expect any material decline in used car prices in Germany in the near to medium term.
Relevant research	Fitch forecasts GDP to contract by 5.7% in 2020 followed by growth of 4.7% in 2021. The agency forecasts unemployment to increase from 3.2% at end-2019 to 4.2% and 4.9% in 2020 and 2021, respectively (see Fitch's Rating Report for Germany (November 2020)). Fitch updated its base-case and downside scenario assumptions concerning the pandemic and related lockdown measures development, as outlined in *Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases — Update* (September 2020). The second wave of coronavirus infections led to a second lockdown in Germany. In contrast to the lockdown in 1H20, the current lockdown primarily affects gastronomy, entertainment and service businesses. Hotel and restaurant industry accounts for 1.6% of VCL 31's final portfolio. Services other than financial and public services account for 15% of the portfolio. While we acknowledge that some of these lessees may run into financial difficulties, there is material government support for these industries. We therefore view the risk that some of these lessees may not be able to meet their obligations under the lease contracts to be adequately addressed by our asset assumptions (see Portfolio Credit Analysis).

Source: Fitch Ratings

Asset Analysis

Key Asset Eligibility Criteria

Description
Lease contracts are denominated in euros, monthly payment.
Lease contracts are legally valid, binding agreements and governed by German law.
More than 95% of leased vehicles are VW, Audi, SEAT, Skoda or VW Nutzfahrzeuge vehicles
No insolvency proceedings have been initiated against the lessee at closing.
Leased vehicles are situated in Germany, which is assumed to be fulfilled if the lessee is resident in Germany.
Receivables are free from rights of third parties and of defences and set-off claims of lessees.
No terminations have occurred or are pending.
No lease receivable was overdue as of the cut-off date (lessees on coronavirus-related payment holidays are considered overdue).
On the cut-off date, at least two lease instalments have been paid in respect of each of the lease contracts.
Lease contracts require substantially equal monthly payments to be made within 12-60 months from origination.
The total amount of lease receivables attributable to any single lessee will not exceed 0.5% of aggregate discounted receivables balance at the cut-off date.

Source: Fitch Ratings, VCL 31

The key asset eligibility criteria are unchanged from VCL 30.

Portfolio Summary

The lease contracts finance vehicles manufactured by the Volkswagen Group, including VW, Audi, SEAT, Skoda and VW Nutzfahrzeuge vehicles, as well as a smaller portion of cars produced by other brands. The final portfolio's characteristics as of end-October 2020 are shown in the Transaction Comparison section. Portfolio concentrations are shown in the margin on this page.

The final portfolio characteristics and concentrations are comparable to the VCL 29 and VCL 30 portfolio characteristics at closing. The VCL 31 final portfolio is well diversified in terms of single obligors, geographical distribution and industry sectors of the lessees, according to VWL's classifications.

Portfolio Credit Analysis

Loss Risk

As VWL neither provides default nor recovery vintage data, Fitch used the available information in reverse order, compared to its standard approach.

- Firstly, a base-case loss rate was set, based on VWL's total leasing book loss data.
- Secondly, a base-case recovery rate was set, based on data from previous VCL transactions and the experience of the servicer's collection department.
- Thirdly, a lifetime default rate was implicitly derived from the set lifetime loss and recovery rates.

Loss data from VWL have been provided, reflecting write-offs according to the originator's accounting policy. These data are consistent with the loss definition in the transaction, on which the triggers are based. Recovery collections that are received after the lease has been written off belong to VWL, according to the servicing agreement. The loss rate data for historical originations of VWL are shown below.

Final Portfolio Concentrations

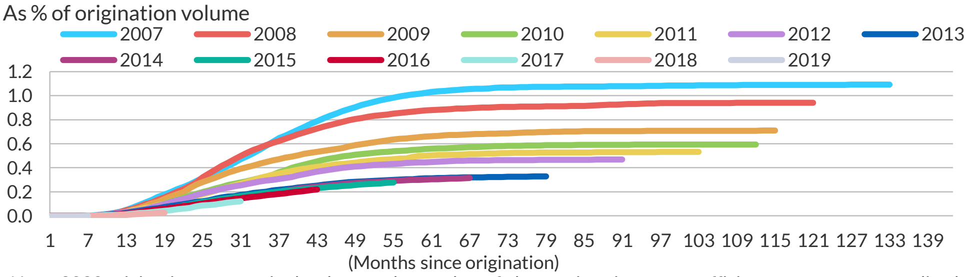
	% of total
Largest 20 customers (% of outstanding discounted balance)	1.15
Largest regional concentration (North Rhine-Westphalia, % of outstanding discounted balance)	22.6
Largest industry concentration (public sector, % of outstanding discounted balance)	19.0
Closed-end contracts (% of outstanding balance)[1]	99.8
Diesel share (% of outstanding discounted balance)	61.4

Source: Fitch Ratings, VCL 31

[1] Upon return of the car, the residual value risk is borne by the dealer (or VWL).

VWL's Yearly Loss Vintages

As % of origination volume



Note: 2020 originations are not in the chart as the number of observations is not yet sufficient to create an annualized curve
Source: Fitch Ratings, VW Leasing GmbH

Loss vintage curves have been improving, which Fitch believes is mainly due to the continued benign economic environment in Germany in recent years, and VWL's robust underwriting and collection processes. We expect corporate insolvency rates, one of the key performance drivers, to increase. Based on these factors and considering a deterioration of the German economy, Fitch has set its base-case loss rate assumption to 0.65%. In our baseline scenario, we do not expect the asset performance to deteriorate towards the financial crisis vintages as we expect the economy to recover faster than previously.

Defaults and Recovery Rates

Fitch has not been provided with recovery information on VWL's total book. The agency therefore derived its recovery assumption from default and loss information contained in previous VCL and peer transactions' investor reporting. Fitch has applied a recovery rate base case assumption of 67.5%. This results in a default base-case assumption of 2.0%. Fitch views the default rate as comparable to peer transactions.

Expectations (%)

	Default rate expectation	Recovery rate expectation	Loss rate expectation
Base case	2.0	67.5	0.65

Source: Fitch Ratings

The agency has stressed its assumptions in higher rating scenarios to account for the impact of an unexpected further economic deterioration on the transaction's cash flows.

In line with its criteria, Fitch has applied a lower-to-median multiple to the 2.0% default rate expectation (4.75x for 'AAA', 3.5x for 'AA-'). The default multiple reflects that our base-case assumption now includes a degree of stress and Fitch's through-the-cycle rating approach and is therefore lower than for VCL 30 at closing.

To derive the stressed recovery haircut, the agency considered the expected (base-case) recoveries, the secured nature of the assets and VWL's robust recovery processes as key determining factors. Fitch derived a lower-to-median recovery haircut ('AAA': 45%; 'AA-': 33%).

Stressed Assumptions (%)

	Rating Default Rate	Rating Recovery Rate	Rating Loss Rate
AAA	9.5	37.1	6.0
AA-	7.0	45.2	3.8

Source: Fitch Ratings

Diesel Considerations

A short-term direct risk from potential driving restrictions in German cities is minimal as the pool at hand is largely backed by new cars equipped with EURO6-compliant Diesel engines (see German Diesel ABS Risks May Be Easing, but Have Not Disappeared).

We consider the risks adequately reflected in our recovery rate and stress assumptions and did not adjust our recovery rate expectations and stresses to account for the share of diesel-powered vehicles in the portfolio.

Prepayment Risk

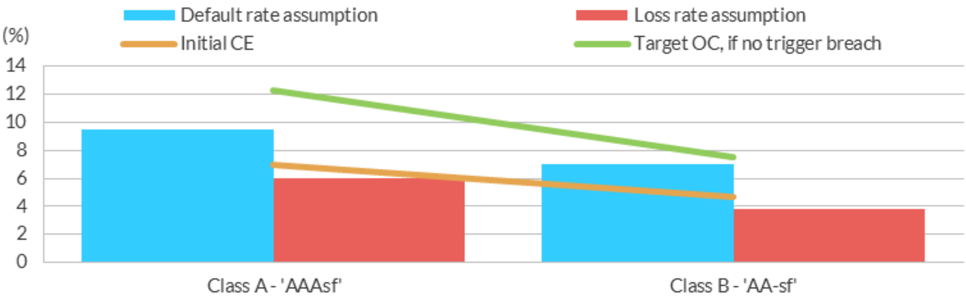
Fitch derived its base-case prepayment assumption using data from previous VCL transactions and peer transactions, as the originator has not provided the agency with overall book data on prepayments.

Prepayments in earlier VCL transactions hardly exceed an annualised rate of 4%, which is the figure Fitch assumed as its base-case assumption for VCL 31. This was then stressed to test the impact of high and low prepayments in the respective rating scenarios. For example, the base case was multiplied by 1.5x in the 'AAA' scenario. Due to the very low historically observed prepayments, Fitch also tested a scenario with zero prepayments.

The lease contracts do not contain provisions that allow customers to prepay a contract so prepayments are at the discretion of VWL. If a prepayment is granted, customers are generally obliged to settle the outstanding instalments, comprising both principal and interest, in full. VWL may, however, waive part of the repayment amount out of courtesy to the customer. In such cases, VWL would need to indemnify the issuer for any associated reduction in the principal balance.

Cash Flow Analysis

Default and Loss Rating Rates vs. Initial CE and Target OC



Source: Fitch Ratings

Fitch used its proprietary cash flow model to test whether the available cash flows were sufficient to enable timely payment of interest and ultimate payment of principal on the notes in various stress scenarios.

Defaults were allocated using the default timings, determined based on the portfolio's WAL and Fitch's assumed base-case prepayment rate, as outlined in its *Consumer ABS Rating Criteria*. The recovery timing was derived from lease-by-lease default and loss data from previous VCL transactions. The agency assumed that a vehicle is typically sold within six months of default and distributed the recoveries over a six-month period.

The portfolio amortisation was modelled based on the final pool data provided to Fitch. Defaults, recoveries and prepayments were applied as per the stressed assumptions. Interest income was generated on non-delinquent receivables at a rate equal to the discount rate less the buffer release rate. Available cash was distributed in line with the transaction's waterfall.

Fitch tested the transaction's sensitivity to different default distributions (front-loaded, evenly distributed and back-loaded), combined with high or low prepayments as well as rising, decreasing or stable interest rates.

The transaction is particularly sensitive to the length of the pro rata period which is determined by the amortisation profile (and assumed prepayments), the lifetime loss as well as the loss timing assumptions. The new methodology regarding WAL-specific default timing determination results in a more front-loaded default allocation assumed in our cash flow model than at the initial analysis of the predecessor deals. All else being equal, the new default timing results in more front-loaded losses and, in turn, in an earlier switch back to sequential note amortisation, which has a positive effect on the class A and B notes' rating. In its analysis, Fitch considers a possibility of the reintroduction of coronavirus-related payment holidays, which may hide the actual asset performance for few months.

In Fitch's view, the potential effect of later defaults and recovery collections can be proxied by the notes' rating sensitivity to the write-off timing assumption (see Rating Sensitivity).

A high prepayment scenario leads to target OCs being reached sooner and thus an earlier pro rata allocation towards the class B notes and the unrated sub-loan. At the same time, assuming back-loaded losses, a switch (back) to sequential note amortisation occurs later even in a stressed scenario due to the improved loss performance and unchanged cumulative loss triggers compared to previous transactions.

Rating Sensitivity

Rating Sensitivity

	Class A	Class B
Original Rating	AAAsf	AA-sf
Increase default base by 10%	AAAsf	AA-sf
Increase default base by 25%	AA+sf	A+sf
Increase default base by 50%	AAsf	Asf
Decrease recovery rate by 10%	AAAsf	AA-sf
Decrease recovery rate by 25%	AA+sf	AA-sf
Decrease recovery rate by 50%	AA+sf	Asf
Default rate increase by 10%, recovery rate decrease of 10%	AA+sf	AA-sf
Default rate increase by 25%, recovery rate decrease of 25%	AAsf	Asf
Default rate increase by 50%, recovery rate decrease of 50%	Asf	BBBsf
Base Prepayment set to 9%	AAAsf	AA-sf
Write-off timing set to 9 months post default (up from the original assumption of 6 months post default)	AAAsf	AA-sf

Source: Fitch Ratings

The *Rating Sensitivity* section provides insight into the model-implied sensitivities the transaction faces when one assumption is stressed, while holding others equal. The modelling process uses the estimation and stress of these variables to reflect asset performance in a stressed environment. The results below should only be considered as one potential outcome, as the transaction is exposed to multiple dynamic risk factors. It should not be used as an indicator of possible future performance.

No change or positive change
Negative change within same category
-1 category change
-2 category change
-3 or larger category change
See report for further details

Rating Sensitivities – Upgrade: Lower-than-expected frequency of defaults or increases in recovery rates could produce lower losses than the base case and could result in positive rating action on the class B notes. For example, a simultaneous decrease of the default base case by 10% and increase of the recovery base case by 10%, all else equal, would lead to an upgrade of the notes to 'AA+sf'.

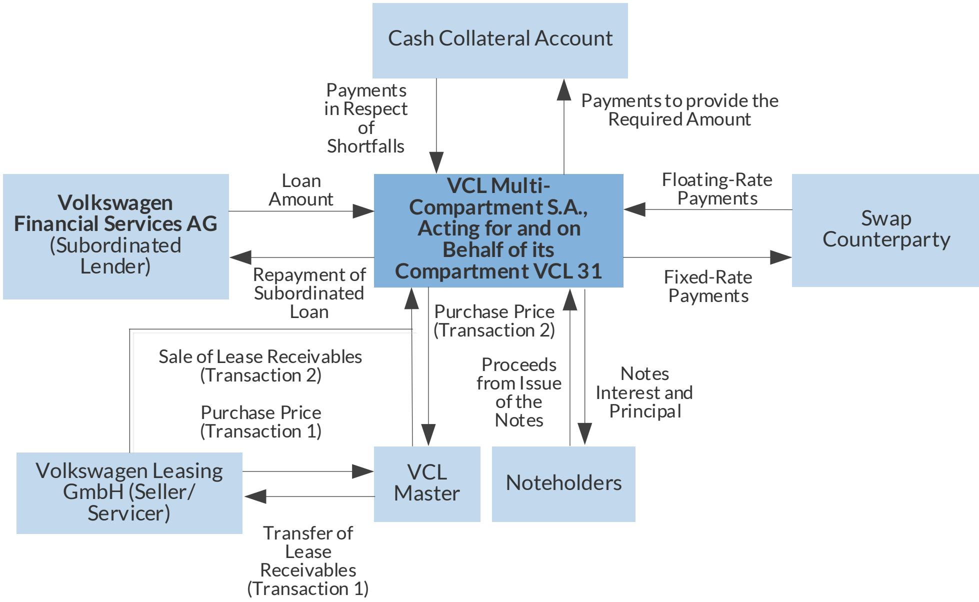
Rating Sensitivities – Downgrade: Prolonged time to a write-off could result in increased pro-rata length and recovery collections being delayed beyond the notes' legal maturity. Unexpected increases in the frequency of defaults or decreases in recovery rates could produce larger losses than the base case and could result in negative rating action on the notes (see the *Rating Sensitivity* table above).

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. This would restrict 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* (see *Related Research*). In this downside scenario, Fitch assumes a sharper increase in delinquencies than what was experienced during the financial crisis, leading to an increased default base case of 2.5% compared with 2.0% applied in the baseline scenario. The 'AAA' rating default rate increases to 10% from 9.5%. Under this downside scenario, class A and B notes' ratings would remain unchanged.

Transaction Structure

Structure Diagram



Source: Fitch Ratings, VCL 31

Issuer and True Sale

VCL Multi-Compartment S.A. is a Luxembourg-based securitisation company subject to Luxembourg securitisation law. VCL Master S.A. Compartment 1 (VCL Master) – another Luxembourg-based securitisation company intended to function as a warehousing vehicle – originally acquired certain lease receivables related to selected lease contracts from the seller. At closing, the issuer purchased certain receivables from VWL (transaction one), selling on the authority granted by VCL Master (transaction two). The receivables are the finance portion, which amortises the purchase price of the vehicle to its agreed RV. The RV component itself is not refinanced via VCL 31. Certain other receivables are excluded, for example, payments for contractually agreed maintenance services.

The VAT portion of any payments due from the lessee was excluded from the pool and retained by VWL to be advanced to the tax authorities. To secure the performance of the lease receivables, the security title to the leased vehicles was forwarded to VCL 31. In case of a lessee's default, the issuer will be entitled to the proportion of recovery proceeds equivalent to its funding share in the sum of outstanding lease receivables and the residual value.

Capital Structure and Credit Enhancement

At closing, the assets and liabilities appeared as per the table below.

Balance Sheet

Assets	Amount (EURm)	% of total pool balance	Liabilities	Amount (EURm)	% of total pool balance
Receivables	1,063.8	100.0	Class A	1,000.0	94.00
Cash	12.8	1.2	Class B	24.1	2.27
			Subordinated loan	34.9	3.28
			PPD cash reserve	12.8	1.20
			PPD OC	4.8	0.45
Sum	**1,076.6**	**101.2**		**1,076,6**	**101.2**

PPD: Purchase price discount
Source: Fitch Ratings, VCL 31

The issuance consists of the class A and B notes as well as a subordinated loan. Credit enhancement is provided by OC and the amortising cash reserve. The initial size of the reserve is 1.2%. However, amounts in excess of the 1.0% floor may flow back firstly to the subordinated lender and secondly to the seller outside the waterfall depending on portfolio performance.

All securitised receivables were discounted with a single discount rate of 5.7016%. The following components have been considered when determining the discount rate.

Discount Rate Calculation

	(%)
Weighted average swap rate (including sub-loan)	0.18
Servicing fee	1.00
Senior expenses	0.03
Subtotal	**1.21**
Buffer release rate	4.49
Total	**5.70**

Source: Fitch Ratings, VWL

As the buffer release rate will be directly released to the seller, the issuer benefits from a discount rate of 1.21% only. Should VWL become insolvent, the buffer release amounts would become available to the issuer.

Fitch does not consider the buffer release rate as potential excess spread available for note redemption. This is because, in Fitch's view, structural elements that are relied upon in order to pay timely interest and ultimate principal on the notes cannot be conditional on the occurrence of events like a seller/servicer default.

Reserve Fund

An amortising cash reserve, which amounts to 1.2% of the discounted receivables' balance, was funded through a purchase price discount (PPD). It is available to cover senior expenses, swap payments and notes' interest. The reserve is subject to a floor, amounting to 1% of the receivables' balance at closing or the outstanding balance of class A and B notes, if lower.

Available funds will top up the reserve fund each period to its target amount. As long as the cumulative net loss trigger is not breached, excess release amounts from the reserve are paid back to the subordinated lender and the seller outside the waterfall. The floor amount can be used for note redemption upon the earlier of the legal final maturity date or the discounted lease balance reaching zero.

There is a further cash reserve (VWL risk reserve) to cover seller-related risks, in particular tax-related risks mentioned under tax risk. The VWL risk reserve amounts to 1.1% of the discounted receivables' balance at closing.

Euribor Fall-Back Provisions

Assets

The portfolio is not exposed to Euribor discontinuation because it only consists of fixed-rate leases.

Rated Notes

VCL 31's servicer will use any (i) officially designated substitute rate, (ii) industry-wide solution, or (iii) generally accepted market practice as substitute for Euribor. If options (i)-(iii) are not available, the servicer will use the overnight index swap. If this is not available either, €STR will be the substitute rate. The servicer will also adjust the spread over the substitute reference rate. Any designated Euribor substitute applies to both the rated notes' reference rate and floating interest rate received on the swap.

Hedges

At closing, the issuer entered into two swaps to hedge against the fixed-floating interest rate mismatch. While it will receive fixed instalments, its obligations under the notes will be linked to one-month Euribor (determined in accordance with the provisions in the transaction documents described in *Rated Notes* above).

The first swap covers the interest due on the class A notes and the second swap covers interest payments due on the class B notes in exchange for a fixed rate. The floating amounts are subject to a floor of zero. Both swaps are linked to the outstanding balance of the respective notes.

Priority of Payments

The transaction has a combined waterfall for all collections on outstanding receivables. The amount available to be distributed contains the following positions:

Amount Available for Distribution

+	Collections received by the servicer.
+	Share of realisation proceeds from vehicles belonging to the issuer.
+	Amounts from the general cash reserve.
+	Net swap receipts.
+	Investment earnings from the distribution account.
+	Amounts from the VWL risk reserve in case of failure by VWL to pay any secured obligations or in case of a German trade tax event.
-	Less the buffer release amount (provided no insolvency event with respect to VWL has occurred).

Source: Fitch Ratings, VCL 31

Transaction Waterfall

1-5	Taxes, senior expenses and net swap payments other than in case of a swap counterparty default.
6	Interest class A.
7	Interest class B.
8	General cash reserve up to its required balance.
9	In case of an increase in German trade tax, to the VWL risk reserve the increased trade tax risk reserve amount.
10	Class A principal until class A is at its target size (i.e. target OC class A).
11	Class B principal until class B is at its target size (i.e. target OC class B).
12	Any subordinated expenses, if not already covered by one of the senior items.
13	Interest on the sub-loan.
14	Redemption of the sub-loan until reduced to zero.
15	Remainder to VWL as a final success fee.

Source: Fitch Ratings, VCL 31

Performance Triggers and Note Amortisation

The notes' targeted balance is set to meet a required OC amount, defined as the excess of the assets (excluding write-offs) over respective liabilities, i.e. the class A and B notes.

Incoming funds will first be used to redeem class A notes until their target OC is achieved. At this point, incoming funds will also amortise class B notes, building up their target OC, while the target OC for class A notes is maintained. As soon as the asset balance has amortised to 10% of the initial balance or upon the occurrence of a servicer replacement event, note amortisation will again be strictly sequential.

Additionally, should a performance trigger recording loss be breached, target OCs will rise, meaning amortisation will again be sequential until the increased target OC is reached. Finally, should losses exceed 1.6% of the initial balance, the notes' amortisation would also become strictly sequential.

Required OC levels are as follows and are unchanged from previous transactions.

Credit Enhancement Increases Conditions

Trigger	Class A (%)	Class B (%)
Initial available OC level	6.0	3.7
Target OC, if no trigger breach	12.25	7.50
Target OC, if level 1 trigger breached	14.0	8.25
Target OC, if level 2 trigger breached	100	100

Source: Fitch Ratings

A level 1 trigger is hit if the cumulative losses exceed the following thresholds:

- Prior to (and including) the payment date falling in February 2022: 0.50%; and
- after the payment date falling in February 2022 until the payment date in November 2022: 1.15%.

A level 2 trigger is hit if cumulative losses exceed 1.6% at any payment date.

Please refer to the *Cash Flow Analysis* section for more details on the increased sensitivity of the pro-rata structure towards certain modelling assumptions.

Disclaimer

Fitch relies in its credit analysis on legal and/or tax opinions provided by transaction counsel for the avoidance of doubt. Fitch has always made clear that it does not provide legal and/or tax advice or confirm that the legal and/or tax opinions, or any other transaction documents, or any transaction structures, are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Counterparty Risk

Fitch assesses the counterparty risk under its Structured Finance and Covered Bonds Counterparty Rating Criteria to be in line with the ratings assigned based on the documentation provisions and analytical adjustments described in the following table.

Counterparty Risk Exposures

Counterparty role/risk	Counterparty	Relevant rating under criteria	Minimum ratings and remedial actions	Adjustment to analysis if minimum ratings and remedial actions not in line with criteria
Issuer account bank	Bank of New York Mellon, Frankfurt Branch	Long-Term deposit rating or Issuer Default Rating (IDR)/ Short-Term deposit rating or IDR	Minimum IDR or deposit rating of 'A' or 'F1'; i) replacement or ii) guarantee within 30 calendar days of downgrade below minimum ratings or iii) any other measure to restore/maintain rating of the notes.	Minimum ratings and remedial actions i) and ii) in line with criteria. Fitch notes that option (iii) is not in line with its counterparty criteria and could lead to a prolonged process as regards remedial actions if option (iii) is favoured over options (i) or (ii).
Swap provider	ING Bank N.V.	Derivative counterparty rating (DCR): long-term rating; Short-Term IDR: short-term rating. *(Note: Fitch does not issue short-term DCRs, so the relevant short-term rating is the Short-Term IDR.)*	DCR of 'A' or Short-Term IDR of 'F1'; or minimum DCR of 'BBB-' or Short-Term IDR of 'F3' with collateral posting required within 14 calendar days and replacement or guarantee within 30 days of downgrade below both minimum ratings.	Minimum ratings and remedial actions in line with criteria.
Servicing continuity	VW Leasing GmbH	Not rated	There is no minimum rating for the servicer. Issuer is entitled to dismiss the servicer and appoint a new servicer.	Servicer continuity risk has been assessed to be reduced in accordance with Fitch's counterparty criteria, because the reserve fund would cover payment obligations long enough to be able to find a replacement. See Operational Risk and Appendix 1 for detail.

Source: Fitch Ratings, VCL 31

Operational Risk

VWL acts as servicer for the transaction. Remedial actions regarding the servicer foresee the replacement of the servicer in the event of servicer disruption, which includes a breach of servicer obligations, insolvency of the servicer or non-payment by the servicer. No replacement servicer has been named. However, the transaction documents state that the issuer shall find a replacement servicer after no longer than three months.

Despite the intrinsic problems Fitch sees with the issuer being tasked to find a replacement servicer, the agency considers that the reserve fund would cover payment obligations long enough to be able to find a replacement and other parties in this transaction (i.e. the security trustee) would have an interest to lend support to act in the best interest of noteholders. Fitch expects that the assets' standard nature will facilitate finding a new servicer as there are several potential candidates in the German leasing market that could take over the servicing of these assets.

Commingling Risk

Commingling risk is considered a secondary risk driver in this transaction in line with Fitch's *Structured Finance and Covered Bonds Counterparty Rating Criteria*.

According to the transaction documents the servicer is no longer entitled to commingle collected payments with its own funds if VW is rated below 'BBB' or 'F2' by Fitch or the profit and loss sharing agreement between VW and VWFS or between VWFS and VWL is no longer in place. In this case, VWL has to advance expected collections including 5% prepayments for the following monthly period to the issuer's collection account.

The agency considers the provisions to sufficiently cover commingling risk.

Payment Interruption Risk

Fitch tested the cash reserve coverage of the issuer's obligations under the swaps, the ongoing senior expenses and notes' interest. Based on the agency's calculations, the available cash reserve is sufficient to initially maintain these payments for 10 months. Fitch deems this horizon sufficient to cover a disruption in the collection process and to re-establish the same, even with a third party.

There is no the liquidity risk associated with coronavirus-related payment holidays for VCL 31 as lessees on payment holidays under the voluntary forbearance scheme offered by VWL until the end of September 2020 are not eligible for the final pool.

Set-off Risk

Deposit Set-Off Risk

The originator is not a deposit-taking entity, only its legally separated affiliate (VW Bank GmbH) is. As a result, there is no deposit-related set-off risk.

Set-Off Risk with Regard to the Service Component, Extended Warranties and Insurance Products

VWFS offers a range of insurance services and extended warranties as a complementary product for lease contracts, i.e. protection against unexpected repair needs after the maturity of the two-year car-maker guarantee. Neither the insurance nor the extended warranties or the service components of a lease are securitised.

Tax Risk

Based on its understanding of the applicable tax regimes, Fitch considers the risk of significant tax liabilities being imposed on the issuer to be limited.

Nevertheless, there are some remaining legal uncertainties with respect to potential trade tax (i.e. in case the tax authorities deem the special-purpose vehicle to be taxable in Germany) and secondary VAT liability (i.e. in case VWL defaults before it has forwarded the VAT portion to the authorities) that may be imposed on the issuer.

The seller will post and maintain a dedicated risk reserve (VWL risk reserve) equal to 1.1% of the initial discounted asset balance, which can be used to cover tax liabilities of the issuer and other seller-related risks. The agency regards this reserve, together with the available CE, to be sufficient to address contingent tax liabilities.

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of Applicable Criteria.

Fitch applies the Consumer ABS Rating Criteria as its sector-specific criteria under the overarching framework provided by the Global Structured Finance Rating Criteria, which is the master criteria for the sector. The remaining criteria listed under Applicable Criteria are cross-sector criteria that outline Fitch's approach to counterparty risk and interest rate change vulnerability that are relevant for the ratings.

Fitch has analysed the risk of borrower default – and has set its default, recovery and prepayment assumptions – in accordance with its *Consumer ABS Rating Criteria*. Counterparty risks were analysed based on *Structured Finance and Covered Bonds Counterparty Rating Criteria*, dated January 2020.

Models

The asset assumptions outlined above were applied in Fitch's proprietary multi-asset cash flow model, with which the transaction's cash flows were modelled. Click on the link for the model or for the criteria for a description of the model.

Multi-Asset Cash Flow Model

Data Adequacy

The following historical information was provided by VWL to support Fitch's analysis.

Data Adequacy

Data	Time	Period	Frequency	Type
Losses	Jan 07-Jun 20	13.5 years	Monthly	Static
Total book volume	Dec 08-Jun 20	11.5 years	Monthly	Dynamic
Delinquency	Dec 08-Jun 20	11.5 years	Monthly	Dynamic

Source: Fitch Ratings

Additionally, Fitch received pool stratifications and an amortisation profile of the provisional pool as of end-October 2020.

Fitch has received and reviewed the results of a third-party assessment conducted on the asset portfolio information. Fitch did not update its file review this year, but strongly relies on the outcomes of the past reviews of small targeted samples of VWL's origination files as it always 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 views the asset pool information relied upon for the agency's rating analysis according to its applicable rating methodologies to be adequately reliable.

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.

Surveillance

Throughout the life of the transaction, Fitch will monitor the performance of the collateral and any changes at the servicer, or with the structure, that may influence the ratings of the notes.

Fitch will receive monthly investor reports detailing the performance of the portfolio. These will provide the basis for the agency's surveillance of the transaction's performance against base case expectations and the performance of the industry as a whole. The agency expects to assign an Issuer Report Grade of five stars to the investor reporting in line with previous transactions originated by VWL, as the standards of reporting are expected to remain comparable. Where appropriate, the agency may ask to monitor further data from the originator or the servicer. The ratings of the transaction will be reviewed by a committee at least once every 12 months, or when considered appropriate (e.g. if there is a deterioration in performance, an industry-wide development, or a change at the originators or the servicer that may influence the transaction).

Our quantitative analysis will focus on monitoring the key performance parameters (delinquencies, defaults, recoveries and prepayments) against the base-case assumptions. Fitch will further monitor the market developments regarding diesel-powered vehicles.

Fitch's structured finance performance analytics team ensures that the assigned ratings remain an appropriate reflection of the issued notes' credit risk. Details of the transaction's performance will be available to subscribers at www.fitchratings.com.

Appendix 1: Origination and Servicing

VWL

VWL is a wholly owned subsidiary of VWFS, which is part of Volkswagen Group.

VWL's main activities are to promote the sale of the Volkswagen Group's automotive products (VW, Audi, SEAT, Skoda and VW Nutzfahrzeuge) and to strengthen customer loyalty to the Volkswagen Group brands. VWL has about 60 years' experience in the auto-financing business.

Origination

VWL offers leasing for new and used Volkswagen, Audi, SEAT, Skoda and VW Nutzfahrzeuge to commercial and non-commercial customers. Initially, the car is purchased by VWL. At the expiration of the leasing contract the vehicle will be sold by the car dealer or VWL. If the lessee wants to keep the car, it has to purchase the vehicle.

Depending on contract terms, the risk of the residual value being different from the market value of the car is borne by the car dealer or, in a few cases, the lessee (open-end contracts). The car dealer can transfer the residual value risk of closed-end contracts fully or partially, against a premium, to VWFS or the car manufacturer.

Underwriting

VWL manages its underwriting and distribution channel through the Leasing Operations/Underwriting (LOU) department. The LOU processes all leases and co-operates with a network of more than 3,500 dealers. Supported by a separate fraud prevention team, the LOU is also responsible for fraud detection. LOU employees are expected to undergo three months of training before carrying out any operational tasks in the teams and are offered a wide range of additional internal training to improve the consistency and quality of standards within the LOU.

Generally, the system works such that for contracts that fulfil the respective criteria, the steps including the approval are carried out in a fully automated fashion. The evaluation is, in essence, based on the following main categories: customer data, product type(s), vehicle information, payment history and scoring/credit rating. If a problem occurs, such as inconsistencies found or negative credit information, the request is processed manually. The underwriter then sees the outcome of the scoring and other information sources (such as Schufa, Buergel, Creditreform or payment history if applicable) and needs to approve the application manually.

The authority to approve a lease depends on the seniority of staff as well as a client's exposure. A junior lease administrator, for example, can approve a lease up to EUR50,000, while applications greater than EUR50,000 are approved by a senior lease administrator. Leases with a balance greater than EUR200,000 are managed by the special clients team.

Servicing

Fitch undertook a virtual operational review in September 2020. Overall, Fitch deems the underwriting and servicing capacities of VWL to be in line with market standards among the top German car finance companies; VWL also has a proven record in its securitisation activity. A review does not constitute due diligence, which Fitch does not perform, but relies upon the accuracy of data provided to it.

Arrears Management and Special Servicing

The debt management team is responsible for dealing with delinquent contracts.

Lessees receive calls from VWFS's call centre as soon as possible after the due date to determine the reasons for the missed payment. A first reminder letter is sent out 12 days, a second 24 days and a third 36 days after due date. Once payment agreements are in place, reminders in case of non-payments are sent out every five days.

VWFS has introduced scores to handle delinquent contracts according to priority. Team members have the authority to approve payment holidays or maturity extensions. In August 2020, VWL announced a voluntarily payment holiday scheme targeted at performing and delinquent customers who did not take a payment holiday under the legislative scheme that ended in June 2020 but are affected by the pandemic and related lockdown and social distancing measures. The application period under the voluntarily payment holiday scheme ended in September 2020. For corporate customers, a contract is terminated after two missed instalments. For private clients, the point of termination is dependent on the ability of VWFS to terminate as prescribed by consumer protection regulation.

The collection centre is responsible for the handling of terminated contracts, second-hand marketing, court collections and charge-offs. It employs external collection agencies, which are compensated on the basis of their performance and success rates.

Vehicles can be repossessed following the effective date of the contract termination. After threatening repossession, a large portion of the terminated contracts has historically returned to performing status. For those contracts that remain non-performing almost all orders for repossession are successful. Generally, VWFS judges whether it is worthwhile to pay for the repossession expenses as expected sale prices may be considered too low. VWFS normally obtains three bids from the dealer network before the vehicle is sold. A court settlement, to determine the borrower's outstanding obligation, is initiated around four months after the due date. The foreclosure process normally commences six months after the due date and is followed by the charge-off.

Risk Management

The originator must maintain all lease files, including supporting documents, for regular review by VWL to ensure compliance with policies and procedures. Retrospective risk-oriented audits are conducted regularly by internal audit department and by external auditors in course of the annual financial statements audit. VWL regularly backs up its databases and tests its business continuity plans.

Appendix 2: ESG Relevance Score

FitchRatings

VCL Multi-Compartment S.A. - Compartment VCL 31

SF ESG Navigator
ABS - Auto

Credit-Relevant ESG Derivation

VCL Multi-Compartment S.A. - Compartment VCL 31 has 5 ESG potential rating drivers

- VCL Multi-Compartment S.A. - Compartment VCL 31 has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	5	issues	2
	4	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	2	Regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards	Asset Quality; Surveillance	5
Energy Management	2	Assets' energy/fuel efficiency and impact on valuation	Asset Quality; Surveillance	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Surveillance	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, data security, and safety standards	Operational Risk; Surveillance	4
Labor Relations & Practices	2	Labor practices, pension obligations and related litigation	Surveillance	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior	Asset Quality; Surveillance	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Asset Isolation and Legal Structure; Asset Quality; Rating Caps; Surveillance	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Rating Caps; Surveillance	4
Transaction Parties & Operational Risk	3	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Asset Quality; Financial Structure; Operational Risk; Rating Caps; Surveillance	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Surveillance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the Sustainability Accounting Standards Board (SASB).

CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.