Rating Report

VCL Multi-Compartment S.A., acting for and on behalf of its Compartment VCL 34

DBRS Morningstar
November 2021

Contents

Sofia Borysko
Senior Analyst
Global Structured Finance
+49 69 8088 3517
sofia.borysko@dbrsmorningstar.com

Miklos Halasz
Assistant Vice President
Credit Ratings - European ABS
+44 20 7855 6685
miklos.halasz@dbrsmorningstar.com

Mark Wilder
Senior Vice President
Head of European Operational Risk
+44 20 7855 6638
mark.wilder@dbrsmorningstar.com

Ratings, Issuer's Assets, and Liabilities

Debt	Par Amount (EUR)[1]	Initial Subordination[2]	Coupon	Rating[3, 4]	Rating Action	Rating Action Date
Class A Notes XS2398654702	941,100,000	5.9%	One-month Euribor + 0.70%	AAA (sf)	Provisional Rating - Finalised	25 November 2021
Class B Notes XS2398654967	21,500,000	3.7%	One-month Euribor + 0.80%	AA (low) (sf)	Provisional Rating - Finalised	25 November 2021
Subordinated Loan	32,904,958	-	One-month Euribor + 0.92%	Not Rated	N/A	N/A
Overcollateralisation	4,500,000	-	-	Not Rated	N/A	N/A

Notes:
1. As at the issue date.
2. Subordination is expressed in terms of portfolio overcollateralisation (OC) and does not include general cash collateral amount.
3. The coupons on the Class A Notes, Class B Notes, and the Subordinated Loan are floored at zero.
4. The ratings address the timely payment of scheduled interest and the ultimate repayment of principal by the final legal maturity date.

Issuer's Assets	Initial Amount (EUR)	Size (% of Portfolio)
Provisional Portfolio	1,000,004,958	100%
General Cash Collateral Amount	12,000,000	1.2% of the aggregate discounted receivables balance
VWL Risk Reserve	11,000,000	-

DBRS Ratings GmbH (DBRS Morningstar) finalised its provisional ratings on the Class A Notes and Class B Notes (together, the Notes) issued by VCL Multi-Compartment S.A., acting for and on behalf of its Compartment VCL 34 (the Issuer or VCL Compartment 34). The Issuer is a public limited company incorporated under the laws of Luxembourg, and is governed by Luxembourg securitisation law, acting as a special-purpose entity specifically for the purpose of this transaction.

The transaction represents the issuance of Notes backed by a portfolio selected from a pool of approximately EUR 1 billion of receivables related to auto leases granted by Volkswagen Leasing GmbH (the Originator, the Seller, or VWL), a wholly owned subsidiary of Volkswagen AG, to lessees resident or incorporated in the Federal Republic of Germany. The underlying motor vehicles related to the auto leases consist of both new and used passenger and light-commercial vehicles. VWL services the receivables.

Asset Class	Auto Leases
Governing Jurisdiction	Federal Republic of Germany
Sovereign Rating	AAA, Stable trend

Portfolio Summary (as at 31 October 2021)

Total Discounted Balance (EUR)	1,000,004,958
Number of Contracts (units)	121,189
Of which Retail (units)	104,162
Of which Corporate (unit)	17,027
Number of New Vehicles (units)	108,232
Number of Used/Demonstration Vehicles (units)	12,957
Average Outstanding Discounted Balance (EUR)	8,252
Weighted-Average Original Term (Months)	39.7
Weighted-Average Remaining Term (Months)	31.8

Transaction Parties

Roles	Counterparty	Rating[1]
Issuer	VCL Multi-Compartment S.A., acting for and on behalf of its Compartment VCL 34	N/A
Originator/Seller/Servicer	Volkswagen Leasing GmbH	Private Rating
Cash Collateral Account Bank/Distribution Account Bank/Cash Administrator/Counterparty Downgrade Collateral Account Bank	The Bank of New York Mellon, Frankfurt Branch	Private Rating
Swap Counterparty	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main	AA (low)
Paying Agent/Calculation Agent/Interest Determination Agent/Custodian	The Bank of New York Mellon, London Branch	Private Rating
Corporate Services Provider	Circumference FS (Luxembourg) S.A.	N/A
Security Trustee	Intertrust Trustees GmbH	N/A
Subordinated Lender	Volkswagen Financial Services AG	Private Rating
Data Protection Trustee	Data Custody Agent Services B.V.	N/A

1. Ratings refer to Long-Term Issuer Ratings or Long-Term Senior Unsecured Debt Ratings unless otherwise specified.

Relevant Dates

Term	Description
Closing Date	25 November 2021
Final Portfolio Cut-Off Date	31 October 2021
Payment Date	21st of each month
First Payment Date	21 December 2021
Monthly Period	Each calendar month immediately prior to the relevant payment date
Interest Period	The period from and including a payment date up to but excluding the following payment date.
Legal Maturity Date	21 September 2027

Rating Considerations

Notable Features

- The transaction represents the securitisation of automotive lease contracts; however, the residual value component of the lease contracts is not securitised in this transaction.
- The transaction is static and the Notes will amortise from the initial payment date. There is no revolving period.
- All underlying contracts are fixed rate while floating-rate notes have been issued. Interest rate risk is mitigated through interest rate swaps with DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.
- The discount rate applied to the gross receivables balance to calculate the purchase price is fixed at 5.7%. This considers the transaction's liability costs plus a buffer of 4.3%. Prior to the occurrence of an insolvency event, the buffer release amount is payable directly to VWL. There is no excess spread available to support the payment of interest or principal on the Notes.
- The transaction has a mixed sequential/pro rata amortisation structure. Initially, all collections arising from the lease receivables will pay down the Class A Notes (in accordance with the relevant priority of payments). Once the Class A overcollateralisation (OC) percentage reaches 12.25%, the Class B Notes begin to amortise. Once the Class B OC percentage reaches 7.50%, collections to the Class A and Class B principal are allocated on a pro rata basis until specified triggers are breached.
- Approximately 99.6% of the receivables relate to vehicles manufactured by companies of the Volkswagen group. Volkswagen-branded passenger vehicles relate to 35.7% of the outstanding discounted balance (or, combined with Volkswagen-branded light commercial vehicles, 46.5%). The second-largest brand concentration relates to Audi-branded vehicles (30.4%).
- Approximately 45.0% of the receivables relate to vehicles equipped with a diesel engine. A further 25.0% of the receivables relate to vehicles with alternative, hybrid, or electric powertrains.

Strengths

- The cash collateral account includes a liquidity reserve that is made available to the priority of payments to cover the payment of senior expenses, swap payments, and interest on the Notes prior to being restored to a target amount initially set at 1.2% of the aggregate discounted receivables balance, floored at the lower of (1) EUR 10 million and (2) the aggregate outstanding principal balance of the Class A Notes and Class B Notes at the end of the monthly period.
- VWL is a well-established captive finance servicer in Germany. VCL Compartment 34's portfolio characteristics (such as portfolio mix) are comparable with earlier transactions rated by DBRS Morningstar, which, over time, have demonstrated stable performance.
- DBRS Morningstar was provided with detailed monthly vintage information covering the past 10 years of cumulative net loss performance. Based on this information, it was possible for DBRS Morningstar to derive its expected probability of default (PD) and loss given default (LGD) assumptions. The static data showed stable and low credit loss performance trends. DBRS Morningstar supplemented the information received with relevant historical data from prior transactions.
- Although the purchased lease receivables include residual value risk, the residual value component of the receivables is not included in this transaction: therefore, the Issuer is not directly exposed to residual value risk.

- VWL is a subsidiary of Volkswagen Financial Services AG (VWFS), which is Volkswagen AG's (VW) captive finance company. DBRS Morningstar assigned an issuer rating of A (low) with a Stable trend to VW.
- Approximately 99.1% of the obligors make their monthly lease instalment via direct debit.
- The majority of the underlying vehicles (91.8%) were first registered in 2020 and 2021. Vehicles first registered in or prior to 2018 comprise of 0.3% of the aggregate discounted receivables balance.

Challenges and Mitigating Factors

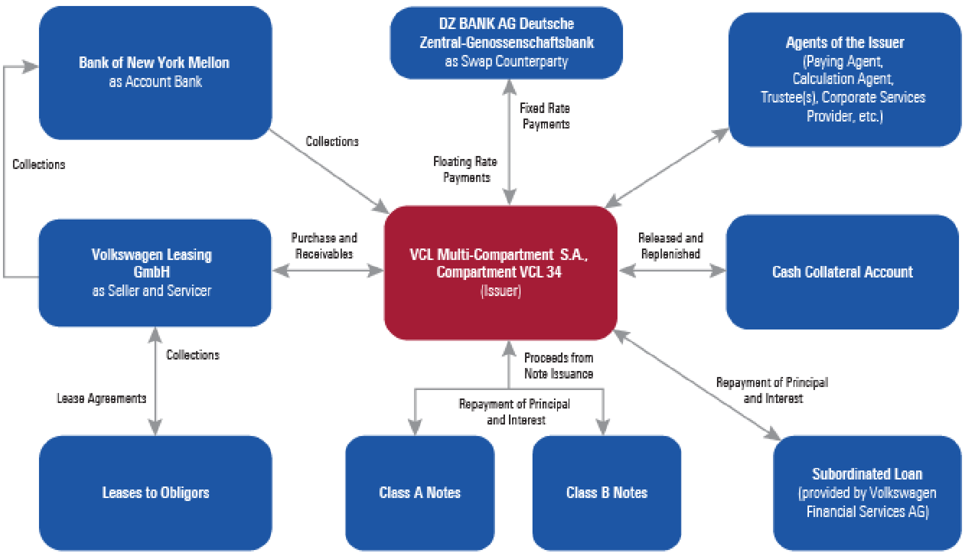
- Despite the lease receivables being transferred at a discount rate of 5.7%, any excess is returned to VWL through the buffer release amount as described in the transaction waterfall (subject to VWL not being insolvent).
  Mitigant: The buffer release rate mechanism has been considered by DBRS Morningstar when modelling the transaction.
- The servicer collects payments on its own accounts and, thus, collections may be commingled within the servicer's estate in case of insolvency.
  Mitigant: Following specified rating trigger downgrades related to VW, VWL is obliged to post monthly collateral for the respective monthly period, or transfer the collections on the following business day to the issuer's account. DBRS Morningstar has considered a commingling loss commensurate with the provisional ratings assigned to the Class A Notes and Class B Notes, the triggers linked to the monthly remittance condition, the expected distribution of monthly collections, and the amortisation profile of the portfolio.
- Because of the mixed sequential/pro rata structure of the transaction, there may be circumstances when the Class B Notes are amortising while the Class A Notes are still outstanding.
  Mitigant: DBRS Morningstar has modelled back-loaded scenarios to factor in this effect within its cash flow analysis.
- The credit performance of the portfolio may be negatively affected by the Coronavirus Disease (COVID-19) pandemic. Approximately 84.1% of the receivables relate to leases classified as retail customers. Approximately 23.3% of the leases have been granted to private individuals, with the remaining 76.7% being commercial leases. Some underlying corporate customers may operate in certain sectors that may be more susceptible to the impacts of the pandemic.
  Mitigant: DBRS Morningstar considered the comparatively high granularity of the portfolio; the top obligor represents 0.2% of the pool and the top 20 obligors account for 1.1%.

Transaction Structure

Transaction Summary	
Currency	Issuer's assets and liabilities are denominated in euros (EUR).
Relevant Jurisdictions	Lease contracts and associated receivables are governed by the laws of the Federal Republic of Germany. Each transaction document is governed by the laws of the Federal Republic of Germany. The Issuer is incorporated under the laws of the Grand Duchy of Luxembourg.
Interest Rate Hedging	Interest rate swaps in place at closing. Issuer pays: 0.380% and 0.525%, respectively, under the Class A Notes and Class B Notes swaps Issuer receives: in relation to the Class A Notes swap: the sum of Euribor plus 0.70% per annum, in relation to the Class B Notes swap: Euribor plus 0.80% per annum. Notional: the aggregate principal amount of the Class A Notes and the Class B Notes, respectively.

	Floor: zero	
Basis Risk Hedging	N/A	
General Reserve	The liquidity reserve component of the cash collateral account provides liquidity support to the Class A Notes and Class B Notes. The reserve can be used to cover senior expenses, swap payments, and interest shortfalls,	
	Initial Amount	EUR 12,000,000, corresponding to 1.2% of the aggregate discounted receivables balance.
	Target Amount	1.2% of the aggregate discounted receivables balance.
	Floor	The lesser of: - EUR 10,000,000; and - the aggregate outstanding principal balance of the Class A Notes and Class B Notes at the end of the monthly period.
	Amortisation	Yes

The transaction structure is summarised below:



Source: Transaction Documents and DBRS Morningstar.

Counterparty Assessment

Account Bank

The Bank of New York Mellon (BNYM) has been appointed as the Issuer's account bank for the transaction. DBRS Morningstar privately rates BNYM and has concluded that it meets DBRS Morningstar's minimum criteria to act in such capacity and the transaction contains downgrade provisions relating to the account bank consistent with DBRS Morningstar criteria.

Hedging Counterparty

DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main has been appointed as the swap counterparty for the transaction. DBRS Morningstar understands the swap counterparty is meets DBRS Morningstar's minimum criteria to act in such capacity. The hedging documents contain downgrade provisions consistent with DBRS Morningstar criteria.

Set-Off Risk

VWL does not take customer deposits, and the Seller warrants and guarantees, inter alia, that the lessees have no set-off claims. Affiliates of VW, Familie Porsche Stuttgart, and Familie Piech Salzburg Gruppe are also specifically excluded. The Seller is required to repurchase leases where the representations and warranties have been breached.

Although VWL offers a range of maintenance and other services, as well as certain insurance products to lessees, any payments related to such services and VAT thereon form part of the excluded amounts and are not capitalised in the transaction.

Commingling Risk

The servicer is permitted to commingle collections with its own funds and is required to transfer these monies to the Issuer's account on each payment date, subject to the monthly remittance condition being satisfied. The monthly remittance condition is no longer satisfied if VW's rating falls below BBB (high).

Upon breach of the trigger, VWL will be required to either:

- Transfer to the Issuer the monthly collateral, comprising of the expected following monthly payments, including prepayments estimated to be 5% falling due and payable, or;
- If the monthly collateral is not paid to the Issuer, the collections must be transferred to the Issuer within one business day from receipt thereof.

DBRS Morningstar has analysed this structure in line with its legal criteria and concluded that the current ratings are commensurate with the resulting commingling risk exposure, taking into account that VWL as the servicer is allowed to commingle up to nearly two months of collections, and considering the credit strength of Volkswagen and its subsidiaries.

Servicing of the Portfolio and Collections

VWL has been appointed to service the purchased lease receivables in accordance with the servicing agreement agreed between itself and the Issuer.

The servicer has been appointed by the Issuer to collect payments from lessees and other proceeds related to the receivables (the collections). These include all payments received from customers by the servicer in respect of the purchased receivables, including (1) interest collections, (2) principal collections, (3) insurance proceeds, (4) vehicle sale proceeds, and (5) recoveries.

Amounts available for the priority of payments include:

- Collections;
- The Issuer’s portion of proceeds from the realisation of leased vehicles;
- Payments from the cash collateral account;
- Net swap receipts;
- Investment earnings on the distribution account;
- Repurchase price received from VWL, if any;
- The buffer release amount.

Prior to the occurrence of an insolvency event related to VWL, the buffer release amount is deducted from the available distribution amount and is paid directly to VWL.

The available distribution amount must be disbursed by the Issuer, as per the terms of the transaction documents, on the relevant payment dates. Available collections processed on a given payment date are payments related to a specific monthly period ended prior to the payment date (the collection period) and amounts collected, but referred to the following collection period should only be processed on the relevant payment date.

Priority of Payments

Prior to a foreclosure event affecting the Issuer, the Issuer applies all available funds in accordance with the order of priority, as summarised below:

1. Taxes and expenses;
2. Senior servicer fee;
3. Payments of other senior fees;
4. Net swap payments to the hedging counterparties (except termination payments to a defaulting swap counterparty);
5. Interest on the Class A Notes;
6. Interest on the Class B Notes;
7. Replenishment of the reserve up to its specified cash collateral account balance;
8. On the occurrence of the German trade tax increase event, related payment into the cash collateral account;
9. Principal on the outstanding balance of the Class A Notes, up to the Class A targeted note balance;
10. Principal on the outstanding balance of the Class B Notes, up to the Class B targeted note balance;
11. Payments to the swap counterparty under the swap agreement (to the extent not paid under item 4 above);
12. Accrued and unpaid interest on the subordinated loan;
13. Principal payments on the subordinated loan (until reduced to zero); and
14. Remaining excess to VWL.

Principal Redemption Amounts and Excess Spread

The Class A principal payment amount is calculated as the amount required to reduce the Class A Notes outstanding to the relevant target OC level, provided that a Level 2 Credit Enhancement Increase Condition has not occurred. Otherwise, this is equal to the outstanding amount of the Class A Notes.

The Class B principal payment amount is calculated as the amount required to reduce the Class B Notes outstanding to the relevant target OC level, provided that a Level 2 Credit Enhancement Increase Condition has not occurred. Otherwise, this is equal to the outstanding amount of the Class B Notes.

The repayment of the notes is determined by each class' respective target OC level, as laid out in the table below:

Target OC	Prior to a Level 1 Credit Enhancement Increase Event	Following a Level 1 Credit Enhancement Increase Event	Following a Level 2 Credit Enhancement Increase Event
Class A	12.25%	14.00%	100%
Class B	7.50%	8.25%	100%

A level 1 credit enhancement increase condition is in effect if the cumulative net loss ratio:

- Exceeds 0.5% on any payment date up to and including February 2023, or;
- Exceeds 1.15% on any payment date after (and excluding) February 2023 up to (and including) November 2023.

A level 2 credit enhancement increase condition is in effect if the cumulative net loss ratio exceeds 1.6% for any payment date.

Foreclosure Event

The Issuer will switch to a post-enforcement priority of payments in the case that:

- With respect to the Issuer an insolvency event occurs; or
- The Issuer defaults in the payment of any interest on the most senior class of notes when the same becomes due and payable, and such default continues for a period of five business days; or
- The Issuer defaults in the payment of principal of any note on the legal maturity date.

The available distribution amount will then be allocated as per below order of priority:

1. Senior issuer's fees and expenses;
2. Net swap payments, including any termination payment payable to the swap counterparty except when the swap counterparty is the defaulting party;
3. Interest on the Class A Notes;
4. Class A Notes principal until repaid in full;
5. Interest on the Class B Notes;
6. Class B Notes principal until repaid in full; and
7. Junior items.

As the accelerated priority of payments is applicable in case of Issuer's insolvency, it is not usually relevant in any rating scenario.

Optional Redemption

The Seller has the option to repurchase all of the outstanding assigned receivables on any payment date when the aggregate discounted principal amount outstanding of all receivables is less than 10% of the initial aggregate discounted principal balance.

Origination and Servicing

DBRS Morningstar conducted an operational review of VWL's auto finance operations in Braunschweig, Germany via remote update in April 2021. VWL is a wholly owned subsidiary of VWFS, which itself is wholly owned by the Volkswagen Group. DBRS Morningstar considers VWL's German origination and servicing practices to be consistent with those observed among other auto finance companies.

VWL was founded in 1966 and is headquartered in Braunschweig, Germany. VWL is part of VWFS, which is responsible for coordinating the worldwide financial services activities of the Group. VWFS provides banking, leasing, insurance, and other services to its retail, wholesale, and fleet customers.

As an operating subsidiary of VWFS, VWL looks to provide their customers with everything they need to achieve financial and mobile flexibility. The product offerings range from the financing of new and pre-owned cars of Group and non-Group brands, to wholesale financing and direct banking. Within this business model, VWL also supports the sale of the products of the Group and its brands. In addition, dealers receive valuable support from VWL in the form of diverse training measures and extensive marketing support.

VWFS is a 100% owned subsidiary of Volkswagen AG and is responsible for coordinating the worldwide financial services activities of the Group.

DBRS Morningstar assigned a private rating to VWL and publicly rated the parent entity, Volkswagen AG, at A (low) with a Stable trend on 10 August 2021. Please see www.dbrsmorningstar.com for more details. Further information on origination and servicing is available in the Appendix.

Collateral Summary

The lease receivables assigned to the Issuer by the Seller consist of fixed-term, level-payment lease contracts granted by VWL to private and corporate lessees residing in Germany for the purpose of leasing new, ex-demonstrator, or used cars or light commercial vehicles (together, the motor vehicles). The receivables are claims against lessees in respect of principal, interest, and administration fees (including statutory claims being commercially equivalent to principal and interest); however, the final optional instalment is excluded. The lease contracts are fixed-interest rate leases governed by German law and secured by security title (Sicherungseigentum) over the financed vehicles.

VWL offers two types of lease contracts to both retail and corporate clients: open-end lease contracts, where there is no fixed residual value guaranteed by the dealers and the lessee bears the risk of loss (or profit) when the car is re-marketed at the end of the contract; and closed-end lease contracts where the residual value is predetermined and fixed by the dealer, subject to vehicle mileage caps outlined in the contractual conditions. If the vehicle mileage is above or under the contracted mileage, the residual value will be adjusted accordingly and the lessee will either be charged or refunded.

The collateral portfolio is static and no further additions or changes to the portfolio are allowed after the issuance of the Notes; however, VWL may, in specific cases, repurchase individual receivables because of a breach of representations and warranties or the creation of a lien on a receivable, among others.

Eligibility Criteria

Receivables assigned on the closing date meet certain selection criteria specified in the transaction documents. Some of the relevant criteria required for assignment are summarised below:

1. The lease contracts are legally valid and binding agreements;
2. The leased receivables are denominated and payable in euros;
3. The leased vehicles are existing and the lessee resides in Germany;
4. The lease receivables are free from rights of third parties and the lessees have no set-off claim;
5. No lease receivables are overdue and there is no pending termination of the lease contract;
6. No lessee if an affiliate of VW, Familie Porsche Stuttgart, or Familie Piech Salzburg Gruppe;
7. At least two instalments have been paid for each lease contract;
8. The lease contracts are governed by the laws of Germany;
9. The lease contract pays substantially equal monthly payments to be made within 12 months to 60 months of the date of origination;
10. The total amount of lease receivables assigned resulting from the contracts with a single lessee will not exceed 0.5% of the aggregate discounted receivables balance;
11. Not more than 5% of the discounted receivable balance is to relate to lease contracts for vehicles that are not Volkswagen Group branded vehicles (i.e., other than Volkswagen, Audi, SEAT, Skoda or Volkswagen Nutzfahrzeuge);
12. Receivables are not related to special offers specifically directed to employees of the Seller or its affiliates;
13. Receivables are not related to lessees that are unlikely to pay, or are past due more than 90 days, or are credit-impaired or against which insolvency proceedings have been initiated;
14. The lease receivables have not been subject to forbearance amendments which had been agreed between VWL and the lessees to limit the impact of the coronavirus;
15. None of the lessees have exercised their right of revocation.

On 9 September 2021, the European Court of Justice ruled in relation to certain cases (C-33/20, C-155/20, and C-187/20) addressing the rights of consumers in Germany to revoke their finance contracts. According to the ruling, the absence of certain mandatory information (relating to default interest and prepayment fees) in the contracts is not compliant with the EU Consumer Credit Directive and, as such, the right to revoke extends past the standard 14-day period (i.e., indefinitely). As this ruling may result in economic incentives for borrowers to withdraw from their contracts, it could negatively affect German auto ABS securitisations. DBRS Morningstar is closely monitoring these developments and the impact of the decision on affected transactions. For further details, please refer to the commentary titled, *The European Court Resolves Debate on Consumer Rights in Germany but Questions Remain.*

Pool Characteristics

DBRS Morningstar has analysed the collateral portfolio selected by VWL as at 31 October 2021. The main characteristics of the portfolio are summarised below:

VCL Multi-Compartment S.A., acting for and on behalf of its Compartment VCL 34

Outstanding Discounted Receivables Balance (EUR)	1,000,004,958
Total Number of Contracts (units)	121,189
Of which new vehicles (units)	108,232
Of which used vehicles or demonstrators (units)	12,957
Average Outstanding Discounted Balance (EUR)	8,252
Average Outstanding Nominal Balance (EUR)	8,910
Discount Rate	5.7016%
WA Original Term (Months)	39.7
WA Remaining Term (Months)	31.8
WA Seasoning (Months)	7.9

Vehicle Brand	% of Outstanding Discounted Balance
VW	35.7%
Audi	30.4%
Skoda	13.7%
VW Light Commercial Vehicles	10.8%
SEAT	9.1 %
Other Brands	0.4%

Customer Type	% of Outstanding Discounted Balance
Private	23.3%
Commercial	76.7 %

Customer Concentration	% of Outstanding Discounted Balance
Top 1	0.2%
Top 3	0.4%
Top 5	0.5%
Top 10	0.7%
Top 20	1.1%

Geographic Mix (Top Five Regions)	% of Outstanding Discounted Balance
North Rhine-Westphalia	22.7%
Bavaria	17.4%
Baden-Wuerttemberg	15.1%
Lower Saxony	9.3%
Hesse	8.0%

Top Five Industries	% of Outstanding Discounted Balance
Public administration, education, health care, public serv.	20.8%
Manufacturing industry	15.0%
Other services	14.6%
Retail/Wholesale	14.1%
Construction	10.3%

Exhibit 1 Distribution by Vehicle Brand (EUR)

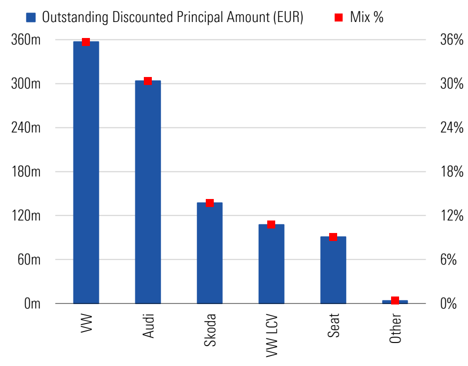
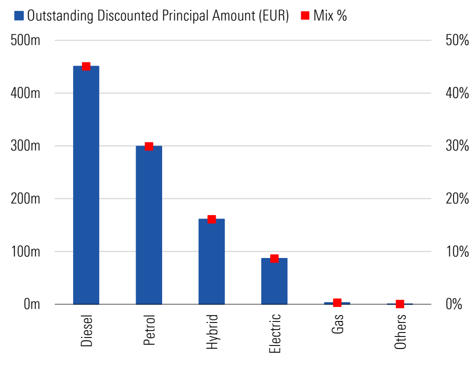


Exhibit 2 Distribution by Engine Type (EUR)



Source: VWL, DBRS Morningstar.

Exhibit 3 Distribution by Outstanding Principal (EUR)

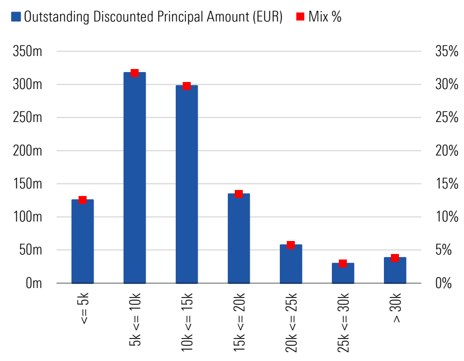
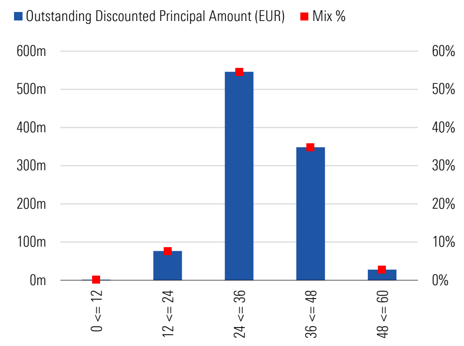


Exhibit 4 Distribution by Original Term (Months)



Source: VWL, DBRS Morningstar.

Exhibit 5 Distribution by Seasoning (Months)

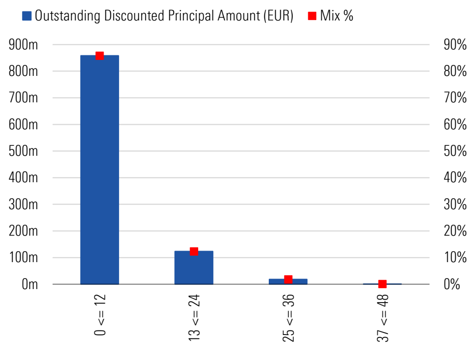
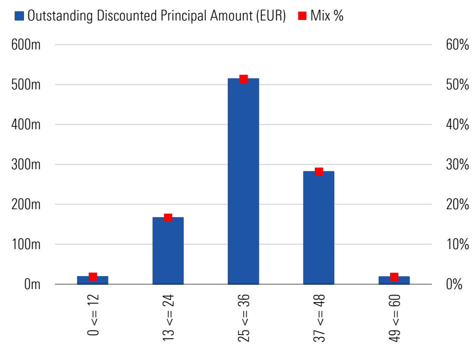


Exhibit 6 Distribution by Remaining Maturity (Months)



Source: VWL, DBRS Morningstar.

In comparison with other auto lease portfolios assessed by DBRS Morningstar in Germany, the following are noted:

- The majority of the portfolio comprises new vehicles (91.5%), which is in line with what is typically observed in other German captive lease portfolios rated by DBRS Morningstar;
- The average discounted receivables balance is marginally higher than EUR 8,250. This reflects (1) the inclusion of brands with a comparatively lower list price (2) the residual value component of the leases not being securitised in this transaction (3) the weighted-average original term of the portfolio being relatively low at 39.7 months resulting in a comparatively larger residual value component.
- DBRS Morningstar considers the vehicle make concentration to be high. The majority (99.6%) of the portfolio consists of vehicles of the Volkswagen Group. Vehicle model distribution is more granular, with the largest model (the VW Golf) representing approximately 7.6% of the portfolio. The concentration levels observed are in line with other VWL sponsored transactions rated by DBRS Morningstar and reflect the captive nature of the originator.
- The portfolio has limited seasoning; around 14.2% of the portfolio has more than 12 months' account history. Less than 2% of the portfolio has account history greater than two years; however, DBRS Morningstar considers the weighted-average seasoning of 7.9 months to be consistent with other German auto lease portfolios in transactions it rates.

Rating Analysis

The ratings are based on DBRS Morningstar's review of the following analytical considerations:

- Transaction capital structure, including form and sufficiency of available credit enhancement;
- Relevant credit enhancement in the form of subordination, a reserve fund, and overcollateralisation;
- Credit enhancement levels are sufficient to support DBRS Morningstar's projected expected cumulative net losses under various stress scenarios;
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms under which they have invested. For this transaction, the ratings assigned to the Class A Notes and Class B Notes address the payment of timely interest on a monthly basis and principal by the legal final maturity date;
- VWL's capabilities with regard to originations, underwriting, servicing, and its financial strength;
- The transaction parties' financial strength with regard to their respective roles.
- The credit quality and industry diversification of the collateral and historical and projected performance of the Seller's portfolio.
- The sovereign rating of the Federal Republic of Germany, currently at AAA with a Stable trend.
- The consistency of the transaction's legal structure with DBRS Morningstar's *Legal Criteria for European Structured Finance Transactions* methodology and the presence of legal opinions that address the true sale of the assets to the Issuer.

Portfolio Performance Data

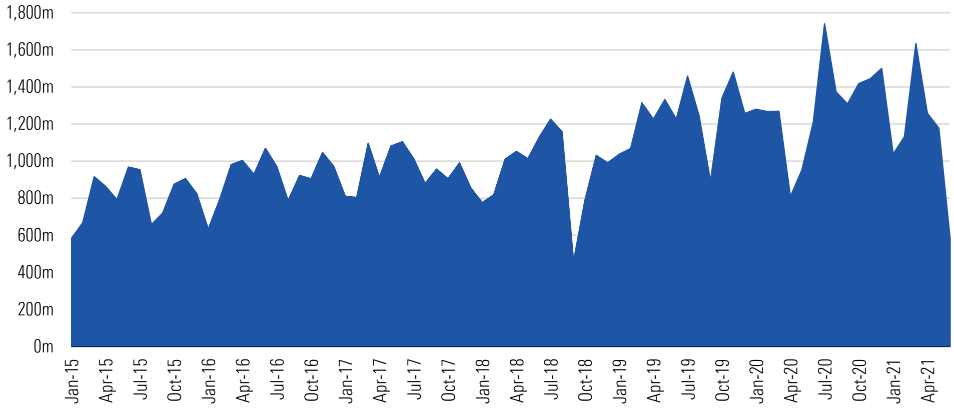
DBRS Morningstar received the following sets of data from VWL:

- Static cumulative net loss data going back to July 2011 and up to June 2021; data was provided on a total portfolio basis.
- Total portfolio level delinquency data from January 2010 to June 2021.
- Summarised stratification tables for the final pool as at 31 October 2021.
- A theoretical amortisation of the selected pool.

DBRS Morningstar supplemented the information received with relevant historical data from prior transactions and other benchmark data.

Origination and Outstanding Balances

Exhibit 7 Origination Volume (EUR)

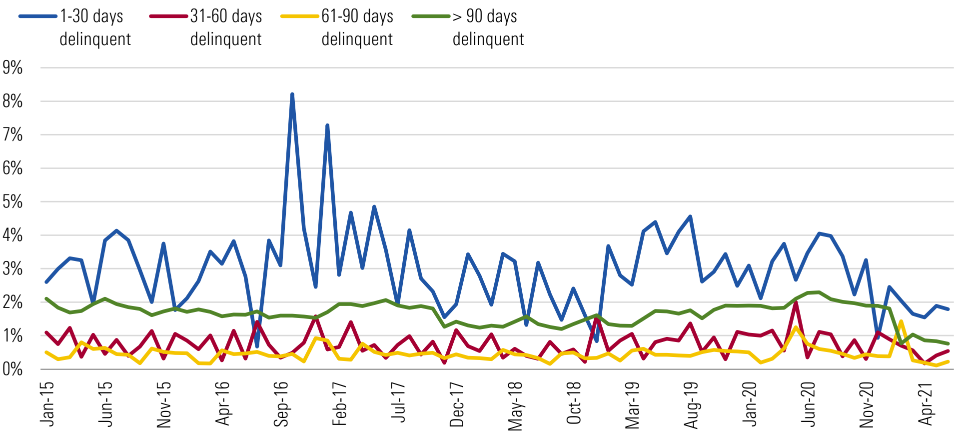


Source: VWL, DBRS Morningstar.

DBRS Morningstar has observed a broadly consistent origination volume over the past five years with a slight upward trend. In line with the broader growth of new vehicle registrations in Germany, VWL's originations increased between 2013 and 2019 and subsequently experienced a drop in 2020, driven by the lockdown measures and the wider impact on demand because of the coronavirus pandemic.

Delinquencies

Exhibit 8 Delinquencies



Source: VWL, DBRS Morningstar.

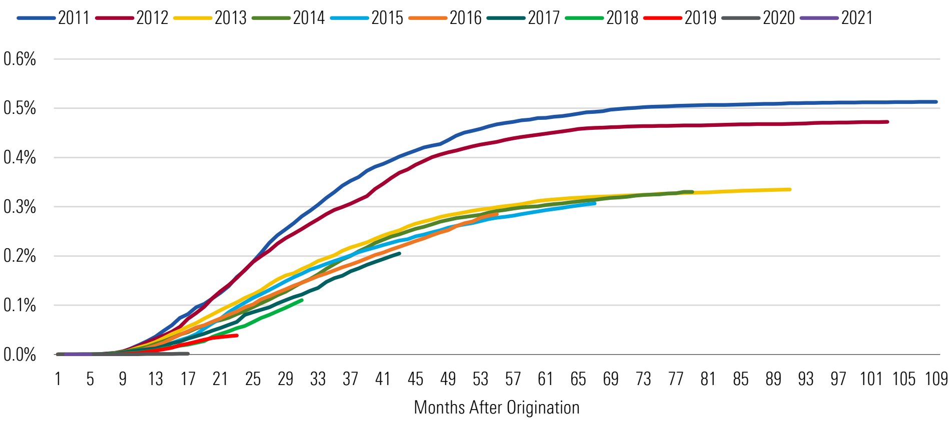
The delinquency performance of the portfolio has been stable over the last few years. Recent performance shows marginally improved performance and a reduction across the portfolio, despite COVID-19.

Vintage Default and Recoveries

The default definition applied relates to the contract termination date (in accordance with the servicer's collections practices). DBRS Morningstar derived gross loss and recovery assumptions from the net loss data based on performance data from prior and existing VCL transactions alongside relevant benchmarks.

Net losses have remained consistent and stable since 2013 with successive vintages following very similar loss distributions. More recent vintages have slightly outperformed prior years and the performance observed for the most current vintages continues this trend.

Exhibit 9 Net Loss - Total Portfolio

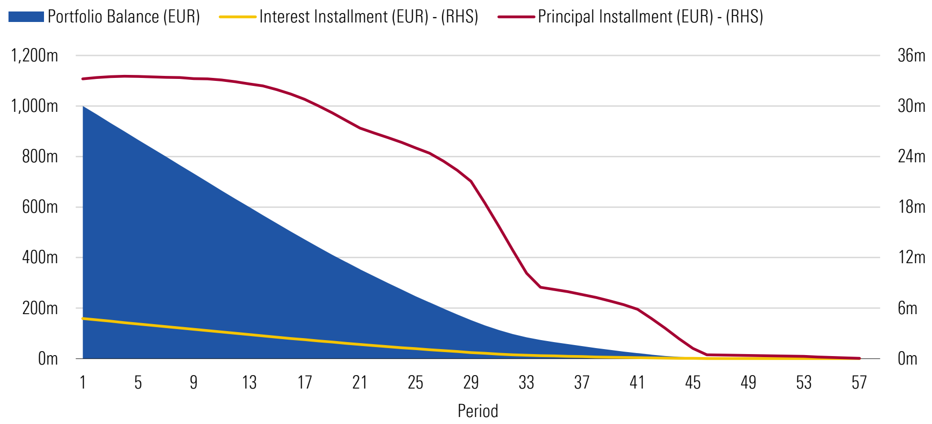


Source: VWL, DBRS Morningstar.

Portfolio Amortisation and Interest Rate

As the portfolio only contains the monthly lease instalment component of the leases, and the residual value component is not securitised, the amortisation profile is broadly linear and shows little volatility.

Exhibit 10 Theoretical Amortisation Schedule



Source: VWL DBRS Morningstar.

Summary of the Cash Flow Scenarios

DBRS Morningstar's cash flow assumptions focused on the amount and timing of defaults and recoveries, prepayment speeds, and interest rates. Several different prepayment scenarios were evaluated when assessing the sufficiency of credit enhancement that considered prepayment rates between 0% and 15%. DBRS Morningstar assessed a total of 18 cash flow scenarios to evaluate the performance of the Class A Notes and Class B Notes that incorporated front-, mid-, and back-loaded default timings and interest rates stresses.

Interest Rate Risk and Basis Risk

The interest rate risk in the transaction arises from the fixed interest rate on the leased receivables and the one-month Euribor floating rate applied to the issued notes. To mitigate the risk, the Issuer has entered into swap agreements with DZ Bank AG, Deutsche Zentralgenossenschaftsbank.

As a result, the Issuer pays on each payment date a fixed rate on the Class A Notes and Class B Notes, respectively, while the swap counterparty pays one-month Euribor plus the corresponding spread on the respective Notes. The notional for each swap is the aggregate outstanding balance for each respective class of notes, and all floating rate legs are floored at zero.

Default and Recovery Assumptions

DBRS Morningstar observed broadly consistent and low cumulative net loss rates from monthly vintages originated from 2013. To determine a loss estimate for the current transaction, DBRS Morningstar extended the dataset from predecessor transactions. For vintages that were not fully seasoned, cumulative net losses were projected to maturity using historical data relating to loss timing. DBRS Morningstar was not provided with separate recovery information; however, based on historical performance reported for similar assets securitised in benchmark transactions in Germany, including predecessor transactions, a conservative recovery assumption was used along with a three-month recovery lag.

	Base Assumption
Expected Gross Loss Rate	1.4%
Expected Recovery Rate	60%
AAA (sf) Recovery Rate	38.4%
AA (low) (sf) Recovery Rate	43.2%

Prepayment Speeds and Prepayment Stress

DBRS Morningstar assessed annualised prepayment rates between 0% and 15%, with the latter presenting the constraining scenarios within DBRS Morningstar’s cash flow analysis.

Timing of Defaults

DBRS Morningstar estimated the default timing patterns and created base, front-, mid-, and back stress-loaded default curves. The weighted-average life of the collateral portfolio under DBRS Morningstar's stressed cash flows is expected to be about three years and the front-loaded, base and back-loaded default distributions are listed below.

Year	Front	Mid	Back
1	50%	20%	20%
2	30%	50%	30%
3	20%	30%	50%

Due to the pro-rata allocation approach, DBRS Morningstar considers that the structure is sensitive to back-loaded default timings as principal may initially be diverted.

Risk Sensitivity

DBRS Morningstar determines a lifetime base-case PD and LGD for each rated pool based on a review of historical data. Adverse changes to asset performance may cause stresses to base-case assumptions and therefore have a negative effect on credit ratings. The tables below illustrate the sensitivity of the ratings to various changes in the base-case default rates and loss severity assumptions relative to the base-case assumptions used by DBRS Morningstar in assigning the ratings.

Class A

		Increase in PD Rate		
		0	**25**	**50**
Increase in LGD Rate	**0**	AAA (sf)	AAA (sf)	AA (high) (sf)
	25	AAA (sf)	AA (high) (sf)	AA (sf)
	50	AA (high) (sf)	AA (sf)	AA (low)

Class B

		Increase in PD Rate		
		0	**25**	**50**
Increase in LGD Rate	**0**	AA (low) (sf)	AA (low) (sf)	A (sf)
	25	AA (low) (sf)	A (sf)	A (sf)
	50	A (high) (sf)	A (sf)	BBB (high) (sf)

Appendix

Origination & Underwriting

Origination and Sourcing

VWL acts under the Audi Leasing, Seat Leasing, Skoda Leasing, and AutoEuropa Leasing brands. The objectives of VWL are to lease motor vehicles, especially the following brands: Volkswagen, Audi, SEAT, Skoda, and Volkswagen Nutzfahrzeuge. VWL provides a modern and cost-effective alternative to the purchase of vehicles in Germany and for the financing of investments, the latter in particular for the business partners of the Group.

In addition to providing leasing for the brands noted above, VWL also offers service-leasing to commercial and non-commercial customers and leasing options for used vehicles of all makes. VWL cooperates closely with the approximately 3,000 dealerships of the Group. A dealer can thus offer the customer complete, competent, personal service, at one stop and from a single source, including the financing.

The cooperation between the manufacturer or importer and the dealer-partner is established by a dealer agreement. Under this agreement the dealer-partner is given the responsibility for marketing the products and services of the Volkswagen Group and to service the trade-marked products of the Group.

The dealer-partners procure leasing business for VWL against commissions. VWL buys the vehicles from the dealer, finances and administers the vehicles, and assumes the credit risk. Each dealer-partner is trained in leasing business. The dealer-partner is the local contact person and available to the lessee during the whole life of the leasing contract.

Underwriting Process

All underwriting activities at VWFS are appropriately segregated from marketing and sales. VWFS adheres to standard identify and income verification practices including collection of income statements while identity cards, proof of address, and utility bills are reviewed. External credit data is retrieved from two nationally recognised bureaux (SCHUFA and Creditreform & Co.) and incorporated into the automated credit scoring models.

Prior to acceptance of an application, VWL checks the credit standing of the customer in the form of a credit report that may include information from credit agencies, banks, financial statements, and other relevant sources. For private and commercial retail customer contracts, applications are automatically approved by a scoring system if the information on the application demonstrates that the applicant meets VWL's criteria for an automatic approval.

Applications are analysed through VWFS's internal credit scoring system, which assigns a band to the loan denoting the risk associated with the borrower and loan. Both retail and commercial retail customers are evaluated under one of 16 risk bands, with 01 representing the best score, and 15 and D representing the worst scores. For large customers where there is a master framework agreement with VWL, the application is evaluated by at least two credit officers. Ongoing checks are then made to ensure that credit limits are respected for any newly leased vehicles.

Applications that are not automatically accepted by the scoring system are assessed by an employee of the credit department. The employees of VWL's credit department typically have several years of industry experience and degrees in business administration. Employees are personally assigned a credit ceiling up to which they may underwrite a given loan.

Summary Strengths

- Rising penetration rate over last few years.
- Use of multiple rules-based credit scoring models incorporating dual credit bureau data and monthly analysis of rules and performance metrics.
- Centralised and independent credit and risk management functions with underwriting teams split between retail (individuals and business) and corporates.

Servicing

Servicing begins during the final stages of initial financing, with the customer services department reviewing all borrower documents and credit terms including interest rates, loan maturity, insurance, and prepayment terms. The majority of payments are made via direct debit (95%) and have monthly payment frequencies. In the rare circumstance where customers do not agree to this requirement, payment comes from standing orders for payment transfers from their bank account, regular bank transfers, or cheque.

Servicing is centralised in Braunschweig and the company places considerable focus on customer service, as evidenced through the proactive assessment of customer satisfaction following contract execution and quarterly surveys. VWFS employs a customer contact council and a professional planning forum to ensure adherence to corporate strategies involving customer service. Given VWFS's low staff attrition rate, average company tenure among the servicing group is estimated at over five years.

The arrears management process is heavily automated and is driven by an SAP workflow system that provides collection teams' daily workload reports and performance monitoring statistics. VWFS complies with all regulatory guidelines. The company's behavioural scoring model, which assigns a probability of PD and LGD to each loan, is used to segregate arrears cases based on the risk profile. Over the last year, VWFS has placed more focus on specialised collections for vulnerable customers as a result of the economic crisis.

Initial collections activity starts in the Debt Management unit where letters are sent out immediately following a missed payment. If the lessee does not pay, a second reminder letter is generally sent after another two weeks, in which interest on arrears and other costs are also mentioned. The third reminder after 36 days includes charges for the reminder, the threat of a summary court order to pay, and the threat of termination of the contract.

In addition, the dealer who intermediated the contract is brought into the proceeding and requested to investigate the situation and to help with the collection of the debts. In addition, the Debt Management department of VWL may write an individual letter to the customer or be in touch with the customer or with the dealer by telephone or telefax. The employees of the Debt Management department are authorised to grant justifiable payment extensions, though the number of such agreements has been negligible.

Summary Strengths

- Majority of payments made via direct debit.
- Low default rate and stabilised recovery rates.
- Active early arrears management practices, which benefit from automated workflows and behavioural scoring that segregates arrears cases based on risk and loan size.

Opinion on Backup Servicer: There is no backup servicer appointed to the VCL Programme. DBRS Morningstar believes that the Group's current financial condition mitigates the risk of a possible disruption in servicing following a potential servicer event of default, including insolvency.

Methodologies Applied

The principal methodology applicable to assign ratings to this transaction is *Rating European Consumer and Commercial Asset-Backed Securitisations* (29 October 2021), https://www.dbrsmorningstar.com/research/387042/rating-european-consumer-and-commercial-asset-backed-securitisations.

Other methodologies referenced in this transaction are listed below:

- *Legal Criteria for European Structured Finance Transactions* (29 July 2021), https://www.dbrsmorningstar.com/research/382171/legal-criteria-for-european-structured-finance-transactions.
- *Rating European Structured Finance Transactions Methodology* (30 July 2021), https://www.dbrsmorningstar.com/research/382486/rating-european-structured-finance-transactions-methodology.
- *Operational Risk Assessment for European Structured Finance Servicers* (16 September 2021), https://www.dbrsmorningstar.com/research/384513/operational-risk-assessment-for-european-structured-finance-servicers.

- *Operational Risk Assessment for European Structured Finance Originators* (16 September 2021), https://www.dbrsmorningstar.com/research/384512/operational-risk-assessment-for-european-structured-finance-originators.
- *Derivative Criteria for European Structured Finance Transactions* (20 September 2021), https://www.dbrsmorningstar.com/research/384624/derivative-criteria-for-european-structured-finance-transactions.
- *Interest Rate Stresses for European Structured Finance Transactions* (24 September 2021), https://www.dbrsmorningstar.com/research/384920/interest-rate-stresses-for-european-structured-finance-transactions.
- *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (3 February 2021), https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

The rating methodologies and criteria used in the analysis of this transaction can be found at: https://www.dbrsmorningstar.com/about/methodologies. Alternatively, please contact info@dbrsmorningstar.com.

Surveillance Methodology

DBRS Morningstar monitors this transaction in accordance with its *Master European Structured Finance Surveillance Methodology*, which is available at www.dbrsmorningstar.com under Methodologies. Alternatively, please contact info@dbrsmorningstar.com.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

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