FitchRatings

Structured Finance
Auto Leases
Germany

VCL Multi-Compartment S.A. – Compartment VCL 34

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Closing occurred on 25 November 2021. The transfer of the portfolio to the issuer occurred on the closing date. The ratings assigned above are based on the portfolio information as of 31 October 2021, provided by the originator.

Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other material should be reviewed prior to any purchase.

Representations, Warranties and Enforcement Mechanisms Appendix

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Capital Structure

Class	Rating	Outlook	Amount (EURm)	CE (%)	Interest Rate (%)	Legal Final Maturity
A	AAAsf	Stable	941.1	6.9	1m Euribor + 0.70	September 2027
B	AAsf	Stable	21.5	4.7	1m Euribor + 0.80	September 2027
Subordinated loan	NRsf	n.a.	32.9	n.a.	1m Euribor + 0.92	September 2027
Total (excluding sub-loan)			**962.6**			

Notes: Credit enhancement (CE) includes overcollateralisation (5.9% 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 34 (VCL34) 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+/Positive/F1).

Key Rating Drivers

Lagging Impact from Pandemic: Fitch Ratings expects accelerating GDP growth in 2H21 and 2022. The pandemic-related performance deterioration in ABS portfolios has been delayed, helped by government support. Fitch expects moderately higher default rates over 2021 and 2022 despite the economic rebound. We therefore factored in a degree of stress in our default base case of 2.0% compared with historical observations, while unchanged expected recoveries of 67.5% reflect our view that used car prices will not be materially affected.

Sensitivity to Pro Rata Period: The transaction has 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 therefore 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. We consider the risk of leakage of funds limited in high rating scenarios as performance triggers are breached swiftly, leading to sequential amortisation.

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 offers protection against potential seller-related obligations, including contingent 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. We consider this mechanism adequate in addressing commingling risk.

Highlights

Transaction Highlights

Effect	Highlight
Neutral	**Unchanged Pool and Structural Characteristics:** The key characteristics of the asset portfolio are comparable to previous Fitch-rated VCL transactions, including the split between private and commercial lessees and the pool concentrations within the largest lessees. The transaction structure is unchanged from predecessors; compared to VCL31, only the initial CE for class A decreased, by 10bp, while target OC levels are untouched.
+	**No Exposure to Residual Values:** The issuer will not purchase the lease receivables' residual value (RV) portion, which is securitised in a master structure. The issuer is therefore only indirectly exposed to the development of used car prices that are relevant for vehicle remarketing proceeds for defaulted contracts.
+	**Long Performance History:** The originator is a well-known auto lease provider in Germany, with a robust servicing record and long underwriting and securitisation experience, including periods of economic stress. Our expected losses and the stressed levels incorporate the long and robust data track available, good performance of prior Fitch-rated deals and the static nature of the portfolio.
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	**Estimated Pool CO2 Emission of 122 g/km:** About 9.2% of the vehicles in the pool are battery-electric vehicles (BEVs), and another 16.5% are hybrid cars, of which Fitch estimates 7.4pp to be plug-in electric hybrid vehicles (PHEVs). We expect the cumulative 16.6% of BEVs and PHEVs to fall under the definition of zero- and low-emission vehicles (LZEVs) in line with the EU Clean Vehicle Directive. The estimated share of LZEVs is significantly higher than observed in most recent Fitch-rated auto loan ABS. We further estimate the weighted average emission of the cars in the portfolio to be about 122 g/km (see Appendix 3: Estimated CO2 Emission Levels). The estimated emissions are at the lower end of CO2 levels in German auto ABS issued between 2019 and 2021 (see German Auto ABS CO2 Emissions Are on the Right Path –Further Improvement Coming). The vehicles backing the leases are mostly from the 2021 model year, which has seen significant improvements in emission efficiency. The combined share of premium cars (Audi) and light commercial vehicles is about 29.2%.

Source: Fitch Ratings, Kraftfahrt-Bundesamt

Euribor Exposure

Assets	Rated notes	Hedges
100% fixed-rate assets.	Floating-rate liabilities with reference to 1m Euribor.	The fixed rate assets will be swapped into 1m Euribor (plus the margin of the respective note).

Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

Key Rating Driver (Negative/Positive/Neutral)

Rating impact	Key rating driver
Negative	Lagging Impact From Pandemic
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 (October 2021)
Consumer ABS Rating Criteria (November 2021)
Structured Finance and Covered Bonds Counterparty Rating Criteria (November 2021)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (November 2021)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (September 2021)

Related Research

Global Economic Outlook (September 2021)
Global Structured Finance Coronavirus Performance Report: 3Q21 (July 2021)
Fitch Ratings 2021 Outlook: EMEA Structured Finance (December 2020)
European Auto ABS Index – 3Q21 (August 2021)
German Auto ABS Likely to Show Delayed Performance Deterioration (December 2020)
CO2 Emissions Reporting Key to Defining European Green Auto ABS (April 2021)
German Auto ABS CO2 Emissions Are on the Right Path – Further Improvement Coming (June 2021)

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 34	Not rated
Originator, seller and servicer	Volkswagen Leasing GmbH	Not rated
Reference entity for remedial action on commingling	Volkswagen AG	BBB+/Positive/F1
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
Issuer account bank, cash administrator	The Bank of New York Mellon, Frankfurt branch	AA/Stable/F1+
Paying agent	The Bank of New York Mellon, London branch	AA/Stable/F1+
Swap provider	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	AA(dcr) AA-/Stable/F1+
Arranger	BofA Securities Europe SA	AA/Stable/F1+
Joint lead managers	BofA Securities Europe SA MUFG Securities (Europe) N.V. Landesbank Baden-Wuerttemberg	AA/Stable/F1+ Not rated A-/Stable/F1

Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

Transaction Comparison

Alongside the most recent Fitch-rated predecessor transaction, VCL33, the comparison table includes two other 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. – Comp. VCL 34	VCL Multi-Compartment S.A. – Comp. VCL 33	Silver Arrow S.A. Comp. 11	Bavarian Sky S.A., Comp. German Auto Loans 10
Type	Static	Static	Static	Static
Closing date	November 2021	June 2021	May 2020	May 2020
Seller	VWL	VWL	Mercedes-Benz Bank	BMW Bank GmbH
Issuance volume (EURm)	962.6	962.5	1,889.9	756.8
Class A – rating	AAAsf	AAAsf	AAAsf	AAAsf
Class A – amount (EURm)	941.1	941.0	1,748.2	700.0
Class A – CE (%)	6.9	6.9	8.0	8.0
Class B – rating	AAsf	AAsf		
Class B – amount (EURm)	21.5	21.5		
Class B – CE (%)	4.75	4.75		
Portfolio summary as of closing				
Type of receivables	Auto leases	Auto leases	Auto loans	Auto loans
Total outstanding balance (EURm)	1,000	1,000	1,890	757
Number of receivables	121,189	122,884	94,642	37,722
Average outstanding balance (EUR)	8,252	8,138	19,670	20,061
WA seasoning (months)	8	9	18	6

Transaction Comparison (Cont.)

	VCL Multi-Compartment S.A. – Comp. VCL 34	VCL Multi-Compartment S.A. – Comp. VCL 33	Silver Arrow S.A. Comp. 11	Bavarian Sky S.A., Comp. German Auto Loans 10
WA remaining term (months)	32	31	31	39
Age of vehicle (%)				
New vehicles	91.5	91.6	43.0	44.3
Used/demo vehicles	8.5	8.4	57.0	55.7
Debtor type (%)				
Private	23.3	20.9	56.1	73.4
Commercial	76.7	79.1	43.9	26.6
Type of repayment				
Direct debit payments	99.1	98.3	100.0	99.9
Fitch assumptions (%)				
Cumulative default rate assumption	2.0	2.0	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

Source: Fitch Ratings

Sector Risks: Additional Perspective

Key Sector Risks

Sector or asset outlook	Fitch considers the asset performance outlook for German ABS to be worsening and negatively affected by the consequences of the pandemic.
Macro or sector risks	We are closely monitoring the pandemic's effect on unemployment in Germany, which we consider the key driver for the performance of the private lessees in the portfolio. A short-time work scheme ("Kurzarbeit") keeps many German borrowers employed and a strong social security net cushions performance against increasing unemployment. However, the depth of the recession in 2020 and the impact of the two nationwide lockdowns have put pressure on corporates' financial health, especially those in the leisure, transport and non-online retail sectors (see Covid-19 Effect in German SME ABS Becoming More Sector-Specific). Fitch expects private and commercial lessees' performance to worsen when pandemic-related government support schemes are phased out, which is reflected in our increased expected losses compared to previous VCL transactions closed before the pandemic. We expect the auto market to undergo substantial transformation in the medium to long term, as demand and supply turn away from internal combustion engines, which currently dominate Auto ABS portfolios. Used car prices for internal combustion engine vehicles may decline, potentially causing a reduction in recoveries.
Relevant research	German GDP shrank by 4.9% in 2020. Fitch expects GDP growth of 3.6% in 2021 and 4.2% in 2022, followed by 2% in 2023. We expect unemployment to increase moderately to 3.9% in 2021 and 3.8% in 2022, from 3.1% in 2019, before decreasing to 3.5% in 2023 (see Global Economic Outlook – September 2021). We expect unemployment and lower earnings to reduce used car prices, but only slightly and not to a degree that would materially affect our recovery expectation, while the auto market's transformation is unlikely to affect used car prices over the transaction's lifetime (see German Auto ABS Likely to Show Delayed Performance Deterioration).

Source: Fitch Ratings

Asset Analysis

The key asset eligibility criteria, summarised in the following table, are unchanged from the previous Fitch-rated predecessor deal, VCL33.

Key Asset Eligibility Criteria

Description
Lease contracts are denominated in euros with monthly payments.
Lease contracts are legally valid, binding agreements and governed by German law.
Not more than 5% of leased vehicles are from brands other than VW, Audi, SEAT, Skoda or VW Nutzfahrzeuge
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, with lessees on coronavirus-related payment holidays considered overdue.
None of the lease receivables was subject to a statutory or voluntary coronavirus-related forbearance measure.
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 Multi-Compartment S.A. – Compartment VCL 34

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 portfolio's characteristics as of end-October 2021 are shown in the Transaction Comparison section. Portfolio concentrations are shown in the margin on this page.

The portfolio characteristics are comparable to Fitch-rated predecessor transactions' portfolio characteristics at closing. The VCL34 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 reflect write-offs according to the originator's accounting policy. These data are consistent with the loss definition in the transaction, on which the amortisation type triggers are based. Recovery collections that are received after the lease has been written off belong to VWL, according to the transaction documentation.

Portfolio Concentrations

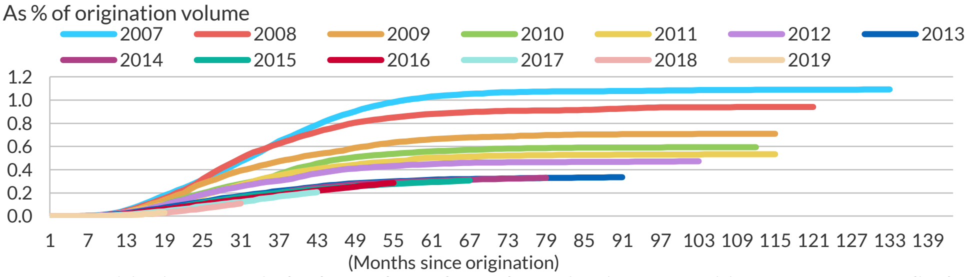
	% of total (by volume)
Largest 20 customers (% of outstanding discounted balance)	1.12
Largest regional concentration (North Rhine-Westphalia, % of outstanding discounted balance)	22.8
Largest industry concentration (public sector, % of outstanding discounted balance)	20.8
Closed-end contracts (% of outstanding balance)[a]	99.9
Electric vehicle share (% of outstanding discounted balance)	8.7

[a] Upon return of the car, the residual value risk is borne by the dealer (or VWL).
Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

The loss rate data for historical originations of VWL are shown below.

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

Fitch assumed a total portfolio base-case loss rate of 0.65%.

Vintages originated after 2008 show lower loss rates than older vintages. In Fitch's view, the better performance of recent vintages reflects improvements in VWL's origination standards, in addition to the favourable economic environment in Germany in recent years.

This assumption is unchanged from VCL33 in June 2021. Fitch has updated its forecasts on GDP growth and unemployment, incorporating the steadily evolving dynamics of the pandemic. Overall, we consider the expected economic environment to be comparable or slightly better than our forecasts in June 2021, as summarised in the two charts in the margin, which show our expectations for growth trajectories and unemployment rates at different points in time.

Defaults and Recovery Rates

Fitch has not received recovery information on VWL's total book. We derived our recovery assumption from default and loss information contained in previous VCL transactions' investor reporting. Fitch has applied a recovery rate base-case assumption of 67.5%, unchanged from VCL33, which reflects our expectation that used car prices will not be significantly affected by the pandemic.

Combining our loss and recovery rate expectations results in a default base-case assumption of 2.0%, which Fitch views as comparable to peer transactions.

Performance Expectations (%)

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

Source: Fitch Ratings

Fitch applied a lower-to-median multiple to the 2.0% default rate expectation (4.75x for 'AAA', 3.8x 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 pre-pandemic VCL transactions at their respective closing dates.

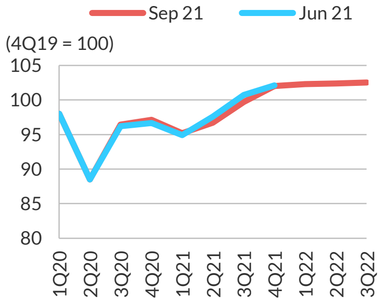
To derive the recovery haircut, we considered the level of base-case recoveries, the secured nature of the assets and VWL's robust recovery processes as key determining factors. Fitch derived a lower-to-median recovery haircut ('AAA': 45%; 'AA': 36%).

Stressed Assumptions (%)

	Rating default rate	Rating recovery rate	Rating loss rate
AAA	9.5	37.1	6.0
AA	7.6	43.2	4.3

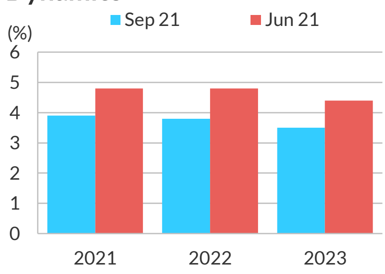
Source: Fitch Ratings

Forecast: GDP Trajectory



Source: Fitch Ratings

Forecast: Unemployment Dynamics



Source: Fitch Ratings

Prepayment Risk

Fitch derived its base-case prepayment assumption using data from previous VCL transactions as the originator has not provided us 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 VCL34. 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 applied 0% CPR in the low prepayment scenario across all rating levels.

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. Consequently, we do not apply prepayment losses in our cash flow modelling.

Cash Flow Analysis

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 our *Consumer ABS Rating Criteria* and summarised in the table below.

Default Distribution

Months from closing (%)	4	8	12	16	20	24	28
Front	40	25	20	10	5	0	0
Even	17	17	17	17	17	15	0
Back	10	12.5	12.5	15	22	15	13

Source: Fitch Ratings

The recovery timing was derived from lease-by-lease default and loss data from previous VCL transactions. We 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 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 (i.e. persistently negative at the current spot rate) 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 and the loss timing assumptions. 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 therefore an earlier pro rata allocation towards the class B notes and the unrated sub-loan. However, assuming back-loaded losses, a forced sequential note amortisation occurs later even in a stressed scenario.

Rating Sensitivity

Rating Sensitivity

	Class A	Class B
Original Rating	AAAsf	AAsf
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	AAsf
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

Source: Fitch Ratings

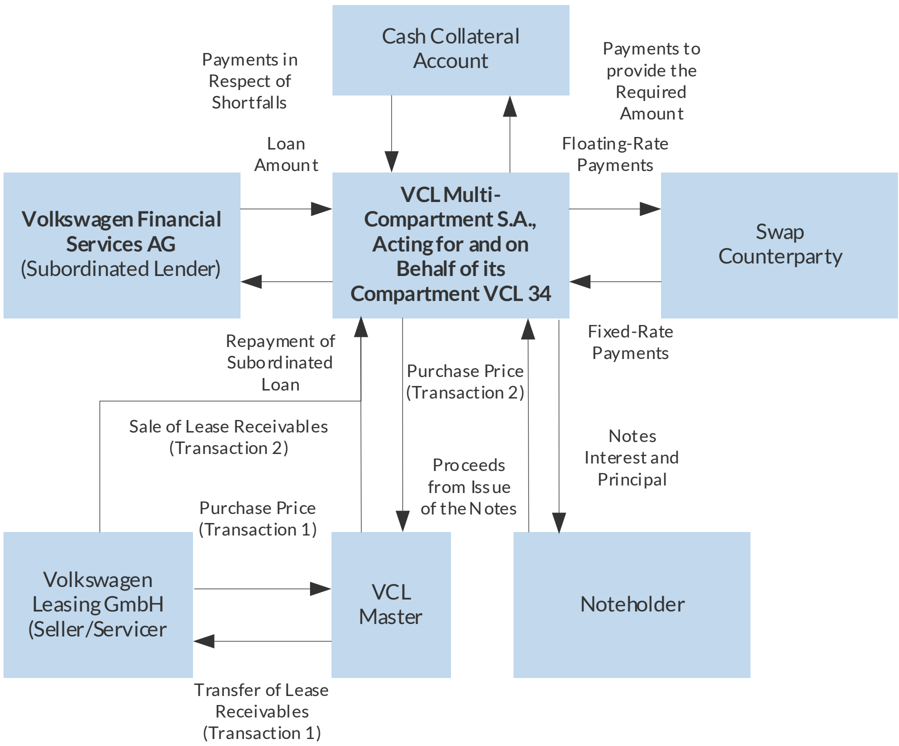
The *Rating Sensitivity* section provides insight into the model-implied sensitivities the transaction faces when one assumption is stressed, while holding others equal. The modelling process uses the estimation and stress of these variables to reflect asset performance in a stressed environment. The 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'.

Transaction Structure

Structure Diagram



Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

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 residual value. The residual value component itself is not refinanced via VCL34. 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 VCL34. 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

The issuer's expected assets and liabilities at closing are summarised in the table below.

Balance Sheet

Assets	Amount (EURm)	% of total pool balance	Liabilities	Amount (EURm)	% of total pool balance
Receivables	1,000.0	100.0	Class A	941.1	94.1
Cash reserve	12.0	1.2	Class B	21.5	2.15
			Subordinated loan	32.9	3.3
			PPD cash reserve	12.0	1.2
			PPD OC	4.5	0.45
Sum	**1,012.0**	**101.2**		**1,012.0**	**101.2**

PPD: Purchase price discount
Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

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%. 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)	0.3915
Servicing fee	1.00
Senior expenses	0.03
Subtotal	**1.4215**
Buffer release rate	4.2801
Total	**5.7016**

Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

As the buffer release rate will be directly released to the seller, the issuer benefits from a discount rate of 1.42% 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 and 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, the 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

VCL34'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

The issuer will enter 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, the latter being 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, both inclusive of the spreads over the reference rate, 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 Multi-Compartment S.A. – Compartment VCL 34

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 Multi-Compartment S.A. – Compartment VCL 34

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	5.9	3.7
Target OC, if no trigger breach	12.25	7.5
Target OC, if level 1 trigger breached	14.0	8.25
Target OC, if level 2 trigger breached	100	100

Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

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

- Prior to (and including) the payment date falling in February 2023: 0.50%; and
- after the payment date falling in March 2023 until the payment date in November 2023: 1.15%.

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

Please refer to the *Cash Flow Modelling* 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 *Exposure Draft: 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; 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	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	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 60 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. The 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).

Source: Fitch Ratings, VCL Multi-Compartment S.A. – Compartment VCL 34

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, we consider that the reserve fund would cover payment obligations long enough to be able to find a replacement and other parties in this transaction, especially 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.

Account Bank

We consider the issuer's exposure to the transaction account bank to be a primary credit risk.

The issuer will hold its account with The Bank of New York Mellon, Frankfurt branch. Under the transaction documents, should the account bank's deposit rating be below the minimum required rating of 'A' or 'F1', it must find a suitably rated replacement within 30 calendar days.

The documented rating thresholds are in line with those outlined in our counterparty criteria for 'AAA' rated bonds, and the remedial actions are also in line with our criteria, except for the "other actions" option outlined above.

Swap Counterparty

The issuer will enter into a swap agreement with DZ BANK AG to hedge the mismatch between the fixed rate received from the loan contracts and the floating-rate amounts payable on the rated notes. We classify the exposure to the swap provider as a primary credit risk; documented rating requirements for the swap provider and remedial actions are in line with those outlined in our counterparty criteria.

Commingling Risk

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

The servicer is no longer entitled to commingle collected payments with its own funds if VW is no longer rated at least '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.

Fitch considers the provisions to sufficiently cover commingling risk.

Payment Interruption Risk

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

Set-off Risk

Deposit Set-off Risk

The originator is not a deposit-taking entity, only its legally separated sibling entity 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 statutory two-year manufacturer 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. Fitch 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 report 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 *Exposure Draft: Structured Finance and Covered Bonds Counterparty Rating Criteria*.

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 21	14.5 years	Monthly	Static
Total book volume	Dec 08-Jun 21	12.5 years	Monthly	Dynamic
Delinquency	Dec 08-Jun 21	12.5 years	Monthly	Dynamic

Source: Fitch Ratings

Additionally, Fitch received pool stratifications and an amortisation profile of the provisional pool as of end-August 2021.

Fitch received a third-party assessment 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 its 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, 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 April 2021.

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 VWL 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, VWL judges whether it is worthwhile to pay for the repossession expenses as expected sale prices may be considered too low.

VWL 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 Scores

FitchRatings

VCL Multi-Compartment S.A. - Compartment VCL 34

SF ESG Navigator
ABS - Auto

Credit-Relevant ESG Derivation

VCL Multi-Compartment S.A. - Compartment VCL 34 has 5 ESG potential rating drivers

- VCL Multi-Compartment S.A. - Compartment VCL 34 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.

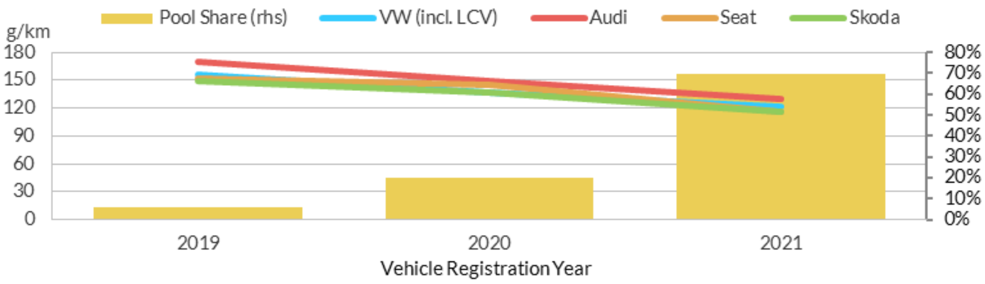
Appendix 3: Estimated CO2 Emission Levels

Fitch estimates the pool's weighted average CO2 emissions at 122 g/km.

We used data on CO2 emissions from the Federal Motor Transport Authority (Kraftfahrt-Bundesamt), reported for new vehicle registrations, to derive an estimated weighted average emissions level for the portfolio. We accounted for the vehicles' model years, brand distribution and the composition of new car registrations in our estimate.

The graph below summarises the pool's model year distribution (by number of vehicles) and the development of the brands' average emissions in the respective full-year registrations, and for 2021 the average emissions up to end-August.

VW Group CO2 Emission Levels



Source: Fitch Ratings, VCL Multi-Compartment S.A. - Compartment VCL 34, Kraftfahrt-Bundesamt

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.