Rating Object

VCL Master S.A., Compartment 1

Closing Date:	September 25, 2020
Legal Final Maturity:	September 25, 2027
Exchange:	Luxembourg Stock Exchange
Issuer:	VCL Master S.A., Compartment 1
Issuer Type:	Luxembourg Special Purpose Vehicle
Arranger:	Crédit Agricole CIB, Montrouge
Asset Class :	Auto Lease Receivables

Rating Information

Assigned Ratings/ Outlook:

Class A: **AAA$_{sf}$/ stable**

Class B: **AA-$_{sf}$/ stable**

Type:
Follow-Up Rating,
Renewal Report

Rating Date:	September 23, 2020
Monitoring Until:	September 25, 2027
Rating Methodologies:	CRA “Auto ABS Securitizations” CRA “Rating Criteria and Definitions”

Class	Rating / Outlook	Curr. Amount (EUR)[1]	Max. Amount (EUR)[2]	Initial Min. CE[3]	Index	Margin	Final Maturity	ISIN
A 2010-2	AAAsf/stable	287,100,000	300,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS0480715548
A 2011-2	AAAsf/stable	84,400,000	150,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS0646441575
A 2012-2	AAAsf/stable	169,200,000	250,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS0857705353
A 2012-3	AAAsf/stable	116,100,000	200,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS0857705866
A 2012-4	AAAsf/stable	288,800,000	300,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS0857706161
A 2013-1	AAAsf/stable	96,100,000	100,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS0950403229
A 2015-1	AAAsf/stable	498,600,000	750,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS1309693643
A 2017-1	AAAsf/stable	71,900,000	75,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS1577438135
A 2017-3	AAAsf/stable	462,900,000	500,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS1675945577
A 2018-1	AAAsf/stable	76,700,000	80,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS1894806360
A 2020-1	AAAsf/stable	89,200,000	150,000,000	9.50%	1m Euribor	+ 0.40%	September 2027	XS2230884061
Subtotal A		2,241,000,000	2,855,000,000					
B 2014-1	AA-sf / stable	27,400,000	50,000,000	6.90%	1m Euribor	+ 1.10%	September 2027	XS1112835910
B 2014-3	AA-sf / stable	27,100,000	50,000,000	6.90%	1m Euribor	+ 1.10%	September 2027	XS1112837379
B 2018-1	AA-sf / stable	6,000,000	10,700,000	6.90%	1m Euribor	+ 1.10%	September 2027	XS1894834818
Subtotal B		60,500,000	110,700,000					
Total		2,301,500,000	2,965,700,000					

1 Current Class A and Class B Notes Series issuance volume outstanding; 2 Maximum issuance amount of Class A and Class B Notes Series; 3 Initial Minimum CE for Class A Series consisting of (1) Class B subordination,(2) subordinated loan and (3) overcollateralisation and for Class B Series consisting of (1) subordinated loan and (2) overcollateralisation, see “Capital Structure” below.

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Transaction Summary

The VCL Master S.A., Compartment 1 transaction (“VCL Master C1”), its first emission dating back to 2010, is a securitisation of a pool of auto lease contracts originated in Germany. Volkswagen Leasing GmbH (“VWL”), acting as Seller and Servicer of these receivables, is a wholly owned subsidiary of Volkswagen Financial Services AG (“VWFS”). VWFS is a captive and 100% subsidiary of Volkswagen AG (“VWAG”).

The current securitised asset pool is a portfolio consisting of 305,798 contracts originated by VWL to retail and corporate customers. The transaction features a 12-month revolving period and is secured by new and used vehicle lease financing contracts. Note investors may opt to extend the revolving period for their series or initiate amortisation at the end of the revolving period. The portfolio has a weighted average remaining term of approximately 31 months and a total volume of EUR 2,504,325,131.89.

Creditreform Rating AG (“Creditreform Rating” or “CRA”) has assigned ratings to VCL Master C1 Class A and Class B Notes Series. The current issuance comprises 11 series of Class A Notes and three series of Class B Notes. In addition to the issuance of the rated Class A and Class B Notes Series, a Subordinated Loan will be granted to fund the purchase of lease financing contracts.

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The combination of the Subordinated Loan, overcollateralisation ("OC") and a Cash Collateral Account ("CCA") will provide credit enhancement to the rated Class A and Class B Notes Series.

Key Rating Findings

+ VCL securitises only the finance portion of the leases; residual values are not securitised by the Issuer
+ Strong macroeconomic fundamentals in Germany and strong German lease business should support VWFS's ABS strategy and future portfolio performance
+ Risks related to the Issuer are limited, the compartment structure being ring-fenced and with limited recourse to other creditors of the Issuer, including non-petition provisions
+ Downgrade collateral and replacement provisions mitigate counterparty risk exposure w.r.t. the Swap Counterparty and Account Bank

- Legal documentation does not foresee a back-up servicer
- Extended 12-month revolving period may affect portfolio quality
- Term takeouts increase the share of delinquent contracts in the portfolio
- Potentially indirect negative impact of VWAG diesel emission manipulations on future (portfolio) recovery performance

Transaction Structure

Transaction Parties

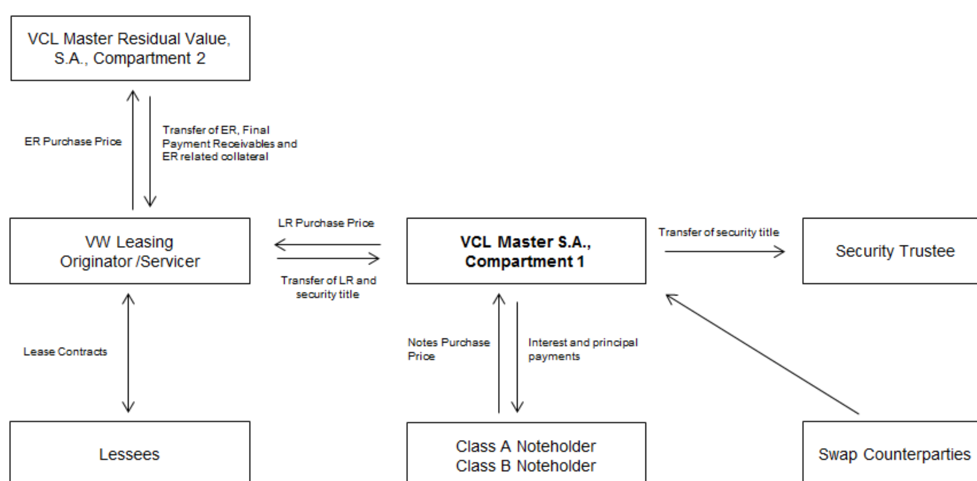
Table 1: Transaction Parties

Role	Name
Issuer and Purchaser	VCL Master S.A., acting for and on behalf of its Compartment 1, Luxembourg
Seller and Servicer	Volkswagen Leasing GmbH, Braunschweig
Arranger	Crédit Agricole CIB, Montrouge
Lead Manager	Crédit Agricole CIB, Montrouge
Account Bank	The Bank of New York Mellon, Frankfurt Branch, Frankfurt a. M.
Security Trustee	Wilmington Trust SP Services (Frankfurt) GmbH, Frankfurt am Main
Paying Agent, Interest Determination Agent, Registrar, Calculation Agent	HSBC Bank plc, London
Cash Administrator	The Bank of New York Mellon, Frankfurt Branch, Frankfurt a. M.
Swap Counterparties	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main; Skandinaviska Enskilda Banken AB (publ), Stockholm
Subordinated Lender	Volkswagen International Luxemburg S.A., Luxembourg
Corporate Service Provider	Circumference FS (Luxembourg) S.A., Luxembourg
Data Protection Trustee	Amsterdamsch Trustee's Kantoor B.V., Amsterdam

Issuer

The structure of the transaction is shown below (Figure 1). The Issuer, VCL Master S.A., acting for and on behalf of its Compartment 1, is a special purpose vehicle ("SPV") incorporated under the laws of Luxembourg. The company is registered with the Luxembourg Trade and Companies Register and has explicitly stated in its Articles of Incorporation to be governed by the Luxembourg Securitisation Law. The Issuer is a securitisation company with the sole purpose of entering into securitisation transactions through separate compartments.

Figure 1: Transaction Structure I Source: VWL



Risks related to the Issuer are limited, by the compartment structure being ring-fenced and with limited recourse to other creditors of the Issuer, including non-petition provisions. We regard the structure of the Issuer as being bankruptcy-remote. CRA conducted its rating assuming no adverse future change in Luxembourg securitisation law. A legal opinion addressing the Issuer structure was provided.

True Sale

The Issuer has entered into a receivables purchase agreement for the initial and revolving purchase of vehicle lease receivables pursuant to the ordinary course of the seller's business. The related lease financing contracts are governed by German law. VCL Master C1 will acquire all right, title and interest arising from such receivables. The rights allocated to VCL Master C1 will be assigned to the Security Trustee for the benefit of the noteholders. The transfer of title and collateralisation for security purpose is subject to resolutory conditions which stipulate that title to the vehicle will be returned to VWL once fulfilled (i.e. lease receivables have been settled or terminated). Legally, this creates an expectancy right (Anwartschaftsrecht) which transforms into full legal ownership once the resolutory conditions are fulfilled. VWL may opt to sell such expectancy rights ("ER") to other entities. Legal opinions addressing the legality, validity and enforceability of such receivables were provided.

Serving as a securitisation platform for VWL, VCL Master C1 may, on a regular basis, purchase further selected lease financing contracts by issuing additional notes (tap-issuance), or sell and

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transfer selected lease financing contracts to other entities (term takeout). The purchased receivables include only the finance portion of the total vehicle value and will amortise in full. VCL Master C1 will not finance the contractual residual value ("RV") of the lease financing contracts at maturity. The RV portion of the total vehicle value may be sold and financed in the form of expectancy rights (Anwartschaftsrecht) by other entities (i.e. "VCL Master Residual Value S.A.") or remain with VWL.

If an obligor defaults, the proceeds from the sale of the vehicle will be split pro rata between the remaining lease receivable portion and the residual value portion of the vehicle book value.

CRA has undertaken a review of the transaction structure and verified the consistency with the legal documentation. In addition, we obtained legal opinions that the securitized lease contracts constitute legal valid, binding and enforceable agreements.

Revolving Period

The transaction features an initial revolving period of 12 months. During this period, and according to the Order of Priority, the remaining distributions less taxes, fees, costs and interest for Class A and Class B Notes Series will be used for the purchase of new receivables instead of amortisation. Since the additional receivables are bought with a purchase price discount of 2.03%, the overcollateralisation of notes will increase. In contrast to tap-issuance, the purchase of additional receivables during the revolving period does not depend on rating agency confirmation. However, the occurrence of an early amortization event may end the revolving period prematurely (see "Order of Priority and Triggers").

The revolving period can be extended for existing notes series and includes the extension of the final maturity date, and, if relevant, an amendment of the note margins. If current noteholders refuse to extend the revolving period, this may result in the existence of both amortising and non-amortising series of notes. The amortising notes will benefit from an amortisation factor, setting the current pro-rata share of the series and enabling a quick redemption.

Term Takeout

Within the transaction, the Issuer acts as an intermediate warehousing vehicle. The Issuer may on any payment date sell any or all purchased receivables to any member of Volkswagen Group or to an affiliated securitisation vehicle (transferee). The additional receivables purchase price will include overcollateralisation in accordance with the purchaser's capital structure, which may affect the level of overcollateralisation within the VCL Master C1 structure following a term takeout.

Regardless of the mandatory random selection character of such takeouts, they may affect the quality of the portfolio (lower granularity, adverse diversification through eligibility criteria of transferee, increase of delinquent receivables). Therefore, prior to term takeouts, rating agencies have to confirm that the assigned ratings of Class A and Class B Notes Series will remain unaffected by such action.

The proceeds from a term takeout bypass the order of priority and will be directed to the distribution account, where the outstanding Class A and Class B Notes will be amortised.

Tap-Issuance

During the revolving period, and notwithstanding the purchase of replenishment receivables, the Issuer may from time to time offer to noteholders an increase of the issue amount of existing notes series and/or conduct an issuance of further note series in order to purchase additional receivables. Here, noteholders of existing series have the right, but not the obligation, to increase their respective issue amounts. However, a tap-issuance shall only be realised if the ratings of Class A and Class B Notes Series will remain unaffected by such action.

Upon occurrence of a tap-issuance, new and existing noteholders share a new portfolio with potentially different characteristics. The larger pool may have higher granularity and the relative share of delinquent and defaulted receivables may decrease because eligibility criteria exclude those receivables from purchase. However, the effects on portfolio diversification depend on the characteristics of the portfolio that will be purchased. As a general rule, tap-issuance receivables will be selected randomly and not with the intention to prejudice the noteholders, which reduces potential adverse effects on diversification.

Moreover, although the receivables will be purchased at a purchase price discount of 0.95% for OC, this may dilute (decrease) the OC for Class A and Class B Notes Series which builds up during revolving period replenishments (benefiting from a higher discount of 2.03%) and/or the amortization of notes (see “Order of Priority and Triggers”).

Seller and Servicer

VWL is a wholly owned subsidiary of VWFS and acts as Seller and Servicer of the lease financing contracts. VWAG is the parent company of VWFS, holding 100% of its shares and thus a controlling interest. VWAG´s non-bank-related financial division, as represented by VWFS, is a core business of the group with a significant contribution to group total earnings. CRA undertook an unsolicited rating of VWAG.

VWAG is currently facing legal and financial uncertainties resulting from the use of particular software in type EA 189 EU5 diesel engines. On September 18, 2015, the US Environmental Protection Agency (EPA) published a Notice of Violation alleging Volkswagen of having used certain software in diesel engines to circumvent emission standards under the Clean Air Act. According to a public announcement by VWAG, around 11 million vehicles worldwide might be affected. On December 16, 2015, Volkswagen announced that the presented technical measures have generally been approved by the German Federal Motor Transport Authority (KBA) with the consequence that the measures also apply to the EU-28 markets.

In its FY2019 report, VWAG recorded provisions of EUR 21.4bn, which increased by EUR 1.3bn, partly due to additional provisions in connection with the diesel issue, and identified six potential material consequences for its result of operations, financial position and net assets:

- Criminal and administrative proceedings all over the world (excluding USA/Canada)
- Product-related lawsuits worldwide (excluding USA/Canada)
- Lawsuits filed by investors worldwide (excluding USA/Canada)
- Proceedings in the USA/Canada
- Additional proceedings
- Risk assessment regarding the diesel issue

In its HY2020 report, VWAG reported sales revenues of EUR 96.13bn (-23.2% YoY) and an operating loss of EUR 1.49bn, compared with an operating gain of EUR 9bn in HY2019. Special items amounted to EUR -0.69bn relating to diesel issue. However, the Automotive Division's net cash flow plunged to EUR -4.81bn from EUR 5.57bn. For FY2020 VWAG expects the sales revenues to decline significantly below 2019 level, resulting from the Covid-19 pandemic. Nevertheless, the financial division is expected to face less negative impact from the pandemic due to its business model.

VWAG is in exchange of information with authorities to coordinate remedial actions. Although VWAG could conclude several settlement agreements in the United States and has reached several agreements with numerous authorities in other countries, VWAG is still exposed to various investigations as well as lawsuits in which authorities, investors and individuals have asserted claims against VWAG. The long-term implications of the manipulation of diesel emissions might include reputational damage, sale contractions, and negative financial impacts due to fines, costs of recall campaigns and higher financing costs. Creditreform Rating will closely monitor all future developments and implications for the transaction (also see "Volkswagen Manipulation of Diesel Emissions" below).

Eligibility Criteria

VWL as Seller warrants and guarantees, with respect to the purchased lease receivables, that the following eligibility criteria, among others, have been fulfilled at the cut-off date:

- Lease receivables constitute legal, valid and enforceable rights against lessees
- Lease receivables are assignable, denominated and payable in EUR
- Related lease receivables are free of defences, whether pre-emptory or otherwise, as well as free of rights of third parties
- Status and enforceability of purchased receivables is not impaired by set-off rights or warranty claims
- No related lease receivable was overdue at the closing date or additional purchase date
- Related lease financing contracts are governed by the laws of Germany and have been entered into with German companies or residents of Germany
- No defaulted receivables, no insolvency proceedings against lessees
- No obligor is an affiliate of the Volkswagen Group
- Obligor has at least paid two instalments
- Instalments are substantially equal through time
- Contract term of 12-60 months
- Single obligor concentration limit: 0.5% of the aggregate discounted receivables balance
- Concentration limit: ≤5% of all leased vehicles are non-VW group vehicles
- Concentration limit: ≤40% with a remaining term of less than 12 months[1]
- Concentration limit: ≤30% with a remaining term of more than 36 months[1]

[1] of the aggregate discounted receivables balance

- Concentration limit: ≤6% are used vehicles[2]
- Concentration limit: ≤22% are commercial vehicles (VW Nutzfahrzeuge)[2]
- The pool of lease receivables does not represent a separately conducted business or business segment of the seller
- Lease receivables do not relate to lessees who VWL considers as unlikely to pay its obligations to VWL and/or who are past due more than 90 days on any material credit obligation to VWL
- Lease receivables do not relate to credit-impaired lessees or guarantors who
    - have been declared insolvent, or
    - had a court grant their creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination, or
    - have undergone a debt-restructuring process with regard to their non-performing exposures within three years prior to the date of transfer of the Purchased Receivable to the Issuer, or
    - were, at the time of origination, where applicable, on a public credit registry of persons with adverse credit history or, where there is no such public credit registry, another credit registry that is available to VWL, or
    - have a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for comparable receivables held by VWL which are not securitised.

Following a breach of eligibility criteria, VWL is obliged to cure and remedy such breach or repurchase the receivables within the end of the monthly period which includes the 60th day after VWL became aware or was notified of such breach at the fair value that any misrepresented receivable had prior to becoming aware of the misrepresentation.

Capital Structure

The discounted receivables balance is calculated using a discount rate equal to 5.7016% per annum. The discount rate is used to cover senior expenses and the servicing fee as well as the weighted average swap rate based on the notional amounts outstanding at each date. At the onset of the transaction, it is calculated as follows (Table 2):

Table 2: Discount Rate Composition

Parameters	
Weighted average swap rate (%)	0.1041
Servicing fee (%)	1.0000
Senior expenses (%)	0.0300
Subtotal (%)	1.1341
Buffer release rate (%)	4.5675
Discount Rate (%)	**5.7016**

[2] of the aggregate discounted receivables balance

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A buffer release amount, calculated as the product of the buffer release rate and the future discounted receivables balance, is paid to the Seller as long as no insolvency event on the part of VWL has occurred. In the event of insolvency, the structure will additionally benefit from the buffer release rate. The total balance sheet of the Issuer is shown in Table 3 and is composed as follows:

Table 3: VCL Master C1 Current Balance Sheet

Assets	Amount (EUR)	Liabilities	Amount (EUR)	Size (%)
Receivables	2,504,325,131.89	Class A	2,241,000,000.00	89.49
Cash Reserve (CCA)	27,618,000.00	Class B	60,500,000.00	2.42
Accumulation Account	0.00	Sub Loan	85,026,315.82	3.40
		PPD OC	117,798,816.07	4.70
		Cash Reserve (CCA)	27,618,000.00	1.10
Total	2,531,943,131.89		2,531,943,131.89	101.10

The Class A Notes represent 89.49% and Class B Notes 2.42% of the discounted receivables balance. Credit enhancement to the notes is provided by a Subordinated Loan (3.40%) and overcollateralisation of purchase price discounts ("PPD OC", 4.70%). In addition, a cash reserve, funded at 1.10% of the lease receivables balance and floored at a minimum of 0.60% of the maximum discounted receivables balance, is available to provide credit enhancement to the Class A and B Notes.

All note series are currently revolving. The Class A Notes Series benefit from a current total CE of 10.51%, calculated as the sum of Class B subordination, the Subordinated Loan and PPD OC. The Class B Notes Series benefit from a total CE of 8.10%, respectively.

Cash Collateral Account

The Cash Collateral Account (CCA) includes several positions. A cash reserve, currently funded and amounting to 1.10% of the discounted receivables balance and the amount standing to the accumulation account (the "General Cash Collateral Amount") is available to cover senior costs and note interest payments. Prior to the occurrence of a foreclosure event, the cash collateral account will be refunded on each payment date from the available distribution amount remaining after items 1-4 of the priority of payments. On each payment date, the CCA balance should equal to the greater of:

- 1.20% of the aggregated discounted receivables balance as of the end of the monthly period, and
- the lesser of (a) 0.6% of the maximum aggregated discounted receivables balance (since the start of the VCL Master C1 program) as of the end of the monthly period, and (b) the aggregate outstanding principal of the notes as of the monthly period

Provided that either the final maturity date has been reached or that the aggregate discounted receivables balance has been reduced to zero, any remaining general cash collateral amount can be used to redeem the notes. Otherwise and before final maturity, any excess cash standing to the credit of the CCA will be distributed to make principal and interest payments of the Subordinated Loan or be released as a final success fee to VWL.

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Interest Rate Swap

To hedge the interest rate risk arising from a mismatch between fixed lease payments and floating-rate interest payments on Class A and Class B Notes, the Issuer will enter into two swap agreements to receive floating (1m Euribor + 0.40% for Class A Notes and 1m Euribor + 1.10% for Class B Notes floored at zero) while paying the fixed leg of each swap. The fixed rates have been calculated to include the Class A or Class B margins; payments under the swaps are linked to the outstanding balance of the respective notes.

Order of Priority and Triggers

Monthly payments to transaction parties are calculated on the available distribution amount and will be distributed according to the priority of payments. The monthly amount available for distribution and the order of priority are shown below (Table 4, Table 5):

Table 4: Available Distribution Amount

Available Distribution Amount	
1	+ Interest accrued on the accumulation account and the distribution account(s)
2	+ Collections received or collected by the Servicer
3	+ Net swap receipts
4	+ Payments from CCA
5	+ Payments from any relevant distribution account made on the immediately preceding payment date
6	+ Any repurchase price received from VWL pursuant to the receivables purchase agreement
7	+ Accumulation account (upon end of revolving period or the occurrence of an Early Amortisation Event)
8	- Buffer release amount to VWL (provided that no Insolvency Event occurred in respect of VWL)

Table 5: Priority of Payments

Order of Priority	
1	Taxes, senior expenses and fees
2	Net swap payments
3	Interest payments on the class A note (accrued and unpaid)
4	Interest payments on the class B note (accrued and unpaid)
5	Payment to the cash collateral account
6	Payment to the Class A amortisation amount for amortising series or to the Class A accumulation amount for revolving series
7	Payment to the Class B amortisation amount for amortising series or to the Class B accumulation amount for revolving series
8	Accrued and unpaid interest on the subordinated loan
9	Principal payment of the outstanding balance of the subordinated loan
10	Payment of a final success fee

Interest payments of Class A Notes rank senior to interest payments of Class B Notes. The targeted note balances are calculated with respect to a target level of OC. The OC level can be

defined as the relative excess of the aggregate discounted receivables balance over the nominal amount of the Class A or Class B Notes.

Principal payments of Class A Notes are granted sequential priority over those of Class B until the Class A target OC level has been reached ("sequential amortisation"). After this event, Class A and B notes will be redeemed on a pro-rata basis, maintaining the Class A target OC level while redeeming Class B Notes until the Class B target OC level has been reached. Table 6 shows the transaction's target OC levels.

Table 6: Performance triggers and target OC levels

Triggers	Class A	Class B
Minimum OC level (%)	9.5	6.9
Target OC, during revolving period (%)	16.5	13.0
Target OC, after revolving period (%)	19.5	16.0
Target OC, upon CEIC is in effect (%)	100.0	100.0

The structure will switch to sequential amortisation when the asset balance has amortised to 10% of the initial balance or pursuant to an early amortisation event (Table 7). The occurrence of an early amortisation event will end the revolving period immediately.

Table 7: Early Amortisation Event

Early Amortisation Event	
1	No more receivables to purchase (accumulation balance > 10% of discounted receivables balance, on two consecutive payment dates)
2	Class A OC level drops below 9.5% or Class B OC level drops below 6.9% (with grace period of first 6 months)
3	VWL ceases to be a group member of VWFS
4	CEIC is in effect
5	Occurrence of foreclosure event
6	Failure to replace swap counterparty upon default or termination event

Portfolio deterioration through losses can also trigger an early amortisation event (a "Credit Enhancement Increase Condition," "CEIC"). Table 8 displays the conditions for a CEIC, which depend on the dynamic net loss ratio ("DNL", monthly net loss) and the 12-months average dynamic net loss ratio ("ADNL"), as well as the late delinquency ratio ("LDR", obligors more than six instalments overdue). The DNL threshold depends on the seasoning of the portfolio and is more restrictive with a younger portfolio.

Table 8: CEIC Trigger

Weighted Average Seasoning	DNL exceeds (%)	ADNL exceeds (%)	LDR exceeds (%)
0 <= x < 12 months	0.40	0.15	2.50
12 <= x <= 24 months	1.00	0.15	2.50
24 < x <= 36 months	2.00	0.15	2.50
> 36 months	2.80	0.15	2.50

At present, the weighted average seasoning of the portfolio is 9.12 months. However, the seasoning of the portfolio may in- or decrease due to the revolving nature of the portfolio and the occurrence of tap-issuances or term takeouts. Further criteria for a CEIC are the occurrence of a Servicer replacement, the insolvency of VWL or insufficient funds for the Cash Collateral Account.

Operational Risk

German Economic Outlook and Auto Leasing Business

Prior to the outbreak of the Covid-19 pandemic, in a tenth consecutive year of economic expansion, Germany's output growth continued to lose momentum, moving from a four-year average growth of roughly 2.2% (2014-2017) to 1.5% in 2018, and 0.6% in 2019. Trade tensions between the US and China, uncertainty around the Brexit process, along with downward worldwide demand for capital goods largely affected Germany's export-oriented economy. Against the backdrop of the economic damage inflicted by Covid-19 including a several-week-long nationwide lockdown, we expect real GDP to contract by 6.1% in 2020 followed by a rebound to the tune of about 4.8% in 2021.

Germany's economy experienced a more moderate GDP contraction in the first half of this year compared to the euro area on the whole. Adverse effects entailed by the lockdown mainly materialized in Q2, with real GDP plunging by 9.7% q-o-q (euro area: -11.8%), with particularly steep declines in trade and private consumption, but also in investment. We expect that the German economy hit its trough in Q2, as activity has started to resume amid a gradual lift-off of restrictions and along with supplemented/extended fiscal measures to assist a recovery. In response to the pandemic, German authorities have provided comprehensive fiscal support to households and companies, with regard to which two supplementary budgets over EUR 156bn and EUR 130bn were adopted in March and June. Moreover, fiscal measures are flanked by the ECB's monetary policy measures in response to Covid-19. That said, uncertainty over the shape of the recovery remains unusually high, and certainly for as long as there are no effective vaccines or medical treatments available on a sufficient scale to tackle Covid-19.

On April 24, 2020, Creditreform Rating affirmed the unsolicited long-term sovereign rating of "AAA /stable" for the Federal Republic of Germany. Given the current considerable economic and financial market uncertainty and the very dynamic development of the corona pandemic, the assessment and interpretation of economic developments is significantly more difficult than under normal circumstances for the near term, as is the case for other indicators.

The European auto ABS market was rather unpredictable in the first half due to the sudden outbreak of COVID-19 that largely disrupted the capital markets. Even though the new issuance volumes marginally surpassed the tally of 1H2019 to reach EUR 9.8bn, it remained below the ten-year average of EUR 11.5bn since 2009. Most of the issuances originated from Germany and

the UK, together representing a total share of 84% for 1H2020, while most of the countries remained generally inactive with near-zero issuances.

The European auto industry appears to have experienced the deepest downturn ever since the global financial crisis. The spread of COVID-19 and the associated containment measures have led to severe supply chain disruptions and large volumes of production losses and sales. The European Union was hit hard with new sales registration sitting just under 40% in 1H2020, compared to the corresponding period last year. By comparison, China was over 22% down and the US was around 36% down.

Entering the second half, the European auto industry has started to show some signs of recovery, typically led by gradually lifting of lockdown restrictions and generous support packages offered by the EU member states.[3]

German Local Area Diesel Ban

On February 27, 2018, the Federal Administrative Court ("BVerwG") in Germany ruled that driving restrictions and local area bans for diesel vehicles are a legal means to reduce emissions and improve air quality. Currently, around sixty percent of the outstanding discounted balance are diesel vehicles and might be affected by future driving restrictions and/or local area bans. Overall, the court´s decision may significantly impact the new and used car diesel markets, both in terms of sales volume and registrations, as well as in terms of residual value and expected recovery performance. As of today, it is not possible to quantify all current and future commercial and financial implications of local driving restrictions for diesel vehicles in German inner cities. In conjunction with VWFS´ EA189/NOx diesel issue, CRA decided to maintain conservative margins in its base case assumptions (see "Counterparty Risk" below).

Origination and Underwriting

Established and proven origination and underwriting procedures, IT systems and operation units

VWL, representing German leasing operations, is the originator of the purchased lease receivables. VWL will enter into a lease receivables purchase agreement with VCL Master C1 to sell the lease receivables. VWL and its subsidiaries provide leasing solutions for new, used and demonstration vehicles of Volkswagen, Audi, Seat, Skoda and VW Commercial Vehicles ("VW LCV") and non VW brands to commercial and non-commercial customers, and may periodically include other manufacturers and/or brands in their financing. VWL co-operates closely with the group dealership network as well as manufacturing departments to scale VWAG's business. Co-operations are established by dealer agreements.

Managing its lease portfolio, VWL has to ensure high consistency and quality of underwriting procedures in its lease operations and business entities. Being one of the largest servicers in the European auto lease business, VWL relies on established processes and IT systems to support its operations. VWL has implemented internal score-cards including credit scores sourced from external credit bureaus to assess customer credit profiles. Lease applications are processed and approved automatically without involvement of VWL staff for low risk customers. For customers with a higher credit risk profile, qualified credit officers evaluate credit decisions. Certain limits for credit engagements are established, as well as special guidelines for lease applications with an aggregate amount of more than EUR 200,000.

[3] Source: "Recent Developments in the European Car Market and Auto ABS Issuance Activity", Semi-Annual Report 2020, Creditreform Rating AG

VWL has integrated a separate fraud detection team in its operations unit. New employees are required to pass a three-month training programme before entering into operational tasks in their respective teams. VWL furthermore ensures ongoing internal training to improve professional qualifications.

Creditreform Rating analysts conducted an on-site review and due diligence in VWFS's facilities in Braunschweig in April 2019, in addition, a virtual due diligence in March 2020. CRA got a fair picture of servicing and underwriting capacities, as well as of debt management, collection procedures and risk management. In our view, a long track record of leasing originations as well as proven and established procedures in servicing and debt management enable VWL to fulfil its obligations as Servicer as defined in the VCL Master C1 transaction documents.

Servicing and Collections

VWL services the lease receivables over time and is responsible for collections and repossession of leased vehicles. The first lease instalment is due when the vehicle is handed over to the lessee. VWL offers lessees to make use of the direct debit system which covers approximately 94% of all monthly lease instalments. VWL employs a debt management team to handle delinquent contracts with the aim to minimize losses and assert all claims against defaulted customers. The debt management team uses reminder letters and phone contact to collect overdue outstanding lease payments. Standardized collection and debt management procedures were implemented to reduce court orders and legal enforcement measures. VWL's debt management employees are authorized to grant reasonable payment extensions. If a commercial lessee has failed to pay two instalments, VWL will have the right to terminate the lease contract and to repossess the vehicle. If the debt management process has ended without receiving any notice from the lessee, an application for a court order is made by VWL.

Debt management works closely with the collection centre to ensure the timely repossession of vehicles from terminated lease financing contracts. The main tasks of the collection centre are negotiating on agreements on payment extensions, the processing of corporate and consumer insolvencies, the use of payment guarantees and processing of irrecoverable debt and write-offs. If lessees do not return the vehicles voluntarily, VWL mandates external repossession servicers. For enforcement purposes, VWL will refer to the resources of the entire VW group to enforce interests and claims.

Counterparty Risk

Volkswagen Manipulation of Diesel Emissions

VW diesel emission manipulations may threaten future financial position; pose indirect risk to future portfolio performance

On September 18, 2015, the US Environmental Protection Agency issued a Notice of Violation to Volkswagen Group of America Inc. alleging that VW had been using software to circumvent emission standards under the Clean Air Act. Subsequently, Volkswagen AG announced that irregularities concerning particular software used in type EA 189 EU5 diesel engines affected approximately 11 million vehicles worldwide and approximately 8.5 million vehicles in Europe (VWAG press release, October 15, 2015).

A number of legal proceedings were subsequently initiated in several countries. VWAG could end many proceedings by entering settlement agreements and agreements on the implementation of technical measures with numerous authorities. However, several other proceedings in relation to the diesel issue are still ongoing, including class actions in some jurisdictions.

On June 13, 2018, the Braunschweig public prosecutor issued a fine notice of EUR 1bn against VWAG due to violations of supervisory duties in the context of the diesel issue. The fine consists of the maximum penalty legally provided for of EUR 5m and the penalty for economic benefits due to the offence of EUR 995m. On November 1, 2018, German consumer group VZBZ has filed a class action lawsuit against VWAG on diesel test emission manipulation. On February 22, 2019, the German Federal Supreme Court has published an indicative court order confirming the opinion of the claimant that software circumventing emission standards should be assumed to be a material defect. On February 28, 2020, VWAG and VZBZ reached an out-of-court settlement on compensation for the claimants.

According to information provided by VWL, there are currently only one vehicles with Type EA189 diesel engines in the VCL Master C1 portfolio. Therefore, the portfolio is not directly affected by EA189 software irregularities (unfixed vehicles). But additional proceedings or claims for damages may be initiated, if the technical solutions implemented by VWAG would have undisclosed negative effects on the affected vehicles.

Overall, CRA decided to maintain a conservative margin in its base case assumptions. Furthermore, we take into account potential market impact on residual values both from the manipulation of diesel emissions and the evolving market environment (diesel ban) by adequately sizing our recovery rate haircuts. We will update our ratings subject to new information that will be available in the future.

Commingling Risk

The transaction is structured to include a mechanism to protect against counterparty exposure resulting from VWL acting as a Seller and Servicer. As long as VWL is the Servicer for VCL Master C1 and the Monthly Remittance Condition is satisfied, the Servicing Agreement grants a right to VWL to commingle funds such as monthly collections or proceeds from the realisation of vehicles with its own funds during each monthly period and to use these funds at its own risk and for its own benefit until the next relevant payment date. In the case of a default of VWL, such funds may be lost in the Servicer´s insolvency estate, resulting in a (potentially non-recoverable) loss of monthly collections, including prepayments, for Investors. To mitigate this risk, VWL funded a CCA of currently 1.10% of the discounted receivables balance and the amount standing to the accumulation account, which may be used to cover senior cost and interest.

To mitigate commingling risk, the structure obliges the Servicer to advance the aggregate value of all lease payments due in the next monthly period ("Monthly Remittance Condition") if minimum ratings of VWFS are no longer satisfied.

Set-Off

According to the transaction eligibility criteria, the status and enforceability of the purchased receivables must not be impaired by set-off rights; the Seller would have to repurchase any receivable for which a lessee were to exercise set-off. However, set-off risks could materialise under a limited number of circumstances.

While VWL as the lessor does not take deposits, a lessee could maintain deposits with VW Bank GmbH, a legally separate affiliate. CRA deems the risk of exercising set-off rights against VWL in this case as limited because lessees should not be entitled to set-off obligations against one entity with claims against a legally separate entity.

VWL offers service contracts to certain lessees, which can be negotiated with a vehicle lease. Payments for service components will be part of the monthly instalment of the lessee. If VWL fails to perform such services (i.e. in the case of an insolvency of VWL) the lessee may attempt to set-off payment of the lease instalment with claims against the lessor. However, the transaction only securitises the finance portion of the purchased lease financing contracts. In our view, the Issuer's risk to suffer losses from set-off due to service components is limited.

VWFS currently acts only as an intermediary for insurance products and not as counterparty. VWL pools insurance premiums and transfers such amounts to insurance companies. No insurance component will be securitised in the transaction. Therefore, we consider set-off risks due to the non-performance of an insurance service to be limited.

Tax Risk

CRA received legal opinion from transaction counsel clarifying that the Issuer has limited exposure to Value Added Tax (VAT) risk, no exposure to withholding tax risk and limited exposure to income tax risk. The lease financing contracts are governed by the laws of Germany. Regarding VAT, the purchase of the receivables is payable exclusive of any VAT portion. If any future VAT liability with respect to the purchase of the receivables becomes due, the Seller is deemed to bear for any of such sums.

In the case of a servicer default, the Issuer is exposed to the risk that German tax authorities may deem the Issuer to exercise factoring services. This would be relevant if the tax authorities would assume the Issuer to have a permanent establishment in Germany and the replaced servicer has rendered factoring services.

German trade tax risk may materialize if German tax authorities conclude that the Issuer is subject to trade tax in Germany. In such a case an add-back of interest would lead to higher business profits of the issuer, which would result in a trade tax deduction. However, following the German Trade Tax Act, an add-back is limited to the amount of one quarter of the interest payments of the Issuer. In the case that the Issuer would turn to be subject of German trade tax, such respective add-backs are covered by the credit enhancement of the transaction. We deem the credit enhancement levels to be sufficient to cover this risk as well as the credit risk.

CRA included in its cash flow analysis scenarios, which included potential VAT and German trade tax liabilities and factored these into the structure of the transaction in full, assuming an insolvency of the Seller. CRA observed that these risks do not have an immediate effect on the ratings of Class A and B Notes Series respectively, but increase sensitivity to further stresses.

While assessing the ratings of the Class A and the Class B Notes, we assumed no change in Luxembourg securitization law over the lifetime of the transaction.

Account Bank and Swap Counterparty

Downgrade and replacement provisions partly mitigate counterparty exposure

VWL has entered into a service agreement with the Issuer to perform tasks according to its usual business practices, such as the service and administration of the receivables. To fulfil its duties, VWL will transfer the collected funds to the Account Bank on behalf of the Issuer. Therefore, the Issuer has established at least four accounts as defined in the Account Agreement in accordance with the terms and conditions of the transaction structure. The Issuer is exposed to the default risk of the Bank of New York Mellon ("BNYM"), appointed to be the Account Bank. However, default risks are mitigated by certain downgrade provisions linked to the rating of the Account Bank. Should BNYM be downgraded, the Account Bank is required to transfer the balance of the

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account to another bank with sufficient ratings on its own cost. To assess the risk relating to the Account Bank, Creditreform Rating has undertaken an unsolicited bank rating of BNYM. The current rating of BNYM as of March 28, 2020 is A/watch NEW.

The Issuer will enter into separate swap agreements with DZ BANK AG Deutsche Zentral-Genossenschaftsbank ("DZ Bank") and Skandinaviska Enskilda Banken AB (publ) ("SEB") to mitigate exposure to interest rate changes over time and hedge the interest rate risk arising from receiving fixed rate payments under the lease receivables and paying a floating rate on the Class A and Class B Notes. Under the terms of the swap agreements, the Issuer expects to receive floating rate payments based on 1-month Euribor plus spreads in return of fixed rates paid to the Swap Counterparties.

The Issuer is exposed to the risk of the Swap Counterparties failing on any monthly payment, in which case the available distribution amount (including the cash reserve) may be insufficient to make required payments on the notes. Depending on the future development of interest rates, the Issuer may also be obliged to transfer net payments to the Swap Counterparties. As the monthly net swap payments rank senior to any liabilities on the notes, the available distribution amount may be insufficient to cover all required payments on the notes. The transaction is also exposed to the risk of Swap Counterparty insolvency. In this case, substantial swap termination payments may arise depending on the future development of interest rates and the future market value of the swap.

To mitigate Swap Counterparty exposure, the structure foresees certain downgrade provisions linked to the ratings of the Swap Counterparties, which require certain actions, should their ratings fall below a minimum rating threshold. These actions may include the collateralisation of the referenced amounts by the Swap Counterparties, a transfer of obligations to a replacement Swap Counterparty, or the procurement of a guarantee. To assess the risk relating to the Swap Counterparties, Creditreform Rating has undertaken an unsolicited bank rating of DZ Bank. The current rating of DZ Bank as of March 28, 2020 is AA-/watch NEW. Moreover, by using the new bank rating system BASCO, Creditreform Rating evaluated the financial statements of SEB and gave a 9.3 score out of 10, indicating a very good financial strength and a very low credit risk.

Credit and Portfolio Risk

Creditreform Rating´s credit and portfolio analysis were based on data provided by VWL, which included net loss vintage performance curves going back to 2002, as well as delinquency data going back to 2010. VWL provided stratification tables based on the final pool which allow a further assessment of the portfolio composition. The quality and quantity of data available was considered to be sufficient for the purpose of our analysis.

Receivables Pool Characteristics

Portfolio Composition

The portfolio consists of lease financing contracts originated by VW group dealers and entered into between lessees and VWL. It includes different vehicle brands (i.e. Volkswagen, Audi, SEAT, Skoda and VW LCV). The lease financing contracts are extended to commercial and non-commercial customers as a partially-amortizing finance lease. Dealers typically bear the RV risks related to the final sale, but may buy insurance against RV losses from VWL. A small percentage of lessees choose to bear part of the RV risk ("Open End Lease Contracts", see Table 9). At the end of the lease term, the vehicle will be sold by the dealer and the proceeds will be distributed

according to the terms of the lease contract. The portfolio is well diversified and does not contain any significant single obligor concentrations.

Table 9: Portfolio Characteristics

Portfolio Characteristics	
Outstanding Discounted Receivables Balance (EUR)	2,504,325,131.89
Number of lease financing contracts	305,798
Type of lessees:	
Retail customers (%)[1]	77.24
Corporate customers (%)[1]	22.76
Average nominal balance / lease contract (EUR)	8,819.63
WA seasoning (months)	9.12
WA remaining term (months)	30.61
Closed End Contracts (%)[1]	99.73
Type of Car	
New (%)[1]	90.76
Used (%)[1]	6.00
Demonstration vehicles (%)[1]	3.23
Diesel engine vehicles (%)[1]	62.80
Type EA 189 engine vehicles (%)[1]	0.00

[1] Percentage of the Discounted Receivables Balance

The following graphs show the maturity profile of the portfolio at the cut-off date as well as the distribution of vehicles by brand (see below):

Figure 2: Contract Maturity Profile I Source: VWL, CRA

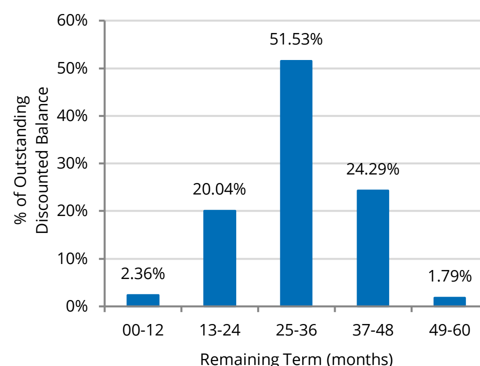
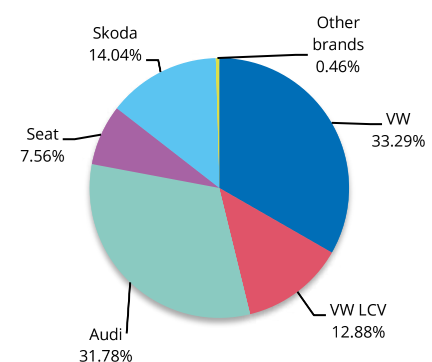


Figure 3: Brand Distribution I Source: VWL, CRA



Historical Performance

VWL provided delinquency performance data on single and business customers going back to 2010. The lease financing contracts extended to customers typically grant a right to VWL to terminate a lease contract when the lessee is due more than two monthly lease instalments. As

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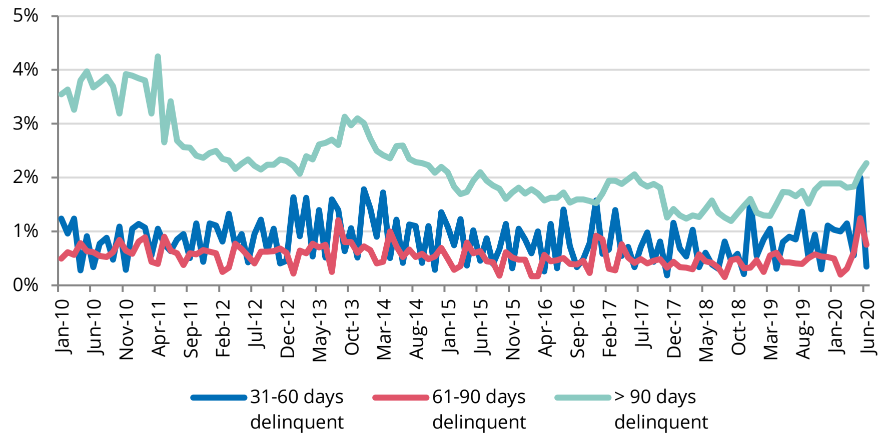
described in “Servicing and Collections” above, VWL normally reaches payment arrangements to remedy any outstanding liabilities with a client before terminating a lease contract.

Historically, delinquencies for the entire lease portfolio have shown a decreasing trend since 2013, followed by a slight increase since the end of 2018 (see Figure 4).

Figure 4: Delinquencies by Delinquency Period | Source: VWL, CRA



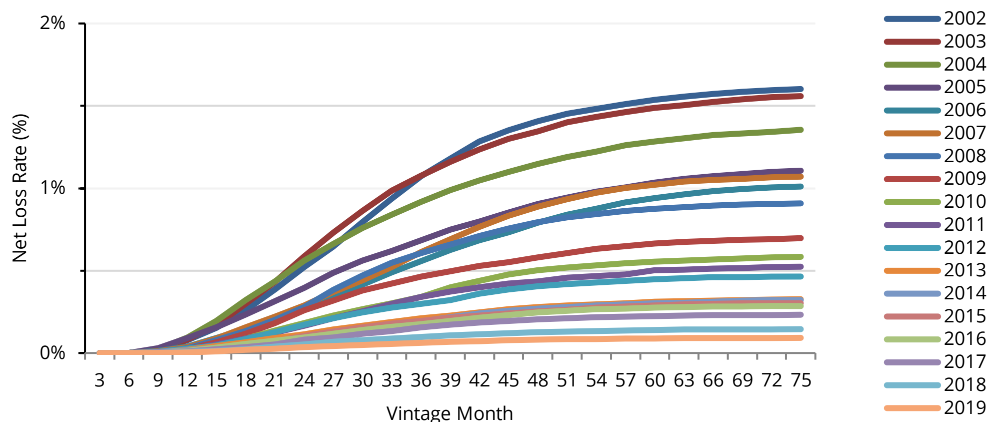
Credit Risk

Defaults

Creditreform Rating set its net-loss base case at 0.48%

VWL provided detailed total book vintage data on net losses. Creditreform Rating used this information to analyse the historical net loss performance of different vintages (see Figure 5):

Figure 5: Net Loss Rates of VWL Total Lease Book by Year, extrapolated I Source: VWL, CRA

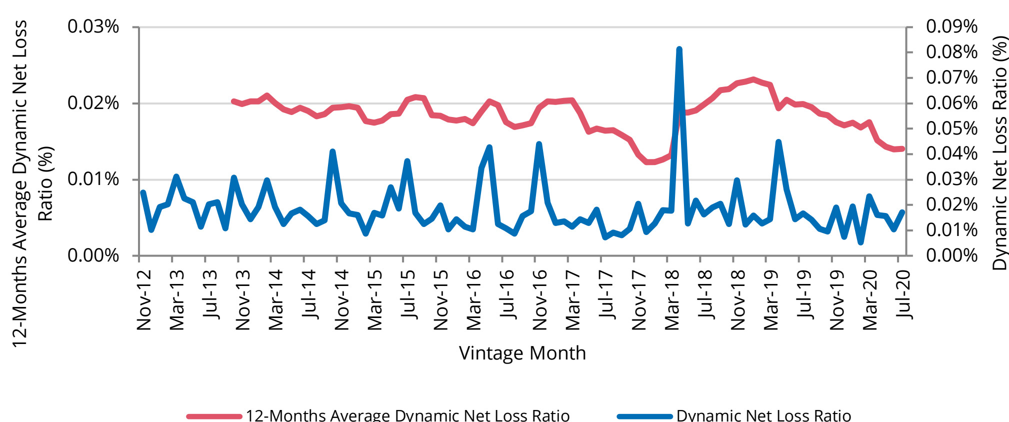


Historical and projected losses show a trend towards lower loss rates in younger vintages. This effect may, in part, be explained by improved servicing and collection performance of the Servicer. Moreover, the credit risk of the German corporate sector, which we consider a main driver of portfolio performance in the current lease securitisation, has been significantly decreasing since 2009 (see Creditreform Rating (2019): “Default Study - Ausfallraten in der Deutschen

Wirtschaft 2018"). Our economic outlook for Germany is moderate and we expect weaker economic growth in an uncertain macroeconomic environment. (see "German Economic Outlook and Auto Leasing Business" above).

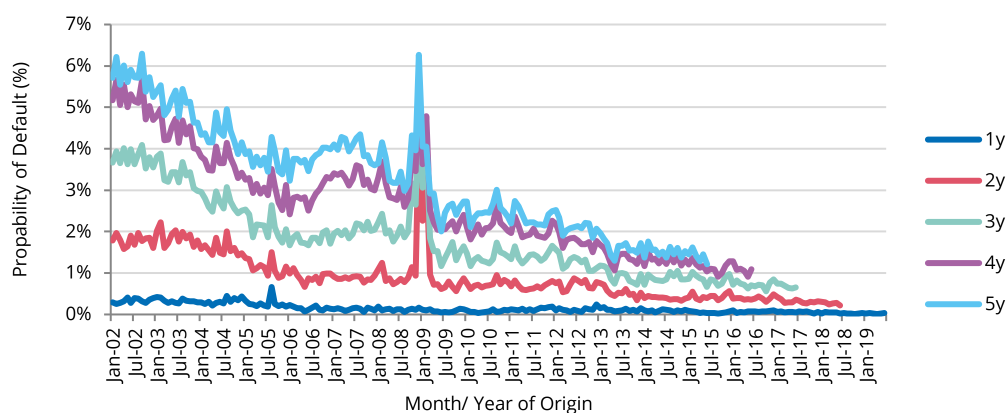
Observed differences between total-book vintage performances and the performances of previous VCL transactions with respect to recorded dynamic and 12-months average dynamic net loss ratios (Figure 6) may be explained by the application of eligibility criteria at the pool cut-off date and the revolving structure of the transaction as well as the effects of term takeouts and tap-issuances.

Figure 6: VCL Master C1 Dynamic and 12-Month Average Dynamic Net Loss Ratios I Source: VWFS, CRA



Analysis of historical default frequencies from vintage data reveals a trend towards declining default risk. In the graph below we show probabilities of default ("PD") for different time horizons, combining overlapping vintages by date and time into a dynamic perspective (Figure 7):

Figure 7: Historical total book default rates, 1-year to 5-year probability of default I Source: VWL, CRA



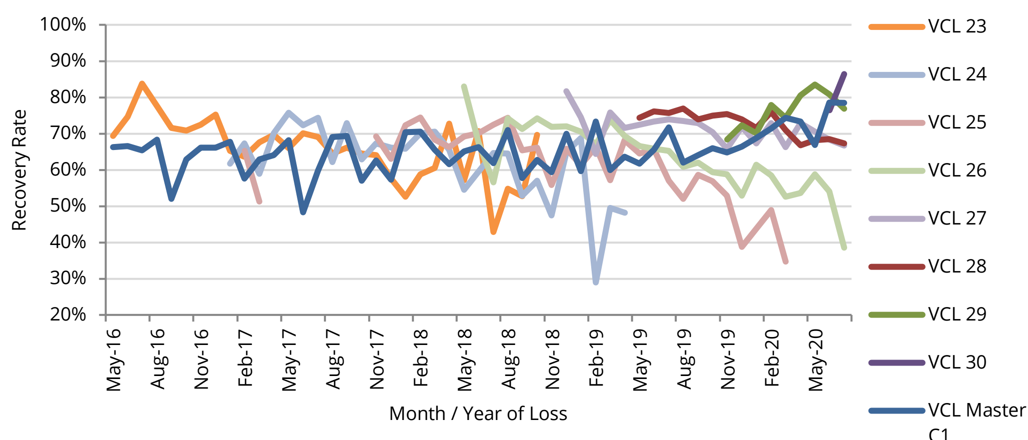
In deriving our base case loss rate assumption, younger vintages were consequently considered a better indicator of future performance. Based on improved historical performance and a stable economic outlook, Creditreform Rating has set a base case net loss expectation of 0.48% for its rating analysis, taking into account the typical maturity profile of lease financing contracts and adjusting for the specific maturity profile of VCL Master C1.

Recoveries

Creditreform Rating set the recovery base case at 65%

VWL did not provide explicit historical data on the recovery performance of its leases and leasing portfolios. However, an analysis of data on previous VCL transactions derived from investor reports provided sufficient information to gauge the recovery performance of the Servicer (Figure 8).

Figure 8: Historical recovery performance of VCL transactions I Source: VWL, CRA



Despite a relatively stable performance (between 60%-70%), the data reveal a fair amount of variation over time. As a cross-check, Creditreform Rating also used vintage data in dynamic format to compare gross defaults to recorded net losses and assuming a granular and homogeneous distribution of contract values in order to calculate implied recovery rates at different time. Creditreform Rating has set the recovery base case at 65%. Combining our net-loss base case of 0.48% with a 65% recovery assumption, we obtained a gross-loss default rate base-case expectation of 1.38% over the term of the transaction.

Prepayments

Creditreform Rating set the prepayment base case at 1.00% CPR

Creditreform Rating used data on prior prepayment performance of VCL Master C1, dating back to 2010. In general, the lease financing contracts purchased by the issuer do not provide a lessee with an option to prepay the lease contract. However, and subject to the discretion of VWL, lease financing contracts may be amended, resulting in a potential prepayment or early settlement of the lease contract. Prepayments have historically ranged between about 1 and 3 per cent annualized CPR (see Figure 9).

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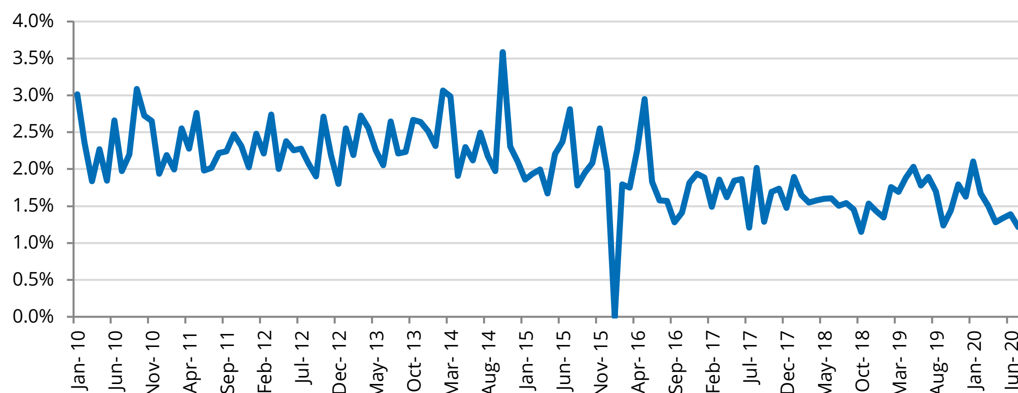
Figure 9: Historical prepayments (annualized CPRs) I Source: VWL, CRA



High prepayments pose a re-investment risk to investors because of a lower weighted-average life ("WAL") of the notes. However, it is Creditreform Rating´s view that higher prepayments contribute to the structural stability of the transaction. From a rating perspective, lower prepayment assumptions represent a more conservative approach because the structure has to sustain the higher WAL of the notes resulting from an overall lower cash inflow. Following the analysis of empirical data available, the base case assumption of the annualized prepayment rate was accordingly set to be 1.00%.

Base Case Summary

Creditreform Rating´s credit risk assessment was based on vintage data and prior VCL investor reports and results in the following base case assumptions, which will be used as an input to build rating scenarios and model the cash flows of the structure. The loss parameters displayed in the following table are stated with respect to the lifetime of the transaction, taking into account the seasoning and remaining maturities of the pool (see Table 10):

Table 10: Summary of Base Case Assumptions

Credit Risk Parameter	Base Case
Gross Loss (%)	1.38
Recovery Rate (%)	65.00
Net Loss (%)	0.48
Prepayment Rate (% ann. CPR)	1.00

Residual Value Risk

VCL Master C1 does not securitise residual values of the purchased lease receivables. Therefore, the Issuer is not exposed to risks related to the securitization of residual values.

Cashflow Analysis

Creditreform Rating simulated the transaction cash flows in its proprietary cash flow model, which was tailored to the structure of VCL Master C1. The purpose of the cash flow analysis is to test the transactions´ ability of paying interest and ultimate payment of principal by final maturity using stressed base case assumptions in each specific rating scenario. Creditreform

Rating also tested the sensitivity of the transaction´s performance with respect to increases in the default rate assumption, decreases in the recovery rates, and prepayment scenarios.

A run-out schedule of the portfolio was implemented into the cash flow model taking into consideration the timing of defaults, the amount of prepayments, and the level of interest rates.

Rating Scenarios

CRA base case stresses:

AAA$_{sf}$: x6.89 default multiple, 49.78% recovery haircut

AA-$_{sf}$: x5.21 default multiple, 41.59% recovery haircut

Taking our loss assumptions as a starting point, Creditreform Rating then stressed its base case assumptions in each rating scenario in order to account for unexpected economic deterioration and worsening portfolio performance. Separate stress factors were applied to default and recovery rates to arrive at scenario-specific stressed loss expectations, which were then fed into the cash flow model.

Default Rates

Following our "Rating of Auto ABS Securitisations" methodology and depending on the specific rating scenarios (AAA$_{sf}$ and AA-$_{sf}$), the stress multiples for default rates were set at x6.89 and x5.21, respectively. This leads to the rating-specific stressed gross loss of 9.51% for AAA$_{sf}$ and 7.20% for AA-$_{sf}$.

Recovery Rates

The base case recovery expectation of 65% was subjected to a rating haircut in each rating scenario. The recovery rate haircuts were set to 49.78% in the AAA$_{sf}$ scenario and 41.59% in the AA-$_{sf}$ scenario, respectively. The haircuts take into account different transaction-specific features such as observed volatility, established recovery procedures and potential residual value deterioration. As a result, the stressed recovery rates were set to 32.65% in an AAA$_{sf}$ scenario and 37.97% in an AA-$_{sf}$ scenario. The scenario-specific expected losses were calculated by applying our rating multiplies and haircuts to the base case (Table 11).

Table 11: Stressed Assumptions

Rating Scenario	**AAA$_{sf}$**	**AA-$_{sf}$**
Base Case Gross Loss (%)	1.38	1.38
Default Multiple	6.89	5.21
Rating Loss Rate (%)	9.51	7.20
Base Case Recovery Rate (%)	65.00	65.00
Recovery Haircut (%)	49.78	41.59
Rating Recovery Rate (%)	32.65	37.97
Expected Net Loss (%)	**6.41**	**4.47**

Sensitivity Analysis

In order to gauge the effect of variations in default and recovery rates on rating indications, Creditreform Rating conducted a sensitivity analysis including single and combined stresses of the default and recovery base case assumptions.

Best-case scenario: In this scenario, we stressed (ceteris paribus) the base case default rate by an amount of -25% and the base case recovery rate by an amount of +25%, resulting in a rating of AAAsf for Class A Notes and AA-sf for Class B Notes.

Worst-case scenario: In this scenario, a severe 100% stress is applied to the base case default rate in combination with a 50% stress on the base case recovery rate, resulting in a rating of A-sf. for Class A Notes and BB+sf. for Class B Notes. In our view, this rating would represent a scenario with higher default correlation and market decline in a stressed pandemic scenario.

Creditreform Rating tested scenarios with back-, even-, and front-loaded default timings. As highlighted in Table , Creditreform Rating also assessed the effect of changing the prepayment rate to 0%. Overall, we observed reduced rating sensitivities of the Class A and Class B Notes to our default, recovery and prepayment assumptions.

Table 12: Class A and Class B Prepayment Sensitivities

Prepayment rate	Class A	Class B
Base Case (1.00%)	AAA_{sf}	$AA\text{-}_{sf}$
Zero	AAA_{sf}	$AA\text{-}_{sf}$

ESG Impact

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing the rating object. Overall, ESG factors have a mild impact on the current ratings of the Class A and B notes. Nevertheless, CRA identifies macroeconomic factors (particularly with regard to potential changes in consumer behaviour) to have a high significant impact on the stability of the ratings. Increased macroeconomic uncertainty and potential market decline due to the coronavirus crisis may have adverse effect on VWL's ABS strategy and future portfolio performance. Governance is relevant to the ratings with respect to counterparty risk, but down-grade collateral and replacement provisions mitigate counterparty risk exposure with respect to the Swap Counterparties and Account Bank. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Appendix

Rating History

Event	Rating Date	Publication Date	Result
Initial rating	23.09.2016	26.09.2016	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	21.10.2016	25.10.2016	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.11.2016	25.11.2016	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	21.12.2016	28.12.2016	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.01.2017	25.01.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.02.2017	27.02.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.03.2017	27.03.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	24.05.2017	26.05.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.06.2017	26.06.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.08.2017	25.08.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Renewal	21.09.2017	25.09.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	20.10.2017	25.10.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.11.2017	28.11.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	21.12.2017	28.12.2017	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.01.2018	25.01.2018	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.02.2018	26.02.2018	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	23.03.2018	27.03.2018	Class A: AAA_{sf} / Class B: $A+_{sf}$
Monitoring	19.04.2018	26.04.2018	Class A: AAA_{sf} / stable/ Class B: $A+_{sf}$ / stable
Monitoring	23.05.2018	25.05.2018	Class A: AAA_{sf} / stable/ Class B: $A+_{sf}$ / stable
Monitoring	22.06.2018	25.06.2018	Class A: AAA_{sf} / stable/ Class B: $A+_{sf}$ / stable
Monitoring	23.07.2018	25.07.2018	Class A: AAA_{sf} / stable/ Class B: $A+_{sf}$ / stable
Monitoring[4]	26.07.2018	02.08.2018	Class A: AAA_{sf} (watch)/ Class B: $A+_{sf}$ (watch)
Monitoring	10.08.2018	15.08.2018	Class A: AAA_{sf} / stable/ Class B: $A+_{sf}$ / stable
Monitoring	24.08.2018	28.08.2018	Class A: AAA_{sf} / stable/ Class B: $A+_{sf}$ / stable
Renewal	21.09.2018	25.09.2018	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	24.10.2018	25.10.2018	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	22.11.2018	27.11.2018	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	20.12.2018	27.12.2018	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	22.01.2019	25.01.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	21.02.2019	25.02.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	19.03.2019	26.03.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	23.04.2019	25.04.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	23.05.2019	28.05.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	19.06.2019	25.06.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	22.07.2019	26.07.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Monitoring	22.08.2019	27.08.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable
Renewal	23.09.2019	25.09.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$ / stable

[4] Monitoring due to a change in methodology

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Monitoring	23.10.2019	25.10.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	21.11.2019	25.11.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	19.12.2019	27.12.2019	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	23.01.2020	27.01.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	21.02.2020	25.02.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	23.03.2020	25.03.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	23.04.2020	27.04.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	20.05.2020	26.05.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	22.07.2020	27.07.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Monitoring	20.08.2020	25.08.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable
Renewal	23.09.2020	25.09.2020	Class A: AAA_{sf} / stable/ Class B: $AA-_{sf}$/ stable

Regulatory Requirements

Creditreform Rating AG was mandated on July 22, 2016 by VWL to conduct ratings for Class A and Class B Notes Series each issued by VCL Master S.A., acting for and on behalf of its Compartment 1. The rating was conducted on the basis of Creditreform Rating´s "Rating Auto ABS Securitizations" methodology in conjunction with Creditreform Rating's basic document "Rating Criteria and Definitions".

Important sources of information in the context of the ratings were, in addition to the submitted documents, a due diligence meeting in Braunschweig (Germany) on April 04, 2019 and a virtual diligence meeting in March 2020. The submitted documents and information from VWL were sufficient to meet the requirements of Creditreform Rating AG's rating methodology.

A complete description of Creditreform Rating´s rating methodologies is published on the following internet page: www.creditreform-rating.de.

This rating was carried out by analysts Stephan Giebler (Lead), Jan Löckenhoff and Sijia Aulenbacher, all located in Neuss/Germany.

The pool cut-off date is August 31, 2020. Closing occurs on September 25, 2020. The ratings are based on the pool portfolio information as of September 16, 2020, as provided by the originator.

The Issuer or all relevant parties have examined the rating report prior to publication and were provided with at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analysis and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction documentation

2. Collateral performance data

3. Audited financial statements

4. Website of the participants

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

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Prof. Dr. Helmut Rödl

HRB 10522, Amtsgericht Neuss

Rated entity / Rating / Rating Outlook:

EUR Floating Rate Asset Backed Class A and Class B Notes as following, issued by VCL Master S.A., acting with respect to its Compartment 1

Series	ISIN	Note Balance Before Renewal (EUR)	Note Balance After Renewal (EUR)	Rating / Outlook
Class A 2010-2	XS0480715548	287,100,000	287,100,000	AAA_{sf} / stable
Class A 2010-4	XS0480716199	2,500,000	-	Rating withdrawn
Class A 2011-2	XS0646441575	71,900,000	84,400,000	AAA_{sf} / stable
Class A 2012-1	XS0857704976	144,200,000	-	Rating withdrawn
Class A 2012-2	XS0857705353	144,200,000	169,200,000	AAA_{sf} / stable
Class A 2012-3	XS0857705866	96,100,000	116,100,000	AAA_{sf} / stable
Class A 2012-4	XS0857706161	288,800,000	288,800,000	AAA_{sf} / stable
Class A 2013-1	XS0950403229	96,100,000	96,100,000	AAA_{sf} / stable
Class A 2015-1	XS1309693643	498,600,000	498,600,000	AAA_{sf} / stable
Class A 2017-1	XS1577438135	71,900,000	71,900,000	AAA_{sf} / stable
Class A 2017-2	XS1675945494	96,100,000	-	Rating withdrawn
Class A 2017-3	XS1675945577	366,800,000	462,900,000	AAA_{sf} / stable
Class A 2018-1	XS1894806360	76,700,000	76,700,000	AAA_{sf} / stable
Class A 2020-1	XS2230884061	-	89,200,000	AAA_{sf} / stable
Class B 2014-1	XS1112835910	27,300,000	27,400,000	$AA-_{sf}$ / stable
Class B 2014-3	XS1112837379	27,100,000	27,100,000	$AA-_{sf}$ / stable
Class B 2014-4	XS1112837882	100,000	-	Rating withdrawn
Class B 2018-1	XS1894834818	6,000,000	6,000,000	$AA-_{sf}$ / stable

Rating summary:

Following the renewal on September 25, 2020 and the amendments made to the Programme Documents in connection with such renewal pursuant to the Eleventh Amendment Agreement, Creditreform Rating (CRA) confirms the ratings of existing series of Class A and B Notes, issued by VCL Master S.A., acting for and on behalf of its Compartment 1 (VCL Master C1). In addition, Creditreform withdraws the ratings of Class A Notes Series A 2010-4, A 2012-1, A 2017-2, and Class B Notes Series B 2014-4 due to fully redemption, and assigns a rating to the new series of Class A Notes A 2020-1.

VCL Master C1 is a platform for VW Leasing GmbH (VWL) to securitise, on a revolving basis, German auto lease receivables. VCL Master C1 has currently issued 11 series of asset backed floating rate Class A Notes and three series of asset backed floating rate Class B Notes. The compartment may from time to time issue further series of Class A and Class B Notes.

VCL Master C1 securitises only the finance portion of the leases; residual values are not securitized by the Issuer. A combination of subordinated loan and overcollateralisation will provide credit enhancement to the rated Class A Notes Series (current total CE 10.51%) and Class B Notes Series (current total CE 8.10%). In addition, a cash reserve, currently amounting to 1.10% of the lease receivables balance, is available to provide credit enhancement to the Class A and B Notes.

To size the credit risk of the portfolio and to derive base case assumptions about loss rates and expected recovery performance, Creditreform Rating used data provided by Volkswagen Leasing GmbH (VWL) as well as internal databases. CRA set the total expected net losses at 6.41% (AAA_{sf}) and 4.47% ($AA-_{sf}$). These scenario-specific assumptions were tested in CRA's proprietary cash flow model, which was tailored to reflect the structure of VCL Master and to assess the Issuer's ability to service its debt in a full and timely manner.

Primary key rating driver:

\+ VCL securitises only the finance portion of the leases; residual values are not securitised by the Issuer

\+ Risks related to the Issuer are limited, the compartment structure being ring-fenced and with limited recourse to other creditors of the Issuer, including non-petition provisions

\+ Downgrade collateral and replacement provisions mitigate counterparty risk exposure w.r.t. the Swap Counterparties and Account Bank

\- No specified back-up servicer, even though contractual provisions enable the replacement of the servicer

\- Extended 12-month revolving period until September 2021 may affect portfolio quality

- Term takeouts increase the share of delinquent contracts in the portfolio
- Potentially indirect negative impact of Volkswagen AG diesel emission manipulations on future (portfolio) recovery performance
- Increased macroeconomic uncertainty and potential market decline due to the coronavirus crisis may have adverse effect on VWL's ABS strategy and future portfolio performance

Rating sensitivities:

Best-case scenario: In this scenario, we stressed (ceteris paribus) the base case default rate by an amount of -25% and the base case recovery rate by an amount of +25%, resulting in a rating of AAA_{sf} for Class A Notes and $AA-_{sf}$ for Class B Notes.

Worst-case scenario: In this scenario, a severe 100% stress is applied to the base case default rate in combination with a 50% stress on the base case recovery rate, resulting in a rating of $A-_{sf}$. for Class A Notes and $BB+_{sf}$. for Class B Notes. In our view, this rating would represent a scenario with higher default correlation and market decline in a stressed pandemic scenario.

ESG-criteria:

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing the rating object. Overall, ESG factors have a mild impact on the current ratings of the Class A and B Notes. Nevertheless, CRA identifies macroeconomic factors (particularly with regard to potential changes in consumer behaviour) to have a high significant impact on the stability of the ratings. Increased macroeconomic uncertainty and potential market decline due to the coronavirus crisis may have adverse effect on VWL's ABS strategy and future portfolio performance. Governance is relevant to the ratings with respect to counterparty risk, but downgrade collateral and replacement provisions mitigate counterparty risk exposure with respect to the Swap Counterparty and Account Bank. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Rating Date / disclosure to rated entity / maximum validity:

September 23, 2020 / September 23, 2020 / September 25, 2027

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

Initial rating date:

September 23, 2016

Lead-analyst – position / Person approving (PAC):

Stephan Giebler (Lead) – Senior Analyst

Tobias Stroetges (PAC) – Analyst

Name & address of legal entity:

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

Status of solicitation:

The rating is a solicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: Yes

With Access to Internal Documents: Yes

With Access to Management: Yes

Rating methodology / Version / Date of application / Link:

Rating Criteria and Definitions, Version 1.3, January 2018

Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018

Rating Methodology Auto ABS Securitizations, Version 1.4, July 2018

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Regulatory requirements:

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Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuing documents

4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.