Pre Sale Rating Report

VCL MULTI-COMPARTMENT SA – Compartment VCL 24

Auto ABS/Structured Finance

SCOPE Scope Ratings

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RATINGS

Class	Rating	Notional (EURm)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Class A	(P) AAA_{SF}	703.5	93.80	7.4[a]	1mo Euribor + [•][b]	21 August 2022
Class B	(P) $A+_{SF}$	17.0	2.27	5.1[a]	1mo Euribor + [•][b]	21 August 2022
Subordinated loan	Not rated	22.0	2.93	1.0	1mo Euribor + [•][b]	
Total rated notes		**720.5**	**96.07**			
Discounted assets balance		**750.0**	**100.00**			

[a] Initial credit enhancement from overcollateralisation by leasing contracts and cash in the cash collateral account (1.2% of the initial discounted assets balance).
[b] Floored at 0%. Scope's quantitative analysis is based on the preliminary portfolio dated 31 August 2016 and subsequent updates provided by the originator.
Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Rated issuer

Purpose	Liquidity/Funding
Issuer	VCL MULTI-COMPARTMENT SA – Compartment VCL 24 (VCL 24)
Originator	Volkswagen Leasing GmbH
Asset class	Auto ABS
ISIN Class A	XS1490219570
ISIN Class B	XS1490220073
Closing date	[25 November 2016]
Legal final maturity	[21 August 2022]
Payment frequency	Monthly
Payment dates	[21st of every month]

Transaction profile

The transaction is the true-sale securitisation of a EUR 750m static portfolio of lease receivables with no residual value risk, granted to corporate and retail customers of Volkswagen AG (VW) in Germany and originated by Volkswagen Leasing GmbH, the vehicle-leasing business unit of VW.

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Rating rationale (Summary)

The ratings reflect the legal and financial structure of the transaction; the credit quality of the collateral in the context of the macroeconomic conditions and long-term performance of auto ABS in Germany; the ability of the originator and servicer, Volkswagen Leasing GmbH; and the counterparty exposure to both BNP Paribas SA as account bank and paying agent, and Volkswagen Leasing, as servicer.

The performance of the assets will benefit from the strong German economy. The robust labour market, favourable financing conditions and rising productivity signify a benign macroeconomic environment. Further, Germany benefits from high-quality institutions, which explain the long history of economic stability behind good credit performance.

The fast amortisation of the assets, the high granularity of the asset portfolio, the consolidated systems, the processes and staff of the originator and servicer, and the standard nature of the contracts enable Scope to perform the analysis also using fundamental assumptions on the German auto-finance market. This analytical approach overcomes the limitation resulting from the amount of data available for this transaction.

The credit strength of the Volkswagen group and its relevance to the German economy mitigate concerns about servicer disruption. The structure also envisages collateralisation of the financial exposure to the servicer if the parent company, Volkswagen Financial Services AG, loses its investment-grade credit quality. The servicer is experienced and has well-established processes, which ensure the high consistency of originated contracts.

Class A notes are protected against potential losses from the receivables portfolio by 7.40% of credit enhancement from both overcollateralisation (OC) and a fully funded cash reserve. The notes benefit from partially sequential amortisation until credit enhancement from OC reaches its 12.25% target (or 14.00% if assets underperform, when write-offs exceed 0.50% over the first 15 periods, or 1.15% thereafter). Total credit enhancement will be higher, including the support from the cash reserve. Amortisation will also become strictly sequential if write-offs exceed 1.60%.

Class B notes are protected by 5.10% of credit enhancement from overcollateralisation and a fully funded cash reserve. Credit enhancement from OC will increase to 7.50% (or 8.25% if assets underperform) after class A has reached its OC target. Class A and B notes have the same write-off triggers for credit enhancement build-up.

We expect low point-in-time net losses (i.e. 40bp) from the portfolio of leasing receivables, which we deem as having limited recourse over the lessees. We would expect a net loss rate of 65bp if normal, long-term, economic conditions existed. We have modelled portfolio defaults considering point-in-time and long-term performance conditions with the following assumptions: a point-in-time default rate mean of 1.7% and a coefficient of variation of 58%; and a long-term default rate mean of 3.0% and a coefficient of variation of 60%.

Additionally, we have modelled a cure rate of 35% and a recovery rate of 67%. The recovery on defaulted contracts will come mainly from the liquidation of the underlying vehicles, because Volkswagen will retain all recovery proceeds after a contract is written off. Recovery proceeds will also be shared pro-rata with the holders of the residual-value claims of the contracts, which are securitised outside this transaction.

RATING DRIVERS AND MITIGANTS

Positive rating drivers	Negative rating drivers and mitigants
Low lifetime losses. VW has a long record of low lifetime losses from leasing portfolios, which also shows an improving trend. Scope expects lifetime losses of 40bp for this portfolio (long-term losses of 65bp).	**Low excess spread.** The structure flushes to the seller most of the excess spread provided by the assets, via the buffer-release mechanism. Only less than 7bp will be available to provision for credit losses.
Strong German economy. The benign macroeconomic environment – robust labour market, favourable financing conditions and increasing productivity – support the performance of this transaction. Further, Germany benefits from high-quality institutions which explain the long history of economic stability behind good credit performance.	**Available data.** The originator does not provide static default and recovery data (i.e. only net loss data), or information about the actual terms of the contracts (i.e. interest rates and amortisation profiles). Even so, the high granularity of the asset portfolio and the standard nature of the contracts enable Scope to perform the analysis using market assumptions.
Static portfolio and fast amortisation. We expect that any unforeseen change to the historical trend of good performance will be offset by the build-up of additional credit enhancement and the fast amortisation of the assets. The expected weighted average life of the class A notes under zero prepayments is 1.4 years.	**Issuer not entitled to post-write-off recoveries.** Amounts recovered from defaulted lessees after the date when a contract is written off will be allocated to the originator. Further, the decision to write off is subjective (see below). We have considered this transaction to have limited recourse over the lessees.
Very experienced and systemically important servicer. The credit strength of VW and its relevance to the German economy mitigate concerns about servicer disruption. Further, the German regional government of Lower Saxony participates in its capital (20%, with veto rights) and enables to judge the remote scenario of a disrupted servicer as a going concern.	**Erosion of collected principal.** The buffer-release mechanism allows principal collections to be used to cover negative carry from non-performing contracts, when a share of collections is passed to the seller outside the priority of payments. We have captured this effect in our cash flow analysis by modelling the buffer-release mechanism accurately.
Strong liquidity support. The structure provides ample liquidity coverage for the timely payment of interest to the class A and B notes, via the combined priority of payments and the cash-collateral reserve.	**Subjective loss metric.** The structural mechanisms to increase credit enhancement depend on write-offs as subjectively decided by the servicer, which results in wrong-way risk. This is partly mitigated by the importance of the securitisation tool for the originator, and the well-established processes that make loss-recognition depend on objective factors.
Hedged interest-rate risk. The transaction is not exposed to interest-rate risk thanks to the two interest-rate swaps that are simple, plain-vanilla and balance amortising.	**Split recoveries.** The issuer shares all recoveries from defaulted contracts with the holder of the residual value claim. This share is determined proportionately to the discounted defaulted amounts. The discounting mechanism overstates the share of recovery proceeds allocated to the residual-value claim.

Positive rating-change drivers	Negative rating-change drivers
Increased credit enhancement resulting from deleveraging, accompanied by good performance, may result in an upgrade of the class B rating.	**Worse-than-expected performance of the assets** could negatively impact the ratings.

Related reports

Auto ABS Rating Methodology, dated August 2016.

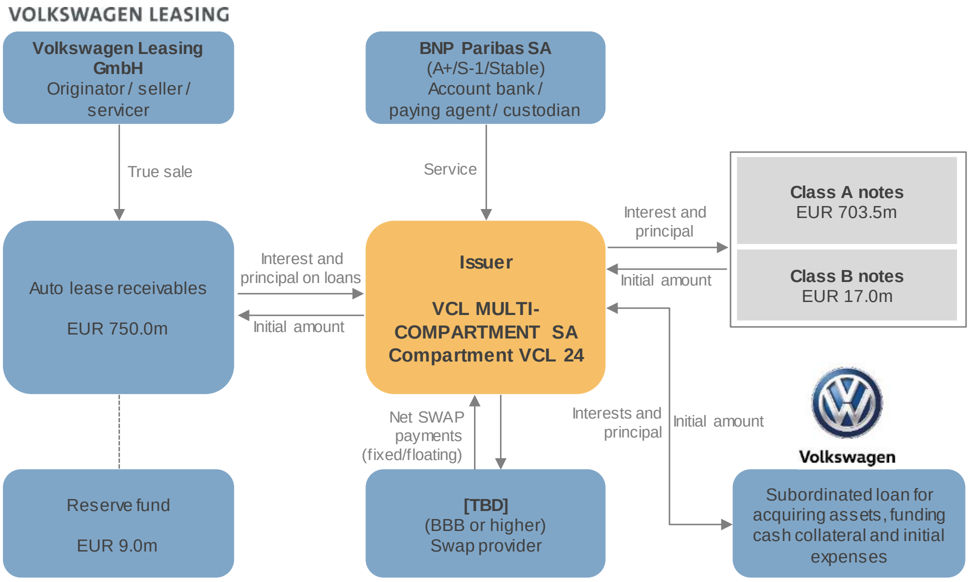
Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated August 2016.

General Structured Finance Rating Methodology, dated August 2016.

Contents

1 TRANSACTION SUMMARY

Figure 1. Simplified transaction diagram



Source: Transaction documents and Scope.

VCL MULTI-COMPARTMENT SA – Compartment VCL 24 (the issuer) is the 24th public securitisation of German vehicle leases of Volkswagen Financial Services AG, and is the first publicly rated by Scope. The transaction consists of the securitisation of a EUR 750.0m portfolio of 66,045 auto lease receivables with no residual-value risk, which Volkswagen Leasing GmbH originated and has granted to German retail and corporate customers in the standard course of business.

This rating report follows the bottom-up approach used by Scope when analysing auto ABS securitisations. It focuses on the following areas of analysis in sequence: i) originator and market; ii) assets to be securitised; iii) actual portfolio and modelling assumptions; iv) financial structure; v) quantitative analysis results and rating stability; and vi) sovereign, counterparty and legal risks.

2 ORIGINATOR, SELLER AND SERVICER

2.1 The German automotive market

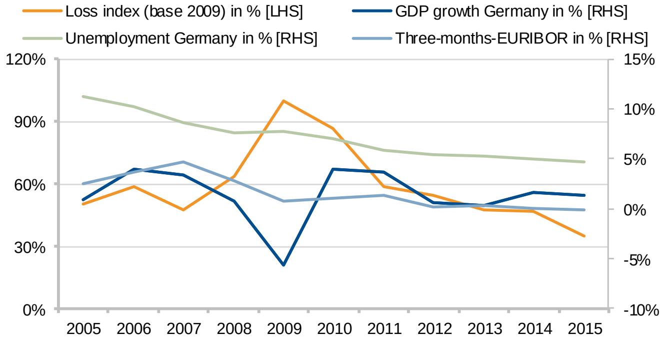
The automotive industry is one of the backbones of the German economy and is the largest industry in Germany. Germany has the largest automotive market in terms of sales and production in Europe. In 2015, companies in this sector accounted for EUR 404bn of revenue and employed 792,500 people. Volkswagen group in particular is Germany's second largest employer, with 275,000 employees.

The relevance of the industry is reflected in a culture where automobiles were formerly considered a prized asset. This culture still survives, despite the industry's transition to a 'mobility services' one, and is reflected in the credit performance of auto finance. The auto-finance industry in Germany also benefits from stable macroeconomic conditions and low interest rates, which improve the credit profiles of private and commercial customers.

The portfolios of the captive financial institutions of the three leading German car manufacturers – Volkswagen, Daimler and BMW – continue to improve, with ever-decreasing credit losses since the financial crisis (see Figure 2). The average annual credit loss rate on the total credit portfolio is currently at 0.3% (see Figure 3). Current loss rates are below pre-2007 levels, when economic growth was above the levels of today.

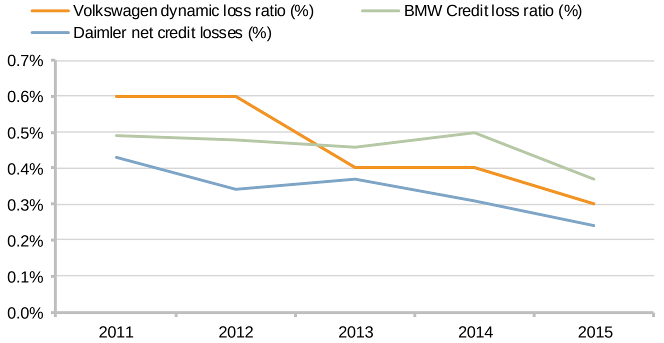
Besides the positive economic environment, the general tightening of lending standards after the crisis also contributes to the improvement of dynamic credit-loss ratios.

Figure 2. Net loss rate of main captive financial institutions of German car manufacturers



Source: VW, Daimler, BMW, OECD, Euribor-rates.eu and Scope.

Figure 3. Net loss rates of main of German captive financial institutions since 2011



Source: VW, Daimler, BMW and Scope.

2.2 Originator

Volkswagen Financial Services is the largest captive bank in Germany

Volkswagen Financial Services is the largest captive bank in Germany, with functions, systems, processes and staff which meet the standards of German banking. Scope's credit assessment of the originator, Volkswagen Leasing, accounts for the integration of the company in the corporate structure of the Volkswagen conglomerate and supports the assigned instrument ratings. Scope participated in an operational review visit on the 7 September 2016 to understand more about underwriting and servicing aspects that are relevant to the analysis.

Volkswagen Leasing, as a wholly owned subsidiary of Volkswagen Financial Services, is an experienced originator of vehicle leases and operates globally. The company is the largest vehicle-leasing company in Europe and has a strong market position in Germany (45% of its business is in Germany).

Leasing accounts for almost 22% of total business volume, which we expect to grow even more because of the market's transition from a 'vehicle ownership' philosophy to a 'mobility service' philosophy. Leasing contracts are especially preferred by corporate customers, who look for financing products with small instalments to finance mobility needs.

Volkswagen Financial Services is the captive financial service provider of Volkswagen AG, one of the world's largest vehicle manufacturers. The company is the link between the manufacturer, the dealer network and Volkswagen's end-customers. It offers all kinds of financial products, including banking products, leasing and insurance, as well as operational services, such as fleet management and rental services for Volkswagen customers.

The role of Volkswagen Leasing in the strategy of the group is well aligned. The originator covers the Volkswagen's objectives in the leasing space, and complements Volkswagen Bank and Volkswagen Insurance in providing a full range of services to both customers and dealers. This implements Volkswagen's strategy of controlling the entire value chain – from vehicle orders to post-sale service – and increasing the connection of customers to the brand.

We believe the interests of Volkswagen are generally aligned with those of the noteholders

We believe the interests of Volkswagen Financial Services AG and Volkswagen Leasing are generally aligned with those of the noteholders. This is because Volkswagen relies on securitisations as a key funding and liquidity instrument and must preserve its reputation as the auto ABS market leader. Nevertheless, interests are not aligned as strongly as in other issuer structures: there are incentives which go against noteholders' interests – albeit some of these negative incentives counter each other.

The company retains 5% of the securitised portfolio. The subordinated loan is granted by another affiliate of the Volkswagen group. Jointly, the risk retention and the subordinated loan, create substantial alignment of interest between Volkswagen and noteholders. The originator on the other hand receives: i) gross excess spread as a senior creditor of the issuer (i.e. senior to all other transaction payments); and ii) all post-write-off recovery proceeds from defaulted contracts. Further, only the servicer can decide if contracts in the structure are written off and there is not an objective condition. This creates an incentive to write off contracts early, which damages the issuer's recovery proceeds. Even so, this is partly mitigated by the incentive to write off late under recessionary market conditions (i.e. to prevent the impact of losses in the originator's profit and loss account).

We have factored these incentives into our modelling assumptions.

2.3 Origination and underwriting

Credit quality of contracts has strongly improved over the past five years

The average credit quality of the contracts has strongly improved over the past five years according to the net loss ratio reported by the originator. This can be attributed to its introduction of better scoring systems and the optimisation of origination process in 2011, combined with favourable economic conditions in Germany – which is also reflected in similar improvements in performance for Volkswagen's competitors.

Volkswagen Leasing has sanctioning and underwriting processes which are highly automated for the retail business. This segment accounts for about 68% of its leasing business and has lower default rates than its corporate segment. The larger-corporates segment is analysed with individual ratings and shows higher default rates, but equally low net loss rates.

Sanctioning-automation supports the process around selling vehicles

Sanctioning-automation supports the process around selling vehicles. Credit approvals and rejections can be generated on the same day, often without human involvement. Car dealers collect information from the customer and pass it to the originator over an extranet front-end. A central back-office function processes all documents after these have been scanned by either the dealer or an agent at a branch.

The scoring system of Volkswagen automatically accepts a contract application or passes it for manual review. Cases under manual review can result in either a request to fulfil additional requirements, or immediate rejection.

2.4 Servicing and recovery

We believe Volkswagen's servicing and recovery strategy is consistent with its business model. Customer retention is important. Consequently, 'healthy solutions' are attempted first to cure contracts and bring accounts back to a performing status. Failing this, collection measures are then initiated.

In our view, the transaction has limited recourse to defaulted obligors as the issuer will not be entitled to recovery proceeds obtained after the servicer has written off a contract.

Recovery processes are generally very successful for leasing contracts

Default and net loss figures provided by Volkswagen Financial Services show that the recovery processes are generally very successful for leasing contracts, and exhibit recoveries of about 75% on defaulted contracts.

The servicing and management of non-performing contracts is adequate and supported by excellent IT systems. The approach is both proactive and diligent, with actions initiated immediately after a payment is missed. Contracts are terminated after two missed instalments, after which the servicer repossesses the vehicles and initiates further collection measures – unless contracts are cured and become performing again.

Recovery focuses on repossessing vehicles

We believe Volkswagen Financial Services has a competitive advantage as it has a privileged access to a highly granular network of captive dealers. Recovery focuses on repossessing vehicles as this creates the most pressure on defaulted obligors: customers would lose their mobility, potentially affecting their ability to conduct business. Customers become current again in 50% of all impaired contracts after the intent of repossessing the vehicle is communicated, according to the originator.

On the other hand, repossessing early will preserve most of the vehicle's value if an obligor is under severe financial distress, which helps minimise loss severity. Following repossession, further legal measures are taken against the obligor if claims remain outstanding.

3 ASSET ANALYSIS

3.1 Contract types

The portfolio mostly contains closed-end lease contracts

The portfolio mostly contains closed-end lease contracts (99.2% of the outstanding portfolio balance) which put no obligation to purchase the leased vehicle at the end of the contract. This does not create additional risk for this securitisation as residual-value claims are securitised outside the transaction. Closed-end lease contracts incorporate a contractually fixed residual value, which is based on mileage and the contractual term, subject to adjustments for deviations. The vehicle dealers bear the risk of losses resulting from the car being re-marketed.

Open-ended lease contracts represent a marginal share of the asset portfolio (i.e. 0.8%). The lessee bears the risk of re-marketing losses under these contracts, as residual value depends on the condition of the vehicle and the conditions of the second-hand market at the time of contract termination.

All underlying lease contracts pay monthly instalments, based on a fixed interest rate.

3.2 Lease receivables

The assets in this portfolio are fully amortising receivables from auto-lease contracts – excluding the residual-value claim. The assets yield an artificially created and constant 5.7% interest rate, equal to the discount rate used to determine the portfolio's asset notional. This artificial rate is not indicative of the actual interest rates of the underlying contracts, which are unknown, and is not indicative of the credit risk of the assets.

Eligibility criteria creates a positive selection effect

Eligibility criteria exclude exposures in arrears, which creates a positive selection effect on the portfolio.

The portfolio has an average seasoning of six months, a short weighted average life of 1.47 years, and a weighted average remaining time to maturity of 2.8 years.

However, the existence of residual-value claims outside this securitisation affects the recovery proceeds available to the issuer. The issuer will share the amounts recovered from defaulted contracts pro-rata with the holder of the residual value claim. Residual-value risk on the underlying contracts may be retained by Volkswagen or sold to VCL Master Residual Value Compartment 1 or Compartment 2, two securitisation vehicles.

Further, the discounting mechanism overstates the share of recovery proceeds allocated to the residual-value claim. This is because the asset's discount rate is higher than the rate used for the residual-value claim.

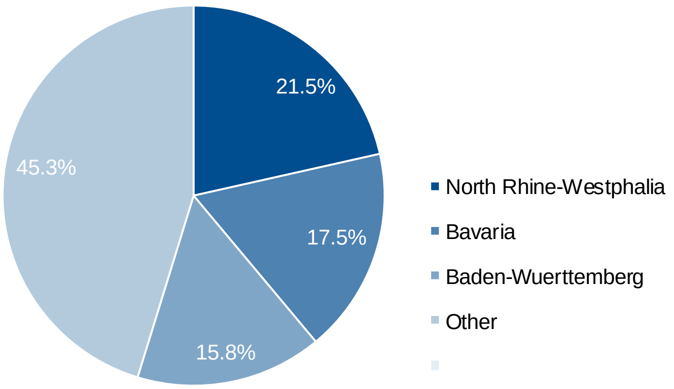
The lease contracts finance new (96.0%), used (1.9%) and demonstration (2.1%) vehicles.

3.3 Regional distribution

The three largest regions represent the economically strongest regions in German

The asset portfolio is well diversified by region. The three largest regions in the portfolio account for 54.8% of the portfolio and represent the economically strongest regions in Germany. These exposures will support the performance of this transaction.

Figure 4. Regional distribution of the portfolio



3.4 Amortisation profile

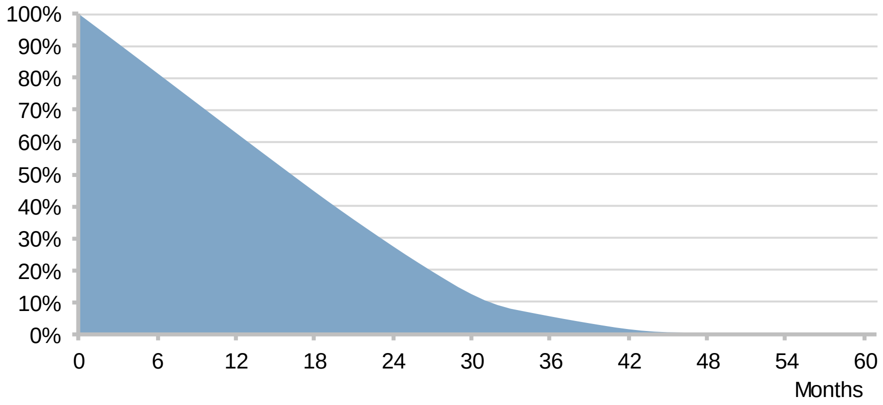
The portfolio is highly granular, which results in a smooth and fast amortisation which follows the fully amortising nature of the assets. Nevertheless, this hides the amortisation profile of the individual assets in the portfolio, which is unknown and often embeds a sizeable balloon payment or residual-value component. This may undermine recovery rates upon default of the lessees when the residual-value claim has been securitised, because recovery proceeds are then shared pro-rata between the issuer and the holder of the residual-value claim.

The fast-amortisation reduces the risk from the assets

Otherwise, the fast-amortising nature of the assets results in a relatively short exposure of the most-senior notes to the risk from the asset portfolio. Additionally, the fast amortisation also supports the high recovery assumption because the value of the underlying vehicles will not have depreciated excessively.

The weighted average life of the portfolio is 1.47 years, assuming zero prepayments and no defaults. The expected amortisation profile of the portfolio shown on Figure 5 reflects the weighted average remaining term and amortisation scheme based on the discounted balance of the underlying assets (i.e. assets of this portfolio are fully paid when only the residual-value claim is outstanding).

Figure 5. Expected portfolio amortisation profile (0% prepayment, 0% defaults)



3.5 Net loss rate

We expect low point-in-time net losses from this portfolio

We expect low point-in-time net losses (i.e. 40bp) from this portfolio of leasing receivables, reflecting the improving trend evident in historical net loss rates and the favourable macroeconomic environment expected for the life of the transaction. APPENDIX II contains the historical net loss data provided by the originator.

We would expect a net loss rate of 65bp under normal, long-term economic conditions. This long-term net loss rate considers the improvements of the origination process implemented by Volkswagen and the reversion to the mean expected in a through-the-cycle approach.

Scope calibrated the portfolio-modelling assumptions using net loss vintage data from 2002 to 2016, a period which incorporates several periods of economic stress in Germany, in particular during 2008-2009. The net loss analysis accounts for the average portfolio seasoning of six months and a maximum risk horizon of 3.5 years.

3.6 Default rate

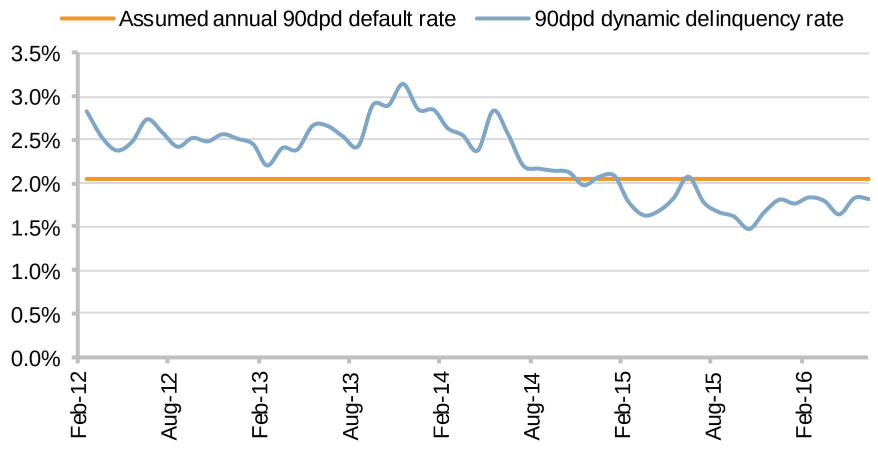
We have modelled portfolio defaults considering both point-in-time and long-term conditions

We have modelled portfolio defaults considering both point-in-time and long-term conditions with the following assumptions: point-in-time default rate mean of 1.7% and coefficient of variation of 58%; and long-term default rate mean of 3.0% and coefficient of variation of 60%. These default rates are consistent with the net loss rates considered for the analysis.

Scope considered the delinquency data provided by the originator to derive default rates for this portfolio reflective of 90 days past due delinquencies. Delinquency data corresponds to the performance of the entire auto-lease receivables book over the period from 2012 to 2015. We model portfolio delinquencies to stress the liquidity of the issuer.

The long-term default rate is obtained by compounding the annual 90+ days-past-due rate (i.e. 2.05%, see Figure 6) over the weighted average life of the portfolio (i.e. 1.47 years).

Figure 6. 90+ days-past-due delinquencies



The corresponding long-term default-rate coefficient of variation is 60%. We derived the volatility of default rates from the net loss vintage data, but accounting for the lower volatility of defaults (i.e. compensating for the volatility of recoveries).

Our point-in-time default rate assumption of 1.73% is derived from the 0.4% net losses, accounting for the 35% cure rate and the 67% recovery rate. The volatility of portfolio defaults under point-in-time market conditions is marginally lower (i.e. 58% coefficient of variation), reflecting the consistent performance in this period.

Figure 7 summarises the portfolio default rate assumptions for the analysis of this transaction.

Figure 7. Default rate (DR) mean and coefficient of variation (CoV) assumptions

90+ days past due default rates	Point-in-time		Long-term	
	Mean DR	DR CoV	Mean DR	DR CoV
Modelling assumptions	**1.73%**	**58%**	**3.00%**	**60%**
Net losses	0.40%		0.65%	
Vintage period	2010 - 2015		2002 – 2015	

The above default rate assumptions are based on a 90+ days-past-due default definition. Scope uses a cure rate of 35% (see 'Cure rate' section on page 9) to model the rate of contracts which do not migrate into hard default.

3.7 Recovery rate

The recovery on defaulted contracts will come mainly from the liquidation of the underlying vehicles

The recovery on defaulted contracts will come mainly from the liquidation of the underlying vehicles, because Volkswagen will retain all recovery proceeds after a contract is written off. Further, recovery proceeds will be shared pro-rata with the holders of the residual-value claims of the contracts, which are securitised outside this transaction.

Scope derived a base case recovery rate of 67% on defaulted contracts, which reflects the default rate, the cure rate and the net loss rate analysis. This analysis has enabled us to overcome the lack of recovery vintage data, which was not provided by the originator.

$$Recovery\ rate_{base\ case} = 1 - \frac{Net\ loss\ rate_{Long-term}}{(1 - Cure\ rate) * Default\ rate_{Long-term}}$$

We have assumed a conservative recovery lag of 18 months, equal to the weighted average portfolio life, to stress the structure against negative carry.

Scope has modelled the loan portfolio using fixed assumptions for recovery rates (derived from vintage data analysis), which were then stressed with haircuts based on the target rating of the tranche, as shown in Figure 8 below.

Figure 8. Recovery rate stresses by rating category

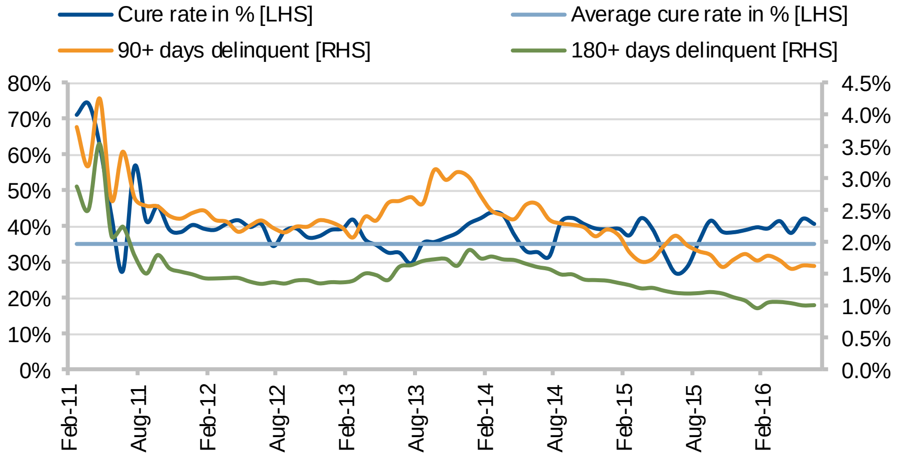
Rating-conditional stress	AAA	AA	A	BBB	BB	B
Haircut to base case	40%	32%	24%	16%	8%	0%
Recovery assumption	40.2%	45.6%	50.9%	56.3%	61.6%	67.0%

3.8 Cure rate

The cure rate reflects contracts which become performing after delinquency

We modelled a cure rate of 35% based on delinquency data provided by the originator. The cure rate reflects the rate of contracts more than 90 days past due which do not roll into the '180 days past due' bucket (see Figure 9). We assume the same cure rate under all rating stresses.

Figure 9. Cure rate and delinquency data



3.9 Constant prepayment rate (CPR)

Class A notes tested against 0% prepayments

Scope has tested the class A notes against the most conservative prepayment assumption (i.e. 0% CPR), because senior classes benefit from prepayments under this structure, as it is generally the case in most structures.

We have also modelled an assumption of 7.5% CPR to analyse the class B notes. Scope has derived the prepayment assumption from other German auto-loan and -leasing transactions. Historical prepayment rates of German auto ABS are volatile and range from 2% to 22%, but leasing transactions generally have significantly lower prepayment rates. The originator did not provide transaction-specific prepayment information.

3.10 Data adequacy and limitations

Data reflects the performance of the lease-receivables portfolio

The net loss data provided by Volkswagen Leasing is adequate and allows the proper application of Scope's Auto ABS Rating Methodology. Loss data is arranged in origination vintages and is granular. The data reflects the performance of the lease-receivables portfolio of the originator. Additionally, Volkswagen has also provided dynamic delinquency data arranged by monthly delinquency buckets, which support Scope's default-rate and cure-rate assumptions.

Scope has accounted for the dynamics of delinquencies and recoveries in the analysis

However, net loss data hides information about the dynamics of delinquencies and recoveries, which affect the available liquidity in a structure. This is mitigated by the high artificial portfolio interest and the cash-collateral reserve, which provide the structure with sufficient liquidity to meet all senior obligations. Scope has accounted for the dynamics of delinquencies and recoveries in the analysis.

Scope has compensated for the fact that net loss data reported by the originator may marginally understate the losses impacting the issuer. This is because this loss data describes net losses on entire lease contracts, whereas this transaction only securitises the receivables that exclude the residual-value claim. The recoveries allocated to the holder of the residual-value claim are overstated because of the lower discount rate used to calculate the residual-value notional (i.e. discount rate of 4.338% for the residual values, versus 5.7016% for the receivables in the asset portfolio).

4 FINANCIAL STRUCTURE

4.1 Capital structure

The amortisation of the notes will be partially sequential

Two classes of sequentially subordinated notes will be issued, complemented by a subordinated loan. The amortisation of the notes will be partially sequential, until pre-set credit-enhancement targets – which depend on performance – are achieved.

The proceeds from the notes and most of the subordinated loan will be used to purchase the initial portfolio of lease receivables at a discount, which results in overcollateralisation. The total balance of rated notes is EUR 720.5m, or 96.07% of the initial balance of the portfolio (i.e. EUR 750.0m). The subordinated loan will also fund the cash reserve (i.e. EUR 9.0m or 1.2% of the initial portfolio balance) and cover the initial expenses on the closing date.

Class A and B notes pay monthly variable interest of one-month Euribor plus [●] and [●], respectively[1]. The interest rate on the notes is floored at zero.

4.2 Cash-collateral reserve

The cash-collateral reserve provides material support to the class A notes under extreme scenarios

The cash-collateral reserve provides material support to the class A notes under extreme scenarios. The reserve covers negative carry losses after all assets are repaid or have defaulted, and allows the class A to be fully redeemed (see the case of a six-sigma stress on the expected long-term default-rate under a AAA recovery rate assumption, in Figure 12 on page 12).

The structure features a fully funded cash reserve (i.e. the cash-collateral account), which will provide credit enhancement to the rated notes (i.e. 1.2%) at maturity or when no more assets are outstanding. Additionally, it provides liquidity support for the timely payment of interest. The reserve can cover senior costs and class A and B interest for more than 10 monthly periods at the current one-month Euribor level. The cash reserve is provided by Volkswagen Financial Services.

We include the credit enhancement provided by the cash reserve (i.e. 1.2%) in our calculations because the reserve will not amortise significantly under almost all portfolio default scenarios, and the absolute floor is relatively high. The structure will nevertheless release 20bp of credit enhancement under almost all scenarios because the performance triggers, which could stop its amortisation, are too loose (see Figure 12).

The initial amount of EUR 9.0m can amortise

The initial amount of EUR 9.0m can amortise to represent 1.2% of the current non-written-off portfolio balance – down to a minimum of EUR 7.5m (i.e. 1.0% of the initial portfolio balance). Amortisation is not possible if assets underperform (i.e. when write-offs exceed 0.50% over the first 15 periods, or 1.15% thereafter). Notably, the cash reserve will also marginally amortise when the portfolio balance is reduced by asset write-offs. This represents a structural weakness which is not material in the context of the reserve minimum floor and the amortisation-stop triggers.

Additionally, the cash reserve can also hold cash in order to secure obligations of Volkswagen Leasing relating to German VAT and trade tax.

4.3 Buffer-release mechanism

The buffer-release mechanism extracts excess interest

We believe that the buffer-release mechanism part of the structure represents a credit-negative, which is captured in our analysis. The mechanism allows principal collections[2] from the assets to be passed to the seller outside the priority of payments. The mechanism also extracts excess interest. We have modelled this effect in our cash flow analysis by implementing the buffer-release mechanisms.

The structure provides enough liquidity to ensure timely interest payment

The structure provides enough liquidity to ensure the timely payment of expenses, fees and interest, despite the buffer-release mechanism. However, excess interest is unavailable to cover for principal shortfalls.

[1] Scope has used credible margin-assumptions proposed by the arranger for the analysis of preliminary ratings. The ratings are not significantly sensitive to deviations from these margin assumptions because of the mechanisms implemented by the structure.
[2] Scope is treating the receivables as financial assets that repay ‘principal’ and yield ‘interest’ (i.e. the discount rate). The ‘principal’ component would be used to redeem the liabilities of the issuer.

The buffer-release mechanism is designed to leave just enough available funds in the waterfall to pay: i) senior expenses and fees; ii) interest on the class A and B notes; and iii) interest on the subordinated loan. The mechanism flushes out all theoretical excess spread provided by scheduled interest collections from the assets. This theoretical excess spread may actually exceed the actual excess spread from collections because the notional used for the calculation overstates the balance of performing assets. The notional for the calculation is the future discounted receivables balance, which excludes written-off assets, but still includes non-performing receivables.

4.4 Priority of payments

The priority of payments represents the third and last structural element to support the timely payment of the senior obligations of the issuer, including interest payments to the class A and B notes. The combined priority of payments will materially protect against payment interruption. All collections from the assets can be used to pay timely interest on the senior class notes. Furthermore, only a few days' worth of collections suffice to pay senior class interest and other more senior items, even in the unlikely event of a servicer disruption.

The combined priority of payments effectively allows credit enhancement to cover losses from negative carry or interest rate mismatches (see Figure 10).

Figure 10. Priority of payments and available funds

Pre-enforcement priority of payments	Post-enforcement priority of payments
Available funds Collections from lease receivables, recovery proceeds, net swap receipts, account interest and cash reserve moneys. The buffer release amount is deducted from available funds, eliminating all excess spread.	Available funds All moneys of the issuer, including funds from the liquidation of assets.
Taxes and expenses (ordinary and extraordinary, including servicer fees) Net swap payments Class A interest Class B interest Replenishment of cash reserve to target Class A target redemption amount Class B target redemption amount Subordinated swap payments Subordinated loan interest Subordinated loan redemption Other subordinated items	Taxes and expenses (ordinary and extraordinary, including servicer fees) Net swap payments Class A interest Class A redemption Class B interest Class B redemption Subordinated swap payments Subordinated loan interest Subordinated loan redemption Other subordinated items

4.5 Amortisation

The initial and expected credit enhancement adequately protects noteholders

We believe the initial and expected level of credit enhancement available to the different classes of notes adequately protects noteholders. This view takes into account the credit enhancement build-up over the life of the transaction, despite the sometimes pro-rata amortisation of the notes and the subordinated loan.

The support of the cash-collateral account is key under extreme scenarios

The support of the cash-collateral account is key under extreme scenarios. For example, the cash-collateral amount enables the class A notes to amortise fully under the severe conditions (i.e. portfolio default rate of 13.8%, equal to a six-sigma stress on the expected long-term default-rate; and AAA recovery rate). This is shown in Figure 12.

The notes benefit from partially sequential amortisation until credit enhancement from overcollateralisation reaches pre-defined targets for the different tranches. These targets thus determine the redemption amount to be allocated to each class. Allocation of principal under the priority of payments will first ensure that the class A is protected by the corresponding target credit enhancement from overcollateralisation before any redemption of class B notes takes place.

Figure 11 shows the target credit-enhancement levels for class A and B notes, which depend on the performance of the asset portfolio as recognised by the servicer. The first target is unconditional. The second target is triggered when write-offs exceed 0.50% of the initial balance over the first 15 payment periods, or 1.15% thereafter. Further, amortisation will become strictly sequential if write-offs exceed 1.60%.

Figure 11. Credit enhancement levels from overcollateralisation only[a] for class A and B notes

	Class A	Class B
Initial levels	6.20%	3.90%
Unconditional target	12.25%	7.50%
Target under 'level 1 CE increase condition'[b]	14.00%	8.25%
Target under 'level 2 CE increase condition'[c]	100.00%	100.00%

[a] Total credit enhancement figures must be calculated adding the support provided by the cash reserve.

[b] When cumulative write-offs represent more than 0.5% of the initial balance during the first 15 payment periods or more than 1.15% thereafter.

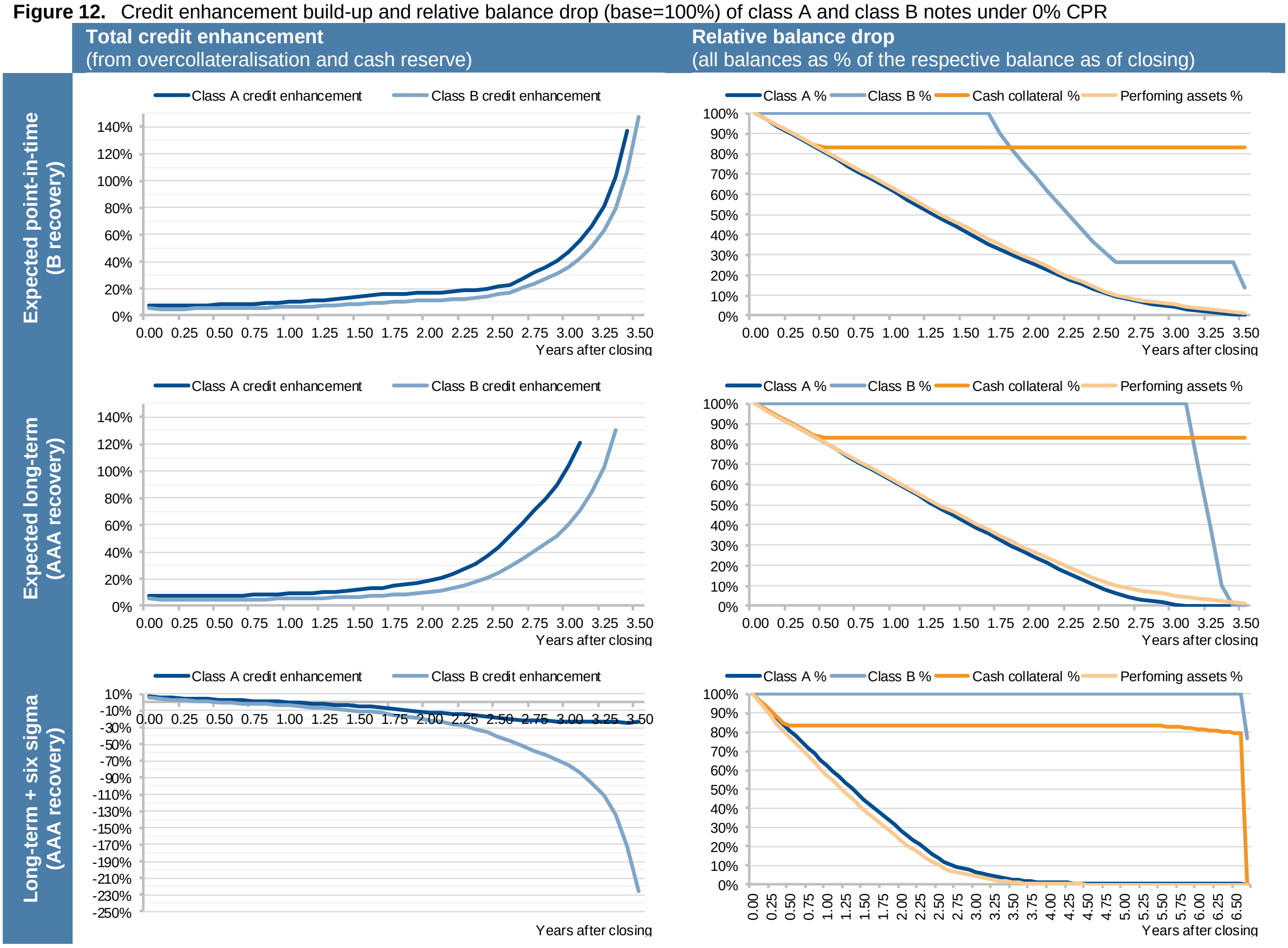
[c] When cumulative write-offs represent more than 1.6% of the initial balance.

Actual total credit enhancement is higher than overcollateralisation targets

Total credit enhancement available to the notes is higher than these targets because it includes the support of the cash-collateral reserve. For example, total credit enhancement available to the class A is 15.65% when the credit enhancement from overcollateralisation only is 12.25%, under Scope's expected scenario.

The structure allows excess credit enhancement to be released to Volkswagen – except under severely adverse asset performance – because the redemption of the subordinated loan is possible once the class A and B notes reach their respective credit enhancement targets. This is evident between months 20 and 31 (i.e. 1.7 and 2.6 years) as displayed in Figure 12 under point-in-time market conditions.

Figure 12. Credit enhancement build-up and relative balance drop (base=100%) of class A and class B notes under 0% CPR



The granularity of the asset portfolio and the fast amortisation of the assets sufficiently compensate for the limited amount of credit enhancement that can be accumulated for the class A notes over the life of the transaction. The structure is only marginally effective at accelerating the amortisation of the class A notes because the sequential amortisation trigger would be hit too late (i.e. the trigger is almost two times bigger than the long-term net loss rate expected for the asset portfolio).

4.6 Hedged interest-rate risk

Interest rate risk is fully hedged

Interest rate risk is fully hedged in the transaction through two amortising interest-rate swap agreements (i.e. one for the class A, one for the class B). The reference balance of the swaps is the outstanding balance of the corresponding notes. The fixed leg is paid to the swap counterparty at rates of [●] for class A and [●] for class B. The floating leg payment received from the swaps matches the interest due on the corresponding note.

There is no risk related to negative interest rates because the issuer's documentation eliminates any payment obligations with respect to negative rates. Negative rates on issuer accounts can be covered with the high artificial yield of the assets (i.e. 5.7%).

4.7 Accounts

The issuer has three accounts: i) the distribution account, which collects all amounts to be distributed prior to a payment date; ii) the cash-collateral account holding the cash reserve; and iii) the counterparty-downgrade collateral account, which will hold any collateral posted under the swap contracts.

Negative carry from accounts is negligible

Negative carry from accounts is negligible in the transaction due to the monthly payment period and the high interest funds available from the assets.

5 QUANTITATIVE ANALYSIS

Scope has assigned a (P) AAA_{SF} rating to the class A notes because of their resilience to stressed net losses from the asset portfolio under normal, long-term economic conditions (i.e. mean net portfolio loss rate of 65bp). These long-term conditions are more severe than the current conditions of the market, which benefit from the benign macroeconomic environment.

The (P) $A+_{SF}$ rating assigned to the class B notes blends the positive effect from the point-in-time benign market conditions with the long-term economic conditions considered for the analysis of AAA_{SF} ratings. The positive evolution of the net losses evident in the more recent vintage data supports our expectation of the low point-in-time net losses (i.e. 40bp) from this portfolio.

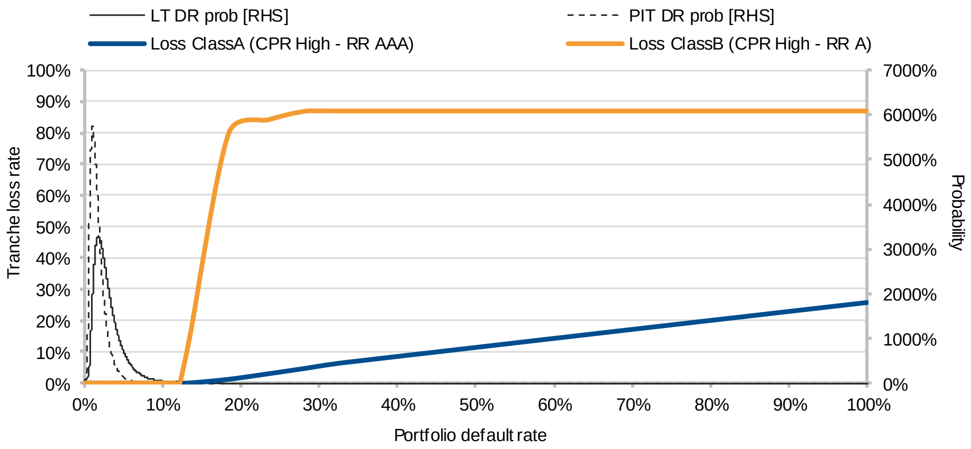
Analysis results capture Germany's long-term and point-in-time macroeconomic conditions

These results capture Germany's long-term and point-in-time macroeconomic conditions and the credit enhancement available to the tranches.

Scope has analysed the transaction with a cash flow tool that implements all mechanisms in the structure. The cash flow tool has considered the probability distribution of portfolio default rates (i.e. inverse Gaussian distribution) to calculate the expected loss of each rated tranche. The cash flow tool also produces the expected weighted average life for each tranche.

Figure 13 shows the losses of each tranche at all portfolio default rates. The chart shows how credit enhancement and excess spread protect the tranches, as well as recovery in case of default. Default timing, high recoveries and credit enhancement build-up explain why the tranches can withstand default rate scenarios beyond the credit-enhancement levels of 7.4% for class A and 5.1% for class B.

Figure 13. Tranche losses for all portfolio default rates

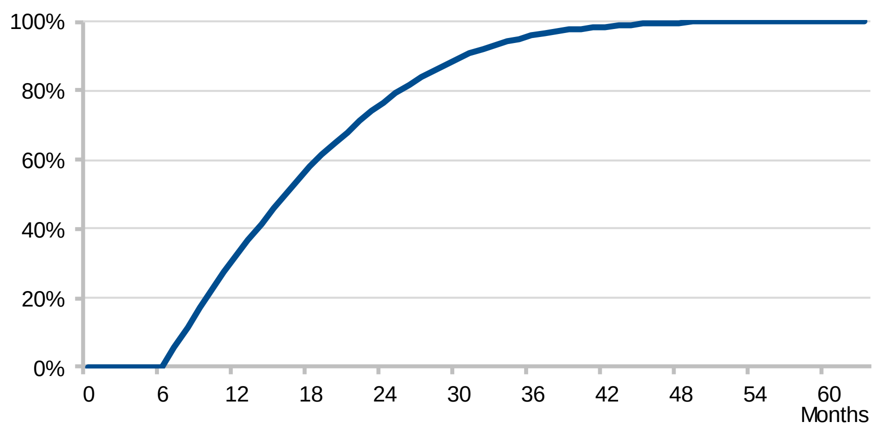


Scope has analysed the transaction considering both point-in-time and long-term market conditions. We believe the period since 2010 to today represents point-in-time conditions, while the full period covered by vintage data (i.e. from 2002 to 2016) represents long-term market conditions.

Scope has considered a front-loaded default-timing term structure

Scope has considered a front-loaded default-timing term structure for the analysis, which reflects the amortising nature of the portfolio and a constant unconditional default rate. Further, back-loaded default scenarios are not as severe due to credit-enhancement build-up. The cumulative default-timing assumptions are shown on Figure 14 and represent the assumed portfolio default timing. These assumptions imply the front-loading of delinquencies, starting on the first month of the life of the transaction.

Figure 14. Cumulative portfolio default-timing assumption



5.1 Rating stability

5.1.1 *Rating sensitivity*

The stability of the ratings is supported by strong protective mechanisms in the structure

The stability of the ratings is supported by i) strong protective mechanisms in the structure and ii) Scope's use of both rating-conditional recovery rate assumptions and a long-term performance reference for the assets.

Scope tested the sensitivity of the rating to deviations from the main input assumptions: i) the mean default rate; ii) default-rate volatility (coefficient of variation); iii) recovery rate; and iv) interest rates. This analysis illustrates the sensitivity of the rating to input assumptions but is not indicative of expected or likely scenarios.

The class A rating would decline to A+ if the mean default rate is increased by 50%. Reducing the recovery rate by 50% decreases the rating to AA+. A 50% increase of the coefficient of variation results in a rating decline to AA.

The class B rating would decline to BBB- if the mean default rate is increased by 50%. Reducing the recovery rate by 50% results in a rating decline to BBB+. A 50% increase of the coefficient of variation results in a rating decline to BBB+.

Interest rate stresses have no impact on the notes because interest rate risk is perfectly hedged.

5.1.2 Break-even analysis

Class A would not experience any loss at portfolio default rates of 7.5% or lower, under zero recovery

The resilience of the class A rating is shown through the break-even default rate analysis. The tranche would not experience any loss at portfolio default rates of: i) 7.5% or lower, under a zero recovery rate assumption; or ii) 12.5% or lower, under the portfolio's AAA recovery rate assumption of 40.2%, compared to a base case recovery rate of 67%.

The class B tranche would not experience any loss for portfolio lifetime default rates of up to: i) 12.5% under the A recovery rate assumption of 50.9%; or ii) 6.4% under a zero recovery rate assumption.

Figure 15. Break-even default rate analysis as a function of prepayments and recovery rates (RR)

Break-even default rate[a]						
Prepayments	**0% CPR**			**7.5% CPR**		
Portfolio RR	**40.2% (AAA_{SF} RR)**	**50.9% (A_{SF} RR)**	**0.0%**	**40.2% (AAA_{SF} RR)**	**50.9% (A_{SF} RR)**	**0.0%**
Class A	12.5%	N/A	7.5%	**12.5%**	N/A	7.5%
Class B	N/A	7.5%	6.4%	N/A	**12.5%**	6.4%

[a] Cure rate of 35%.

6 SOVEREIGN RISK

Sovereign risk does not limit any of the ratings

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity or currency convertibility risk is considered extremely unlikely, especially in the context of the expected life of the rated notes.

We factor the positive economic outlook into the rating analysis, which reflects our expectation of Germany's continued economic growth and declining unemployment. The biggest challenge in the German economy relates to demographic pressures: an ageing population, insufficient population growth and the difficulty German companies have in finding enough skilled workers.

7 COUNTERPARTY RISK

None of the counterparty exposures is excessive

The transaction is exposed to Volkswagen Leasing GmbH as the servicer and BNP Paribas SA as account bank, paying agent and custodian. Counterparty risk is incorporated in the ratings. None of these exposures is excessive as defined in Scope's Rating Methodology for Counterparty Risk in Structured Finance Transactions (i.e. the losses resulting from the crystallisation of counterparty risk would not justify a rating downgrade of more than six notches). Scope's methodology is dated August 2016 and is available on www.scoperatings.com.

7.1 Operational risk from servicer

The operational risk exposure to Volkswagen Leasing over the life of this transaction is well covered by the relevance of the Volkswagen group to the German labour market and economy, as well as the high involvement of the German federal state of Lower Saxony.

We believe that a disruption of the servicing function is highly unlikely

We believe that a disruption of the servicing function is highly unlikely and that the servicer would be a going concern should it become finally impaired. We do not expect Volkswagen Leasing to be replaced as the servicer, something we believe would be more disruptive than its continuing as a going concern through a hypothetical restructuring of the entire Volkswagen group.

The contribution of servicer comingling losses to total expected loss is immaterial. The credit quality of the servicer, as assessed by Scope after the analysis of Volkswagen Financial Services AG, results in a very low probability of servicer default. Further, the structure envisages the collateralisation of the financial exposure to the servicer if its parent company, Volkswagen Financial Services AG, loses its investment-grade credit quality. Volkswagen Financial Services will have to advance the entire expected collections of a given month into the issuer account. Furthermore, the monthly payment frequency of the transaction also reduces the maximum amount which can be commingled.

7.2 Commingling risk from the account bank and paying agent

Money held in the accounts of the issuer represent a commingling risk exposure to BNP Paribas SA (A+/S-1/Stable Outlook) as the account bank. The impact of this risk on the notes' expected losses is commensurate with the highest rating category. The portfolio has a short remaining term of less than 2.8 years under 0% prepayments; the credit quality of the counterparty is strong, and it is a resolvable financial institution.

credit risk arising from exposure to the account bank is limited and mitigated

Further, we believe credit risk arising from exposure to the account bank is limited and mitigated in the structure by risk-substitution covenants. The structure envisages the replacement of the account bank if its Issuer Credit-Strength Rating (ICSR) falls below BBB, in line with Scope's Rating Methodology for Counterparty Risk.

7.3 Counterparty risk from the swap counterparty

The structure is protected against the credit quality migration of the swap counterparty. The counterparty is not yet known, but is required by the documentation to have adequate credit quality exceeding the levels considered minimum by Scope and we expect that the counterparty will be large, resolvable financial institution.

Collateralised derivative counterparty obligations constitute secured liabilities in the context of the European resolution regime. The ranking of secured liabilities in the bail-in waterfall and the remote likelihood of a bank failing to provide services during a resolution at the trigger levels defined in the structure support the rating on the class A notes without introducing undue risks.

8 LEGAL STRUCTURE

8.1 Legal framework

This securitisation is governed by German and Luxembourg law and represents the true sale of the assets to a bankruptcy-remote vehicle. Compartment VCL 24 is essentially governed by the terms in the documentation and the appointed board of directors of the issuing fund, VCL Multi-Compartment SA. Changes to the notes' documentation requires the majority vote of the noteholders of the respective class. Other amendments of the documentation will be managed by the board of directors.

The transaction legal structure is well tested

The transaction legal structure is well tested and conforms to the standards of German auto-lease receivables. Notably, assets are indirectly transferred to the issuer to eliminate claw-back risk upon the originator's insolvency. The originator first transfers the contracts to an intermediate fund where the contracts are warehoused for at least the statutory-minimum amount of time required to effect a true sale.

8.2 Asset replacement

Volkswagen Leasing will replace or repurchase any asset in the portfolio that does not comply with eligibility criteria in the documentation. Only leasing receivables which are standard, in good standing and performing at the time of transaction closing can be transferred to the portfolio. We believe the risk that weaker assets are transferred to the final portfolio is covered by our mean default rate assumption for the portfolio.

8.3 Use of legal opinions

Scope reviewed the legal opinions produced by the legal advisers of the issuer. The review of legal risks has allowed Scope to become comfortable with the issuer's legal structure. The legal opinions support Scope's general legal analytical assumptions, in line with Scope's report Legal Risks in Structured Finance – Analytical Considerations, dated January 2015 and available at www.scoperatings.com.

9 MONITORING

Scope will monitor this transaction on the basis of the performance reports from the management company as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

10 APPLIED METHODOLOGY

Scope applied its Auto ABS Rating Methodology, dated August 2016, and its Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated August 2016, for the analysis of this transaction. Both files are available on our website www.scoperatings.com.

APPENDIX I. SUMMARY OF PORTFOLIO CHARACTERISTICS

Scope based its analysis on the preliminary portfolio as of 31 August 2016. The characteristics of the final portfolio that will be transferred to the issuer will be substantially the same, thanks to the high granularity of the portfolio.

Key Features	Preliminary portfolio as of 31 August 2016
Originator	Volkswagen Leasing GmbH
Closing date (expected)	25 November 2016
Portfolio balance (EUR m)	750.0
Number of assets	66,045
Average asset size (EUR)	11,356
Maximum asset size (EUR)	87,902
Minimum asset size (EUR)	1,000
Portfolio seasoning (years)	0.6
Portfolio remaining term (years)	2.8
Portfolio weighted average life (years)	1.47
German customers	100.0%
Largest obligor	0.05%
Top 10 obligors, combined	0.49%
Largest region	21.47% (North-Rhine Westphalia)
Top 3 regions, combined	54.8%
New vehicles	96.0%
Closed-end contracts	99.2%
Retail lessees	71.8%
Corporate lessees	28.2%

APPENDIX II. ADDITIONAL NOTES ON NET LOSS ANALYSIS

Volkswagen Leasing has provided Scope with net loss vintage data on its portfolio of leasing contracts from 2002 to 2016. Scope's analysis accounts for the specific characteristics of this receivables portfolio. Particularly, Scope derives default assumptions from net losses, accounting for the seasoning and the remaining term of the preliminary portfolio.

Volkswagen Leasing: net loss rate vintage data

Figure 16. Static net loss rates arranged in monthly vintages as presented by Volkswagen Leasing

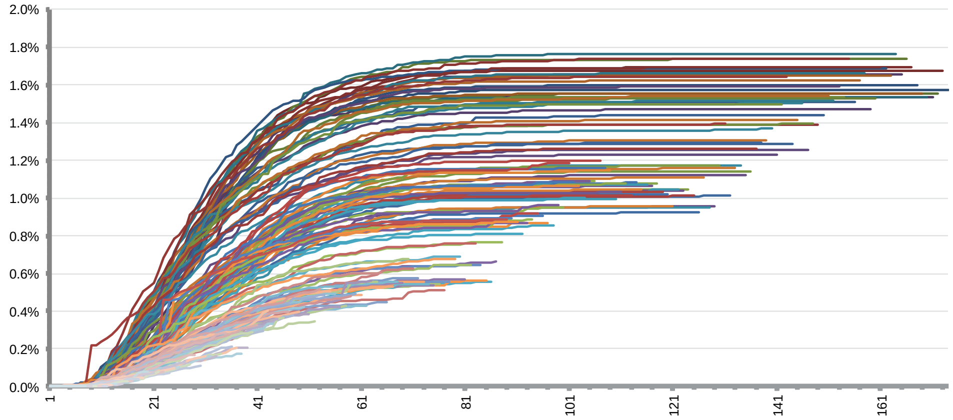
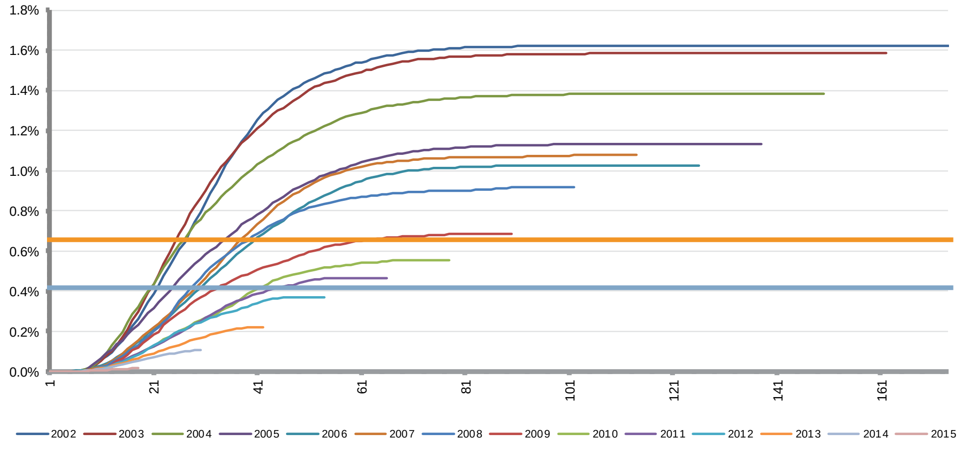
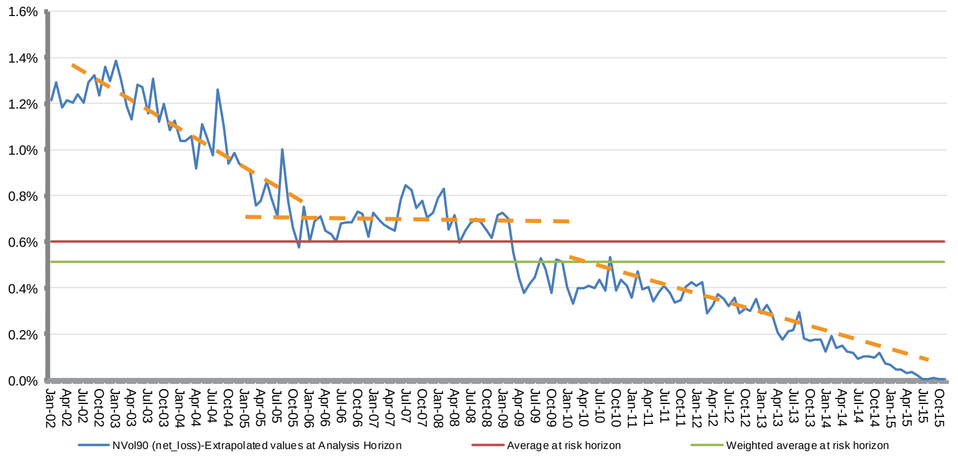


Figure 17. Static net loss rates as consolidated by Scope in annual vintages



The blue line in Figure 17 refers to the point-in-time loss-rate assumption, while the orange line represents the long-term loss-rate assumption. Both loss-rate assumptions refer to a risk horizon of 3.5 years with six months of seasoning.

Figure 18. Maximum static net loss rate for every monthly vintage series as extrapolated by Scope to the risk horizon of 3.5 years



Historical performance shown in Figure 18 shows the improvement of performance before the last crisis, stagnation during the crisis, and improvements thereafter. The improvement following the crisis appears overstated in the chart because the most recent vintages have not seasoned and consequently can be expected to still result in a higher final loss rate.

APPENDIX III. REGULATORY AND LEGAL DISCLOSURES

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr Stefan Bund, Dr Sven Janssen.

The rating analysis has been prepared by Sebastian Dietzsch, Lead Analyst. Guillaume Jolivet, Committee Chair, is the analyst responsible for approving the rating.

Rating history

The rating concerns newly-issued financial instruments, which were evaluated for the first time by Scope Ratings AG.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the issuer of the investment, represented by the management company.

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Key sources of information for the rating

Draft offering circular and transaction-related contracts; management due diligence presentation provided by the originator; fundamental preliminary portfolio information provided by the originator; historical net loss ratios and dynamic delinquency ratios provided by the originator; and draft legal opinions. A draft portfolio audit report is not yet available for this transaction.

Scope Ratings considers the quality of the available information on the evaluated entity to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodology applicable for the ratings is "Auto ABS Rating Methodology", dated August 2016 and the "Rating Methodology for Counterparty Risk in Structured Finance Transactions", dated August 2016. Both files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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