

**Rated entity / Rating / Rating Outlook:**

EUR Floating Rate Asset Backed Class A and Class B Notes as following, issued by VCL Master Residual Value S.A., acting with respect to its Compartment 2

Series	ISIN	Note Balance Before Tap Issuance (EUR)	Note Balance After Tap Issuance (EUR)	Rating / Outlook
Class A 2015-1	XS1325738166	414,100,000	464,100,000	AAA <sub>sf</sub> / stable
Class A 2015-2	XS1325738240	448,700,000	448,700,000	AAA <sub>sf</sub> / stable
Class A 2015-3	XS1325738323	550,000,000	550,000,000	AAA <sub>sf</sub> / stable
Class A 2015-4	XS1325738596	496,800,000	589,300,000	AAA <sub>sf</sub> / stable
Class A 2015-5	XS1325738679	400,000,000	469,400,000	AAA <sub>sf</sub> / stable
Class A 2015-6	XS1325738752	222,600,000	262,400,000	AAA <sub>sf</sub> / stable
Class A 2016-1	XS1420331438	441,500,000	441,500,000	AAA <sub>sf</sub> / stable
Class A 2016-2	XS1505905072	50,000,000	50,000,000	AAA <sub>sf</sub> / stable
Class A 2016-4	XS1505904851	373,600,000	431,700,000	AAA <sub>sf</sub> / stable
Class A 2018-1	XS1877503182	218,100,000	218,100,000	AAA <sub>sf</sub> / stable
Class A 2018-2	XS1877951761	309,200,000	319,200,000	AAA <sub>sf</sub> / stable
Class A 2018-4	XS1918850071	100,000,000	130,400,000	AAA <sub>sf</sub> / stable
Class A 2018-5	XS1918849735	27,900,000	108,200,000	AAA <sub>sf</sub> / stable
Class A 2019-1	XS2051470479	253,400,000	253,400,000	AAA <sub>sf</sub> / stable
Class B 2015-1	XS1325738083	110,900,000	110,900,000	A+ <sub>sf</sub> / stable
Class B 2015-3	XS1325738836	166,400,000	166,400,000	A+ <sub>sf</sub> / stable
Class B 2016-1	XS1420331354	68,800,000	76,100,000	Not rated
Class B 2016-3	XS1505904695	307,100,000	317,100,000	A+ <sub>sf</sub> / stable
Class B 2017-1	XS1675801143	74,400,000	83,200,000	Not rated
Class B 2018-1	XS1877951845	52,800,000	61,200,000	A+ <sub>sf</sub> / stable
Class B 2018-2	XS1918850154	33,300,000	38,400,000	A+ <sub>sf</sub> / stable
Class B 2019-1	XS2051470800	39,400,000	44,200,000	Not rated
Class B 2020-1	XS2166353537	-	8,600,000	A+ <sub>sf</sub> / stable
Class B 2020-2	XS2166353701	-	25,700,000	Not rated

**Rating summary:**

Following a tap issuance on May 26, 2020, Creditreform Rating (CRA) confirms the existing ratings of all Series of Class A and B Notes listed and assigns a rating to the newly issued Notes Series B 2020-1 as above, issued by VCL Master Residual Value S.A., acting for and on behalf of its Compartment 2 (VCL Master). CRA assigns no rating to the newly issued Notes Series B 2020-2 upon request of the mandator.

The outstanding note volume has increased by EUR 509.2m. The credit enhancements of the Series of Class A and B Notes remain above the minimum credit enhancements, which Creditreform Rating assumes in its rating analysis (current total CE after the tap issuance are 50.27% and 39.95% for Class A and Class B Notes, respectively).

To size the credit risk of the portfolio and derive base case assumptions about loss rates and expected recovery performance, Creditreform Rating used data provided by VWL as well as internal databases. Following an updated analysis of historical data, CRA set the base case gross loss rate at 0.82% and the base case recovery rate at 65%. CRA decided to maintain a conservative approach in selecting the appropriate scenario-specific stress multiples at x7.63 and x5.36 in an AAA<sub>sf</sub> and A+<sub>sf</sub> scenario, respectively. Moreover, CRA set the recovery haircuts at 50.12% (AAA<sub>sf</sub>) and 40.15% (A+<sub>sf</sub>), taking into account transaction-specific features such as observed volatility and established recovery procedures as well as potential market value risks. This resulted in total expected net losses of 4.24% (AAA<sub>sf</sub>) and 2.70% (A+<sub>sf</sub>).

The transaction is subject to the risks of obligors' defaults and used car market values' deterioration. CRA used data of residual value forecasts and historical data of sale proceeds to determine an expected RV loss of 37.46% and 32.13% in an AAA<sub>sf</sub> and A+<sub>sf</sub> rating scenario, respectively, taking into account a stable recovery procedure, a moderate RV setting strategy of VWL and increased market value risks.

These scenario-specific assumptions about residual value risk and credit risk were tested in CRA's proprietary cash flow model, which was tailored to reflect the structure of VCLM RV C2 and to test the transactions' ability of paying interest and ultimate payment principal at final maturity.

## Primary key rating driver:

- + 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
- No specified back-up servicer, even though contractual provisions enable the replacement of the servicer
- Revolving period until September 2020 may affect portfolio quality
- Securitisation of residual values exposes the transaction to the market value risk of the underlying leased vehicles, but VWL enters into a repurchase agreement with the Issuer and is obliged to repurchase the leased vehicles at expiration or termination of the underlying lease contracts
- 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<sub>sf</sub> for Class A Notes and A+<sub>sf</sub> 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 and a severe 20% stress on sale proceeds, resulting in a rating of BBB<sub>sf</sub> for Class A Notes and B-<sub>sf</sub> 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 less significant 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. 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:

May 20, 2020 / May 20, 2020 / September 25, 2026

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):

Philip Michaelis (Lead) – Senior Analyst

Stephan Giebler (PAC) – Senior Analyst

## Name & address of legal entity:

Creditreform Rating AG, Hellersbergstraße 11, 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:**

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 (CRA) 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 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.