FitchRatings

Structured Finance
Auto Loans
Japan

Driver Japan nine

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Closing occurred on 27 February 2020. The transfer of the portfolio to the trustee occurred on 25 February 2020. The ratings assigned above are based on the portfolio information as of 10 February 2020, provided by the originator.
Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other material should be reviewed prior to any purchase.

Driver Japan nine -Appendix (February 2020)

Capital Structure

Class	Rating	Outlook	Amount (JPYm)	CE (%)	Interest Rate (%)	Legal Final Maturity
BIs 2 and ABL 2[a]	AAAsf	Stable	60,000	6.5	0.10	June 2028
Subordinated BIs	NRsf[b]		4,173			
Cash collateral		Four months' interest and expenses				

[a] BIs 2 and ABL 2 rank pari passu, therefore, CE is calculated on an aggregate basis
[b] NRsf: not rated
Source: Fitch Ratings

Fitch Ratings has assigned ratings to Driver Japan nine's trust beneficial interests of the second trust (BIs 2, Issue amount: JPY 37.5 billion) and asset-backed loans of the second trust (ABL 2, Issue amount: JPY22.5 billion). The transaction is ultimately backed by a pool of auto-loan receivables originated by Volkswagen Financial Services Japan Ltd. (VWFSJ), an indirectly wholly owned subsidiary of Volkswagen Financial Services AG, which is wholly owned by Volkswagen AG (VW, BBB+/Stable/F1). Most loans are to individuals, with a small portion to corporates. The total issue amount has been increased to JPY60 billion from JPY40 billion at the time of the expected rating assignment. The ratings address the timely payment of interest and dividends and repayment of principal by the legal final maturity.

Key Rating Drivers

Obligor Default Risk: Fitch assumes a low base-case cumulative gross loss rate of 0.75% for the transaction before considering balloon payment risk. This is based on stable default performance over the previous 17 years, including two recessionary periods.

Cash Flow Dynamics: Credit enhancement (CE) includes subordinated BIs, a cash reserve and excess spread. The rated debt can withstand corresponding rating stresses applied in the cash flow analysis.

Structural Risk: The legal structure isolates the assets from other assets owned by VWFSJ and the trustee and from bankruptcy risk of VWFSJ and the trustee to ensure timely debt payment.

Counterparty Risk: The transaction has structural mechanisms that ensure remedial action is taken if the account bank's rating falls below Fitch's eligible rating of 'A'/'F1'. A cash reserve should cover four months of interest and expenses to mitigate payment-interruption risk.

Servicer, Operational Risk: VWFSJ, as servicer, delegates its function to Cedyna Financial Corporation or JACCS Co., Ltd. as sub-servicers in the transaction. No back-up servicer was appointed at closing; however, if a servicer replacement event occurs, Deutsche Trust Company Limited Japan, as Trustee 1, will assume the servicing responsibilities or may appoint a third party as a successor servicer.

Balloon Payment Risk: The balloon payment portion made up 36.4% of the initial portfolio. Obligors are required to make balloon payments if not covered by refinancing of loans or buy-back of vehicles by VWFSJ or dealers. Fitch accounted for the risk that obligors fail to cover balloon payments at maturity by increasing the cumulative gross-loss assumptions.

Macroeconomic Factors: Fitch expects stable asset performance, supported by favourable economic conditions in Japan, including stable real GDP growth and a low unemployment rate. Fitch forecasts GDP growth of 0.4% in 2020 and 0.6% in 2021 and an unemployment rate of 2.5% for both years.

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Highlights

Pool Characteristics

The collateral characteristics of Driver Japan nine are consistent with recent Driver Japan transactions, as shown in Transaction Comparison table. The collateral pool is similar to that of Driver Japan eight, with a decrease in fully amortising loans to 8.7% of the portfolio, from 10.9%, while the monthly instalment portion increased to 63.6%, from 62.3%. The transaction structure replicates that of Driver Japan eight.

Slight Changes in Key Assumptions

Fitch's base-case gross-loss rate assumption, before considering balloon-payment risk, has been marginally lowered to 0.75%, from 0.80% for the previous series, due to stable asset performance and Japan's stable historical and expected unemployment rates. Prepayment assumptions were increased to 13%, from 12%, based on a gradually increasing trend for prepayment rates.

Base-Case Loss Assumptions by Vehicle

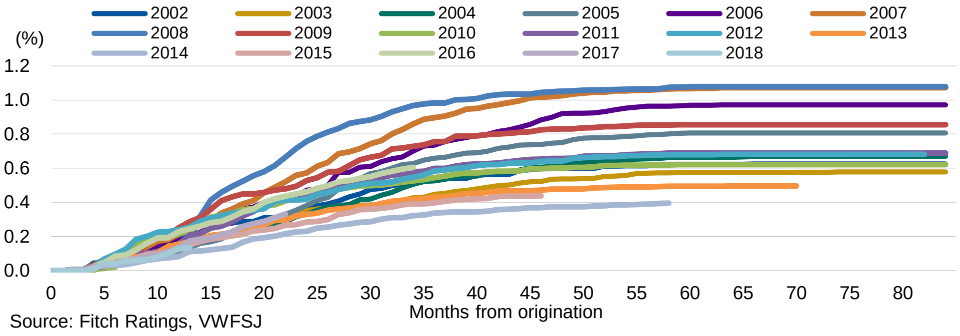
(%)	Actual proportion	Gross loss	Stressed proportion[a]	Adjusted gross loss
New vehicles	75	0.72	65	0.72
Used vehicles	25	0.83	35	0.83
Portfolio weighted	100	0.75	100	0.75

[a] Due to the upper limit of 35% for used vehicles and potential migration during the one-year revolving period, the adjusted gross-loss assumptions of 0.75% is used for cash flow analysis
Source: Fitch Ratings

Historical Performance

The charts below display cumulative gross loss data of new and used vehicles for loans originated by VWFSJ since July 2002. The loans have performed well throughout the observation period, which includes two recessionary periods in 2008 and 2012, and have been superior than those of the global peer group. Recent vintages have performed better than average, supported by Japan' stable economic conditions.

Cumulative Gross Loss Rate for New Vehicles



Source: Fitch Ratings, VWFSJ

Applicable Criteria

Global Structured Finance Rating Criteria (May 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria (January 2020)

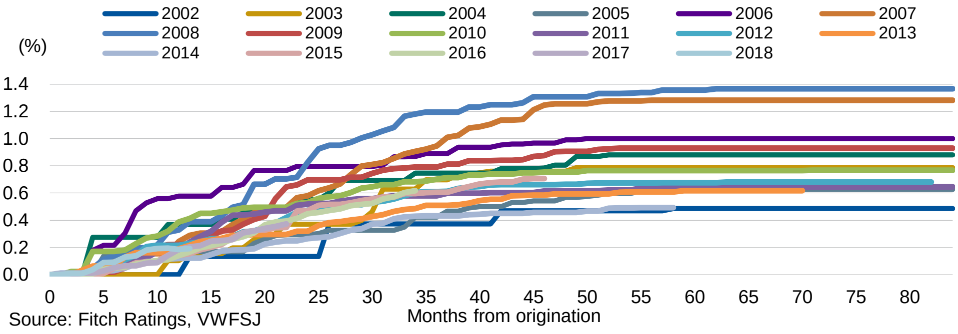
Consumer ABS Rating Criteria (December 2019)

Structured Finance and Covered Bonds Country Risk Rating Criteria (February 2020)

Related Research

Japan – December 2019 Global Economic Outlook Forecast (December 2019)

Cumulative Gross Loss Rate for Used Vehicles



Source: Fitch Ratings, VWFSJ

No Swap

No swap is used for this transaction, because both assets and liabilities pay fixed rates in Japanese yen.

Minimal Credit Impact from ESG

The highest level of ESG credit relevance is a score of 3, meaning that ESG issues are credit neutral or have only a minimal credit impact on the transaction, either due to their nature or the way in which they are being managed. See Appendix 1.

Key Transaction Parties

Key Transaction Parties

Role	Name	Fitch Rating
Issuer of BIs 2/borrower of ABL 2	Deutsche Trust Company Limited Japan	Not rated
Originator/servicer/Trustor 1	Volkswagen Financial Services Japan Ltd.	Not rated
Sub-servicers/guarantors	JACCS Co., Ltd. and Cedyna Financial Corporation	Not rated
Trustee 1 and 2/borrower of ABL 1	Deutsche Trust Company Limited Japan	Not rated
Issuer account bank provider	MUFG Bank, Ltd.	A/Negative/F1
Co-arrangers	Mizuho Securities Co., Ltd. BNP Paribas Securities (Japan) Limited	Not rated Not rated
Lender of ABL 1/Trustor 2	Mizuho Securities Co., Ltd.	Not rated

Source: Fitch Ratings, VWFSJ

Transaction Comparison

Transaction Comparison

Portfolio summary as of closing	Driver Japan five	Driver Japan six	Driver Japan seven	Driver Japan eight	Driver Japan nine[a]
Total discounted principal balance (JPYm)	64,176	64,172	58,824	69,521	64,173
Number of auto loan contracts	31,976	30,757	25,466	30,362	26,586
Average discounted principal balance (JPY)	2,007,013	2,086,410	2,309,893	2,289,731	2,413,789
Weighted-average seasoning (months)	13.4	11.8	9.6	9.3	9.1
Weighted-average remaining term (months)	32.7	36.3	38.9	39.2	40.5
Collateral by balance (%)					
Geographic distribution					
Tokyo:17.4		Tokyo: 17.7	Tokyo: 18.0	Tokyo: 18.1	Tokyo: 16.8
	Kanagawa: 10.5	Kanagawa: 10.2	Kanagawa: 10.4	Kanagawa: 10.1	Kanagawa: 10.9
	Aichi: 6.9	Aichi: 6.9	Aichi: 7.3	Aichi: 7.3	Osaka: 7.4
	Osaka: 6.6	Saitama: 6.6	Saitama: 6.7	Osaka: 7.2	Aichi :7.3
Saitama: 6.0		Osaka: 6.3	Osaka: 6.6	Saitama: 6.9	Saitama: 6.8
Sub-servicers					
Cedyna	62.0	61.1	58.8	57.6	56.7
JACCS	38.0	38.9	41.2	42.4	43.3
Age of vehicles					
New vehicles	79.5	77.2	76.2	75.3	74.6
Used vehicles	20.5	22.8	23.8	24.7	25.4
Type of repayment					
Balloon payment	83.9	86.4	89.4	89.1	91.3
Fully amortising	16.1	13.6	10.6	10.9	8.7
Type of payment					
Monthly instalment portion	59.0	60.5	61.8	62.3	63.6
Balloon portion	41.0	39.5	38.2	37.7	36.4

[a] Figures for Driver Japan nine are based on the initial pool
Source: Fitch Ratings, VWFSJ

Origination and Servicing

Originator and Servicer Overview

VWFSJ is an indirectly wholly owned subsidiary of Volkswagen Financial Services AG, which is a wholly owned subsidiary of VW. VWFSJ has been securitising loan receivables since 2012. This transaction will be the ninth securitisation of Japanese auto-loan receivables under the Driver brand.

VWFSJ has entered into consignment agreements with JACCS and Cedyna. JACCS was established in Hakodate in 1954 and is an equity-method accounted affiliate of Mitsubishi UFJ Financial Group, Inc. (A/Negative/F1).

JACCS' main businesses include shopping credit, auto loans, credit cards, loan cards and credit guarantees. VWFSJ and JACCS entered into a consignment agreement in 2007.

Cedyna was established in 2009 following a merger of three consumer-finance companies, OMC Card, Inc., Central Finance Co., Ltd. and QUOQ Inc.. It is a wholly owned subsidiary of

Sumitomo Mitsui Card Company, Limited, which is a wholly owned subsidiary of Sumitomo Mitsui Financial Group, Inc. (A/Stable/F1). Cedyna focuses on three key businesses; credit cards, instalments, including auto loans, and solutions. VWFSJ entered into a consignment agreement with one of the three predecessor companies, Central Finance, in 2002.

Under the consignment agreements, JACCS and Cedyna perform credit analysis of obligors of auto-loan receivables, guarantee the payment obligations of the auto-loan receivables, collect instalment payments and transfer the collections to VWFSJ. Furthermore, the two companies will undertake to perform the same services as currently provided to VWFSJ as sub-servicers delegated by Trustee 1 under each sub-servicing agreement entered into among Trustee 1, VWFSJ, each of JACCS and Cedyna. JACCS and Cedyna will remit collections directly to Trustee 1 if VWFSJ, as servicer, fails to make required advance payments, if instructed by Trustee 1 to do so.

Loan Products

The following seven loan products can be incorporated in the underlying portfolio under the eligibility criteria. All loans may be prepaid at any time.

- Owner's Plan (100) : fully amortising loans with equal monthly instalments.
- Twin Plan (101): fully amortising loans with equal monthly instalments. This plan is designed to provide loans for purchasers of Volkswagen and Audi vehicles when the main loan with a low-rate campaign exceeds the maximum amount limit.
- Refinance of 140 (105): fully amortising loans with equal monthly instalments. This product is designed for refinancing the balloon payment of Volkswagen Solutions and Audi Future Drive (140).
- Refinance of 150/151 (106): fully amortising loans with equal monthly instalments. This product is designed for refinancing the balloon payment of S-Loan, etc. and S-Loan Plus.
- Volkswagen Solutions, Audi Future Drive (140): balloon loans for purchasers of Volkswagen and Audi vehicles with equal monthly instalments. A repurchase option at a pre-determined price is included.
- S-Loan, etc. (150): balloon loans with equal monthly instalments. No repurchase option is included.
- S-Loan Plus (151): balloon loans for purchasers of Audi vehicles with equal monthly instalments. A repurchase option at a pre-determined price is included if the customer purchases a new Audi.

Underwriting

VWFSJ's origination process is based on a broad dealer network of 443 dealerships; Volkswagen: 255, Audi: 126, Bentley: 9, Lamborghini: 10, Ducati: 43, as of end-October 2019. VWFSJ monitors the dealers via its rating system based on financial strength. The dealer is responsible for offering financing services to customers. If a purchaser submits a credit application, the dealer will forward it to a sub-servicer by facsimile or EVAS, VWFSJ's proprietary web-based system that supports quotation creation, loan applications and the notification of examination results from the sub-servicer to the dealer. Once the completeness of the submitted application is confirmed by the sub-servicer, it will contact the purchaser to confirm their intention to purchase the vehicle. Each sub-servicer uses a proprietary scoring system to assess the application and make credit decisions.

The underwriting process takes the applicant's attributes and credit history into account. There have been no material changes in the underwriting standards of both sub-servicers. There is, in principle, no provision in the underwriting standards that allows an exceptional treatment of applicants in credit decisions. If an irregularity is identified in the submitted application, it will be reported to VWFSJ and the final decision will be made by both VWFSJ and the relevant sub-servicer.

Once the credit decision is made, the result is conveyed to the dealer through EVAS. If the loan application is approved, the down payment is made and the contract is arranged and signed.

After the contract data is delivered to VWFSJ, it makes an advance payment on behalf of the purchaser to the dealer.

We regard cancellation risk of auto-loan agreements in the underlying portfolio as limited, because the loans to be included in the portfolio are well seasoned; previous Driver Japan transactions had portfolios with seasoning of 9 months to 17 months on average to date. In addition, the eligibility criteria require the loans to have made at least two monthly payments, while most cancellations have historically occurred at the very early stage of the loan term.

Servicing and Collections

At closing, VWFSJ acts as the servicer of the transaction; but delegates part of its function to Cedyna or JACCS as sub-servicers. All scheduled payments by obligors to sub-servicers are made by direct debit.

If a delinquency occurs, the relevant sub-servicer will encourage the delinquent obligor via phone call or SMS to pay the loan for the first 60 days. Thereafter, they may also meet the delinquent obligor until up to 90 days overdue. If an obligor fails to make monthly instalment payments for three consequtive months the loan will be classed as defaulted and the relevant guarantor will make a guarantee payment to VWFSJ.

Guarantors are exempt from the guarantee payment if, among other factors, the obligor has exercised their contractual option to sell the purchased vehicle to the dealer or VWFSJ upon the final instalment payment, but the relevant party fails to perform its obligation to pay the pre-agreed amount to the guarantor. Fitch does not give any credit to the guarantees made by Cedyna or JACCS in its initial analysis, as the companies are not rated by Fitch and not all of the loan obligations may be covered by the guarantees due to this exemption.

Asset Analysis

Portfolio Summary

The pool of eligible receivables consisted of 26,586 contracts with a total discounted principal balance of JPY64,173 million as of the initial cut-off date. The loan receivables were originated by VWFSJ during the ordinary course of business through its distribution network throughout Japan. All loan receivables are amortising principal and interest facilities with a maximum remaining term of 82 months. Loans are provided only to individuals who reside in Japan or corporate entities that have permanent establishments in Japan. The average outstanding discounted loan size was JPY2.41 million and the maximum outstanding discounted loan size was JPY9,996,172. The maximum obligor exposure balance was JPY17.48 million with two loans.

All loan receivables pay a fixed rate of interest and the weighted-average interest rate for the pool is 2.27%. The portfolio is geographically concentrated in the Tokyo metropolitan area, as commonly observed in consumer asset pools. The pool's weighted-average remaining term at the initial cut-off date was 40.5 months and weighted-average seasoning was 9.1 months.

Portfolio Credit Analysis

Default Risk

Fitch has determined its base-case weighted-average cumulative gross-loss rate expectation of 0.75% (new vehicles: 0.72%, used vehicles: 0.83%) based on stable default performance to date. Fitch reviewed cumulative gross loss data for originations since July 2002, based on VWFSJ's default definition of failure to make monthly instalments for three months.

The transaction features a one-year revolving period. Fitch assumes that about 22% of the pool will be replenished during this period, based on the scheduled repayment profile of the transaction pool. Fitch expects only a minor shift in pool composition, as no substantial drifts in VWFSJ's origination mix are probable within the short time of the revolving period. Therefore, the agency assumes that the proportion of loans for used vehicles would reach the upper limit of 35%, increasing from 25% in the initial pool. However, Fitch does not expect any material change in the portfolio's credit quality, partly because the underlying auto loans are guaranteed by JACCS and Cedyna, who also act as sub-servicers in this transaction. As such, there is little incentive for both companies to relax their underwriting standards.

The stress multiple for 'AAAsf' stipulated in the criteria ranges between 4.0x and 6.0x, but Fitch used 7.0x for this transaction before taking into account balloon-payment risk to address the low base-case loss in absolute terms, which means that a small change could significantly affect credit enhancement.

Fitch's cumulative gross loss assumptions also reflect balloon risk. There may be obligors who engage in a balloon contract expecting to refinance at maturity or sell the car back to the dealer or VWFSJ. The obligor will be obliged to pay the final instalment if they are unable to refinance the balloon amount due, for example, to a default of VWFSJ, or to sell the car back to the dealer or VWFSJ, creating an unexpected payment shock for the obligor. We believe this may lead to higher obligor defaults compared with amortising loans without balloon payments.

Fitch quantifies the additional default risk stemming from balloon payments in the 'AAAsf' rating scenario by assuming a debtor probability of default in line with the portfolio's 'AAAsf' rating default rate and a 60% obligation failure rate upon the exercise of the debtors' option to resell the vehicles or refinance the loans. This results in an additional cumulative loss of 1.26%, which we added to the 'AAAsf' stressed cumulative gross-loss rate assumptions prior to balloon risk of 5.25% (= 0.75% x 7). The 60% obligation failure rate is based on the diversified dealer network across Japan, two VW group's affiliates within the dealer universe and no precedent of major dealer defaults to date.

Asset Outlook

Fitch has a Stable Outlook on asset and rating performance. Credit loss is likely to be stable, due to our steady unemployment outlook.

Prepayment Rates

The transaction is dependent on obligors' prepayment behaviour, as this is the main driver of the speed of deleveraging for the rated debt. Fitch has, therefore, tested the structure's resilience to fast and slow prepayment assumptions based on its expected base-case prepayment rate of 13% a year.

The prepayment of loans with higher interest rates will not lead to a shortfall due to the difference between the interest rate of the prepaid loan and the loan's discount rate. This is because of the two types of discount rates, as described in Discount Rate on page 11.

Cash Flow Analysis

Fitch used its proprietary cash flow model to test the ability of the asset pool to make interest and principal payments due under the rated debt. It modelled the asset pool by taking into account the scheduled amortisation profile as well as the stressed default and prepayment assumptions.

The liability structure was configured to reflect the transaction structure; specifically, the capital structure and priority of payments. Fitch applied a default definition of three-month delinquency, in line with the typical termination timing practiced by the servicer.

Absent an early amortisation event, the defaulted loan receivables may be delivered to VWFSJ as the holder of the subordinated BIs in kind. Thus, Fitch assumes no recovery from such defaulted loan receivables.

Fitch tested the transaction's sensitivity to front-loaded, evenly distributed and back-loaded default distributions, combined with fast and slow prepayments as well as rising, falling and stable interest rates. Overall, the structure is relatively insensitive to the choice and combination of parameters.

Fitch's modelling shows that sufficient cash flow will be generated to make timely payments of interest and principal to BIs 2 and ABL 2 by the final maturity date in accordance with the transaction documents.

When conducting cash flow analysis, Fitch's cash flow model first projects the portfolio scheduled amortisation proceeds and any voluntary prepayments for each reporting period of the transaction life, assuming no defaults and no voluntary terminations, when applicable. In each rating stress scenario, such scheduled amortisation proceeds and prepayments are then reduced by a scale factor equivalent to the overall percentage of loans that are not assumed to default or to be voluntarily terminated, when applicable. This adjustment avoids running out of performing collateral due to amortisation and voluntary prepayments and ensures all of the defaults projected to occur in each rating stress are realised in a manner consistent with Fitch's published default timing curve.

The Rating Sensitivity section provides insight into the model-implied sensitivities the transaction faces when one assumption is stressed, while holding others equal. The modelling process uses the estimation and stress of these variables to reflect asset performance in a stressed environment. The results below should only be considered as one potential outcome, as the transaction is exposed to multiple dynamic risk factors. It should not be used as an indicator of possible future performance.

- No change or positive change
- Negative change within same category
- -1 category change
- -2 category change
- -3 or larger category change

See report for further details

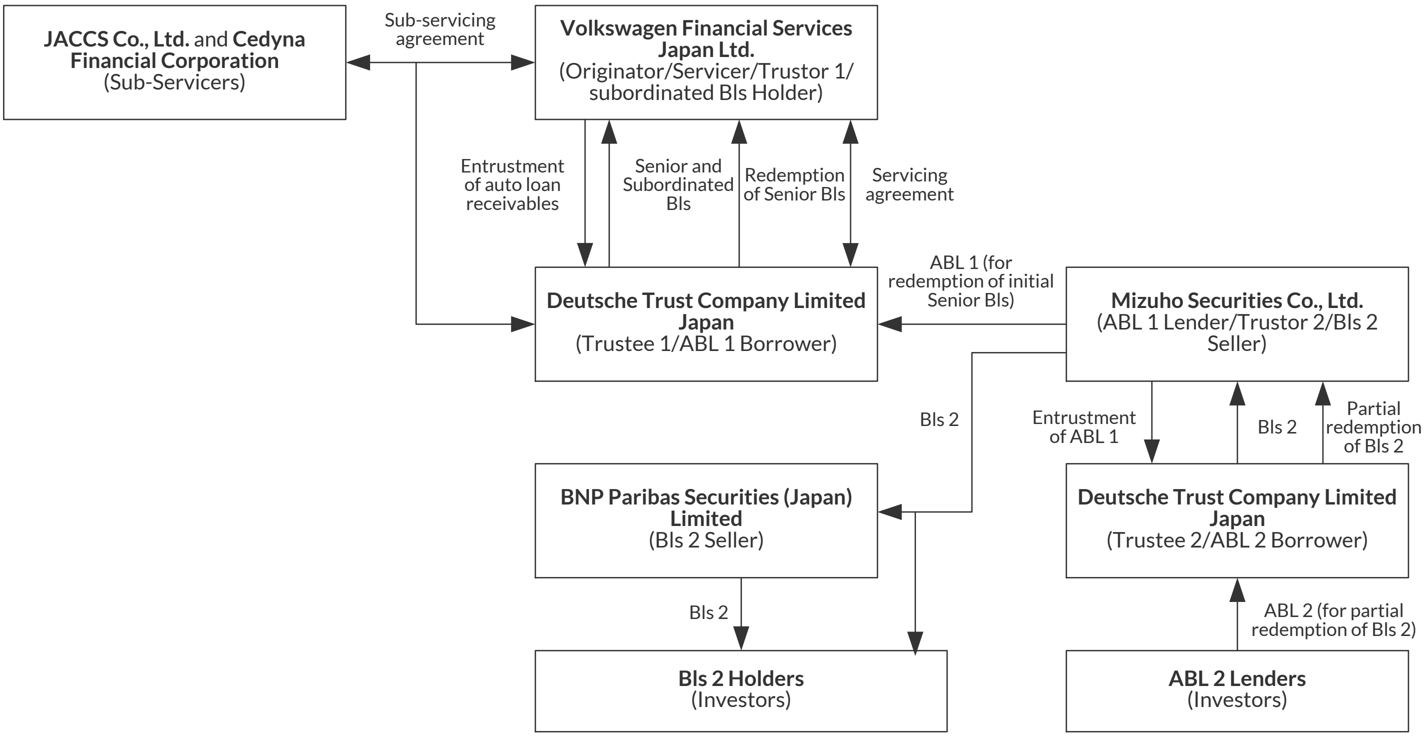
Rating Sensitivity

Rating Sensitivity to Gross Loss and Asset Yield

	BIs 2 & ABL2
Original Rating	AAAsf
10% increase in gross loss rate	AAAsf
25% increase in gross loss rate	AA+sf
50% increase in gross loss rate	AAsf
10% decrease in asset yield	AAAsf
25% decrease in asset yield	AAAsf
50% decrease in asset yield	AA+sf
10% increase in gross loss rate & 10% decrease in asset yield	AAAsf
25% increase in gross loss rate & 25% decrease in asset yield	AA+sf
50% increase in gross loss rate & 50% decrease in asset yield	Asf

Transaction Structure

Structure Diagram



Source: Fitch Ratings, VWFSJ

Capital Structure and Credit Enhancement

VWFSJ initially entrusts its auto loan receivables, which satisfy the eligibility criteria and are extracted randomly from VWFSJ's auto-loan portfolio, to Deutsche as Trustee 1, which in turn issues senior BIs and subordinated BIs to VWFSJ. VWFSJ also initially entrusts to Deutsche cash, which is primarily meant to provide liquidity to the transaction, if necessary, and Trustee 1 issues subordinated BIs. Therefore, the latter subordinated BIs are not treated as CE in Fitch's analysis and are excluded in calculating CE.

Mizuho Securities extends ABL 1 to Trustee 1 to redeem initial senior BIs in full. VWFSJ will continue to hold subordinated BIs throughout the transaction period. Mizuho Securities entrusts ABL 1 to Deutsche as Trustee 2, which in turn issues BIs 2. Investors who would like to invest in the form of BIs will purchase BIs 2. Investors who would like to invest in the form of loans will extend ABL 2 to Trustee 2 to partially redeem BIs 2.

The transaction features a revolving period of one year. VWFSJ may, absent an early amortisation event, also entrust eligible auto loan receivables. Trustee 1 will, in turn, issue the additional senior and subordinated BIs. The amount of the additional senior BIs will be the lesser of (i) the product of 93.5% and the aggregate discounted principal balance of such additional receivables and (ii) the available distribution amount after deducting senior expenses, interest and funds for cash collateral. The amount of the additional subordinated BIs is the aggregate discounted principal balance of such additional auto loan receivables minus the amount of the relevant additional senior BIs. Fitch expects the additional senior BIs to be redeemed during the revolving period, which will lead to an increase in CE.

Absent an early amortisation event, defaulted auto loan receivables in the underlying pool may be distributed to VWFSJ as the subordinated beneficiary as a distribution in kind. This will reduce the subordinated BI balance by an amount of the discounted principal balance of the relevant defaulted auto loan receivables. Fitch does not take any recovery from such receivables into account in its analysis, as we do not expect any replenishment of the subordinated BIs, irrespective of the actual recovery from defaulted auto loan receivables.

We expect the transaction's assets and liabilities, based on the initial pool, to be as follows.

Expected Balance Sheet of Trust 1 at Closing

Assets	(JPY)	Liabilities	(JPY)	Size as % of receivable balance
Receivables	64,172,991,168	ABL 1[a]	60,000,000,000	93.5
		Subordinated BIs	4,172,991,168	6.5
Total	64,172,991,168		64,172,991,168	
Cash collateral	Equivalent to four months of interest and expenses			

[a] BIs 2 and ABL 2 are issued, backed by ABL 1. The sum of the balance of BIs 2 (JPY37.5bn) and ABL 2 (JPY22bn) will be JPY60bn

Source: Fitch Ratings, VWFSJ

True Transfer of Assets

The entrustment of the initial and additional auto loan receivables is perfected against third parties by registering such entrustment in accordance with the Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims. At closing or at the time of additional entrustment, the entrustment of auto loan receivables will not be perfected against obligors; however, it will be perfected against obligors by notification to obligors upon the occurrence of a servicer or sub-servicer replacement event.

The entrustment of ABL 1 to Trustee 2 is perfected by the approval of Trustee 1 as the borrower of ABL 1 with a certified and notarised date stamp (kakutei hizuke).

Eligibility Criteria

The eligibility criteria that need to be fulfilled at the time of cut-off for the entrustment of the initial and additional auto loan receivables include, but are not limited to, the following:

- each auto loan receivable is a fully disbursed loan;
- the obligor is not insolvent and no bankruptcy proceedings or any other insolvency proceedings are pending or threatened against the obligor;
- Trustor 1 is not prohibited from selling, transferring or assigning its rights in respect of the auto loan receivables;
- the interest-rate type applicable to each auto loan receivable is a fixed interest rate;
- the obligor, if a corporate entity, has its permanent establishment in Japan and is not an affiliate of VW and, if an individual, has their place of residence in Japan;
- at least two monthly payments have been made in respect of each auto loan receivable and all monthly payments are required to be made (i) within 84 months after the date of origination, (ii) within 82 months after the relevant cut-off date and (iii) in equal monthly instalments and without skipped or irregular payments, except for annual or semi-annual bonus month payments and balloon payments;
- each auto loan receivable is payable in yen;
- the principal outstanding balance of each auto loan receivable as of the relevant cut-off date is greater than JPY50,000 and less than JPY10 million;
- auto loan receivables are payable free of set-off;
- each auto loan agreement relates to one purchased vehicle only;
- each auto loan receivable is not overdue;
- auto loan receivables for used vehicles will not exceed 35% of the aggregate discounted principal balance of the auto loan receivables;
- auto loan receivables for purchased vehicles, other than those originated by Trustor 1 in connection with Volkswagen, Audi, Bentley or Lamborghini-branded vehicles, will not exceed 5% of the aggregate discounted principal balance of the auto loan receivables;
- the aggregate amount of the balloon payment percentage will not exceed 50% of the aggregate discounted principal balance of the auto loan receivables;
- the auto loan receivables are jointly and severally guaranteed by JACCS or Cedyna;
- the obligor does not have any relationship with, is not engaged with or does not otherwise fall under any of the categories included in the definition of ‘anti-social forces’ or ‘anti-social forces related party’ and does not engage in any anti-social conduct; and
- no receivables from maintenance or other services regarding the purchased vehicles are included in the auto loan receivables.

In the event of any breach of the eligibility criteria, VWFSJ, as Trustor 1, will have to repurchase the relevant receivables at a price equal to the sum of the outstanding discounted principal balance and accrued interest, with the payment made by Trustor 1 to Trustee 1 on the subsequent monthly remittance date after necessary notification between Trustor 1 and Trustee 1.

Discount Rate

All securitised receivables will be discounted by a rate that is the greater of:

a) 1.12% equal to the sum of the three components below in percentage terms

(i) fixed coupon rate of BIs 2 and ABL 2;

(ii) fixed servicing fees; and

(iii) fixed administrative costs and fees, and

b) the applicable interest rate in the relevant auto loan agreement.

We do not believe this transaction is exposed to the risk of a principal shortfall, even if loans whose interest rates are higher than the discount rate a) are prepaid, since loans with higher interest rates are already discounted by a higher interest rate. Conversely, if loans with an interest rate lower than the discount rate a) above are prepaid, some gains may arise.

Liquidity Support

VWFSJ entrusts cash to Trustee 1 at closing and Trustee 1 in turn issues the subordinated BIs. We expect the cash collateral amount to cover dividends on BIs 2 and interest on ABL 2 as well as fees and expenses for four months.

The target cash collateral amount will remain unchanged from the initial amount throughout the transaction period. At the maturity, any outstanding cash collateral balance may be used to repay BIs 2 and ABL 2.

Clean-Up Call Option

VWFSJ, as trustor of Trust 1, is entitled to exercise a clean-up call if the discounted principal balance of the auto loan receivables is less than 10% of the initial total discounted principal balance on any trust calculation date. Fitch does not take into consideration the possibility of the exercise of the clean-up call in its analysis.

Priority of Payments

Collected amounts will be distributed in accordance with the priority of payments of Trust 1 and Trust 2, as summarised in the following two tables.

Trust 1: Priority of Payments

1	Senior expenses, including tax and public charges, servicer and Trustee 1 fees and other fees and expenses
2	Overdue and unpaid interest on ABL 1, if any
3	Interest on ABL 1
4	Cash collateral ledger up to the target level
5 a)	During the revolving period, redemption of additional senior BIs
b)	After the revolving period and prior to the occurrence of an early amortisation event, necessary repayment of ABL 1
c)	Following the occurrence of an early amortisation event, repayment of the remaining ABL 1 balance
6	Payment of indemnified amounts uncompensated by Trustor 1 to Trustee 1
7	Necessary repayment of subordinated BIs
8 a)	During the revolving period, dividends on subordinated BIs if payment is made on 7 above; otherwise, carry-over
b)	After the revolving period and prior to the occurrence of an early amortisation event, dividend on subordinated BIs
c)	Following the occurrence of an early amortisation event, carry-over

Source: Fitch Ratings, VWFSJ

Trust 2: Priority of Payments	
1	Senior expenses, including tax and public charges, Trustee 2 fees and other fees and expenses
2	Overdue and unpaid dividends and interest on BIs 2 and ABL 2, if any
3	Dividends and interest on BIs 2 and ABL 2
4	Upon the expiration of the revolving period, repayment of BIs 2 and ABL 2 on a pro rata basis
5	Payment of indemnified amounts uncompensated by Trustor 2 to Trustee 2

Source: Fitch Ratings, VWFSJ

Repayment Order and Target Overcollateralisation Level

The transaction will start with CE of 6.5% at closing; however, CE is likely to increase through the entrustment of additional auto loan receivables and redemption of additional senior BIs and/or repayment of ABL 1.

The additional subordinated BIs issued by Trustee 1 to VWFSJ upon the entrustment of additional auto loan receivables will immediately be integrated to the subordinated BIs, while the additional senior BIs will be redeemed by using the collected amount under 5a) of Trust 1: Priority of Payments during the revolving period.

Target Overcollateralisation Levels[a]

	Target overcollateralisation %
Initial overcollateralisation level available	6.5
No trigger breached during revolving period	8.5
No trigger breached after revolving period	11.5
Level 1 trigger breached	17.0
Level 2 trigger breached	100.0

[a] Target overcollateralisation amount is calculated by multiplying the aggregate discounted principal balance of the auto loan receivables by the relevant target overcollateralisation percentage
Source: Fitch Ratings, VWFSJ

If the target overcollateralisation is built up and no performance trigger is breached, the amortisation will switch to a quasi-pro rata allocation; however, a fixed floor amount of overcollateralisation needs to be maintained. This means that the overcollateralisation amount will remain unchanged if the discounted principal balance of the auto loan receivables is less than approximately 10% of the initial discounted principal balance. This floor is likely to mitigate concentration risk, which might arise when the transaction can be called but the call option is not exercised.

A level 1 trigger is hit if the cumulative gross loss ratio exceeds the following thresholds:

- 0.50% at any trust calculation date prior to and including August 2020;
- 0.80% at any trust calculation date falling between September 2020 and May 2021; or
- 1.15% at any trust calculation date falling between June 2021 and February 2022.

A level 2 trigger is hit if the cumulative gross loss ratio exceeds 1.6% at any trust calculation date.

The priority of payments will return to a sequential pay-down if any of these triggers are breached until the new target overcollateralisation is reached or BIs 2 and ABL 2 are repaid in full.

These performance-based trigger levels provide limited protection compared with Fitch's base-case cumulative gross loss expectation of 0.75%. However, in its 'AAAsf' stress scenario, Fitch's assumed gross loss rates are higher than the trigger levels, which would contribute to keeping the allocation of the principal repayment in a sequential order over almost the entire transaction period.

Early Amortisation

The following events will end the revolving period and lead to early amortisation:

- a level 2 CE increase condition is met;
- a servicer replacement event;
- a sub-servicer replacement event;
- Trustor 1 fails to fulfil its obligation to repurchase the auto loan receivables under the first trust agreement; or
- on three consecutive trust calculation dates during the revolving period, the expected total cash amount in the trust management account, excluding cash in the cash collateral ledger, after the necessary distribution exceeds 10% of the aggregate discounted principal balance of the auto loan receivables outstanding.

Legal Opinions

Fitch reviewed legal opinions covering Japanese law that support Fitch's analytical assumptions. These are factored into the credit analysis with respect to the transaction. The opinions cover, among other factors, the enforceability of the obligations of the parties under the transactions documents, the transfer of the underlying assets being effective and the transfer of related collateral being legal, valid and binding (see Fitch's general disclaimer on legal opinions below).

Disclaimer

Fitch relies in its credit analysis on legal and/or tax opinions provided by transaction counsel for the avoidance of doubt. Fitch has always made clear that it does not provide legal and/or tax advice or confirm that the legal and/or tax opinions, or any other transaction documents, or any transaction structures, are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Counterparty Risk

Fitch assesses counterparty risk under its Structured Finance and Covered Bonds Counterparty Rating Criteria to be in line with the ratings assigned based on the documentation provisions and analytical adjustments described in the following table.

Counterparty Risk Exposure

Counterparty role/risk	Counterparty	Relevant Rating under criteria	Minimum Ratings and remedial actions	Adjustment to analysis if minimum Ratings and remedial actions not in line with criteria
Account bank	MUFG Bank, Ltd.	A/Negative/F1	Minimum long and short term ratings of 'A' or 'F1'; replacement within 30 calendar days of downgrade below both minimum ratings	No adjustment; minimum rating s and remedial actions in line with criteria.
Servicing continuity	Trustee 1 will assume servicing responsibilities or may appoint a third party as a successor servicer if a servicer replacement event occurs.	n.a.	There is no minimum rating for the servicer.	No adjustment; we assess servicer continuity risk to be mitigated in accordance with our counterparty criteria due to the presence of Trustee 1, which will take action upon the occurrence of a servicer replacement event, the standard nature of the assets and available liquidity.

Source: Fitch Ratings, VWFSJ

Servicing

VWFSJ acts as servicer of the transaction at closing, but delegates its function to Cedyna or JACCS as sub-servicers. No back-up servicer is appointed at closing; however, if a servicer replacement event occurs, Trustee 1 will assume the servicing responsibilities or may appoint a third party as a successor servicer.

The servicer replacement events include the following.

- an insolvency event in relation to the servicer;
- failure by the servicer to pay the required amount to Trustee 1 and such failure remains unremedied for five business days following notice by Trustee 1 to the servicer of such failure;
- failure by the servicer to duly observe or perform in any material respect any of its covenants or agreements under the transaction documents and such failure materially and adversely affects the rights of Trustee 1 and remains unremedied for 30 calendar days following notice by Trustee 1 to the servicer of such failure; or
- any misrepresentation by the servicer under the transaction documents.

The occurrence of an insolvency event in relation to a sub-servicer will constitute a sub-servicer replacement event. In this case, Trustee 1 may appoint the other unaffected sub-servicer or a third party as a substitute sub-servicer.

Commingling

Sub-servicers Cedyna and JACCS receive payments from obligors on the 26th and 27th of each month, respectively. Both sub-servicers transfer the received amounts to VWFSJ on the same dates. VWFSJ pays the expected collection amount from the sub-servicers to Trustee 1 four business days prior to the 28th of each month. If VWFSJ fails to prefund the scheduled collection amount on the designated date, it would constitute a servicer replacement event. The amount prefunded by VWFSJ includes both scheduled and prepaid amounts. Therefore, the commingling risk is considered well mitigated for the transfer of payment collections.

Set-Off

At closing, or at the time of additional entrustment, the entrustment of auto loan receivables will be perfected against third parties, but not against obligors; however, VWFSJ is not a deposit-taking financial institution and the eligibility criteria stipulate that the auto loan receivables need to be free from set off. Thus, we assess set-off risk as well-mitigated.

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of Applicable Criteria.

Fitch applies its Consumer ABS Rating Criteria as its sector-specific criteria under the overarching framework provided by the Global Structured Finance Rating Criteria, which is the master criteria for the sector. The Structured Finance and Covered Bonds Country Risk Rating Criteria outlines Fitch's approach to assigning and maintaining structured finance and covered bond ratings where the relevant sovereign's Local-Currency Issuer Default Rating (IDR) is below 'AAA'. The remaining criteria listed under Applicable Criteria are cross-sector criteria that outline Fitch's approach to counterparty risk that are relevant for the ratings.

Models

Fitch used its proprietary cash-flow model to analyse the issuer's ability to meet timely interest and ultimate principal payment obligations under stress assumptions. The agency customised the cash-flow model to better reflect the flow of funds outlined in the transaction documents.

The Multi-Asset Cash Flow Model was used in the analysis.

Data Adequacy

Fitch was provided with portfolio stratifications showing various parameters, including the current and original loan balance, original term, loan-product split, balloon distribution, remaining term, seasoning, yield, geographic distribution, brand distribution and split of new and used vehicles. Fitch was also provided with dynamic gross loss, prepayment, yield and delinquency data as well as static gross loss, prepayment and cancelation data from July 2002 to October 2019.

Fitch reviewed the results of a third party assessment conducted on the asset portfolio information, and concluded that there were no findings that affected the rating analysis.

Fitch determined that an adequate level of data was provided to apply its rating criteria. The 2002-2019 period covers two economic stress periods of 2008 and 2012 in Japan.

Surveillance

Fitch will monitor the transaction regularly. The structured finance team will receive monthly investor reports detailing the performance of the portfolio. These reports will provide the basis for the agency's surveillance of the transaction's performance against both base-case expectations and the performance of the industry as a whole. Where appropriate, the agency may request to monitor further data from the originator or servicer. The agency's structured finance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the credit risk of the rated BIs 2 and ABL 2.

Details of the transaction's performance are available at fitchratings.com

Please call the Fitch analysts listed on the first page of this report with any queries regarding initial analysis or ongoing performance.

Appendix 1: ESG Relevance Score

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is typically a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the transaction, either due to their nature or the way in which they are being managed by the transaction.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.