

Driver China fourteen Trust

Capital Structure

Class	Rating	Outlook	Amount (CNYm)	CE (%)	Interest Rate (%)	Legal Final Maturity
A	AAAsf	Stable	7,136	10.8	Fixed rate	August 2029
Subordinated	NR	NR	824	0.5	Fixed rate	August 2029
OC	n.a.	n.a.	40	n.a.		
Total			8,000			

Notes: CE - Credit Enhancement, OC - Overcollateralisation, NR - Not Rated

Fitch Ratings has assigned final ratings to Driver China fourteen Trust's class A notes. The notes are backed by Chinese automotive loan receivables originated by Volkswagen Finance (China) Co., Ltd. (VWFC), an indirectly wholly owned subsidiary of Volkswagen AG (VW, A-/Stable).

Key Rating Drivers

Stresses Commensurate with Rating (Neutral): Fitch assumes a base-case lifetime default rate for the VWFC portfolio of 1.5%, based on the historical performance data, the pool composition at cut-off, origination trends and our expectation of slowing economic growth in China. We applied a stress multiple of 6x at 'AAAsf' on defaults to stress the transaction cash flow.

Sequential Paydown Structure before Target OC (Neutral): The senior notes are paid down prior to subordinated notes until target overcollateralisation (OC) of 23% is reached, which allows for the build-up of credit enhancement (CE) for the class A notes. However, the subordinated notes will receive principal payments prior to the class A notes being paid in full after the target OC is met. The subordinated notes will be held by the originator and the payment structure is considered in Fitch's cash flow analysis.

Robust Legal Structure (Neutral): The legal opinion states that the trust property transferred to the trust will be isolated from the property of the originator, which, in Fitch's view, underpins our quantitative analysis.

Counterparty Risk Mitigated (Neutral): The transaction has mechanisms that ensure remedial action takes place if the account bank's rating falls below an eligible rating of 'A' or 'F1'. Fitch uses VW's rating as a reference rating to assess commingling risk. The transaction has collateral-posting mechanisms to address commingling risk if the rating on VWFC's ultimate parent no longer fulfils the eligible rating of 'BBB' or 'F2'.

Base Case Intact Against Economic Risks (Neutral): The base-case default rate assumption is intact, despite the sector's deteriorating asset outlook. This is supported by the robust performance of VWFC's portfolio, with the performance of existing transactions since the Covid-19 pandemic remaining well within our base-case expectations of 1.5%. However, China's economic growth outlook is challenging, with a tepid recovery. As such, we lowered our 2022 forecast for China's economic growth to 2.8% in September, from 3.7% in June.

Experienced Servicer (Positive): Fitch's review of the originator and servicer found the operation, underwriting, risk management and servicing procedures are adequate and comparable with those of other auto finance companies in China. VWFC's servicer disruption risk is mitigated through a cash reserve that is sufficient to cover at least three months of senior fees and interest. VWFC is an experienced originator and servicer in China and has been active in the securitisation market since 2014.

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Closing occurred on 26 October 2022. The transfer of the portfolio to the issuer occurred on 26 October 2022. The ratings assigned above are based on the portfolio information as of 30 September 2022, provided by the originators.

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

[Representations, Warranties and Enforcement Mechanisms Appendix](#)

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Highlights

Highlights

Effect	Highlight
+	Limited Risk of Prepayment Loss: This transaction has exposure to potential prepayment gains or losses, since a discounting mechanism is employed for each loan where the actual interest rate can be lower or greater than the discount rate. For those loans that were purchased at a premium by the trust, prepayment of the loan will result in a loss. We believe the risk is limited, as the discount rate used is reasonably close to the actual portfolio yield and prepayment rates are low. Fitch has modelled this potential loss, but the result is immaterial.
-	Characteristics Differ from Prior Transactions: The weighted-average (WA) loan-to-value (LTV) ratio and WA original term at the cut-off date were 65.0% and 39.6 months, respectively. Both variables have increased compared with Driver China nine Trust, the last VWFC transaction rated by Fitch in 2019. Driver nine's WA LTV ratio was 60.9% and WA original term was 31.4 months. The WA interest rate and average contract balance per borrower increased from 2.7% and 98,807 to 5.1% and 113,515, respectively. This coincides with the origination trend observed for VWFC's portfolio, where the proportion of loans with longer tenor, higher interest rates and higher leverage are increasing. The trend may correlate with higher default rates. Fitch has taken this trend into consideration in setting our base-case default assumption.
Neutral	Sufficient Liquidity Protection: A cash reserve is in place in the amount of CNY96 million initially and funded at closing to mitigate payment interruption risk. It can cover at least three months of senior expenses and interest payments. If the class A target OC percentage has been reached, any excess can be used towards the payment of interest and principal of the subordinated notes. The cash reserve is considered in our cash flow analysis according to the stipulations in the transaction documents.
Neutral	Minimal Credit Impact from ESG: The highest level of ESG credit relevance is a score of '3', meaning that ESG issues are credit neutral or have only a minimal credit impact on the transaction, either due to their nature or the way in which they are being managed. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg , and see the ESG Navigator in Appendix 2 for details.

Source: Fitch Ratings

Role	Name	Fitch Rating
Originator	Volkswagen Finance (China) Co., Ltd. (VWFC)	Not rated
Servicer	Volkswagen Finance (China) Co., Ltd.	Not rated
Trustee	CITIC Trust Co., Ltd.	Not rated
Account Bank	Industrial and Commercial Bank of China Limited	A/Stable/F1+
Underwriters	BNP Paribas (China) Limited	Not rated
	Citibank (China) Co., Ltd	Not rated
	CITIC Securities Company Limited	Not rated
	Industrial and Commercial Bank of China Limited	A/Stable/F1+

Source: Fitch Ratings, VWFC

Key Rating Drivers (Negative/Positive/Neutral)

Rating Impact	Key Rating Driver
Neutral	Stresses Commensurate with Rating
Neutral	Sequential Paydown Structure before Target OC
Neutral	Robust Legal Structure
Neutral	Counterparty Risk Mitigated
Neutral	Base Case Intact Against Macro Risks
Positive	Experienced Servicer

Applicable Criteria

- [Global Structured Finance Rating Criteria \(October 2021\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(July 2022\)](#)
- [Structured Finance and Covered Bonds Country Risk Rating Criteria \(July 2022\)](#)
- [Consumer ABS Rating Criteria \(August 2022\)](#)

Transaction Comparisons

The table below shows Driver China fourteen and Driver China nine, the last transaction from VWFC rated by Fitch. The other Fitch-rated transactions are recently rated ones from comparable originators. The higher WA LTV and longer WA original term at cut-off date for Driver China fourteen than Driver China nine, and the increase in the WA interest rate and average contract balance per borrower reflect market trends, as more borrowers opt for loans with longer tenors and higher original LTV ratios.

Transaction Comparison

	Driver China fourteen – Black Pool	Driver China fourteen – Red Pool	Driver China nine	Chang Ying 2022-2	BMW 2021-2
Closing date	October 2022	October 2022	November 2019	June 2022	June 2021
Capital structure					
Total issuance (CNYm)	7,960	7,960	5,970	4,553	8,000
Fitch rating on most senior note	AAA	AAA	AA+	AAA	AAA
CE for most senior notes (%)	10.8	10.8	10.5	14.5	13.8
Overcollateralisation (%)	0.5	0.5	0.5	5.5	0.0
Liquidity as additional CE	Y	Y	Y	N	N
Liquidity (%)	1.2	1.2	1.2	1.0	1.0
Liquidity floor (%)	1.0	1.0	1.0	0.5	1.0
Portfolio summary at cut-off date					
Cut-off date	September 2022	May 2022	October 2020	March 2022	February 2021
Portfolio	Auto loans	Auto loans	Auto loans	Auto loans	Auto loans
Static or revolving	Static	Static	Revolving, 12 months	Revolving, 1 month	Revolving, 1 month
Number of contracts	101,103	100,517	105,236	76,438	44,499
Original balance (CNY)					
Average contract balance per borrower (CNY)	113,515	112,487	98,807	76,098	216,438
Maximum contract balance (CNY)	2,779,000	3,689,928	3,885,000	260,000	1,463,000
Outstanding balance (CNY)					
Total outstanding balance (CNYm)	8,000	8,000	6,000	4,820	8,000
Average current balance per borrower (CNY)	80,410	80,885	58,518	63,072	179,808
Borrowers					
WA age of borrowers (years)	36.5	36.4	35.5	35.3	36.8
WA borrowers' annual income (CNY)	277,604	290,127	275,322	136,467	327,180
Interest rate (%)					
WA interest rate	5.1	5.1	2.7	3.1	5.3
Maximum interest rate	15.4	15.4	13.8	13.0	11.9
Minimum interest rate	0.0	0.0	0.0	0.0	0.0
Terms (months)					
WA original loan term	39.6	38.8	31.4	33.3	34.9
WA seasoning	9.2	8.1	9.8	6.3	6.1
WA remaining term	30.3	30.7	21.6	27.0	28.8
LTV (%)					
WA LTV at origination	65.0	64.7	60.9	65.9	61.5
Maximum LTV at origination	80.0	80.0	80.0	80.0	85.0
Minimum LTV at origination	10.1	11.7	8.0	13.0	11.0
WA LTV at cut-off date	49.5	50.7	41.7	55.0	53.5
Type of repayment (%)					
Fully amortising (%)	99.4	99.2	98.9	100.0	76.8
Balloon proportion (%)	0.6	0.8	1.1	0.0	23.2

Transaction Comparison

	Driver China fourteen – Black Pool	Driver China fourteen – Red Pool	Driver China nine	Chang Ying 2022-2	BMW 2021-2
Vehicle characteristics					
Model 1	VW (58.6)	VW (56.7)	VW (62.7)	Haval (71.1)	BMW (97.7)
Model 2	Audi (27.3)	Audi (28.7)	Audi (20.9)	WEY(12.6)	MINI (2.3)
Model 3	Jetta (5.5)	Jetta (5.8)	Skoda (6.3)	Great Wall (10.9)	N.A
Geographical distribution 1 (%)	Shandong (9.9)	Shandong (10.4)	Zhejiang (8.8)	Guangdong (8.0)	Zhejiang (14.9)
Geographical distribution 2 (%)	Henan (6.4)	Henan (6.4)	Shandong (7.8)	Shandong (7.6)	Guangdong (11.3)
Geographical distribution 3 (%)	Hebei (5.6)	Zhejiang (5.9)	Henan (7.5)	Hebei (7.0)	Shandong (8.3)
New vehicles (%)	94.9	95.4	95.9	100.0	98.6
Used vehicles (%)	5.1	4.6	4.1	0.0	1.4
EV vehicles (BEV +PHEV) (%)	3.5	3.0	Not specified	5.5	N.A.

Source: Fitch Ratings, transaction documents

Sector Risks: Additional Perspective

Key Sector Risks

China auto ABS sector outlook Deteriorating

Sector risks	We expect auto ABS performance to deteriorate modestly in 2022. Prolonged Covid-19 pandemic-related restrictions and testing have hit consumer spending, particularly in travel and catering. Fitch believes the stress may be sustained for longer than we had forecast in early 2020, resulting in a further cut to our forecast for China's 2022 GDP growth to 2.8%, from 3.7%. Volatility in borrowers' incomes may also affect the performance of underlying assets, as the unemployment rate may drive the default loan amount.
Relevant Research	China Structured Finance Quarterly -- 2Q22 (August 2022) China Auto ABS Index – 2Q22 (August 2022) China Auto Finance's Accelerated Growth May Add to Asset, Performance Risk (July 2022) Global Economic Outlook - September 2022 (September 2022)

Source: Fitch Ratings

Asset Analysis

Pool Summary

The notes are backed by a pool of auto loan contracts originated by VWFC and all are secured by vehicles. At closing, the issuer will purchase loan receivables, as well as additional rights, such as claims from insurance policies, security interests under the mortgage over the cars, interest of late payments and penalties for prepayment from the seller.

Key Asset Eligibility Criteria

In the trust agreement, VWFC has represented and warranted, with respect to the purchased receivables as of the cut-off date:

Description

- no purchased receivable is overdue;
- none of the borrowers is an affiliate of VW or an employee of VWFC;
- according to VWFC's records, no termination of any loan contract has occurred;
- on the cut-off date, at least two contractual installments (which include interest payments) have been paid in respect of each of the purchased receivables and that each purchased receivable requires monthly payments to be made within sixty (60) months of the date of origination of each loan contract and may also provide for a final balloon payment;
- each of the purchased receivables will have at least no less than six and no more than 58 instalments;
- the total outstanding amount of purchased receivables entrusted under the trust agreement pursuant to the loan contracts with one and the same borrower does not exceed CNY4 million in respect of any single borrower;

- the purchased receivables are “normal” loans according to the China Banking and Insurance Regulatory Commission's “5-category” loan classification method;
- the purchased receivables are denominated in Chinese yuan;
- the maximum delinquent days of each purchased receivable were historically no more than 60 days.

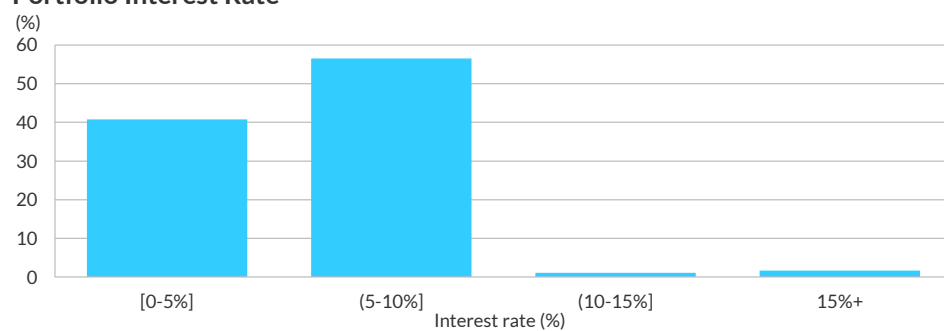
Source: Fitch Ratings, VWFC

We view these as typical eligibility criteria and did not make any analytical adjustments based on the eligibility criteria provided in the transaction.

Interest Rate

The WA pool interest rate is 5.1%, higher than the 2.7% in Driver China nine. The majority of the loans have interest rates between 5% and 10%. The increase in the WA interest rate is driven by the longer tenor of the loans in Driver China fourteen.

Portfolio Interest Rate

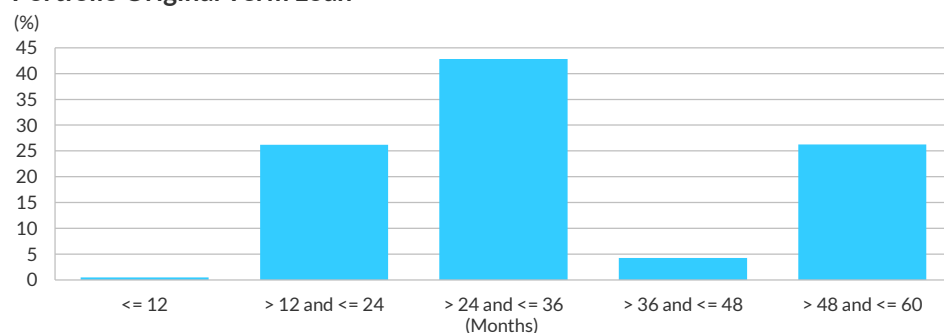


Source: Fitch Ratings, VWFC

Loan Term

The WA original loan term is 39.6 months, longer than Driver China nine's 31.4 months, due to an increase in loans between 48 to 60 months.

Portfolio Original Term Loan

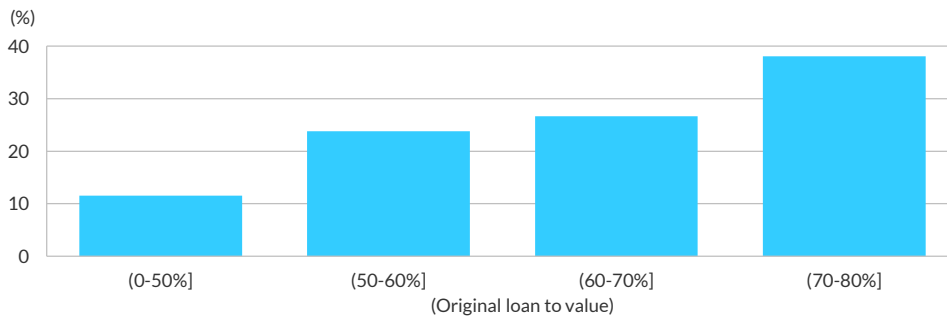


Source: Fitch Ratings, VWFC

LTV Ratio

The WA LTV ratio at origination in this portfolio is 65.0%, up from 60.9% in Driver China nine. The increase is driven by a higher proportion in loans with LTV ratios between 70% and 80%, reflecting borrowers' greater willingness to take loans with lower down payments, subject to the regulatory minimum of 20% for new vehicles and 15% for new electric vehicles. The WA seasoning is 9.2 months and WA LTV ratio at the cut-off date is 49.5%.

Original Loan-To-Value Ratio



Source: Fitch Ratings, VWFC

Pool Concentration

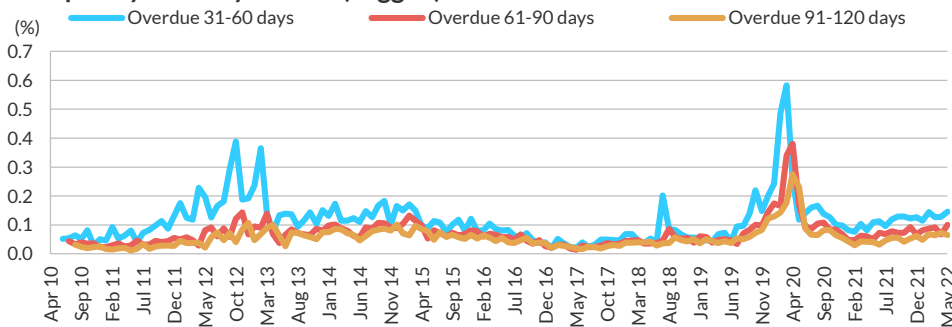
The pool is diversified over 31 provinces and cities in China, with the largest concentration in Shandong province (9.9% of the discounted receivables balance). The largest borrower accounted for 0.03% of the outstanding balance at the cut-off date.

Default Risk

VWFC’s outstanding loan portfolio increased steadily from 2010 to 2021, and each cyclical peak in the outstanding amount, usually in December, exceeded that of the previous year. The outstanding balance for the VWFC portfolio was CNY68.0 billion (not discounted) as of May 2022, a decrease by 9.3% yoy, due to the Covid-19 pandemic and lockdown measures in various cities in China, especially in early 2022, as well as the chip shortage that affect global carmakers.

Delinquencies represented by the 91-120 day past due (dpd) bucket have been very low on a dynamic basis, except in early 2020, when we observed a spike in delinquencies for all originators in China due to the social distancing measures and travel restrictions imposed to contain the initial outbreak of Covid-19.

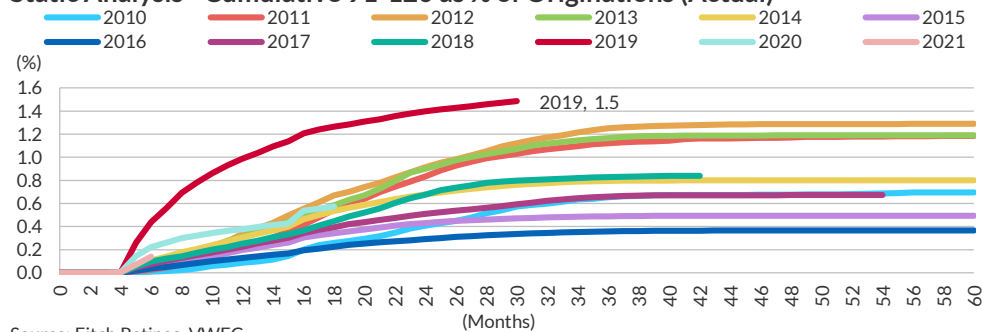
Delinquency Ratio by Bucket (Lagged)



Source: Fitch Ratings, VWFC

VWFC’s arrears data are divided into 30-day intervals – such as 1-30 dpd and 31-60 dpd – for loans originated in each month of the review period. Our analysis assumes the 91-120 dpd bucket as the default proxy, which is consistent with the assumptions for most auto ABS transactions in China.

Static Analysis - Cumulative 91-120 as % of Originations (Actual)



Source: Fitch Ratings, VWFC

The default rate for the 2019 vintage is higher, as it included loans for the purchase of used vehicles. In 2019, VWFC originated used-car loans through VW certified dealers, service providers and brokers. VWFC subsequently enhanced its channel management to remove all service providers and identify poorly performing brokers in late 2019, and instituted more controls to monitor each partner’s accounts, resulting in better loan performance in recent years.

Many of the vintages have not been fully seasoned. Therefore, Fitch uses historical gradient factors to extrapolate a cumulative default curve that shows the potential total default rate for the lifetime of each vintage.

In addition to the originator-specific data used as the primary determinant of the base-case assumption, Fitch uses comparable market data to supplement our base-case assumption determination by benchmarking base-case assumptions among different originators for similar asset types.

Fitch considered the extrapolated results, the historical asset performance, origination trends, pool-cut compositions, benchmarks in other Fitch-rated auto ABS deals and the economic growth prospects in China when setting the base-case default rate at 1.5%. We expect defaults to be at or below our base-case default rates if economic circumstances reflect our expectations. Performance is likely to deteriorate if economic conditions worsen; the Fitch-stressed assumptions are designed to account for such an eventuality.

Recovery Rate

There are two kinds of recoveries Fitch considers in our cash flow analysis in reviewing auto loan receivable securitisations: (i) recovery from collecting delinquent payments; and (ii) repossession and sale of vehicles. Fitch reviewed the static net loss monthly data provided by VWFC for April 2010 to April 2022, as well as the recovery rate based on the actual principal recovery reported in securitised transactions originated by VWFC.

VWFC has provided gross and net loss data to Fitch, where we considered vintages that were deemed to have crystallised losses and recoveries. Fitch also considered previous transaction-level recovery performance and benchmarked it against other Fitch-rated Chinese auto ABS transactions when setting its base-case recovery rate assumption. The recovery lifetime base case is determined to be 15%.

Prepayment Rate

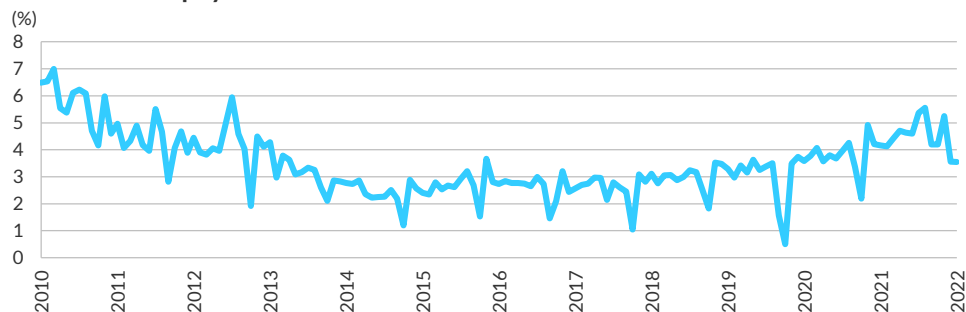
The prepayment rate in VWFC’s portfolio was quite stable from 2014 to 2019, but has been on an upward trend in the last two years. The portfolio interest rate has been rising and borrowers may have more incentive to prepay loans. Fitch assumes a base-case prepayment rate of 4% based on the historical average.

Base-Case Assumptions (%)

	Base-case default rate	Base-case recovery rate	Base-case prepayment rate
Driver China fourteen	1.5	15.0	4.0

Source: Fitch Ratings

Annualised Prepayment Rate



Source: Fitch Ratings, VWFC

Fitch’s rating analysis uses stress multiples to address the risk that actual default performance may be worse than the base-case assumption. The stressed assumptions aim to provide a basis to account for the impact of economic deterioration upon the transaction’s cash flow.

The following multiples and haircuts are applied to the base-case default and recovery expectations to arrive at the stressed portfolio default rate and recovery rate in ‘AAAsf’ rating scenario. The stressed default and recovery rates are inputs in Fitch’s cash-flow model.

The stress haircut for the recovery rate at ‘AAAsf’ is 50%, which is the median of the range stipulated in our criteria. This recovery stress haircut is in line with that used for other Fitch-rated Chinese auto ABS transactions to account for the similar default definition and recovery processes. Upward and downward stresses of 50% are applied to the base-case prepayment rate at the ‘AAAsf’ level to test the transaction’s sensitivity to changing assumptions, in accordance with the Consumer ABS Rating Criteria.

A stress default multiple of 6.0x was selected, which is at the high end of the range stipulated in our Consumer ABS Rating Criteria, as there is a trend towards higher LTV and longer tenor loans. The data also do not fully capture the risks in a full economic cycle.

A recovery stress haircut of 50% was chosen, which is at the median of the range stipulated in our Consumer ABS Rating Criteria. This recovery stress haircut is in line with that of other Chinese auto ABS transactions Fitch has rated to account for the similar default definition and recovery processes. We applied 50% upward and downward stresses to the base-case prepayment rate at the ‘AAAsf’ level to test the transaction’s sensitivity to changing assumptions, in accordance with the Consumer ABS Rating Criteria.

Stressed Assumptions (%)

	Rating default rate	Rating recovery rate	Rating prepayment rate
AAAsf	9.0	7.5	6 (High); 2 (Low)

Source: Fitch Ratings

WA Coupon Compression

The transaction’s receivables have been sold into the portfolio on a discounted cash-flow basis. Each loan receivable earns interest at the individual borrower’s contractual interest rate, but the rate used to discount each loan is a single discount rate. This means all loans have the same effective yield as the discount rate on the discounted principal balance. Correspondingly, Fitch did not conduct further stress on asset yield.

Cash Flow Analysis

To analyse the adequacy of CE in the structure to support a rating, Fitch runs several scenarios using its proprietary cash-flow model to simulate the structural features of the transaction and applied stresses to the key assumptions. Defaults are allocated over the amortisation profile using various default distributions; i.e., front-loaded, even-loaded and back-loaded. Other

portfolio features, such as prepayment rates, coupon rates and recovery rates, are also key inputs in the model assumptions.

Timely interest payment and ultimate principal repayment have been examined for the rated notes under each of Fitch's stressed cash-flow scenarios.

Foreclosure Event (Simplified)

a)	Issuer insolvency; or
b)	Non-payment of any interest of most senior outstanding class;
c)	Non-payment of principal of any note on legal final maturity;
d)	Controlling noteholders' meeting determined replacement of eligible issuer is not viable.

Source: Fitch Ratings, transaction documents

Capital Structure

Assets	(CNY)	Liabilities	(CNY)	As % of receivable balance
Receivables	8,000,159,351.22	Senior	7,136,000,000	89.2
		Subordinated	824,000,000	10.3
		OC	40,159,351.22	0.5
Total			8,000,159,351.22	

Source: Fitch Ratings, transaction documents

The CE for the senior notes comes from subordination and OC. After closing, the transaction will pay sequentially until the class A target OC percentage is reached, upon which the interest and principal of the subordinated notes will be paid. CE for the class A notes will then remain flat at 23% until the cumulative gross loss ratio exceeds certain thresholds, as described below, or when the outstanding aggregate discounted receivable balance is less than 10% of the aggregate discounted receivable balance as of the cut-off date.

Liquidity Reserve Account

Cash collateral is available to the trustee to fund required payments if the available distribution amount is insufficient to meet required payments, which comprise senior fees and interest payments of the class A notes. Initial cash collateral amount of CNY96 million (about 1.2% of the aggregate discounted receivables) will be funded at closing using the note proceeds. Subsequently it will be maintained at 1.2% of the outstanding discounted balance subject to the lesser of CNY80 million and principal outstanding amount of the class A notes.

Performance Triggers and Payment Acceleration Event

Credit Enhancement Increase Conditions (Cumulative Gross Loss Ratio)

a)	1.2% for any payment date prior to or during August 2023
b)	1.6% for any payment date from September 2023, but prior to or during April 2024
c)	2.0% for any payment date

Class A Targeted Overcollateralisation Percentage

a)	23% until a credit enhancement increase condition is in effect
b)	100% if a credit enhancement increase condition is in effect

Source: Fitch Ratings, transaction documents

Once a credit enhancement increase condition is triggered, it will be deemed to be in effect for the rest of the transaction life. The target OC of the class A notes will become 100%, which means the transaction is paying sequentially to class A before any subordinated notes.

Interest Rate Stress

The notes in the transaction are issued at fixed interest rates, and the underlying collateral loans all also carry fixed rates. There is no interest-rate risk present.

Expected Rating Sensitivity

Rating Sensitivity to Changes in Default and Recoveries

	Class A
Original Rating	AAAsf
Down Sensitivities:	
10% increase in default	AAAsf
25% increase in default	AAAsf
50% increase in default	AAAsf
10% decrease in recoveries	AAAsf
25% decrease in recoveries	AAAsf
50% decrease in recoveries	AAAsf
10% increase in default, 10% decrease in recoveries	AAAsf
25% increase in default, 25% decrease in recoveries	AAAsf
50% increase in default, 50% decrease in recoveries	AA+sf

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

Transaction Structure

Waterfall

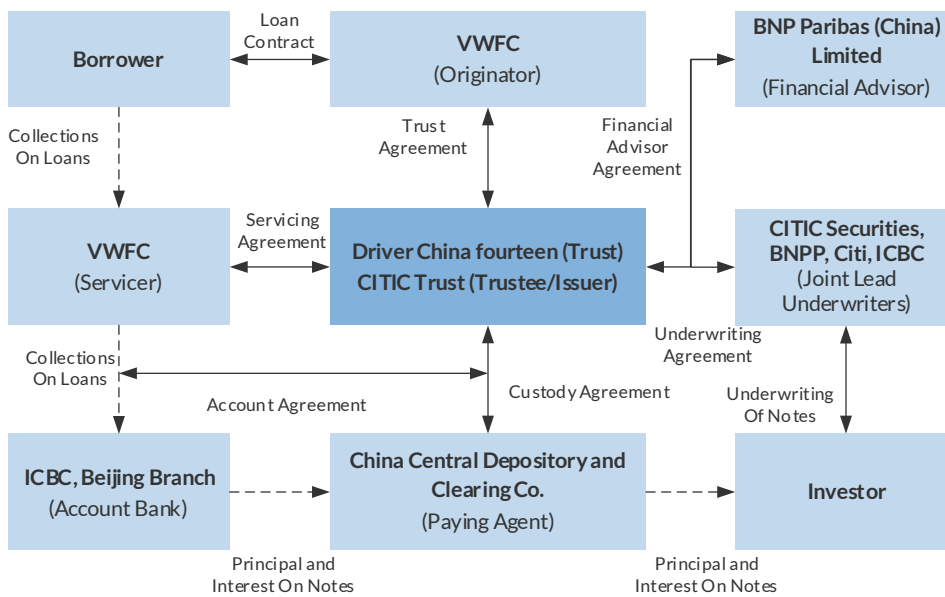
The transaction has a combined waterfall for principal and interest payments.

Priority of Payments Prior to Occurrence of Events of Default (simplified)

1-3	Taxes, fees and senior expenses
4	Class A interest
5	Replenish cash collateral to required amount
6	Class A principal to targeted balance
7	Subordinated class interest
8	Subordinated class principal
9	Remaining excess to originator

Source: Fitch Ratings, transaction documents

Structure Diagram



Source: Fitch Ratings, Transaction Documents

Disclaimer

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

Counterparty Risk

Fitch assesses the counterparty risk under its [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.

The transaction documents, coupled with the undertakings from the originator and the servicer in favour of the trustee, provide rating thresholds for the counterparties, requirements on ownership and branding, and for corresponding remedial actions when the requirements are breached, which are consistent with Fitch's Structured Finance and Covered Bonds Counterparty Rating Criteria.

Counterparty Risk Exposures

Counterparty type	Counterparty name	Minimum ratings under criteria	Minimum ratings and remedial actions under documents	Analytical adjustments
Transaction account bank	Industrial and Commercial Bank of China Limited	A or F1	Minimum IDR of A or F1; replacement within 30 calendar days of downgrade.	Not applicable, as minimum ratings and remedial action in line with criteria.
Permitted investment	Industrial and Commercial Bank of China Limited	A or F1	Permitted investments are limited to deposits with the account bank, which meets rating requirements.	Not applicable, as minimum ratings and remedial action in line with criteria.

Counterparty Risk Exposures

Counterparty type	Counterparty name	Minimum ratings under criteria	Minimum ratings and remedial actions under documents	Analytical adjustments
Servicer – payment interruption risk	Volkswagen Finance (China) Co., Ltd.	A or F1	It is mitigated by the liquidity reserve, which can cover three months of senior fees and interest.	Not applicable, as mitigation is in line with criteria. For more details refer to the Liquidity Reserve Account .
Ultimate parent of Servicer – commingling risk	Volkswagen AG	BBB or F2	BBB or F2, deposit of commingling reserve within 30 calendar days.	<p>The servicer transfers collected funds to the issuer at least once a month, and the WA original asset term is two years or more with adequate protection against payment interruption. Commingling risk is deemed to be a secondary risk driver.</p> <p>VWFC is an unrated subsidiary of VW and Fitch references VW's rating to assess the servicer's counterparty risk.</p> <p>Minimum ratings and remedial actions are in line with criteria for commingling risk. Therefore, we do not size commingling risk exposure.</p>
Originator – set-off risk	Volkswagen Finance (China) Co., Ltd.	Not applicable	Not applicable	Not applicable, as VWFC is not a deposit-taking institution and the borrower is not an employee of VWFC under the loan's eligibility criteria. Therefore, no set-off risk is deemed to be present.

Source: Fitch Ratings, transaction documents

For commingling risk, consistent with Fitch's Structured Finance and Covered Bonds Counterparty Rating Criteria, a case-by-case analysis was performed to establish that the rating of VWFC's ultimate parent, VW, can be used as a reference rating for our servicer counterparty assessment for commingling risk.

The servicer is permitted to commingle the collections with its own funds according to the transaction documents. VWFC is required to prefund twice a month if its ultimate parent's rating can no longer be used as a reference rating or no longer meet the rating threshold of 'BBB' or 'F2', in addition to at least one month of collections are advanced within 30 calendar days after the rating becomes ineligible. This mitigates commingling risk by using an advancing mechanism to post collateral.

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of [Applicable Criteria](#).

Fitch applies the [Consumer ABS Rating Criteria](#) as its sector-specific criteria under the overarching framework provided by the [Global Structured Finance Rating Criteria](#), which is the master criteria 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 is below 'AAA'. The remaining criteria listed under [Applicable Criteria](#) are cross-sector criteria that outline Fitch's approach to counterparty risk that is relevant for the ratings.

Models

The model below was used in the analysis. Click on the link for the model (if published) or for the criteria for a description of the model.

[Multi-Asset Cash Flow Model](#)

Data Adequacy

VWFC has provided Fitch with data as follows:

- Static historical delinquency data in monthly vintage from May 2010 to May 2022
- Dynamic monthly delinquency data and prepayment data from April 2010 to May 2022
- Stratification of the pool-cut as of 30 September 2022
- Asset amortisation schedule

Fitch also reviewed additional sources to verify that the data were representative and comparable to the market. Data reviewed included:

- Portfolio-level characteristics and static performance data from Fitch-rated Chinese auto ABS transactions;
- Publicly available data from other Chinese auto-loan securitisation transactions; and
- Feedback from interviews with other auto-finance companies operating in China.

Use of Third-Party Due Diligence Pursuant to SEC Rule 17g-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

Surveillance

The trustee provides a monthly report that includes information on the underlying assets and payment information for each note. Material changes in cumulative default and recovery rates may trigger a performance review. Fitch will regularly monitor the transaction. Details of the transaction performance are available to subscribers at <https://app.fitchconnect.com/home>

Appendix 1: Origination and Servicing

Volkswagen Finance (China) Co., Ltd. established its office in Beijing in 1998, officially set up a wholly owned subsidiary and started its retail loan business in August 2004. VWFC initiated the dealer loan business in 2006.

VWFC is a wholly owned subsidiary of Volkswagen Financial Services AG and is indirectly wholly owned by VW, VWFC is a licensed non-bank financial institution that provides auto financing exclusively for Volkswagen group in China, with the aim of increasing the group's sales in the country. VWFC provides financial services for major brands of the group, including Volkswagen, Audi, Skoda, Jetta, Porsche, Bentley, Lamborghini and MAN.

Origination

VWFC has a standardised loan origination process, which involves email communication, flow of documentation and flow of funds between customer, car dealer and VWFC. After the customer signs a vehicle order, he or she can obtain financing by filling in a credit application and providing supporting documents to the dealer. Once it is approved, the borrower will be required to pay the down payment and sign the loan contract. VWFC will pay to the dealer directly and the borrower will repay the loan in monthly instalments.

Underwriting

The borrower will need to provide personal documents, such as identification card and authorisation for VWFC to access the borrower's data from the People's Bank of China (PBOC), on top of the loan application form. These will be used to check the borrower's credit record with the PBOC and verify his identity at the National Citizen Identification Information Centre; 70% of retail loan applications are automatically approved or rejected, while the rest will be decided manually. Once an application is rejected, it cannot be accepted subsequently unless there are changes to the underwriting conditions.

Servicing

The risk assessment team, collection management team and litigation management team are responsible for different stages of servicing. The risk assessment team is mainly responsible for risk analysis, reporting, controlling, provisioning and management of procedures and policies. The collection management team identifies customers in different stages of delinquency and will initiate collection actions mentioned below. In general, VWFC will regard a loan as defaulted when it is 90 dpd and will write off the loan when it is 120 dpd.

Arrears Management and Special Servicing

VWFC begins the collection once the loan is delinquent. For 1-30 dpd loans, SMS and Wechat messages, collection calls and dunning letters will be issued to remind the borrower about the non-payment. From the fourth day of delinquency, the collection will be handled by an outsourced collection servicer. Contract termination will be initiated along with field visit collection and warning calls. VWFC may also seek for assistance from local managers and dealer staff for better collection efficiency, if required, under prevailing restrictions to contain the spread of Covid-19.

Once the loan reaches 90 dpd, the case will be transferred to the litigation team for court procedures. For contracts terminated due to fraud or definite inability to repay, the contract will be directly transferred to the litigation team.

Risk Management

VWFC's consumer credit risk department will regularly review internal policies to ensure credit standards are met. Quality controls are in place for both the retail and inventory financing businesses. Internal and external audits are conducted annually. VWFC in 2016 established a committee to develop, implement and monitor risk strategies. The committee also handles the establishment of risk-management policies, processes and operational requirements. It will also report to the senior management on the control of risk events.

Back-Up Servicer

If a servicer replacement event occurs in respect of VWFC as servicer, a back-up servicer will be appointed. The outgoing servicer is required to deliver all information, files and documents for proper performance of the servicer's obligations.

Appendix 2: ESG Relevance Score

FitchRatings Driver China fourteen Trust

SF ESG Navigator
Consumer ABS - Secured

Credit-Relevant ESG Derivation

Driver China fourteen Trust has 5 ESG potential rating drivers

- ➔ Driver China fourteen Trust has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior but this has very low impact on the rating.
- ➔ Governance is minimally relevant to the rating and is not currently a driver.

Overall ESG Scale			
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	5	issues	2
	4	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	2	Regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards	Asset Quality; Surveillance	5
Energy Management	2	Assets' energy/fuel efficiency and impact on valuation	Asset Quality; Surveillance	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Surveillance	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the Sustainability Accounting Standards Board (SASB).

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, data security, and safety standards	Operational Risk; Surveillance	4
Labor Relations & Practices	2	Labor practices, pension obligations and related litigation	Surveillance	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior	Asset Quality; Surveillance	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Asset Isolation and Legal Structure; Asset Quality; Rating Caps; Surveillance	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Rating Caps; Surveillance	4
Transaction Parties & Operational Risk	3	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Asset Quality; Financial Structure; Operational Risk; Rating Caps; Surveillance	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Surveillance	2
				1

CREDIT-RELEVANT ESG SCALE - DEFINITIONS	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

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.

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