Driver Australia six Trust

New Issue

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Related Criteria

Global Structured Finance Rating Criteria (May 2019)

Consumer ABS Rating Criteria (January 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria (April 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (April 2019)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (March 2019)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (June 2019)

Analysts

Bradley Isaac
+61 2 8256 0306
bradley.isaac@fitchratings.com

Chris Stankovski
+61 2 8256 0341
chris.stankovski@fitchratings.com

Capital Structure

Class	Final Rating	Outlook	Amount (AUDm)	CE (%)[a]	Interest Rate (%)	Final Maturity
A	AAAsf	Stable	887.0	12.5	1M BBSW + 0.90%	Dec 27
B	AA-sf	Stable	50.0	7.5	1M BBSW + 1.35%	Dec 27
Subordinated loan	NRsf	n.a.	53.0	n.a.	undisclosed	Dec 27
Overcollateralisation	n.a.	n.a.	10.0	n.a.	n.a.	n.a.
Total			**1,000.0**			
Cash collateral account (CCA)			12.0			

Closing and portfolio transfer to the issuer occurred on 25 October 2019. The ratings assigned above are based on the portfolio information as of 2 October 2019, provided by the originator. The offering circular and other material should be reviewed prior to any purchase.
[a] Credit enhancement (CE) calculation includes the CCA

Transaction Summary

Fitch Ratings has assigned final ratings to Driver Australia six Trust's pass-through floating-rate notes. The issuance consists of notes backed by a pool of first-ranking Australian automotive loan receivables originated by Volkswagen Financial Services Australia Pty Ltd (VWFSA). The notes were issued by Perpetual Corporate Trust Limited as trustee for Driver Australia six Trust.

Key Rating Drivers

Obligor Default Risk: Fitch derived asset-specific default and recovery base-case expectations and applied a granular approach to setting default multiples and recovery stresses, based on historical loss data since 2006 provided by VWFSA. Fitch's weighted-average (WA) default and recovery base cases are 2.3% and 48.1%, with a 'AAAsf' default multiple and recovery haircut of 6.1x and 50%, respectively. These are established on an asset pool comprised of loan receivables backed by motor vehicles with WA seasoning of 13.0 months and an average outstanding discounted receivables balance of AUD30,329.

Fitch expects stable asset performance supported by sustained economic growth in Australia. Fitch forecasts steady GDP growth of 1.7% for 2019 and 2.3% for 2020, with stable labour markets and low interest rates to support the Outlook on the rated notes.

Cash-Flow Dynamics: Fitch completed full cash-flow modelling and determined that the class A and B notes pass all relevant Fitch 'AAAsf' and 'AA-sf' stresses, respectively.

Structural Risk: Fitch evaluated structural risk by reviewing transaction documentation and structural features. A cash collateral account, sized at 1.2% of the outstanding discounted receivables balance with a floor of the lesser of AUD10.0 million or the aggregate balance of the class A and B notes, supports the class A and B notes.

Counterparty Risks: Fitch evaluated counterparty risk by reviewing transaction documentation and structural features that reduce counterparty exposure.

Servicer, Operational Risk: All assets were originated by VWFSA, a wholly owned subsidiary of Volkswagen Financial Services AG which, itself, is wholly owned by Volkswagen AG (BBB+/Stable/F1). Fitch undertook an onsite operational review and found that the operations of the originator and servicer were consistent with the market standards for auto lenders.

Residual Value Risk: There are no residual value positions in the portfolio, however, refinance risk exists as 41.4% of the remaining outstanding contract balances have balloon payments. Refinance risk on loans with a balloon payment has been considered in the default multiples.

Portfolio Characteristics

Outstanding discounted receivables balance (AUDm)	1,000
Number of receivables	32,972
Average discounted receivables balance (AUD)	30,329
WA seasoning (months)	13.0
WA current remaining maturity (months)	44.4
WA balloon percentage (% of outstanding balance)	43.0
New cars (%)	81.1
Used cars (%)	18.9
Pool cut-off date	30 Sep 19

Source: Fitch Ratings

Key Differences to Previous Driver Australia Transactions

The transaction structure is materially similar to the most recent public-term transaction originated by VWFSA, Driver Australia five Trust. Structural features include a subordinated loan, overcollateralisation (OC) and a cash collateral account sized at 1.2% of the outstanding discounted receivables balance.

Collateral characteristics are consistent with the Driver Australia series across average balance, seasoning, composition of vehicle type and both geographical composition and concentration. Compared with Driver Australia five, the asset pool for Driver Australia six has a higher average discounted receivables balance at AUD30,329 (Driver five: AUD27,935), a higher proportion of contracts with balloon payments at 41.4% (37.4%), and a lower WA current remaining term to maturity (months) of 44.4 (46.0).

The base-case default and recovery expectations for Driver Australia six are the same as those applied in Fitch's most recent surveillance analysis of the Driver Australia transactions, completed in April 2019, apart from the new vehicle default multiple, which was increased to 6.25x from 6.00x. This change was made to better account for the relatively low absolute level of the new vehicle default base case, which makes it susceptible to a small performance change in absolute terms leading to a large change in relative terms.

Base-Case Assumptions and Credit Enhancement Levels

Base-Case Loss and Recovery Summary

	Pool (%)	Defaults (%)	Recovery rate (%)	Net loss (%)	AAAsf default multiple (x)	AAAsf recovery haircut (%)
New vehicles	81.1	2.0	50.0	1.0	6.25	50.0
Used vehicles	18.9	3.5	40.0	2.1	5.50	50.0
Portfolio weighted	**100.0**[a]	**2.3**[b]	**48.1**[b]	**1.2**[b]	**6.11**[b]	**50.0**[b]

[a] Total pool percentage
[b] Portfolio WA
Source: Fitch Ratings

Credit Enhancement Levels

	Defaults (%)	Recovery rate (%)	Net loss (%)	Current hard CE (%)
AAAsf	13.8	24.1	10.5	12.5
AA-sf	10.2	30.5	7.1	7.5

Source: Fitch Ratings

Rating Sensitivity[1]

Unanticipated increases in the frequency of defaults and loss severity on defaulted receivables could produce loss levels higher than Fitch's base case, and is likely to result in a decline in CE and remaining loss-coverage levels available to the notes. Decreased CE may make certain note ratings susceptible to negative rating action, depending on the extent of the coverage decline. Hence, Fitch conducts sensitivity analysis by stressing a transaction's initial base-case assumptions.

This section provides insight into the model-implied sensitivities the transaction faces when one risk factor is stressed while holding others equal. The modelling process first uses the estimation and stress of base-case assumptions to reflect asset performance in a stressed environment and second, structural protection is analysed in a customised proprietary cash

Related Research

Auto ABS Index – Australia: The Dinkum ABS Index – 2Q19 (August 2019)

Australia (May 2019)

[1] These sensitivities only describe the model-implied effect of a change in one of the input variables to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible performance.

flow model (see *Cash-Flow Analysis*). The results below should only be considered as one potential outcome as the transaction is exposed to multiple dynamic risk factors.

Rating Sensitivity to Increased Default Rates

	Class A	Class B
Original rating	AAAsf	AA-sf
Defaults increase 10%	AAAsf	A+sf
Defaults increase 25%	AA+sf	Asf
Defaults increase 50%	AA-sf	BBB+sf

Source: Fitch Ratings

Rating Sensitivity to Reduced Recovery Rates

	Class A	Class B
Original rating	AAAsf	AA-sf
Recoveries decrease 10%	AAAsf	A+sf
Recoveries decrease 25%	AAAsf	A+sf
Recoveries decrease 50%	AA+sf	Asf

Source: Fitch Ratings

Rating Sensitivity to Increased Defaults and Reduced Recoveries

	Class A	Class B
Original rating	AAAsf	AA-sf
Defaults increase 10%/recoveries decrease 10%	AA+sf	Asf
Defaults increase 25%/recoveries decrease 25%	AAsf	A-sf
Defaults increase 50%/recoveries decrease 50%	A+sf	BBB-sf

Source: Fitch Ratings

ESG Relevance Score

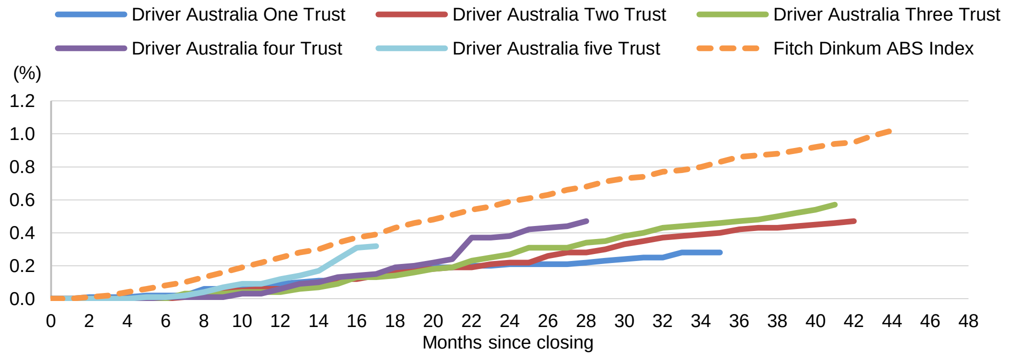
Unless otherwise disclosed in this section, the highest level of ESG credit relevance is typically a score of 3 – ESG issues are credit neutral or have only a minimal credit impact on Driver Australia six Trust, either due to their nature or the way in which they are being managed by the transaction.

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

Historical Performance

Historical net losses for the Driver Australia term transactions have remained under 0.6%. The portfolio net loss for previous Driver Australia transactions ranges between 0.28% and 0.57%.

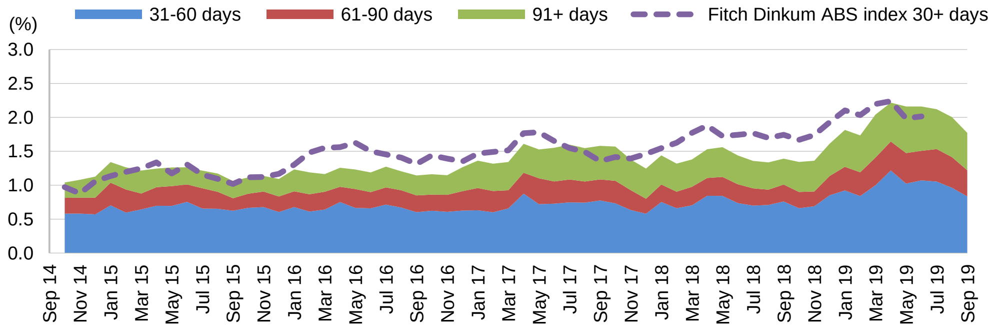
Cumulative Net Loss (%) vs. Fitch Dinkum ABS Index



Source: Fitch Ratings, VWFSA

Delinquencies more than 30 days for VWFSA's book have traditionally tracked below Fitch's Dinkum ABS Index. The chart below includes both commercial and consumer receivables.

VWFSA Arrears Performance vs. Fitch's Dinkum ABS Index



Source: Fitch Ratings, VWFSA

Transaction Comparison Table

	Series 2018-1 REDS EHP	SMART 2019-1	Driver Australia Three Trust	Driver Australia four Trust	Driver Australia five Trust	Driver Australia six Trust
Closing date	**Nov 18**	**Mar 19**	**Apr 16**	**May 17**	**Apr 18**	**Oct 19**
Total issuance (AUDm)	1,000	1,177	573	500	750	1,000
Final bond structure (%)						
Class A (All class A notes)	77.9	85.0	87.2	88.2	88.2	88.7
Class B	22.1		5.4	5.0	5.0	5.0
Subordinated loan			6.4	5.8	5.8	5.3
Seller		15.0				
OC			1.0	1.0	1.0	1.0
Cash collateral account (% of discounted receivables)			1.2	1.2	1.2	1.2
Liquidity reserve (%)	1.3	1.0				
Portfolio						
Collateral balance (AUD)	1,000	1,164.7	573.5	500.0	750.0	1,000
Number of loans	15,159	36,171	15,495	15,198	26,849	32,972
Average discounted receivables balance (AUD)			37,009	32,900	27,935	30,329
Average current balance (AUD)	65,143	32,200				
Maximum discounted receivables balance (AUD)			398,660	490,858	472,297	638,224
Maximum current balance (AUD)	929,530	493,325				
WA seasoning (months)	18.4	9.0	11.0	10.6	13.1	13.0
WA remaining term to maturity (months)	34.5	49.6	44.6	44.5	46.0	44.4
Contracts with a balloon (% of outstanding balance)	99.9	47.5	56.8	53.0	37.4	41.4
Balloon proportion (% of outstanding balance for contracts with a balloon)	26.9	34.3	37.6	42.2	40.7	43.0
New vehicles (%)	55.1	56.9	88.9	87.5	81.1	81.1
Used vehicles (%)	44.9	43.1	11.1	12.5	18.9	18.9
Chattel mortgage (%)	90.8[a]		64.7	66.2	37.5	46.2
Consumer loans (%)		39.5	34.9	33.5	62.3	53.8
Hire purchase (%)	1.9	0.1	0.4	0.3	0.1	<0.1
Financial lease (%)	7.3	25.7				
Loan contract (%)		34.7				
Geographical distribution (%)						
New South Wales	22.8	33.6	49.7	44.4	38.7	39.5
Victoria	17.9	26.0	21.5	26.2	24.4	24.5
Queensland	44.4	20.0	14.3	16.4	19.1	21.5
Western Australia	7.9	11.7	6.7	5.7	7.4	5.7
South Australia	4.1	4.7	3.8	2.9	2.6	2.4
Australian Capital Territory	0.5	1.2	3.6	3.4	4.1	2.9
Northern Territory	0.7	1.4	0.2	0.2	0.5	0.5
Tasmania	1.6	1.5	0.2	0.8	3.0	3.0

[a] Specific security agreements, formerly chattel mortgages
Source: Fitch Ratings, VWFSA

Transaction Parties

Role	Name	Fitch Rating
Issuer	Perpetual Corporate Trust Limited as trustee for Driver Australia six Trust	n.a.
Arranger	Merrill Lynch International	A+/Stable/F1
Cash Collateral Account Bank	Australia and New Zealand Banking Group Limited	AA-/Negative/F1+
Collection Account Bank	Australia and New Zealand Banking Group Limited	AA-/Negative/F1+
Interest Rate Swap Counterparty	Royal Bank of Canada	AA/Stable/F1+
Originator	VWFSA	Not rated
Security Trustee	P.T. Limited	Not rated
Servicer	VWFSA	Not rated
Sub-Trust Manager	VWFSA	Not rated
Trust Manager	Perpetual Nominees Limited	Not rated
Trustee	Perpetual Corporate Trust Limited	Not rated

Source: Fitch Ratings

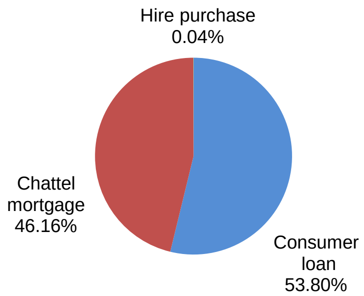
Asset Analysis

Servicing and Origination

VWFSA is a wholly owned subsidiary of Volkswagen Financial Services AG which, itself, is wholly owned by Volkswagen AG (BBB+/Stable/F1). VWFSA has a traditional captive finance model where it offers competitive finance and insurance products to retailers representing VW Group brands. They aim to service captive customers over multiple ownership cycles by selling additional packages that include extras such as servicing costs or insurance.

A nationwide network of dealerships and sales personnel allows VWFSA to reach mainly into the wholesale and retail markets and, more recently, the fleet sector. VWFSA's greatest exposure is the retail sector, at approximately 72% of portfolio receivables. The sales force is remunerated through commission payments, and fully supporting dealerships are offered additional volume bonuses and wholesale rate discounts. The claw-back of commission and bonus payments will occur on the early termination of contracts or upon a contract being put into salvage.

Pool Distribution by Product Type



Source: Fitch Ratings, VWFSA

VWFSA has securitised three products in the Driver Australia transactions:

- commercial hire purchase (0.1% of retail portfolio, <0.1% of pool);
- commercial chattel mortgage (31.1% of retail portfolio, 46.2% of pool); and
- consumer loans (49.6% of retail portfolio, 53.8% of pool).

The origination of these products is carried out primarily through its supported dealerships across the country or via VWFSA's direct channels. VWFSA focusses on retention and fosters long-term consumer and business relationships through its dealership network. Both commercial hire-purchase and chattel mortgage products have lending terms of up to 60 months and are provided for business purposes. Lending terms of 12-84 months are permitted under VWFSA's product guidelines for consumer loans.

All applications are assessed by VWFSA's retail credit team using a credit-scoring system with automated checks that are verified against policy. VWFSA uses two scorecards: one that assesses the individual borrower; the other assesses the company, if applicable. The submission is either auto approved, referred or declined once the scorecard overlay is completed. All submissions undergo automated credit-risk checks that include − but are not limited to − employment status, verifying company registration, bureau file age and activity checks, loan-to-value, capacity to pay, vehicle age and fraud. Any referred applicants or large transactions undergo a manual review process that includes further due diligence and may involve reference checks. All credit officers have delegated lending authority based on position, subject to maximum loan-to-value limits, serviceability thresholds and total commitment levels. The credit team consists of 14 experienced staff.

Portfolio Summary

As of the cut-off date, the final pool of eligible receivables totalled AUD1,000.0 million. The receivables were originated by VWFSA during the ordinary course of business and through its dealer network. The pool comprises consumer loans, commercial hire-purchase agreements and chattel mortgages.

The collateral backing the final portfolio is made up of new cars (81.1%) and used cars (18.9%). Due to the distinct difference in historical experience, Fitch has applied separate loss and recovery assumptions on the portfolio's new and used vehicles (see Static Loss Analysis).

All receivables are amortising principal and interest facilities, pay a fixed interest rate with varying balloon amounts payable at maturity, and have a maximum remaining term of 81 months. The final pool has an average outstanding discounted receivables balance of AUD30,329 and a maximum outstanding discounted receivables balance of AUD638,224. The WA borrower interest rate for the final pool is 6.6%. The WA remaining term of the initial pool at the cut-off date was 44.4 months. The WA seasoning of the final pool was 13.0 months; however, Fitch did not give any credit to seasoning.

Geographical Concentration

The final portfolio is geographically diversified, with its largest exposures of 39.5% in New South Wales, 24.5% in Victoria and 21.5% in Queensland. The diversity partially insulates the portfolio from regional downturns.

Eligibility Criteria

The loan receivable products are generally three- to seven-year amortising with varying balloon amounts payable at maturity. An applicant's circumstances are considered when determining the applicable interest rate, term and maximum exposure. All contracts offered use standardised agreements, and one-off documentation is not permitted. The eligibility criteria include:

- at the time each receivables contract was entered into, the purchased receivable was approved and originated by VWFSA in its ordinary course of business;
- in relation to each chattel mortgage contract or consumer loan contract, the relevant debtor has fully drawn down the credit limit available under that contract and VWFSA has no obligation to make any further advance under that contract;
- the terms of the contracts relating to the purchased receivables require payments to be made to VWFSA free of set-off;
- the receivables contracts and related documents, are governed by the laws of one of the following Australian states or territories: New South Wales, Victoria, Queensland, South Australia, Tasmania, Western Australia, the Northern Territory or the Australian Capital Territory;
- each debtor in respect of a purchased receivable is a corporation or a registrable Australian body which has an Australian company number or Australian business number, a registered scheme with an Australian registered service number, an entity otherwise established under Australian law (including a partnership, association or government agency), a permanent resident or citizen of Australia or a citizen of New Zealand, or a person residing in Australia on a work visa basis whose work entitlements have been verified and whose application for the provision of credit by VWFSA has been assessed under considerations of internal guidelines;
- each purchased receivable will mature no earlier than three months after the cut-off date and no later than 84 months of the date of origination;
- the total outstanding amount of the purchased receivables with any one debtor does not exceed A$750,000;

- at and after the time VWFSA entered into the receivables contracts and related documents, the contracts and related documents complied in all material respects with all applicable laws (including the consumer credit laws);
- the purchased receivable is denominated and payable in Australian dollars in Australia;
- the purchased receivable is not in arrears by more than one month;
- on the cut-off date at least two instalments have been paid in respect of each of the purchased receivables and the related contracts require substantially equal monthly payments to be made within 84 months of the date of origination and may also provide for a final balloon payment; and
- the purchased receivable is subject to VWFSA's standard terms and conditions.

Model, Criteria Application and Data Adequacy

VWFSA provided Fitch with 13 years of static gross and net loss data by monthly originations for all asset types and products (new and used vehicles, consumer loans, chattel mortgage and hire purchase). The static pool data were stratified into two sub-segments, due to differences in default behaviour between the following collateral types below:

- new vehicles;
- used vehicles.

Fitch derived the expected base-case cumulative default and recovery curves for both of the static pools using the aforementioned data.

Fitch used its own cash-flow model in its analytical process to simulate stresses to a transaction and determine the sufficiency of available enhancement for each class. The agency customised its proprietary cash-flow model to replicate the key structural features outlined in the transaction documents, and grouped the loan collateral into representative pools.

VWFSA provided Fitch with a comprehensive set of stratification tables, which includes various data fields generally used in the agency's analysis of automotive receivables.

Fitch conducted a review of a small targeted sample of VWFSA's origination files as part of its ongoing monitoring, and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolio. Prior to the transaction closing, 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. Overall, Fitch's assessment of the asset pool information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

Credit Analysis

In addition to an underwriting and servicing review, Fitch analyses portfolio growth and performance as well as expected pool performance as measured by static data and overall portfolio characteristics.

Static Loss Analysis

Fitch analysed the static pool to determine an expected base-case default estimate to assess the potential losses through a complete loan receivable maturity cycle. All yearly vintages had at least five months seasoning and the projected cumulative defaults for all receivables originated by VWFSA are 2.0% for new vehicles and 3.5% for used vehicles, of the original balance originated.

Fitch also analysed historical recovery data to arrive at a base-case recovery assumption of 50% for new vehicles and 40% for used vehicles.

Stresses were then applied to the base-case default and recovery assumptions to determine CE for higher investment-grade ratings.

Cash-Flow Analysis

Fitch customises its proprietary cash-flow model to replicate the key structural features outlined in the documentation. Performance variables include defaults, default distribution, prepayment rates, and coupon rates.

Modelling Assumptions

	(%)
WA base-case default rate	2.3
Default speed (front)	
Month 1-6	35.5
Month 7-12	27.8
Month 13-18	20.0
Month 19-24	12.3
Month 25-30	4.5
WA base-case recovery rate	48.1
Recovery lag (months)	6.0
Weighted-average discount rate (%)	8.9
Prepayment vector options (per annum rates)	
Fast	18.0
Slow	6.0
Senior expense floor (AUD) per annum	355,000

Source: Fitch Ratings

From a cash-flow perspective, the collateral balance is reduced either through principal collections or losses, both of which are passed through to investors as principal payments or realised losses. The transaction, by virtue of the discount rate (less the buffer release component) applied, does not yield any excess spread and therefore the rated classes will rely solely upon CE provided by the subordinated loan and OC support to absorb losses from any shortfall in principal payments. At final maturity, the balance of the CCA will be applied to cover any outstanding principal on the rated notes.

The inclusion of the buffer rate meant fewer receivables were acquired at a premium (above par value) than those at a discount (approximately 13.2%). As a result, the transaction has limited exposure to prepayment losses in the absence of VWFSA making compensation payments. Fitch also stressed factors such as the timing of losses and recovery periods. A worst-case scenario results in more defaults in the early period of the deal and fewer defaults in the later period.

Recoveries were analysed taking into consideration historical performance. Fitch applied haircuts as a reduction to the base-case recovery assumption in different stress scenarios. The agency also stressed recovery time; the longer the recovery, the greater the strain on transaction cash flow. Fitch assumed a six-month recovery period. Full and timely payment of principal and interest was made to each Fitch-rated note class in each modelled rating scenario.

Concentration Risk

The underlying pool is made up of 32,972 receivables, with the maximum outstanding discounted receivables balance being AUD638,224. Concentration risk may arise due to the inclusion in the structure of a principal pro rata payment method (see *Principal Repayment and Targeted OC Levels*), which ensures that the OC available to class A notes will not exceed 26% prior to the call date, unless a CE trigger is breached.

At the call date the aggregate invested balance of the notes will not be more than AUD100 million. Losses on any one receivable can at this point form a more significant proportion of the available subordination than is the case in similar transactions with sequential pay-down structures.

Fitch tested for obligor concentration risk at the call date by analysing a default of the largest receivables and their effect on the rating of the senior notes and found there was no impact.

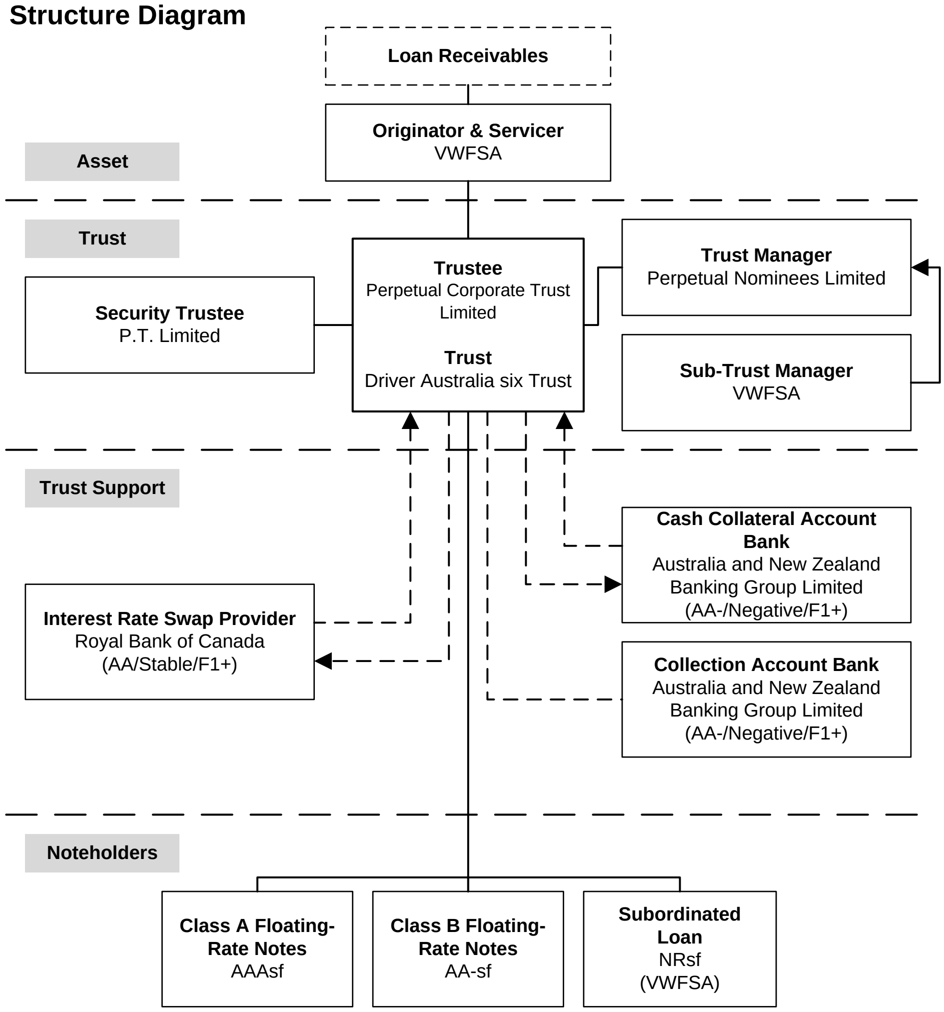
Transaction and Legal Structure

Legal Structure

Driver Australia six Trust is a bankruptcy-remote SPV created pursuant to a master trust deed.

The master trust deed provides for the creation of an unlimited number of trusts. Each trust is separate and distinct from any other trusts established under the master trust deed and under the security trust deed; its assets are only available to meet its related liabilities. The transaction is governed by the laws of New South Wales.

Structure Diagram



Source: Fitch Ratings, VWFSA

The trustee's obligations in respect of the notes are secured under the security trust deed between the trustee and the security trustee, and also by a security interest under the general security deed in favour of the security trustee. Under these arrangements, the trustee has granted to the security trustee a security interest for the purposes of the Personal Property Securities Act (PPSA) over all secured property to which the PPSA applies, and a first-ranking fixed charge over any secured property to which the PPSA does not apply. Together, these arrangements secure the trustee's obligations to creditors of the series − including the noteholders and the swap provider. In an event of default, the security trustee would enforce the security interest and take possession of the assets of Driver Australia six Trust to protect the series' secured creditors.

Transaction Structure

In summary, two classes of floating-rate notes have been issued: class A and B. The class A notes rank senior to the class B notes and the subordinated loan, while the class B notes rank senior to the subordinated loan in the priority of payments. At the legal maturity date, the remaining balance in the CCA will be used to repay any principal outstanding on the notes.

At closing, the issuer's assets and liabilities are as follows.

Driver Australia six Trust

Assets	(AUD)	Liabilities	(AUD)	Size as % of receivables' balance
Receivables	**1,000,006,169**	Class A	887,000,000	88.7
		Class B	50,000,000	5.0
		Subordinated loan	53,006,169	5.3
		OC	10,000,000	1.0
Total	**1,000,006,169**		1,000,006,169	
CCA	**12,000,000**			

Source: Fitch Ratings, VWFSA

Discount Rate

All securitised loan receivables in the portfolio are discounted with a single discount rate of 8.89%, which is equal to the aggregate of (i) the weighted average fixed swap rate (including a hypothetical swap rate for the subordinated loan), (ii) senior expenses and servicing fees, and (iii) the buffer release rate.

Discount Rate Calculation (%)

WA swap rate (including hypothetical sub-loan swap)	1.63
Servicing fee	1.00
Senior expenses	0.20
Buffer release rate	6.05
Total	**8.89**

Source: Fitch Ratings, VWFSA

The buffer release rate was incorporated into the discount rate for the Driver Australia Master Trust to capture any potential increases in expenses when swap rates and coupons are renegotiated at the revolving period extension date, if the revolving period is extended. As receivables for Driver Australia six have been sourced from the Master Trust, the same discount rate will apply. As with the Master Trust, the buffer release amount, which is the product of the buffer release rate and the future receivables balance, will be released back to VWFSA and will not benefit the trust, unless VWFSA becomes insolvent. Following an insolvency event of VWFSA, the buffer release amount relating to the incoming cash flow will form part of the transaction's eligible income to be distributed in accordance with the order of priority.

Fitch does not take into account the buffer release rate as potential income available for note redemption. This is because the structural elements that are relied upon in order to pay timely interest and ultimate principal on the notes cannot be conditional on the occurrence of events like a seller default, in Fitch's view.

Priority of Payments

All collections received will be allocated and paid in accordance with the priority of payments set out below and in the terms of the issue supplement.

Priority of Payments Pre-Enforcement

1	Senior trust expenses
2	Payment of the net amounts due to the class A swap provider and then to the class B swap provider (except in instances where the swap counterparty is the defaulting party)
3	Interest due to class A notes
4	Interest due to class B notes
5	Replenishment of the CCA up to its specified balance
6	Reduction of principal on the class A notes down to the targeted class A note balance
7	Reduction of principal on the class B notes down to the targeted class B note balance
8	Amounts payable by the issuer in respect of any penalty payments
9	Payment of any net amounts due to the swap provider that are not covered above
10	Interest due to the subordinated loan
11	Payment to the subordinated lender until the aggregate principal amount of the subordinated loan has been reduced to zero
12	Any surplus to the beneficiary of the trust

Required payments: The aggregate of payments payable from 1 to 4
Source: Fitch Ratings, VWFSA

Principal Repayment and Targeted OC Levels

The repayment of principal will occur sequentially, in order of seniority, until the targeted OC levels are reached for each class, at which time the targeted note balances are met. Providing targeted note balances are maintained, the class A and B notes will amortise on a pro rata basis until the clean-up call date, or if CE increase conditions are breached (see table below) or a servicer replacement event has occurred. Once targeted note balances are met, any remaining balance will pass through to repay the subordinated loan.

Targeted OC Levels (%)[a]

	Class A target OC	Class B target OC
Initial OC level available	11.3	6.3
No trigger breached	26.0	18.0
Level 1 trigger breached	30.0	21.0
Level 2 trigger breached or asset balance amortised below 10%[b] or a servicer replacement event occurs	100.0	100.0
CE increase conditions	Cumulative net loss ratio[c]	
	Level 1	Level 2
The first 12 months from closing	0.4	n.a.
From 13th month until the 24th month from closing	0.8	n.a.
From 25th month and any payment date thereafter	1.2	n.a.
Any payment date from closing	n.a.	1.8

[a] OC is calculated by deducting the CCA from the CE levels
[b] The clean-up call date
[c] The cumulative net loss ratio is the sum of all written-off amounts divided by the aggregate discounted principal balance at closing
Source: Fitch Ratings, VWFSA

Prepayment Losses

The trust may incur an additional prepayment loss if any contract purchased by the issuer at a premium (above its par value) is terminated before its maturity date. The transaction is exposed to the risk of a shortfall between the interest rate of a prepaid loan and the discount rate for loans with interest rates above the discount rate. An interest compensation event occurs on the full discharge of the payment obligations of the debtor. This includes VWFSA cancelling a contract or any event where the customer legitimately terminates or invalidates a contract. The portfolio contains approximately 13.2% of loans where the interest rate exceeds that of the discount rate. This shows the issuer purchased only a small proportion of the loan receivables at a premium to their present value via the application of the contractual interest rate.

This risk is mitigated through VWFSA's obligation to make an interest compensation payment at the point where the loan is discharged from the pool. This risk would only become relevant if

VWFSA was no longer able to make such payments. Any prepayment losses would probably be offset by prepayment gains due to the majority of contracts being purchased at a discount and so would not have a material impact.

Clean-Up Call Option

The issuer holds the right to call the remaining notes on issue at any payment date when the aggregate outstanding discounted principal balance of the receivables is less than 10% of the aggregate outstanding discounted receivables balance at closing.

Credit Enhancement

CE is provided by the subordination of any junior notes and the subordinated loan, OC and the cash collateral account.

The class A notes benefit from an initial 12.5% CE, comprising 10.3% provided by the subordination of the class B notes and subordinated loan, 1.0% provided by overcollateralisation and 1.2% provided by the CCA.

The class B notes benefit from an initial 7.5% CE, comprising 5.3% provided by the subordination of the subordinated loan, 1.0% provided by OC and 1.2% provided by the CCA.

Excess Income

All principal and interest receipts from the underlying loans will match total principal and interest payments due to the notes and subordinated loan. As such, the transaction will yield no excess spread to reimburse losses. All losses will be realised at the earlier of the legal maturity date or the payment date after the aggregate outstanding receivables balance reaches zero and will be absorbed by OC first, then the subordinated loan, followed by the class B and then A notes.

Liquidity Support

Liquidity support will be sought to ensure that trust obligations are met in a timely manner when the available collections on any determination date are insufficient to meet the required payments for that month. Liquidity support will be provided by drawing from the CCA.

Principal Draws

Principal that makes up part of the available distribution amount may be used initially to meet required payments by virtue of a combined interest and principal waterfall, although no specific principal draws are made.

Cash Collateral Account

The CCA is initially sized at AUD12.0 million and will be maintained at 1.2% of the outstanding discounted receivables balance, subject to a floor of the lesser of AUD10.0 million or the aggregate balance of the class A and B notes at that time. The CCA is available where there are insufficient collections to meet required payments.

Draws under the CCA are reimbursed from the available distribution amount in accordance with the order of priority. If on any determination date no CE triggers or foreclosure events are subsisting, any excess funds above the specified CCA limit may be allocated in accordance with a separate order of priority to the standard waterfall.

The remaining balance of the CCA will be used to pay any principal amounts outstanding on the class A and B notes at the earlier of the legal maturity date or the payment date after the aggregate outstanding receivables balance reaches zero.

Counterparty Risk

VWFSA

Fitch undertook an onsite operational review and found that the operations of the originator and servicer were consistent with the market standards for auto lenders.

Strengths and Weaknesses

Fitch assessed several strengths and weaknesses as part of the operational review. Fitch believes VWFSA's strengths include an experienced management team, with many of its managers being longstanding employees, and all of them having significant industry experience. VWFSA has well-formed risk-management policies, including segregation of duties, with a robust risk-management framework imposed by VWFSA's parent, the VW Group. In addition, VWFSA's underwriting policies are flexible enough to be amended in response to rapidly changing economic conditions. The underwriting process incorporates a wide range of credit requirements in an automated process, while referred applicants or large transactions are assessed manually.

The main weakness is a potential global or Australian economic slowdown and a decline in liquidity within Australia's economy and the effect this may have on the ability of individuals and small businesses to meet their loan payments.

Underwriting

VWFSA is responsible for all credit decisions. The credit process is contract and borrower specific and performed by experienced personnel subject to strict delegations. See *Servicing and Origination* for details.

Servicing

VWFSA maintains an in-house servicing and collections team, supported by a third-party provider, Collection House (CH), during times of heavy resource requirement. CH is involved in the collections process at the early delinquency stage (up to 30 days). CH is a specialist provider of receivables management and debt collection services operating in Australia and New Zealand. By engaging CH, the collections process uses the latest technology that allows greater efficiency, flexibility and greater capacity in the servicing of early delinquency loans.

VWFSA's in-house team is located at its head office in Chullora, Sydney and consists of 17 experienced staff. Daily servicing of the loan receivable portfolio is undertaken in-house through a highly automated system. The majority of borrowers (over 96%) in VWFSA's portfolio pay via direct debit.

Arrears Management and Recoveries

The collections function is split into collections, asset repossession and debt recovery. The collections team targets accounts that are overdue, with a particular focus on reducing the volume of accounts that are referred to asset repossession and debt recovery. The collections process commences when a scheduled payment has not been processed through the system. Phone contact will be made with the borrower within seven days of the payment being missed for higher risk borrowers, with additional follow-ups and reminder letters sent in accordance with agreed policy.

Where direct debit arrangements are missed or seven days have elapsed since the initial due date, a courtesy call and letter requesting payment is made. An SMS is subsequently sent at 10 days overdue. At 14 days overdue, an additional courtesy letter is sent requesting payment, and a statutory default notice is issued at 21 days overdue. Throughout this time regular phone contact continues to be made with the borrower. The post-default stage is any account that is overdue from 22-90 days in arrears in which a further default letter is issued.

VWFSA uses external specialist agents for all repossessions. Specialist roles also cover debt recovery after the sale of an asset and insolvency management. All repossessed vehicles are sold via an external auction house to achieve fair market value. If necessary, VWFSA will assess further recovery action on a case-by-case basis to determine the cost benefit of pursuing the borrower for amounts outstanding.

Risk Management

VWFSA maintains a risk management regime, with hindsight reviews performed on a continual basis to ensure credit standards are met. A credit-risk monitoring process is carried out annually. The results of each review are used to identify systemic or reoccurring weaknesses, which are reported to management. The credit-risk review will provide recommendations, where applicable, for corrective action via a consultation process.

VWFSA's business continuity plans (BCP) and its disaster recovery (DR) infrastructure are based on VWFSA's enterprise continuity framework. BCP tests are undertaken annually and securitisation systems are fully restored using a third-party provider, Interactive Pty Ltd. An agreement with Interactive provides dedicated server racks in the data centre and access to workstations and office space. All critical systems are tested annually with comprehensive intrusion testing, while external audits are carried out annually on BCP tests.

Back-Up Servicing

There is no named back-up servicer on this transaction. However, under the transaction documents, in the event of a servicer replacement event the transfer of the servicing obligations is not complete until a replacement servicer is found. The agency believes the servicing fee is sufficient to take into account any increased cost to the transaction should a servicer-replacement event occur. The size of the servicer fee also provides a financial incentive for replacement servicers and this will improve the prospects of finding a suitable replacement. A comfortable liquidity provision provided by the cash-collateral account mitigates payment interruption risk in the event of a servicer default which may cause delays in the servicing and collections processes.

Document Custody

VWFSA will act as custodian of the security documents under the servicing agreement. All documents in respect of the purchased receivables are held on site; then sent off-site and stored electronically on behalf of the issuer in accordance with its standard safe-keeping practices and applicable laws.

Hedge Provider

The issuer trustee will enter into one or more swap transactions to the extent necessary to effect an exchange of cash flows that will cause the cash flows from the receivables to satisfy the payment obligations under each issued note.

The swap provisions are in line with Fitch's current criteria. For further details of Fitch's counterparty criteria, see *Structured Finance and Covered Bonds Counterparty Rating Criteria* and *Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum*.

Fixed and Floating-Rate Swap

The trustee has entered into a swap arrangement to hedge the interest-rate risk between the fixed rate on the underlying loan receivables and the floating-rate obligations of the trust. The swap operates as follows: on each payment date the trustee will pay the relevant swap counterparty an amount equal to the notional amount of the notes multiplied by a fixed-rate margin. In return, the trustee will receive the one-month bank bill swap rate plus a margin from the interest rate swap provider.

Upon a downgrade of the swap provider below 'A' and 'F1', it must within 14 calendar days cash-collateralise its obligations under the swap, or within 30 calendar days novate its obligations to an entity rated at least 'A' or 'F1', appoint a suitable guarantor, or take any other action that will not adversely affect the rating of the notes. If the counterparty is further downgraded below ‘BBB-‘ and ‘F3’, the choice to cash-collateralise will no longer be available if the rating of the highest rated note is ‘AAAsf’ and the swap provider must, within 30 days, either novate the swap or appoint a suitable guarantor.

Account Bank

The servicer, VWFSA, is an unrated entity, however, will have the ability to retain collections until the monthly payment date, subject to the following conditions being met:

- VWFSA is the servicer;
- Volksagen AG (BBB+/Stable/F1) has ratings of at least BBB or F2;
- The profit and loss sharing agreement between Volkswagen AG and Volkswagen Financial Services AG remains in effect; and
- Volkswagen Financial Services AG holds 100% of shares in VWFSA.

In accordance with the counterparty criteria, the relevant non-bank financial institutions analysts were contacted as part of the counterparty assessment that the ultimate parent’s rating can be used as a reference rating.

If all of the above conditions are not met, collections will be prepaid twice monthly by using an advance mechanism to post collateral with the account bank. All collections will be held on trust for the benefit of the trustee, while the distribution account will be held by, and in the name of, the trustee. The account will be held with Australia and New Zealand Banking Group Limited.

Disclaimer

For the avoidance of doubt, Fitch relies in its credit analysis on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, 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 or structuring advice from Fitch, and should not be used or interpreted as legal, tax or structuring advice from Fitch. Should readers of this report need legal, tax or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Performance Analytics

Fitch will monitor the transaction regularly. The performance analytics team will receive monthly investor reports detailing the portfolio’s performance. 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 performance analytics team ensures the assigned ratings remain, in the agency’s view, an appropriate reflection of the issued notes’ credit risk.

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

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

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.