

Driver Japan eight

New Issue

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Capital Structure

Class	Rating ^a	Outlook	Amount (JPYm)	CE (%)	Interest Rate (%)	Final Maturity
Bls 2 & ABL 2 ^b	AAAsf	Stable	65,000	6.5	0.10	Jun 27
Total rated debts			65,000			
Subordinated Bls	NRsf ^c		4,521			
Cash Collateral		4-mth interest & expenses				

^a The ratings are based on information provided by the transaction parties as of 26 February 2019. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any purchase.

^b Bls 2 and ABL 2 rank pari passu; therefore, CE is calculated on an aggregate basis

^c NRsf: Not rated

Source: Fitch Ratings

Transaction Summary

Fitch Ratings has assigned ratings to Driver Japan eight's trust beneficial interests of the second trust (Bls 2, issue amount: JPY47 billion) and asset-backed loans of the second trust (ABL 2, issue amount: JPY18 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/F2). Most loans are to individuals, with a small portion to corporate customers. The total issue amount has been increased to JPY65 billion from JPY40 billion at the time the expected rating was assigned. 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 0.8% for this transaction before considering the balloon payment risk. This is based on very stable historical default performance over the past 16 years, including two recessionary periods.

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

Structural Risks: The legal structure of the transaction ensures the assets are isolated from any other assets owned by VWFSJ and the trustee, and also from the bankruptcy risk of VWFSJ and the trustee, so as to ensure the timeliness of the debt payment.

Counterparty Risks: 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 the servicer, will delegate its function to Cedyne Financial Corporation (Cedyne) or JACCS Co., Ltd. (JACCS), as sub-servicers in this transaction. No back-up servicer is appointed at closing; however, if a servicer replacement event occurs, Deutsche Trust Company Limited Japan (Deutsche) 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 37.7% of the initial portfolio. Obligor 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.

Related New Issue Appendix

[Driver Japan eight - Appendix](#)

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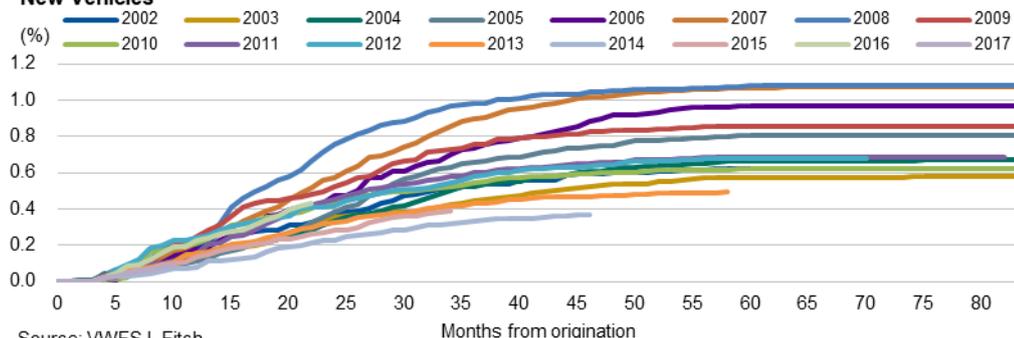
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Historical Performance

The charts below display cumulative gross loss data of new and used vehicles for loans originated by VWFSJ since July 2002. Throughout the observation period, which includes two recessionary periods in 2008 and 2012, the loans for both new and used vehicles have performed very well and are superior compared with the peer group globally. For both types of loans, the 2007 and 2008 vintages, which were significantly exposed to the recessionary period in the wake of the global financial crisis, have performed worse than the other vintages. Still, no substantial deterioration was observed in both vintages. Recent vintages have performed better than the average, supported by the favourable economic conditions in Japan.

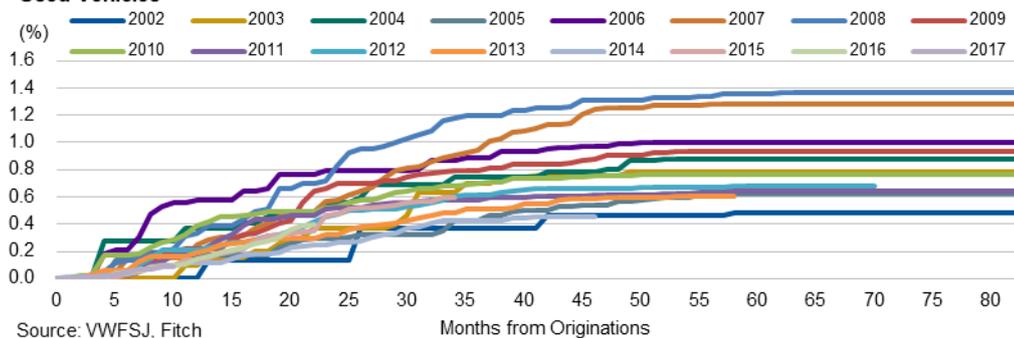
Cumulative Gross Loss Rate

New Vehicles



Cumulative Gross Loss Rate

Used Vehicles



Base Case Loss Assumptions – by Vehicle

(%)	Actual proportion	Gross loss	Stressed proportion ^a	Adjusted gross loss
New vehicles	75	0.77	65	0.77
Used vehicles	25	0.86	35	0.86
Portfolio weighted	100	0.79	100	0.80

^a Due to the upper limit of 35% for used vehicles and potential migration during the one-year revolving period, the adjusted gross loss assumption of 0.8% is used for cash flow analysis
Source: Fitch Ratings

Related Criteria

- [Consumer ABS Rating Criteria \(January 2019\)](#)
- [Global Structured Finance Rating Criteria \(May 2018\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(August 2018\)](#)
- [Structured Finance and Covered Bonds Country Risk Rating Criteria \(October 2018\)](#)

Transaction Comparison Table

Portfolio summary as of closing	Driver Japan two	Driver Japan three	Driver Japan four	Driver Japan five	Driver Japan six	Driver Japan seven	Driver Japan eight ^a
Total discounted principal balance (JPYm)	30,271	32,087	34,225	64,176	64,172	58,824	69,521
Number of auto loan contracts	14,160	15,890	16,751	31,976	30,757	25,466	30,362
Average discounted principal balance (JPY)	2,137,749	2,019,289	2,043,162	2,007,013	2,086,410	2,309,893	2,289,731
Weighted average seasoning (months)	11.7	12.4	12.8	13.4	11.8	9.6	9.3
Weighted average remaining term (months)	40.2	38.0	36.1	32.7	36.3	38.9	39.2
Collateral by balance (%)							
Geographic distribution							
	Tokyo: 20.6	Tokyo: 18.1	Tokyo: 18.3	Tokyo: 17.4	Tokyo: 17.7	Tokyo: 18.0	Tokyo: 18.1
	Kanagawa: 11.3	Kanagawa: 10.0	Kanagawa: 10.5	Kanagawa: 10.5	Kanagawa: 10.2	Kanagawa: 10.4	Kanagawa: 10.1
	Aichi: 8.1	Aichi: 7.4	Aichi: 7.1	Aichi: 6.9	Aichi: 6.9	Aichi: 7.3	Aichi: 7.3
	Saitama: 5.8	Osaka: 6.3	Osaka: 6.3	Osaka: 6.6	Saitama: 6.6	Saitama: 6.7	Osaka: 7.2
	Chiba: 5.0	Saitama: 6.2	Saitama: 5.4	Saitama: 6.0	Osaka: 6.3	Osaka: 6.6	Saitama: 6.9
Sub-servicers							
Cedyna	73.0	65.8	63.5	62.0	61.1	58.8	57.6
JACCS	27.0	34.2	36.5	38.0	38.9	41.2	42.4
Age of vehicles							
New vehicles	82.0	82.4	82.8	79.5	77.2	76.2	75.3
Used vehicles	18.0	17.7	17.2	20.5	22.8	23.8	24.7
Type of repayment							
Balloon payment	72.1	72.2	78.5	83.9	86.4	89.4	89.1
Fully amortising	27.9	27.8	21.5	16.1	13.6	10.6	10.9
Portion by payment type							
Monthly instalment portion	70.2	67.7	64.1	59.0	60.5	61.8	62.3
Balloon portion	29.8	32.3	35.9	41.0	39.5	38.2	37.7

^a The figures for Driver Japan eight are based on the initial pool.
Source: Fitch Ratings, transaction documents

Key Differences with Recent Driver Japan Transactions

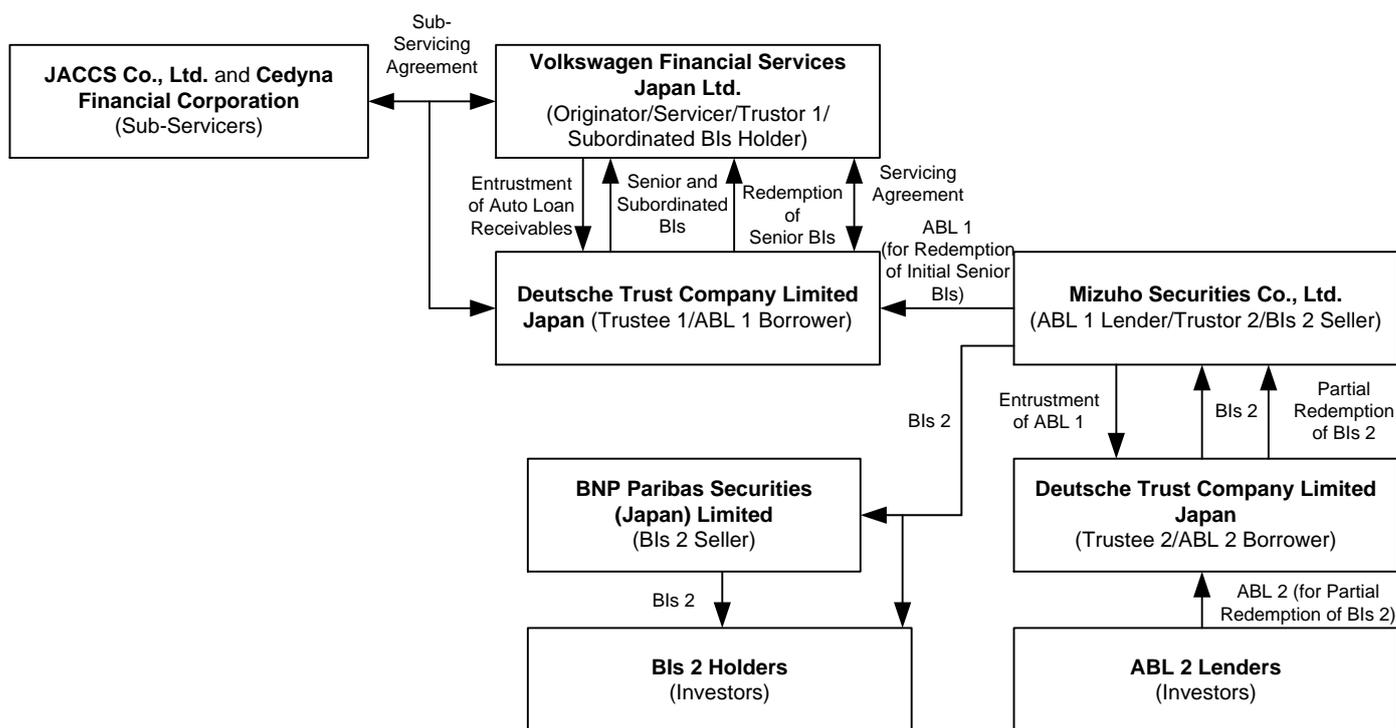
The collateral characteristics of Driver Japan eight are consistent with recent Driver Japan transactions across average balance, seasoning, composition of product type, and both geographic composition and concentration. The collateral pool is similar to that of Driver Japan seven, with a slight increase in fully amortising loans – to 10.9% of the portfolio from 10.6% – while the monthly instalment portion has slightly increased to 62.3% from 61.8%. The transaction structure replicates that of Driver Japan seven.

Transaction Parties

Role	Name	Fitch Rating
Issuer of BIs 2/borrower of ABL2	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 & 2/borrower of ABL 1	Deutsche Trust Company Limited Japan	Not rated
Issuer account bank provider	MUFG Bank, Ltd.	A/Stable/F1
Co-arrangers	Mizuho Securities Co., Ltd. and BNP Paribas Securities (Japan) Limited	Not rated
Lender of ABL 1/trustor 2	Mizuho Securities Co., Ltd.	Not rated

Source: Fitch Ratings, transaction documents

Transaction and Legal Structure



Source: Fitch Ratings, transaction documents

Capital Structure & Credit Enhancement

VWFSJ initially entrusts its auto loan receivables, which satisfy the eligibility criteria and are extracted from VWFSJ's auto loan portfolio randomly, 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 the credit enhancement (CE) in Fitch's analysis and are excluded in calculating CE.

Mizuho Securities Co., Ltd. (MHSC) extends ABL 1 to Trustee 1 to redeem initial Senior BIs in full. VWFSJ will continue to hold Subordinated BIs throughout the transaction period. MHSC 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 the occurrence of an early amortisation event, additionally 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 the occurrence of the 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, which will reduce the subordinated BI balance by an amount of the discounted principal balance of the relevant defaulted auto loan receivables. As no replenishment of the subordinated BIs is expected irrespective of the actual recovery from defaulted auto loan receivables, no recovery from such receivables is taken into account in the analysis.

Based on the initial pool, the transaction's assets and liabilities are expected to be as follows.

Expected Balance Sheet of Trust 1 at Closing

Assets	(JPY)	Liabilities	(JPY)	Size as % of receivable balance
Receivables	69,520,797,756	ABL 1 ^a	65,000,000,000	93.5
		Subordinated BIs	4,520,797,756	6.5
Total	69,520,797,756		69,520,797,756	
Cash collateral	(equivalent to 4-mth interest and expenses)			

^a BIs 2 and ABL 2 are issued, backed by ABL 1 and the sum of the balance of BIs 2 (JPY47 billion) and ABL 2 (JPY18 billion) will be JPY65 billion.

Source: Fitch Ratings, transaction documents

True Transfer of Assets

The entrustment of the initial and additional auto loan receivables will be 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 Movable 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

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

- each auto loan receivable is a fully disbursed loan;
- each obligor of the auto loan receivable 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 Volkswagen AG, and if an individual, has its place of residence in Japan;
- at least two monthly payments have been made in respect of each auto loan receivable and all monthly payments in respect of each auto loan receivable are required to be made (i) within 84 months after the date of origination of such auto loan receivables, (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 the 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 (i) greater than JPY50,000 and (ii) less than JPY10,000,000;

- 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 purchased vehicles will not exceed 35% of the aggregate discounted principal balance of the auto loan receivables;
- auto loan receivables for purchased vehicles, other than auto loan receivables originated by Trustor 1 in connection with Volkswagen, Audi, Bentley or Lamborghini-branded purchased 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 and 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 and the payment will be made by Trustor 1 to Trustee 1 on the subsequent monthly remittance date after necessary notification is made between Trustor 1 and Trustee 1.

Discount Rate

All securitised receivables within the portfolio will be discounted with a rate that is the greater of:

- a) 1.12% equal to the sum of the three components (i) to (iii) below expressed in percentage terms
 - (i). the fixed coupon rate of BIs 2 and ABL 2;
 - (ii). the fixed servicing fees; and
 - (iii). the fixed administrative costs and fees, and
- b) the applicable interest rate in the relevant auto loan agreements.

This transaction is not considered to be 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. The cash collateral amount is expected to cover the dividends on BIs 2 and interest on ABL 2 as well as fees and expenses for four months.

The targeted cash collateral amount will remain unchanged with 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 the 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 incl. tax/public charges, Servicer/Trustee 1 fees and other fees/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 balance of ABL 1
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, transaction documents

Trust 2: Priority of Payments

1	Senior expenses incl. tax/public charges, Trustee 2 fees and other fees/expenses
2	Overdue and unpaid dividends/interest on BIs 2/ABL 2, if any
3	Dividends/interest on BIs 2/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, transaction documents

Repayment Order and Targeted OC levels

At closing the transaction will start with a CE of 6.5%; however, the CE is likely to increase through the entrustment of additional auto loan receivables and redemption of the 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 existing Subordinated BIs, while the additional Senior BIs will be redeemed by using the collected amount under 5a) of the above table (Trust 1: Priority of Payments) during the revolving period.

Target OC Levels^a

	Target OC percentage
Initial OC level available	6.5
No trigger breached during the revolving period	8.5
No trigger breached after the revolving period	11.5
Level 1 trigger breached	17.0
Level 2 trigger breached	100.0

^a Target OC amount is calculated by multiplying the aggregate discounted principal balance of the auto loan receivables by the relevant target OC percentage
 Source: Fitch Ratings, transaction documents

If the targeted OC 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 the OC needs to be maintained, and this effectively means that the OC 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 amount is likely to mitigate a potential 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:

0.5% at any trust calculation date prior to and including August 2019;

0.8% at any trust calculation date falling between September 2019 and May 2020; or

1.15% at any trust calculation date falling between June 2020 and February 2021.

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

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

In comparison with Fitch's base-case cumulative gross loss expectation of 0.8%, these performance-based trigger levels provide limited protection. 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 occurrence of the following events will lead to an end of the revolving period and early amortisation:

- a Level 2 credit enhancement 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 others, 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

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, Fitch 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.

Asset Analysis

Originator and Servicer Overview

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

VWFSJ entered into business operations consignment agreements (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/Stable/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 as a result of a merger of three consumer finance companies, OMC Card, Inc., Central Finance Co., Ltd. and QUOQ Inc., and is a wholly owned subsidiary of SMFG Card & Credit, Inc., which itself is a wholly owned subsidiary of Sumitomo Mitsui Financial Group, Inc. (A/Stable/F1). Cedyna focuses on three key businesses; credit card business, instalment business including auto loans, and solution business. VWFSJ entered into a Consignment Agreement with one of the three predecessor companies, Central Finance Co., Ltd. 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 the instalment payments from them and transfer such collections to VWFSJ. Furthermore, under each Sub-Servicing Agreement entered into among Trustee 1, VWFSJ, each of JACCS and Cedyna, the latter two companies will undertake to perform the same services as currently provided to VWFSJ in the relevant Consignment Agreement as a sub-servicer delegated by Trustee 1. If VWFSJ as the servicer fails to make required advance payment, JACCS and Cedyna will remit the corresponding collection directly to Trustee 1, if instructed by Trustee 1 to do so.

Loan Products

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

- Owner's Plan: fully amortising loans with equal monthly instalment.
- Twin Plan: fully amortising loans with equal monthly instalment. 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 limits.
- Refinance of 140: fully amortising loans with equal monthly instalment. This is designed for refinancing the balloon payment for Solutions.
- Refinance of 150/151: fully amortising loans with equal monthly instalment. This is designed for refinancing the balloon payment for S-Loan and S-Loan Plus.
- Solutions, etc.: balloon loans for purchasers of Volkswagen and Audi vehicles with equal monthly instalment. A repurchase option at a pre-determined price is included.
- S-Loan (150): balloon loans with equal monthly instalment. No repurchase option is included.
- S-Loan Plus (151): balloon loans for purchasers of Audi vehicles with equal monthly instalment. 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 447 dealerships (Volkswagen: 257, Audi: 126, Bentley: 9, Lamborghini: 9, Ducati: 46, as of 31 October 2018). VWFSJ monitors these dealers by using its rating system based on their financial strengths. The dealer is responsible for offering financing services to its customers. If a purchaser of a vehicle submits the credit application, the dealer will forward it to a sub-servicer by facsimile or EVAS, VWFSJ's proprietary web-based system, which supports creation of quotation, loan application and notification of its examination result from the sub-servicer to the dealer. Once the completeness of the submitted application form is confirmed by the sub-servicer, it will contact the purchaser to confirm his/her intention to purchase the vehicle. Each sub-servicer will use its proprietary scoring system to assess the application and make credit decisions.

In the underwriting process, the applicants' attributes and credit histories are taken into consideration. No material change has historically been made in the underwriting standards of both sub-servicers. There is in principle no provision in the related underwriting standards that allows an exceptional treatment of applicants in the credit decisions. If some irregularity is identified in the submitted applications, such facts 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 will be conveyed to the dealer through EVAS. If the loan application is approved, the down payment is made and the contract will be arranged and signed. After the contract data is delivered to VWFSJ, it will make the advance payment on behalf of the purchaser to the dealer.

The cancellation risk of the auto loan agreements in the underlying portfolio is considered limited, because the loans to be included in the portfolio are well seasoned, ranging approximately between 9 months and 17 months on average to date. Also, the eligibility criteria require the loans to have made at least two monthly payments, while most cancellations have historically occurred at very early stages of the loan terms.

Servicing and Collections

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

If a delinquency occurs, the relevant sub-servicer will encourage the delinquent obligor to pay the loans via phone call and/or SMS for the first 60 days. They may additionally have a meeting

with the delinquent obligor thereafter up to 90 days, as necessary. If an obligor fails to make monthly instalment payment three times in a row or more, the relevant loan will be classed as defaulted receivables and the relevant guarantor will make a guarantee payment to VWFSJ.

The guarantors are exempted from the guarantee payment if, among others, the obligor has exercised its 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 and JACCS in its initial analysis, as they are unrated by Fitch and not all of the loan obligations may be covered by the guarantees due to this exemption.

Portfolio Summary

As of the initial cut-off date, the pool of eligible receivables consisted of 30,362 contracts with the total discounted principal balance of JPY69,521 million. The loan receivables were originated by VWFSJ during the ordinary course of its 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 is JPY2.29 million and the maximum outstanding discounted loan size is JPY9.99 million. The maximum obligor exposure balance is JPY15.86 million with two loans.

All loan receivables pay a fixed rate of interest and the weighted-average (WA) interest rate for the pool is 2.32%. The portfolio is geographically concentrated in the Tokyo Metropolitan area, as commonly observed in consumer asset pools. The WA remaining term of the pool at the initial cut-off date was 39.2 months. The WA seasoning of the pool was 9.3 months.

Portfolio Credit Analysis

Default Risk

Fitch has determined its base case WA cumulative gross loss rate expectation of 0.8% (new vehicles: 0.77%, used vehicles: 0.86%), based on the 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 instalment payments 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 the pool composition as no substantial drifts in VWFSJ's origination mix are likely within the short time of the revolving period. Therefore, the agency assumed that the proportion of the 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 credit quality of the portfolio. This is 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.

While the stress multiple for 'AAAsf' stipulated in the criteria ranges between 4.0x and 6.0x, 7.0x was used for this transaction, before taking into account balloon payment risk. Fitch used a higher multiple to address the fact that the base-case loss is low in absolute terms. A small base-case loss in absolute terms means that a small change would have the potential to significantly impact the credit enhancement.

In addition, Fitch's cumulative gross loss assumptions also reflect balloon risk. There may be obligors who engage in a balloon contract expecting to either refinance at maturity or sell the car back to the dealer or VWFSJ. Should the obligor not be able to refinance the balloon amount due, for example, to a default of VWFSJ, or to sell the car back to the dealer or VWFSJ, the obligor will be obliged to pay this final instalment. In Fitch's view, this may lead to an unexpected payment shock to the obligor that might cause higher obligor defaults compared to

amortising loans without balloon payment.

To quantify the additional default risk stemming from balloon payments, in the 'AAAsf' rating scenario, Fitch has assumed a debtor probability of default in line with the 'AAAsf' rating default rate for the portfolio and a 60% failure rate of the obligations being fulfilled upon the exercise of such debtors' options to resell the vehicles or refinance loans, resulting in the additional cumulative loss of 1.3% which was added to AAAsf-stressed cumulative gross loss rate assumptions prior to balloon risk of 5.6% (= 0.8%x7). The above 60% is based on the diversified dealer network across Japan, a small number of VW group's affiliates (two companies) within the dealer universe and no precedent of major dealer default to date.

Asset Outlook

Fitch has a stable outlook for both the asset and rating performance. Credit loss is likely to be stable, due to the steady unemployment outlook.

Prepayment Rates

The transaction is dependent on obligors' prepayment behaviour on the basis that prepayment is the main driver of the speed of deleveraging for the rated debts. Fitch has, therefore, tested the resilience of the structure to different prepayment assumptions (fast and slow) based on its base case prepayment rate expectation of 12% per annum.

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 discount rate for the loan. This is because of the use of the two types of discount rates as described in the section on Discount Rate on page 6.

Financial Structure and Cash Flow Modelling

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 debts. 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 with respect to 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 the occurrence of the early amortisation event, the defaulted loan receivables may be delivered to VWFSJ as the holder of the Subordinated BIs in kind. Thus, Fitch assumed no recovery from such defaulted loan receivables.

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

According to Fitch's modelling results, sufficient cash flows will be generated to make timely payments of interest and payment of principal to the BIs 2 and ABL 2 by the final maturity date in accordance with the transaction documents.

Rating Sensitivity¹

This section of the report provides a greater insight into the model-implied impact on the transaction 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

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

stressed environment, and secondly, the structural protection was analysed in a customised proprietary cash flow model (see Financial Structure & Cash Flow Modelling). The results below should only be considered as one potential outcome given that the transaction is exposed to multiple risk factors that are all dynamic variables.

Rating Sensitivity to Increased Gross Loss

The table below reflects rating changes if the base-case gross loss rate for the portfolio is increased by a relative amount, for example an increase of 10% in the base-case gross loss expectation would not lead to a downgrade for the rated debts.

Rating Sensitivity to Increased Gross Loss

Original rating	AAAsf
Increase base case by 10%	AAAsf
Increase base case by 25%	AA+sf
Increase base case by 50%	AA-sf

Source: Fitch Ratings

Rating Sensitivity to Decreased Asset Yield

The table below reflects rating changes if the asset yields decrease during the one-year revolving period. A decrease of 25% in the asset yield would not lead to a downgrade for the rated debts.

Rating Sensitivity to Decreased Asset Yield

Original rating	AAAsf
Reduce base case by 10%	AAAsf
Reduce base case by 25%	AAAsf
Reduce base case by 50%	AA-sf

Source: Fitch Ratings

Rating Sensitivity to Shifts in Multiple Factors

The table below summarises the rating's sensitivity to stressing two factors simultaneously: increased gross loss rate and reduced asset yield. Three scenarios are evaluated to show the sensitivity of the rating to varying degrees of stress, that is, mild, moderate and severe changes to the expected level of gross loss and asset yield.

Rating Sensitivity to Shifts in Multiple Factors

Original rating	AAAsf
Mild stress: Increase base case gross loss rate by 10% and reduce base case asset yield by 10%	AAAsf
Moderate stress: Increase base case gross loss rate by 25% and reduce base case asset yield by 25%	AA-sf
Severe stress: Increase base case gross loss rate by 50% and reduce base case asset yield by 50%	A-sf

Source: Fitch Ratings

Criteria Application, Model and Data Adequacy

Criteria Application

Fitch has analysed the transaction's risks, including portfolio credit risk and counterparty risk, in accordance with the following criteria, Consumer ABS Rating Criteria, dated January 2019; Structured Finance and Covered Bonds Counterparty Rating Criteria, dated August 2018; Structured Finance and Covered Bonds Country Risk Rating Criteria, dated October 2018; and Global Structured Finance Rating Criteria, dated May 2018.

Model

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.

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 cancellation data, from July 2002 to October 2018.

Fitch determined that an adequate level of data was provided to be able to apply the above rating criteria. The period considered (2002 to 2018) covers two economic stress periods of 2008 and 2012 in Japan.

Counterparty Risk

Servicing

At closing, VWFSJ acts as the servicer of this transaction; but it will delegate its function to Cedyna or JACCS, as the 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 such failure 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.

Account Bank

The bank account for the trust assets will be held at MUFG Bank, Ltd. at closing. If the bank is downgraded below 'A' and 'F1', the trustee will, within 30 calendar days, replace the bank with an eligible account bank rated at least 'A' or 'F1' by Fitch.

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, set-off risk is considered well-mitigated.

No Swap

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

Performance Analytics

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 the 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 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.

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