FIDC Driver Brasil Four Banco Volkswagen

New Issue

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Transaction Summary

Capital Structure

Class	Rating	Outlook	Amount (BRL Mil.)	CE (%)[a]	Interest Rate (%)	Final Maturity[b]
Senior (A)	AAAsf(bra)	Stable	1,000.0	10.0	106.25% CDI	July 2025
Subordinate	NR	NA	109.9	—	—	July 2025
Total			**1,109.9**			

[a]Credit enhancement (CE) consists of 9% overcollateralization based on a total asset pool of BRL1,095 million and cash reserve of 1.0% of the initial portfolio balance. [b]Expected final maturity is July 2024. CDI – Certificado de Depósito Interfinanceiro. NR – Not rated. N.A. – Not applicable.

This issuance is backed by a static pool of auto loan receivables originated by Banco Volkswagen S.A. (BVW – not rated) for the acquisition of semi-used/used (21.7%) and new (78.3%) light vehicles to private and commercial obligors sold through Volkswagen and Audi dealerships in Brazil. This will be the fourth securitization of Brazilian auto receivables by BVW.

Key Rating Drivers

Default Expectation Incorporates Stressed Environment: Fitch Ratings assumes a base-case cumulative gross default rate of 3.5% for this transaction, which is higher than the previous issuance (Driver Brasil Three). The increase in base case expectation relies on historical data that reflects a stressed macroeconomic environment, with considerably high unemployment rate, negative GDP and high inflation. Fitch stressed this expectation through a multiple of 3.7x for 'AAAsf(bra)' at the low end of the criteria range.

Strong Structural Features: The transaction has a structure in line with international standards, being superior to structures in the local market: it includes cumulative default cash-trapping triggers and an interest rate swap. Moreover, the transaction is static, which reduces reliance on the originator, and features a cash collateral account that mitigates tail risk. On the other hand, loans are transferred at a fixed discount rate (lower than contractual rate from most loans), which exposes the transaction to prepayment losses.

Pro Rata Amortization Exposes Backloaded Risk: A target overcollateralization (OC) mechanism that allows funds to be paid to the junior tranche from the transaction's onset until a cumulative default trigger is hit. This exposes it to the risk that defaults become backloaded after excess cash has leaked out of the structure. Fitch has considered this risk and believes the senior tranche is resilient to such scenarios.

Seller-Related Risks Addressed: Banco Bradesco, as custodian, is responsible to manage collections, identify delinquencies, maintain loan files and audit the portfolio. Bradesco hired BVW as the primary servicer of delinquent portfolio. Payments from the obligors are made directly to collection accounts in the name of the SPV through electronic payments (boletos bancarios). Fitch considers the exposure to seller disruption limited, as loan documents are held by third parties, the assets are standard to service, the documented procedures are standard and simple, and there is a broad replacement servicer market.

Additional Rating Drivers

Counterparty Risk from Absence of Remedial Actions: Transaction documents do not contemplate remedial actions in case of counterparty downgrades, which would allow ratings to be delinked from the supporting counterparties. Therefore key counterparty ratings, such as the swap provider and issuer account bank, potentially limit the rating assigned to the senior notes should such counterparties be downgraded, as they currently are at the top of the national rating scale.

Transaction Comparison

Issuer	Driver Brasil Four	Driver Brasil Three	Driver Turkey Master	Driver China Seven
Closing Date	Jul 19	Dec 15	Feb 18	Sept 17
Country Of Assets	Brazil	Brazil	Turkey	China
Currency	BRL	BRL	TRY	CNY
Seller	Banco Volkswagen S.A	Banco Volkswagen S.A	Volkswagen Dogus Finansman A.S.	Volkswagen Finance (China)
Issuance Volume (Bil.)	BRL1.1	BRL1.1	TRY1.0	CNY4.0
Class	**Class A**	**Class A**	**Class A**	**Class A**
Rating	AAAsf(bra)	AAAsf(bra)	A-sf	AA+sf
Amount (Bil.)	BRL1.0	BRL1.0	TRY0.8	CNY3.5
Credit Enhancement (%)	10.0	10.0	25.0	12.2
Class	**Class B**	**Class B**	**Class B**	**Class B**
Rating	N.A.	A+sf(bra)	N.A.	Asf
Amount (Mil.)	N.A.	BRL15.3	N.A.	CNY150
Credit Enhancement (%)	0	8.6	N.A.	8.5
Portfolio Summary as of Closing				
Type	Static	Static	1 year revolving	Static
Type of Receivables	Auto loans	Auto loans	Auto loans	Auto loans
Discounted Principal Amount	BRL1.1bn	BRL1.1bn	TRY1.0bn	CNY4.0bn
Number of Receivables	47,464	77,435	33,651	68,331
Avg. outstanding Balance	BRL23,076	BRL13,857	TRY32,352	USD equivalent 8,921
WA Remaining Term in Months	23.3	22.5	26.2	22.8
WA Seasoning in Months	13.9	15.1	11.5	6.9
WA Original Term in Months	37.2	37.7	37.7	29.7
Collateral By Balance (%)				
New Vehicles	78.3	89.9	94.2	99
Used and Semi-used Vehicles	21.7	10.1	5.8	1
Fitch Assumptions				
Base Case Default (%)	3.5	2.5	5.5	1.4
Base Case Recovery (%)	40	40	80	10 (unsecured)

N.A. – Not applicable.
Source: Fitch Ratings.

Key Differences with Previous Driver Brasil Transactions

The most notable differences between the Driver Brasil Four transaction and other Driver Brasil transactions are the increase in used vehicles share and reduction in the remaining and original term of the portfolio (the latter being similar to Driver Brasil Three only). This is explained by the composition mix of the company's portfolio, which has an increased share in the financing of semi-used and used vehicles since the last crisis in 2015. Fitch's expected base case default has also increased to 3.5% from 2.5% in the previous issuance. The base case default rate incorporates not only the macroeconomic stress observed in recent vintages but also the portfolio characteristics.

While target OC triggers and levels remained constant compared to previous securitizations, the discount rate is considerably lower, which is 7.76% versus 18.4% from Driver Brasil Three.

Related Research

Fitch Ratings: European Pro-Rata ABS Risks Demand Extra Attention (November 2018)

Brazilian Lending Trends: 2H18 (March 2019)

Brazilian Captive Banks Automakers Dashboard (January 2019)

This is mostly explained by the swap rate given current market conditions for CDI (Certificado de Depósito Interfinanceiro) rate – one of the factors that determine the discount rate calculation. The reduction in the discount rate will lead to the issuer purchasing the trust assets from the seller at a premium in a larger portion, as the discount rate applied was lower than the weighted-average (WA) yield of the portfolio, which has shown a low variation in recent years. This structural feature was also incorporated in Fitch's cash flow analysis.

This is also the first Driver Brasil issuance without a mezzanine class. In relation to target OC levels, although the OC level will be built in lower levels compared to Driver One and Two, the level one and two triggers are tighter. See the Target OC levels table in the Transaction and Legal Structure section, for further details.

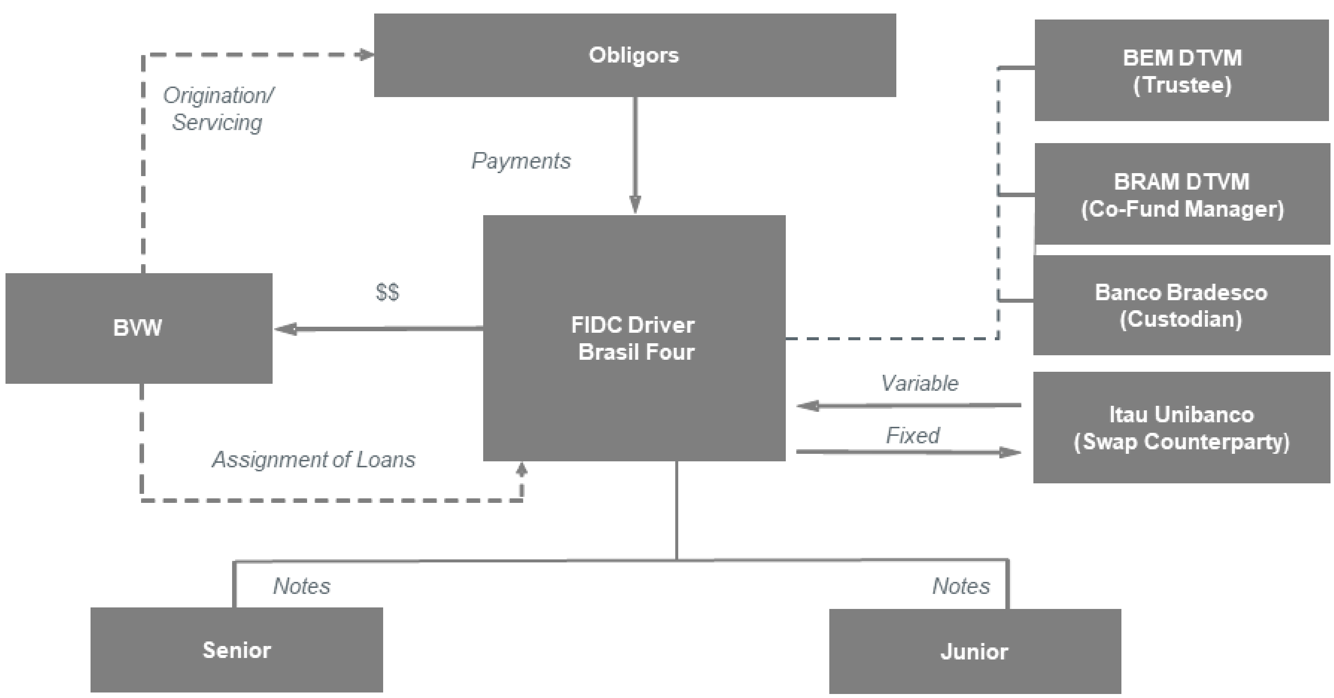
Transaction Parties

Role	Name	Fitch Rating
Issuer	Driver Brasil Four Banco Volkswagen FIDC Financiamento de Veículos	NR
Originator/Seller/Primary Servicer	Banco Volkswagen S.A.	NR
Trustee	BEM DTVM Ltda.	NR
Trust Administrator	BRAM – Bradesco Asset Management S.A. – DTVM	NR
Issuer Account Bank Provider	Banco Bradesco S.A.	AAA(bra)/Stable/F1+(bra)
Swap Provider	Itau Unibanco S.A.	AAA(bra)/Stable/F1+(bra)

NR – Not rated
Source: FIDC Driver Brasil Four.

Transaction and Legal Structure

Transaction Diagram



Source: FIDC Driver Brasil Four Banco Volkswagen.

Issuer and True Sale

Driver Brasil Four Banco Volkswagen Fundo de Investimento em Direitos Creditorios Financiamento de Veiculos (FIDC Driver Brasil Four, also referred as SPV or fund) is established as a closed-end fund, with a five-year term, renewable for 12 months without prior investor assembly approval. The trustee is BEM Distribuidora de Títulos e Valores Mobiliários Ltda. (BEM DTVM), the trust administrator is BRAM – Bradesco Asset Management S.A. – DTVM (BRAM DTVM) and the custodian is Bradesco. These three parties belong to the same economic group but with segregated activities. Bradesco, as custodian, is responsible for the loan administration and hired BVW as servicer of the delinquent loans. The physical storage of documents, a custodian's responsibility, was outsourced to Iron Mountain do Brasil Ltda.

BVW provided to the administrator of the fund with a pool of loans that it intends to securitize. The loans, which must meet the conditions for assignment, were selected randomly and represent characteristics similar to the seller's portfolio. The custodian verified whether the loans in the pool meet the established eligibility criteria and the pool presented in this report reflects the final pool assigned to the transaction. The main eligibility criteria and conditions for assignment are listed in the Appendix of this report.

After the custodian verifies the adherence to the eligibility criteria, the bill of sale (Termo de Cessão) is signed for definitive assignment. Thus, BVW transfers to the fund the full ownership of the loan pool and all rights and privileges deriving therefrom, without any right of recourse or co-obligation.

The SPV's bylaws will be registered in the notary office within 30 days from the date of signature and within 20 calendar days for the assignment agreement. Obligors will not be notified of the loan sale to the fund, unless the assignment agreement is rescinded for any reason.

The fiduciary lien on the vehicles financed was transferred to the fund. For any vehicle repossessed and sold, its sale proceeds will be transferred to the transaction account domiciled at Bradesco.

Fitch received a legal opinion stating that, among other things, the fund was duly constituted and organized; the transaction documents are valid and enforceable obligations; and that sale to the FIDC ensures the first priority security interest in the loan collateral.

Capital Structure and Credit Enhancement

The fund has two classes: senior and junior class. The amount of the senior issuance was BRL1 billion. Senior quotas were issued in a single series, and no new issuance can be made under the same vehicle. The junior class issuance sum BRL105.1 million and represent 9.9% of the transaction size. The senior amortization will follow a target OC: both classes of notes can amortize for an amount that allows maintaining the target OC levels for the senior notes, provided that no evaluation or early liquidation event has occurred.

The initial OC for the senior class is 9% and is lower than its target OC, of 10%. Thus, initially there will be no repayment of principal for the junior class until the target OC to the senior class is met.

Discount Rate

All securitized loan receivables in the portfolio are discounted with a single discount rate that is equal to the compounding aggregate of (i) the fixed swap rate (including margins), (ii) transaction expenses; and (iii) expected loss rate by the originator.

Discount Rate Calculation (%)

A)	Swap Rate	6.5
B)	Transaction expenses	0.2
C)	Expected loss rate	0.9
Total	$(1+A)\times(1+B)\times(1+C)-1$	**7.8**

Source: BVW.

Cash Collateral Account

The fund has a cash collateral account (CCA) to cover the payments of the senior class, in addition to operational expenses. The available amount in the reserve will be allocated to investments in accordance with transaction documents, which include Brazilian government bonds with floating rates and funds that invest in such bonds. Brazil is rated 'BB–'/Stable.

The CCA has a minimum value of 1% of the portfolio transferred to the fund, capped at the remaining principal balance of the senior class. In case of early liquidation or if the discounted principal balance after provisions is zero, the minimum value of the reserve is zero, which means that these funds can be used to pay principal on the senior notes, therefore providing an additional layer of protection to investors. Fitch therefore considers the CCA part of the available CE.

Early Amortization Events and Performance Triggers

Under the occurrence of an evaluation event, the administrator will call an investor assembly to deliberate if this event must be considered as an event of early liquidation of the fund. Some of the events are:

- senior notes are downgraded two or more notches in national scale from its original rating;
- resignation of the trustee or custodian;
- failure by the trustee or primary servicer to perform in accordance with the transaction documents, not cured for two business days;
- any representation or warranty made by the seller or any information contained in the transaction documents is incorrect in any material respect and is not cured for two business days, and as result the investors are materially and adversely affected;
- CCA is less than the target balance for any two consecutive or three alternate payment dates during a 12-month period;
- purchase of loans in breach of eligibility criteria;
- nonpayment of any interest to the senior class at the respective payment date when such interest becomes due and payable, and such nonpayment continue for a period of five business days; and
- failure to maintain the minimum subordination of 5% for two consecutive or three alternate dates during a 12-month period.

The early liquidation events of the fund are, among others:

- the investors' assembly decides that an evaluation event must be considered an early liquidation event.
- during three consecutive months, the average FNW is lower than BRL500,000;
- the trustee or custodian resigns from its role and is not replaced within 120 and 30 days, respectively;
- BVW goes into bankruptcy, intervention, extrajudicial liquidation, special regime of temporary management;

- assignment agreement is terminated; and
- violation of legal or regulatory provisions.

If an early liquidation event occurs, the administrator will call an investor assembly within five business days to deliberate the fund's early liquidation. If the assembly authorizes the early liquidation, all the quotas will be redeemed in full starting with the senior class and then continuing with the junior class once the senior class is fully redeemed.

If the assembly decides against the early liquidation, it will be granted to the dissenting investors the redemption of their quotas by the value of the quota on the payment date.

The transaction has performance triggers that change the monthly amount allocated to the senior and junior classes, through a minimum target OC for the senior class. In the transaction documents, OC coverage is calculated as a percentage of the discounted principal balance of the portfolio net from both provisions and cash available. Therefore, OC is calculated as one minus the outstanding balance of the senior notes divided by portfolio net from provisions. Although default definition is 180 days, the trustee will fully provision loans after 120 days.

The initial OC to the senior class is 9% and the target OC, if no trigger is breached, is 10%. In the event of a level 1 trigger breach, the minimum OC increases to 15% and to 100% in case of a level 2 trigger breach.

The level 1 trigger will be breached if the cumulative default exceeds 1.5% during the first 12 months, or 3.5% between the 13th and 24th month after issuance. The level 2 trigger is considered breached if the cumulative default equals more than 5.0% on any date. The following table shows these triggers for Driver Brasil Four and its two predecessor transactions, as well as the default assumptions to put these in context.

The Driver Brasil Four target OC levels and default levels are at the same level as the previous Driver Brasil Three, although expected default rates have increased.

Clean-Up Call Option

The issuer holds the right to call the remaining discounted principal balance of the senior class when the remaining discounted principal balance of the loan pool is less than 10% of the original balance. By exercising the clean-up call, the fund will no longer be exposed to a concentrated portfolio, besides not having to incur proportionally high operational costs.

Targeted OC Levels

	Driver Brasil Four	Driver Brasil Three	Driver Brasil Two
No trigger is breached	Class A's OC to reach 10% before paying to the junior class.	Class A's and B's OC to reach 10% / 6.6% before paying to junior class.	Class A's and B's OC to reach 12.5% / 7% before paying to junior class.
Default definition for Level 1 & 2 triggers	Cumulative gross default rate	Cumulative gross default rate	Cumulative gross default rate
Fitch's Gross Default	3.5%	2.5%	N.A.
Fitch's Recovery Rate	40%	40%	N.A.
Fitch's Net Loss	2.1%	1.5%	N.A.
Level 1 trigger, first phase	Up to month 12: 1.5%	Up to month 12: 1.5%	Up to month 12: 2.6%
Level 1 trigger, second phase	Months 13-24: 3.5%	Months 13-24: 3.5%	Months 13-24: 4.8%
Consequence of breach level 1 trigger	Class A's OC to reach 15% before paying the junior class.	Class A's and B's OC to reach 15% / 9% before paying the junior class.	Class A's and B's OC to reach 16% / 10% before paying the junior class.
Level 2 trigger (applicable for any payment date)	5.0%	5.0%	7.4%
Consequence of breach level 2 trigger	Class A's OC to reach 100% before paying the junior class.	Class A's and B's OC to reach 100% before paying the junior class.	Class A's and B's OC to reach 100% before paying the junior class.

N.A. – Not applicable.
Source: FIDC Driver Brasil Four.

However, there's no guarantee that the clean-up call will be executed. Therefore, this option has not been considered in Fitch's analysis.

Priority of Payments

Collected amounts will be distributed in accordance with the priority of payments of the trust, as summarized in the following table.

Priority of Payments

1. Monthly administration, custody and management expenses incurred by the fund.
2. Servicing fee.
3. To the swap counterparty, any amount related to the result of the swap, when negative, or any amount resulting from the termination of the swap agreement, in the event the swap counterparty is not the defaulting party.
4. To the senior quota holders up to the senior class interest (including amounts due but not previously paid).
5. To the cash collateral account, up to the limit of the specified cash collateral account balance.
6. To the senior noteholders to achieve the senior target OC percentage.
7. To the swap counterparty, if it is the defaulting or terminating party, any payment related to the swap agreement not previously mentioned in step #3.
8. To junior notes to the extent specified by OC levels (to maintain the target senior OC), unless otherwise instructed by subordinate noteholders.

Source: FIDC Driver Brasil Four.

Determination of Legal Maturity

The expected final maturity of the senior class will be 60 months after the issuance of the quotas, which occurred in July 2019. The legal final maturity will be 72 months after the first issuance of the quotas. The rating assigned reflects the likelihood of ultimate payment of principal and interest by the legal final maturity in July 2025.

Disclaimer

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Asset Analysis

Originator Overview

Fitch performed an originator review at the offices of BVW in Sao Paulo, Brazil, in April 2019.

BVW's core business is the financing of Volkswagen (and affiliated brands) vehicles through the Volkswagen (retail) network, in addition to the financing of the wholesale brand dealerships. In 2018, the company held 65% of the group Volkswagen vehicle financing market and 38% in new vehicle sales.

At the end of April 2019, the BVW had a consumer loan credit portfolio of BRL 8.5 billion. Consumer loan contracts historically represent most of the company's total credit portfolio.

The company's history, structure and experience, as well as its commitment in retaining the subordinate series of all of its securitizations, demonstrate an aligning interest in providing an adequate quality of assets. Driver Brasil Four is not only part of a program in Brazil but adheres to VW's global standards.

Loan Products

BVW offers three standard retail financing products to its customers, which are regular financing, tailor-made financing and a final balloon loan. Despite the stated maximum terms in those products, the securitized portfolio's total term is around 38 months.

Regular Financing (Convencional)

Obligors don't necessarily have to make a down payment and there're monthly level payments throughout the term of the loan. The typical financing term is up to 60 months for new and semi-used cars and up to 48 months to used cars. The auto loan, the car insurance, financing insurance, dispatcher, licensing and accessories may also possibly be financed together.

Taylor-Made Financing (Sob Medida)

Under this product, it is possible to have a higher customization of the loan terms. Down payment typically starts with 40%, the monthly payments in the first 12 months are equally lower and after this period the monthly installments are equal, at a higher level, throughout the term of the loan. Typical financing term is up to 60 months for new and semi-used cars and up to 48 months for used cars.

Final Balloon (Sempre Novo)

Obligors have to start the financing with a down payment of at least 20%, and pay regular monthly installments throughout the term of the loan; at maturity, they have the option to:

- Refinance the balloon, buying another new car from Volkswagen;
- Keep the vehicle and either refinance the final balloon outstanding payment or pay it in full.

Irrespective of the choice, the issuer is not exposed to the market risk of residual value of the vehicle, as obligors cannot return the vehicle in lieu of final payments.

Underwriting

The BVW origination process is based on a broad Volkswagen and Audi dealer network. The client interested in obtaining vehicle financing at a dealer needs to present basic documentation, such as registration form, proof of income and place of residence. It is also checked in an internal and external database, such as credit bureaus database – Serviço de Proteção ao Consumidor (SPC) and Serasa and Federal Revenue. To assess if the potential borrower can get the loan requested, the system assigns automatically a credit score for the customer, based on the analysis of the application.

If the score is in line with the automatic credit approval and there are no fraud indicators, the proposal gets approved and registered in the system. If the score is below a certain standard, it gets recused automatically. If there's no automatic approval or recusal, the proposal goes to the credit desk.

BVW is currently improving its process of approving loan applications through the development of models, in addition to a quick response and strong protection against fraud.

In the past few years, the company has put a stronger weight on automatic decisions and just passing to the credit desk the most challenging ones, reducing the space for manual decisions. In the last quarter of 2018, 53% of the applications were decided automatically, more than

2017, when it was 32% on average. BVW gathers credit information (credit history, past payment behavior) on the applicants from some credit reference agencies in Brazil, mainly in Serasa. Prior to contract activation of accepted applications, additional fraud and anti-money laundering checks are performed.

Credit policies are defined according to a constant monitoring of internal performance, risk appetite limits and external factors. They are submitted at least on an annual basis to the review and approval by the risk committee.

Approval level authority is set according to the customer's risk profile, through credit scoring models and exceptions are allowed and controlled in a monthly basis. There's an exception volume limit of 5% from the total application approved for individuals and 12% for commercial obligors.

Servicing and Collections

The payments made by the borrowers of the loans transferred to the fund are made via electronic payment (boleto bancario) issued by the collection banks (Bradesco, Banco do Brasil and Itau) and payable at any bank. All payments via boleto bancario are automatically made into accounts at the name of the fund.

Portfolio Characteristics

(Loans, As of June 2019)

Balance at Discount	1,095,276,572
Future Value	1,200,836,861
Loans Bullet Type (%)	1.05
WA Loan Yield (%)	13.77
Average Loan Amount	23,076
WA Original Term (Mos.)	37.22
WA Seasoning (Mos.)	13.89
WA Remaining Term (Mos.)	23.33
Number of Contracts	47,464
WA Down Payment (%)	40.03
Debtors	
Number of Obligors	46,219
% of Individuals	87.98
% of Companies	12.02
Vehicles' Brand (%)	
Volkswagen	87.4
Others	12.6
Vehicle Type (%)	
Used or Semi-Used	21.7
New	78.3
Geographic Distribution (%)	
SP	27,63
RJ	7,40
MG	7,30
RS	7,30
SC	7,17
PR	6,02

Source: BVW.

BVW was hired by the custodian to act as servicer for delinquent loans. Its collection department has four employees for administrative collection and 15 for (extra) judicial collection. It can also hire third parties to do the primary servicing, who should follow the servicing rule.

From the 11th day in arrears, the borrower can no longer pay via electronic payment. BVW is responsible for servicing these loans (administration and recovery), observing the terms of the servicing agreement, which envisages the following procedures:

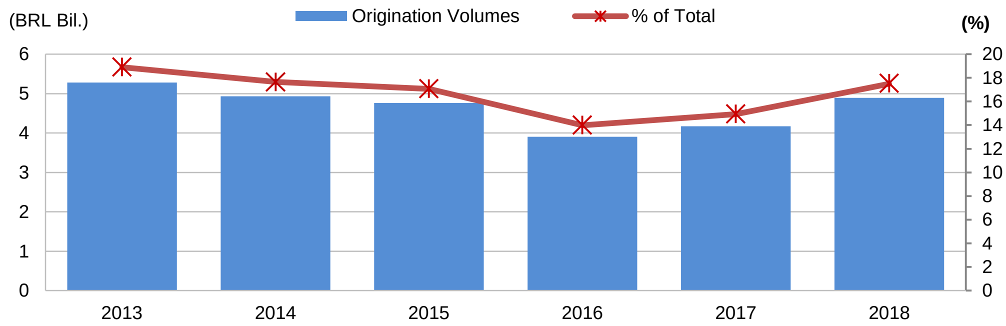
- From 12 days to 90 days in arrears, the process is considered administrative. It is conducted by six third-party collection offices, with a distribution based on past performance: the higher the number of recoveries and the better client experience receives a greater number of contracts to be serviced. Throughout this period, if no payment is received, the borrower will be listed in credit bureaus as a delinquent borrower.
- From 90 to 150 days of delinquency, it is conducted by 13 third-party collection offices, with the same allocation model. The borrower might receive a legal notification declaring the intention of repossession of the vehicle.
- From 150 days in arrears, it starts the judicial process by the same group of 13 collection offices, but with a possible different portfolio allocation, and with the same distribution method – those that have a higher volume of recoveries and better client experience receive more loans. Repossession will occur if it makes economic sense, given vehicle conditions and taxes and fees due and unpaid.

Portfolio Summary

The collateral of this transaction is composed of auto loans with a fiduciary lien granted by BVW for the acquisition of used, semi-used and new vehicles. Semi-used vehicles are those with less than four years. To analyze the collateral, Fitch has received the final pool cut, based on June, 2019 in the amount of BRL1,095,276,572. The pool cut represent characteristics that are similar to the BVW's loan book and it is similar to the one presented at expected rating assignment.

BVW's origination had been impacted after 2015, given the macroeconomic crisis, in which GDP had two consecutive negative results, as well as unemployment rate, that spiked from an average of 6.8% from 2014 to 12.8% in 2017. There has been some increase in semi-used vehicles, commercial clients and balloon loans, which increase portfolio's default expectations.

Historical Vintage Data: Origination Volumes by Year



Source: Santander.

The loan's interest rates within the expected portfolio have a wide range due to the strategy of concession of loans at subvented rates for good quality borrowers. The transaction is exposed to the risk of a principal shortfall from those loans that prepay with a higher interest rate than that of the discount rate. On the other hand, around 27% charge no interest or a rate below 7.5%, which would lead to prepayment gains.

The weighted average original term of the loans from the pool is 37 months, while the remaining term is 23 months only, which Fitch considered when setting the default assumption. When analyzing the LTV, the majority of loans had made a down payment between 20% and 60% (66% of portfolio), while 9% had not made any.

The majority of the loans refer to Polo, Gol and Fox models, which target customers profile with moderate average income, which are Volkswagen's target in Brazil.

Portfolio Credit Analysis

Default Risk

Fitch has determined its base case cumulative gross default rate expectation of 3.5%, based on the historical default performance to date. The default and loss analysis were based on monthly vintages provided by the arranger from January 2010 to October 2018. Fitch also received static monthly default and dynamic delinquency information from BVW from January 2009 to April 2018. BVW fully provisions loans with six months past due. Performance triggers in the transaction are also linked to this definition of default.

The data was provided on a monthly basis and split into cohorts by term (1–12, 13–24, 25–36, 37–48 and 49–60) and LTV (up to 40%, 40 to 60%, 60 to 80%, 80 to 99%, and 100%). Vintages after 2015 have displayed a homogeneous performance.

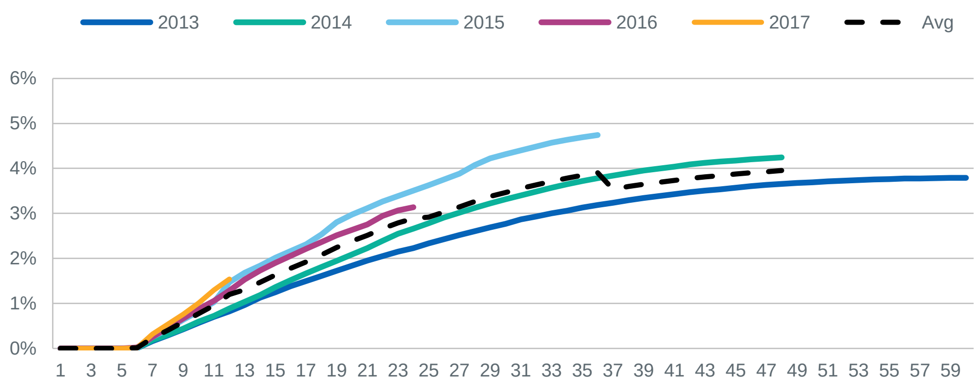
To define the cumulative default ratio (base case scenario) of the transaction, Fitch considers as defaulted a loan that had at least one installment due that was not paid for more than 180 days.

The agency has focused on default vintages after 2015 given that they include periods of stress due to the adverse macroeconomic scenario, which lead to higher default rates than those observed in the previous years (at the same number of months since origination). It was also positively considered the short remaining term of the pool.

Considering the initial pool presented to the fund, broken down by LTV and original term, as well as the consolidated analysis and the weighted average remaining term of the portfolio that will be securitized, Fitch derived a base case default rate of 3.5%.

Fitch applied a multiple of 3.7x for ‘AAAsf(bra)’ level and notch-specific default rate stresses were derived by linear interpolation between the stresses applicable to adjacent rating categories. The main drivers for the multiple, all positive, are the lack of a revolving period and the relevant and relatively stable historical data, which included significant economic stress.

Vintage Cumulative Gross 180 by Vintage Origination Year



Source: Santander.

Loss Rates and Implied Recoveries

Fitch did not receive historical recovery information of defaulted loans as per the criteria expectation. To determine the historical recovery for delinquent loans, the agency analyzed the cumulative vintage for net loss rate on aggregate basis, compared to gross defaults in the same period of analysis.

The average net loss was deducted from the average gross default to estimate a recovery rate for modeling purposes. Fitch has also analyzed the recovery rates from previous securitizations, and the result has remained consistent.

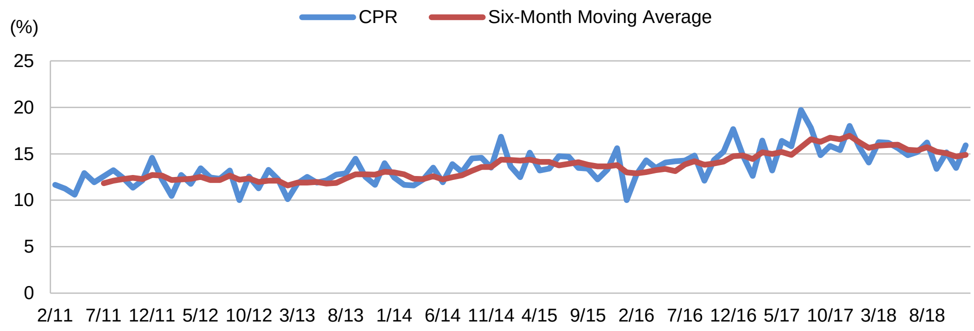
Fitch’s base case recovery rate is 40%. Therefore, the expected base case net loss is 2.1%.

To get to the stressed recovery assumption, Fitch set a haircut of 37% for ‘AAAsf(bra)’, in the low end of the criteria range. The most important factors for the lower recovery stress are the secured nature of recoveries, a clearly defined recovery process applied by the originator and adequate stability of data.

Prepayment Rates

Fitch has analyzed the prepayment historical information of BVW’s loan book of the past seven years and used them to create its assumptions in the modeling runs. The constant prepayment rate (CPR) has been approximately 15% in the company’s portfolio. Fitch has considered a base case CPR of 15% per year.

Prepayment Rates



Source: BVW.

Asset Outlook

Fitch has a stable outlook for both the asset and rating performance. Fitch forecasts a stable economic outlook for the Brazilian economy, accompanied by real GDP growth of 1.0% in 2019 and 2.2% in 2020. The unemployment rate in Brazil, the main risk factor on individual borrowers, is expected to be 11.8% in 2019 and 11.4% in 2020, decreasing from the 12.8% and 12.3% observed on average in 2017 and 2018, respectively. These macroeconomic dynamics are viewed as the main supporting factors for a stable outlook on the asset performance.

Financial Structure and Cash Flow Modeling

Fitch used its proprietary multi-asset cash flow model to analyze the transaction's cash flows during the amortization phase. Fitch tests whether structural features and the available CE for the senior class notes are adequate to enable ultimate payment of interest and principal, as foreseen in the transaction documentation, by final maturity in various stress scenarios.

The portfolio amortization is modelled based on the profile of the indicative pool provided to Fitch. The WA life (WAL) of the pool is about 16 months when considering only scheduled payments on the loans. When additionally applying Fitch's prepayment expectation of 15% per year, the pool's WA life decreases to 14 months.

Fitch tested the transaction's sensitivity to different default distributions (front-loaded, even and back-loaded); we adjusted the standardized default timing curves from the "Consumer ABS Rating Criteria" to enable a full allocation of all defaults over the portfolio's lifetime. Due to the rapid pool amortization and substantial prepayments, the adjustment of the timing curves was made to shift defaults into earlier periods.

Fitch's adjusted timing assumption applied in the transaction is summarized in the table below. In particular, Fitch notes that transactions featuring target OC or pro rata structures are more exposed to back-loaded defaults, so it selected a bespoke vectors that maintained a significant degree of stress, but acknowledged the shorter portfolio WAL, given that the shortest criteria default assumption is based on a 18-month WAL portfolio.

Default Timing Assumptions (% of RDR)

Period (Months)	Front-Loaded (%)
1–4	40
5–8	30
9–12	20
13–16	10

Source: Fitch Ratings.

Default Timing Assumptions (% of RDR)

Period (Months)	Evenly Distributed (%)	Back-Loaded (%)
1–3	20	10
4–6	20	10
7–9	20	15
10–12	15	15
13–15	15	20
16–18	10	15
19–20	—	15

Source: Fitch Ratings.

Rating Sensitivity

The sensitivities shown below describe the model-implied impacts of changes of the base case gross loss and recovery levels. This is designed to provide information about the sensitivity of the ratings to model assumptions. They should not be used as an indicator of possible future performance of the transaction.

Rating Sensitivity to Increased Default Rates

Original Default Base Case	AAAsf(bra)
Increase in Default Rate Base Case by 10%	AAsf(bra)
Increase in Default Rate Base Case by 25%	AA-sf(bra)
Increase in Default Rate Base Case by 50%	Asf(bra)

Source: Fitch Ratings.

Rating Sensitivity of to Reduced Recovery Rate Assumptions

Original Recovery Rate (RR) Base Case	AAAsf(bra)
Decrease in RR Base Case by 10%	AAsf(bra)
Decrease in RR Base Case by 25%	AAsf(bra)
Decrease in RR Base Case by 50%	AA-sf(bra)

Source: Fitch Ratings.

Rating Sensitivity to Shifts in Multiple Factors

Original Base Case Assumptions	AAAsf(bra)
Mild Stress: Default Rate Increase by 10%, Recovery Rate Decrease of 10%	AA-sf(bra)
Moderate Stress: Default Rate Increase by 25%, Recovery Rate Decrease of 25%	A+sf(bra)
Severe Stress: Default Rate Increase by 50%, Recovery Rate Decrease of 50%	BBB+sf(bra)

Source: Fitch Ratings.

Criteria Application, Model and Data Adequacy

Criteria Application

Fitch has analyzed the transaction's risks, including portfolio credit risk and counterparty risk, in accordance with the following criteria: "Consumer ABS Rating Criteria", published in January 2019; "Structured Finance and Covered Bonds Counterparty Ratings Criteria", published in April 2019; "Structured Finance and Covered Bonds Counterparty Ratings Criteria: Derivative Addendum," published in April 2019; "Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria", published in June 2019; "Global Structured Finance Rating Criteria," published in May 2019. These reports are available at www.fitchratings.com.

Model

The agency has used its proprietary cash flow model to analyze the trust's ability to meet its interest and ultimate principal payment obligations under different stress assumptions.

Data Adequacy

Fitch received historical vintage performance data regarding BVW's auto loan portfolio, showing gross and net loss between January 2010 and October 2018. Gross default data were broken down by loan-to-value (LTV) ratio and original term. An indicative loan pool tape based upon established eligibility criteria was also analyzed.

Fitch considers the information quality and period of observation as satisfactory to analyze the transaction. This information was received from BVW and, as arranger, Banco Santander.

Counterparty Risk

Servicing

Banco Bradesco ('AAA(bra)'/Stable), as custodian, is responsible to manage collections, identify delinquencies, maintain loan files and audit the portfolio. While Bradesco maintains the loan administration, it has hired BVW as the primary servicer of delinquent portfolio. No back-up servicer is appointed at closing; however, if the BVW fails to perform its duties, besides this being characterized as an evaluation event, Bradesco has the ability to replace it with another entity.

Fitch considers the disruption risk as low. In its analysis, Fitch considered BVW track record, operational capacity and the assessment on the servicing agreement, as well as other product and regulatory controls, such as registration of the loans in C3 (Central de Cessao de Creditos) system. Fitch also views as positive that the assets are standard to service, the loan documents are held by third parties hired by Bradesco, the documented servicing procedures are standard and simple and a broad replacement servicer market.

Account Bank

Ordinary collections will be done by Bradesco ('AAA(bra)'/Stable), Banco do Brasil ('AA(bra)'/Stable) or Itaú ('AAA(bra)'/Stable), which will transfer the collected amount to the transaction's account.

Loan installments can be paid up to 10 days after the due date through electronic payments (boletos bancários) issued by Bradesco, Banco do Brasil and Itaú. Collections are directly paid into collection accounts in the name of the fund; therefore, all payments made directly by the borrower will not pass through accounts in the name of BVW. The collection banks will transfer the moneys to the fund account at Bradesco in up to one business day.

In case of arrears (from the 11th day arrear), payments will no longer be allowed to be made via the original electronic payments, but once the servicer of the delinquent loans collects the amounts, these are automatically transferred to the collection accounts in the name of the SPV. The transaction account, held in Banco Bradesco, is the same account for distribution and reserve. There is no replacement language in relation to this entity.

Commingling and Payment Interruption Risk

Commingling risk is low given that collection accounts are under the name of the trust. The custodian will transfer all collections to the issuer account no later than one business days upon receipt thereof. Moreover, all investments are done in qualified investments on a daily basis. Therefore, Fitch considers commingling risk immaterial in accordance with its "Structured Finance and Covered Bonds Counterparty Rating Criteria."

Fitch also considers payment interruption risk immaterial as tranche's rating is ultimate P&I with 12 months of extension of legal final maturity and the transaction can withstand interruptions in the payments without triggering a default.

Swap Counterparty

The swap counterparty is Banco Itau, which is in line with the rating assigned to senior notes. There are no remedial actions in the transaction documents. Upon a downgrade to a rating level below the rated tranche, Fitch will test the transaction on an unhedged basis to see if stresses are consistent to the current rating, which is unlikely due to the fixed-coupon rate of assets.

Qualified Investments

Qualified investments are composed Brazilian government bonds with floating rates and funds that invest in such bonds. Given that the liability is indexed to CDI, preferred investments are those indexed to CDI. Although maturities are not defined, Tesouro Direto Selic are post fixed with very low volatility given that the reference rate is Selic; therefore, mark-to-market exposure is almost inexistent.

Set-Off Risk

Set-off exposure is nonexistent given that the exposure toward the originator does not extend to the SPV. Additionally, the FIDC is not a deposit-taking institution; therefore, there are no rights to be offset. The valid transfer of the portfolio to the SPV, supported by legal opinion provided to Fitch, exclude any right that the borrower might have to set off against the transaction.

Performance Analytics

Fitch will monitor the performance of this transaction until its final maturity. This surveillance intends to make sure that the ratings continue to appropriately reflect the risk profile of the senior notes.

The agency will, on a quarterly basis, receive reports on the performance of the loan portfolio and the capital structure of the fund. The information will be provided by the transaction parties and analyzed by the responsible analysts.

The ratings on the transaction will be reviewed by a committee at least once every 12 months or when considered appropriate with any affirmation or change in the ratings disseminated publicly. Fitch's structured finance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. The details about the performance of this securitization will be available on Fitch's website at www.fitchratings.com.

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

Appendix: Eligibility Criteria and Conditions of Assignment

The loan receivables will be acquired by the fund according to the eligibility criteria. The verification of these criteria will be carried out by the custodian before the acquisition of the loans by the fund. The eligibility criteria are included in the following table.

Eligibility Criteria (Simplified)

All loans will mature before the final term of the fund.
Loans to a single borrower shall not exceed BRL100.000.
Loans were originated to finance light vehicles only (no buses, trucks or motorcycles).
On acquisition date, borrowers are not delinquent.
Loans will only refer to bank credit certificates (Cédulas de Crédito Bancário) related to vehicle financing in the form of consumer credit (CDC - Veículos).
Maximum remaining term of 58 months from acquisition date.
Amortization profile is: (i) level payments; (ii) balloon loans with smaller monthly payments; (iii) customized monthly payments.

Source: FIDC Driver Brasil Four.

In addition to the eligibility criteria described above, only loans that meet the conditions for assignment shown in the table below may be assigned to the fund. These conditions will be verified by BVW on the business day immediately prior to the purchase date and confirmed by the trustee 20 business days from the assignment. In the event of any breach of these conditions, BVW will have 3 business days after the date that it became aware of such breach to repurchase the receivables at a price equal to the discounted value of the loan plus a 2% punitive fee.

Conditions for Assignment (Simplified)

On the purchase date, at least two installments have been paid.
The assignment of the loans will not jeopardize the guarantee of a fiduciary lien, which will also be acquired by the fund.

Source: FIDC Driver Brasil Four.

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.