S&P Global
Ratings

RatingsDirect®

New Issue: Driver Multi-Compartment S.A., Compartment Driver fifteen

€742.5 Million Asset-Backed Floating-Rate Notes (Including €26.3 Million Unrated Notes)

Primary Credit Analyst:
Marta Gorska, London + 44 2071762523; marta.gorska@spglobal.com

Secondary Contact:
Filip Popovic, London (44) 20-7176-2205; filip.popovic@spglobal.com

Table Of Contents

Table Of Contents (cont.)

New Issue: Driver Multi-Compartment S.A., Compartment Driver fifteen

€742.5 Million Asset-Backed Floating-Rate Notes (Including €26.3 Million Unrated Notes)

Ratings Detail

Ratings Assigned

Class	Rating*	Amount (mil. €)	Available credit enhancement (%)§	Interest (%)†	Legal final maturity
A	AAA (sf)	694.5	8.61	One-month EURIBOR plus 0.4	July 21, 2026
B	AA- (sf)	21.7	5.71	One-month EURIBOR plus 0.6	July 21, 2026
Subordinated loan	NR	26.3	2.20	One-month EURIBOR plus 1.06	July 21, 2026

*Our ratings address timely payment of interest and ultimate principal §Available credit enhancement includes subordination, overcollateralization, and a cash reserve (see "Transaction Key Features"). †Subject to a floor of zero. NR--Not rated.

Transaction Participants

Originator, servicer, and seller	Volkswagen Bank GmbH
Arranger	Lloyds Bank Corporate Markets PLC
Joint lead managers	Lloyds Bank Corporate Markets PLC, and Landesbank Baden-Württemberg
Managers	ING Bank N.V., DZ BANK AG Deutsche Zentral-Genossenschaftsbank, and Skandinaviska Enskilda Banken AB (publ.) Frankfurt Branch
Security trustee	Intertrust Trustees GmbH,
Corporate services provider	Circumference FS (Luxembourg) S.A.
Data protection trustee	Amsterdamsch Trustee's Kantoor B.V.
Bank account provider, collection account provider, paying agent, calculation agent, cash administrator, and interest determination agent	Elavon Financial Services DAC, U.K. Branch
Subordinated lender	An affiliate of Volkswagen AG
Interest rate swap counterparty	Skandinaviska Enskilda Banken AB (publ.)

Supporting Ratings

Institution/role	Rating
Elavon Financial Services DAC, U.K. Branch as transaction bank account provider*	AA-/Stable/A-1+
Skandinaviska Enskilda Banken AB (publ.)	A+/Stable/A-1

*Based on the rating on the parent company, Elavon Financial Services DAC.

Transaction Key Features

Closing date	Sept. 25, 2018
Collateral	Auto loan receivables arising under loan contracts with borrowers resident in Germany

Transaction Key Features (cont.)	
Total receivables, discounted receivable balance (€)*	750,047,947.41
Country of origination	Germany
Transaction structure	Static, true sale
Replenishment period	0
Redemption profile	Sequential at closing, switching to pro rata after additional overcollateralization builds up, subject to compliance with the transaction's performance tests.
Credit enhancement for the class A notes (as a percentage of asset volume)	8.61%, which includes: Subordination: 6.41%, overcollateralization: 1.0%, cash reserve: 1.2%, and excess spread (initial percentage per year): 0.0%
Credit enhancement for the class B notes (as a percentage of asset volume)	5.71%, which includes: Subordination: 3.51%, overcollateralization: 1.0%, cash reserve: 1.2%, and excess spread (initial percentage per year): 0.0%
Cash reserve description	€9.0 million to cover liquidity shortfalls during the transaction's life and redeem notes at the end of the transaction; amortizing at 1.2% of outstanding asset balance, subject to a floor of €7.5 million.
Commingling reserve	N.A.

*Based on the pool as of Aug. 31, 2018.

Transaction Summary

S&P Global Ratings has assigned credit ratings to Driver Multi-Compartment S.A., Compartment Driver fifteen's (Driver fifteen) class A and B notes. At closing, Driver fifteen also issued an unrated subordinated loan.

Driver fifteen securitizes a portfolio of German auto loan receivables, which Volkswagen Bank GmbH (VW Bank) originated and granted to its private and small-commercial customer base in the ordinary course of its business.

The transaction is static (i.e., it has no replenishment period) and the notes will start to amortize immediately after closing. Amortization will begin sequentially, but will switch to pro rata after further overcollateralization has built up, assuming that no performance triggers have been breached.

Credit enhancement for the rated class A and B notes arises from a combination of subordination, overcollateralization, and a cash reserve. Subordination consists of the class B notes (for the class A notes only) and a subordinated loan provided by the subordinate lender, which is used to purchase assets from the seller. The transaction does not have any excess spread, or a principal deficiency ledger mechanism. A fixed-to-floating interest rate swap agreement with Skandinaviska Enskilda Banken AB (publ.) mitigates the risk of potential interest rate mismatches between the fixed–rate assets and floating-rate liabilities for the class A and B notes. Our analysis indicates that the available credit enhancement for the class A and B notes is sufficient to withstand the credit and cash flow stresses that we apply at the assigned rating levels.

Notable Features

The transaction's documented payment structure and capital structure will be very similar to its rated predecessors, Private Driver 2014-4 UG (haftungsbeschrankt) and Driver Twelve GmbH. In Driver fifteen, the class A and B notes will have 0.39% and 0.24% less available credit support, respectively, than Private Driver 2014-4's and Driver twelve's class A and B notes.

Table 1

Driver Transaction Key Features

Credit Enhancement Summary (%)	Driver fifteen	Driver twelve	Private Driver 2014-4
Class A notes' credit enhancement			
Subordination*	6.41	6.90	6.90
O/C§	1.00	0.90	0.90
Reserve account*	1.20	1.20	1.20
Total	8.61	9.00	9.00
Class B notes' credit enhancement			
Subordination*	3.51	3.85	3.85
O/C§	1.00	0.90	0.90
Reserve account*	1.20	1.20	1.20
Total	5.71	5.95	5.95
Estimated annual excess spread†	0.00	0.00	0.00

*Percentage of the initial collateral balance. §The O/C target is a percentage of the performing collateral balance. †Calculated using the closing weighted-average coupon. O/C--Overcollateralization.

Similar to the predecessor transactions, an advance mechanism will be applied to address the servicer commingling risk if (i) our short-term issuer credit rating (ICR) on VW Bank falls below 'A-2' and our long-term ICR falls below 'BBB'; (ii) our long-term ICR on VW Bank falls below 'BBB+' if there is no short-term rating; or (iii) the servicer is no longer deemed eligible under our counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). We consider that the advance mechanism fully mitigates commingling risk.

Rating Rationale

Operational risk

VW Bank has been underwriting auto loan contracts in Germany since 1949. In our view, the company's track record of stable, strong-quality asset origination is among the best of all European auto asset-backed securities (ABS) issuers. Our ratings on the class A and B notes reflect our assessment of the company's origination policies, as well as our evaluation of VW Bank's ability to fulfill its role as servicer under the transaction documents. There is no back-up servicer.

We have applied our operational risk criteria in our analysis (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). The collateral in this pool comprises prime auto loans. Under our operational risk criteria, auto loans are considered as having low severity and portability risks. As such, these criteria do not impose any cap on the maximum achievable rating due to operational risks.

Economic outlook

In our base-case scenario, we forecast that Germany will record GDP growth of 2.0% in 2018, 1.8% in 2019, 1.5% in 2020, and 1.3% in 2021, compared with 2.5% in 2017. At the same time, we expect unemployment rates to decrease even further, reaching record lows. We forecast unemployment to be 3.4% in 2018, 3.0% in 2019, 2.9% in 2020, and

2.8% in 2021, compared with 3.7% in 2017 (see "Monetary Policy Normalization In The Eurozone: Will One Size Fit All?," published on June 26, 2018). In our view, changes in GDP growth and the unemployment rate largely determine portfolio performance. We set our credit assumptions to reflect our economic outlook. Our near- to medium-term view is that the German economy will remain resilient and record positive growth.

Credit risk

We analyzed credit risk by applying our European auto ABS criteria (see "Methodology And Assumptions For European Auto ABS," published on Oct. 15, 2015). We have used performance data from VW Bank's loan portfolio and from related transactions to analyze credit risk.

Our cumulative gross loss base-case scenario for the securitized pool is 2.125%, updated from the base-case scenario that we applied to the preceding transaction that we rated (2.250% for Driver Twelve).The cumulative gross loss base-case scenario reflects our expectation of the German economy's continued growth combined with historically low unemployment rates, as well as the good performance of previous Driver transactions. We have applied our base-case multiples of 4.2x and 2.87x for defaults at the 'AAA' and 'AA-' rating levels, respectively, which have increased in comparison to the multiples used for Private Driver 2014-4 and Driver Twelve at closing. The update to the stress multiples is mainly driven by the lower base case. Typically, a higher multiple applies to assets with low base-default rates, according to our global consumer criteria.

Furthermore, we have considered market value decline risk, as a majority of the loans in the pool contain a balloon payment, for which we have applied additional loss of 7.50% and 5.17% at the 'AAA' and 'AA-' rating levels, respectively. Our balloon loss rate accounts for the increased risk of further pressure on the resale value of used diesel vehicles.

We sized stressed recoveries of 40% for all rating levels based on recovery data provided for previous Driver transactions and a peer comparison with other German auto loan transactions. Our recovery rate assumptions already incorporate the risk of deterioration in the diesel vehicles realization values.

Cash flow analysis

Our ratings on the class A and B notes reflect our assessment of the transaction's structural features under the transaction documents. The note's payment structure will switch to pro rata from sequential payment after the transaction reaches certain overcollateralization levels. Notably, the issuer purchased the loans on average above par, and we have considered losses due to prepayments at par in our cash flow analysis. Taking into account our credit analysis forecast, our analysis indicates that the available credit enhancement for the rated notes is sufficient to withstand the credit and cash flow stresses that we apply at the 'AAA' rating level for the class A notes and at the 'AA-' rating level for the class B notes.

Counterparty risk

Our ratings on the class A and B notes also consider that the replacement mechanisms implemented in the transaction documents adequately mitigate the counterparty risks that the transaction is exposed to. The transaction is exposed to Elavon Financial Services DAC, UK Branch as account bank, and Skandinaviska Enskilda Banken AB (publ.) as swap counterparty. We have analyzed these counterparty risks by applying our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013, and "Global Derivative

Agreement Criteria," published on June 24, 2013).

Legal risk

In our opinion, the transaction is exposed to commingling risk, which is fully mitigated through an advance payment mechanism. We have also analyzed potential setoff risk stemming from customers having deposits with VW Bank, and have found the risk to be minimal. We consider the issuer to be a bankruptcy remote entity, in line with our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). The legal opinion provided comfort that the sale of the assets would survive the insolvency of the seller.

Credit stability

In line with our scenario analysis approach, we have run two scenarios to test that the stability of the assigned ratings and the results are in line with our credit stability criteria (see "Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance," published on May 12, 2009, and "Methodology: Credit Stability Criteria," published on May 3, 2010).

Sovereign risk

The application of our structured finance ratings above the sovereign criteria does not cap the rating in this transaction (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016).

Strengths, Concerns, And Mitigating Factors

Strengths

- We consider that defaults in transactions backed by private and small commercial customers are sensitive to the economy. The German economy is performing relatively well and our baseline unemployment rate forecast continues to improve at 3.4% in 2018, 3.0% in 2019, and 2.9% in 2020.
- In our view, VW Bank has a strong market position as one of the largest captive auto banks in Europe, with more than 50 years' business experience.
- The pool is granular and diversified. As of Aug. 31, 2018, it comprised 39,684 borrowers with 40,065 loan contracts. The largest single borrower concentration is 0.147% and the top 20 borrowers comprise about 0.683% of the pool's discounted principal balance.
- As of the pool cut-off date, the pool did not contain any contracts with payments that are overdue for more than 30 days.
- The portfolio will not revolve, so a shift in pool quality due to substitution cannot occur.
- The structure benefits from a fully funded liquidity reserve, sized at 1.2% of the initial asset balance and amortizing subject to a floor (minimum level). The liquidity reserve will serve primarily as liquidity support to mitigate any temporary shortfalls. Ultimately, it is available to repay the notes at the end of the transaction's life.

Concerns and mitigating factors

- The transaction's payment structure is not fully sequential. Once certain target overcollateralization levels have been reached (and as long as they are maintained), the issuer pays principal pro rata on the class A and B notes. We have accordingly stressed cash flows for each rating level, which included modeling the potential switch from pro-rata to sequential payment.

- Although historical net loss data provided by VW Bank covers the period between 2004 to mid-year 2018, it nonetheless does not include any default or recoveries information. We have factored this in when deriving credit and stress assumptions.
- Unlike most other European auto ABS transactions, there is no excess spread in the structure. VW Bank matches the transaction's interest receipts and expenses through the discounting mechanism, and any remaining amounts are paid back to VW Bank.
- The cash reserve amortizes, subject to a floor amount, resulting in diminishing protection for noteholders as the transaction nears maturity. We have incorporated the amortizing features in our cash flow model to account for its effect on available credit enhancement.
- The pool comprises about 88.98% balloon loans. These loans have a final payment that is significantly higher than previous installments. The balloon payment at maturity could result in a payment shock to the borrower, compared with equally amortizing loans. Further, the pool may comprise diesel vehicles that do not comply with the current Euro 6 emission standard. VW Bank did not provide a split by engine type and emission standard. Therefore, we looked at the exposure of peer transactions and the German market in general to assess potential exposure to the diesel-powered vehicles that apply Euro 5 and lower emission standards. In our analysis, we have considered negative credit impact on car resale values especially of older diesel-powered vehicles. In our view, recent debates in Europe that diesel NO2 emissions are a threat to public health will add further pressure on the resale value of used diesel vehicles. We have sized the additional losses resulting from payment shock after a market value decline of the underlying vehicles.
- Assets with a contractual interest rate above the discount rate are purchased above par (i.e., the purchase price of the loan is more than 100% of its outstanding nominal balance), which may result in losses from prepayments, as borrowers will repay only the loan's par value. Additionally, the purchase above par mechanism leads to slightly higher loss severities when a loan defaults. While VW Bank covenants that it would hold the issuer harmless against any prepayment losses, we do not believe that this mechanism mitigates the risk in a high rating scenario. We have therefore adjusted prepayment losses and loss severity accordingly in our cash flow model to account for their effect on the available credit enhancement.
- A hot backup servicer will not be in place at closing. The combination of a borrower notification process, a reserve fund, a commingling advance payment mechanism (which VW Bank will implement if certain triggers are breached), and the general availability of substitute servicers mitigates servicer disruption risk.

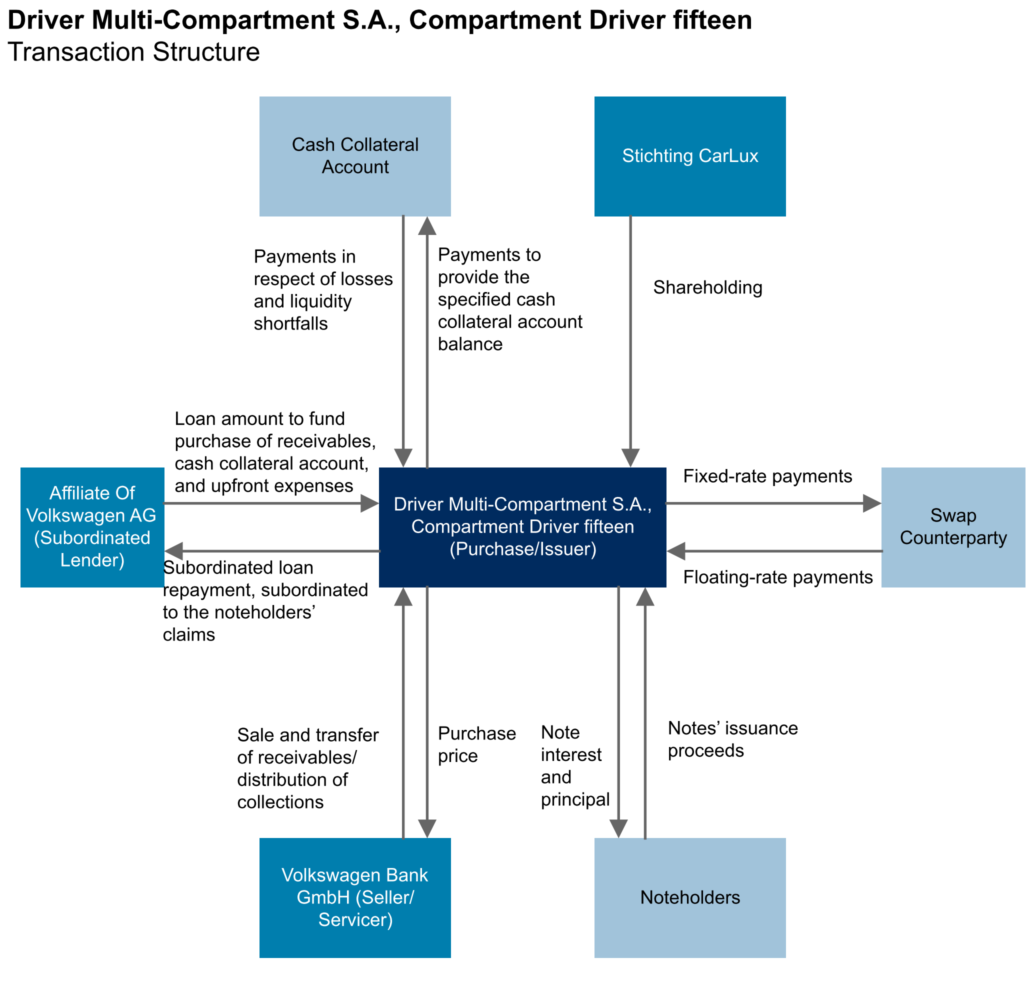
Transaction Structure

At closing, the issuer will purchase a pool of auto loan receivables (see chart 1). The loan receivables are discounted at a fixed rate of interest, so that the effective interest available to the issuer is reduced, leaving no excess spread in the transaction. Therefore, interest receipts are equal to the sum of:

- The weighted-average interest due to the swap counterparty under the terms of the swaps on the class A and B notes;
- The interest due under the subordinated loan; and
- Administrative expenses and a servicing fee.

Driver fifteen will enter into a fixed-to-floating interest rate swap agreement to hedge the risk between the fixed rate that the assets pay and the floating rate payable on the class A and B notes (see chart 1).

Chart 1



Originator

Volkswagen Bank GmbH is a wholly owned subsidiary of Volkswagen Aktiengesellschaft. VW Bank's main focus, as the captive arm of the car manufacturer VW, is car financing. VW Bank provides financial services to support all of the Volkswagen Group automotive brands (e.g. Volkswagen, Audi, SEAT, and Skoda). The originator cooperates closely with a number of Volkswagen Group dealerships.

Underwriting policy

VW Bank checks the credit profile of the customer before accepting an application. During the application process it utilizes an automated scoring system. Following this stage of the underwriting process, it then assesses information from the credit reference agencies and data pertaining to the customer profile is then assessed.

Priority of payments

The class A and B notes pay interest in arrears on a designated date each month, at a rate of Euro Interbank Offered Rate (EURIBOR) plus a respective margin. This coupon will be floored at zero. The first interest payment date (IPD) is on Oct. 22, 2018. The legal final maturity of the notes will be in July 2026.

On each monthly IPD, the issuer will apply to the priority of payments any asset collections, net swap receipts, and amounts drawn from the cash reserve over the previous month, in the order outlined in table 2.

Table 2

Priority Of Payments (Simplified)	
1	Taxes.
2	Payments to the trustee.
3	Servicer fees.
4	Senior fees, including payments to the corporate services provider, and data protection trustee, account bank, and the cash administrator.
5	Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party or downgraded below threshold).
6	Interest on the class A notes.
7	Interest on the class B notes.
8	Top-up cash reserve (only if drawn upon previously).
9	Class A notes' principal (sequential or pro rata).
10	Class B notes' principal (sequential or pro rata).
11	Payments to the swap counterparty not paid above.
12	Interest and principal on the subordinated loan.
13	All remaining amounts back to VW Bank through a final success fee.

From closing, the issuer redeems the notes sequentially until they reach the target overcollateralization levels. Once the target overcollateralization levels have been reached, the transaction will switch to pro-rata amortization from sequential. At any time the transaction will switch back to sequential amortization, if there is a level 1 or level 2 credit enhancement increase condition (see table 3), if the servicer becomes insolvent, or if the aggregate discounted asset balance falls below 10% of the initial discounted asset balance.

The target overcollateralization levels would increase if one of the following performance triggers is breached:

- Trigger level 1: The cumulative net loss ratio exceeds (i) 0.5% either before or during the payment date falling in December 2019; or (ii) 1.15% between the payment date falling in January 2019 and the payment date falling in September 2020; or
- Trigger level 2: The cumulative net loss ratio exceeds 1.6% at any time.

Table 3 describes the initial overcollateralization levels and target overcollateralization levels, before and after a trigger breach. A target overcollateralization level of 100% implies a permanent switch to sequential amortization from pro-rata, which could happen at any time after the cumulative net loss ratio exceeds 1.6%, if the servicer becomes insolvent or if the aggregate discounted asset balance falls below 10% of the initial discounted asset balance.

Table 3

Overcollateralization Levels

	Actual overcollateralization (%)	Target overcollateralization levels (%)		
Class	**At closing**	**No trigger breach**	**Trigger level 1 breached**	**Trigger level 2 breached**
A	7.40	11.00	13.00	100.00
B	4.50	6.50	7.25	100.00

Cash reserve

The issuer deposited 1.2% of the initial discounted asset balance as a general cash reserve at closing. Amounts deposited in the general cash reserve account are available to mitigate any liquidity shortfalls in the payment of senior costs and expenses, and interest on the class A and B notes. As soon as the aggregate discounted receivables balance has been reduced to zero or on the final maturity date, the issuer can also use the cash reserve to redeem the class A and B notes. The cash reserve amortizes at 1.2% of the outstanding discounted asset balance, subject to a floor, which is the lesser of (i) €7.50 million, and (ii) the class A and B notes' outstanding amount. The amounts that are released from the reserve through amortization are paid directly to the subordinated loan, provided that none of the performance triggers are breached.

Purchase above par

Assets with a contractual interest rate above the discount rate are purchased above par. Based on the provided pool cut, the pool's weighted-average interest rate is 2.07%, compared with the applied discount rate of 1.3304%. Hence, the portfolio's discounted value is roughly 101.8% of the par value. The par value above 100% leads to losses from prepayments, because when borrowers prepay, they repay only the loan's par value.

In this case, the special-purpose entity (SPE) suffers a loss, which is the difference between par and the SPE's purchase price. Prepayment losses are higher the earlier the loan is prepaid. Generally, VW Bank has an obligation to cure this loss under the transaction documents, but under our rating scenarios, we assume that losses are not cured, because VW Bank's default risk is not mitigated to a level that is commensurate with our rating scenarios.

Additionally, if a borrower defaults, the purchase above par effect leads to higher loss severities. This is because the purchase price the SPE paid for the loan is above its par value, while recoveries however will not be affected by the higher purchase price. Hence, we adjusted the loss severity in our cash flow model accordingly to account for its effect on available credit enhancement.

Mitigation Of Seller Risks

Commingling risk

Borrower collections are paid into the servicer collection bank account, which will be opened in the name of, and for the benefit of, VW Bank as the servicer. These collections are not heavily concentrated on any specific monthly day and almost all of the collections are received via direct debit. Transfers from the servicer collection bank account provider into the issuer distribution account occur monthly on each payment date.

As long as our long- and short-term ratings on VW Bank are at least 'BBB'/'A-2', VW Bank can commingle collections with its own funds, and collections are transferred monthly to the SPE. If VW Bank loses its long- and short-term 'BBB'/'A-2' ratings, it will, within 14 calendar days, transfer to the SPE two weeks' worth of expected collections in advance from its own funds every two weeks, so that effectively the SPE will always receive one month of collections in advance. The transfers of expected collections will happen on the 11th business day prior to the start of each monthly period and on the 11th business day prior to the fifteenth calendar day of each monthly period.

Twice a month, the servicer will net collections advanced in the previous month against the collections that it has actually received for the relevant two-week period.

Given the biweekly account sweeps upon the loss of 'BBB'/'A-2' rating by VW Bank, and the servicer's well-established operational capacities in combination with the swift borrower notification requirement implemented in the transaction documents, we have assumed that the transaction's structure mitigates commingling risk.

Setoff risk

VW Bank accepts deposits from its customers. As a result, if the seller becomes insolvent, the borrowers that have deposits with VW Bank may exercise their right to set off amounts they owe under the loan contract against amounts they deposited with the insolvent seller.

Under the transaction's eligibility criteria, borrowers that have a deposit with VW Bank at closing are excluded from the securitized pool. In our opinion, the potential deposit-related setoff risk is minimal, based on the transaction's short weighted-average life, the support from the German deposit protection insurance, and the historical data we have received from predecessor transactions. Therefore, we have not sized any additional losses.

Swap

At closing the issuer entered into two fixed-to-floating interest rate swap agreements with a swap counterparty to hedge the risk between the assets' fixed-rate interest and the notes' floating-rate interest for class A and B notes. Under the swap agreements, the issuer pays a fixed rate on the class A and class B notes. The swap counterparty pays one-month EURIBOR plus spread of the class A notes and the class B notes, respectively. The notional in the swap agreements is the outstanding note balance of the class A and class B notes, respectively.

Back-up servicing

VW Bank is the servicer for the transaction assets. No back-up servicer was appointed at closing. We believe that the operational risk associated with servicer insolvency and the transition to a new substitute servicer is limited because of the following factors:

- The assets are amortizing loan receivables based on contracts in line with market practice. Given the size of the auto loan market in Germany and the availability of third-party servicing in this area, we believe Driver fifteen will be able to contract a substitute servicer with adequate servicing capabilities in a relatively short time.
- A borrower notification process is in place, by which borrowers would be instructed to redirect their payments to the accounts of the SPE immediately after servicer insolvency. According to the transaction documents, responsibility for this process lies primarily with the servicer. However, the issuer has the right to start notification if the servicer fails to do so. The trustee would obtain access to the relevant address information stored with the data trustee.
- The transaction is equipped with a cash reserve that is sufficient to cover more than seven months of senior fees

and interest on the class A and B notes. Further, the advance payment mechanism will fully mitigate potential credit losses due to amounts being commingled in the insolvent servicer's accounts.

Collateral Description

The collateral pool comprises auto loan receivables that are based on loan contracts that VW Bank entered into with its German private and small commercial customers. Borrowers in the pool finance either new or used vehicles. Based on the final pool, the collateral pool backing the notes comprises 40,065 loan contracts (see table 4). The largest single borrower concentration is 0.147%, and the top 20 borrowers comprise about 0.683% of the pool balance. The average outstanding loan balance is approximately €18,720.78. Each borrower has paid at least two installments. This transaction contains consumer loan contracts (99.25%) and commercial loan contracts (0.75%).

Portfolio stratification and eligibility criteria

Table 4 shows the breakdown of the final portfolio compared to the preliminary portfolio and the portfolios of its rated predecessors.

Table 4

Pool Breakdown

	Driver fifteen (Closing pool)	Driver fifteen (Preliminary pool)	Driver twelve (closing pool)
Originator	Volkswagen Bank GmbH	VW Bank GmbH	Volkswagen Bank GmbH
Country	Germany	Germany	Germany
Type of assets	Auto loans	Auto loans	Auto loans
Pool cut-off (date)	Aug. 31, 2018	June 30, 2018	April 30, 2014
Closing date	Sept. 25, 2018	Sept. 25, 2018	May 28, 2014
Pool characteristics			
Discounted principal balance (mil. €)	750	750	1,356
Discount rate (%)	1.33	1.54	1.80
Number of loan contracts	40,065	40,736	95,526
Average discounted loan balance (€)	18,720.78	18,412.31	14,193.00
Weighted-average life (months)	29.8	30.0	26.7
Weighted-average asset yield (%)	2.07	2.02	3.20
Weighted-average original term (months)	47.4	47.3	47.4
Weighted-average remaining term (months)	41.3	41.6	36.9
Weighted-average seasoning (months)	6.1	5.7	9.7
Pool distribution (% of total discounted balance)			
Top 20 customers	0.68	0.59	0.30
Contract type amortizing loans	11.00	11.07	15.30
Contract type balloon loans	89.00	88.93	84.70
Weighted-average balloon payment (% of total balloon loans)	52.32	46.32	43.50
New vehicles	50.01	50.07	66.60
Used vehicles	49.99	49.93	33.40

Table 4

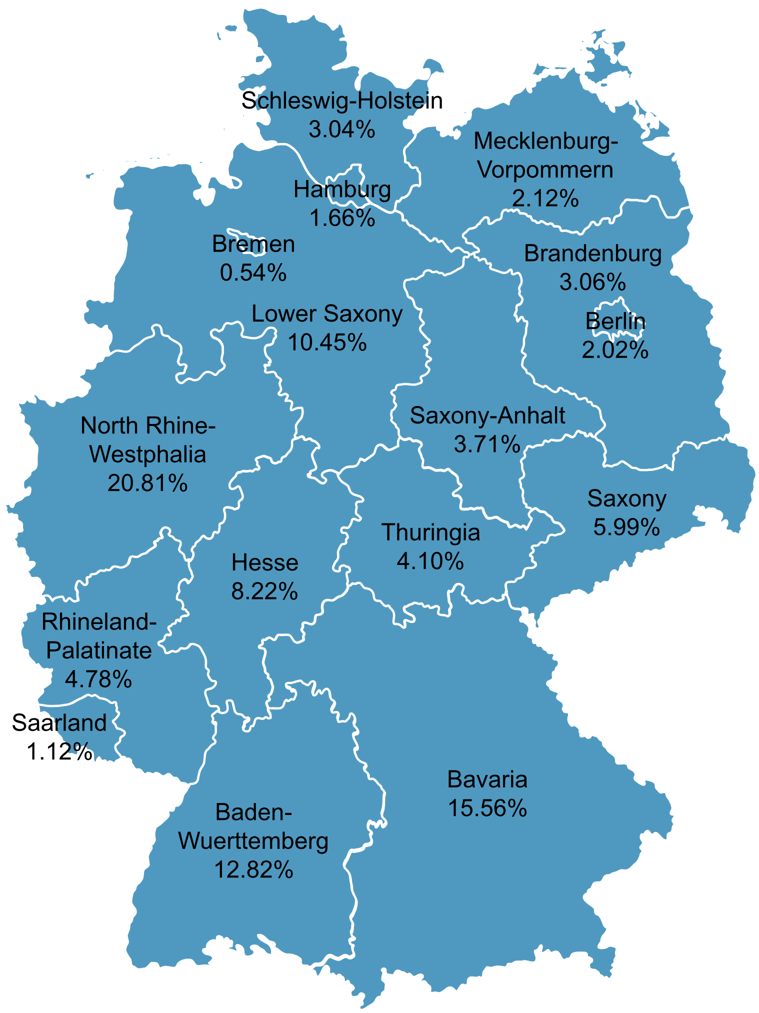
Pool Breakdown (cont.)

	Driver fifteen (Closing pool)	Driver fifteen (Preliminary pool)	Driver twelve (closing pool)
Private customers	99.25	99.31	99.70
Commercial customers	0.75	0.69	0.30
Audi	28.50	27.48	20.83
Volkswagen	43.19	44.93	59.35
Skoda	10.74	10.89	13.62
Seat	8.84	8.81	4.34
Other	8.73	7.89	1.86

The geographical distribution shows a diversified pool, reflecting the residential distribution in Germany. The highest geographical concentration by discounted principal balance is approximately 20.81% for borrowers resident in North Rhine-Westphalia (see chart 2).

Chart 2

Geographic Distribution Of The Portfolio



The transaction documents set out the eligibility criteria for receivables in the pool. Simplified, these state that:

- Contracts are legally valid and binding agreements and enforceability is not impaired;
- Receivables are denominated and payable in euros;
- The seller may freely dispose of the receivables;
- Receivables are free of defenses and from third-party rights;
- Borrowers have no set-off claim;
- No receivable was overdue at the cut-off date;

- None of the borrowers is an affiliate of Family Porsche Stuttgart, or Family Piech Salzburg Group (we understand that this includes VW employees);
- Contracts are governed by the laws of Germany;
- Borrowers reside or are registered in Germany;
- At least two loan installments have been paid;
- Loan contracts require monthly payments to be made within 84 months after origination;
- The total amount of purchased loan receivables due from one and the same borrower does not exceed 0.5% of the discounted balance at closing; and
- Where applicable, contracts comply with the requirements of the German Civil Code (Bürgerliches Gesetzbuch) on consumer financing.

Nature of the loan receivables

The purchased loan receivables are from vehicle loan contracts that VW Bank originated using Volkswagen, Audi, SEAT, and Škoda dealers as agents, as well as by third parties.

The loan receivables require monthly interest and principal payments in exchange for financing a new or used vehicle. The transaction securitizes two types of loans:

- The "ClassicCredit" loans (11.02% of the portfolio): Amortizing loans, which are paid down over their life in equal monthly installments; and
- The "AutoCredit" loans (88.98% of the portfolio): Balloon loans, which, in addition to equal monthly installments during the loans' life, have a final payment that is significantly higher than those monthly installments (balloon payments) and that is typically set in line with the vehicle's expected residual value at the loan's maturity.

The balloon payment is a payment obligation of the borrower and can be settled either by:

- Keeping the vehicle and paying in cash;
- Selling the vehicle to the car dealer for a purchase price that equals the balloon payment; or
- Refinancing the balloon payment by entering into a new loan with VW Bank.

Credit And Cash Flow Analysis

Our analysis includes an assessment of the credit risk inherent in the transaction. We analyze various stress scenarios and their effects on the transaction's cash flow by applying our European auto ABS criteria.

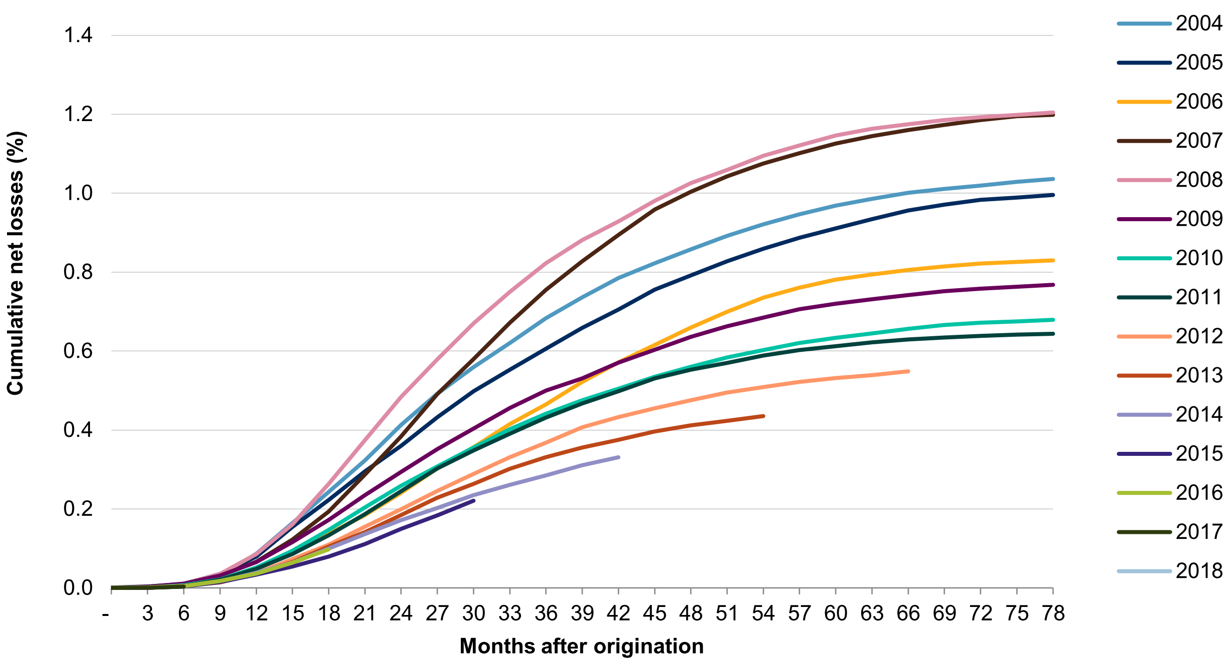
Gross losses and gross loss multiples

We have received monthly static net loss data, showing cumulative net losses (i.e., actual write-offs after recoveries) as a percentage of its origination volume in VW Bank's entire loan book. The data range from January 2004 to June 2018. The originator did not provide us with separate recovery or prepayment data. To arrive at a gross loss proxy, we "gross up" the net loss data, using a recovery rate assumption of 60%, which we derived from the historical recoveries of other Driver transactions.

Chart 3 below shows cumulative net losses in the originators' book. We have observed that performance in the originators' books has improved significantly since 2007 and 2008, and remained stable during the economic downturn. The cumulative net losses from February 2009 were constantly below 1.0% and continued improving, stabilizing below 0.7% since 2012.

Chart 3

Cumulative Net Losses On Volkswagen Bank's Own Books

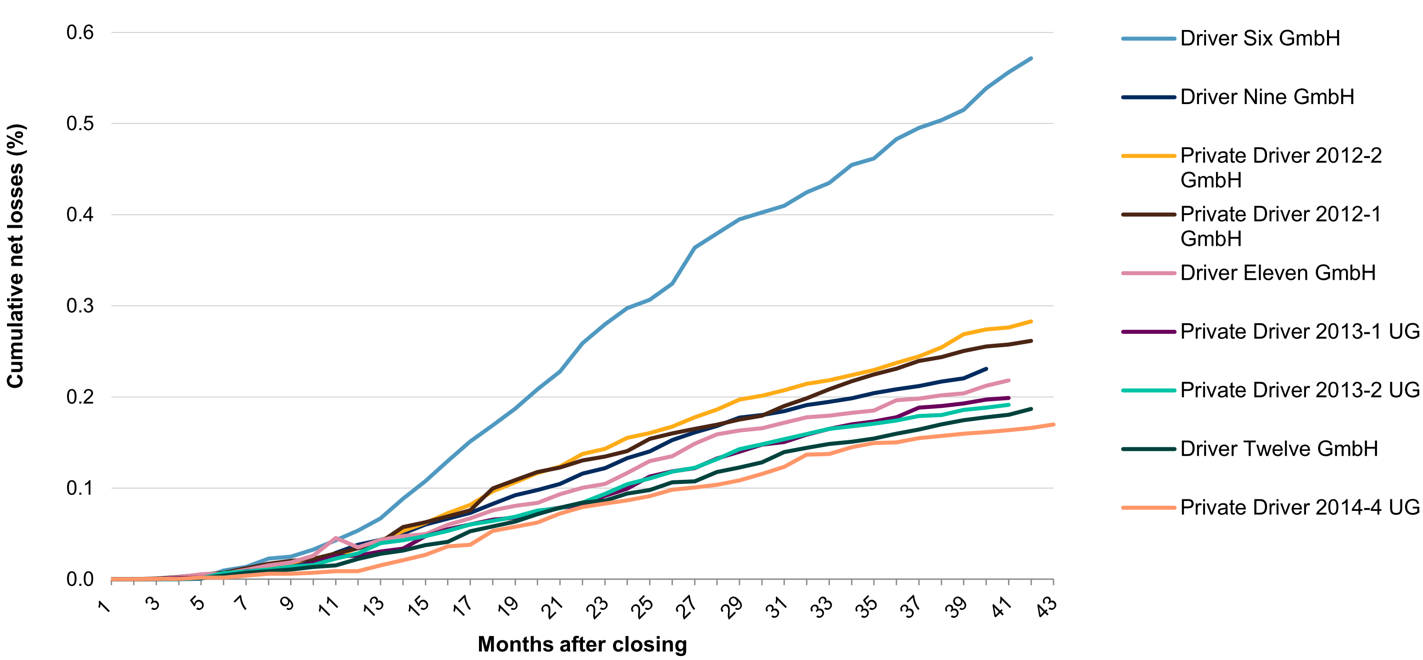


We have also analyzed performance data from existing and matured transactions of the same originator. Similar to the loss data from the originators' books, the performance of the transactions show a positive trend, but lower absolute loss levels. In our view, the positive selection bias introduced through the eligibility criteria as per the transaction documents is behind this difference in absolute levels between the performance of the originators' book and the transactions.

Also, the exercise of the 10% call option effectively provides some implicit support for the transaction, as VW Bank also repurchases delinquent and terminated receivables, which would, absent the call, eventually translate into additional losses. We do not incorporate such call options or their effect on asset performance in our analysis because the call may not be exercised in the future.

Chart 4

Cumulative Net Losses In Volkswagen Bank's Previous Transactions



Based on the stable performance of the receivables and of previous Driver transactions throughout the economic downturn, we sized an average net loss pool of 0.85% for the whole pool, in comparison to 0.90% for Driver twelve. Tables 5 and 6 summarize our credit assumptions

We have considered a multiple of 4.2x at a 'AAA' rating level and 2.87x at a 'AA-' rating level.

We have increased our gross loss base-case multiples from those used in Driver twelve (at closing). The update to the stress multiple is mainly driven by the lower base case. Typically, a higher multiple applies for assets with low base-default rates, according to our global consumer criteria. The stress recalibration is also driven by a peer comparison approach. While Driver fifteen's multiple remains one of the lowest in the market, reflecting VW Bank being a very strong originator, we considered that we receive gross defaults and recovery data for other originators, but not for VW Bank. We have therefore considered 4.2x at the 'AAA' rating level and 2.87x at the 'AA-' rating level.

A potential burden for European auto ABS (including Germany) in general can develop from a further softening of resale values of diesel vehicles, including potential bans of diesel cars from cities in various European countries. In our view, car buyers' deepening uncertainty may constrain the marketability of used diesel vehicles.

At this stage, we consider that our 40% stressed recovery rate assumptions in Driver fifteen already incorporate assumptions on steep resale price declines, especially at higher rating levels. We have set our stressed assumptions with a recovery period of nine months.

Table 5

Base-Case Assumptions	
	(%)
Net loss	0.85
Recovery rate (for gross up)	60.00
Gross loss (grossed up)	2.13

Table 6

Stress Assumptions		
Rating	Gross loss (%)	Recovery (%)
AAA	8.93	40
AA-	6.09	40

Prepayments

We have stressed the prepayment rate up to 24.0% and down to 0.5%, considering historical prepayment rates of other Driver transactions.

Market value risk

Balloon contracts introduce an element of market value risk to the transaction. We assume that some borrowers, who had expected to finance the final balloon payment through the sale of the vehicle, will default on the balloon payment under a 'AAA' scenario, because of the vehicle's market value decline under such a scenario. There is no buy-back obligation by any dealer, so when a borrower defaults on the balloon installment due to the balloon payment shock, the issuer would incur an additional loss.

We have set our balloon gross loss assumption at a 'AAA' and 'AA-' level at 7.5% and 5.17% respectively, based on the manufacturer concentration, VW Bank's balloon setting policy, and the overall size and concentration of maturing balloon payments.

In our view, recent debates in Europe that diesel NO2 emissions are a threat to public health will add further pressure on the resale value of used diesel vehicles (see "German Diesel Ban Brings Bad Air For Carmakers and Auto ABS," published Feb. 28, 2018).

At this stage we consider that our balloon assumption incorporates this risk.

Cash flow analysis

We applied stressed losses equally for a period of 30 months. We have also tested a back-loaded default curve over the same period. We stressed the prepayment rates and ran interest rate scenarios at the current levels, down to 0% and up to 12%. The SPE purchases the assets at a discounted cash flow valuation. We have also considered losses coming from prepayments due to asset price revaluations.

We have assumed asset yield to be equal to a yet to be determined discount rate (which will be set out in the transaction documents), and have not sized any further asset yield compression.

The model incorporates the payment structure including the sequential/pro rata amortization feature of the notes and the cash reserve's amortizing nature.

Furthermore, we have applied low and high prepayment scenarios in our cash flow analysis (0.5% and 24.0%, respectively). Our cash flow analysis also includes stressed senior fees of 1.03%. We did not model commingling losses because we consider the advance mechanism fully mitigates these losses.

Our analysis indicates that the available credit enhancement for the class A and B notes is sufficient to withstand the credit and cash flow stresses that we apply at the 'AAA' and 'AA-' rating levels, respectively. The low prepayment and low interest scenarios have proved to be more stressful, mostly because of the fact that low prepayments also lead to higher balloon losses.

Our preliminary ratings address not only the availability of funds for full payment of interest and principal, but also the timeliness of these payments in accordance with the terms of the rated securities.

Scenario Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses,
- Results of the effects of the stresses on ratings, and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European auto and consumer ABS transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate, given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the transition of a rating on the notes (see table 7).

Table 7

Scenario Stresses		
Rating variable	**Scenario 1 (relative stress to base case)**	**Scenario 2 (relative stress to base case)**
Gross loss rate	30	50
Recovery rate	(30)	(50)
Constant prepayment rate	(20)	(33)

We intend our base-case assumptions for each transaction to be best estimates of future performance for the asset pool. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables during the transaction's life. The sensitivity of rated notes in each transaction will differ depending on these factors, in addition to structural features of the transaction including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we apply occur at closing, and apply gross losses based on our expectation of a cumulative default curve for the pool.

The second stage applies our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment.

In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes, given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, we intend the results of this modeling to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modelling. Tables 8 and 9 show the implied base-case stresses and scenario stress results.

Table 8

Scenario Stresses			
12-month stress horizon			
Rating variable	**Base case**	**Scenario 1**	**Scenario 2**
Gross loss rate (%)	2.13	2.76	3.19
Stressed recovery rate (%)*	39.29	30.12	24.01

Table 8

Scenario Stresses (cont.)

12-month stress horizon

Rating variable	Base case	Scenario 1	Scenario 2
Constant prepayment rate (%)	12	9.6	8

*Stressed recovery rate adjusted for the purchase above par.

Table 9

Scenario Stress Analysis: Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AAA (sf)	AA+ (sf)
	B	AA- (sf)	A (sf)
Scenario 2	A	AAA (sf)	AA- (sf)
	B	AA- (sf)	BBB+ (sf)

Where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee can call an event of default. This could lead to multiple events, such as the swap terminating (with the issuer needing to make termination payments), and the post-enforcement priority of payments being applied. All of these events would have an effect on the transaction's cash flows. For the purposes of the analysis above, we make a simplified assumption that the trustee will not call an event of default.

Monitoring And Surveillance

As part of our ongoing surveillance of this transaction, we regularly assess:

- The performance of the underlying pool, including defaults, delinquencies, and prepayments;
- The supporting ratings in the transaction; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Related Criteria

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - ABS: Methodology And Assumptions For European Auto ABS, Oct. 15, 2015
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria - Structured Finance - ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014

- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Presale: Driver Multi-Compartment S.A., Compartment Driver fifteen, Aug. 21, 2018
- Monetary Policy Normalization In The Eurozone: Will One Size Fit All?, June 26, 2018
- German Diesel Ban Brings Bad Air For Carmakers and Auto ABS, Feb. 28, 2018
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Recent Volkswagen Announcement Has Potential To Affect Related ABS Transactions, Oct. 2, 2015
- Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance, May 12, 2009