Rating Report

Driver España four, FT

Matthew Nyong
Senior Financial Analyst
Global Structured Finance
+44 207 855 6629
mnyong@dbrs.com

Paolo Conti
Senior Vice President
Global Structured Finance
+44 207 855 6627
pconti@dbrs.com

Simon Murphy
Assistant Vice President
Global Structured Finance
+44 (20) 7855 6676
smurphy@dbrs.com

Insight beyond the rating.

Ratings and Issuer's Assets

Debt	Par Amount (EUR) 1	Subordination 1, 2	Coupon	Rating	Rating Action
Class A Notes ISIN: ES0305259006	888,000,000	11.20%	One-month - Euribor + 0.38%	AAA (sf)	Provisional Rating – Finalised
Class B Notes ISIN: ES0305259014	26,000,000	8.60%	One-month - Euribor + 0.75%	A (sf)	Provisional Rating – Finalised
Subordinated Loan 3	51,025,385	3.50%	Fixed rate	N/A	N/A
Overcollateralisation	35,000,000	-	-	N/A	N/A

Notes:
1 As at the issue date.
2 Subordination is expressed in terms of portfolio overcollateralisation, and does not include the Cash Collateral Account.
3 The subordinated loan is used to fund part of the purchase price of the portfolio.

	Amount (EUR) 1	Size
Final Portfolio	1,000,025,385	100%
Cash Collateral Account	13,000,000	1.30%

Notes:
1 The reserve fund provides liquidity support and is not expected to be fully available to repay principal on the Class A and Class B Notes. The Cash Collateral Account is 1.30% of the EUR 1 billion pool.

DBRS Ratings Limited (DBRS) has finalised provisional ratings assigned to the Class A Notes and the Class B Notes (the notes) issued by Driver España four, Fondo de Titulización (the issuer or the fund). The transaction follows a standard structure under the Spanish securitisation laws whereby the fund acquires receivables, related in this case to auto loan contracts, to back the issuance of the Notes.

The notes are backed by a EUR 1 billion pool of receivables related to auto loan contracts (the receivables or collectively the portfolio) granted by Volkswagen Finance, S.A., E.F.C (VW Finance, the seller or the originator) to private individuals resident in Spain or to small business and individual enterprises with their registered office in Spain for the acquisition of either new or used motor vehicles.

The receivables are related to both amortising and balloon contracts (Classic Credit and Auto Credit, respectively); however, none of the receivables pose direct residual value risk to the transaction. The balloon payment has not been securitised and does not form part of the receivables.

As is typical of European Driver programmes, available funds may be distributed through a mixed sequential and pro rata basis, where the Class A Notes will initially be repaid in priority to the Class B Notes. Amortisation may switch to a pro rata basis (with Class A and Class B repaid at the same time), provided that the transaction overcollateralisation (OC) targets for the Class A and Class B Notes are met, and performance triggers have not been breached.

Portfolio Summary (as at 31 May 2017)

Aggregate Discounted Balance	EUR 1,000,025,385	**Asset Class**	Auto ABS
Discount Rate	1.3181%		
Weighted-Average Yield	10.15%	**Main Governing Jurisdiction**	Spanish Law
New / Used	83% / 17%	**Sovereign Entity**	Kingdom of Spain
Retail / Commercial	96% / 4%	**Sovereign Rating**	A (low)

Table of Contents

Transaction Parties

Roles	Counterparty	Rating
Issuer	Driver Espana four, fondo de titulizacion	N/A
Management Company	Titulizacion de Activos, S.G.F.T S.A.	N/A
Originator / Seller / Servicer / Subordinated Lender	Volkswagen Finance S.A., E.F.C.	Private Rating
Co-Arranger	Volkswagen Financial Services AG	Private Rating
Servicer's Ultimate Parent	Volkswagen AG	BBB (high)
Account Bank / Paying Agent	BNP Paribas Securities Services, Spanish Branch	Private Rating
Swap Counterparty	Royal Bank of Canada	(S) AA / R-1 (high)
Joint Lead Managers	Crédit Agricole Corporate and Investment Bank	Private Rating
Joint Lead Manager / Co-Arranger	Lloyds Bank plc	(C) AA / R-1 (high) (S) A (high) / R-1 (mid)

Note: (I) Issuer Rating; (S) Senior Debt Rating; (C) Critical Obligations Rating; if not specified the rating is a Senior Debt Rating or an Issuer Rating.

Relevant Dates

Term	Description
Issue Date	28 June 2017
Final Portfolio Cut-Off Date	31 May 2017
First Payment Date	21 July 2017
Collection Periods	From the portfolio cut-off date (excluded) to the end of June 2017 (included) and each calendar month thereafter
Payment Dates	21st day of each month, or the first preceding business day after the 21st calendar day of the month
Revolving Period Scheduled Maturity	N/A
Legal Final Maturity Date	April 2028

Rating Considerations

- There is no revolving period and the transaction begins to amortise on the first payment date.
- About 91% of receivables are related to ClassicCredit auto loans with equal monthly instalments (including the final payment), and the remaining part is related to AutoCredit auto loans containing a larger final balloon payment.
- The balloon payment of the AutoCredit does not form part of the securitised receivables.
- All underlying contracts are fixed rate whilst floating-rate notes have been issued. Interest rate risk arising from this mismatch is mitigated through interest rate swaps on the Class A and Class B notional.
- The transaction has a mixed sequential/pro rata amortisation structure whereby initially all principal payments will pay down the Class A Notes until Class A overcollateralisation reaches the initial target level of 21%. Thereafter, Class A and Class B will receive principal on a nearly pro rata basis to meet respective overcollateralisation targets unless performance triggers are breached (defined in further detail later in this Rating Report).
- Upon breach of some performance triggers (including a cumulative gross loss trigger) the amortisation switches to increased overcollateralisation targets or becomes strictly to a sequential basis with all excess diverted toward repayment of the notes. Neither event is curable.

Strengths

- VW Finance is an experienced servicer. DBRS maintains a private rating on VW Finance but publicly rates Volkswagen AG (VW), VW Finance's ultimate parent company, at BBB (high) with a Negative trend.
- The transaction includes a liquidity reserve (Cash Collateral Account) that is made available to the priority of payments to cover senior expenses, swap payments, Class A interest and Class B interest. The liquidity reserve, initially funded for EUR 13 million, is set and maintained at 1.3% of the aggregate discounted receivables balance of the notes with a floor set at EUR 11 million (or the outstanding principal of the notes if lower).
- Cumulative net loss and gross loss performance data showed steadily decreasing credit loss performance trends.
- Retention of title *(Reserva de Dominio)* is typically granted over the financed vehicles if the relevant language is included in the underlying contract and VW Finance as the transaction servicer has the right to demand the title registered.

Challenges and Mitigating Factors

- The weighted-average interest rate of the portfolio is considerably higher than the fixed discount rate applied across all receivables in the pool (by 8.83%). The issuer may receive from the borrower less than the outstanding discounted balance of a given loan if, upon prepayment, because of the difference between the discounted balance that classifies as principal part of the interest component of each instalment if the nominal interest is higher than the discount rate and the nominal principal balance.

  Mitigants: VW Finance is obliged to transfer together with the borrower collections an indemnity corresponding to the lost interest (net of the discount rate) expected from the date of prepayment to ordinary amortisation. The mitigant is only effective as long as VW Finance is solvent and DBRS has factored prepayment-based stresses should VW Finance not be able to make these interest compensation amounts when modelling the transaction.
- VW Finance is entitled to commingle collections with funds standing in its own accounts and transfer collections twice a month. Collections may be commingled with VW Finance's estate upon an insolvency event.

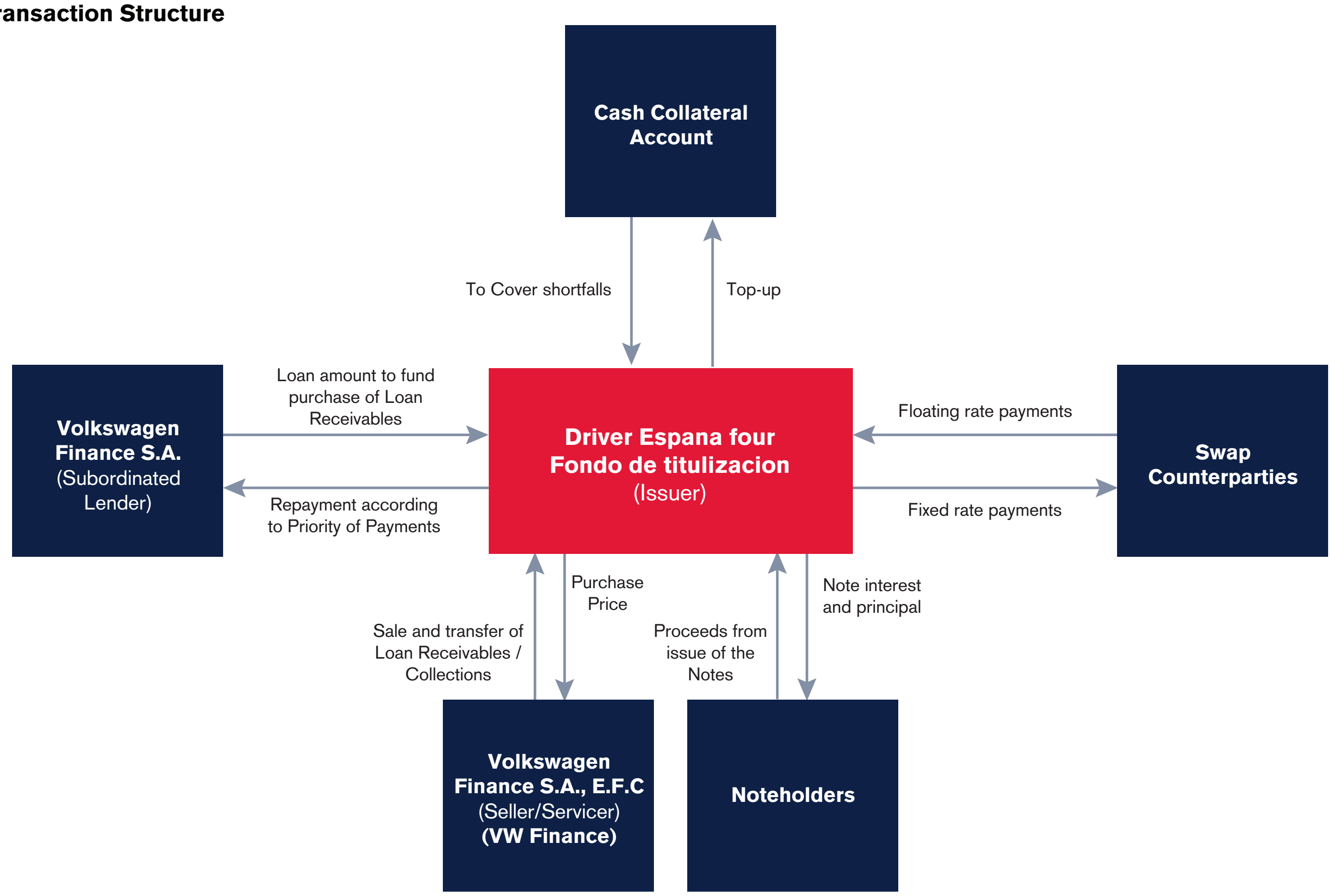
  Mitigants: Following specified triggers relating to rating downgrades of Volkswagen AG, VW Finance is obliged to post collateral corresponding to expected collections into the monthly collateral account (an account held with the account bank).

Transaction Structure

Transaction Summary

Currencies:	Issuer's assets and liabilities are denominated in euros (EUR).	
Relevant Jurisdictions:	Loan contracts are governed by the laws of the Kingdom of Spain. The transaction documents are governed by Spanish law, except for the swap documents which will be governed by the law of England and Wales.	
Interest Rate Hedging:	Issuer's Pay Leg	Issuer's Receive Leg
	Class A Notes 0.20%	Class A Notes 1-month Euribor + 0.38%
	Class B Notes 0.58%	Class B Notes 1-month Euribor + 0.75%
Basis Risk Hedging:	N/A	
Reserve (Cash Collateral Account)	Provides liquidity support to the structure and can be used to repay the notes upon exhaustion of the portfolio.	
	Initial Amount	EUR 13,000,000 (Corresponding to 1.3% of the portfolio)
	Target Amount	EUR 13,000,000 (Corresponding to 1.3% of the portfolio)
	Step-up	N/A
	Amortisation	Yes Maintained at the Specified Cash Collateral Balance
	Floor	EUR 11,000,000 (corresponding to 1.1% of the initial portfolio) or the aggregated notes outstanding principal if lower

Transaction Structure



Counterparty Assessment

Account Bank

BNP Paribas Securities Services, Spanish Branch (BPSS) has been appointed as the account bank and the paying agent for the transaction. DBRS privately rates BPSS but publicly rates BNP Paribas SA's long-term senior debt at AA (low), its short-term senior debt at R-1 (mid) and its long-term and short-term critical obligations at AA (high) and R-1 (high), respectively. DBRS concluded that BPSS meets the minimum criteria to act in such capacities. The transaction documents contain downgrade provisions with respect to BPSS's role as account bank, consistent with DBRS criteria.

Hedging Counterparty

Royal Bank of Canada (RBC) has been appointed as the Swap Counterparty for the transaction. DBRS publicly rates RBC's senior unsecured debt at AA, and their short-term instruments at R-1 (mid), and concluded that RBC meets DBRS's minimum criteria to act in such capacity. The transaction contains downgrade provisions relating to hedging counterparties consistent with DBRS's legal and derivative criteria.

Servicing of the Portfolio and Collections

VW Finance is the originator of the auto loan contracts and has been appointed to service the portfolio on behalf of the issuer. DBRS privately rates VW Finance and has concluded that it meets DBRS's minimum criteria to act as a primary servicer at the rating assigned to the Notes. VW Finance receives monthly servicing fees equal to 1% per annum of the aggregate discounted principal balance of the portfolio (as at the start of monthly collection period).

VW Finance, as the servicer, collects payments from borrowers and other proceeds related to the receivables (collections). Collections include all payments received from customers by VW Finance in respect of the purchased receivables, including:

1. auto loan instalments,
2. interest overdue,
3. insurance proceeds,
4. proceeds from execution of guarantees,
5. prepayment fees,
6. the difference (positive or negative as the case may be) between the discounted value and the contractual principal repaid upon early settlement of a loan contract (interest compensation amounts) paid or retained by VW Finance.

Collections are paid into the servicer's accounts held and maintained by VW Finance with independent third-party banks in its own name. The transaction documentation allows VW Finance to transfer collections to the issuer's accounts (held and maintained with the account bank) on or about each payment date.

VW Finance can hold collections so long as rating requirements regarding Volkswagen AG are met. Upon loss of certain rating-related requirements, VW Finance has to advance. Collections are in the form of collateral until collections have been received.

Use of the Issuer's Funds and the Priority of Payments

Collections together with the other funds available to the issuer are processed by the issuer on each payment date through a combined waterfall (the Priority of Payments).

The available funds include the collections and other funds as specified below.

- Collections made under the receivables;
- The liquidity reserve (Cash Collateral Account);
- Net swap receipts (when payable to the issuer).

If VW Finance becomes insolvent, the funds held in the Monthly Collateral Account may become available to the issuer to secure VW Finance obligation to sweep collections.

Prior to the issuer's liquidation the funds are processed according to the following order or priority.

Priority of Payments

1. Senior issuer expenses;
2. Net swap payments, including any termination payment payable to the swap counterparty except when the swap counterparty is the defaulting party;
3. Class A interest;
4. Class B interest;
5. To restore the liquidity reserve up to the Specified Cash Collateral Balance;
6. On a pro rata and pari passu basis, the amortisation amount to each amortising series of Class A Notes to align the outstanding amount of the notes to maintain the Class A overcollateralisation at its target level;
7. On a pro rata and pari passu basis, the amortisation amount to each amortising series of Class B Notes to align the outstanding amount of the notes to maintain the Class B overcollateralisation at its target level;
8. Any other payment to the swap counterparty not payable under item (2) above;
9. Interest on the Subordinated Loan;
10. Principal on the Subordinated Loan until repaid;
11. All remaining excess to VW Finance.

The repayment of the notes is determined by the target overcollateralisation percentages for each class of Notes, which are:

Target Overcollateralisation	Class A	Class B
Prior to an Enhancement Increase Event	21%	14.5%
Following a Level 1 Enhancement Increase Event	25%	18%
Following a Level 2 Enhancement Increase Event	100%	100%

A Level 1 credit enhancement increase event occurs if the Cumulative Gross Loss Ratio exceeds the following values:

For any payment date before or during September 2018	1.8%
For any payment date from October 2018 (inclusive) and prior to or during June 2019	4.0%

A Level 2 credit enhancement increase condition occurs if the Cumulative Gross Loss Ratio exceeds 8% on any payment date.

Following a default or insolvency event of the issuer, the issuer will switch to the liquidation priority of payments, summarised below.

Liquidation Priority of Payments

1. Senior issuer expenses;
2. Net swap payments, including any termination payment payable to the swap counterparty except when the swap counterparty is the defaulting party;
3. Class A interest;
4. Class A Principal
5. Class B interest;
6. Class B principal.
7. Any other payment to the swap counterparty not payable under item (2) above;
8. Interest on the subordinated loan;
9. Principal on the subordinated loan until repaid;
10. All remaining excess to VW Finance.

Issuer's liquidation takes place following the events listed below (Insolvency Events):

- Assignment or transfer of the seller's assets

- Any lawsuit, action or procedure before any court tribunal or government authority against the seller under any legislation on insolvency, liquidation or bankruptcy
- Judicial request to dissolve the seller

As the liquidation priority of payments occurs when the Issuer is insolvent (or following a clean-up call as described below), it is not usually relevant in any rating scenario.

Liquidity Reserve

On or about the issue date, VW Finance funds the EUR 13 million liquidity reserve (cash collateral account) through a mechanism of discount of the price of sale of the portfolio.

Initially the reserve corresponds to about 1.3% of the issue amount of the notes and can be used to pay senior expenses up to (and including) the interest of the notes. The reserve, whenever used, can be replenished with available funds in accordance with the relevant priority of payments.

The reserve amortises with amortisation of the notes but has to be maintained at the higher of (1) 1.3% of the outstanding portfolio balance and (2) the lower of (a) EUR 11 million and (b) the Class A and B outstanding notes balance.

Although the reserve can only be drawn to pay senior expenses, the released amount can be applied to the waterfall and the residual amount standing on the cash collateral account can be used to repay principal on the legal final maturity or when the portfolio is reduced to zero.

Clean-Up Call

VW Finance has the option to repurchase all the outstanding assigned receivables on any distribution date when the aggregate discounted principal amount outstanding of all receivables is less than 10% of the initial aggregate discounted principal balance.

Origination and Servicing

DBRS conducted an operational review of VW Finance's auto finance operations in April 2017 in Madrid, Spain. DBRS considers VW Finance's origination and servicing practices to be consistent with those observed among other Spanish auto finance companies.

As an operating subsidiary of Volkswagen AG, product offerings range from the financing of new and pre-owned cars of the Volkswagen Group and non-Group brands to wholesale financing and direct banking. Within this business model, VW Bank also supports the sale of the products of the Volkswagen Group and its brands. VW Bank co-operates closely with approximately 2,900 dealerships of the Volkswagen Group. A dealer can thus offer the customer complete service from a single source, including the financing. In addition, dealers receive valuable support from VW Bank in the form of diverse training measures and extensive marketing support.

VW Finance was originally established in Spain in 1967 as FISEAT, the finance company of Spanish automaker SEAT, founded in 1950. Volkswagen Financial Services AG (VWFS) took control of FISEAT in 1994 and became Volkswagen Financial Services S.A. and in 2001 VW Bank was authorised in Spain and began wholesale funding. The Spanish branch of the Bank is a wholly owned subsidiary of VWFS.

As of end-2016, VWFS's market share of SEAT cars only in Spain decreased to 6.8% from 7.5% in 2015, making it the fifth-largest provider (down from second). The Volkswagen brand with 7.8% was in third place (down from 8.5% and first place in 2015). When all brands of the Volkswagen Group (including Audi, Skoda and Porsche) are taken into account, the total market share equates to 19.3% and is in first position in the overall market.

Collateral Summary

The receivables assigned to the issuer by the seller comprise claims against borrowers in respect of payments due under financing contracts for the provision of credit for the purchase of new and used motor vehicles. The loan contracts have been granted by VW Finance to retail and commercial borrowers in Spain, and arise under fixed interest rate agreements, with each instalment comprising interest and principal components. The initial receivables purchase price paid by the issuer to VW Finance is the net present value of the receivables discounted by a fixed discount rate.

The receivables include two types of loan contracts: equal instalment amortising loans, known as ClassicCredit; and AutoCredit loans, where a larger final balloon payment is due at the maturity date of the contract. The balloon instalment in AutoCredit loans is not transferred to the issuer, and therefore the transaction does not pose any direct residual value risk.

As well as the loan receivables, the issuer acquires the ancillary rights corresponding to each loan agreement, such as any guarantees that a loan may possess. The seller also transfers the reservation of title *(Reserve de Dominio)* that may be granted over the purchased vehicles. Spanish reservation of title is not a strong form of pledge that actually provides for vehicle repossession and only facilitates the recovery process whereas the actual owner of the vehicle is the borrower. However, provided that such pledge is registered with the Chattels Register *(Registro de Bienes Muebles)*, the customer has to seek the lender's approval in order to sell or otherwise dispose of the vehicle. This protection prevents the borrower from selling the financed vehicle to a third party without VW Finance's agreement. VW Finance has adopted an online tool that allows Retention of Title to be registered quickly (one day) and at a nominal cost (EUR 2.50) compared with previous manual procedures.

The receivables are assigned at a discount rate that is calculated to equal the initial average of the issuer's costs of the notes and subordinated loan, so that no excess remains in the structure. The discount rate of the portfolio selected by VW Finance as at 31 May 2017 is about 1.32%, but the average nominal interest rate is 10.15%. The interest rate of the securitised installments includes the interest accrued over the final balloon principal (which is not securitised).

The difference between the discount rate and the nominal interest rate (the latter being higher) is likely to generate a mismatch between the outstanding from the issuer's perspective (in terms of net present value) and the nominal principal recognised under the loan contract; such difference may materialise as a loss for the issuer upon early settlement: in fact, borrowers are only required to pay the contractual amount. VW Finance has undertaken to indemnify the issue for the potential loss through the mechanism of the interest retention amount (Interest Compensation Amount). In cases where the loan nominal interest rate is lower than the discount rate prepayment may, on the other hand, generate a small profit for the issuer: as per the indemnification VW Finance is made a whole with issuer's collections and retains the profit as well as being liable for the loss upon prepayment upon transfer of collection once a month (Interest Compensation Amount mechanism).

Eligibility Criteria, Representations and Warranties

Receivables assigned on the issue date meet certain criteria specified in the transaction documents including, amongst others:

1. All financing contracts are entered into exclusively with borrowers whose country of residence is Spain or, in the case of corporate entities, have their registered office in Spain;
2. None of the borrowers is an employee of VW Finance or an affiliate of Volkswagen AG;
3. No bankruptcy or insolvency proceedings are initiated against the borrower (according to VW Finance's records);
4. Loan receivables are up to date in payments;
5. Related financing contracts are governed by Spanish law, and denominated in euros;
6. No contracts have been terminated or written off (according to VW Finance's documents);
7. The total discounted receivables balance for loans assigned to one borrower will not exceed EUR 180,000.

In relation to the assigned receivables, VW Finance represents and warrants to the issuer upon the closing date certain matters including, amongst others:

1. Financing contracts constitute legal valid, binding and enforceable agreements;
2. Financing contracts provide reservation of title (reserve de dominio) of the financed vehicles, and VW Finance has the right to demand registration of the reservation of title in the Chattels Register (Registro de Bienes Muebles);
3. Purchased receivables require the borrower to pay substantially equal monthly instalments via direct debit;
4. Status and enforceability of the purchased receivables is not impaired due to any claims of compensation by the borrower
5. None of the receivables were entered into to finance more than one car;
6. VW Finance has not received any notice of early repayment;

Pool Characteristics

DBRS has analysed the final portfolio selected by VW Finance as at 31 May 2017. The main characteristics of the portfolio are summarised below:

FInal Pool Characteristics

	EUR	% of Discounted Principal Balance
Outstanding Discounted Balance	1,000,025,385	
Discount Rate	1.3181%	
Weighted-Average Nominal Interest Rate	10.15%	
AutoCredit	85,518,814	8.6%
ClassicCredit	914,506,571	91.5%
New Vehicle Financing	823,185,008	82.3%
Used Vehicle Financing	176,840,377	17.7%
Financing to Retail Customers (incl. freelance)	955,760,439	95.6%
Financing to Commercial Customers	44,264,946	4.4%
Total Number of Loans		89,240
Average Original Principal Balance		EUR 14,781
Average Outstanding Discounted Balance per Contract		EUR 11,206
WA Original Term (Months)		56.8
WA Remaining Term (Months)		46.5
WA Seasoning (Months)		10.3
WA Customer Interest Rate		10.15%
Average Down Payment		EUR 8,093

Pool Characteristics (% Discounted Receivables Balance):

Vehicle Brand (top 3)

Seat	34.5%
VW	33.8%
Audi	22.4%

Dealer Geographic Mix (Top 3 Regions)

Cataluna	20.6%
Andalucia	16.6%
C.Madrid	16.5%

Top 5 Vehicle Models

Leon	14.5%
Ibiza	13.8%
Golf	10.6%
A3	6.5%
Tiguan	5.8%
Top 5	51.1%

Customer Concentration

Top 1	0.01%
Top 3	0.03%
Top 5	0.04%
Top 10	0.08%
Top 20	0.13%

Source: VWFS.

Rating Analysis

The ratings are based on a review by DBRS of the following analytical considerations:

- Transaction capital structure and form and sufficiency of available credit enhancement.
- Relevant credit enhancement in the form of subordination and a fully funded reserve.
- Credit enhancement levels are sufficient to support the expected credit and net loss assumptions projected under various stress scenarios at AAA (sf) and A (sf) standards for the Class A and Class B Notes, respectively.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms under which they have invested.
- VW Finance's financial strength and its capabilities with respect to originations, underwriting and servicing.
- The credit quality of the collateral and ability of the servicer to perform collection activities on the collateral.
- The operational risk review conducted on VW Finance by DBRS to conclude that it is an acceptable servicer.
- The transaction parties' financial strength with regard to their respective roles.
- The credit quality and diversification of the collateral and historical and projected performance of the seller's portfolio.
- The sovereign rating of the Kingdom of Spain, currently at A (low).
- The legal structure and presence of legal opinions addressing the assignment of assets to the Issuer and the consistency with *DBRS's Legal Criteria for European Structured Finance Transactions* methodology.

Portfolio Performance Data

DBRS received the following sets of data sourced by VW Finance:

- Static monthly origination and cumulative gross and net loss data from January 2005 up to March 2017;
- Full and partial prepayment data from July 2006 up to December 2016;
- Monthly dynamic delinquencies data from January 2008 up to December 2016, and;
- Dynamic quarterly loss data from Q2 2006 up to Q4 2016.

Default and Recoveries

DBRS received monthly vintage gross loss (default) and net loss data for the portfolio originated by VW Finance from January 2005 to March 2017. Data was separately provided for New/Used, and AutoCredit/ClassicCredit subsets, as well as a total portfolio basis which is shown below:

Exhibit 1: Total Portfolio Gross Loss

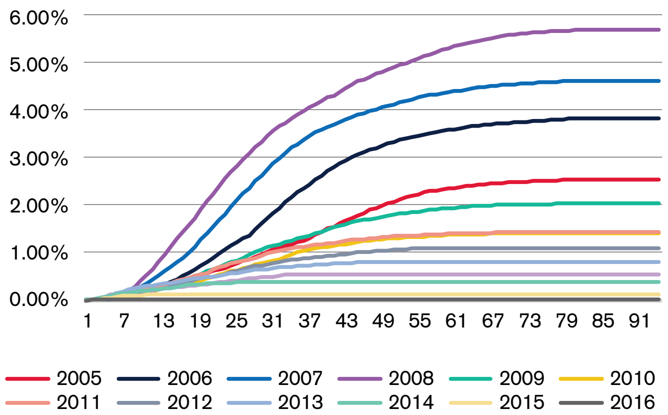
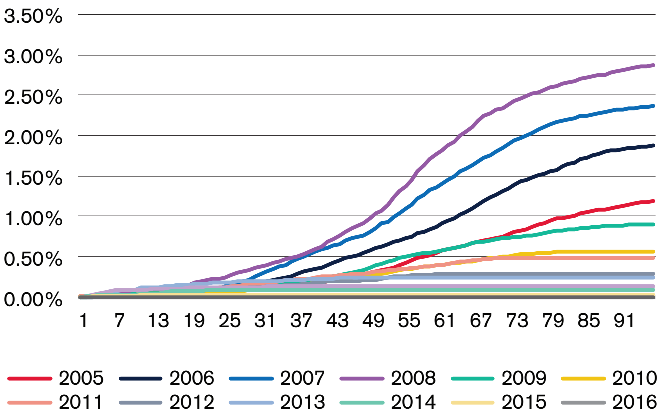


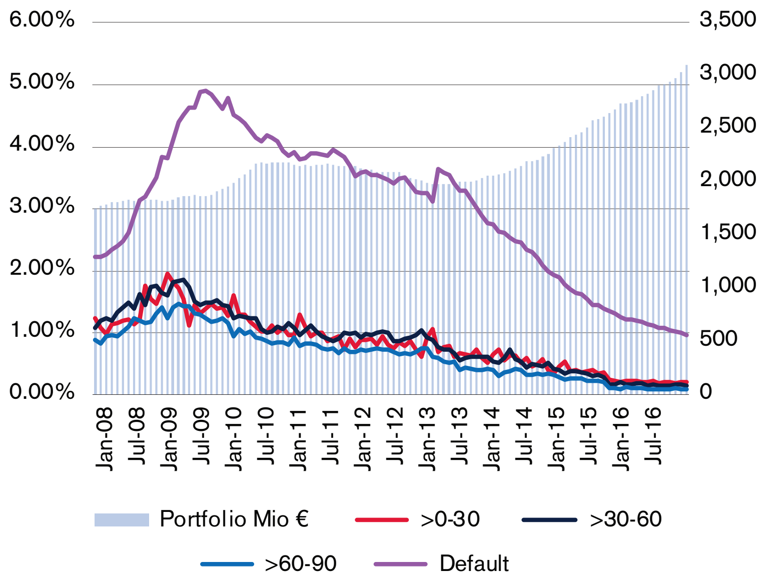
Exhibit 2: Total Portfolio Net Loss



Gross losses are defined as the outstanding amount of a loan at the time of termination. Loans are usually terminated once they reach 245 days from the first defaulted instalment. Net losses are then recognised once a loan has reached 48 months since the first defaulted instalment. Net losses are defined as the outstanding amount of a given loan subtracting sales income from the corresponding vehicle and any other ancillary recoveries up until the given date of write-off. DBRS was not provided with static recovery data; however, recovery assumptions were derived through the default and net loss data.

Delinquency Data

Exhibit 3: Delinquency Ratio



DBRS has received dynamic arrears data for the entire portfolio from 2008, depicted on the left.

The overall portfolio has seen a steady and consistent improvement in performance, especially since 2013. This is in line with the overall economic recovery Spain has witnessed which, during this time frame, has been one of the strongest in Europe. In particular, unemployment rates have shown a considerable decrease to their present value of 19% from their 2013 high of 26%. Unemployment remains high in comparison with Spain's European peers, especially youth unemployment (currently at 42.7%).

DBRS deems the arrears data consistent with related performance data and consistent with the typical Spanish framework.

Commingling Risk

VW Finance is entitled to transfer collections twice in each monthly period, subject to rating requirements on Volkswagen AG being met (the Monthly Remittance Condition). If these are breached, and for so long that they are breached, VW Finance can still commingle collections with its own funds during each monthly period as long as the following procedures are adhered to no later than 14 calendar days following the downgrade event:

1. Determine the expected collections from the first calendar day (inclusive) of the respected monthly period to the 19th calendar day (inclusive) of such monthly period. On the second business day of each monthly period, VW Finance is obliged to transfer and hold this amount in the monthly collateral account until collections from the first calendar day (inclusive) of the respected monthly period to the 15th calendar day (inclusive) of such monthly period have been paid.
2. Determine the expected collections from the 16th calendar day (inclusive) of the respected monthly period until the fourth calendar day (inclusive) of the following monthly period. On the second business day following the 15th calendar day of each monthly period, VW Finance is obliged to transfer and hold this amount in the monthly collateral account until collections from the first business day following the 16th calendar day (inclusive) of the respected monthly period to the final calendar day (inclusive) of such monthly period have been paid.

Furthermore, VW Finance is obliged to transfer the following amounts into the distribution account:

1. On the second business day of each monthly period, the collections from the 16th calendar day (inclusive) of the previous monthly period to the last calendar day (inclusive) of such monthly period, and;
2. On the second business day following the 15th calendar day of each monthly period, the collections from the first day (inclusive) of the current monthly period to the 15th calendar day (inclusive) of such monthly period.

Set-Off Risk

In case of VW Finance's insolvency, borrowers may validly claim set-off against the issuer in respect of amounts the seller may owe them. Since VW Finance is not a deposit-taking financial institution, and employees or affiliates of Volkswagen AG are excluded from the pool, this form of set-off risk is deemed immaterial.

Receivable Interest Rate and Prepayment Risk

The portfolio purchase price is calculated on a net-present value basis. Each assigned receivable is discounted by a fixed rate which is identical for all receivables. The portfolio yield is fixed and there is no risk of compression due to early settlement or defaults.

Due to the discount rate mechanism, upon prepayment a principal loss may materialise if the loan contract actual interest rate is higher than the discount rate and thus the actual principal component is lower than the discounted value. DBRS considers that this risk is mitigated by the currently low interest rate. Furthermore, VW Finance is obliged to pay the issuer the difference in interest rate between the discount rate and the interest rate applicable for the prepaid loan between the date of the prepayment and the date that the loan was scheduled to fully amortise (the interest compensation amount).

DBRS has factored an additional prepayment loss to mitigate the risk of shortfall in high prepayment scenarios.

Cash Flow Analysis

DBRS's cash flow model assumptions focused on the amount and timing of defaults and recoveries, prepayment speeds and interest rates. Based on a combination of these assumptions, a total of 18 cash flow scenarios were applied to test the performance of the rated notes.

Interest Rate Risk, Basis Risk and Excess Spread

The interest rate risk in the transaction arises from the mismatch between the fixed interest rate on the auto loan receivables and the one-month Euribor floating rate applied to the issued notes. In order to mitigate the risk, DBRS notes that the issuer has entered into a swap agreement with an eligible counterparty in accordance with its *Derivative Criteria for European Structured Finance Transactions* methodology.

DBRS understands that the hedging agreements, parametrised to the Class A and Class B Notes outstanding, envisage that the issuer will pay a fixed interest rate in exchange for one-month Euribor plus the spread on the relevant Notes and floored at zero. Interest rate compression is not applicable since the receivables are purchased and treated on a discounted value basis, so that all receivables pay an interest rate exactly equal to the discount rate.

Interest Rate Stresses
DBRS applied its standard interest rate stresses as detailed in its *Unified Interest Rate Model Methodology for European Securitisations*.

Base Case Loss and Recovery Assumptions
DBRS observed broadly consistent and low loss rates from quarterly vintages originated from 2009 and considers them to be stronger than those originated between 2003 and 2008. The following assumptions were made as part of DBRS's cash flow analysis:

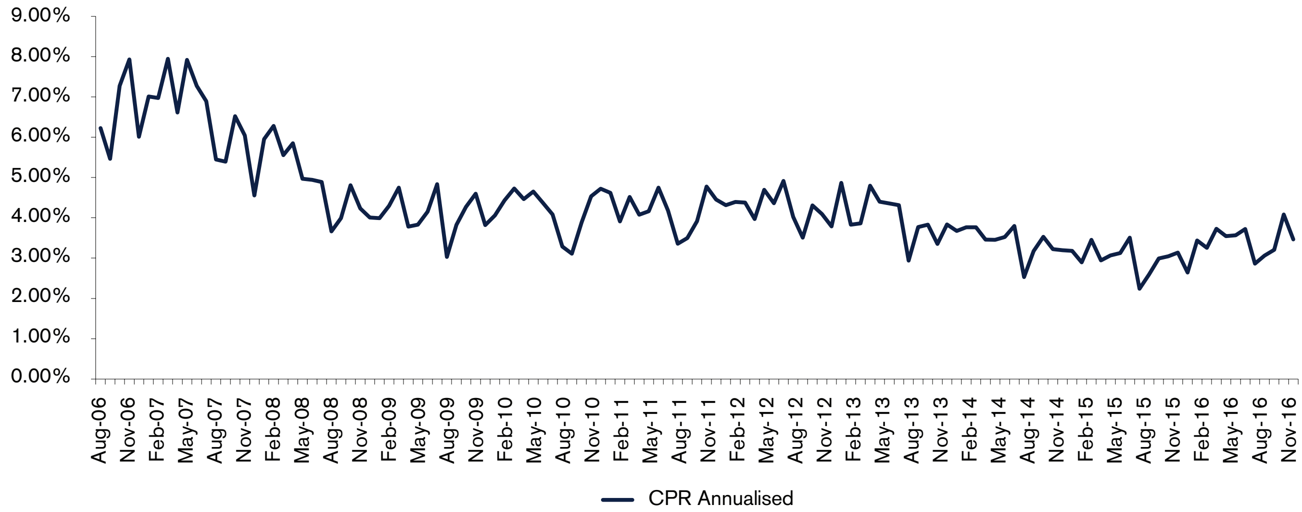
Default Rate	2.34%
Expected Recovery Rate	40%

The default rate is net of sovereign stress and the recovery rate is adjusted to factor the net present value. Incorporating the prepayment loss, the adjusted base case would be broadly equivalent to about 3%.

Recovery time-lag was assumed to be 12 months for both the Class A and Class B Notes.

Prepayment Speeds
Prepayment rates have fallen over the reporting period, as shown. DBRS has stressed prepayment scenarios from 0 up to a 15% constant prepayment rate.

Exhibit 4: Historic Prepayment Rates



Timing of Defaults
DBRS estimated the default timing patterns and created base, front- and back-loaded default curves. DBRS used a 36-month loss curve, and the front-loaded, base and back-loaded default distributions are listed below.

Month	Mid Losses	Front Loaded Losses	Back Loaded Losses
1-12	20%	50%	20%
12-24	50%	30%	30%
24-36	30%	20%	50%

Risk Sensitivity

DBRS expects a lifetime base case probability of default (PD) and loss given default (LGD) for each rated pool based on a review of historical data. Adverse changes to asset performance may cause stresses to base case assumptions and therefore have a negative effect on credit ratings. The tables below illustrate the sensitivity of the rating to various changes in the base case default rates and loss severity assumptions relative to the base case assumptions used by DBRS in assigning the ratings.

Class A

Increase in Loss Severity (%)	Increase in Default Rate (%) 0	25	50
0	AAA	AA (high)	AA
25	AA (high)	AA	AA (low)
50	AA	AA (low)	"A"

Class B

Increase in Loss Severity (%)	Increase in Default Rate (%) 0	25	50
0	A	A (low)	BBB
25	A (low)	BBB	BB (high)
50	BBB	BB (high)	B (high)

Appendix

1. Origination & Underwriting

Origination and sourcing:
As VW Finance is the financing arm of the Group in Spain, it is the chief provider of auto financing for VW and affiliate brands including Audi, Skoda, and SEAT.

During 2016, approximately 34.85% of all new business for VW Finance was through the VW brand, with the remainder of new business in 2016 split between SEAT vehicles (33.5%) followed by Audi (18.8%), Skoda (8.9%) and Commercial vehicles (3.9%).

VW Finance offers retail products in Spain including a standard hire purchase, financial leasing, full service leasing and short-term finance. The hire purchase scheme includes equal monthly repayments so there is no balloon risk for borrowers and the final payment includes the purchase fee for transfer of legal title. The loan term ranges from 12 to 60 months. The hire purchase product represents the bulk of VW Finance's portfolio. 11.1% of new business originated in 2016 was via the Auto Credit product (for new cars) and 70.9% was through the classic credit product for new and used cars.

Underwriting process:
All underwriting activities at VWFS are appropriately segregated from marketing and sales. VW Finance adheres to standard identity and income verification practices including collection of pay slips and tax returns while identity cards, proof of address and utility bills are reviewed. Prior to acceptance of an application, the Bank checks the credit standing of the customer. For private and commercial retail customer contracts, applications are checked by a scoring system to ensure the information on the application meets the Bank's criteria. External credit data is retrieved from the nationally-recognised bureau at the Bank of Spain and incorporated into the automated credit scoring models.

Applications are analysed through VW Finance's internal credit scoring system which assigns a 'band' to the loan denoting the risk associated with the borrower and loan.

All applications are assessed by an employee of the credit department. The employees of VW Finance's credit department typically have several years' industry experience and degrees in business administration. Each employee is personally assigned a credit ceiling up to which they may underwrite a given loan.

Summary strengths

- Global brands with good reputation and strong position within Spanish market.
- Consistent penetration rate over the last few years.
- Use of multiple rules-based scoring models incorporating credit bureau data and monthly analysis of rules and performance metrics.
- Centralised and independent credit and risk management functions with underwriting teams split between retail (individuals and business) and corporates.

2. Servicing

Servicing begins during the final stages of initial financing with the customer services department reviewing all borrower documents and credit terms including interest rates, loan maturity, and insurance and prepayment terms. 100% of payments are made via direct debit and have monthly payment frequencies and virtually no balloon payments for classic credit loans. The direct debit payment is collected on one of five selected days throughout the month. In the rare circumstance where customers do not agree to this requirement, payment comes from standing orders for payment transfers from their bank account, regular bank transfers or cheque.

Servicing is centralised in Madrid and the company places considerable focus on customer service, evidenced through proactive assessment of customer satisfaction following contract execution and quarterly surveys. Given VW Finance's low staff attrition rate, average company tenure among the servicing group is estimated at approximately five years.

The arrears management process is heavily automated and is driven by an SAP workflow system providing collection teams daily workload reports and performance monitoring statistics. VW Finance complies with all regulatory guidelines. The company's behavioural scoring model, which assigns a PD and LGD to each loan, is used to segregated arrears cases based on the risk profile.

Initial collections activity starts in the Call Centre unit where letters are sent out throughout the month. The collection activities are supplemented through phone calls that are prioritised on the basis of risk and if non-payment continues for 60 days then responsibility for the account typically migrates to the Collection Centre and six external agencies for another 131 days in total. Once in the Collections Centre for 132 days or more, borrowers are notified that their contract is being terminated and must surrender the vehicle or make all past due payments. If the borrower is solvent then the judicial phase is completed where the car is repossessed and the outstanding debt amount is claimed. In those cases where the customer is not solvent, the loan is written off.

If a car is repossessed and remarketed, then the car is offered through specific web sites to dealers, export and buyer-seller traders to maximise recovery. Approximately 74% of remarketing sales were to dealers or traders in 2016 with an average sales price of EUR 13,343.

Summary strengths

- All payments made via direct debit.
- Active early arrears management practices which benefit from automated workflows and behavioural scoring that segregates arrears cases based on risk and loan size.

Opinion on Back-Up Servicer: No back-up servicer on the Programme. DBRS believes that VW Finance's current financial condition including parental support mitigates the potential risk of a disruption in servicing following a servicer event of default including insolvency.

Methodologies Applied

The principal methodology applicable to assign ratings to this transaction is *Rating European Consumer and Commercial Asset-Backed Securitisations*.

Other methodologies referenced in this transaction are listed below.

- *Legal Criteria for European Structured Finance Transactions*
- *Operational Risk Assessment for European Structured Finance Servicers*
- *Operational Risk Assessment for European Structured Finance Originators*
- *Unified Interest Rate Model for European Securitisations*

The rating methodologies and criteria used in the analysis of this transaction can be found at: http://www.dbrs.com/about/methodologies. Alternatively, please contact info@dbrs.com.

Surveillance Methodology

The transaction is monitored by DBRS in accordance with its *Master European Structured Finance Surveillance Methodology*, which is available at www.dbrs.com under Methodologies. Alternatively, please contact info@dbrs.com.

Notes:
All figures are euros unless otherwise noted.