Rating Report

# Driver Italia one S.r.l


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DBRS

*Insight beyond the rating.*

## Ratings and Issuer's Assets

| Debt | Par Amount (EUR) 1 | Subordination 1, 3 | Coupon | Rating 2 | Rating Action |
|---|---|---|---|---|---|
| Class A Notes | 441,000,000 | 11.8% | One-month - Euribor + 0.40% | AAA (sf) | Provisional Rating - Finalised |
| Class B Notes | 14,000,000 | 9.0% | One-month - Euribor + 0.50% | A (high) (sf) | Provisional Rating - Finalised |
| Subordinated Notes 4 | 33,100,000 | - | One-month - Euribor + Margin | N/A | N/A |
| Overcollateralisation | 11,944,694 | - | | N/A | N/A |

Notes:
1 As at the issue date.
2 The ratings address the payment of timely distribution of scheduled interest and ultimate principal by the legal final maturity date.
3 Subordination is expressed in terms of portfolio overcollateralisation, and does not include the Cash Collateral Account.
4 The proceeds of subscription of the Subordinated Notes are used to fund part of the purchase price of the portfolio.

| | Amount (EUR) 1 | Size 2 |
|---|---|---|
| Portfolio 3 | 500,044,694 | 100% |
| Cash Collateral Account 4 | 6,500,581 | 1.30% |

Notes:
1 As at the issue date.
2 Size is expressed as a percentage of the initial portfolio amount.
3 The portfolio cut-off date is 30 April 2018. The portfolio initial amount is calculated as a discounted value.
4 The Cash Collateral Account is initially funded by the originator thorough a discount of the purchase price of the portfolio.

DBRS Ratings Limited (DBRS) finalised provisional ratings of AAA (sf) and A (high) (sf), respectively, assigned to the Class A Notes and the Class B Notes expected to be issued under this transaction.

The transaction represents the issuance of Notes backed by a static pool of about EUR 500 million of receivables related to auto loan contracts granted to finance the purchase of new and used motor vehicles. The loan contracts related to the receivables were initially granted by the Italian branch of Volkswagen Bank GmbH (VWB or the seller or the originator) and subsequently assigned to Driver Italia One S.r.l (the Issuer), a special-purpose vehicle (SPV) incorporated under Italian securitisation law.

The loan contracts are classified as either amortising loans (Classic Credit), balloon loans (Balloon Credit) or Auto Credit loans (Più Credito). Both balloon loans and Auto Credit loans envisage an initial amortisation phase and a final balloon payment, but Auto Credit loans differ from Balloon Credit loans as they permit the borrower to hand the vehicle back to the dealer who sold the vehicle (who in turn settles the finance contract) rather than make the final balloon payment.

| Issuer | Driver Italia one S.r.l. |
|---|---|
| Issuer Jurisdiction of Incorporation | Republic of Italy |
| Asset Governing Jurisdiction | Republic of Italy |
| Sovereign Rating | BBB (high) |
| Asset Comprising the Underlying Collateral Portfolio | Amortising loans (Classic Credit)<br>Balloon loans (Balloon Credit)<br>Auto Credit loans (Più Credito) |
| Originator / Seller | Volkswagen Bank GmbH, Italian branch |
| Servicer | Volkswagen Bank GmbH, Italian branch |
| Back-Up Servicer | N/A |

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### Portfolio Summary (as at 30 April 2018)

| | |
|---|---|
| Aggregate Discounted Balance | EUR 500,044,694 |
| Discount Rate | 1.3% |
| Weighted-Average Yield | 3.59% |
| New / Used | 92.23% / 7.77% |
| Balloon Balance Mix | 71.17% / 28.82% / 0.01% |
| Retail / Commercial Clients | 99.99% / 0.01% |

# Transaction Parties

| Roles | Counterparty | Rating |
|---|---|---|
| **Issuer** | Driver Italia One S.r.l. | N/A |
| **Originator / Seller / Servicer** | Volkswagen Bank GmbH - Italian Branch | Private Rating [1] |
| **Security Trustee** | Intertrust Trustees GmbH | |
| **Subordinated Notes Subscriber** | Volkswagen International Luxembourg [2] | |
| **Servicer's Ultimate Parent** | Volkswagen AG | BBB (high) |
| **Account Bank / Cash Administrator / Calculation Agent / Paying Agent** | Elavon Financial Services DAC | Private Rating |
| **Swap Counterparty** | Credit Agricole Corporate and Investment Bank | Private Rating |
| **Corporate Services Provider** | Zenith Service S.p.A. | N/A |
| **Listing Agent** | Lucid | |
| **Arranger / Joint Lead Manager / Book Runner** | Citigroup Global Markets Limited | N/A |
| **Joint Lead Manager / Book Runner** | Crédit Agricole Corporate and Investment Bank | Private Rating |
| **Book Runner** | Volkswagen Bank GmbH | Private Rating |
| **Manager** | Banco Santander, S.A. | A / R-1 (low) (S)<br>A (high) / R-1 (mid) (C) |
| **Manager** | DZ BANK AG Deutsche Zentral-Genossenschaftsbank | A (high) / R-1 (mid) (S)<br>AA / R-1 (mid) (C) |
| **Manager** | UniCredit Bank AG | Private Rating |

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.
1 Ratings assigned to the headquarters.
2 The subordinate lender is expected to be an affiliate of Volkswagen AG.

# Relevant Dates

| | |
|---|---|
| **Expected Issue Date** | 29 May 2018 |
| **Final Portfolio Cut-Off Date** | 30 April 2018 |
| **First Payment Date** | 21 June 2018 |
| **Payment Dates** | 21st day of each calendar month or following business day |
| **Collection Period** | Each calendar month preceding a payment date |
| **Determination Date** | Two days prior to the payment date |
| **Servicer Report Date** | 16th calendar day of each month (subject to business day convention) |
| **Legal Final Maturity Date** | 21 April 2029 |

## Rating Considerations

- There is no revolving period and the transaction begins to amortise on the first payment date.
- The receivables backing the notes are related to Italian auto loan contracts granted for the purchase of either a new or a used motor vehicle.
- In Italy, an auto loan contract is a finance contract granted to a borrower that undertakes the repayment obligation with respect to both principal and interest, and the financed amount is almost entirely disbursed to the dealer that sells the motor vehicle to the borrower; thus the sale agreement between the dealer and the borrower is connected to the auto loan contract.
- Unlike other European jurisdictions, in Italy, an auto loan does not benefit from a pledge over the purchased motor vehicle and the loan is substantially unsecured.
- All contracts envisage the payment of monthly instalments: all identical, except for the last instalment that may be a balloon instalment, and indexed to a fixed rate.
- Each receivable is assigned at a discounted value calculated by applying the same fixed discount rate.
- Most of the receivables comprising the portfolio (approximately 71%) are expected to be related to Classic Credit auto loans with equal monthly instalments (including the final payment), and the remaining part is almost entirely related to Auto Credit loans containing a larger final balloon payment (approximately 29%) with only a minimum portion of balloon loans (Balloon Credit).
- The final balloon payment of both Auto Credit loan and balloon loan contracts is securitised.
- Under PCP loan (Più Credito) contracts, DBRS understands that the borrower has a single pecuniary obligation to reimburse the balloon instalment either by (1) a direct payment of the balloon instalment, (2) returning the vehicle to the dealer and in doing so discharge any further obligation. Where the borrower returns the vehicle to the dealer, the dealer takes the obligation to pay the contractual balloon instalment to VWB within ten days, in accordance with provisions of the underlying loan agreement entered between the borrower, the dealer and VW Bank.
- DBRS understands that, by operation of the transfer agreement, the dealer's obligation vis-à-vis VWB is validly transferred to the issuer and is enforceable by the issuer irrespective of the solvency of VWB.
- DBRS understands from transaction counsel that should the dealer be declared bankrupt then the receiver of the dealer may withdraw from the agreement and not accept the vehicle, resulting in the borrower not being discharged from its obligation to the pay the balloon instalment to VWB in accordance with the terms of the Auto Credit contract that remains valid.
- 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 amount.
- The transaction structure provides for amortisation of the Class A, Class B and Subordinated Notes to be repaid on a mixed sequential/pro rata amortisation, whereby initially all principal payments will pay down the Class A Notes until Class A overcollateralisation reaches the initial target level of 23%. Thereafter, the Class A and Class B Notes will receive principal on a nearly pro rata basis to meet respective overcollateralisation targets (23% for Class A and 16% for Class B) with all the excess applied towards junior payments including repayment of the Subordinated Notes.
- Pro rata amortisation continues unless performance triggers parametrised on gross losses are breached (defined in further detail later in this Presale Report): upon breach of a cumulative gross loss performance trigger, the amortisation switches to increased overcollateralisation targets or turns strictly to a repayment on sequential basis with all excess (after payment on Class A and Class B interests) diverted toward repayment of the Notes. Neither event is curable.

## Strengths

- VWB is an experienced and financially strong originator and servicer, and DBRS maintains a private rating on VWB and publicly rates Volkswagen AG (VW), VW Bank's ultimate parent company, at BBB (high) with a Stable trend.
- The transaction includes a EUR 6.5 million Cash Collateral Account (CCA) funded by the portfolio seller on the issue date that provides liquidity support to the transaction. The CCA may be used to repay principal on the Class A and Class B Notes when the portfolio's receivables balance reaches zero. The CCA is set and maintained at 1.1% of the aggregate discounted receivables balance of the portfolio with a floor set at EUR 5 million (or the outstanding principal of the Rated Notes, if lower).
- DBRS received cumulative net loss and gross loss performance data from 2008.

## Challenges and Mitigating Factors

- Italian auto loans do not benefit from a pledge over the vehicle and are typically regarded as unsecured consumer loans.

  ***Mitigant(s):*** The unsecured nature of Italian auto loans is reflected in the comparatively small difference between historical cumulative gross and net loss rates indicating that recoveries are low. DBRS considers the portfolio's recovery rates to be broadly consistent with other comparable Italian auto loan ABS transactions and has reflected this within its base case recovery assumptions.
- Upon the insolvency of a dealer, DBRS considers there to be an increase in the risk of balloon instalments not being settled by the recipient dealer in the case of PCP loans.

  ***Mitigants:*** DBRS understands that the risk exists for limited time span from the moment the dealer takes over the vehicle to the actual payment (theoretically limited to ten days). DBRS has considered incremental losses within its cash flow analysis that consider the risk of the dealer receiving the vehicle and not settling the final balloon instalment.
- The weighted-average interest rate of the portfolio is higher than the fixed discount rate applied across all receivables in the pool. For the portfolio, the delta is approximately 2.3%. Upon prepayment, the issuer may receive less than the outstanding discounted balance for a given loan from a borrower if the nominal interest is higher than the discount rate.

  ***Mitigants:*** Together with the borrower collections, VW Bank is obliged to transfer an indemnity corresponding to the lost interest (net of the discount rate) expected from the date of prepayment until the expected loan maturity date. This mechanism is only effective as long as VW Bank is solvent and DBRS has factored prepayment-based stresses should VW Bank not be able to make these interest compensation amounts when modelling the transaction.
- For loan contracts with credit protection insurance (CPI), prepayments and cancellation of related CPI insurance policies may result in a loss on the insurance premiums capitalised as part of the financed loan amount.

  ***Mitigant(s):*** DBRS has assessed potential CPI losses in addition to credit losses and prepayment losses within its cash flow analysis.
- VW Bank is entitled to commingle collections with funds standing in its own accounts and transfer collections on a monthly basis. Collections may be commingled with VW Bank's estate upon an insolvency event.

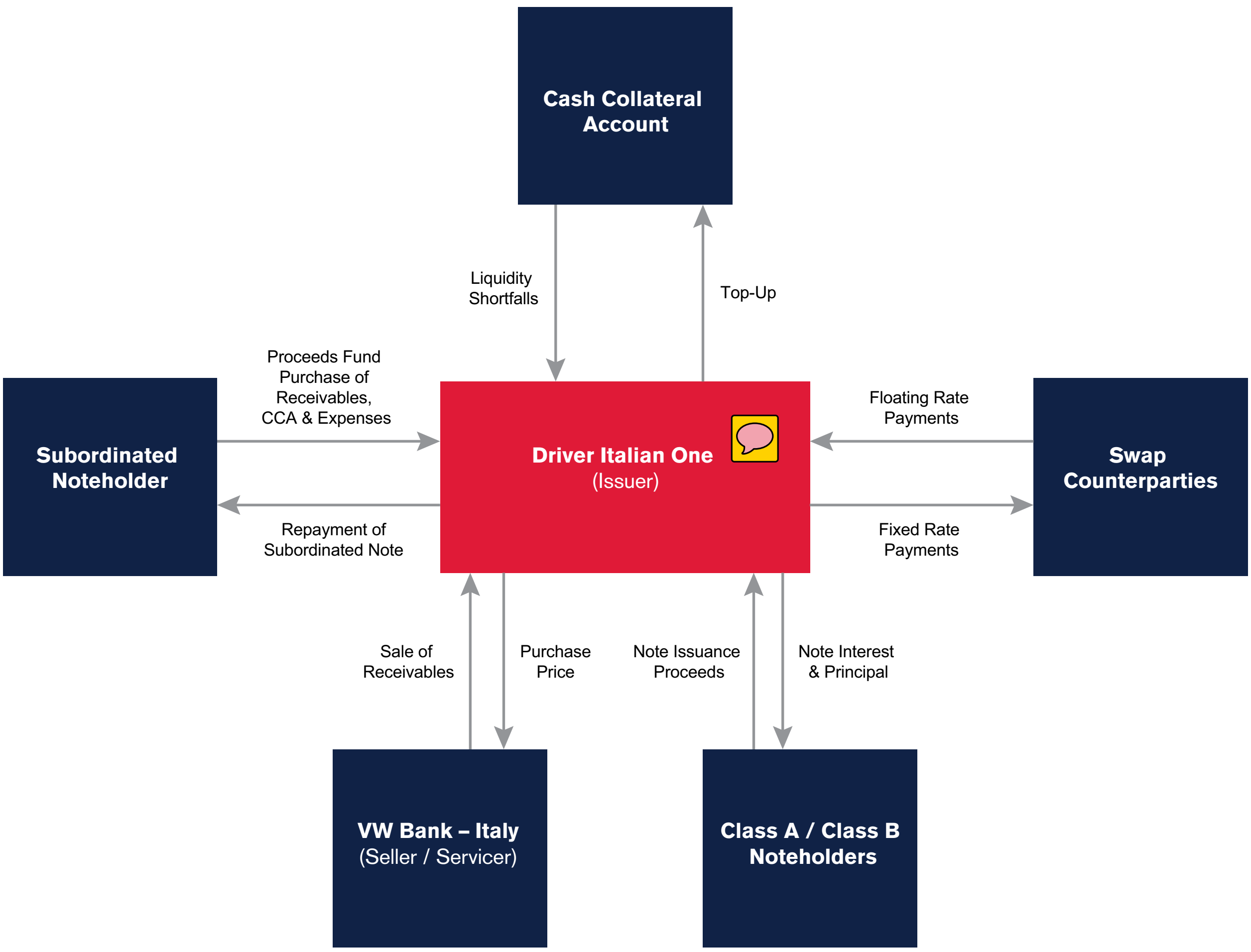
  ***Mitigants:*** Following specified triggers relating to rating downgrades of Volkswagen AG, VW Bank is obliged to post collateral corresponding to expected collections into the monthly collateral account (an account held with the account bank).

# Transaction Structure

## Transaction Summary

| | | |
|---|---|---|
| Currencies | The Issuer's assets and liabilities are denominated in euros (EUR). | |
| Relevant Jurisdictions | Loan contracts are governed by the laws of the Republic of Italy.<br>The transaction documents are governed by Italian law, except for the account bank agreement, the agency agreement and the notes purchase agreement which are governed by German law and the swap documents and the deed of charge which will be governed by the law of England and Wales. | |
| Interest Rate Hedging | Issuer's Pay Leg | Issuer's Receive Leg |
| | Notional: Class A Notes<br>0.18% | Notional: Class A Notes<br>1-month Euribor + 0.40% |
| | Notional: Class B Notes<br>0.35% | Notional: Class B Notes<br>1-month Euribor + 0.50% |
| Basis Risk Hedging | N/A | |
| Reserve (Cash Collateral Account) | Provides liquidity support to the structure and can be used to repay the notes upon the amortisation of the portfolio. | |
| | Initial Amount<br>Amortisation | EUR 6,500,581 (corresponding to 1.3% of the portfolio)<br>Yes |
| | Target Amount<br>Step-Up<br>Floor | 1.10% of the portfolio (at the end of the relevant collection period)<br>N/A<br>EUR 5,500,000<br>(or the outstanding amount of Class A and Class B, if lower) |

# Transaction Structure



## Counterparty Assessment

### The Issuer

The Issuer is an SPV incorporated and registered in the Republic of Italy as a limited liability company (società a responsabilità limitata) and enrolled in the official list (elenco delle società veicolo) held by the Bank of Italy pursuant to Article n. 2 of its resolution dated 7 June 2017.

The Issuer was established with the exclusive purpose to enter into this securitisation transaction. Within the scope of its role, it is permitted to purchase receivables, issue securitisation notes, to enter into the relevant transaction documents and to carry out the activities related to securitisation transactions. Prior to this securitisation, the Issuer has not carried out any relevant activity, has no subsidiaries or employees and it is independent from the Volkswagen group.

The Issuer has not carried out any business or activities other than those incidental to its incorporation, the authorisation and the other activities incidental to the exercise of its rights and compliance with its obligations under the transaction. The Issuer does not directly conduct any activity and thus has no employees of its own; however, it appointed the transaction parties to conduct all activities necessary to its existence and the management of this securitisation transaction.

Pursuant to the terms of the transaction documents, the corporate services provider will provide the independent director and certain other corporate and administration services to the Issuer in consideration for the payment by the Issuer of an annual fee. Likewise, the Issuer has mandated the other transaction parties to conduct all the activities necessary to the continuation of this transaction.

With the letter of mandate, the Issuer has mandated the representative of the noteholders to enforce its own contractual rights in relation to the assets backing the Notes and the transaction documents.

### Account Bank

Elavon Financial Services DAC (Elavon) has been appointed as the account bank for the transaction. DBRS privately rates Elavon and holds the following public ratings on U.S. Bancorp, Elavon's ultimate holding company, and has concluded that it meets DBRS's minimum criteria to act in its capacity.

| U.S. Bancorp | Rating | Trend |
|---|---|---|
| Long-Term Senior Debt | AA | Stable |
| Short-Term Issuer Rating-Term Senior Debt | R-1 (middle) | Stable |
| Long-Term Issuer Rating | AA | Stable |

The transaction contains downgrade provisions relating to the account bank consistent with DBRS's criteria as at the date of this report. Upon closing, the rating thresholds applicable to the account bank are commensurate with the ratings assigned to the Notes.

### Hedging Counterparty

Credit Agricole Corporate and Investment Bank (CA-CIB) has been appointed as the swap counterparty for this transaction. DBRS privately rates CA-CIB, and has concluded that it meets DBRS's minimum criteria to act in such capacity. The transaction contains downgrade provisions relating to the swap counterparty consistent with DBRS's derivative criteria as at the date of this rating report.

### Origination and Servicing

The receivables backing the Notes are expected to be assigned by Futuro as the receivables' Seller. The receivables are related to consumer loan contracts originated by Futuro in Italy in its normal course of business.

DBRS conducted an operational review of VWB's Italian auto finance operations in Milan. Italy in September 2017. VW Bank is a wholly owned subsidiary of the Volkswagen Group (VG). DBRS considers VW Bank's Italian origination and servicing practices to be consistent with those observed among other auto finance companies.

Volkswagen Bank GmbH was founded in 1949 and is headquartered in Braunschweig, Germany. The bank, together with Volkswagen Financial Services, AG is responsible for coordinating the worldwide financial services activities of the Volkswagen Group. VW Bank provides financing to retailers and dealers in addition to taking deposits. Furthermore, VW Bank is supervised and regulated by the European Central Bank (ECB). VW Financial Services, AG provides leasing, insurance, and other services to its customers, and is not regulated by the ECB.

VW Bank's product offerings range from the financing of new and pre-owned cars of the Volkswagen Group and non- Group brands to 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.

DBRS does not publicly rate VWB; however, the private ratings assigned to it meet DBRS's minimum criteria that allow it to act in its capacity as originator and servicer with the current provisions. Further information about the origination procedures can be found in the report's appendix.

VWB, as the originator and seller, renders certain representations and warranties relating to the receivables assigned on or about the issue date, including:

- The existence, validity and enforceability of the underlying loan contracts.
- There are no purchase restrictions that may invalidate the assignment to the issuer.
- The assigned receivables are exempt from set-off claims from third parties and from borrowers.
- The contracts relating to the assigned receivables and the receivables respect the eligibility criteria set out in the transaction documents.

The issuer retains the right to bring indemnification claims against the seller and originator if purchased receivables do not exist, cease to exist or prove not to have been legally valid upon assignment. Indemnification obligation is mainly in the form of an obligation to repurchase the relevant receivables.

However, the issuer is exposed to obligors' credit risk and the seller does not grant any guarantees or warrants the full and timely payment by the obligors of any sums payable.

## Servicing of the Portfolio and Collections

VWB has been appointed to service the receivables in accordance with the servicing agreement between it and the Issuer. In accordance with its mandate given by the Issuer, the servicer has undertaken to manage the relationship with borrowers and their employers, and to collect, solicit or instruct their payments under the receivables on behalf of the Issuer. VWB receives monthly servicing fees equal to 1.00% per annum of the aggregate discounted principal balance of the portfolio (as at the start of monthly collection period).

The Servicer manages delinquent receivables, directly conducting, or outsourcing to specialised parties, the arrear management process and the amicable collection process based on the credit and collection policies they have in place from time to time. Such policies do not form part of the transaction documents and the Issuer relies entirely on VWB and on its internal practices as updated from time to time.

The servicer is also responsible for timely classification of the receivables in accordance with the definition envisaged in the transaction documents: in this case termination (in accordance with VWB practices). After classification of the receivable to defaulted, the servicer conducts the recovery process, including collections made under ancillary securities such as insurance policies.

The credit and collection process regulates the criteria the servicer applies to terminate the underlying contracts on behalf of the Issuer and the write-off. In the context of ordinary recovery process, the Seller may sell defaulted receivables to specialised entities if the price payable is adequate and comparable with the expected recoveries.

The Servicer receives payments by obligors and the other payments related to the receivables (collections) on its own. Collections are transferred to the issuer collection account by the second business day. The collection account is opened in name of the issuer with VWB as the collection account bank.

Funds standing on the collection account are transferred to the distribution account (held with the transaction account bank) on or about the payment date.

Collections include all payments received from customers by VWB in respect of the purchased receivables, including:

- Auto loan instalments,
- Payment of the balloon payment when made by a relevant dealer,
- Overdue interest,
- Insurance proceeds,
- Recoveries made under defaulted receivables.

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 VWB.

***Other Funds***

The Issuer's principal source of funds is the collections made under the portfolio, including other ancillary amounts payable in connection to the portfolio such as payments of indemnities by the Seller or Originator.

However, the Issuer's funds include other amounts such as:

- The reserve funds;
- Payments by the swap counterparty when the net swap amount is payable in favour of the Issuer; and

Interest earned on the Issuer's accounts (when the interest rate is positive) do not form part of the collections and are retained by VWB in accordance with the transaction documents.

***Liquidity Reserve***

Upon closing, VW Bank funds the EUR 6.5 million liquidity reserve (Cash Collateral Account) through a deduction of the purchase price discount. Initially the liquidity reserve is sized at 1.3% of the aggregate discounted receivables balance and can be used to pay senior expenses up to (and including) the interest of the Notes. The reserve is replenished with available funds in accordance with the relevant priority of payments.

The liquidity reserve initially amortises in line with the amortisation of the Notes and has to be maintained at the higher of (1) 1.1% of the outstanding portfolio balance and (2) the lower of (a) EUR 5.5 million and (b) the Class A and B outstanding notes balance.

Although the reserve can only be drawn to pay senior expenses, any released amount can be made available to repay interest and principal on the Subordinated Notes. The liquidity reserve can also be used to repay principal on the Class A and Class B Notes at the legal final maturity date or when the balance of the portfolio has reduced to zero.

***Use of 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 Order of Priority).

The available funds include collections and other funds as specified below:

- Collections made under the receivables;
- Amounts received from the seller in accordance with the receivables purchase agreement (repurchases);
- Any interest accrued on the distribution account;
- The liquidity reserve (Cash Collateral Account);
- Net swap receipts (when payable to the Issuer).

Upon loss of certain ratings by VWB, a collateral account may be funded to secure the obligation to transfer collection from the collection account (held with VWB) to the payment account (held with the account bank and subject to downgrade provisions). Should VW Bank become insolvent, the funds held in the monthly collateral account may become available to the issuer to secure VW Bank's obligation to sweep collections.

Prior to the occurrence of a Foreclosure Event (see below), the funds are processed according to the following pre-enforcement order of priority.

***Pre-Enforcement 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 to its target;
6. Class A Notes principal to align the outstanding amount of the Notes to maintain the Class A overcollateralisation at its target level;
7. Class B Notes principal 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 Notes;
10. Principal on the Subordinated Notes until repaid;
11. All remaining excess to VWB as the portfolio seller.

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 | 23% | 16% |
| Following a Level 1 Enhancement Increase Event | 28% | 22% |
| 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 the 16 months following the issue date | 1.6% |
| For any payment date thereafter | 3.0% |

A Level 2 credit enhancement increase event occurs if the Cumulative Gross Loss Ratio exceeds 6%.

Following a foreclosure event, cash flows will switch to the post-enforcement priority of payments, summarised below.

***Post-Enforcement 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 until the Class A Notes are redeemed in full;
5. Class B interest;
6. Class B principal until the Class B Notes are redeemed in full;
7. Junior items.

A Foreclosure Event occurs if:

- The issuer defaults in the payment of principal on any note on the Legal Maturity Date; or
- The issuer defaults in the payment of any interest on the Most Senior Class of Notes and continues for a period of five business days; or
- An insolvency event occurs with respect to the issuer; or

- The issuer fails to perform its obligations in relation to the transaction documents and remains unremedied for thirty days; or
- It becomes unlawful for the issuer to comply with its obligations.

### Clean-Up Call

VW Bank 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.

## The Collateral Portfolio

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 VWB to retail borrowers resident in Italy and to a small portion of commercial customers with a registered office in Italy, and arise under fixed interest rate agreements, with each instalment comprising interest and principal components. Upon origination, the loan is granted by VWB to the borrower and the financed amount disbursed almost entirely in favour of a dealer for the sale a motor vehicle to the borrower. The financed amount may include disbursement if ancillary expenses such as payment protection insurance and other insurance policies (e.g. breakdown insurance, gap insurance, service insurance) are favoured. Typically, upon purchase, the borrower becomes the owner of the motor vehicle and VWB (and the receivable assignee) does not retain any preferential claim over the financed motor vehicle, thus classifying the loan as unsecured.

The initial receivables purchase price to be paid by the issuer to VWB is the net present value of the receivables discounted by a fixed discount rate set at 1.3%. The purchase price payable to VWB on or about the issue date will be funded with proceeds of subscription of the notes (including the subordinated notes).

The collateral portfolio is static and no additional receivables will be assigned after the initial assignment.

The securitised receivables include two broad types of loan contracts: (1) equal instalment amortising loans, known as Classic Credit; and (2) loan contracts where a larger final balloon payment is due at the maturity. The latter broad type of loans includes both standard balloon loans, known as Balloon Credit, and so-called PCP loans. The balloon instalment associated with these contracts is transferred to the issuer.

Like standard balloon loans, Auto Credit loans envisage a final balloon payment (maxi rata) that represent a pecuniary obligation for borrowers. However, borrowers can discharge their obligation by alternative different means (*obbligazione pecuniaria con "facoltà alternative"*): (1) payment of the balloon instalment; (2) return the vehicle to the dealer. In the latter case, the borrower is fully discharged by any further pecuniary obligation in respect of the old loan upon acceptance of the old vehicle by the dealer and the dealer assumed the obligation to pay the final balloon payment to VWB (or the receivable assignee). The dealer is required to pay the final balloon instalment within ten days.

DBRS understands that the pecuniary claim of VWB vis-à-vis the borrower for the payment of the balloon instalment is an existing claim since the execution date of the balloon loan agreement. The agreement that contains the provisions relating to the option of the borrower to return the vehicle and the obligation of the dealer, upon return of the vehicle, to pay the balloon instalment to VWB is entered between the borrower, the dealer and VWB. The dealer is precisely identified upon agreement execution.

Upon insolvency or under receivership, a dealer may withdraw from its obligations under Auto Credit contracts (Article 72 of the Italian bankruptcy law). DBRS understands that in case of insolvency of a dealer before the expiry of a Auto Credit contract, the pecuniary obligation of the borrower remains and it cannot be discharged its obligations to pay the balloon instalment.

As well as the loan receivables, the issuer acquires any loan collateral including (1) insurance claims, (2) damage claims arising from a breach of contract, and (3) any other collateral provided by the borrower to the seller. Because of the unsecured natures of the underlying contract, the issuer does not benefit from any title or pledge over the vehicle associated with the loan contract, and may only pursue a claim on a defaulted borrower's estate in ordinary court proceedings.

The receivables are assigned at a discount rate that is calculated to equal initial average the issuer's senior costs (including the Notes and subordinated notes' interest), so that excess spread in the structure is limited to the subordination. The discount rate of the portfolio selected by VW Bank as at the end of April 2018 is approximately 1.3%, but the weighted-average nominal interest rate of the loan contracts is 3.6%. Therefore, in the majority of loans, a portion of the interest received with each monthly instalment is reclassified as principal by the issuer in proportion to the positive difference between the discount rate and the nominal interest rate. Such difference may materialise as a loss for the Issuer upon early settlement as borrowers are only required to pay the contractual amount due.

### Eligibility Criteria

Receivables to be assigned on the issue date meet certain criteria specified in the transaction documents. Some of these are summarised below:

- The purchased receivables constitute legal valid, binding and enforceable rights and claims against the respective borrowers;
- The purchased receivables are assignable, unencumbered, require the borrowers to make monthly payments and have a maximum original term of 84 months;
- The purchased receivables are free of defences and free of rights of third parties and borrowers have no set-off rights;
- No purchased receivables are overdue;
- The purchased receivables are not impaired by set-off rights due to warranty claims or any other rights of the borrower;
- No borrower maintains deposits on accounts with the Italian Branch of VW Bank;
- No borrower is an affiliate of Volkswagen AG or an employee of any of company within the Volkswagen Group;
- No contracts have been terminated;
- Individual borrowers are resident in Italy, corporate borrowers have their registered office in Italy;
- At least two instalments have been paid;
- The maximum single borrower concentration is 0.2%;
- The loan contracts comply in all material respects with the requirements of the provisions of Italian law relating to consumer financing. Specifically, the right of revocation of the borrowers and that none of the borrowers has used its right of revocation within the term of revocation; and
- No insolvency proceedings have been initiated against any of the borrowers.

The purchased receivables will not breach specific concentration limits that include:

| | Maximum Concentration |
|---|---|
| Used Vehicles | 50% |
| Used Vehicles Relating to Classic Credit Contracts | 10% |
| Non-VW Group Brand Vehicles | 10% |

### Portfolio Summary

DBRS has analysed a portfolio selected by VW Bank as at the end of April 2018. The main characteristics of the portfolio are summarised below:

| Final Pool | |
|---|---|
| Outstanding Discounted Balance | EUR 500,044,694 |
| Total Number of Loans | 60,597 |
| Discount Rate | 1.32% |
| WA Customer Interest Rate | 3.59% |
| Average Original Principal Balance | EUR 8,422 |
| Average Outstanding Discounted Balance per Contract | EUR 8,252 |
| Average Down Payment | EUR 7,852 |
| WA Original Term (Months) | 48.1 |
| WA Remaining Term (Months) | 32.1 |
| WA Seasoning (Months) | 16.0 |

| Financing Mix | EUR | % of Aggregate Discounted Balance |
|---|---|---|
| Classic Credit | 355,883,699 | 71.17% |
| Balloon PCP (Piu' Credito) | 36,556 | 0.01% |
| Balloon Credit | 144,124,439 | 28.82% |
| | | |
| Balloon Balance | 73,392,969 | 14.70% |
| | | |
| New Vehicle Financing | 461,176,816 | 92.23% |
| Used Vehicle Financing | 38,867,878 | 7.77% |
| | | |
| Financing to Retail Customers | 500,002,240 | 99.99% |
| Financing to Corporate Customers | 42,454 | 0.01% |
| | | |
| **Brand Mix** | | |
| Volkswagen | 308,640,180 | 61.72% |
| Audi | 90,905,705 | 18.18% |
| Skoda | 41,250,203 | 8.25% |
| SEAT | 33,681,537 | 6.74% |
| LCV Volkswagen | 20,049,881 | 4.01% |
| Other | 5,517,188 | 1.10% |
| | | |
| **Top 5 Models** | | |
| VW Golf | 94,809,969 | 18.96% |
| VW Polo | 90,086,207 | 18.02% |
| VW Tiguan | 66,326,005 | 13.26% |
| Audi A3 | 27,921,033 | 5.58% |
| VW Up! | 27,829,556 | 5.57% |
| | | |
| **Top 5 Regions** | | |
| Lombardia | 110,033,172 | 22.00% |
| Toscana | 55,721,195 | 11.14% |
| Veneto | 54,520,240 | 10.90% |
| Emilia-Romagna | 46,452,367 | 9.29% |
| Lazio | 38,966,044 | 7.79% |
| | | |
| **Borrower Concentration** | | |
| Top 1 | 71,765 | 0.01% |
| Top 5 | 319,468 | 0.06% |
| Top 10 | 608,145 | 0.12% |
| Top 20 | 1,150,713 | 0.23% |

**Exhibit 1: Distribution by Outstanding Discounted Balance**

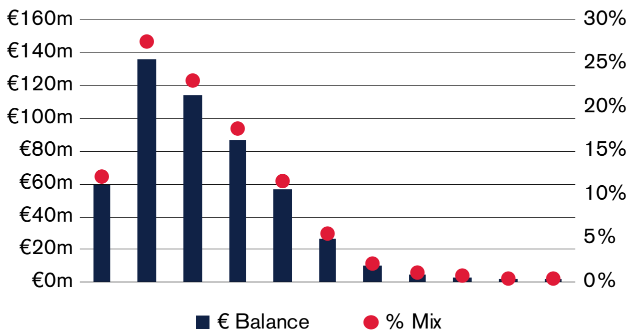



**Exhibit 2: Distribution by Original Balance**

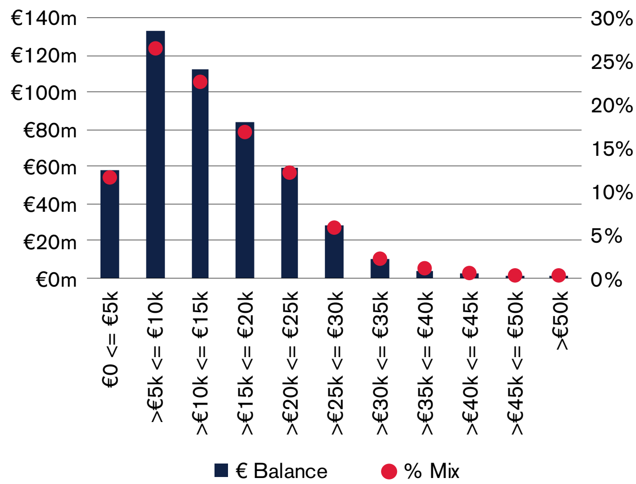



**Exhibit 3: Distribution by Original Term (Months)**

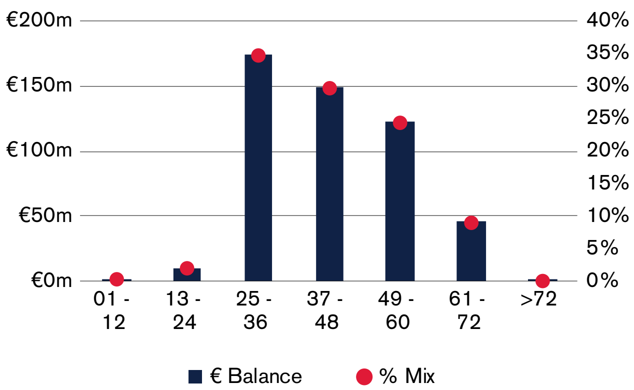



**Exhibit 4: Distribution by Seasoning (Months)**

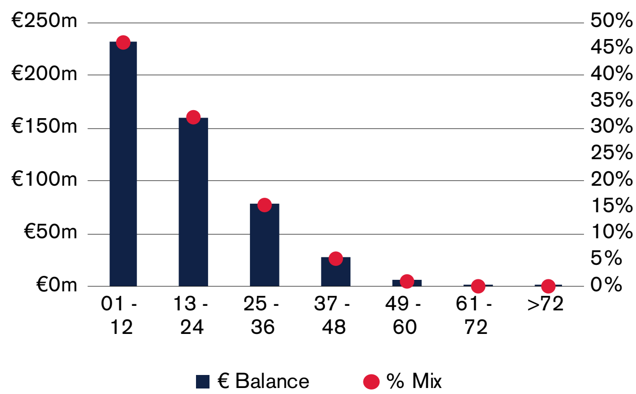



**Exhibit 5: Distribution by Borrower Interest Rate**

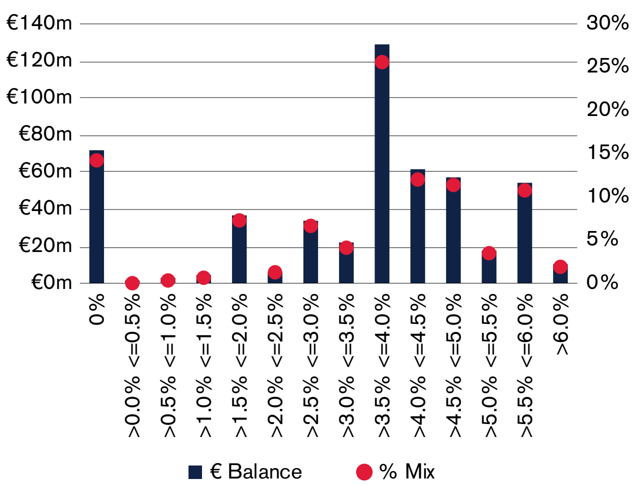
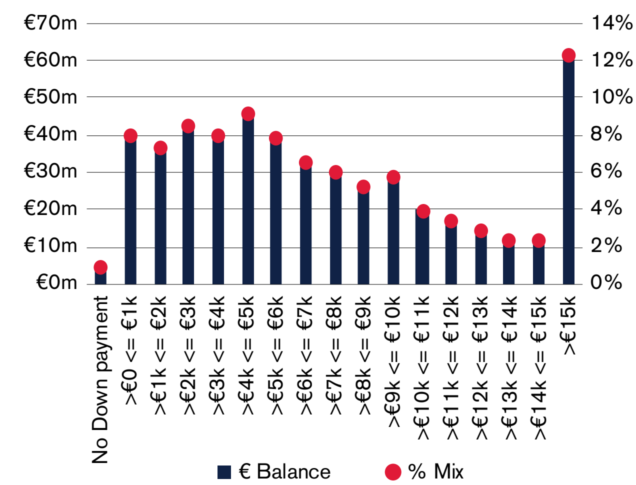



**Exhibit 6: Distribution by Borrower Deposit**



DBRS notes the following characteristics associated with the portfolio:

- New car financing dominates, with less than 8% of the receivables relating to used vehicles.
- 29% of the portfolio's receivables relate to balloon instalments.
- The weighted-average original term is shorter than typically observed in Italy, primarily because of the inclusion of the balloon loan contracts.
- The average customer deposit is higher than typically observed in other auto ABS transactions and aligned with the original amount financed.
- The collateral pool is considerably seasoned at approximately 16 months.
- There is only limited exposure to corporate clients who represent only 0.01% of the receivables. Moreover, the portfolio is extremely granular, with an average current discounted balance of less than EUR 8,000 and very high levels of borrower concentration.
- 16% of the portfolio's receivables do not attract any interest.
- Approximately 99% of contracts relate to Volkswagen, Audi, SEAT, or Skoda vehicles.

## 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 in form of (1) subordination, (2) reserve funds and (3) excess spread.
- Credit enhancement levels are sufficient to support DBRS's projected expected credit and net loss assumptions projected under various stress scenarios at AAA (sf) and A (high) (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.
- VWB's financial strength and its capabilities with respect to originations, underwriting and servicing.
- The operational risk review conducted on VWB by DBRS to conclude that it is an acceptable servicer.
- The credit quality of the collateral and ability of the servicer to perform collection activities on the collateral.
- 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 Republic of Italy, currently at BBB (high).
- 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 and the presence of legal opinions that address the assignment of the assets.

### Portfolio Performance Data

DBRS received the following sets of data sourced by VWB:

- Static monthly origination and cumulative gross and net loss data from January 2008 up to December 2017;
- Full and partial prepayment data from February 2011 up to December 2017;
- Monthly dynamic delinquencies data from December 2007 up to December 2017; and
- Static data relating to recovery timings.

**Exhibit 7: Originations**

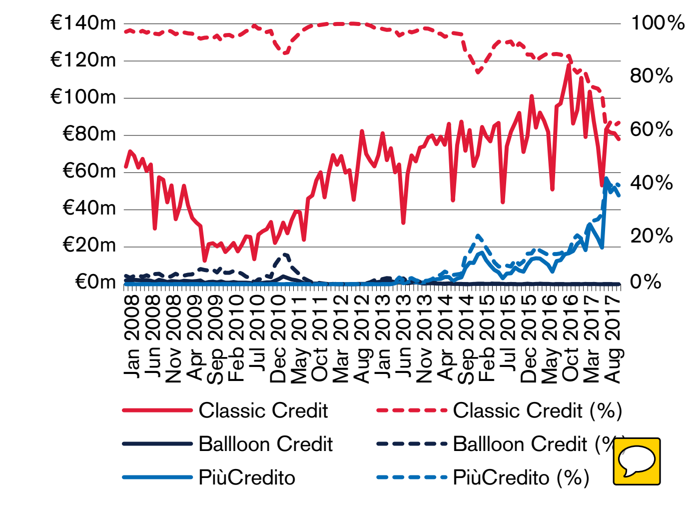
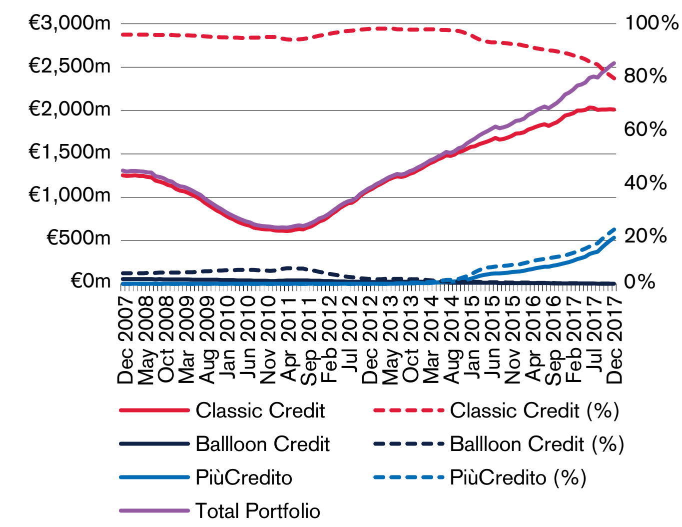


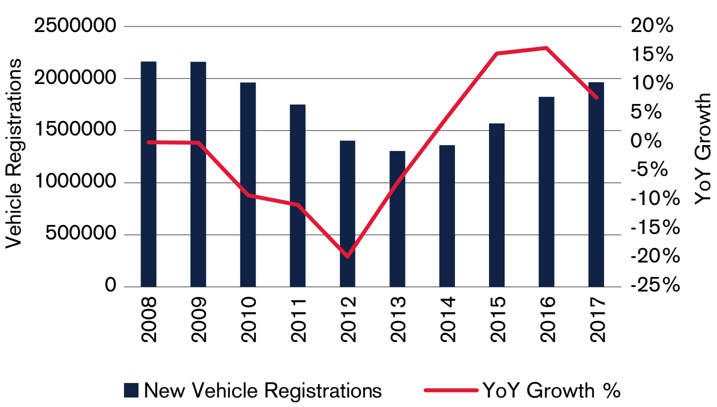

**Exhibit 8: Outstanding Receivables by Product Mix**




Over the last three years, the portfolio has begun to migrate away from the Classic Credit product in favour of PiùCredito. In December 2017, Classic Credit represented 62% of all originations with PiùCredito representing 38%. In contrast, the mix in December 2015 was 93% / 7%. The balloon credit product has recently experienced very limited originations, reflected in the overall decline in this subset's receivables balance (less than EUR 2 million across the entire portfolio).

Overall, the portfolio has experienced considerable growth since 2011 with year-over-year growth rates in outstanding receivables averaging 16% over the last three years. DBRS considers the growth in receivables from 2015 onwards to reflect VW Bank's increasing finance penetration rate combined with improvements noted in the broader Italian market where new car registrations have increased year over year since 2014; 2015 and 2016 demonstrated double-digit growth whilst 2017 performance maintained this momentum but at a lower level.

**Exhibit 9: New Vehicle Registrations - Italy**



### *Default and Recoveries*

DBRS received monthly vintage gross loss (default) and net loss data for the portfolio originated by VW Bank from January 2008 to December 2017. Further data subsets were provided that allowed analysis by product type and by new and used vehicles. The performance on a total portfolio basis is shown below:

**Exhibit 10: Gross Defaults - Total Portfolio**

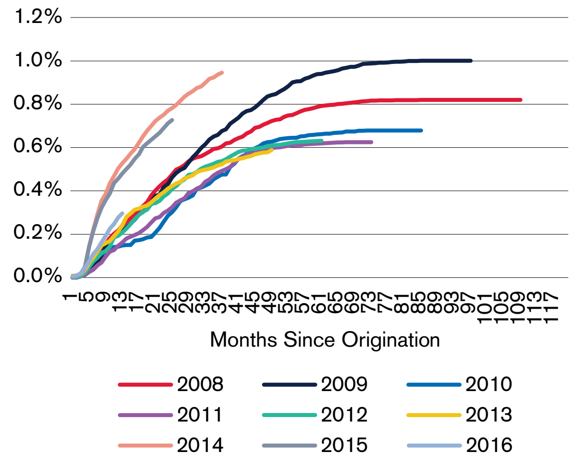
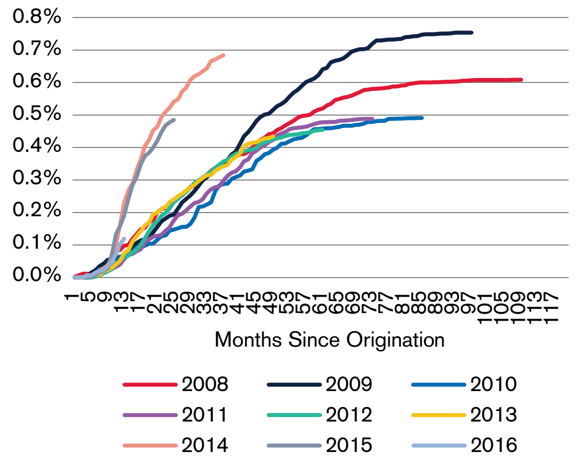



**Exhibit 11: Net Losses - Total Portfolio**

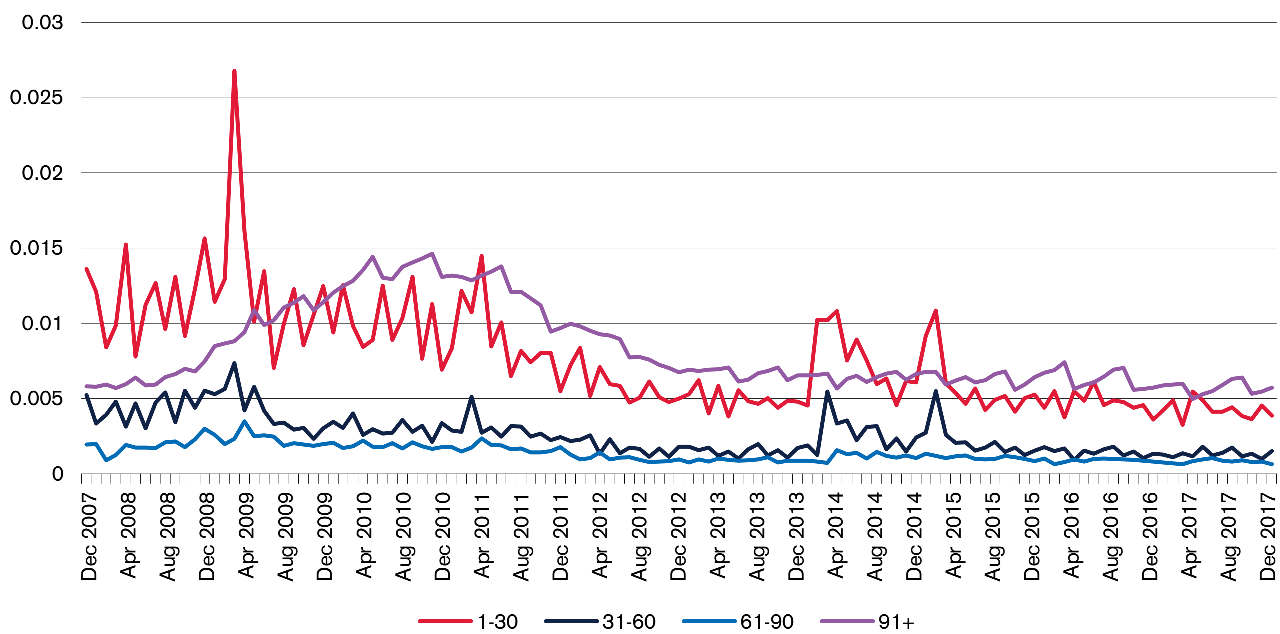



Gross losses are defined as the outstanding amount of a loan at the time of termination. Loans are usually terminated between 120 and 150 days from the first defaulted instalment. Net losses are then recognised once a loan has been written off following the application of recoveries. DBRS was not provided with static recovery data; however, recovery assumptions were derived through the default and net loss data whilst also benchmarking comparable auto loan ABS transactions rated by DBRS in Italy.

### *Delinquency Data*

DBRS has received dynamic arrears data for the entire portfolio depicted below. Delinquency levels have remained stable over the last three years and have gradually improved since their peak in Q4 2010.

**Exhibit 12: Total Portfolio - Delinquency %**



### Commingling Risk

VWB must segregate the Issuer's collections from its own funds as required by Italian securitisation law, and, in accordance with the transaction documents, it has to transfer the Issuer's funds to the Issuer collection account by the second business day from its accounting identification. The Issuer collection account is opened in the Issuer's name but held VWB as the collection account bank.

Although the collection account is opened in name of the Issuer, it is held with VWB and thus availability of funds standing to the credit of such account are subject to VWB default risk.

In case a monthly remittance condition is in effect it must transfer the Issuer's collections to the distribution account twice in each monthly period following the initial funding of the monthly collateral account.

To mitigate potential risk, VWB is required to estimate collections and fund a collateral account to secure the regular transfer of funds on or about the payment date.

Collateralisation obligations are required upon loss of certain ratings by VWB, equivalent to BBB (high).

### Set-Off Risk

In case of VWB insolvency, borrowers may validly claim set-off against the issuer in respect of amounts the seller may owe them. Since VW Bank in Italy 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 considered minimal with respect to borrowers.

However, the receivables may comprise payments made by dealers, when the borrower has opted to return the vehicle in a Auto Credit contract. The dealers typically hold an account with VWB and thus in case of insolvency of VWB during the window period when the payment obligation is transferred on the dealer, the dealer may invoke set-off rights against amounts standing on their accounts held with VWB.

The risk is limited, thanks to the fact that the claim exists on a limited time-frame. Furthermore, the Italian securitisation law protect a securitisation issuer against set-off claims of third parties and this provision is stronger against dealers since consumer legislation does not fully apply.

VWB is expected to fund a set-off reserve to collateralise the potential exposure to set-off risk upon loss of a certain rating by Volkswagen Bank GmbH, equivalent to BBB (high). The reserve is expected to be funded if the exposure exceeds 1% of the then outstanding portfolio.

### 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. Thus, the portfolio yield is fixed and there is no risk of compression due to early settlement or defaults.

Because of 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 partially mitigated by the low interest rates associated with the loan contracts. Furthermore, VWB 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 mature (the interest compensation amount).

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

In addition, some capitalised amounts, such as the premium paid for a payment protection insurance, may be retained upon prepayment by the relevant borrower. In fact, the premium pays for a service that is expected to be provided over the life of the loan and in case of prepayment the borrower has not received the full benefit for the service paid for upfront.

### 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 is expected to enter 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.

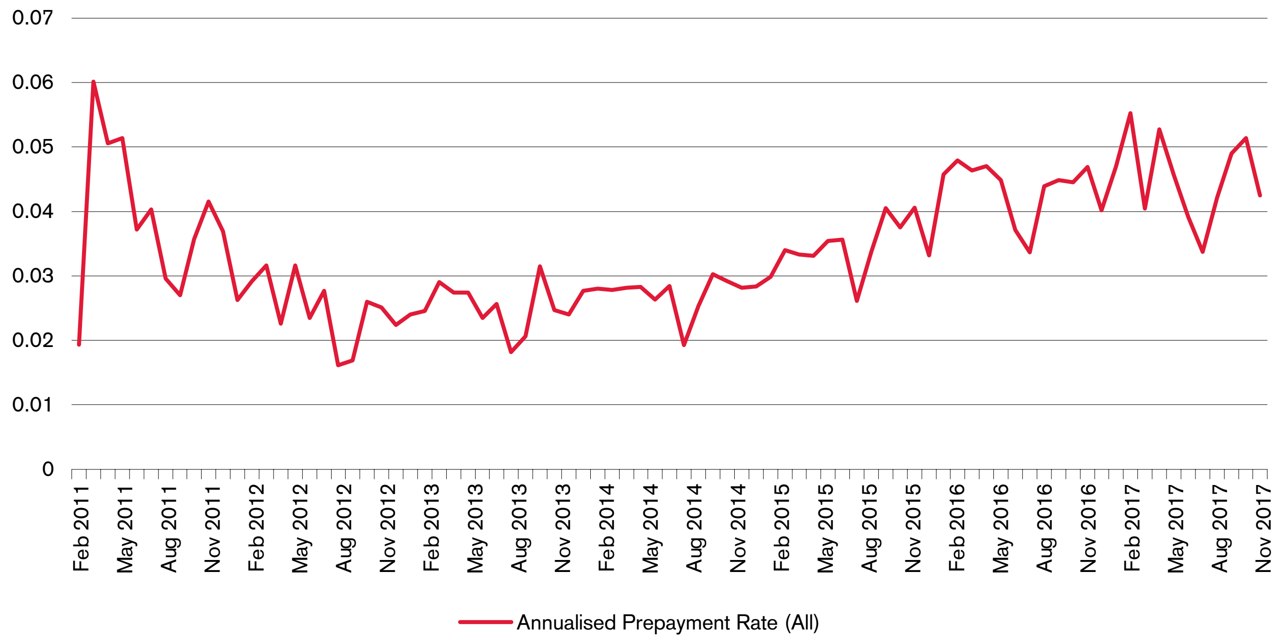
### *Interest Rate Stresses*

DBRS applied its standard interest rate stresses as detailed in its Interest Rates Stresses for European Structured Finance Transactions methodology.

### *Prepayment Speeds and Prepayment Stress*

Prepayment rates have risen over the reporting period, as shown. DBRS has stressed prepayment scenarios from 0% up to 15%.

**Exhibit 13: Annualised Prepayment Rate**




### *Timing of Defaults*

DBRS estimated the default timing patterns and created base, front- and back-loaded default curves. Because of the considerable seasoning of the portfolio, DBRS used a 24-month default timing curve as detailed below:

| Month | Mid Losses | Front Loaded Losses | Back Loaded Losses |
|---|---|---|---|
| 1-8 | 20% | 50% | 20% |
| 9-16 | 50% | 30% | 30% |
| 17-24 | 30% | 20% | 50% |

***Base Case Loss and Recovery Assumptions***
The DBRS cumulative default expectation for the transaction is 2.3% (including sovereign stress), based on the vintage data analysed. DBRS assumed a recovery rate of 11%, resulting in an estimated cumulative net loss of 2.0% without further sovereign stress or haircut.

| | |
|---|---|
| Default Rate | 2.3% |
| Expected Recovery Rate | 11% |

Recovery time-lag was assumed to be 12 months for both the Class A and Class B Notes. The recovery leg is faster compared with other Italian transaction, but this is partly driven by a less restrictive default definition that does not reference a fixed number of arrear instalments so that defaulted receivables are all terminated and thus recoveries are less likely to occur over time as a repayment plan. For a similar reason, recoveries are also lower than comparable portfolios.

***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 Default Rate (%) | | |
|---|---|---|---|---|
| | | 0 | 25 | 50 |
| **Increase in Loss Severity (%)** | 0 | AAA | AA | AA (low) |
| | 25 | AA | AA (low) | A |
| | 50 | AA (low) | A | A (low) |

## Class B

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

# Appendix

## 1. Origination & Underwriting

***Origination and sourcing***

VW Bank offers various different kinds of products for financing new and used cars.

A 'Classic Credit' loan agreement represents finance at a fixed interest rate where the loan balance fully amortises through equal monthly instalments. A second type of finance is called the 'PCP' or "PiùCredito" loan where borrowers have three options at loan maturity. Option one allows the borrower to pay off the final balloon payment; option two is to refinance the final balloon payment or option three allows the borrower to return the vehicle to the dealer, where under a guarantee, the dealer has the obligation to make the final balloon payment to VW Bank. If the dealer defaults and fails to fulfil its duties, the borrower will be liable for the final balloon payment under the loan agreement.

***Underwriting process***

All underwriting activities at VW Bank are appropriately segregated from marketing and sales. VW Bank adheres to standard identity and income verification practices including collection of income statements while identity cards, proof of address and utility bills are reviewed. External credit data is retrieved from three nationally-recognised bureaux (CRIF, Experian and CTC) and incorporated into the automated credit scoring models.

Prior to acceptance of an application, VW Bank checks the credit standing of the customer. For private and commercial retail customer contracts, applications are automatically approved by a scoring system if the information on the application meets VW Bank's criteria. Approximately 30% of all consumer applications are automatically accepted.

Applications are analysed through VW Bank's internal credit scoring system which assigns a 'band' to the loan denoting the risk associated with the borrower and loan. Bands 'A' and 'B' are considered the lowest risk while high risk loans are classified as 'D' or 'Z' band. Dual bureau data is primarily used for high risk bands. Automatic decisioning only exists for the low risk bands and as expected the approval rate is considerably lower for 'D' bands.

Applications that are not automatically accepted by the scoring system are assessed by an employee of the credit department. The employees of VW Bank'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 the Italian market (13% market share).
- Rising penetration rate over the last few years.
- Use of multiple rules-based credit scoring models incorporating dual 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, insurance and prepayment terms. Most payments are made via direct debit (over 97%) and have monthly payment frequencies and virtually no balloon payments for standard purchase loans. 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 Milan and the company places considerable focus on customer service evidenced through proactive assessment of customer satisfaction following contract execution and quarterly surveys. VW Bank employs a customer contact council as well as a professional planning forum to ensure adherence to corporate strategies involving customer service.

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 Bank 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. Over recent years, VW Bank has placed more focus on specialised collections for vulnerable customers because of the continuing economic crisis.

Initial collections activity starts in the Pre-Bad Debt Management unit where a letter is sent out within 15 days of the missed payment. The collection activities are supplemented through phone calls that are prioritised based on risk and if non-payment continues for 90 days, then VW Bank will engage an external agent to conduct a home visit. After 120 days past due, borrowers are notified that their contract is being terminated and then have 14 days to surrender the vehicle or make all past due payments. In those cases where the customer does not surrender the car to the dealer, external repossession companies are utilised to secure the vehicle. The vehicle is then marketed at VW Group's network.

***Summary Strengths***

- Majority of payments made via direct debit.
- Low default rate and stabilised recovery rates.
- 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 Bank'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*
- *Derivative Criteria for European Structured Finance Transactions*

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.