Driver Japan eleven

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Closing occurred on 25 February 2022. The transfer of the portfolio to the trustee occurred on 22 February 2022. The ratings assigned above are based on the portfolio information as of 10 February 2022, provided by the originators. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other material should be reviewed prior to any purchase.

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Representations, Warranties and Enforcement Mechanisms Appendix

Capital Structure

Class	Rating	Outlook	Amount (JPYm)	CE (%)	Interest Rate (%)	Legal Final Maturity
BIs 2 and ABL 2[a]	AAAsf	Stable	55,000	6.5	0.11	June 2030
Subordinated BIs	NRsf[b]		3,825			
Total			**58,825**			

[a] BIs 2 and ABL 2 rank pari passu, therefore, CE is calculated on an aggregate basis
[b] NRsf: not rated
Source: Fitch Ratings

Fitch Ratings has assigned ratings to Driver Japan eleven's trust beneficial interests of the second trust (BIs 2; issue amount: JPY31.7 billion) and asset-backed loans of the second trust (ABL 2; issue amount: JPY23.3 billion). The transaction is ultimately backed by a pool of auto-loan receivables originated by Volkswagen Financial Services Japan Ltd. (VWFSJ), an indirectly wholly owned subsidiary of Volkswagen Financial Services AG, which is wholly owned by Volkswagen AG (VW, BBB+/Positive/F1).

Most loans are to individuals, with a small portion to corporates. The total issue amount has been increased to JPY55 billion, from JPY40 billion, when the expected rating was assigned. The ratings address the timely payment of interest and dividends and repayment of principal by the legal final maturity.

Key Rating Drivers

Low Obligor Default Risk: Fitch assumes a low base-case cumulative gross loss rate of 0.75% for this transaction before considering the balloon payment risk and 0.93% after considering such risk. This is based on very stable historical default performance over the past 19 years, including two recessionary periods.

Economic scarring from the Covid-19 pandemic over the medium term is likely to be less severe than at many of Japan's peers. The extent of relief measures and domestic hiring practices that favour labour retention have prevented a significant rise in unemployment, which peaked at 3.1% in October 2020 and fell to 2.7% in December 2021. Fitch forecasts an unemployment rate of 2.4% in 2022 and 2.3% in 2023. Fitch expects performance to remain stable in the near term, reflecting our expectation that the employment environment in Japan will be steady.

Balloon-Payment Risk Considered: The balloon-payment portion made up 37.8% of the initial portfolio. Obligors are required to make balloon payments if not covered by refinancing of loans or buy-back of vehicles by VWFSJ or dealers. Fitch accounted for the risk that obligors fail to cover balloon payments at maturity by increasing the cumulative gross loss assumptions.

Counterparty Risk Addressed: The transaction has structural mechanisms that ensure remedial action is taken if the transaction account bank's rating falls below Fitch's eligible rating of 'A'/'F1'. A cash reserve should cover four months of interest and expenses to mitigate payment interruption risk.

Servicing Continuity Risk Mitigated: VWFSJ, as the servicer, delegates its function to JACCS Co., Ltd. (JACCS) and SMBC Finance Service Co., Ltd. (SMBC FS), as sub-servicers in this transaction. No back-up servicer is appointed at closing. However, if a servicer replacement event occurs, Sanne Group Japan Trust Company Limited (SGJT) as Trustee 1 will assume the servicing responsibilities or may appoint a third party as a successor servicer.

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The key rating drivers listed in the applicable sector criteria, but not mentioned above, are not material to this rating action.

Highlights

Highlights

Effect	Highlight
Neutral	**Consistent Pool Characteristics:** The collateral characteristics of Driver Japan eleven are consistent with recent Driver Japan transactions, as shown in the Transaction Comparison table. The collateral pool is similar to that of Driver Japan ten, with a slight increase in fully amortising loans to 7.7% of the portfolio, from 7.2%, while the monthly instalment portion decreased to 62.2%, from 63.6%. The transaction structure replicates that of Driver Japan ten.
Neutral	**Minimal Credit Impact from ESG:** The highest level of ESG credit relevance is a score of 3, meaning that ESG issues are credit neutral or have only a minimal credit impact on the transaction, either due to their nature or the way in which they are being managed. See ESG Navigator in Appendix 2.

Source: Fitch Ratings

Key Rating Driver
(Negative/Positive/Neutral)

Rating Impact	Key Rating Driver
Positive	Low Obligor Default Risk
Negative	Balloon Payment Risk Considered
Neutral	Counterparty Risk Addressed
Neutral	Servicing Continuity Risk Mitigated

Source: Fitch Ratings

Base-Case Loss Assumptions by Vehicle

(%)	Actual proportion	Gross loss	Stressed proportion[a]	Adjusted gross loss
New vehicles	71	0.72	65	0.72
Used vehicles	29	0.83	35	0.83
Portfolio weighted	100	0.75	100	0.75

[a] Due to the upper limit of 35% for used vehicles and potential migration during the one-year revolving period, the adjusted gross-loss assumptions of 0.75% is used for cash flow analysis, unchanged from the figure based on the actual portion.
Source: Fitch Ratings

Applicable Criteria

Global Structured Finance Rating Criteria (October 2021)

Structured Finance and Covered Bonds Counterparty Rating Criteria (November 2021)

Consumer ABS Rating Criteria (December 2021)

Structured Finance and Covered Bonds Country Risk Rating Criteria (October 2021)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (September 2021)

Key Transaction Parties

Key Transaction Parties

Role	Name	Fitch Rating
Issuer of BIs 2/borrower of ABL 2	Sanne Group Japan Trust Company Limited	Not rated
Originator/servicer/Trustor 1	Volkswagen Financial Services Japan Ltd.	Not rated
Sub-servicers/guarantors	JACCS Co., Ltd. and SMBC Finance Service Co., Ltd.	Not rated
Trustee 1 and 2/borrower of ABL 1	Sanne Group Japan Trust Company Limited	Not rated
Transaction account bank provider	MUFG Bank, Ltd.	A-/Stable/F1
Co-arrangers	SMBC Nikko Securities Inc. and BNP Paribas Securities (Japan) Limited	Not rated Not rated
Lender of ABL 1/Trustor 2	SMBC Nikko Securities Inc.	Not rated

Source: Fitch Ratings, VWFSJ

Transaction Comparison

Portfolio summary as of closing	Driver Japan six	Driver Japan seven	Driver Japan eight	Driver Japan nine	Driver Japan ten	Driver Japan eleven[a]
Total discounted principal balance (JPYm)	64,172	58,824	69,521	64,173	64,171	58,825
Number of auto loan contracts	30,757	25,466	30,362	26,586	26,193	23,576
Average discounted principal balance (JPY)	2,086,410	2,309,893	2,289,731	2,413,789	2,449,940	2,495,140
Weighted-average seasoning (months)	11.8	9.6	9.3	9.1	8.8	8.5
Weighted-average remaining term (months)	36.3	38.9	39.2	40.5	41.4	41.1
Collateral by balance (%)						
Geographic distribution	**Tokyo**: 17.7	**Tokyo**: 18.0	**Tokyo**: 18.1	**Tokyo**: 16.8	**Tokyo**: 17.9	**Tokyo**: 17.4
	Kanagawa: 10.2	**Kanagawa**: 10.4	**Kanagawa**: 10.1	**Kanagawa**: 10.9	**Kanagawa**: 10.4	**Kanagawa**: 10.2
	Aichi: 6.9	**Aichi**: 7.3	**Aichi**: 7.3	**Osaka**: 7.4	**Osaka**: 7.5	**Osaka**: 7.9
	Saitama: 6.6	**Saitama**: 6.7	**Osaka**: 7.2	**Aichi** : 7.3	**Aichi**: 7.4	**Aichi**: 7.4
	Osaka: 6.3	**Osaka**: 6.6	**Saitama**: 6.9	**Saitama**: 6.8	**Saitama**: 6.5	**Saitama**: 6.5
Sub-servicers						
SMBC FS	61.1	58.8	57.6	56.7	56.8	55.8
JACCS	38.9	41.2	42.4	43.3	43.2	44.2
Age of vehicles						
New vehicles	77.2	76.2	75.3	74.6	71.3	71.1
Used vehicles	22.8	23.8	24.7	25.4	28.7	28.9
Type of repayment						
Balloon payment	86.4	89.4	89.1	91.3	92.8	92.3
Fully amortising	13.6	10.6	10.9	8.7	7.2	7.7
Type of payment						
Monthly instalment portion	60.5	61.8	62.3	63.6	63.6	62.2
Balloon portion	39.5	38.2	37.7	36.4	36.4	37.8

[a] Figures for Driver Japan eleven are based on the initial pool
Source: Fitch Ratings, VWFSJ

Sector Risks: Additional Perspective

Key Sector Risks

Sector outlook	Neutral
Macro or sector risks	In Fitch's opinion, unemployment levels and corporate bankruptcy rates are key drivers of consumer ABS performance in Japan.
Relevant research	Please see our press release titled Neutral Sector Outlook for Japanese Structured Finance in 2022

Source: Fitch Ratings

Asset Analysis

Portfolio Summary

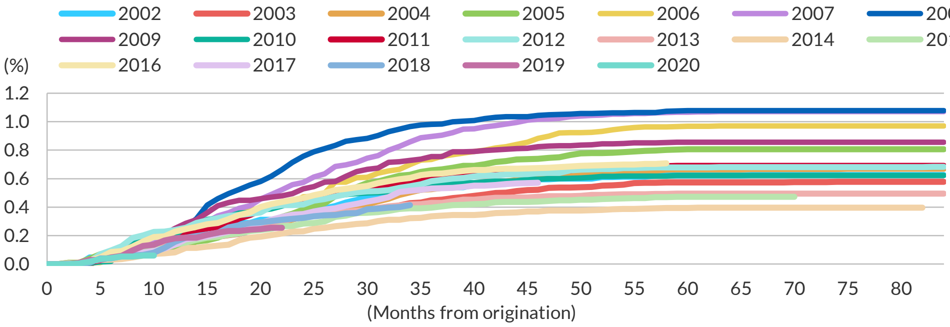
The pool of eligible receivables consisted of 23,576 contracts with a total discounted principal balance of JPY58,825 million as of the initial cut-off date. The loan receivables were originated by VWFSJ during the ordinary course of business through its distribution network throughout Japan. All loan receivables are amortising principal and interest facilities with a maximum remaining term of 82 months. Loans are provided only to individuals who reside in Japan or corporate entities that have permanent establishments in Japan. The average outstanding discounted loan size was JPY2.50 million and the maximum outstanding discounted loan size was JPY9.994 million. The maximum obligor exposure balance was JPY16.24 million with two loans.

All loan receivables pay a fixed rate of interest and the weighted-average interest rate for the pool is 2.26%. The portfolio is geographically concentrated in the Tokyo metropolitan area, as commonly observed in consumer asset pools. The pool's weighted-average remaining term at the initial cut-off date was 41.1 months and weighted-average seasoning was 8.5 months.

Historical Performance

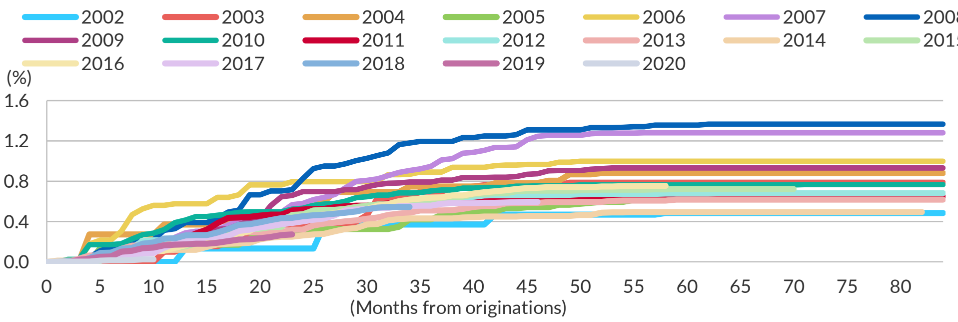
The charts below display cumulative gross loss data of new and used vehicles for loans originated by VWFSJ since July 2002. The loans have performed well throughout the observation period, which includes two recessionary periods in 2008 and 2012, and have been superior than those of the global peer group. Recent vintages have performed better than average, supported by Japan's stable employment conditions.

Cumulative Gross Loss Rate for New Vehicles



Source: Fitch Ratings, VWFSJ

Cumulative Gross Loss Rate for Used Vehicles



Source: Fitch Ratings, VWFSJ

Portfolio Credit Analysis

Default Risk

Fitch has determined its base-case weighted-average cumulative gross-loss rate expectation of 0.75% (new vehicles: 0.72%, used vehicles: 0.83%) based on stable default performance to date. Fitch reviewed cumulative gross loss data for originations since July 2002, based on VWFSJ's default definition of failure to make monthly instalments for three months.

The transaction features a one-year revolving period. Fitch assumes that about 20% of the pool will be replenished during this period, based on the scheduled repayment profile of the transaction pool. Fitch expects only a minor shift in pool composition, as no substantial drifts in VWFSJ's origination mix are probable within the short time of the revolving period. Therefore, the agency assumes that the proportion of loans for used vehicles would reach the upper limit of 35%, increasing from 29% in the initial pool. However, Fitch does not expect any material change in the portfolio's credit quality, partly because the underlying auto loans are guaranteed by JACCS and SMBC FS, who also act as sub-servicers in this transaction. As such, there is little incentive for both companies to relax their underwriting standards.

The stress multiple for 'AAAsf' stipulated in the criteria ranges between 4.0x and 6.0x, but Fitch used 7.0x for this transaction before taking into account balloon-payment risk to address the low base-case loss in absolute terms, which means that a small change could significantly affect credit enhancement.

Fitch's cumulative gross loss assumptions also reflect balloon risk. There may be obligors who engage in a balloon contract expecting to refinance at maturity or sell the car back to the dealer or VWFSJ. The obligor will be obliged to pay the final instalment if they are unable to refinance the balloon amount due, for example, to a default of VWFSJ, or to sell the car back to the dealer or VWFSJ, creating an unexpected payment shock for the obligor. We believe this may lead to higher obligor defaults compared with amortising loans without balloon payments.

Fitch quantifies the additional default risk stemming from balloon payments in the 'AAAsf' rating scenario by assuming a debtor probability of default in line with the portfolio's 'AAAsf' rating default rate and a 60% obligation failure rate upon the exercise of the debtors' option to resell the vehicles or refinance the loans. This results in an additional cumulative loss of 1.26%, which we added to the 'AAAsf' stressed cumulative gross-loss rate assumptions prior to balloon risk of 5.25% (= 0.75% x 7). The 60% obligation failure rate is based on the diversified dealer network across Japan, two VW group's affiliates within the dealer universe and no precedent of major dealer defaults to date.

Prepayment Rates

The transaction is dependent on obligors' prepayment behaviour, as this is the main driver of the speed of deleveraging for the rated debt. Fitch has, therefore, tested the structure's resilience to fast and slow prepayment assumptions based on its expected base-case prepayment rate of 13.5% a year.

The prepayment of loans with higher interest rates will not lead to a shortfall due to the difference between the interest rate of the prepaid loan and the loan's discount rate. This is because of the two types of discount rates, as described in Discount Rate on page 8.

Cash Flow Analysis

Fitch used its proprietary cash flow model to test the ability of the asset pool to make interest and principal payments due under the rated debt. It modelled the asset pool by taking into account the scheduled amortisation profile as well as the stressed default and prepayment assumptions.

The liability structure was configured to reflect the transaction structure; specifically, the capital structure and priority of payments. Fitch applied a default definition of three-month delinquency, in line with the typical termination timing practiced by the servicer.

Absent an early amortisation event, the defaulted loan receivables may be delivered to VWFSJ as the holder of the subordinated BIs in kind. Thus, Fitch assumes no recovery from such defaulted loan receivables.

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

Fitch's modelling shows that sufficient cash flow will be generated to make timely payments of interest and principal to BIs 2 and ABL 2 by the final maturity date in accordance with the transaction documents.

Rating Sensitivity

This section provides insight into the model-implied sensitivities the transaction faces when one assumption is modified, while holding others equal. The modelling process uses the estimation and modification of these variables to reflect asset performance in up and down environments. The results below should only be considered as one potential outcome, as the transaction is exposed to multiple dynamic risk factors. It should not be used as an indicator of possible future performance.

	No change or positive change
	Negative change within same category
	-1 category change
	-2 category change
	-3 or larger category change

See report for further details

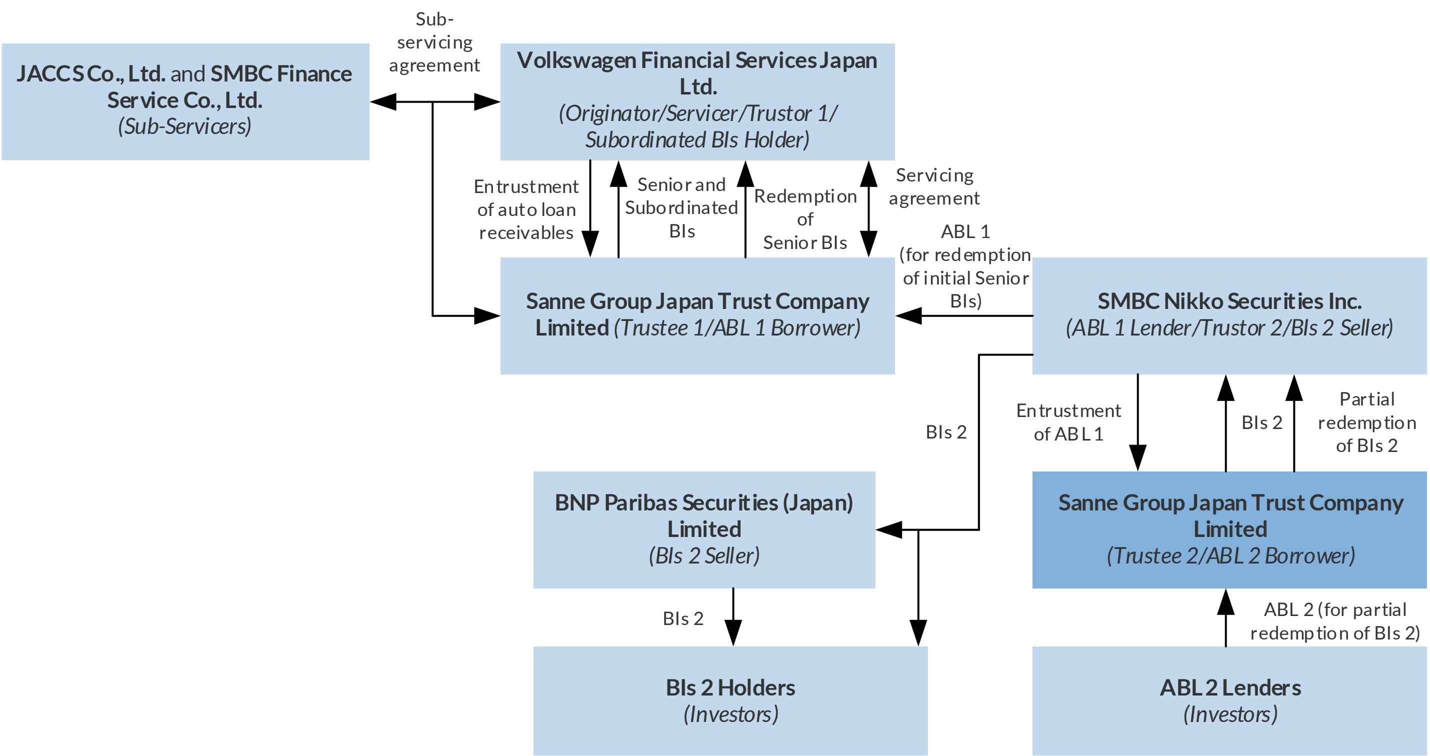
Rating Sensitivity to Gross Loss and Asset Yield

	BIs 2 & ABL2
Original Rating	AAAsf
10% increase in gross loss rate	AAAsf
25% increase in gross loss rate	AAAsf
50% increase in gross loss rate	AAsf
10% decrease in asset yield	AAAsf
25% decrease in asset yield	AAAsf
50% decrease in asset yield	AA+sf
10% increase in gross loss rate & 10% decrease in asset yield	AAAsf
25% increase in gross loss rate & 25% decrease in asset yield	AA+sf
50% increase in gross loss rate & 50% decrease in asset yield	Asf

Source: Fitch Ratings

Transaction Structure

Structure Diagram



Source: Fitch Ratings, VWFSJ

Capital Structure and Credit Enhancement

VWFSJ initially entrusts its auto loan receivables, which satisfy the eligibility criteria and are extracted randomly from VWFSJ's auto-loan portfolio, to SGJT as Trustee 1, which in turn issues senior BIs and subordinated BIs to VWFSJ. VWFSJ also initially entrusts to SGJT cash, which is primarily meant to provide liquidity to the transaction, if necessary, and Trustee 1 issues subordinated BIs. Therefore, the latter subordinated BIs are not treated as CE in Fitch's analysis and are excluded in calculating CE.

Nikko extends ABL 1 to Trustee 1 to redeem initial senior BIs in full. VWFSJ will continue to hold subordinated BIs throughout the transaction period. Nikko entrusts ABL 1 to SGJT as Trustee 2, which in turn issues BIs 2. Investors who would like to invest in the form of BIs will purchase BIs 2. Investors who would like to invest in the form of loans will extend ABL 2 to Trustee 2 to partially redeem BIs 2.

The transaction features a revolving period of one year. VWFSJ may, absent an early amortisation event, also entrust eligible auto loan receivables. Trustee 1 will, in turn, issue the additional senior and subordinated BIs. The amount of the additional senior BIs will be the lesser of (i) the product of 93.5% and the aggregate discounted principal balance of such additional receivables and (ii) the available distribution amount after deducting senior expenses, interest and funds for cash collateral. The amount of the additional subordinated BIs is the aggregate discounted principal balance of such additional auto loan receivables minus the amount of the relevant additional senior BIs. Fitch expects the additional senior BIs to be redeemed during the revolving period, which will lead to an increase in CE.

Absent an early amortisation event, defaulted auto loan receivables in the underlying pool may be distributed to VWFSJ as the subordinated beneficiary as a distribution in kind. This will reduce the subordinated BI balance by an amount of the discounted principal balance of the relevant defaulted auto loan receivables. Fitch does not take any recovery from such receivables into account in its analysis, as we do not expect any replenishment of the subordinated BIs, irrespective of the actual recovery from defaulted auto loan receivables.

We expect the transaction's assets and liabilities, based on the initial pool, to be as follows.

Balance Sheet of Trust 1 at Closing

Assets	(JPY)	Liabilities	(JPY)	Size as % of receivable balance
Receivables	58,825,424,925	ABL 1[a]	55,000,000,000	93.5
		Subordinated BIs	3,825,424,925	6.5
Total	58,825,424,925		58,825,424,925	
Cash collateral	Equivalent to four months of interest and expenses			

[a] BIs 2 and ABL 2 are issued, backed by ABL 1. The sum of the balance of BIs 2 (JPY31.7 billion) and ABL 2 (JPY23.3 billion) is JPY55billion
Source: Fitch Ratings, VWFSJ

True Transfer of Assets

The entrustment of the initial and additional auto loan receivables is perfected against third parties by registering such entrustment in accordance with the Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims. At closing or at the time of additional entrustment, the entrustment of auto loan receivables will not be perfected against obligors; however, it will be perfected against obligors by notification to obligors upon the occurrence of a servicer or sub-servicer replacement event.

The entrustment of ABL 1 to Trustee 2 is perfected by the approval of Trustee 1 as the borrower of ABL 1 with a certified and notarised date stamp (kakutei hizuke).

Eligibility Criteria

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

- each auto loan receivable is a fully disbursed loan;
- the obligor is not insolvent and no bankruptcy proceedings or any other insolvency proceedings are pending or threatened against the obligor;

- Trustor 1 is not prohibited from selling, transferring or assigning its rights in respect of the auto loan receivables;
- the interest-rate type applicable to each auto loan receivable is a fixed interest rate;
- the obligor, if a corporate entity, has its permanent establishment in Japan and is not an affiliate of VW and, if an individual, has their place of residence in Japan;
- at least two monthly payments have been made in respect of each auto loan receivable and all monthly payments are required to be made (i) within 84 months after the date of origination, (ii) within 82 months after the relevant cut-off date and (iii) in equal monthly instalments and without skipped or irregular payments, except for annual or semi-annual bonus month payments and balloon payments;
- each auto loan receivable is payable in yen;
- the principal outstanding balance of each auto loan receivable as of the relevant cut-off date is greater than JPY50,000 and less than JPY10 million;
- auto loan receivables are payable free of set-off;
- each auto loan agreement relates to one purchased vehicle only;
- each auto loan receivable is not overdue;
- auto loan receivables for used vehicles will not exceed 35% of the aggregate discounted principal balance of the auto loan receivables;
- auto loan receivables for purchased vehicles, other than those originated by Trustor 1 in connection with Volkswagen, Audi, Bentley or Lamborghini-branded vehicles, will not exceed 5% of the aggregate discounted principal balance of the auto loan receivables;
- the aggregate amount of the balloon payment percentage will not exceed 50% of the aggregate discounted principal balance of the auto loan receivables;
- the auto loan receivables are jointly and severally guaranteed by JACCS or SMBC FS;
- the obligor does not have any relationship with, is not engaged with or does not otherwise fall under any of the categories included in the definition of 'anti-social forces' or 'anti-social forces related party' and does not engage in any anti-social conduct; and
- no receivables from maintenance or other services regarding the purchased vehicles are included in the auto loan receivables.

In the event of any breach of the eligibility criteria, VWFSJ, as Trustor 1, will have to repurchase the relevant receivables at a price equal to the sum of the outstanding discounted principal balance and accrued interest, with the payment made by Trustor 1 to Trustee 1 on the subsequent monthly remittance date after necessary notification between Trustor 1 and Trustee 1.

Discount Rate

All securitised receivables will be discounted by a rate that is the greater of:

a) 1.13% equal to the sum of the three components below in percentage terms
   - fixed coupon rate of BIs 2 and ABL 2;
   - fixed servicing fees; and
   - fixed administrative costs and fees, and

b) the applicable interest rate in the relevant auto loan agreement.

We do not believe this transaction is exposed to the risk of a principal shortfall, even if loans whose interest rates are higher than the discount rate in (a) are prepaid, since loans with higher interest rates are already discounted by a higher interest rate. Conversely, if loans with an interest rate lower than the discount rate in (a) above are prepaid, some gains may arise.

Liquidity Support

VWFSJ entrusts cash to Trustee 1 at closing and Trustee 1 in turn issues the subordinated BIs. We expect the cash collateral amount to cover dividends on BIs 2 and interest on ABL 2 as well as fees and expenses for four months.

The target cash collateral amount will remain unchanged from the initial amount throughout the transaction period. At the maturity, any outstanding cash collateral balance may be used to repay BIs 2 and ABL 2.

Clean-Up Call Option

VWFSJ, as trustor of Trust 1, is entitled to exercise a clean-up call if the discounted principal balance of the auto loan receivables is less than 10% of the initial total discounted principal balance on any trust calculation date. Fitch does not take into consideration the possibility of the exercise of the clean-up call in its analysis.

Priority of Payments

Collected amounts will be distributed in accordance with the priority of payments of Trust 1 and Trust 2, as summarised in the following two tables.

Trust 1: Priority of Payments

1	Senior expenses, including tax and public charges, servicer and Trustee 1 fees and other fees and expenses
2	Overdue and unpaid interest on ABL 1, if any
3	Interest on ABL 1
4	Cash collateral ledger up to the target level
5 a)	During the revolving period, redemption of additional senior BIs
b)	After the revolving period and prior to the occurrence of an early amortisation event, necessary repayment of ABL 1
c)	Following the occurrence of an early amortisation event, repayment of the remaining ABL 1 balance
6	Payment of indemnified amounts uncompensated by Trustor 1 to Trustee 1
7	Necessary repayment of subordinated BIs
8 a)	During the revolving period, dividends on subordinated BIs if payment is made on 7 above; otherwise, carry-over
b)	After the revolving period and prior to the occurrence of an early amortisation event, dividend on subordinated BIs
c)	Following the occurrence of an early amortisation event, carry-over

Source: Fitch Ratings, VWFSJ

Trust 2: Priority of Payments

1	Senior expenses, including tax and public charges, Trustee 2 fees and other fees and expenses
2	Overdue and unpaid dividends and interest on BIs 2 and ABL 2, if any
3	Dividends and interest on BIs 2 and ABL 2
4	Upon the expiration of the revolving period, repayment of BIs 2 and ABL 2 on a pro rata basis
5	Payment of indemnified amounts uncompensated by Trustor 2 to Trustee 2

Source: Fitch Ratings, VWFSJ

Repayment Order and Target Overcollateralisation Level

The transaction will start with CE of 6.5% at closing; however, CE is likely to increase through the entrustment of additional auto loan receivables and redemption of additional senior BIs and/or repayment of ABL 1.

The additional subordinated BIs issued by Trustee 1 to VWFSJ upon the entrustment of additional auto loan receivables will immediately be integrated to the subordinated BIs, while the additional senior BIs will be redeemed by using the collected amount under 5a) of Trust 1: Priority of Payments during the revolving period.

Target Overcollateralisation Levels[a]

	Target overcollateralisation (%)
Initial overcollateralisation level available	6.5
No trigger breached during revolving period	8.5
No trigger breached after revolving period	11.5
Level 1 trigger breached	17.0
Level 2 trigger breached	100.0

[a] Target overcollateralisation amount is calculated by multiplying the aggregate discounted principal balance of the auto loan receivables by the relevant target overcollateralisation percentage
Source: Fitch Ratings, VWFSJ

If the target overcollateralisation is built up and no performance trigger is breached, the amortisation will switch to a quasi-pro rata allocation. However, a fixed floor amount of overcollateralisation needs to be maintained. This means that the overcollateralisation amount will remain unchanged if the discounted principal balance of the auto loan receivables is less than approximately 10% of the initial discounted principal balance. This floor is likely to mitigate concentration risk, which might arise when the transaction can be called but the call option is not exercised.

A level 1 trigger is hit if the cumulative gross loss ratio exceeds the following thresholds:

- 0.50% at any trust calculation date prior to and including August 2022;
- 0.80% at any trust calculation date falling between September 2022 and May 2023; or
- 1.15% at any trust calculation date falling between June 2023 and February 2024.

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

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

These performance-based trigger levels provide limited protection compared with Fitch's base-case cumulative gross loss expectation of 0.75%. However, in its 'AAAsf' stress scenario, Fitch's assumed gross loss rates are higher than the trigger levels, which would contribute to keeping the allocation of the principal repayment in a sequential order over almost the entire transaction period.

Early Amortisation

The following events will end the revolving period and lead to early amortisation:

- a level 2 CE increase condition is met;
- a servicer replacement event;
- a sub-servicer replacement event;
- Trustor 1 fails to fulfil its obligation to repurchase the auto loan receivables under the first trust agreement; or
- on three consecutive trust calculation dates during the revolving period, the expected total cash amount in the trust management account, excluding cash in the cash collateral ledger, after the necessary distribution exceeds 10% of the aggregate discounted principal balance of the auto loan receivables outstanding.

Legal Opinions

Fitch reviewed legal opinions covering Japanese law that support Fitch's analytical assumptions. These are factored into the credit analysis with respect to the transaction. The opinions cover, among other factors, the enforceability of the obligations of the parties under the transaction documents, the transfer of the underlying assets being effective and the transfer of related collateral being legal, valid and binding (see Fitch's general disclaimer on legal opinions below).

Disclaimer

Fitch relies in its credit analysis on legal and/or tax opinions provided by transaction counsel for the avoidance of doubt. Fitch has always made clear that it does not provide legal and/or tax advice or confirm that the legal and/or tax opinions, or any other transaction documents, or any transaction structures, are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Counterparty Risk

Fitch assesses the counterparty risk under its Structured Finance and Covered Bonds Counterparty Rating Criteria to be in line with the ratings assigned based on the documentation provisions and analytical adjustments described in the following table.

Counterparty Risk Exposure

Counterparty role/risk	Counterparty	Relevant rating under criteria	Minimum ratings and remedial actions	Adjustment to analysis if minimum ratings and remedial actions not in line with criteria
Transaction account bank	MUFG Bank, Ltd.	A-/Stable/F1	Minimum long- and short-term ratings of 'A' or 'F1'; replacement within 30 calendar days of downgrade below both minimum ratings	No adjustment; minimum ratings are in line with criteria, while remedial actions are more conservative than criteria.
Servicing continuity	Trustee 1 will assume servicing responsibilities or may appoint a third party as a successor servicer if a servicer replacement event occurs.	n.a.	There is no minimum rating for the servicer.	No adjustment; we assess servicer continuity risk to be mitigated in accordance with our counterparty criteria due to the presence of Trustee 1, which will take action upon the occurrence of a servicer replacement event, the standard nature of the assets and available liquidity.

Source: Fitch Ratings, VWFSJ

Servicing

VWFSJ acts as servicer of the transaction at closing, but delegates its function to SMBC FS or JACCS as sub-servicers. No back-up servicer is appointed at closing; however, if a servicer replacement event occurs, Trustee 1 will assume the servicing responsibilities or may appoint a third party as a successor servicer.

The servicer replacement events include the following.

- an insolvency event in relation to the servicer;
- failure by the servicer to pay the required amount to Trustee 1 and such failure remains unremedied for five business days following notice by Trustee 1 to the servicer of such failure;
- failure by the servicer to duly observe or perform in any material respect any of its covenants or agreements under the transaction documents and such failure materially and adversely affects the rights of Trustee 1 and remains unremedied for 30 calendar days following notice by Trustee 1 to the servicer of such failure; or
- any misrepresentation by the servicer under the transaction documents.

The occurrence of an insolvency event in relation to a sub-servicer will constitute a sub-servicer replacement event. In this case, Trustee 1 may appoint the other unaffected sub-servicer or a third party as a substitute sub-servicer.

Commingling

Sub-servicers SMBC FS and JACCS receive payments from obligors on the 26th and 27th of each month, respectively. Both sub-servicers transfer the received amounts to VWFSJ on the same dates. VWFSJ pays the expected collection amount from the sub-servicers to Trustee 1 four business days prior to the 28th of each month. If VWFSJ fails to prefund the scheduled collection amount on the designated date, it would constitute a servicer replacement event. The amount prefunded by VWFSJ includes both scheduled and prepaid amounts. Therefore, the commingling risk is considered well mitigated for the transfer of payment collections.

Set-Off

At closing, or at the time of additional entrustment, the entrustment of auto loan receivables will be perfected against third parties, but not against obligors; however, VWFSJ is not a deposit-taking financial institution and the eligibility criteria stipulate that the auto loan receivables need to be free from set off. Thus, we assess set-off risk as well-mitigated.

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of Applicable Criteria.

Fitch applies its *Consumer ABS Rating Criteria* as its sector-specific criteria under the overarching framework provided by the *Global Structured Finance Rating Criteria*, which is the master criteria for the sector. The *Structured Finance and Covered Bonds Country Risk Rating Criteria* outline Fitch's approach to assigning and maintaining structured finance and covered bond ratings where the relevant sovereign's Local-Currency Issuer Default Rating (IDR) is below 'AAA'. The remaining criteria listed under Applicable Criteria are cross-sector criteria that outline Fitch's approach to counterparty risk that are relevant for the ratings.

Models

The model below was used in the analysis. Click on the link for the model (if published) or for the criteria for a description of the model.

Multi-Asset Cash Flow Model

Data Adequacy

Fitch was provided with portfolio stratifications showing various parameters, including the current and original loan balance, original term, loan-product split, balloon distribution, remaining term, seasoning, yield, geographic distribution, brand distribution and split of new and used vehicles. Fitch was also provided with dynamic gross loss, prepayment, yield and delinquency data as well as static gross loss, prepayment and cancellation data from July 2002 to October 2021.

Fitch reviewed the results of a third-party assessment conducted on the asset portfolio information, and concluded that there were no findings that affected the rating analysis.

Fitch determined that an adequate level of data was provided to apply its rating criteria. The 2002-2021 period covers two economic stress periods of 2008 and 2012 in Japan.

Surveillance

Fitch will monitor the transaction regularly. The structured finance team will receive monthly investor reports detailing the performance of the portfolio. These reports will provide the basis for the agency's surveillance of the transaction's performance against both base-case expectations and the performance of the industry as a whole. Where appropriate, the agency may request to monitor further data from the originator or servicer. The agency's structured finance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the credit risk of the rated BIs 2 and ABL 2.

Details of the transaction's performance are available at fitchratings.com

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

Appendix 1: Origination and Servicing

Originator and Servicer Overview

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

VWFSJ has entered into consignment agreements with JACCS and SMBC FS.

JACCS was established in Hakodate in 1954 and is an equity-method accounted affiliate of MUFG Bank, Ltd. (A-/Stable/F1). JACCS' main businesses include shopping credit, auto loans, credit cards, loan cards and credit guarantees. VWFSJ and JACCS entered into a consignment agreement in 2007.

Maruko Co., Ltd., one of the predecessor companies of SMBC FS, was established in 1950. SMBC FS is a wholly owned subsidiary of Sumitomo Mitsui Card Company, Limited, which is a wholly owned subsidiary of Sumitomo Mitsui Financial Group, Inc. (A/Negative/F1). SMBC FS focuses on three key businesses: credit cards, instalments, including auto loans, and transactions. VWFSJ entered into a consignment agreement with one of the predecessor companies, Central Finance, in 2002.

Under the consignment agreements, JACCS and SMBC FS perform credit analysis of obligors of auto-loan receivables, guarantee the payment obligations of the auto-loan receivables, collect instalment payments and transfer the collections to VWFSJ. Furthermore, the two companies will undertake to perform the same services as currently provided to VWFSJ as sub-servicers delegated by Trustee 1 under each sub-servicing agreement entered into among Trustee 1, VWFSJ, each of JACCS and SMBC FS. JACCS and SMBC FS will remit collections directly to Trustee 1 if VWFSJ, as servicer, fails to make required advance payments, if instructed by Trustee 1 to do so.

Loan Products

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

- **Owner's Plan (100):** Fully amortising loans with equal monthly instalments.
- **Twin Plan (101):** Fully amortising loans with equal monthly instalments. This plan is designed to provide loans for purchasers of Volkswagen and Audi vehicles when the main loan with a low-rate campaign exceeds the maximum amount limit.
- **Refinance of 140 (105):** Fully amortising loans with equal monthly instalments. This product is designed for refinancing the balloon payment of Volkswagen Solutions and Audi Future Drive (140).
- **Refinance of 150/151 (106):** Fully amortising loans with equal monthly instalments. This product is designed for refinancing the balloon payment of S-Loan, etc. and S-Loan Plus.
- **Volkswagen Solutions, Audi Future Drive (140):** Balloon loans for purchasers of Volkswagen and Audi vehicles with equal monthly instalments. A repurchase option at a pre-determined price is included.
- **S-Loan, etc. (150):** Balloon loans with equal monthly instalments. No repurchase option is included.
- **S-Loan Plus (151):** Balloon loans for purchasers of Audi vehicles with equal monthly instalments. A repurchase option at a pre-determined price is included if the customer purchases a new Audi.

Underwriting

VWFSJ's origination process is based on a broad dealer network of 435 dealerships, comprising 249 Volkswagen, 125 Audi, 9 Bentley, 10 Lamborghini, and 42 Ducati dealerships as of end-October 2021. VWFSJ monitors the dealers via its rating system based on financial strength.

The dealer is responsible for offering financing services to customers. If a purchaser submits a credit application, the dealer will forward it to a sub-servicer by facsimile or EVAS, VWFSJ's proprietary web-based system that supports quotation creation, loan applications and the notification of examination results from the sub-servicer to the dealer. Once the completeness of the submitted application is confirmed by the sub-servicer, it will contact the purchaser to confirm their intention to purchase the vehicle. Each sub-servicer uses a proprietary scoring system to assess the application and make credit decisions.

The underwriting process takes the applicant's attributes and credit history into account. There have been no material changes in the underwriting standards of both sub-servicers. There is, in principle, no provision in the underwriting standards that allows for any exceptional treatment of applicants in credit decisions. If an irregularity is identified in the submitted application, it will be reported to VWFSJ and the final decision will be made by both VWFSJ and the relevant sub-servicer.

Once the credit decision is made, the result is conveyed to the dealer through EVAS. If the loan application is approved, the down payment is made and the contract is arranged and signed. After the contract data is delivered to VWFSJ, it makes an advance payment on behalf of the purchaser to the dealer.

We regard cancellation risk of auto-loan agreements in the underlying portfolio as limited, because the loans to be included in the portfolio are well seasoned, ranging from approximately 9 months to 12 months on average in recent years as shown in Transaction Comparison. In addition, the eligibility criteria require the loans to have made at least two monthly payments, while most cancellations have historically occurred at the very early stage of the loan term.

Servicing and Collections

At closing, VWFSJ acts as the servicer of the transaction; but delegates part of its function to SMBC FS or JACCS as sub-servicers. All scheduled payments by obligors to sub-servicers are made by direct debit.

If a delinquency occurs, the relevant sub-servicer will encourage the delinquent obligor via phone call or SMS to pay the loan for the first 60 days. Thereafter, they may also meet the delinquent obligor until up to 90 days overdue. If an obligor fails to make monthly instalment payments for three consecutive months the loan will be classed as defaulted and the relevant guarantor will make a guarantee payment to VWFSJ.

Guarantors are exempt from the guarantee payment if, among other factors, the obligor has exercised their contractual option to sell the purchased vehicle to the dealer or VWFSJ upon the final instalment payment, but the relevant party fails to perform its obligation to pay the pre-agreed amount to the guarantor. Fitch does not give any credit to the guarantees made by SMBC FS or JACCS in its initial analysis, as the companies are not rated by Fitch and not all of the loan obligations may be covered by the guarantees due to this exemption.

Appendix 2: ESG Relevance Score

FitchRatings **Driver Japan eleven**

SF ESG Navigator
ABS - Auto

Credit-Relevant ESG Derivation

Driver Japan eleven has 5 ESG potential rating drivers

- Driver Japan eleven has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	5	issues	2
	4	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	2	Regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards	Asset Quality; Surveillance	5
Energy Management	2	Assets' energy/fuel efficiency and impact on valuation	Asset Quality; Surveillance	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Surveillance	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, data security, and safety standards	Operational Risk; Surveillance	4
Labor Relations & Practices	2	Labor practices, pension obligations and related litigation	Surveillance	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior	Asset Quality; Surveillance	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Asset Isolation and Legal Structure; Asset Quality; Rating Caps; Surveillance	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Rating Caps; Surveillance	4
Transaction Parties & Operational Risk	3	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Asset Quality; Financial Structure; Operational Risk; Rating Caps; Surveillance	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Surveillance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the Sustainability Accounting Standards Board (SASB).

CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.