

Volkswagen Financial Services Japan Ltd.

Driver Japan seven

*Rated Instruments: Trust Beneficial Interest
and ABL in Trust 2*

As of February 27, 2018



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Table of Contents

I	OUTLINE OF THE STRUCTURE.....	2
II	CREDIT RATING	2
III	ABOUT INSTRUMENT	3
	1. About Instrument	3
	2. Outline of the Scheme	3
	3. Flow of Scheme	4
	4. Overview of Underlying Assets	8
	5. Overview of Originator	12
	6. Overview of Sub-Servicers	12
IV	RATIONALE FOR RATING	14
	1. Risk Associated with Structure	14
	(1) Structure of Asset Transfer	14
	(2) Structure of Asset Holding (SPV)	15
	(3) Structure of Asset Administration	15
	(4) Structure of Waterfall	16
	2. Risk Associated with Underlying Assets	16
	(1) Credit Risk Factors Associated with Underlying Assets	16
	3. Cash Flow Risk Analysis	18
	(1) Establishment of Standard Scenario	21
	(2) Establishment of Stress Multiple Scenario	24
	(3) Cash Flow Test	25
	(a) Replacement of Receivables during the Revolving Period	25
	(b) Obligor Default Risk	26
	(c) Commingling Risk	26
	(d) Payment Suspension Risk	26
	(4) Results	27
	4. Comprehensive Evaluation	27
V	INFORMATION CONCERNING LOSSES, CASH FLOW AND SENSITIVITY ANALYSIS.....	27
VI	RATING METHODOLOGY	27

This is an SF Credit Report concerning the rating action taken on February 26, 2018.

This SF Credit Report is an English Translation of the original SF Credit Report in Japanese.

I OUTLINE OF THE STRUCTURE

- This securitization transaction is backed by auto loan receivables originated by Volkswagen Financial Services Japan Ltd. (“VWFSJ”). The scheme consists of two trusts, namely Trust 1 and Trust 2. A one-year revolving period is provided for Trust 1.
- The scheme flow is as follows. First, VWFSJ entrusts auto loan receivables and cash to Trust 1, and receives the Senior Beneficial Interest and the Subordinated Beneficial Interest. The trustee of Trust 1 (“Trustee 1”) borrows a limited recourse loan (ABL 1) from Mizuho Securities Co.,Ltd. (“MHSC”), with the trust assets as recourse assets, and redeems the Senior Beneficial Interest of Trust 1 in full. Next, MHSC entrusts the ABL (ABL 1) to Trust 2, and receives the Trust Beneficial Interest of Trust 2. MHSC then transfers Trust Beneficial Interest 2 to investors, either directly or through BNP Paribas Securities (Japan) Limited (“BNPP”), which acts as the underwriter. Furthermore upon the request of investors, the trustee of Trust 2 (“Trustee 2”) borrows a limited recourse loan (ABL 2) from the investors, with the trust assets as recourse assets, and redeems the Trust Beneficial Interest 2 of the same amount.
- The rated instruments are the Trust Beneficial Interest and the ABL in Trust 2.
- Trust 2 repays the principal and interest of ABL 2 and the Trust Beneficial Interest 2 with the principal and interest received from Trust 1 in relation to ABL 1. For this reason, the underlying auto loan receivables of ABL 1 are effectively the underlying assets of the Trust Beneficial Interest and the ABL in Trust 2.

II CREDIT RATING

INSTRUMENT NAME	Driver Japan seven Trust Beneficial Interest
RATING ACTION	Assignment of a rating
R&I RATING	Long-term Issue Rating /AAA
NOTE	The rating is an assessment of the probability that the principal of the Trust Beneficial Interest will be paid in full by the trust termination date and the interest will be paid on a timely basis.

INSTRUMENT NAME	Driver Japan seven ABL
RATING ACTION	Assignment of a rating
R&I RATING	Long-term Issue Rating /AAA
NOTE	The rating is an assessment of the probability that the principal of the ABL will be paid in full by the trust termination date and the interest will be paid on a timely basis.

III ABOUT INSTRUMENT

1. About Instrument

TRUSTOR	Volkswagen Financial Services Japan Ltd.	UNDERLYING ASSET	Auto Loan
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INSTRUMENT NAME	AMOUNT (CURRENCY)	Sub. Ratio (*1)	Date of Issue Sched. Maturity Legal Maturity	Redemption (*2)	Coupon Type/Rate
Driver Japan seven Trust Beneficial Interest	41,500,000,000 Yen (JPY)	6.5%	Feb 27, 2018 — Jun 29, 2026	PT	Fixed —
Driver Japan seven ABL	13,500,000,000 Yen (JPY)	6.5%	Feb 27, 2018 — Jun 29, 2026	PT	Fixed —

(*1) Sub. Ratio: Subordination Ratio

(*2) Redemption Method: PT: Pass-Through

2. Outline of the Scheme

【Parties Involved】

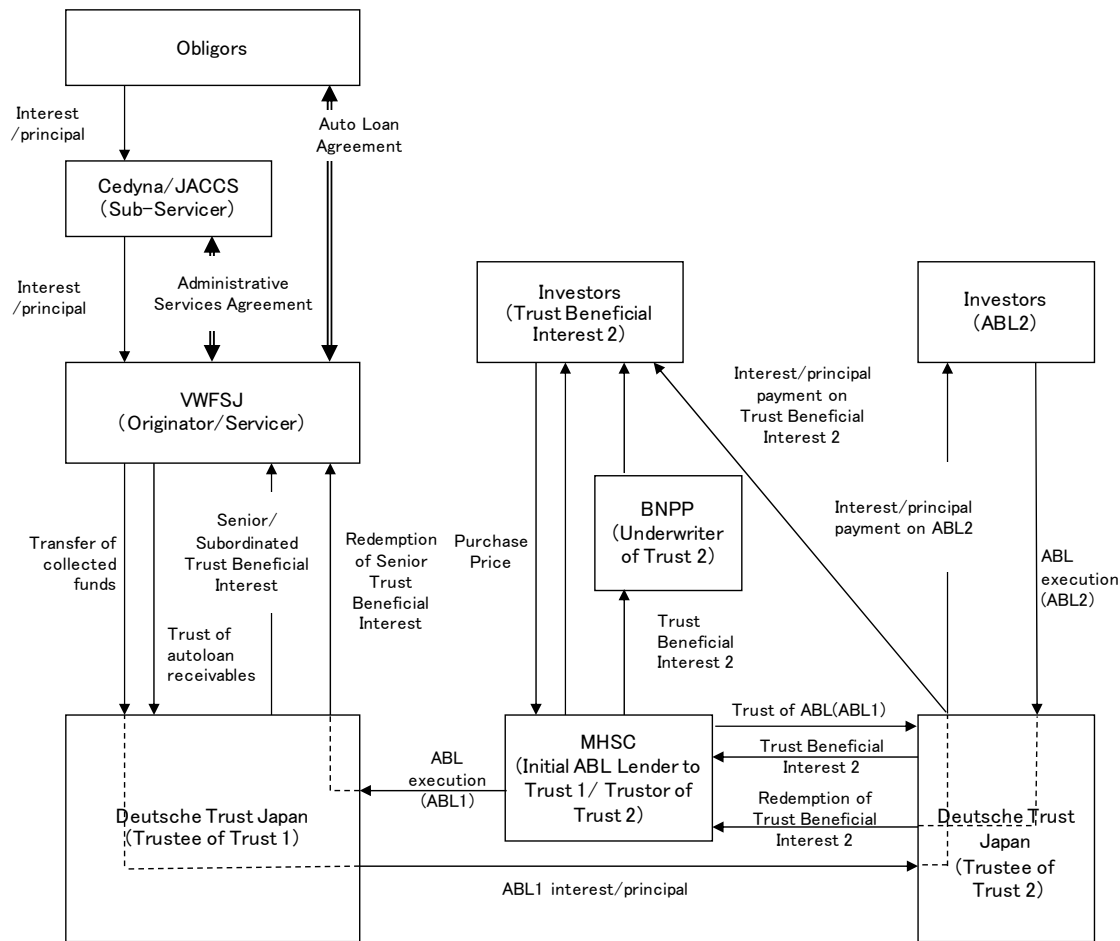
(TRUST 1)

ROLE	NAME
Originator / Trustor of Trust 1 / Servicer / Subordinated Beneficiary	VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.
Trustee of Trust 1	DEUTSCHE TRUST COMPANY LIMITED JAPAN
ABL Lender to Trust 1	MIZUHO SECURITIES CO., LTD.
Sub-Servicer	JACCS CO., LTD. CEDYNA FINANCIAL CORPORATION
Bank where Trust 1 collection account is established	THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
Backup Servicer	Initially no backup servicer will be designated.

(TRUST 2)

ROLE	NAME
Trustor of Trust 2	MIZUHO SECURITIES CO., LTD.
Underwriter of Trust 2	BNP PARIBAS SECURITIES (JAPAN) LIMITED
Trustee of Trust 2	DEUTSCHE TRUST COMPANY LIMITED JAPAN
Bank where Trust 2 collection account is established	THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

【OUTLINE OF THE SCHEME】



3. Flow of Scheme

【Trust 1】

1. Volkswagen Financial Services Japan Ltd. (VWFSJ) entrusted auto loan receivables and cash to Deutsche Trust Company Limited Japan (Trustee 1), based on a Trust Agreement (Trust 1). The entrustment of receivables was perfected against third parties by registration, pursuant to the Law Regarding Special Exceptions to the Civil Code with Respect to Perfection Requirements for Assignment of Movables and Claims. Perfection against the obligors will be withheld until certain events stipulated in the Trust Agreement occur.
2. Trustee 1 issued Senior and Subordinated Trust Beneficial Interests to VWFSJ. Trustee 1 borrows a limited recourse loan (ABL 1) from Mizuho Securities Co.,Ltd.(MHSC), with the trust assets as recourse assets, and redeemed the full amount of the Senior Beneficial Interest of Trust 1. VWFSJ continues to hold the Subordinated Beneficial Interest.
3. Some of the operations related to the trust, including the collection on the entrusted auto loan receivables, were consigned to VWFSJ by Trustee 1, which are then re-consigned to Sub-Servicers Cedyna Financial Corporation (Cedyna) and JACCS CO., LTD. (JACCS). The funds collected by the Sub-Servicers from the obligors on the auto loan receivables are transferred to VWFSJ, which are subsequently transferred to Trustee 1 on the same day. VWFSJ advances the scheduled collection amount to Trustee 1 four business days before the Trust 2 Payment Date.

(During the Revolving Period)

1. Provided certain criteria are met by the Additional Trust Date, VWFSJ can entrust additional receivables to Trust 1. In such case, Trustee 1 will issue an Additional Senior Beneficial Interest and an Additional Subordinated Beneficial Interest to VWFSJ.
2. On each calculation date during the revolving period, Trustee 1 redeems the Additional Senior Beneficial Interest, after paying various costs and ABL 1 interest from the funds collected. Since the amount of additional trust receivables is determined so that the Additional Senior Beneficial Interest is always redeemed in full, there will never be any Additional Senior Beneficial Interest outstanding.
3. Trustee 1 makes principal payments on the Subordinated Beneficial Interest, to the extent that a certain level of credit enhancement stipulated in the Trust Agreement is satisfied. Any remaining funds in the trust collection account are distributed as interest on the Subordinated Beneficial Interest. If there are no principal distributions on the Subordinated Beneficial Interest, such interest distributions will not be made.

(After Termination of the Revolving Period)

1. After paying various costs and the interest on ABL 1 from the funds, Trustee 1 makes principal payments on ABL 1, according to the “ABL Principal Payment Amount” stipulated in the Trust Agreement.
2. Trustee 1 makes principal payments on the Subordinated Beneficial Interest, to the extent that a certain level of credit enhancement stipulated in the Trust Agreement is satisfied.
3. Following an early redemption event, Trustee 1 will suspend interest and principal payments on the Subordinated Beneficial Interest.

【Trust 2】

1. MHSC entrusted ABL 1, extended to Trustee 1, to Deutsche Trust Company Limited Japan (Trustee 2). The transfer was perfected against obligors and third parties pursuant to Article 467 of the Civil Code. MHSC notified obligors pursuant to Article 24 of the Money Lending Business Act.
2. Trustee 2 issued Trust Beneficial Interest 2 to MHSC.
3. Investors extend 13.5 billion yen in a limited recourse loan (ABL 2) to Trustee 2, with recourse to the trust asset, and Trustee 2 redeemed the Trust Beneficial Interest 2.
4. MHSC transferred 41.5 billion yen in the Trust Beneficial Interest 2 to investors, either directly or through BNP Paribas Securities (Japan) Limited (BNPP), which acts as an underwriter. The transfer is perfected against the trustee and third parties by written consent from the trustee with a certified date, pursuant to Article 94 of the Trust Act.
5. Trustee 2 makes principal and interest payments on the Trust Beneficial Interest 2 and ABL 2 using ABL 1 principal and interest distributions from Trustee 1. Given that there are no principal distributions on ABL 1 during the Trust 1 Revolving Period, the Trust Beneficial Interest 2 and ABL 2 will not receive any principal during the revolving period.

【Main Early Redemption Events for Trust 1】

- Breach of the Level 2 Credit Enhancement Increase Condition
- Event of servicer replacement
- Event of sub-servicer replacement
- In the event where additional receivables are not entrusted during the Revolving Period, and the percentage of cash (excluding the cash reserve fund) in the trust asset pool exceeds 10% for three consecutive months

【Characteristics of Trust 1 Waterfall】

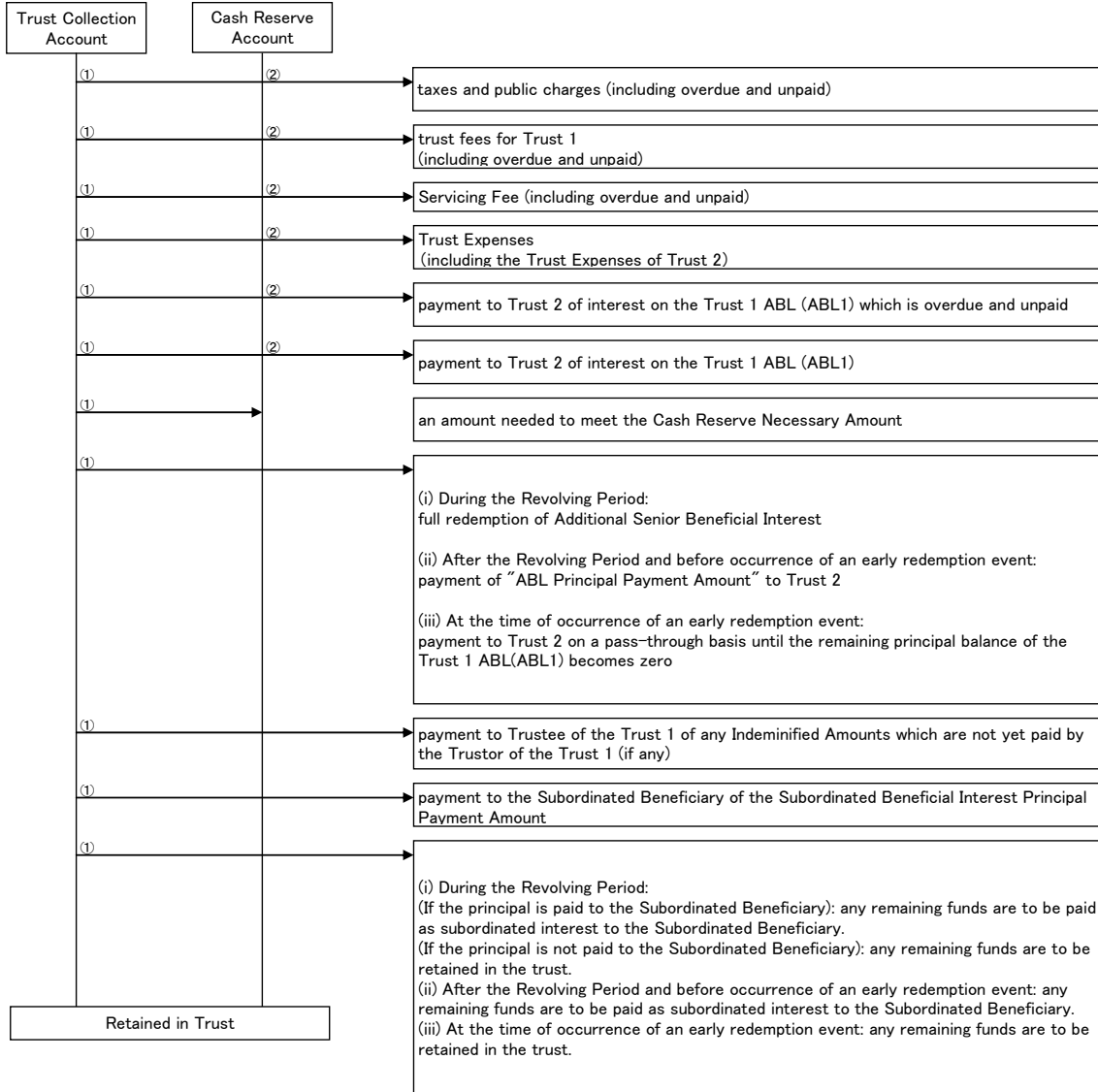
- The credit enhancement level that determines the principal distribution on the Subordinated Beneficial Interest is prescribed in the table below. The credit enhancement level that must be maintained increases in line with the performance of underlying assets.

Conditions		Level of Credit Enhancement
Before Level 1 Credit Enhancement Increase Condition is hit	During the Revolving Period	8.5%
	After the Revolving Period	11.5%
Level 1 Credit Enhancement Increase Condition is hit		17.0%
Level 2 Credit Enhancement Increase Condition is hit		Stop interest and principal payments on Subordinated Beneficial Interest

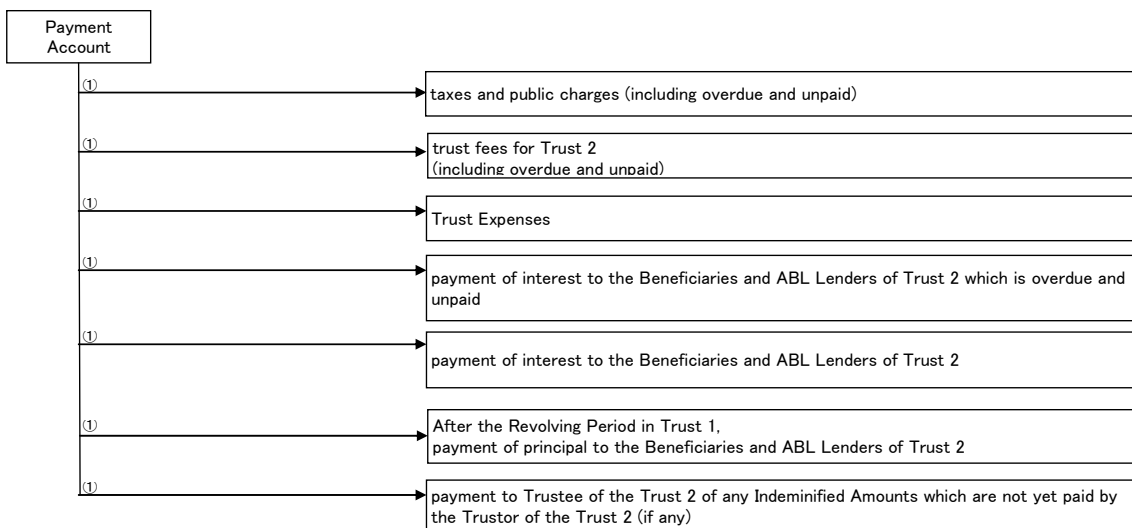
※Credit Enhancement Increase Conditions are defined as follows:

- A "Level 1 Credit Enhancement Increase Condition" shall be deemed to be in effect if the Cumulative Gross Loss Ratio exceeds (i) 0.5% on any Trust Calculation Date on or prior to August 2018, (ii) 0.8% on any Trust Calculation Date between September 2018 and May 2019 (inclusive), or (iii) 1.15% on any Trust Calculation Date between June 2019 and February 2020 (inclusive).
- A "Level 2 Credit Enhancement Increase Condition" shall be deemed to be in effect if the Cumulative Gross Loss Ratio exceeds 1.6% on any Trust Calculation Date.

【Waterfall】



(Trust 2)



4. Overview of Underlying Assets

【Types of Underlying Assets】

The underlying assets are auto loan receivables originated by VWFSJ. The transferred receivables are from one of the seven types of auto loan agreements described in Table 1 below, and include “balloon payment auto loans” which involve a large payment amount (balloon payment) on the final payment date.

By product composition, Owner’s Plan, Solutions and S Loan jointly account for 93.9% of the entire securitization pool.

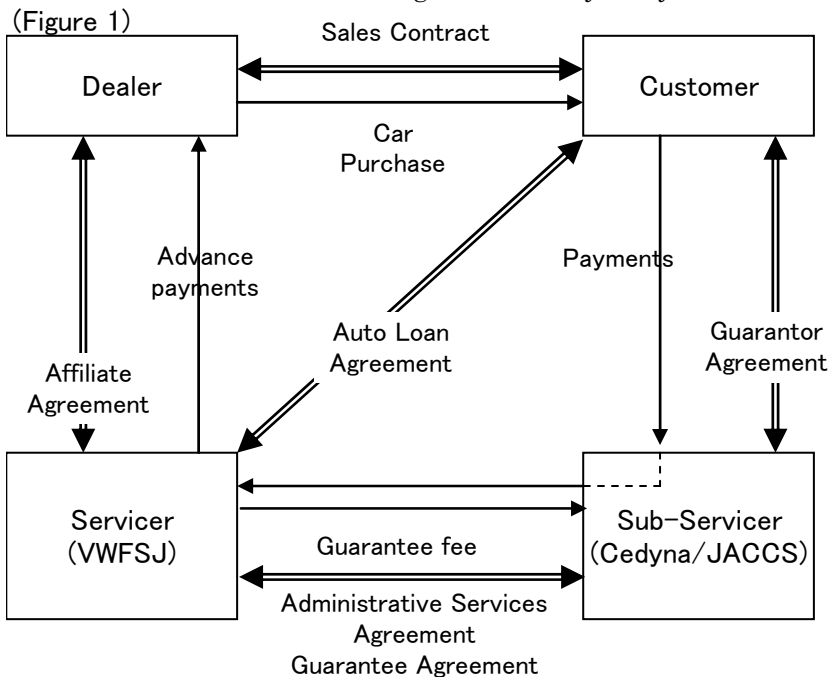
(Table 1)

Loan agreement (Name)	Contents	Balloon payment	Percent of pool(※) (as of Feb.10 2018)
Owner’s Plan	Normal installments (no balloon payment set)	—	7.3%
Twin Loan	Comprised of two components with a regular interest rate and advantageous interest rate (no balloon payment set)	—	—
Refinance loan (Solutions)	Refinancing loan of Solutions	—	1.3%
Refinance loan (S Loan etc.)	Refinancing loan of S Loan and S Loan Plus	—	2.0%
Solutions	Balloon payment auto loan (with purchase guarantee from VWFSJ or dealer) (only new VW vehicles are eligible)	○	40.2%
S Loan (including Das WeltAuto loan)	Balloon payment auto loan (no purchase guarantee)	○	46.5%
S Loan Plus	Balloon payment auto loan (with dealer purchase guarantee requiring purchase of a new Audi vehicle)	○	2.8%

※Discounted Principal Balance

【Origination of Underlying Assets】

VWFSJ outsources credit and collection services to Cedyna of Sumitomo Mitsui Financial Group and JACCS of Mitsubishi UFJ Financial Group under the Administrative Services Agreement. The transferred receivables are guaranteed by Cedyna or JACCS.



【Method of Final Repayment of Balloon Payment Auto Loans】

Balloon Payment auto loans offer multiple options on the final payment, and such options differ by loan type. Note that, under the Trust Agreement, VWFSJ will make a lump-sum advance for the final payment amount if an application for refinance is submitted by the obligor. Following a bankruptcy event of VWFSJ, Trustee 1 plans not to accept the use of the refinance option.

Repayment options for final loan payment (Table 2)

Loan agreement (Name)	Lump-sum repayment	Refinancing	Vehicle return
Solutions	○	○	○
S Loan	○	○	—
S Loan Plus	○	○	—

- “Lump-sum repayment” (of the balloon amount)... An obligor’s own funds or vehicle sale proceeds are used to make the final payment on the loan.
- “Refinancing” ... A new loan agreement of an amount equivalent to the final payment amount is entered into between the obligor and VWFSJ. The proceeds of the new loan are used to repay the old loan.
- “Vehicle return” ... An obligor returns the vehicle to the entity providing the purchase guarantee (VWFSJ or a dealer), and the sale proceeds of the vehicle are used to make the final payment. The residual value is determined so that the final payment amount is covered by the purchase guarantee.

【Balloon Payment Auto Loans with Purchase Guarantee】

Of the balloon payment auto loans, Solutions and S Loan Plus are covered by a purchase guarantee. VWFSJ’s policy in setting standard residual value ratios, residual value ratio standards, and historical information on the exercise of purchase guarantees are as follows:

- VWFSJ determines residual value ratios in line with its policy to ensure that the final payment amount can be paid in full with the vehicle sale proceeds.
- Cedyne and JACCS, as guarantors, verify the residual value ratio standards set forth by VWFSJ by checking the standards against the methods used to determine their own residual value ratio standards.
- Based on price information on used vehicles¹, the standard residual value ratios adopted by VWFSJ are equivalent to or lower than the wholesale price for used vehicles.
- According to historical information on a period short of seven years (January 2011 through September 2017), the percentage of obligors that apply for a purchase guarantee from VWFSJ for Solutions loans has been limited (around 1~2%).

¹ For price information on used vehicles, Auto Guide’s monthly vehicle price data is used.

Vehicle purchase guarantor (Table 3)

Loan agreement (Name)	Dealer	VWFSJ
Solutions	○	○
S Loan	—	—
S Loan Plus (※)	○	—

※“S Loan Plus” is an auto loan agreement with a dealer purchase guarantee requiring the purchase of a new Audi vehicle.

VWFSJ standard residual value ratios (Table 4)

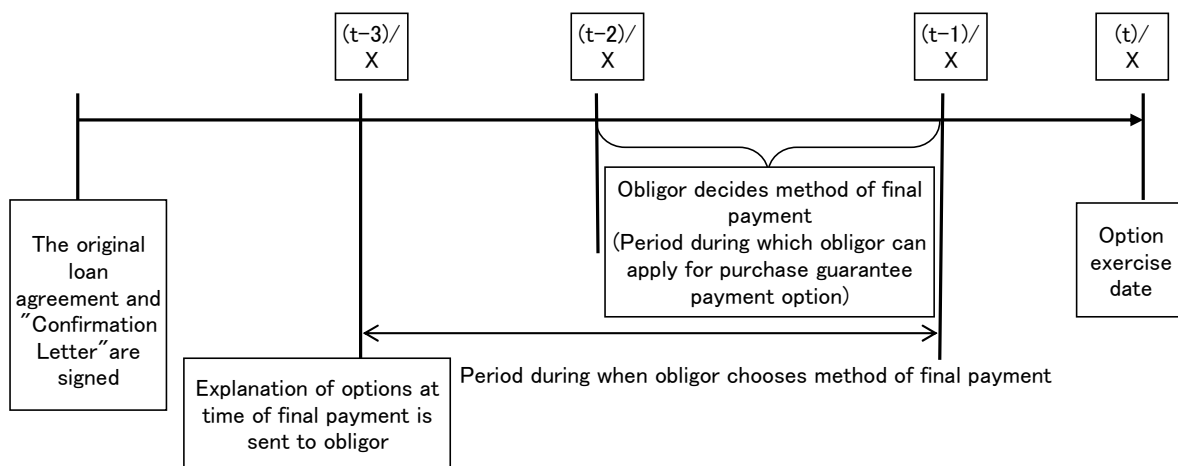
Loan agreement (Name)	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years
Solutions	—	50%	40%	30%	20%
S Loan	60%	50%	40%	30%	20%
S Loan Plus	—	—	40%	—	—

Note: As of the end of December of 2017

【Flow in Determining the Final Payment Method for Balloon Payment Auto Loans】

The final payment method on a balloon payment auto loan is undecided at the time of the signing of the original loan agreement. The final payment method is determined when the obligor selects an option described on a form sent three months before the final payment date. In other words, the decision on the final payment method is made three to one month in advance of the month of final payment. The purchase guarantee amount on Solutions and S Loan Plus is set out in a “Confirmation Letter” at the time of the signing of the original loan agreement.

(Figure 2)



※X is 27 for JACCS and 26 for Cedyne.

【Main Eligibility Criteria Underlying Assets of Trust 1】

- Not overdue as of the “Cut-off Date”;
- Guaranteed by Cedyne or JACCS;
- Outstanding amount of the loan is greater than ¥50,000 and less than ¥10,000,000 as of the “Cut-off Date”;
- At least two monthly payments have been made as of the “Cut-off Date”; and
- All monthly payments are scheduled to be made within 84 months from the origination date.

5. Overview of Originator

Volkswagen Financial Services Japan (“VWFSJ”), established on September 5, 1990, is a wholly-owned consolidated subsidiary of Volkswagen Financial Services AG (Germany), which in turn is a wholly-owned consolidated subsidiary of Volkswagen AG (Germany).

The brands handled by the Volkswagen Group in Japan are Volkswagen, Audi, Bentley, Lamborghini, and Ducati. VWFSJ provides financing services to customers, when the Volkswagen Group’s vehicles are sold in Japan. VWFSJ also manages dealers based on global standards. At the end of October 2017, the Volkswagen Group’s authorized dealers in Japan numbered 254 for Volkswagen, 125 for Audi, 7 for Bentley, 8 for Lamborghini, and 55 for Ducati.

According to Japan Automobile Importers Association (JAIA) statistics, during 2016, both the Volkswagen and Audi brands continued to be ranked among the top imported brands by unit sales.

In addition, according to the Change in Number of Top-selling Imported Models Sold (Calendar Year) prepared by JAIA, Volkswagen’s Golf model continuously reigned in first place between 2003 and 2015. Meanwhile, the brand’s Polo model was within the top seven between 2003 and 2016.

6. Overview of Sub-Servicers

VWFSJ outsources credit and collection services to Cedyne and JACCS.

Receivables are generally allocated to Cedyne and JACCS by dealer and by region. Adjustments may be made in consideration of the balance of outstanding receivables handled by the two companies.

【Cedyne Financial Corporation】

With the April 2009 merger of Central Finance Co., Ltd., OMC Card, Inc. and QUOQ Inc., the corporate name was changed to Cedyne. Cedyne was established as a core company in the personal finance division of the Sumitomo Mitsui Financial Group, and became a wholly-owned subsidiary of SMFG Card & Credit, Inc. following a stock exchange in May 2011.

In addition to the credit card business, Cedyne provides auto loans, home improvement loans and various other products in the area of sales credit. Cedyne’s relationship with VWFSJ dates back to 2002, when the former Central Finance engaged in a business tie-up with VWFSJ. It has since performed credit and collection services on behalf of VWFSJ.

Credit management: Cedyne performs credit screening by scoring for VWFSJ, which is generally in line with the process applied to its own receivables.

Collection service: Installment payments from obligors are at the debit of their bank deposit accounts, on the 26th of each month. If Cedyne makes any payment in subrogation, Cedyne would collect such payment as its own receivable.

【JACCS CO., LTD.】

JACCS, an equity-method affiliate of The Bank of Tokyo-Mitsubishi UFJ, Ltd., is a major consumer credit company. JACCS engages in the installment sales credit business for the Mitsubishi UFJ Financial Group, and hence the company can be considered to have a certain degree of strategic importance. JACCS's appetite for risk is relatively low and the company maintains a conservative credit business profile.

The company's business is divided into Credit (general monthly installment sales and auto loans), Credit Card, and Finance (mortgage loan guarantee, personal bank loan guarantee, and collection agency service). Among the Japanese firms, JACCS has a top-tier operating base in the area of installment sales and personal loan guarantees. JACCS's relationship with VWFSJ dates back to 2007, and JACCS has since performed credit screening and collection services on behalf of VWFSJ.

Credit management: The credit criteria adopted for VWFSJ's auto loans are generally in line with those for JACCS' own auto loans. Credit screening is conducted automatically by system, and additional screening is conducted as needed.

Collection services: Obligors make installment payments thorough direct debit on the 27th of each month. If JACCS makes any payment in subrogation, JACCS would collect on such receivable as its own receivable.

IV RATIONALE FOR RATING

In rating this transaction, R&I sought to understand the actual profile of the transaction, by identifying and analyzing the risk factors associated with the structure and the underlying assets. R&I has conducted a comprehensive evaluation, by applying the results of the risk factor analysis in the cash flow analysis, and then by taking other risk factors into consideration.

1. Risk Associated with Structure

(1) Structure of Asset Transfer

(a) Conflict of Interest between Originator and Investors:

Appropriate selection criteria and other transfer-related procedures in line with the characteristics of the underlying assets are clearly prescribed. Moreover, VWFSJ continues to hold the Subordinated Beneficial Interest, and hence, VWFSJ bears losses on securitization products ahead of the investors. Such measures are in place to prevent VWFSJ from inflicting a credit loss on investors for the purpose of maximizing its own profits. As such, conflict of interest is not an issue in rating the transaction.

(b) True Sale Risk of Trust 1:

The entrustment of the auto loan receivables to Trust 1 is perfected against third parties by the ABL 1 Drawdown Date, or within five business days from the Additional Entrustment Date, pursuant to the Act on Special Exceptions to the Civil Code with Respect to Perfection Requirements for Assignment of Movables and Claims. Perfection against obligors is initially withheld; however, the Trust Agreement provides for prompt procedures to perfect the transfer against obligors when certain events occur.

R&I has confirmed that necessary measures have been taken to assure the true sale of Trust 1, from the perspectives of “intentions of parties involved”, “validity of asset assignment (fulfillment of perfection requirements)”, “transfer of legal control authority”, and “transfer of economic risks”. The assignment of the receivables can be considered a true sale.

(c) True Sale Risk of Trust 2:

The entrustment of ABL 1 to Trust 2 is perfected against obligors and third parties on the Commencement Date of Trust 2, by way of a notice pursuant to Article 467 of the Civil Code and Article 24 of the Money Lending Business Act.

R&I has confirmed that necessary measures have been taken to assure the true sale of ABL 1 to Trust 2, from the perspectives of “intentions of parties involved” “validity of asset assignment (fulfillment of perfection requirement)”, “transfer of legal control authority”, and “transfer of economic risks”. The assignment of ABL 1 can be considered a true sale.

(2) Structure of Asset Holding (SPV)

R&I has evaluated the bankruptcy remoteness of the SPV from the perspectives of “business risk,” “capital relationship,” “personal relationship” and “ring-fence”. This transaction adopts a two-tiered SPV structure, consisting of Trust 1 and Trust 2. The Trust Agreement provides for necessary measures to fulfill the aforementioned conditions, pursuant to the Trust Act. Hence, bankruptcy remoteness is not an issue in rating the transaction.

(3) Structure of Asset Administration

(a) Servicer and Sub-Servicer Bankruptcy Risk (Commingling Risk):

In this transaction, VWFSJ as Servicer makes advance payments to Trust 1 four business days prior to the Trust 2 Payment Date (Advance Payment Date), of an amount that is equivalent to the scheduled collection amount for the particular month.

The Trust Agreement stipulates that, if the Servicer falls into bankruptcy before the funds collected are received from the Sub-Servicer, the Sub-Servicer, to which the Servicer consigns the collection services, will transfer the funds collected directly to Trust 1, in accordance with instructions from Trustee 1; hence, there will be no issue in this case. If the Servicer falls into bankruptcy after the funds collected are received from the Sub-Servicer, there will be no issue in this case either, as funds are paid in advance to Trust 1 on the Advance Payment Date.

If the Servicer exists but the Sub-Servicer to which the Servicer consigns the collection services falls into bankruptcy prior to the delivery date of the funds collected, VWFSJ will extend payments on the funds collected under its own responsibility as Servicer. Such liabilities are delinked from VWFSJ's creditworthiness by the way of advance payment and overcollateralization.

(b) Servicer Bankruptcy Risk (Liquidity Risk):

Trust 1 secures necessary cash reserves.

(c) Risk of Bankruptcy of the Financial Institution Where Deposits Are Made :

Bankruptcy risk of the financial institution where deposits are made on funds collected for Trust 1 and Trust 2 is mitigated by stipulating in the Trust Agreement that the financial institution where deposits are made will be replaced based on a rating trigger. R&I has confirmed 1) that the rating trigger is set at a sufficient level in consideration of the target rating, 2) that procedures are in place to replace the financial institution where deposits are made when the rating trigger is breached, and 3) that the Issuer Ratings of the financial institutions with which funds are initially placed are at adequate levels.

(d) Risk of Value Diminution of Surplus Fund Investments:

The value diminution risk of surplus fund investments is addressed by limiting investments to deposits placed with the eligible financial institutions as defined in the Trust Agreement. A rating trigger is provided for eligible financial institutions. R&I has confirmed that 1) the rating trigger level is set at a sufficient level in consideration of the target rating, 2) that procedures are in place to replace the financial institution where deposits are made when the rating trigger is breached, and 3) that the Issuer Ratings of the financial institutions with which funds are initially placed are at adequate levels.

(e) Risk Associated with Business Characteristics of Important Parties Involved in the Structure:

VWFSJ as Servicer outsources collection services to the Sub-Servicers. Cedyna and JACCS as Sub-Servicers, specialize in credit and collection services for installment sales receivables, and have an ample track record as servicers in securitization transactions. The Trust Agreement for Trust 1 stipulates the procedures whereby, in the event of a sub-servicer bankruptcy, VWFSJ as Servicer and the trustee of Trust 1 jointly and promptly appoint a substitute sub-servicer.

(4) Structure of Waterfall

(a) Risk Associated with Waterfall:

Please refer to “IV RATIONALE FOR RATING 3.Cash Flow Risk Analysis (3)Cash Flow Test (a)Replacement of Receivables during the Revolving Period” for details on the risk pertaining to the dynamic nature of the securitization pool due to the Revolving Period.

2. Risk Associated with Underlying Assets

(1) Credit Risk Factors Associated with Underlying Assets

(a) Obligor Default Risk:

Necessary credit enhancement is provided by way of overcollateralization.

(b) Prepayment Risk:

The risk that future interest will be diluted due to prepayments is limited, given that a pass-through redemption method is adopted.

(c) Dilution Risk Resulting from Cancellation:

Generally, cancellations on auto loan receivables tend to occur in the three months after origination. Dilution risk resulting from cancellation is limited by the eligibility criteria, which requires a payment record of at least two times.

(d) Dilution Risk Resulting from Failure to Fulfill Duties :

In the event of bankruptcy of VWFSJ or the dealer providing the purchase guarantee, obligors may suspend payments on the grounds that the option for the final payment cannot be exercised.

Of the seven loan types, the balloon portions of Solutions, S Loan and S Loan Plus loans are subject to payment suspension risk. There is no payment suspension risk for the monthly installment portions, because no counter-performance is involved.

There are three options to the final repayment of balloon payment auto loans: “lump-sum repayment”, “vehicle return”, and “refinancing”. Of these options, only the refinance option has intrinsic payment suspension risk.

“Lump-sum repayment” does not pose any risk, as there would be no counter-performance from VWFSJ or the purchase guarantor.

“Vehicle return” and loans with purchase guarantees involve counter-performance, but the possibility of payment suspension will be low if the vehicle can be sold at a price equal to or higher than the guarantee amount. R&I considers the residual value ratio used to determine the purchase guarantee amount to be reasonable, on the basis of the policy adopted in determining the ratios, verification of the ratios, track record of purchase guarantee usage, as well as price information on used vehicles (refer to “III ABOUT INSTRUMENT 4. Overview of Underlying Assets Method of Final Repayment of Balloon Payment Auto Loans, Balloon Payment Auto Loans with Purchase Guarantee”). Bankruptcy of the dealer providing the purchase guarantee is also not of concern, if there is high probability that VWFSJ or another dealer will act in place of the initial guarantor. The Trust Agreement stipulates that, in the case that it becomes difficult to find a replacement guarantor, the vehicle can be sold by auction through Sub-Servicers Cedyne or JACCS, or through Trustee 1.

“Refinancing” involves counter-performance by VWFSJ, and hence, there is a partial risk of payment suspension in the event of VWFSJ’s bankruptcy. However, such risk is limited to loans for which the final payment method has been determined at the time of VWFSJ’s bankruptcy. The final payment method is determined three months prior to the final payment date, at earliest. Therefore, the amount subject to payment suspension risk would be limited to the portion equal to three months of payments on the balloon portion of the loans, for which the refinancing option is selected.

With respect to dilution risk resulting from failure to fulfill duties, the adequacy of credit enhancement levels is confirmed in consideration of various factors, including the substitutability of services.

3. Cash Flow Risk Analysis

【Application of Large Pool Approach】

The transaction is backed by a diverse pool of auto loan receivables (securitization pool) to a large number of small obligors. Therefore, the large pool approach is adopted for the purpose of the cash flow analysis.

【Characteristics of Receivables Pool】

In estimating the performance of the securitization pool, analysis was performed on the basis of VWFSJ's reference pool (or mother pool). The characteristics of the loan pool were confirmed, as detailed below, in making necessary adjustments when deriving parameters from the reference pool.

[Historical Data Collected]

- Cedyne-guaranteed loans: from July 2002 to October 2017
- JACCS-guaranteed loans: from January 2007 to October 2017

Note) The above are the longest data sets of the historical data by loan type.

The reference pool includes the seven types of loans that comprise the underlying assets of the transaction. The unsecuritized auto loan pool and the reference pool differ somewhat in terms of outstanding balance, remaining number of payments, and seasoning. However, data correction was considered unnecessary in deriving parameters from the reference pool, given the existence of the Revolving Period, and because the aforementioned attributes are considered unlikely to have a material impact on performance.

Data by guarantor reveals that the unsecuritized auto loan pool and the securitization pool (Cut-off Date: February 10, 2018) are the same in terms of loan agreement type as well as the credit screening and collection processes. As such, no major difference is recognized in terms of attribute distribution.

Of the attributes of Cedyne-guaranteed and JACCS-guaranteed loan pools, no major difference is observed aside from geographical distribution. Tokyo, Kanagawa and Aichi Prefectures account for more than half of the Cedyne-guaranteed pool, while Osaka and Fukuoka Prefectures represent slightly more than 25% of the JACCS-guaranteed pool. This is due to the fact that VWFSJ had previously outsourced services by dealer and by region. The securitization pool is well diversified across the country, given that it is a combination of Cedyne-guaranteed and JACCS-guaranteed loans.

Comparison between unsecured auto loan pool and securitization pool (Table 5)

	Unsecured Auto Loan Pool (As of end-Oct. 2017)	Securitization Pool (As of Feb. 10, 2018)
Number of Loans	49,662	25,466
Principal Balance(※)	¥121,269,300,044	¥58,823,742,157
Monthly Installment Portion	¥75,255,960,044	¥36,350,565,655
Balloon Portion	¥46,013,340,000	¥22,473,176,502
Average Outstanding Principal Balance	Approx. ¥2.44 million	Approx. ¥2.31 million

Breakdown of securitization pool (Table 6)

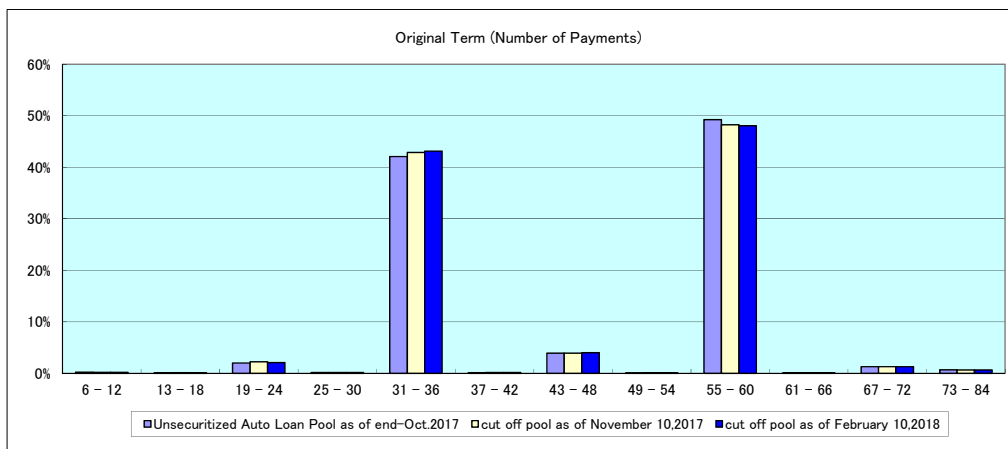
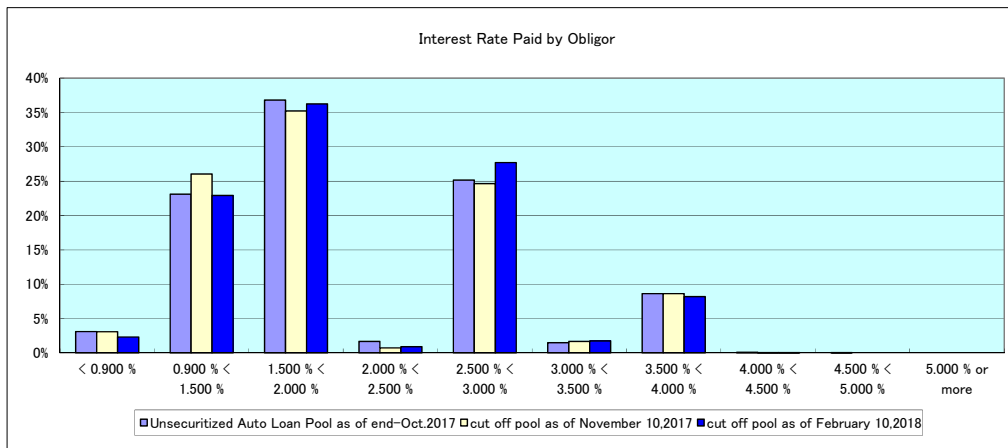
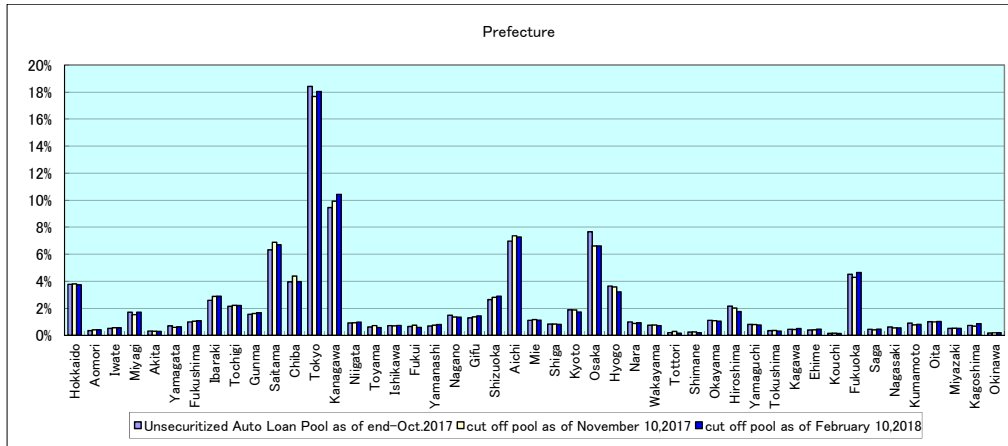
	Securitization Pool (Guaranteed by Cedyna)	Securitization Pool (Guaranteed by JACGS)
Number of Loans	14,660	10,806
Principal Balance(※)	¥34,560,148,589	¥24,263,593,568
Monthly Installment Portion	¥21,073,041,104	¥15,277,524,551
Balloon Portion	¥13,487,107,485	¥8,986,069,017
Average Outstanding Principal Balance	Approx. ¥2.36 million	Approx. ¥2.25 million

※Principal Balance for securitization pool is Discounted Principal Balance.

※Unsecured Auto Loan Pool includes Ducati Brand receivables (approximately 1.6%) which are not included in Securitization Pool.

【Major Attribute Distributions】

- The attribute distributions of the pools of receivables randomly extracted from the unsecuritized auto loan pool as of November 10, 2017 and as of February 10, 2018 are shown below. No major difference is recognized between the attribute distributions of the two pools because receivables are randomly extracted from a pool with a large number of small-lot receivables.



(1) Establishment of Standard Scenario

【Default Rate】

- The receivables transferred are guaranteed by either Cedyna or JACCS. Therefore, if an obligor fails to make a payment, either Cedyna or JACCS will make payments in subrogation. However, recovery by means of payment in subrogation is not considered for the purpose of this analysis.
- Cedyna-guaranteed loans account for approximately 60% of the entire securitization pool. If the loans guaranteed by Cedyna and JACCS are combined, and if the amount of newly originated loans in one month is considered to be 1, then the amount of newly originated loans guaranteed by Cedyna has been generally stable, also at around approximately 60%. As such, it seems that the composition of the securitization pool by guarantor after the one-year Revolving Period will not change significantly from the current status.
- The used vehicle ratio is considered to be an influential factor on performance. The used vehicle ratio has remained relatively stable, over the past several years, at around 20%, at both Cedyna and JACCS. R&I does not expect this to change significantly in the future.
- Given the above, the standard scenario for the securitization pool of each loan type following the Revolving Period is determined assuming a component ratio for Cedyna-guaranteed and JACCS-guaranteed loans conservatively.
- Note that R&I established the standard scenarios for six historical transactions (Driver Japan one, Driver Japan two, Driver Japan three, Driver Japan four, Driver Japan five, Driver Japan six) based on the same methodology. Monitoring data up to January 2018 reveals that actual default rates have remained below the levels expected under these scenarios.

■ Default Rate Applied (Table 7)

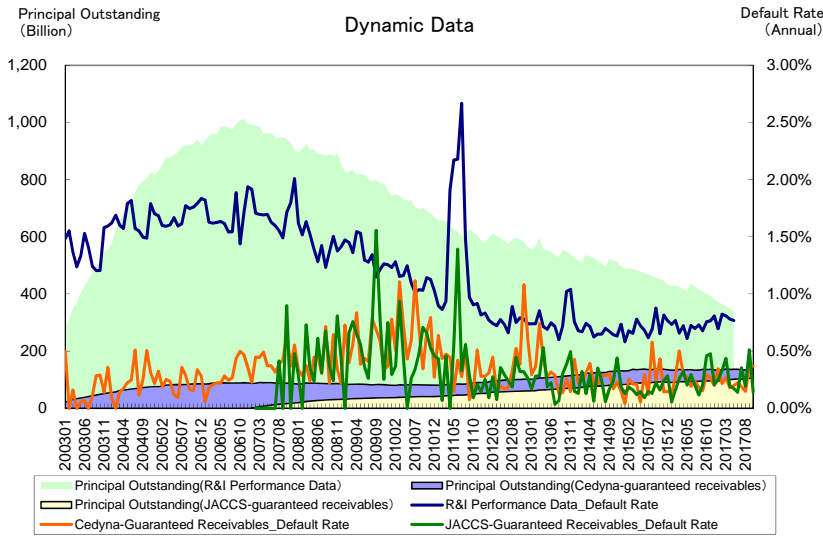
	Cedyna-Guaranteed Receivables	JACCS-Guaranteed Receivables	Applied Value
Owner's Plan	0.5%	0.5%	0.5%
Twin Loan	—	—	—
Refinance (Solutions)	0.3%	0.2%	0.3%
Refinance (S Loan etc.)	0.3%	0.2%	0.3%
Solutions	0.2%	0.2%	0.2%
S Loan	0.3%	0.3%	0.3%
S Loan Plus	0.2%	0.2%	0.2%

※Calculation: Lump-sum subrogation principal repayment / Outstanding as of end of previous month

(Comparison with Default Rate of Auto Loan Receivables Pools Monitored by R&I)

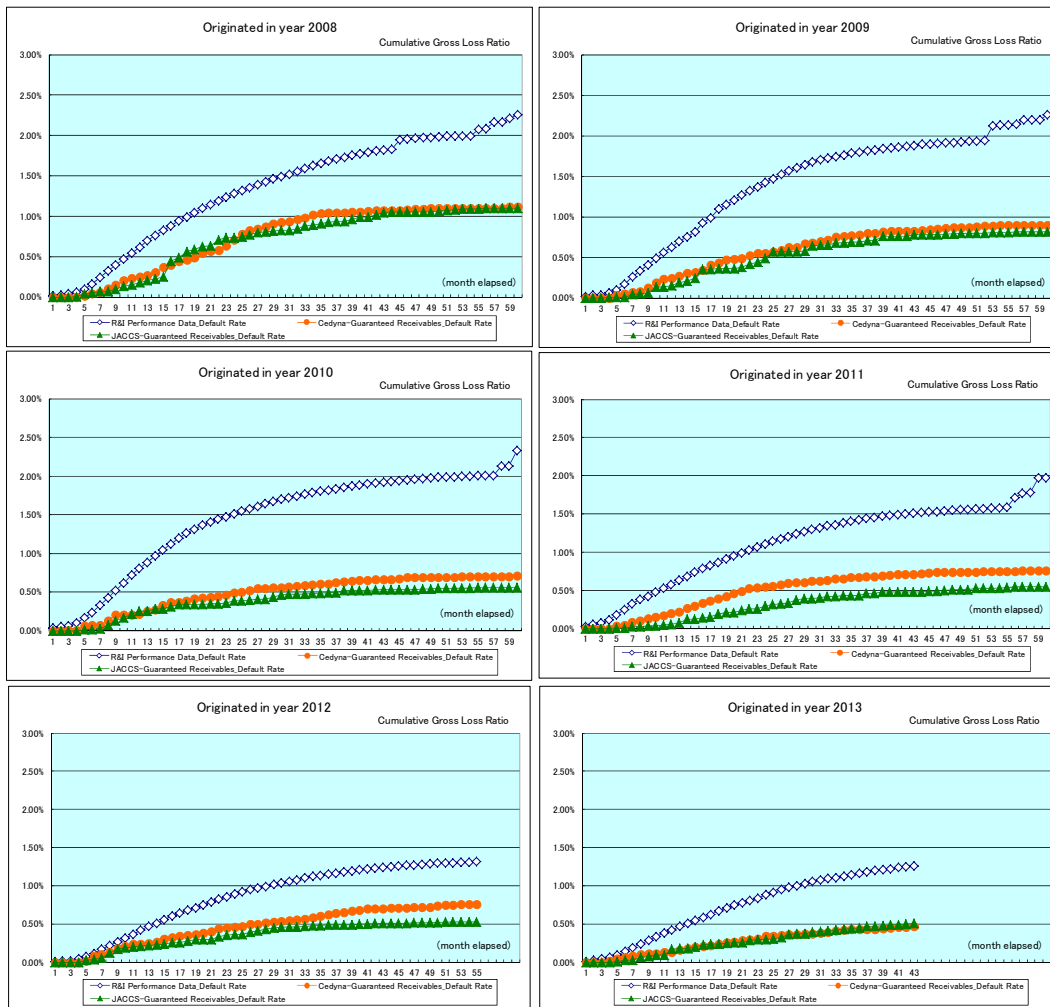
- For the purpose of assessing the performance of this transaction, R&I compiled performance data on securitization transactions (469 pools) backed by auto loan receivables, which are rated and monitored by R&I (“R&I Performance Data”), and compared this against VWFSJ’s historical data.
- An analysis of the dynamic data reveals that, although default rates rose slightly in the aftermaths of the Lehman Shock in 2008 and the Great East Japan Earthquake in March 2011, VWFSJ’s default rate has remained generally stable at a level lower than that of R&I Performance Data.
- An analysis of the static data on loans originated between 2008 and 2015 reveals that VWFSJ’s default rates on both Cedyna-guaranteed and JACCS-guaranteed loans have remained at levels lower than that of R&I Performance Data.
- Overall, both dynamic and static data indicate that VWFSJ’s auto loan receivables have performed better than the auto loan receivables rated and monitored by R&I.

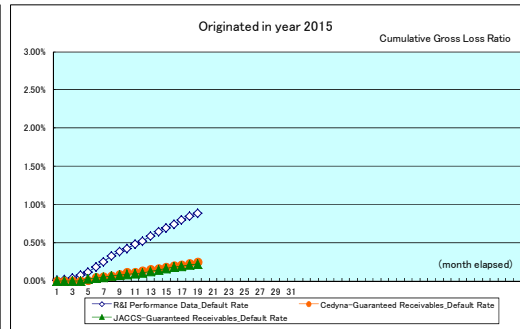
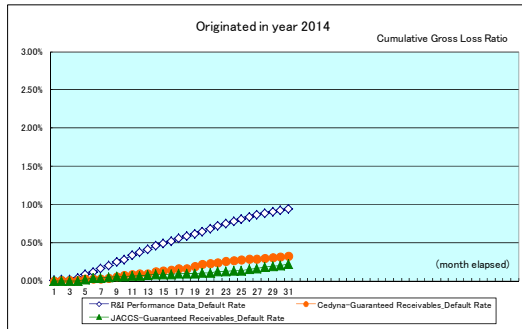
(Comparison of Dynamic Data)



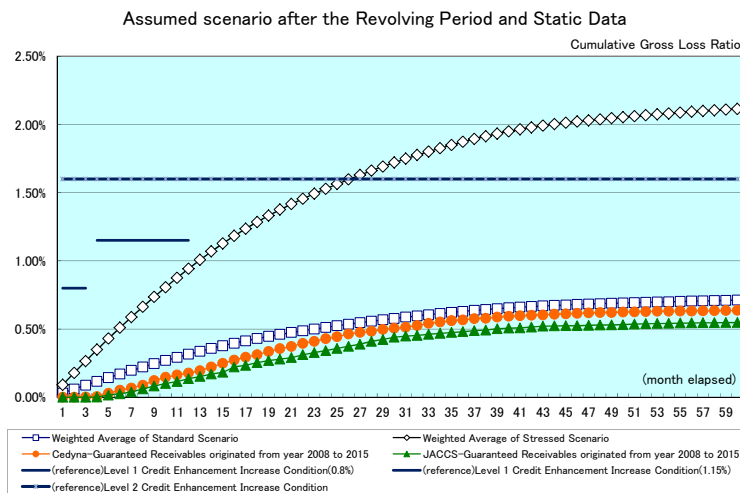
(Data Source)
R&I Performance Data: from January 2003 to June 2017, Cedyne-Guaranteed Receivables: from January 2003 to October 2017, JACCS-Guaranteed Receivables: from January 2007 to October 2017

(Comparison of Static Data)





[Note] "R&I Performance Data" is based on monitoring data compiled by R&I.
R&I Cumulative Default Rate is calculated as follows: [the total cumulative default amount at month N, for all outstanding asset pools as of month N] / [the total of the initial amount of receivables, for all outstanding asset pools as of month N]



- The standard and stress scenarios adopted by R&I in the cash flow analysis are shown above. In the standard scenario, a weighted average value is applied, taking into consideration the composition of the pool by loan type and the average remaining term for each loan type.
- It can be observed that the standard scenario applied is comparable to the historical default track record (static data) of both Cedyna-guaranteed and JACCS-guaranteed loans originated between 2008 and 2015. If the cumulative default rate exceeds 1.6%, the Level 2 Credit Enhancement Increase Condition will be breached, and an early redemption event will be triggered. (Please refer to "III ABOUT INSTRUMENT 3.Flow of Scheme Characteristics of Trust 1 Waterfall" for details on Credit Enhancement Increase Conditions.)

【Prepayment Rate】

- The prepayment rate applied for each loan type is as provided below.
- As in the case of default rate, the standard prepayment scenario for each loan type is determined assuming a component ratio for Cedyne-guaranteed and JACCS-guaranteed loans conservatively.

■ Prepayment Rate Applied (Table 8)

			(Annual :%)
	Cedyne-Guaranteed Receivables	JACCS-Guaranteed Receivables	Applied Value
Owner's Plan	14.1%	12.7%	13.6%
Twin Loan	—	—	—
Refinance (Solutions)	14.3%	12.1%	9.5%
Refinance (S Loan etc.)	23.5%	21.3%	15.7%
Solutions	12.6%	9.4%	11.5%
S Loan	15.8%	14.5%	15.4%
S Loan Plus	19.7%	15.6%	18.3%

※Calculation: Lump-sum subrogation principal repayment / Outstanding as of end of previous month

(2) Establishment of Stress Multiple Scenario

【Stressed Scenario for Default Rate】

The securitization pool of this transaction is extremely well diversified, with 25,466 loans and an average outstanding discounted principal balance per loan of roughly ¥2.31 million. The largest outstanding discounted principal balance of a single obligor is ¥15.01 million, which represents a mere 0.026% of the securitization pool; i.e., there is a low degree of obligor concentration. Geographic distribution is spread across the country, suggesting a low degree of geographical concentration. Note that loan data is aggregated by obligor name at the sub-servicer level.

Under R&I's rating approach, if the target rating for a securitization transaction backed by personal receivables (such as auto loans) is AAA, a multiplier of 3 is usually applied. For the purpose of this transaction, R&I has decided not to apply additional stresses, in light of the fact that adjustments on reference pool and securitization pool data were considered unnecessary, and also because there is no excessive concentration observed in pool attributes.

Rating Methodology of R&I

Targeted Rating	Personal receivables
AAA	3
AA	2.5
A	2
BBB	1.75

【Stressed Scenario for Prepayment Rate】

R&I adopted a stringent scenario, by raising the prepayment rate from 0% to a maximum stress value (standard scenario times 1.5).

(3) Cash Flow Test

(a) Replacement of Receivables during the Revolving Period

【Restriction on Attributes of Receivables Pool】

- The transaction establishes a Revolving Period of one year from the Trust Commencement Date.
- Given that the receivables in the pool are replaced during the Revolving Period, the attributes of underlying securitization pool may change. Such risk is controlled by establishing certain restrictions regarding changes in pool attributes.

■ Restrictions on Pool Concentration During the Revolving Period (Table9)

Attribute	Permissible concentration
Brands other than Volkswagen, Audi, Bentley, and Lamborghini	5% or lower
Used vehicles	35% or lower
Balloon payment portion	50% or lower

【Assumed Composition of Securitization Pool following the Revolving Period】

- As of October 2017, the composition by loan type, as a percentage of total newly-generated loans (by value), was as follows: Owner's Plan 7.4%, Solutions 35.9%, S Loan 49.9%. These three loan types combined accounted for 93.2% of the total. The three types of auto loan agreements represent the majority of the securitization pool, as was the case with previous transactions. However, the pool has a larger proportion of Solutions and S Loan, which are residual value auto loans. Given that the necessary credit enhancement will depend on the type of receivables that are replaced during the revolving period, R&I conducted the following scenario analysis:

Case	Large composition of Owner's Plan loans	Large composition of residual value auto loans
Impact on credit enhancement	The higher of the percentage of auto loans with long remaining terms, the greater the expected cumulative default amount. As the residual value portion of the overall pool decreases, the risk associated with the right of defense for payment suspension is reduced.	The remaining term becomes relatively shorter, and the expected cumulative default rate decreases. As the residual value portion increases, the risk associated with the right of defense for payment suspension is elevated.
Scenario analysis	All additional receivables entrusted are Owner's Plan loans that are paid in 84 installments.	All additional receivables entrusted are residual value auto loans. Given that the remaining term and the residual value amount will depend on the term of the loans added, R&I assumed the following three scenarios:

		a) all loans added are 3-year loans, b) all loans added are 5-year loans, and c) 3-year and 5-year loans are added in a ratio of 1 to 1 (in reference to the composition of the initial pool by payment schedule).
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- Conservatively, based on analysis of the above four scenarios, the most stressful was the scenario which assumes that all additional receivables entrusted are Owner's Plan loans. The table below illustrates the distribution of the securitization pool following the revolving period under this scenario.

Loan agreement (Name)	Initial Percentage (Discounted)	Assumed breakdown of receivables after the Revolving Period	Average remaining term after the Revolving Period
Owner's Plan	7.3%	Approx. 28%	Less than 3 years
Twin Loan	—	—	—
Refinance (Solutions)	1.3%	Less than 1%	Less than 1 year
Refinance (S Loan etc.)	2.0%	Approx. 1%	Less than 1 year
Solutions	40.2%	Approx. 70%	Approx. 1.5 years
S Loan	46.5%		
S Loan Plus	2.8%		

- R&I has also confirmed the subordination ratio is adequate even when all of the loans added to the trust during the Revolving Period are balloon payment auto loans.

(b) Obligor Default Risk

In the cash flow analysis, R&I has confirmed that the principal of the rated instrument would be repaid in full, and that the interest would be paid on a timely basis, even if obligor defaults are stressed in accordance with the target ratings level.

(c) Commingling Risk

R&I takes advance payments into consideration for the purpose of the cash flow analysis, and has confirmed that the principal of the rated instrument would be repaid in full, and that the interest would be paid on a timely basis, even in the event of a Servicer or Sub-Servicer bankruptcy.

(d) Payment Suspension Risk

In the cash flow analysis, R&I has confirmed that the principal of the instrument would be repaid in full, and that the interest would be paid on a timely basis, even if a certain percentage of obligors whose final payment method has been determined at the time of VWFSJ's bankruptcy declare suspension of payment.

(4) Results

In the cash flow test, R&I conducted simulations based on a mixed scenario. Based on the results of a worst-case scenario (based on the timing of Servicer or Sub-Servicer bankruptcy), R&I has confirmed that ABL 1 principal would be repaid in full by the Trust 1 termination date, and that interest would be paid on a timely basis. In other words, given that the Trust Beneficial Interest and ABL in Trust 2 is backed by principal and interest payments on ABL 1, R&I has confirmed that the principal of Trust Beneficial Interest and ABL in Trust 2 would be paid in full by the Trust 2 termination date and that interest would be paid on a timely basis.

4. Comprehensive Evaluation

Based on results of the cash flow risk analysis and the credit risk factor analysis, R&I has assigned a Long-term Issue Rating of AAA to Trust Beneficial Interest and ABL in Trust 2.

V INFORMATION CONCERNING LOSSES, CASH FLOW AND SENSITIVITY ANALYSIS

Credit enhancement	Overcollateralization, Advance Payment
Liquidity enhancement	Cash Reserve

Based on the Originator's historical performance data and the numerical values generated from transaction cash flows, R&I assumes a cumulative default rate of approximately 0.7% as the standard default scenario. Note that the cumulative default rate is estimated based on the definitions of default, etc, for the specific transaction. Hence, it would not necessarily be appropriate to make, and it is not intended for, direct comparisons on default rates, delinquency rates or other indicators.

Under the rating methodologies listed next page, the default rate stress scenario applied to the assets of a transaction with a target R&I Rating of AAA, is normally a level that is 3 times greater than the standard scenario. The rated portion of this transaction can withstand a default rate of more than 6 times that of the standard scenario assumed by R&I.

VI RATING METHODOLOGY

The primary rating methodologies applied to those ratings are:

Announced in	TITLE
November 2016	Chapter 1: General
November 2016	Chapter 2: Particulars: Risks regarding structure
November 2016	Chapter 3: Particulars: Risks regarding underlying assets Subchapter 1: Installment receivables (excluding revolving payment receivables)
November 2016	Chapter 4: Particulars: Cash flow risk Subchapter 1: Analysis method for monetary receivables, etc. (Large pool approach) Subchapter 6: Analysis method using cash flow test

The above rating methodologies are available at R&I's website:

https://www.r-i.co.jp/en/rating/about/rating_method.html

https://www.r-i.co.jp/rating/about/rating_method.html

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