DRIVER TURKEY MASTER S.A.
New-Issue Report – the first Turkish Auto ABS Transaction by Volkswagen Doğuş Finansman A.Ş. (VDF)

Capital structure

Exhibit 1
Definitive ratings

<table>
<thead>
<tr>
<th>Series</th>
<th>Rating</th>
<th>Amount (million)</th>
<th>% of Assets</th>
<th>Legal Final Maturity</th>
<th>Coupon</th>
<th>Subordination(*)</th>
<th>Reserve Fund(**)</th>
<th>Total Credit Enhancement(***).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 2018-1 Class A</td>
<td>Baa1(sf)</td>
<td>TRY 566.50</td>
<td></td>
<td>Mar 2026</td>
<td>15.29%</td>
<td>25.0%</td>
<td>2.1%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Series 2018-2 Class A</td>
<td>Baa1(sf)</td>
<td>TRY 250.00</td>
<td></td>
<td>Mar 2026</td>
<td>15.29%</td>
<td>25.0%</td>
<td>2.1%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Total Class A</td>
<td></td>
<td>TRY 816.50</td>
<td>75.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-Notes</td>
<td>NR</td>
<td>TRY 239.51</td>
<td>22.0</td>
<td></td>
<td></td>
<td>3.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Liability</td>
<td></td>
<td>TRY 1,056.01</td>
<td>97.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over-collateralisation</td>
<td></td>
<td>TRY 32.66</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Portfolio</td>
<td></td>
<td>TRY 1,088.87</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ratings address the expected loss posed to investors by the legal final maturity. In our opinion the structure allows for timely payment of interest and ultimate payment of principal at par or before the rated final legal maturity date. Our ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Where applicable, percentages in this report are based on outstanding discounted receivables balance. The discount rate of 21.794% is based on the indicated senior fees and expenses plus weighted average interest rate on the notes and buffer adjustment rate.

* At close.
** As of initial outstanding discounted portfolio balance.
*** No benefit attributed to excess spread.

Summary

Driver Turkey Master is the first cash securitisation of auto loans extended to obligors in Turkey by Volkswagen Doğuş Finansman A.Ş. (VDF) (not rated), owned by Volkswagen Financial Services AG ("VWFS", A3 / P-2 / Negative Outlook) and Doğuş Holding A.S. (Dagus) (Batl). The servicer is VDF.

Our analysis focused, among other factors, on (i) an evaluation of the underlying portfolio of financing agreements considering possible portfolio evolution during the revolving period; (ii) the macroeconomic environment; (iii) historical performance information; (iv) the credit enhancement provided by subordination, overcollateralisation and the cash reserve fund; (v) the liquidity support available in the transaction, by way of principal to pay interest, and cash reserve fund; and (vi) the legal and structural integrity of the transaction.

Our cumulative defaults expectation for the asset pool is 6.0%, and portfolio credit enhancement (PCE) is 18.0%.

The Baa1(sf) rating assigned to the class A notes is constrained by the Baa1 local-currency country (LCC) ceiling of Turkey. The LCC ceiling captures the systemic risks associated with Turkish political, institutional, legal and economic factors.
At the time the rating was assigned, the model output indicated that Class A would have achieved a Baa2 (sf) rating, if the mean default was as high as 8.0% with Portfolio Credit Enhancement (PCE) at 25.0% (all other factors being constant).

**Credit strengths**

- **Favorable pool characteristics:** (1) The pool is highly granular, with total exposure to top 20 obligors constituting only 3.35% of the securitized pool; (2) the weighted-average down payment rate of the pool is high at about 40.81%; and (3) the weighted-average remaining term of the pool is about 26.2 months with the weighted average seasoning of 11.5 months. Typically, borrowers have less incentive to default on these loans because they have built up significant equity shares (via down payments) in the vehicles that secure the auto loans. (See “Asset description - Pool characteristics”, “Asset description - Eligibility criteria” and “Asset analysis – Primary asset analysis”)

- **Strong credit enhancement:** The transaction benefits from several sources of credit enhancement provided through (1) subordination of the notes; (2) initial over-collateralisation (OC); (3) the increased target OC if the cumulative gross-loss triggers are breached; and (4) the pre-funded reserve deposited in the cash reserve account, which the issuer can draw on during a disruption period. (See “Detailed description of the structure”)

- **Originator experience:** VDF is 51% owned by Volkswagen Financial Services AG (VWFS), the largest auto finance service provider in Europe. The company is a joint-venture of VWFS and Doğuş Holding A.Ş. (Ba1). This is the first transaction sponsored by VDF. (See “Asset description – Originator” and “Asset analysis – Originator quality”)

**Credit challenges**

- **Historical performance data does not cover an economically stressed period:** Historical performance data is relatively short compared with that of the mature ABS markets. The data provided covers a period that coincides with economic growth in Turkey. Accordingly, we have increased our mean default rate and the coefficient of variation (COV) over those calculated with the historical pool performance data in our base case analysis to reflect the prospects of a slowdown in economic growth in Turkey. (See “Asset description- Historical performance data” and “Asset analysis - Primary asset analysis”)

- **Revolving master structure:** The transaction will be used to securitize loans on an ongoing basis with the flexibility to 1) increase the outstanding notes’ balances of existing series to the maximum issuance amounts (“Tap Issuance”) and 2) issue additional series of notes (to prolong the lengths of the revolving period). As this flexibility can change the structure materially a number of structural features are in place to mitigate the risks. (For more details on the analysis please see “Securitisation structure description”)

- **Commingling risks:** When paying the monthly installments, the borrowers can choose between the following options: (i) standing orders, (ii) cash transfer using internet banking, (iii) cash transfer by visit a bank branch, or (iv) cash transfer using an ATM (automated teller machine). The servicer will commingle such collections with its own funds. This amount will be subject to commingling risks until the servicer transfers such collections for each monthly collection period to the issuer’s account on each payment date, which is the 25th day of each month. (See “Securitisation structure analysis - Cash commingling”)

- **Limited liquidity buffer:** The deal has a cash reserve account, fully funded at closing with an amount equal to around 2.1% of the initial discounted pool balance. Such initial account balance can cover around two months of senior fees and rated notes’ interest, calculated on the basis of the original notes’ amount. (See “Securitisation structure description - Cash reserve account”)

- **Absence of a backup servicing arrangement:** There is no backup servicing arrangement at closing. The servicing of the transaction may be subject to disruption if the originator/servicer fails to perform when needed. The originator benefits from the experience of VWFS, which has sponsored numerous securitisations in the past 20 years across regions worldwide. (See “Asset description – Servicer” and “Asset analysis – Servicer quality”)

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Key characteristics

Exhibit 2

Asset characteristics

Issuer: DRIVER TURKEY MASTER S.A.

Seller/Originator: Volkswagen Doğuş Finansman A.Ş. (VDF) (not rated)

Servicer(s): VDF

Receivables: Auto loans granted to retail, SME and corporate customers resident in Turkey to finance the purchase of new and used vehicles

Total Amount: TRY 1,088,666,950.39 (approx. EUR 240 mln)

Length of Revolving Period in years: 1 year

Number of Contracts: 33,661

Number of Borrowers: 31,862

New Vehicle (as % of total pool): 94.2%

Used Vehicle (as % of total pool): 5.8%

Demo Vehicle (as % of total pool): 0.0%

Type of Obligors (as % of total pool): Retail: 70.75%; SME: 25.97%; Corporate: 3.28%

WA Remaining Term in years: 2.19

WA Seasoning in months: 11.48

WAL of Portfolio in Years (excl. prepayments): 1.2

WA Portfolio Interest Rate: 14.95%

Delinquency Status: All loan receivables are current as of cut-off date (delinquencies up to 6 days are allowed)

Loss Rate Observed Whole book cumulative average vintage default value between 2010-Q1 and 2017-Q3: 4.5%

Recovery Rate Observed: Not explicitly provided (net loss and gross loss data was provided allowing to approximate the recovery rate at more than 89% level)

Delinquencies: Whole book average delinquency ratio between 2009-Q2 and 2017-Q3: 1.3% (61-90 days)

Cumulative Loss rate (modelled): 6.0% in line with Peer Group in the EMEA Auto ABS market

Recovery rate (modelled): 45.0%

Portfolio Credit Enhancement (PCE) (calibrated to Baa1): 18.0% in line with Peer Group in the EMEA Auto ABS market (equals a coefficient of variation of 91.6%)

Sources: Moody’s Investors Service, VDF

The exhibit below shows the counterparties associated with the transaction. N/A stands for those counterparties that do not apply to the transaction.
### Securitisation structure characteristics

<table>
<thead>
<tr>
<th>Transaction Parties</th>
<th>At Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer:</td>
<td>Driver Turkey Master S.A.</td>
</tr>
<tr>
<td>Back-up Servicer(s):</td>
<td>None</td>
</tr>
<tr>
<td>Back-up Servicer Facilitator(s):</td>
<td>Doğuş Holding A.S. (Bet)</td>
</tr>
<tr>
<td>Back-up Cash Manager:</td>
<td>None</td>
</tr>
<tr>
<td>Calculation Agent/Computational Agent:</td>
<td>The Bank of New York Mellon, London Branch</td>
</tr>
<tr>
<td>Back-up Calculation/Computational Agent:</td>
<td>None</td>
</tr>
<tr>
<td>Swap Counterparty:</td>
<td>None</td>
</tr>
<tr>
<td>Paying Agent:</td>
<td>The Bank of New York Mellon, London Branch</td>
</tr>
<tr>
<td>Note Trustee:</td>
<td>Circumference FS (Netherlands) B.V. (NR)</td>
</tr>
<tr>
<td>Issuer Administrator:</td>
<td>NA</td>
</tr>
<tr>
<td>Corporate Servicer Provider:</td>
<td>Circumference FS (Luxembourg) S.A. (NR)</td>
</tr>
<tr>
<td>Arranger:</td>
<td>SMBC Nikko Capital Markets Limited</td>
</tr>
<tr>
<td>Lead Manager(s):</td>
<td>SMBC Nikko Capital Markets Limited</td>
</tr>
<tr>
<td>Co-Managers:</td>
<td>None</td>
</tr>
</tbody>
</table>

#### Liabilities, Credit Enhancement and Liquidity

- **Annualized Excess Spread at Closing:** 0.00%
- **Credit Enhancement/Reserves:** Amortising reserve fund representing 2.75% of Class A Notes Initial over-collateralization Subordination of the notes
- **Form of Liquidity:** Cash Reserve, principal to pay interest mechanism
- **Number of Interest Payments Covered by Liquidity:** 2 months
- **Interest Payments:** Monthly in arrears on each payment date
- **Principal Payments:** Scheduled amortisation for Class A Notes
- **Payment Dates:** 25th calendar day of each month First payment date: 26.03.2018
- **Hedging Arrangements:** Not applicable

*Sources: Moody’s Investors Service, VDF*
**Asset description**
The portfolio consists of TRY-denominated fixed-interest-rate auto loans granted by VDF to mainly private individuals, SME and some corporates in Turkey. The portfolio mainly consists of fully amortizing loans, with maturities of mostly one to five years. We assessed the portfolio as of the pool cut-off date (31 January 2018).

**Assets at provisional pool cut**

**Pool characteristics**
The discounted portfolio balance is around TRY 1.1 billion, from a total number of 33,651 loans. The portfolio is collateralised by 94.2% new cars and 5.8% used cars, whereby the vast majority of vehicles relate to the VW brands.

The loan product “Classic credit” accounts for 100% of the securitized portfolio. This loan product are loans with equal monthly instalments during the life of the loan (there is also a small portion of loans with balloon instalments), with a 30% down-payment requirement for loan amounts up to TRY 100,000 and 50% for the amounts over TRY 100,000 (for employed individuals).

As it is common for Turkish auto loan contracts, the vehicle is registered in the name of the obligor, but has been assigned, for security purposes, to the originator (who in turn has assigned the security interest over the vehicle to the issuer for the purpose of this transaction). In Turkey, there is only one car document – the car license, which contains the car data (the car ID (VIN), production year, brand, motor capacity, etc.) and owner data (the name and address). In case of a sale, a sale agreement between the car owner and the purchaser must be signed. The car sale agreement can only be prepared by a notary and signed in notary’s office. Among others, the notary has an obligation to check whether any pledges are attached to the car. The car pledge (the so-called e-pledge) is registered in the countrywide police system, to which all notaries and police officers have access. Thus, it is legally not possible to sale a pledged car.

The exhibit below summarizes additional information of the portfolio.

Exhibit 4
Additional Information on Asset Characteristics

<table>
<thead>
<tr>
<th>Average Outstanding Loan Principal Discounted Balance</th>
<th>TRY 32,351.70 (approx. EUR 7.1 thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Dealers</td>
<td>NA</td>
</tr>
<tr>
<td>Geographic Concentration</td>
<td></td>
</tr>
<tr>
<td>Largest region</td>
<td>İstanbul (35.8%)</td>
</tr>
<tr>
<td>2nd largest region</td>
<td>Central Anatolia (13.3%)</td>
</tr>
<tr>
<td>3rd largest region</td>
<td>Mediterranean (12.7%)</td>
</tr>
<tr>
<td>Manufacturer Distribution</td>
<td></td>
</tr>
<tr>
<td>1st largest Manufacturer</td>
<td>VW (43.3%)</td>
</tr>
<tr>
<td>2nd largest Manufacturer</td>
<td>VW LCV (24.9%)</td>
</tr>
<tr>
<td>3rd largest Manufacturer</td>
<td>Audi (15.6%)</td>
</tr>
<tr>
<td>Obligor Concentration</td>
<td></td>
</tr>
<tr>
<td>Single obligor (group) concentration</td>
<td>0.18%</td>
</tr>
<tr>
<td>Top 5 obligor (group) concentration</td>
<td>0.90%</td>
</tr>
<tr>
<td>Top 10 obligor (group) concentration</td>
<td>1.80%</td>
</tr>
<tr>
<td>Top 20 obligor (group) concentration</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

Source: VDF

Exhibits 5-14 describe the pool characteristics of the portfolio.
Exhibit 5
Outstanding discounted loan balance
(TRY)

Exhibit 6
Remaining loan tenor
(Months)

Exhibit 7
Original loan tenor
(Months)

Exhibit 8
Effective interest rate

Exhibit 9
Vehicle brands

Source: VDF
Geographic distribution

Source: VDF

Seasoning (Months)

Source: VDF

Type of cars

Source: VDF

Customer type

Source: VDF

Type of loan

Source: VDF
Asset acquisition guidelines
Eligibility criteria
All loans in the portfolio must satisfy the following key eligibility criteria:

» VDF is the sole legal and beneficial owner of the loan portfolio.
» The loans are transferable and require the Borrowers to make monthly payments for a period not exceeding sixty (60) months from the date of origination.
» The loans are denominated and payable in TRY and the loan contracts are governed by the laws of Turkey.
» No loan is overdue by more than six days.
» No borrower maintains deposits on accounts with VDF and no Borrower is an employee of VDF.
» No loan contract has been terminated or is in the process of being terminated.
» At least two installments have been paid in respect of each of the loans in the portfolio.
» The aggregate discounted loans balance of loans resulting from loan contracts with one and the same borrower does not exceed TRY 2,000,000 in respect of any single borrower.
» The purchase of the loans will not result in the aggregate discounted loans balance of all purchased loans exceeding the following concentration limits with respect to the percentage of discounted loans balance generated under loan contracts for used vehicles: 20%, loan contracts for non-VW group brand vehicles: 10%, and loan contracts with balloon installments: 5%, or the weighted-average remaining life of the portfolio to exceed 15 months.

Originator
In August 2017, we met with VDF, which is a joint venture with 51% of shares held by VWFS (A3 senior unsecured rating, outlook negative), and 49% of shares held by Doğuş Holding A.S. (Ba1 long-term corporate family rating, outlook negative).

Headquartered in Istanbul, Turkey, Doğuş Holding A.S. is an investment holding company owned by the Sahenk family. It comprises more than 200 companies, which are active in eight sectors: financial services, automotive, construction, media, tourism & services, real estate, food & entertainment and energy. The company’s main activities are tied to the Turkish economy, but the company is aiming to create regional leaders in their respective industries. As of end 2016, Doğuş Holding reported consolidated assets of TRY 35.0 billion and revenue of TRY 17.6 billion.

The originator established its Turkish office in 1999, and started its retail loan business in 2000. This transaction is the first auto ABS transaction launched by VDF.

The origination process is highly automated. A scoring system is in place to assess the borrower’s credit risk, which considers amongst other things (i) external credit bureau information, (ii) internal payment behaviour if a repeat customer; (iii) the customer’s debt history; and (iv) fraud information.

Credit bureau: There is only one credit bureau in Turkey. The data is stored for maximum 36 months. Defaults and legal cases are stored for a longer period. The information is provided for all unsecured loans of one particular borrower (mortgages are excluded). Other data (e.g. unpaid phone bills) is not available, but it is currently discussed in the country to include other relevant financial data.

Around 10% of all loan applications/borrowers have no data in credit bureau. In this case the borrower need a guaranty from third persons (e.g. parents), who go through the same underwriting process. These loans can be approved in case there is a strong guarantor and/or high down-payment.

60–70% of all approved loan applications go without salary/income check, as presumably the salary information cannot be reliably confirmed by salary slips. This is mitigated by employment checks (although the originator does not call the employer). VDF verifies whether the stated salary (income) is plausible given the provided occupation, industry, position, etc. For corporates and SMEs there is a requirement to provide balance sheet and tax data for the current year plus for the previous three years.
Servicer
The originator, VDF, acts as the servicer with Dogus acting as replacement servicer facilitator. There is no backup servicing arrangement at closing. There are also no back-up servicer nomination triggers in the deal. (see “Additional asset analysis – Servicer quality”).

The exhibit below summarizes the main characteristics of the originator’s background.

Exhibit 15
Originator and Servicer background: VDF

<table>
<thead>
<tr>
<th>Date of Operations Review:</th>
<th>23-Aug-17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Originator Background</strong></td>
<td></td>
</tr>
<tr>
<td>Rating:</td>
<td>Not rated</td>
</tr>
<tr>
<td>Financial Institution Group Outlook for Sector:</td>
<td>Negative</td>
</tr>
<tr>
<td>Ownership Structure:</td>
<td>Joint venture with 51% of shares held by VWFŞ, and 49% of shares held by Doğuş Holding A.S.</td>
</tr>
<tr>
<td>Asset Size:</td>
<td>TRY 7,915 million (as per Aug-17)</td>
</tr>
<tr>
<td>% of Total Book Securitized (excl. this transaction):</td>
<td>Not available</td>
</tr>
<tr>
<td>Transaction as % of Total Book:</td>
<td>Not available</td>
</tr>
<tr>
<td>% of Transaction Retained:</td>
<td>22.00%</td>
</tr>
<tr>
<td><strong>Servicer Background</strong></td>
<td></td>
</tr>
<tr>
<td>Rating:</td>
<td>Not rated</td>
</tr>
<tr>
<td>Regulated by:</td>
<td>Banking and Regulation Supervision Agency (BRSA)</td>
</tr>
<tr>
<td>Total number of Receivables Serviced:</td>
<td>148,839 vehicles (as per Aug-17)</td>
</tr>
<tr>
<td>Number of Staff:</td>
<td>363 (as per Aug-17)</td>
</tr>
</tbody>
</table>

Source: VDF

Historical performance data
We have received static vintage data from Q1-2010 to Q3-2017 (see Exhibits 16 and 17), which includes information on performance for each quarter by the origination period. According to VDF, VDF occasionally sells portfolios of non-performing loans into the market to achieve derecognition. The amount that remains after the sale of the asset is recorded as a net loss in the data (VDF receives a small amount for each loan from the buyer (which is usually a specialised asset management company), this amount is deducted and the amount remaining is net loss). That means that the data for more recent quarters contains defaulted loans for which the collection process has not been completed. This increases the calculated net loss number.

The mean gross loss rate from the historical data is 4.53% and the mean net loss rate is 0.47%.

We have also received dynamic performance data from June 2009 to October 2017, which includes information on prepayment and delinquency amounts each month (see Exhibit 18). The provided historical data indicates that average dynamic annualized conditional prepayment rates are around 16% (see Exhibit 19).
Exhibit 16

Vintage historical performance data
Gross loss vintage curves - eligible Auto loan book (Q1-2010 - Q3-2017)

Source: VDF

Exhibit 17

Vintage historical performance data
Net loss vintage curves - eligible Auto loan book (Q1-2010 - Q3-2017)

Source: VDF

Exhibit 18

Dynamic delinquency rates (June 2009 - October 2017)

Source: VDF
Exhibit 19
Annualized prepayment rate
(January 2007 - May 2017)

Source: VDF

Revolving Pool and Replenishment Criteria

Driver Turkey is a revolving structure. The volumes of existing series can be also increased during the revolving period up to the respective maximum issuance amounts. Initially, there will be 12 substitutions of the assets after the closing date. However, the investors will also have an option to prolong the lengths of the revolving period.

The revolving period exposes note holders to credit risk.

In addition to the eligibility criteria, the following replenishment criteria are in place to mitigate the additional credit risk of the revolving portfolio:

» Share of used vehicles limit is 20%.
» Share of non-VW group branded vehicles limit is 10%.

The transaction also contemplates early amortisation events which occur, if:

» the amount deposited in the accumulation account (cf. item 6 in the waterfall) on two consecutive payment dates exceeds 15% of the aggregate discounted loans balance; or
» the Class A actual overcollateralisation falls below 22%; or
» VDF ceases to be an affiliate of Volkswagen Financial Services AG or any successor thereto; or
» the gross loss ratio for three consecutive payment dates (“dynamic losses”) exceeds 1.2% and the weighted-average portfolio seasoning is below 24 months; or if the gross loss ratio for three consecutive payment dates exceeds 1.3% and the weighted-average portfolio seasoning is between 24 and 30 months; or if the gross loss ratio for three consecutive payment dates exceeds 2.4% and the weighted-average portfolio seasoning is between 30 and 36 months; or if the gross loss ratio for three consecutive payment dates exceeds 3.6% and the weighted-average portfolio seasoning is greater than 36 months; or
» the cumulative gross loss ratio (“cumulative losses”) exceeds 6.0% and the weighted-average portfolio seasoning is below 12 months; or if the cumulative gross loss ratio exceeds 9.0% and the weighted-average portfolio seasoning is between 12 and 24 months; or if the cumulative gross loss ratio exceeds 11.0% and the weighted-average portfolio seasoning is between 24 and 36 months; or if the cumulative gross loss ratio exceeds 11.5% and the weighted-average portfolio seasoning is greater than 36 months; or
» a servicer replacement event occurs and is continuing; or
» an insolvency event occurs with respect to VDF; or
» the amount credited to the cash reserve account is less than the specified cash reserve account balance.

**Asset analysis**

We based our asset analysis on factors including historical performance data, originator and servicer quality, and pool characteristics, as well as current expectation for future economic conditions in Turkey.

**Primary asset analysis**

The transaction has favorable pool characteristics:

» The collateral pool is highly granular, consisting of 33,651 performing loans and 31,862 obligors randomly selected from the originator’s loan portfolio, with the largest borrower and top 20 borrowers representing 0.18% and 3.35% of the outstanding discounted receivables balance, respectively.

» The collateral pool is diversified, spreading across 9 regions in Turkey. The biggest portfolio concentration is in Istanbul, which comprises 35.8% of the pool.

» All loans in the portfolio have a minimum down payment of 30.0% for invoice amounts up to TRY 100,000 and 50% for the amounts over TRY 100,000 (approx. EUR 22 thousands). Typically, borrowers are less likely to default on loans where significant equity has built up in the underlying vehicle via down payments.

» No loans in the portfolio are in arrears at cut-off date (delinquencies up to 6 days are allowed).

**Default distribution**

The first step in the analysis was to define a loss distribution of the pool of loans to be securitised. Because of the large number of loans, we used a continuous distribution to approximate the loss distribution: the lognormal distribution. The probability loss distribution associates a probability with each potential future loss scenario for the portfolio. This distribution has hence been applied to numerous loss scenarios on the asset side to derive the level of losses on the Notes.

Two main parameters determine the shape of the loss distribution: the mean loss and the portfolio credit enhancement (“PCE”). The expected loss captures our expectations of performance considering the current economic outlook, while PCE captures the loss we expect the portfolio to suffer in the event of a severe recession scenario. We generally derive these parameters from the historical data; we may make adjustments based on further analytical elements such as performance trends, differences in portfolio composition or changes in servicing practices among others.

**Determination of default rate**

Portfolio lifetime mean default of 6.0% and assumed recovery rate of 45% are in line with the peer auto loans ABS average and are based on our assessment of the lifetime expectation for the pool.

We primarily based our analysis on the historical cohort performance data that the originator provided for a portfolio that is representative of the securitised portfolio. We also evaluated (1) other peer market trends, (2) benchmark auto ABS transactions, and (3) other qualitative considerations. We stressed the results from the historical data analysis to account for (1) the fact that the provided historical data does not allow an analysis of recovery performance in an economic distressed environment 2) the possible consequence on pool performance in a declining economic climate.

**Timing of default**

We have tested different default timing curves to assess the robustness of the ratings. In the base case scenario, the default timing is assumed to follow a sine curve with the parameters equal to 3 months (no-default period), 22 months (peak period), and 36 months (last default period).

**Derivation of the recovery rate assumption**

Assumptions for recoveries have been made on the basis of (1) the historical data provided by the originator, (2) the expected performance of Turkish economy during the transaction period, and (3) the heavy reliance on efficient and effective measures to be taken by the servicer to maximize potential recoveries.
The main source of the recovery of defaulted loans comes from the voluntary or negotiated repayments by borrowers, which may involve the borrower selling some of its assets or getting monetary support from family. The other source of recovery comes from the sales proceeds of liquidating the repossessed vehicle securing the loan.

**Derivation of portfolio credit enhancement (PCE)**

A PCE of 18% is in line with other peer auto loan ABS transactions. The PCE has been defined following the analysis of the data variability, as well as by benchmarking this portfolio with past and similar transactions. Factors that affect the potential variability of a pool’s credit losses are (i) an evaluation of the underlying portfolio of financing agreements considering possible portfolio evolution during the revolving period; (ii) the macroeconomic environment; (iii) originator and servicer quality, (iv) historical performance information; (v) the credit enhancement provided by subordination, overcollateralisation and the cash reserve fund; (vi) the liquidity support available in the transaction, by way of principal to pay interest, and cash reserve fund; and (vii) the legal and structural integrity of the transaction.

Exhibit 20 describes our key modeling assumptions.

Exhibit 20

**Modeling assumptions**

<table>
<thead>
<tr>
<th>Default Distribution:</th>
<th>Lognormal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Default:</td>
<td>6.00%</td>
</tr>
<tr>
<td>Default Definition:</td>
<td>90+ days</td>
</tr>
<tr>
<td>CoV:</td>
<td>92%</td>
</tr>
<tr>
<td>Baa1 portfolio credit enhancement (PCE)</td>
<td>18%</td>
</tr>
<tr>
<td>Timing of Default Curve:</td>
<td>3-22-36 months</td>
</tr>
<tr>
<td>Recovery:</td>
<td>45%</td>
</tr>
<tr>
<td>Residual Value Inputs:</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Conditional Prepayment Rate (CPR):</td>
<td>15% for the first 18 months and 20% thereafter</td>
</tr>
<tr>
<td>Amortization Profile:</td>
<td>Vector, according to scheduled amortization of the assets</td>
</tr>
<tr>
<td>Fees:</td>
<td>1.03% p.a. (minimum annual amount of TRY 450,000)</td>
</tr>
<tr>
<td>PDL Definition</td>
<td>On realised losses</td>
</tr>
</tbody>
</table>

Other values, within the range of the amounts listed below, may achieve the same model output ratings.

Source: Moody’s Investors Service

**Comparables**

**Prior transactions**

There are no prior ABS transactions launched by VDF.

**Transactions of other sellers/servicers**

For benchmarking purposes the charts below include cumulative losses in other auto lease ABS transactions that we rate. Please note, however, that the performance shown can be affected by several factors, such as the seasoning of the securitised leases, the age of the transaction, pool specific characteristics as well as the length of the revolving period.

The exhibits below show the performance of comparable transactions among originators in EMEA region.
Exhibit 21

Auto loan and lease ABS - EMEA Losses - trend by domicile

Source: Moody's Investors Service, periodic investor/servicer reports
## Exhibit 22

### Comparable Transactions Characteristics

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Driver Turkey Master S.A.</th>
<th>Driver España Four, F.T.</th>
<th>Driver Brasil Three RDC</th>
<th>SP Europe 14-1A LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Turkey</td>
<td>Spain</td>
<td>Brazil</td>
<td>Russia</td>
</tr>
<tr>
<td>Closing Date or Rating Review Date (dd/mm/yyyy)</td>
<td>28/02/2018</td>
<td>26/06/2017</td>
<td>11/12/2015</td>
<td>23/06/2015</td>
</tr>
<tr>
<td>Currency of Rated Issuance</td>
<td>TRY</td>
<td>EUR</td>
<td>BRL</td>
<td>RUB</td>
</tr>
<tr>
<td>Rated Notes Volume (excluding NR and Equity)</td>
<td>816,500,000</td>
<td>914,000,000</td>
<td>1,008,900,000</td>
<td>7,600,000,000</td>
</tr>
<tr>
<td>Originator/Servicer</td>
<td>Volkswagen Doğuş Finansman A.Ş.</td>
<td>Volkswagen Finance SA, E.F.C.</td>
<td>Banco Volkswagen SA</td>
<td>Credit Europe Bank Ltd</td>
</tr>
<tr>
<td>Captive finance company?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Long-term Rating</td>
<td>NR</td>
<td>NR</td>
<td>NR</td>
<td>B1</td>
</tr>
<tr>
<td>Short-term Rating</td>
<td>NR</td>
<td>NR</td>
<td>NR</td>
<td>NR</td>
</tr>
<tr>
<td>Securitised pool balance (&quot;Total Pool&quot;)</td>
<td>1,088,668,950</td>
<td>1,000,025,385</td>
<td>1,072,981,378</td>
<td>12,500,000,000</td>
</tr>
<tr>
<td>Average principal balance</td>
<td>32,352</td>
<td>11,206</td>
<td>N/A</td>
<td>71.1%</td>
</tr>
<tr>
<td>WA loan to value (&quot;LTV&quot;)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Share of total pool &gt;90% LTV</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>20.6%</td>
</tr>
<tr>
<td>Auto loan receivables %</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Auto lease receivables %</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>RV receivables %</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Portion of (fully) amortising contracts %</td>
<td>98.8%</td>
<td>91.45%</td>
<td>99.99%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Portion of bullet / balloon contracts %</td>
<td>1.2%</td>
<td>8.55%</td>
<td>0.01%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Portion of pure bullet / balloon payments %</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Method of payment - Direct Debit (minimum payment)</td>
<td>Not disclosed</td>
<td>100.00%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>WA Portfolio Interest Rate (Initial Pool)</td>
<td>14.95%</td>
<td>10.2%</td>
<td>15.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Minimum yield for additional portfolios p.a.</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>WAL of Total Pool initially (in years)</td>
<td>2.2</td>
<td>3.1</td>
<td>4.7</td>
<td>3.1</td>
</tr>
<tr>
<td>WA original term (in years)</td>
<td>3.1</td>
<td>4.7</td>
<td>3.1</td>
<td>1.7</td>
</tr>
<tr>
<td>WA seasoning (in years)</td>
<td>0.96</td>
<td>0.9</td>
<td>1.3</td>
<td>2.5</td>
</tr>
<tr>
<td>WA remaining term (in years)</td>
<td>2.2</td>
<td>3.9</td>
<td>1.9</td>
<td>4.2</td>
</tr>
<tr>
<td>No. of contracts</td>
<td>33,651</td>
<td>89,240</td>
<td>77,435</td>
<td>39,205</td>
</tr>
<tr>
<td>No. of obligors</td>
<td>31,862</td>
<td>89,240</td>
<td>75,121</td>
<td>39,152</td>
</tr>
<tr>
<td>Single obligor (group) concentraion %</td>
<td>0.18%</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.02%</td>
</tr>
<tr>
<td>Top 5 obligor (group) concentration %</td>
<td>0.90%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Top 10 obligor (group) concentraion %</td>
<td>1.80%</td>
<td>0.08%</td>
<td>0.09%</td>
<td>0.20%</td>
</tr>
<tr>
<td>Top 20 obligor (group) concentraion %</td>
<td>3.35%</td>
<td>0.13%</td>
<td>0.17%</td>
<td>0.30%</td>
</tr>
<tr>
<td>Private obligors %</td>
<td>70.75%</td>
<td>95.60%</td>
<td>87.20%</td>
<td>87.20%</td>
</tr>
<tr>
<td>Name largest manufacturer / brand</td>
<td>Volkswagen</td>
<td>Seat</td>
<td>Volkswagen</td>
<td>Volkswagen</td>
</tr>
<tr>
<td>Name 2nd largest manufacturer / brand</td>
<td>Volkswagen LCV</td>
<td>Volkswagen</td>
<td>Audi</td>
<td>Audi</td>
</tr>
<tr>
<td>Name 3rd largest manufacturer / brand</td>
<td>Audi</td>
<td>Others</td>
<td>Others</td>
<td>Others</td>
</tr>
<tr>
<td>Size % largest manufacturer / brand</td>
<td>43.31%</td>
<td>34.50%</td>
<td>88.23%</td>
<td>88.23%</td>
</tr>
<tr>
<td>Size % 2nd largest manufacturer / brand</td>
<td>24.90%</td>
<td>33.80%</td>
<td>7.72%</td>
<td>7.72%</td>
</tr>
<tr>
<td>Size % 3rd largest manufacturer / brand</td>
<td>15.59%</td>
<td>22.40%</td>
<td>4.05%</td>
<td>4.05%</td>
</tr>
<tr>
<td>New vehicles %</td>
<td>94.18%</td>
<td>82.30%</td>
<td>89.93%</td>
<td>89.93%</td>
</tr>
<tr>
<td>Name largest region</td>
<td>İstanbul</td>
<td>Catalonia</td>
<td>São Paulo</td>
<td>Moscow</td>
</tr>
<tr>
<td>Name 2nd largest region</td>
<td>Central Anatolia</td>
<td>Andalucia</td>
<td>Minas Gerais</td>
<td>Krasnodar</td>
</tr>
<tr>
<td>Name 3rd largest region</td>
<td>Mediterranea</td>
<td>Madrid</td>
<td>Santa Catarina</td>
<td>St. Petersburg</td>
</tr>
<tr>
<td>Size % largest region</td>
<td>35.79%</td>
<td>20.60%</td>
<td>28.25%</td>
<td>24.60%</td>
</tr>
<tr>
<td>Size % 2nd largest region</td>
<td>13.30%</td>
<td>16.60%</td>
<td>8.67%</td>
<td>11.00%</td>
</tr>
<tr>
<td>Size % 3rd largest region</td>
<td>12.69%</td>
<td>16.50%</td>
<td>7.40%</td>
<td>7.90%</td>
</tr>
<tr>
<td>Number of Dealers</td>
<td>162</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Exhibit 23
Comparable Transactions - Asset Assumptions

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Driver Turkey Master S.A.</th>
<th>Driver España Four, F.T.</th>
<th>Driver Brasil Three RDC</th>
<th>SFD Europa 14-1A LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross default / Net loss definition modelled</td>
<td>3 months</td>
<td>8 months</td>
<td>6 months</td>
<td>3 months</td>
</tr>
<tr>
<td>Data available for each subpool?</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Period Covered by Vintage data (in years)</td>
<td>7.75</td>
<td>11.00</td>
<td>10.25</td>
<td>14.00</td>
</tr>
<tr>
<td>Type of default / loss distribution</td>
<td>Lognormal</td>
<td>Lognormal</td>
<td>Lognormal</td>
<td>Lognormal</td>
</tr>
<tr>
<td>Model running on defaults/losses</td>
<td>Default</td>
<td>Defaults</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Mean gross default/net loss rate - initial pool</td>
<td>6.00%</td>
<td>2.25%</td>
<td>4.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Mean gross default/net loss rate - replenished pool</td>
<td>6.00%</td>
<td>N/A</td>
<td>N/A</td>
<td>22.00%</td>
</tr>
<tr>
<td>Mean net loss rate (calculated or modelled)</td>
<td>3.30%</td>
<td>1.46%</td>
<td>3.00%</td>
<td>16.00%</td>
</tr>
<tr>
<td>CoV (implied)</td>
<td>91.55%</td>
<td>85.00%</td>
<td>55.00%</td>
<td>37.90%</td>
</tr>
<tr>
<td>Default timing curve</td>
<td>Sine (3-12-36)</td>
<td>Sine (8-16-49)</td>
<td>Sine (6-16-49)</td>
<td>Sine (3-11-32)</td>
</tr>
<tr>
<td>Mean recovery rate</td>
<td>45.00%</td>
<td>35.00%</td>
<td>25.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Recovery lag (in months)</td>
<td>WA recovery lag of 19 months</td>
<td>12 months</td>
<td>12 months</td>
<td>30 months</td>
</tr>
<tr>
<td>Portfolio Credit Enhancement (PCE)</td>
<td>18.00%</td>
<td>12.00%</td>
<td>N/A</td>
<td>30.00%</td>
</tr>
<tr>
<td>PCE calibrated to</td>
<td>Baa1</td>
<td>Aa2</td>
<td>N/A</td>
<td>Baa3</td>
</tr>
<tr>
<td>Conditional Prepayment Rate (CPR)</td>
<td>15% first 18 months; 20% thereafter</td>
<td>5.00%</td>
<td>15.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Seasoning as modelled (in months)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Stressed Fees modelled</td>
<td>1.03%</td>
<td>1.03%</td>
<td>0.29%</td>
<td>1.15%</td>
</tr>
<tr>
<td>PDL definition</td>
<td>Losses</td>
<td>Losses</td>
<td>Losses</td>
<td>Losses</td>
</tr>
<tr>
<td>Assumed Portfolio Yield p.a. - initial pool</td>
<td>16.35%</td>
<td>13.2%</td>
<td>15.53%</td>
<td>17.90%</td>
</tr>
<tr>
<td>Assumed Portfolio Yield p.a. - additional pool</td>
<td>16.35%</td>
<td>N/A</td>
<td>N/A</td>
<td>17%</td>
</tr>
<tr>
<td>Index Rate assumed in 1st period</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>RV risk modelled?</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>RV Haircut (Aaa (sf))</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Additional asset analysis

We focused on the following additional features in our asset analysis.

Originator quality
The originator was formally incorporated in Istanbul and licensed as an auto finance company under the supervision of Banking Regulation and Supervision Agency since 2000. As of August 2017, the originator’s network of retail business covered 162 dealers. The originator has no experience so far of prior securitisation issuances, but benefits from the experience of VWFS, which has sponsored numerous securitisations in the past 20 years globally.

Servicer quality
The servicer is the originator, and has a long servicing experience and a well-defined and monitored processes to ensure stable servicing quality. The performance of the pool is linked with the quality of servicing the loan receivables, collecting recoveries of delinquent loans and transferring its collections to the issuer’s collection and distribution account every month following the month of collection.

There is no backup servicing arrangement at closing and no triggers to nominate a backup servicer in the course of the deal (however, Dogus acts as servicer replacement facilitator). The servicing of the transaction may be subject to disruptions if the originator/servicer fails to perform when needed.

Any disruption can result in a material impact because the transaction has more than 30,000 obligors located in various parts of Turkey, and there are limited viable replacement servicers or collection agents in Turkey capable of covering the geographic spread and the sheer number of loans, should the originator default.

To date, we are not aware of any actual servicing transfers in Turkey. The transaction is paying notes coupons on a monthly basis, so a servicing disruption may produce immediate impact on the issuer’s ability to pay the notes coupon in a timely manner. In addition, it may take a long time for each obligor to set up new payment instructions to the collection account.
We consider the high likelihood of the servicer’s parental support as a key mitigant to this concern. Although there is no explicit guarantee from the parent company, the servicer is 51% owned by VWFS in Germany, and is strategically important to Volkswagen’s auto business. The originator benefits from the experience of VWFS, which has sponsored numerous securitisations in the past 20 years globally.

**Emissions irregularities**

On 18 September 2015, the US Environmental Protection Agency issued findings that Volkswagen AG had used engine management software in its diesel cars to evade emissions standards under the Clean Air Act. Subsequently, on 22 September 2015, the Volkswagen Group made a public announcement stating that about 11 million diesel engines of the type EA 189 may be affected worldwide.

However, we do not expect this to hurt this transaction because according to the information provided by the originator, the share of vehicles fitted with the diesel engines of the type EA 189 in the pool is only 5.02%, thereof 64.8% are fixed ones.
Securitisation structure description
This is a revolving deal with 12 months replenishment period. As a result, the transaction is exposed to the default risk of the loans in the closing pool as well as of the new loans to be purchased.

At the end of the revolving period the investors of each series can decide to extend the revolving period by another year upon request by VDF. This renewal can occur on an annual basis.

Mitigants (see also early amortisation triggers in the Revolving Pool and Amortisation Criteria):

» The early amortisation trigger provides for an immediate end of the revolving period if the credit enhancement (excluding the reserve fund) falls below 22% for Class A.

» Moody’s rating confirmation is a prerequisite of an extension of the revolving period and any amendments to the documentation.

As part of our rating analysis, we modeled the bond structure and the priority of payments of the issuer to assess the amount of credit enhancement, supporting rated securities.

We also analysed the bankruptcy remoteness, true sale risks and other structural issues. The Issuer is a special purpose vehicle incorporated under the laws of Luxembourg as a "société anonyme" (S.A.).

Structural diagram
Exhibit 24 is a structural diagram illustrating the relationships between the transaction parties and the noteholders.

Exhibit 24
Transaction structural diagram

Source: VDF

Detailed description of the structure
Credit enhancement
The transaction benefits from several sources of credit enhancement: (1) the subordination of the notes; (2) the initial overcollateralisation at closing; and (3) cash reserve amount (reserve fund).

Allocation of payments/waterfall
On each monthly payment date, the issuer’s available funds, that is, interest and principal collections on the loans and available amounts from the reserve fund account will be applied in the following simplified order of priority:

1. Senior expenses/taxes payable;
2. Accrued and unpaid interest on Class A notes;
3. Cash reserve account until required reserve amount is reached;
4. Amortisation amounts to each amortising series of Class A Notes;
5. Amortising series prepayment amounts to the prepayment accumulation account up to the specified amortising series prepayment account balance;*
6. Amounts to the accumulation account maintained for non-amortising series of Class A for additional purchases of receivables;
7. Amounts to the prepayment accumulation account until the applicable Class A required overcollateralisation level is reached;
8. Accrued and unpaid interest on subordinated notes;
9. Principal of subordinated notes: Prior to the cleanup call or if the cleanup call option is not exercised, principal of subordinated notes, such that the outstanding principal amounts of the subordinated notes after repayments are not less than 5% of the outstanding amount of the notes, otherwise to zero;
10. Following the occurrence of an insolvency event with respect to the Seller: Class A Purchaser Compensation Payment (which is effectively a difference between the amount of Class A Notes that would have been held by such Class A Note Purchaser pursuant to the Class A amortisation schedule and the amount actually outstanding on such Class A Notes);
11. Remainder is payable to the seller.

Cash reserve account amortisation amounts will only be applied to the priority of payments and repay the notes, if one of the credit enhancement triggers has been breached. Otherwise these amounts will directly repay the subordinated notes.

* There is a scheduled amortisation profile for amortising series of Class A. Amounts collected in excess of the scheduled amortisation will be accumulated in the prepayment accumulation account. In case, if the collections are not sufficient to pay the scheduled payments, amounts available in the prepayment accumulation account can be used for amortisation payments. A non-payment of the scheduled amortisation will not constitute an event of default ("Foreclosure Event").

Key foreclosure events

The key foreclosure events are:

» an issuer insolvency event,

» the Issuer does not pay interest on the Class A notes and such failure to pay continues for a period of five business days,

» issuer defaults on payment of principal on the legal maturity date.

Cash reserve account

The initial cash reserve amount, equal to TRY 22.45 million (around 2.06% of the initial discounted pool balance), was pre-funded into the cash reserve account at closing. The cash reserve amount has to be maintained at 2.75% of the outstanding principal amount of Class A notes. The cash reserve is available for liquidity during the life of the transaction and available to cover defaults at the end of the transaction.

Over-collateralisation (OC)

The initial OC amount is equal to around 3.0% of the initial discounted receivables balance at closing. The OC is created by defining a lower portfolio purchase price than the net present value of the auto loan portfolio.

Liquidity

» Principal to pay interest mechanism.

» The reserve fund is a further source of liquidity.

Credit enhancement triggers

There are triggers in place to increase the principal payment of the class A notes by increasing its target OC levels depending on the gross loss levels.
The first level of credit enhancement trigger is where the cumulative gross loss level exceeds 6%, if the weighted-average seasoning of the pool is equal or less than 12 months, or 9%, if the weighted-average seasoning of the pool is between 12 and 24 months, or 11%, if the weighted-average seasoning of the pool is between 24 and 36 months, or 11.5%, if the weighted-average seasoning of the pool is greater than 36 months. Once this trigger is breached, the revolving period will end and the Class A notes targeted OC level will increase to 100%.

The second level of credit enhancement trigger is where the dynamic gross loss number exceeds certain level for three consecutive payment dates during the life of the transaction. The dynamic gross loss trigger level also depends on the weighted-average seasoning of the pool. This level is 1.2%, if the weighted-average seasoning of the pool is equal or less than 24 months, or 1.3%, if the weighted-average seasoning of the pool is between 24 and 30 months, or 2.4%, if the weighted-average seasoning of the pool is between 30 and 36 months, or 3.6%, if the weighted-average seasoning of the pool is greater than 36 months. Once this trigger is breached, the Class A notes targeted OC level will also increase to 100% and the revolving period ends.

**Originator/Servicer/Cash Manager related triggers**

There is no back-up servicer or back-up servicer facilitator appointed at closing. The key servicer termination events are:

- Insolvency of the servicer
- Failure to perform material obligations, if not remedied;
- Failure to deliver the servicer report, if not remedied;
- Failure to make payments due, if not remedied within three Business Days;
- The withdrawal of the operation licence of the Servicer under section 50 of the Turkish Law No. 6361 on Financial Leasing, Factoring and Financing Companies.

The appointment of the cash manager (who also acts as issuer account bank) is terminated if the following events occur:

- Downgrade of the Long-Term Bank Deposit Rating below Baa3, or downgrade of the Short-Term Bank Deposit Rating below P-1;
- Insolvency of the cash manager;
- Failure to perform material obligations that is not remedied within the grace period.

**Excess Spread**

All assigned receivables were purchased at a discounted rate of 21.794%. However, part of the resulting portfolio yield 5% (the Buffer Release Rate) will be paid directly to VDF and will not be available for the transaction priority of payments leaving the transaction with a portfolio yield of circa 16.794% during the first payment period. The Buffer Release Rate will be recalculated on a monthly basis such that the transaction will target nil excess spread after payment having deducted senior fees (estimates of ongoing servicing costs) plus spreads on the rated notes and the subordinated notes.

**Cash Manager**

The Bank Of New York Mellon, London Branch acts as independent cash manager in the transaction. The cash manager’s main responsibilities are the preparation of the investor report, making payments according to the waterfall and drawing on the cash reserve and other sources of liquidity. The cash manager will make cash flow calculations on each monthly payment date including the yearly interest payment dates. Events that could lead to termination of the cash manager include insolvency and a failure to perform that the cash manager does not remedy within the grace period.

**Securitisation structure analysis**

**Primary structural analysis**

We base our primary analysis of the transaction structure on the loss distribution of the portfolio in order to derive our cash flow model.
Tranching of the notes
We used a lognormal distribution to describe the loss distribution of the portfolio. We used this distribution in the cash flow model to ultimately derive the level of losses on the notes under each default scenario.

We considered the allocation to each of the parties within the transaction of the cash flows that the collateral generates, and the extent to which the structural features of the transaction might themselves provide additional credit protection to investors, or alternatively act as a further source of risk in addition to the intrinsic risk of the lease assets. We have analysed the strength of triggers to reduce the exposure of the portfolio to the originator/servicer bankruptcy.

As a first step towards determining the theoretical rating of the notes, we used an expected-loss methodology that reflects the probability of default for the notes multiplied by the severity of the loss expected for the notes.

In order to allocate losses to the notes in accordance with their priority of payment and relative size, we used a cash-flow model (ABSRom) that reproduces most of the deal-specific characteristics.

We have already described above the main input parameters of the model. The result of weighting each severity of loss output (the result of inputting each default scenario into ABSRom) with the probability of occurrence, is both the expected loss for the notes as well as the expected average life. We then compare both values to Moody’s Idealised Expected Loss table.

The exhibit below shows the lognormal loss distribution of the portfolio (green line). The blue line in the exhibit represents each loss scenario on the loss distribution curve for the loss suffered by the Class A notes (in our modelling). For default scenarios up to 27%, the line is flat at zero, hence the Class A notes are not suffering any loss. 27% is the first default scenario under which the Class A notes suffer a loss. The steepness of the curve then indicates the speed of the increase of losses suffered by the Class A.

Exhibit 25
Lognormal default distribution

Source: Moody’s Investors Service
Comparables
Exhibit 26 compares the structural features of Driver Turkey with some prior transactions rated by us.

Exhibit 26
Structural features comparison table

<table>
<thead>
<tr>
<th>Deal Name</th>
<th>Driver Turkey Master S.A.</th>
<th>Driver Espana Four, F.T.</th>
<th>Driver Brasil Three FIDC SF O Europa 14-1A LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revolving Period (in years)</td>
<td>1 year</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Size of credit RF (as % of issued notes)</td>
<td>2.13%</td>
<td>1.42%</td>
<td>1.00%</td>
</tr>
<tr>
<td>RF amortisation floor (as % of initial total pool)</td>
<td>1.2%</td>
<td>1.10%</td>
<td>5.28%</td>
</tr>
<tr>
<td>Set-off risk?</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Set-off mitigant</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Set-off Amount</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Commingling Risk?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Commingling mitigant</td>
<td>Cash advancing</td>
<td>A3 rated Servicer</td>
<td>Borrower payments are made directly into the Fund’s Collection Accounts</td>
</tr>
<tr>
<td>Back-up servicer appointed if servicer rated below</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Back-up Servicer name</td>
<td>N/A</td>
<td>N/A</td>
<td>Home Credit &amp; Finance Bank</td>
</tr>
<tr>
<td>Back-up Servicer name</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Swap in place?</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Swap counterparty Long-term Rating</td>
<td>N/A</td>
<td>Aa3</td>
<td>N/A</td>
</tr>
<tr>
<td>Swap counterparty Short-term Rating</td>
<td>N/A</td>
<td>P-1</td>
<td>N/A</td>
</tr>
<tr>
<td>Swap counterparty</td>
<td>N/A</td>
<td>Royal Bank of Canada</td>
<td>Banco Santander (Brasil) N/A</td>
</tr>
<tr>
<td>Swap counterparty or</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of Swap</td>
<td>N/A</td>
<td>interest rate swap</td>
<td>interest rate swap</td>
</tr>
<tr>
<td>Initial Over-collateralisation</td>
<td>3%</td>
<td>3.5%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Reserve fund as % of initial total pool</td>
<td>2.06%</td>
<td>1.30%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Annualised net excess spread as modelled</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.85%</td>
</tr>
<tr>
<td>Size of Aaa(sf) rated class</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Aa1(sf) rated class</td>
<td>-</td>
<td>88.80%</td>
<td>-</td>
</tr>
<tr>
<td>Aa2(sf) rated class</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>A(sf) rated class</td>
<td>-</td>
<td>2.60%</td>
<td>-</td>
</tr>
<tr>
<td>Baa(sf) rated class</td>
<td>75.00%</td>
<td>-</td>
<td>90.30%</td>
</tr>
<tr>
<td>B(sf) rated class</td>
<td>-</td>
<td>-</td>
<td>1.40%</td>
</tr>
<tr>
<td>B(d) rated class</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NR class</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Equity</td>
<td>22.00%</td>
<td>5.10%</td>
<td>8.30%</td>
</tr>
<tr>
<td>Initial Over-collateralisation</td>
<td>3.00%</td>
<td>3.50%</td>
<td>7.40%</td>
</tr>
</tbody>
</table>

Sources: Issuers, Moody’s Investors Service

Additional structure analysis
Our analysis of the structure focusses on the following additional issues.

Sovereign risk
The rating assigned to the class A notes are constrained by Turkish Local Currency Ceiling (LCC), which is currently at Baa1 level and captures the systemic risks associated with the political, institutional, legal and economic factors prevalent in Turkey.

Asset transfer, True sale and Claw-back risk
We consider the purchase of the loan receivables to be an effective true sale under Turkish law and the Issuer which to be a bankruptcy remote entity under Luxembourg law. Our assessment is based on the analysis of the transaction documentation and takes into account the legal opinion provided by the transaction counsel.

The Turkish law legal opinion reviewed by Moody’s opines on the true sale nature of the assignment of the loan receivables, as being legal, valid, binding and enforceable against the originator and any third party, subject to reservations and qualifications which Moody’s understands as standard for such transactions in Turkey.
Upon the insolvency of VDF, the transaction agreements may be subject to cancellation (i.e. claw-back risk) under the conditions stipulated by the Turkish Execution and Bankruptcy Code (“CEB”). The sale of the securitised assets can be invalidated on certain grounds including the following:

» If a transaction entered into up to two years prior to the insolvency is considered to have been “gratuitous” (if e.g. there is excessive imbalance between the sale price and market price of the sold assets);

» If an entity entered into transaction up to one year prior to its insolvency and this entity was unable to pay its debts at the time of the relevant transaction.

» If a transaction entered into up to five years prior to the insolvency is considered to have been “fraudulent” with the aim to harm creditors and if there are clear signs that the debtor’s financial situation and intent to harm are known/should be known by the counterparty.

As a mitigant of claw-back risk, VDF will provide a solvency certificate similar to other VW transactions upon closing as well as every six months during the revolving period.

Moody’s has reviewed and has taken comfort from the legal opinions provided by the transaction’s legal counsels on the relevant issues and is satisfied that the reservations therein, combined with the structural protections that the transaction benefits from, are commensurate with the rating level assigned to the Notes. However, since there are some uncertainties related to the claw-back risks described above, there is a linkage between the ratings of the issued Notes and the originator’s parent rating.

Bankruptcy remoteness
Bankruptcy remoteness has been achieved in the structure, as supported by the transaction documentation and legal opinion(s), since the issuer:

» is a special purpose entity,

» is subject to suitable restrictions on its activities,

» is independently owned and managed,

» will not incur tax liabilities that it is unable to pay,

» has no outstanding liabilities from previous activities,

» has all necessary licences and authorisations,

» SPV directors may not be required or incentivised by applicable bankruptcy law to file for bankruptcy, i.e. voluntary bankruptcy filing, and

» benefits from non-petition covenants given by all parties, and the priority of payments is legally binding on all parties.

Cash commingling
The servicer will collect payments and recoveries from the underlying loans during the monthly collection period and will only transfer the collections to the issuer on a monthly basis. Prior to the transfer to the issuer, the collections will be kept in the general account of the servicer and thus are subject to commingling risk.

Commingling risk on collections is mitigated by (i) the rating of the servicer at closing, (ii) monthly sweep of collections to the Issuer account, and (iii) automatic termination of collection authority upon servicer insolvency. We have considered the credit quality of the servicer, its parent company and the payment mechanism in this transaction, and modeled for a commingling exposure equal to 2 months of cash collections and a 45% recovery rate on such exposure assuming the commingling risk realises with probability equal to the parent’s rating capped by the Turkish LCC (currently Baa1).
Set-off risk
VDV is a non-deposit-taking institution; hence, there is no depositor set-off risk. VDF also covenants in the loan sale agreement that no borrower is an employee of VDF.

Methodology and monitoring

Monitoring
We will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing and trust reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody’s Client Service Desk.

Data quality
- The transaction will provide an investor report which content was discussed with a Moody’s analyst. This report includes all necessary information for us to monitor the transaction.

Data availability
- Cash manager will provide the investor report. The timeline for the investor reports is provided in the transaction documentation.
- The priority of payment section is published on the interest payment date. The completed report will be published three business days prior to each monthly payment date.
- The frequency of the publication of the investor report is monthly and the frequency of the IPD is monthly.
- Investor reports are publicly available on the Volkswagen Financial Services website.

Originator linkage
The originator acts as servicer, therefore the performance of the pool will be linked to the quality of servicing the lease receivables, collecting on delinquencies as well as conducting recoveries upon default. No back-up servicer was appointed at closing. The servicer is also collecting payments from borrowers which are swept to the Issuer account only on a monthly basis, creating some linkage with the originator in case of insolvency. Mitigants to this exposure are described in detail in the commingling section of the report.

Significant influences
In addition to the counterparty issues noted, the following factors may have a significant impact on the subject transaction’s ratings:
- Significant increase in the unemployment rate in Turkey as a result of a deterioration of the Turkish economy beyond stresses already applied.

Parameter sensitivities
Parameter sensitivities provide a quantitative, model-indicated calculation of the number of notches that a Moody’s rated structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged. It is not intended to measure how the rating of the security might migrate over time, but rather, how the initial rating of the security might differ as certain key parameters vary.

Parameter sensitivities for this transaction have been calculated in the following manner: We tested 9 scenarios derived from the combination of mean default: 6% (base case), 7% (base case + 1%), 8% (base case + 2%) and PCE: 18% (base case), 20% (base case x 1.11), 25% (base case x 1.4). The 6% / 18% scenario would represent the base case assumptions used in the initial rating process.

The exhibit below shows the parameter sensitivities for this transaction with respect to the rated tranche under different default and PCE assumptions.
**Worse case scenarios:** At the time the rating was assigned, the model output indicated that Class A would have achieved Baa2 (sf), if mean default was as high as 8% with Portfolio Credit Enhancement at 25% (all other factors unchanged).
## Appendices

### Appendix 1: Summary of Originator’s Underwriting Policies and Procedures

<table>
<thead>
<tr>
<th>Exhibit 28</th>
</tr>
</thead>
</table>

**Originator Ability**

**At Closing [or, if possible at time of when most loans were originated]**

**Sales and Marketing Practices**

- **Origination Channels:** 162 Dealers and 44 Insurance Branches
- **Origination Volumes:** Not Disclosed
- **Average Length of Relationship Between Dealer and Originator:** Not Disclosed

**Underwriting Procedures**

- **% of Loans Automatically Underwritten:** 35%
- **% of Loans Manually Underwritten:** 65%
- **Ratio of Loans Underwritten per FTE* per Day:** Not Disclosed
- **Average Experience in Underwriting or Tenure with Company:** Not Disclosed
- **Approval Rate:** The total rejection rate is approx. 26%. 17% of all applications are rejected automatically
- **Percentage of Exceptions to Underwriting Policies:** Not Disclosed

**Underwriting Policies**

- **Scorecards validated on an ongoing basis**

**Source of Credit History Checks:**

- **Internal database, external database: Turkish credit bureau**

**Methods Used to Assess Borrowers’ Repayments Capabilities:**

- **Affordability calculation**

**Income Taken into Account in Affordability Calculations:**

- **Net Income, other debt**

**Other Borrower’s Exposures (i.e. other debts) Taken in Account in Affordability Calculations:**

- **All outstanding plus information received from credit bureau regarding other obligations**

**Method Used for income Verification:**

- **60-70% of all approved loan applications go without salary/income check**

**Maximum Loan Size:**

- **Depending on vehicle**

**Average Deposit Required:**

- **Not Disclosed**

**Credit Risk Management**

- **To the corresponding management/executive boards and supervisory boards**

*FTE: Full Time Employee

**Originator Stability:**

**At Closing**

**Quality Controls and Audits:**

- **Responsibility of Quality Assurance:** Team Leaders, Risk Management validates scorecards (incl. underwriting policy and overrides)
- **Number of Files per Underwriter per Month Being Monitored:** Not disclosed

**Management Strength and Staff Quality**

- **Average Turnover of Underwriters:** Not disclosed
- **Training of New Hires and Existing Staff:** Formalised underwriting introduction program & ongoing training

**Technology**

- **Frequency of Disaster Recovery Plan Test:** Not disclosed

*Source: VDF*
### Servicer Ability

**At Closing**

**Loan Administration**
- **International subsidiaries and Joint Ventures have sole responsibility**

**Early Stage Arrears Practices**
- **Contact via telephone to receive promise to pay or to solve issues with cash collections (e.g. wrong account number)**
- **International subsidiaries and Joint Ventures have sole responsibility**

**Definition of Arrears**
- **Arrears Strategy for 1-29 Days Delinquent**: Activity start after 1 day past due: a call is made
- **Arrears Strategy for 30 to 59 Days Delinquent**: Skiptracing for not reached customers. A notarised warning letter is sent before 60 days elapses after the first missed payment. Frequency of attempt until reaching the borrower: daily (Power Dialer in use). SMS / E-mail notifications
- **Arrears Strategy for 60 to 89 Days Delinquent**: Repossession of the vehicle. Negotiation: promise to pay, arrangement, restructuring. Selection of portfolio for a sale to an Asset Management Company

**Loss Mitigation and Asset Management Practices**
- **Transfer of a Loan to the Late Stage Arrears Team**: After termination or in case of customer insolvency. Head Office is responsible in Germany (international branches have sole responsibility). Provider in use for repossession of the vehicle
- **Ratio of Loans per Collector (FTE)**: Not disclosed
- **Time from First Default to Litigation /Sale**: Approx. 190 days from first default to litigation
- **Average Recovery Rate (on Vehicle)**: Not disclosed
- **Channel Used to Sell Repossessed Vehicles**: Sales are pursued at Government Execution Offices by outsourced law firms
- **Average Total Recovery Rate (after vehicle sale)**: Not disclosed

### Servicer Stability

**At Closing**

**Management and Staff**
- **Average Experience in Servicing or Tenure with Company**: On average 7 years experience.
- **Training of New Hires Specific to the Servicing Function** (i.e. excluding the company induction training): Work with experienced collector

**Quality Control and Audit**
- **Responsibility of Quality Assurance**: Sub-department leader, team leader

*Source: VDF*
Moody’s related publications

For a more detailed explanation of our approach to this type of transactions, as well as similar transactions, please refer to the following reports:

Methodologies used


Credit Opinions

» Turkey, Government of, December 2017 (1102595)
» Doğuş Holding A.Ş., February 2017 (1042905)
» Cross Sector - Volkswagen Aktiengesellschaft: VW Opt for ABS in Europe Over Unsecured Debt After Emissions Crisis, May 2016 (1026085)

Sector Update

» Potential diesel driving bans in Europe unlikely to weaken collateral backing ABS, November 2017 (1091669)
» Auto ABS EMEA Sector Update Q2 2017: Action on green initiatives, auto deal performance stable, August 2017 (1083104)

New Issue Reports and Pre-Sale Reports

» Driver China eight Trust, December 2017 (1102929)
» Driver España Four, June 2017 (1077514)
» Driver Brasil Three FIDC, December 2015 (SF422568)
» LLC Special Financial Organization Europa 14-1A, June 2015 (SF411925)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.
Endnotes

1. at the time, when data on the red pool was provided, the 50% down-payment requirement threshold was TRY 50,000; it increased to TRY 100,000 for loans originated after 12 December 2017.

2. Moody’s rating confirmation is a prerequisite of a “Tap issuance”.

3. Moody’s rating confirmation is a prerequisite of an extension of the revolving period and any amendments to the documentation.
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STURCTURED FINANCE

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DRIVER TURKEY MASTER S.A.: New-Issue Report – the first Turkish Auto ABS Transaction by Volkswagen Doğuş Finansman A.Ş. (VDF)