Driver China fourteen Auto Loan Backed Securities Credit Rating Report

Rating Results

Structure	Amount (RMB thousand)	% of Total Assets	% of Total Notes	Credit Rating
Class A	7,136,000.0	89.20	89.65	AAA_{sf}
Subordinated	824,000.0	10.30	10.35	NR
Total Notes	**7,960,000.0**	**99.50**	**100.00**	—
OC	40,159.4	0.50	—	—
Total Assets	**8,000,159.4**	**100.00**	—	—

Notes: 1. The rating results in this report are concluded based on the analysis on the materials acquired before 21 October, 2022. If the finalized materials differ, the rating results might be adjusted accordingly;

2. The amount is the Aggregate Cut-Off Date Discounted Receivables Balance;

3. Total number may not be exactly equal to the sum of all its components due to rounding;

4. NR – not rated.

Transaction Overview

Cut-off Date of Initial Assets: 30 September, 2022
Legal Maturity Date: 26 August, 2029
Transaction Type: Static Cash Flow ABS
Underlying Asset: Auto loans granted by Volkswagen Finance (China) Co., Ltd.
Credit Enhancement Mechanism: Senior/Subordinated Structure, Overcollateralization, Cash Collateral, Monthly Collateral, Trigger Event
Trustor/Originator/Servicer: Volkswagen Finance (China) Co., Ltd.
Trust Company/Issuer: CITIC Trust Co., Ltd.
Account Bank: Industrial and Commercial Bank of China Beijing Branch
Depository & Clearing /Payment Agent: China Central Depository & Clearing Co., Ltd.
Lead Underwriter / Bookrunner: CITIC Securities Co., Ltd.
Joint Lead Underwriter: BNP Paribas (China) Limited, Citibank (China) Co., Ltd. and Industrial and Commercial Bank of China Limited

Date of Rating
21 October, 2022

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* The official rating report is in Chinese and the English version is for reference only. In the event of any conflict between the Chinese version and English version, the Chinese version shall govern.

Rationale

China Lianhe Credit Rating Co., Ltd. (“Lianhe Ratings”) analyzed the underlying assets, transaction structure, legal structure and related parties concerning this transaction, and carried out cash flow analysis and pressure test on the underlying assets.

The underlying assets of this transaction are 101,103 auto loans granted by Volkswagen Finance (China) Co., Ltd. (“VWFC”) to 99,492 borrowers. The portfolio is of good quality, as it not only enjoys the advantages of general auto-finance asset pools, such as good diversification, reasonable down payment ratio (the weighted average down payment ratio is 35.01%) and payment on account, but also shows a sound historical performance of the static pool (the expected accumulated default rate in 60 months is 1.91%[1], the expected accumulated default rate in seasoning is 1.21%, with a recovery rate of 50.79%). We also noticed that this transaction has a repricing mechanism (with a discount rate of 4.2758% per annum that takes into account the senior charge and the expected issue rate of the securities at all levels) in place, which has been considered in our pressure test. In addition, the senior / subordinated structure, overcollateralization (equivalent to 0.50% of the total assets) and the trigger event has also provided sufficient credit enhancement for the senior notes.

Lianhe Ratings has assigned AAA_{sf} to the Class A Notes of Driver China fourteen Auto Loan Backed Securities.

Strengths

1. **The retail auto loans in this transaction are of good quality.** The pooled assets, 101,103 loans granted by VWFC to 99,492 borrowers, spread across 31 regions of China, indicating good diversification. VWFC has established well-developed process, risk control and information systems for auto loan business.

[1] Calculated according to the static pool statistics provided by the Originator. See “IV. Quantitative Analysis” for more details.

Based on historical data of the static pool, the expected accumulated default rate in 60 months is 1.91%, with a recovery rate of 50.79%, demonstrating a sound credit performance. All of these loans are normal according to the "5-category" loan classification method, indicating good quality of the asset pool.

2. **The senior/subordinated structure provides sufficient credit enhancement for the Class A Notes.** This transaction adopts a senior/subordinated structure as credit enhancement. On the cut-off date, Class A notes have credit enhancement of 10.80% supported by the subordinated notes and overcollateralization.
3. **The setup of cash collateral account and trigger event provides further credit enhancement for the Class A Notes.** The setup of cash collateral account provides liquidity support to interest payment of the senior notes, and foreclosure event and other triggers provide a further guarantee for the interest and principal repayment of the senior notes.
4. **VWFC is highly experienced as a servicer.** The originator of this transaction, VWFC, has rich experiences in asset securitization and loan service, as it has successfully originated a range of retail auto loan ABS programs in the inter-bank bond market. Its parent company, Volkswagen Financial Services AG, has over 20 years of experiences in asset securitization, serving as a strong support to VWFC in asset securitization business.

Concerns and Risk Mitigation

1. **Modeling Risk.** Due to multiple factors affecting loan default and post-default recovery, there is a certain modelling risk in the mathematical methods and the relevant data adopted for quantitative analysis.
2. **Legal Risk arising from unfinished registration of the change of mortgage.** Once the trust becomes effective, the assignment of the automobile mortgage by the Trustor becomes legally effective between the Trustor and the Trust Company, and the automobile mortgage attached by the retail automobile collateral loan claim will be transferred to the Trust Company in the meantime. Therefore, the Trust Company shall still enjoy the title to the mortgage over the automobile even without completing the registration of the change of mortgage, but it may not against a bona fide third party.
3. **Economic uncertainty risk.** Amid the COVID-19 pandemic ("the pandemic"), most countries significantly suffered and the global economy fell into a deep recession. Benefiting from strengthened anti-cyclical macroeconomic policies which offset the negative impact of the pandemic, China's economy recovers gradually. Nevertheless, the systematic risk arising from the macro economy may influence the overall credit performance of the asset pool.

Statement

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7. The rating results are valid from the date of credit rating to the maturity date of the Bonds, and credit ratings of VFWC and the Bonds may change within the period of validity according to the conclusions of following surveillances. Lianhe Ratings has the sole right to adjust, update or withdraw the rating results.

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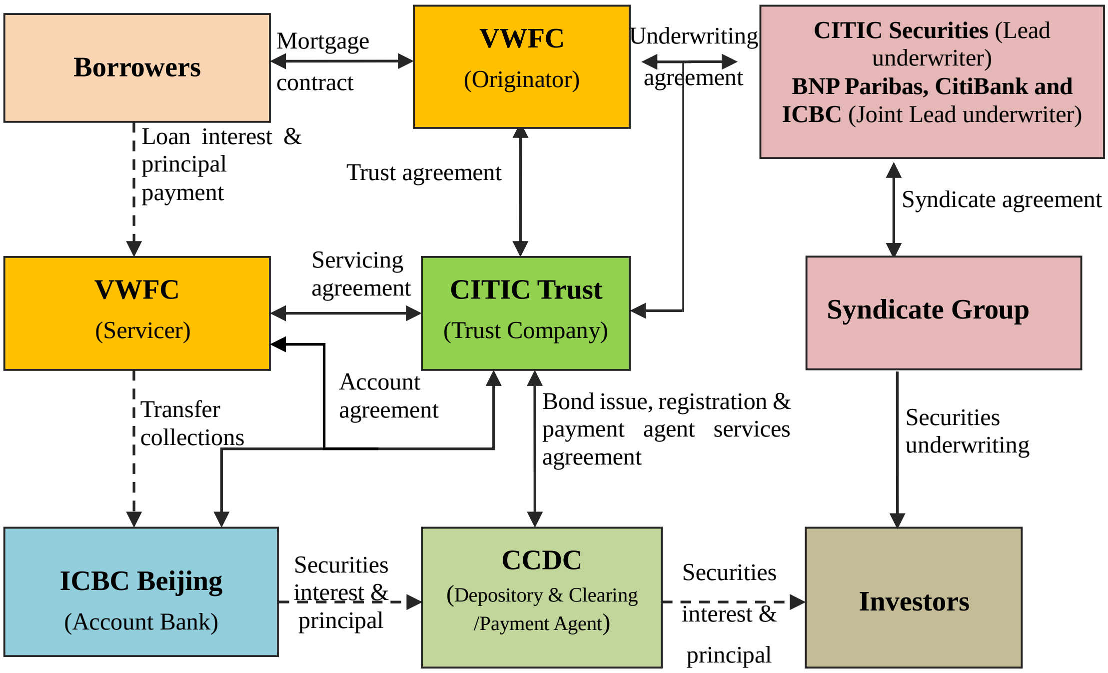
I. Transaction Overview

1. Transaction Structure

In accordance with relevant laws and regulations in China, the Originator, Volkswagen Finance (China) Co., Ltd. ("VWFC"), entrusted a portfolio of lawful and compliant auto loans, as underlying asset, to CITIC Trust Co., Ltd. ("CITIC Trust"), which established "Driver China fourteen Trust" as a special purpose trust.

CITIC Trust issues Class A Notes and Subordinated Notes on the national interbank bond market, with the support from the trusted underlying assets. Investors acquire the corresponding beneficial right under this trust by purchasing and holding the Notes.

Chart 1 Transaction Overview



Sources: VWFC, compiled by Lianhe Ratings.

2. Asset-backed Securities

Class A Notes and Subordinated Notes are to be issued through the transaction, of which the Class A Notes are senior notes entitled to senior interests, while the Subordinated Notes are entitled to subordinated ones.

Interests of Class A Notes and Subordinated Notes are paid on a monthly basis; the principal will be repaid in a pass-through approach in the order of senior/subordinated. Specifically, cash inflow shall be used to repay the principal of Class A Notes. Once the principal balance of Class A Notes reaches the Class A Targeted Note Balance, interest and principal on the Subordinated Notes will get paid subsequently. (Class A Targeted Note Balance: means (a) except in the case of (b) below, an amount equal to the excess of the Aggregate Discounted Receivables Balance as at the end of the Monthly Period over the Class A Targeted Overcollateralization Amount, or (b) zero, if the Aggregate Discounted Receivables Balance as at the end of the Monthly Period is less than 10.00% of the Aggregate Cut-off Date Discounted Receivables Balance or if a Servicer Replacement

Event occurs). Class A Targeted Overcollateralization Amount means, on each Payment Date, the Class A Targeted Overcollateralization Percentage multiplied by the Discounted Receivable Balance. Targeted Overcollateralization Percentage of Class A Note is specified herein below.

The interest rates on the Class A Notes and Subordinated Notes are fixed. The interest rate of Class A Notes is determined in accordance with the results of book building, while that of Subordinated Notes is determined by the Originator prior to the issue date. Class A Notes are issued by book building means, while Subordinated Notes are fully held by the Originator.

Table 1 Summary of Asset Backed Securities Unit: RMB thousand/ %

Structure	Offering Size	% of Asset Pool	% of Total Notes	Type of Interest Rate	Expected Maturity Date	Repayment Method
Class A	7,136,000.0	89.20	89.65	Fixed	Aug. 26, 2025	Monthly interest payment; pass-through principal repayment until the Targeted Note Balance is reached
Subordinated	824,000.0	10.30	10.35	Fixed	Aug. 26, 2025	Monthly interest payment; pass-through principal repayment
Total Notes	7,960,000.0	**99.50**	**100**	—	—	—
Overcollateralization	40,159.4	0.5	—	—	—	—
Total assets	8,000,159.4	**100**	—	—	—	—

Sources: VWFC, compiled by Lianhe Ratings

3. Underlying Asssets

The underlying assets (or "Purchases Receivables") are auto loan entrusted by the originator under the Trust Agreement and transferred to the issuer. According to the trust agreement, VWFC represents and warrants, with respect to the Purchased Receivables as of the initial Cut-Off Date:

(a) the Loan Contracts constitute legal, valid, binding and enforceable agreements; (b) the Purchased Receivables are assignable, and the Loan Contracts require monthly payments; (c) it is entitled to dispose of the Receivables free from rights of third parties; (d) the Purchased Receivables are free of defences, whether peremptory or otherwise, for the agreed term of the Loan Contracts as well as free of rights of third parties and that the Borrowers in particular have no set-off claim thereto or thereunder or the status and enforceability of the Purchased Receivables is not impaired by set-off rights; (e) no Purchased Receivable is overdue; (f) the status and enforceability of the Purchased Receivables is not impaired due to warranty claims or any other rights of the Borrowers; (g) none of the Borrowers is an affiliate of Volkswagen AG or an employee of the Originator; (h) according to the Originator's records, no termination of any Loan Contract has occurred; (i) the Loan Contracts shall be governed by the laws of China and have not been concluded prior to January 2008; (j) the Loan Contracts have been entered into exclusively with the Borrowers which, if they are corporate entities have their registered office in China or, if they are individuals have their place of residence in China; (k) on the Cut-Off Date, at least two contractual instalments (which include interest payments) have been paid in respect of each of the Purchased Receivables and that each Purchased Receivable requires monthly payments to be made within sixty (60) months of the date of origination of each Loan Contract and may also provide for a final balloon payment; (l) each of the Purchased Receivables will mature no earlier than six (6) months and no later than fifty-eight (58) months after the Cut-Off Date; (m) the total outstanding amount of Purchased Receivables entrusted hereunder pursuant to the Loan Contracts with one and the same Borrower does not exceed RMB 4,000,000 in respect of any single Borrower; (n) the Loan Contracts which are subject to the provisions of PRC law on consumer financing, comply in all material respects with the requirements of such provisions;

(o) according to the Originator's records, no insolvency proceedings have been initiated against any of the Borrowers during the term of the relevant Loan Contract up to the Cut-Off Date; (p) each Loan Contract under which the relevant Receivables arise provides for a mortgage of the relevant Financed Object; (q) the Purchased Receivables are "normal" loans according to CBIRC's "5-category" loan classification method; (r) the Purchased Receivables are denominated in RMB; (s) at the time each Loan Contract was entered into, the Receivable under such Loan Contract was approved by the Originator in the ordinary course of the Originator's business; and (t) the maximum delinquent days of each Purchased Receivable were historically no more than 60 days.

4. Cash Flow Arrangements

(1) Trust Account

On or before the Closing Date, the Trust Company shall open independent accounts with the Account Bank, including Cash Collateral Account and Distribution Account.

The initial amount in the Cash Collateral Account (Initial Cash Collateral Amount) is RMB 96 million, accounting for 1.20% of the Discounted Receivables Balance (Income generated from securities issuance) as of the Cut-off Date is used to mitigate liquidity risk.

Cash flows into the Distribution Account come from Monthly Collections. If the Servicer's credit rating satisfies the Servicer Required Rating[2] or above, it shall make a deposit of such Monthly Collections into the Distribution Account on the 6th business day prior to each Payment Date (the 26th day of each month). If its credit rating fails to satisfy Servicer Required Rating and the Servicer fails to provide Monthly Collateral as required by the transaction documents, Collections collected by the Servicer will be required to be remitted by it to the Distribution Account on the 3rd Business Day after receipt of such Collections.

(2) Cash Flow Payment Mechanism

Definition of the trigger event

The cash flow payment mechanism may vary depending on whether there is a Foreclosure Event.

Foreclosure Event means any of the following events: (a) with respect to the Issuer an Insolvency Event occurs; or (b) the Issuer defaults in the payment of any interest on the Controlling Notes then outstanding when the same becomes due and payable, and such default continues for a period of 10 Business Days (or such longer period as approved at a Controlling Noteholders' Meeting); or (c) the Issuer defaults in the payment of principal of any Note on the Legal Maturity Date, provided that it shall not be a Foreclosure Event until after a decision has been made by unanimous consent at the relevant Controlling Noteholders' Meeting that the replacement of the Issuer with another Trust Company which meets the Trust Company Qualified Standard is not viable.

Distribution of Collections

According to the transaction documents, prior to the occurrence of a Foreclosure Event, the Available Distribution Amount shall be distributed in the following order of priority: (a) taxes (if any); (b) servicer fee payable to the Servicer; (c) fees and expenses payable to transaction parties; (d) interest accrued on the Class A Notes; (e) to the Cash Collateral Account to the extent needed to replenish and maintain the credit balance of the Cash Collateral Account at a level equal to the Specified Cash Collateral Account Balance[3]; (f) the outstanding principal amount of the Class A Notes until the Target Note Balance is reached; (g) interest accrued on the Subordinated Notes; (h) in the case that the Originator does not exercise a Clean-Up Call, to the Subordinated Noteholders for repayment of outstanding principal amounts of Subordinated Notes on condition that the

[2] "Servicer Required Rating" means, (a) in relation to the Lianhe Ratings' rating system, A and higher credit rating; (b) in relation to the China Bond Ratings' rating system, A- and higher credit rating.

[3] "Specified Cash Collateral Account Balance" means, initially RMB 96 million and, on each Payment Date the greater of (a) 1.2 per cent. of the Aggregate Discounted Receivables Balance as of the end of the Monthly Period, and (b) the lesser of (i) RMB 80 million and (ii) the aggregate outstanding principal amount of the Class A Notes as of the end of the Monthly Period.

outstanding principal amounts of Subordinated Notes after repayment is no less than 5% of the then outstanding principal amount of the Notes, or after the Originator choose to exercise a Clean-Up Call, to the Subordinated Noteholders, for repayment of outstanding principal amounts of Subordinated Notes until it has been reduced to zero; (i) pay all remaining excess to the Originator by way of final success fee. The cash flow payment mechanism prior to a Foreclosure Event is presented in Attached Chart 1.

Following the occurrence of a Foreclosure Event, distributions will be made from the Available Distribution Amount and the amount which credited to Cash Collateral Account according to the following order of priority: (a) taxes (if any); (b) servicer fee payable to the Servicer; (c) fees and expenses payable to transaction parties; (d) interest accrued on the Class A Notes; (e) principal payment of the Class A Notes until the Class A Notes are redeemed in full; (f) interest accrued on the Subordinated Notes; (g) in the case that the Originator does not exercise a Clean-Up Call, to the Subordinated Noteholders for repayment of outstanding principal amounts of Subordinated Notes on condition that the outstanding principal amounts of Subordinated Notes after repayment is no less than 5% of the then outstanding principal amount of the Notes, or after the Originator choose to exercise a Clean-Up Call, to the Subordinated Noteholders, for repayment of outstanding principal amounts of Subordinated Notes until it has been reduced to zero; (h) pay all remaining excess to the Originator by way of final success fee. The cash flow payment mechanism following a Foreclosure Event is presented in Attached Chart 2.

II. Transaction Structure Analysis

1. Structural Arrangements

The setup of the senior/subordinated structure, overcollateralization, targeted overcollateralization amount and trigger event provides credit enhancement for the Senior Notes, and the Cash Collateral and Monthly Collateral structure mitigate risks in the meanwhile.

By reference to the global standards of the Driver [4], the offering size of the Notes is determined on the basis of the Discounted Receivables Balance of the pool as of the Cut-off Date, covering senior costs and interests for the Notes at all levels.

(1) Senior/Subordinated Structure

The Notes are divided into 2 tranches, i.e. Class A Notes and Subordinated Notes. Collections from the asset pool and the return on reinvestment are distributed in accordance with the cash flow payment mechanism. The Subordinated Notes provide credit loss protection for Class A Notes. On the Cut-off Date, Class A notes have credit enhancement of 10.30% supported by the subordinated notes.

(2) Overcollateralization

As an approach to credit enhancement, this overcollateralization equals to 0.50% of the Cut-off Date Discounted Receivables Balance. Discounted at 4.2758%, the total value of Class A Notes and Subordinated Notes accounts for 99.50% of the Cut-off Date Discounted Receivables Balance. The overcollateralization provides certain credit enhancement to the Class A Notes.

(3) Targeted Overcollateralization Amount

Depending on the performance of the asset pool, various Credit Enhancement Increase Condition[5] will be in effect. Under different Credit Enhancement Increase Condition, the Targeted overcollateralization percentages are different for Senior Notes. Until the overcollateralization level

4 Driver is a standard structure applied by Volkswagen Financial Services AG in offering of asset-backed securities globally.

5 "Credit Enhancement Increase Condition": A credit enhancement increase condition shall be deemed to have occurred if (a) the cumulative loss ratio exceeds 1.20% on any payment date prior to August 2023 or within that period; or (b) the cumulative loss ratio exceeds 1.60% since September 2023 but prior to April 2024 or on any payment date within that period; or (c) on any payment date, the cumulative loss ratio exceeds 2.00%.

reaches this targeted level for the Senior Notes, the Collections shall not be used to pay the Subordinated Notes or the Originator. Specifically, (a) the Targeted overcollateralization percentage is 23% for Class A Notes, before the triggering of Credit Enhancement Increase Condition; and (b) the Targeted Overcollateralisation percentage is 100% for Class A Notes, after the triggering of Credit Enhancement Increase Condition.

Prior to the triggering of Credit Enhancement Increase Condition, Subordinated Notes will be paid in part, before Senior Notes are paid in full. In extreme conditions, Subordinated Notes are paid in larger part than Senior Notes, hence Subordinated Notes will provide lower credit support to Senior Notes.

(4) Monthly Collateral Mechanism

This transaction establishes a Monthly Collateral Mechanism. If the Servicer's credit rating reaches Servicer Required Rating or above, the amount deposited will be zero. If the credit rating of the Servicer is below Servicer Required Rating, the Servicer should deposit its own funds (roughly equaling to the projected collections from the asset pool for every 15 calendar days) into the Distribution Account on a semi-monthly basis as a collateral for monthly Collections. On the 6th working day before each payment date, the Service's relevant monthly collections transferred to the Distribution Account can be offset against the monthly collateral funds that have been transferred to the Distribution Account. The relevant difference is made up by the Servicer, and the excess amount is returned to the Servicer. The Monthly Collateral arrangement is of some effect to mitigate commingling risk.

(5) Cash Collateral Account

Amount in Cash Collateral Account is used to mitigate liquidity risk. The Issuer shall on the Issue Date deposit RMB 96 million into the Cash Collateral Account, which serves as the Initial Cash Collateral Amount. After that the amount in Cash Collateral Account will be maintained at the level of Specified Cash Collateral Account Balance on respective Payment Date. In the absence of a Foreclosure Event, funds in the Cash Collateral Account will be used to make up shortfalls in items (a)-(d) following the order of payment that applies before the occurrence of the Foreclosure event – prior to the Legal Maturity Date, or in the event of repayment of the auto loans, the funds may also be used to pay items (f)-(i) specified in the payment order that applies before the occurrence of a Foreclosure Event; upon occurrence of a Foreclosure Event, funds in the Cash Collateral Account and the Distribution Account will be distributed. Prior to the occurrence of a Foreclosure Event and if Credit Enhancement Increase Condition is not triggered, the Issuer shall distribute or pay the amount in excess of Specified Cash Collateral Account Balance to the Subordinated Noteholder or the Originator on each Payment Date.

(6) Trigger Event

This transaction adopts a trigger mechanism for Foreclosure Events. If the Foreclosure Event occurs, the cash flow payment mechanism will be rearranged. After payment of taxes (if any), fees payable to the Servicer and fees and expenses payable to transaction parties, all collections will be used to repay the principal and interest of the Class A Notes in full, and then be used to repay the principal and interest of the Subordinated Notes. This trigger event mitigates foreclosure risks and offers credit enhancement for Senior Notes.

2. Risk Analysis of the Transaction Structure

(1) Commingling risk

Commingling risk refers to the risk of uncertain income from trust property, when the Servicer becomes insolvent, as principal and interest Collections of loan portfolio may be commingled with the Servicer's own funds.

If the Servicer's credit rating satisfies Servicer Required Rating or above, the Servicer has the right to commingle the Collections with its own funds, and will only be required to make a single deposit of such monthly Collections into the

Distribution Account. In addition, a Monthly Collateral Mechanism is set up to mitigate such commingling risk. If the credit rating of the Servicer fails to satisfy Servicer Required Rating, the Servicer should deposit from its own funds an amount which equals the amount of Collections projected for 15 calendar days into the Distribution Account twice a month as a collateral for actual monthly Collections. Otherwise, the Servicer should transfer Collections into the Distribution Account on the 3rd working day after receiving Collections.

Considering the creation of mandatory rating and Monthly Collateral Mechanism, Lianhe Ratings believes that this transaction has relatively low commingling risk.

(2) Set-off risk

Set-off risk refers to a risk of Collections of loan portfolio due to a borrower's exercise of right to set-off its obligations under the loan contract.

In this respect, the Originator has made a requirement for the transferred loan, that is, a borrower has no set-off claim thereto or thereunder, and the status and enforceability of the transferred loan is not impaired by the set-off right. Therefore, no set-off risk exists in this transaction.

(3) Liquidity Risk

Liquidity risk results from the time and amount mismatches between cash inflow of asset pool and interest payment on the Senior Notes. The repayment frequency of the underlying assets and the payment frequency of the securities of the transaction are both monthly, and Lianhe Ratings believes that there is a small likelihood of liquidity risk in the transaction arising out of time mismatch. Such likelihood has been measured via pressure test, and the rating results have taken into account the likelihood of liquidity risk due to amount mismatch.

(4) Pre-repayment and delinquency risk

A relatively high prepayment rate will allow Collections to be used to redeem Subordinated Notes and pay the Originator after having paid to Senior Notes a target amount as provided for under the structural arrangement in this transaction. This may result in an adverse effect to the ability to redeem Senior Notes during later periods. In addition, the pooled loan obligor's delinquency may lead to liquidity risk.

According to VWFC's contract, the borrower may request changes of prepayment, VWFC has the right to approve or not, and the prepayment will be charged at the rate of 3% over the amount prepaid. If the borrower enjoys a prime rate, the repayment schedule is unable to change. The above provisions can constrain borrowers' prepayment to some extent, and mitigate relevant risks. Meanwhile, Lianhe Ratings has considered the influence of prepayment and default on Collections through cash flow analysis, and related risks have been expressed in the test results.

(5) Legal risks posed by the failure to change the registration of mortgage rights

In this transaction, the Originator transferred the underlying assets to the Issuer. Meanwhile, the lien thereon was also transferred to the Issuer. However, the re-registration of lien failed, other creditor of the borrower may in the name of "bona fide third party" claim rights to the mortgage automobiles, which will expose trust property to certain legal risk.

3. Contractual Capacities of Major Participants

(1) Originator/Servicer

VWFC acts as the Originator/Servicer in this transaction. The operations, capital resources and financial conditions of VWFC, as the Originator, may affect the performance of its commitments in this transaction. Meanwhile, its corporate governance, credit culture, risk control and internal control may affect the origination mode and review standards, which will further affect the credit quality of the securitized loan portfolio. The service ability of VWFC, as the Servicer, will directly affect the credit performance of the pooled loans.

VWFC is a wholly-owned subsidiary of Volkswagen Financial Services AG, the largest

European auto financing servicer. In 1998, VWFC was founded as a representative office. In August 2004, under the supervision of CBIRC, VWFC was duly registered and licensed in Beijing as a non-banking financial institution to conduct auto financing, with a purpose of promoting the sales growth of Volkswagen in China. VWFC follows the coherent service philosophy of its parent, and works with Volkswagen Group China's two joint ventures, i.e. SAIC Volkswagen and FAW-Volkswagen, together to provide professional financial products and services for consumers. In the first year of formation, VWFC started retail loan business, and in 2006, it started wholesale loan business. As end of 2018, VWFC's registered capital increased to RMB8.2 billion from the initial RMB500 million. As end of 2021, VWFC's registered capital remained at RMB8.2 billion.

VWFC's primary business is to provide wholesale and retail financing for vehicle purchase in China. The brands supported by VWFC include VW, Audi, and Skoda etc. In response to market competition and company policies, VWFC has implemented "agile" projects with regard to businesses of customer+, used car and dealer financing, quickly responding to changes in manufacturers/customers/markets, enhancing competitiveness and sustainable development capabilities. In recent years, as young people gradually become the main group of car buyers, car sales have gradually move down into third and fourth tier cities. To meet the new situation, VWFC has reduced the threshold for car users by launching products with low down payment, long loan periods, and low interest rates to attract young customers.

As end of 2021, VWFC company total assets of RMB 83.02 billion, with a y-o-y decrease of 2.75%, and shareholders' equity of RMB 15.15 billion, with a y-o-y increase of 6.94%. For the year of 2021, VWFC realized operating revenue of RMB 2.92 billion and net profit of RMB 981 million, the net profit increased significantly compared to previous years due to a change in the accounting treatment of dealer service fees (which became amortization).

Table 2 Financial Highlights of VWFC

Unit: RMB Billion

Indicators	2019	2020	2021
Total Assets	77.20	85.37	83.02
Shareholders' Equity	13.75	14.16	15.15
Operating Revenue	2.73	2.52	2.92
Gross Profit	1.44	1.08	1.55
Net Profit	0.86	0.41	0.98

Sources: VWFC, compiled by Lianhe Ratings.

VWFC, under the risk management framework system of the headquarters, meet all the local regulatory requirements. In recent years, VWFC has streamlined the risk control policies by strengthening the management of used car business channels, integrating credit information of Baihang Credit and other third-party credit data, effectively reducing risk losses.

As end of 2021, VWFC's NPL ratio of Retail loans stood at a relatively low level of 0.39%, showing a high level of risk control.

With regard to asset securitization, VWFC, as the Originator, has launched many Auto Loan ABS programs successfully in the interbank bond market, and acted as the Servicer in these transactions. It has rich experience in securitization and loan services.

Overall, VWFC has sound corporate governance, financial status, asset quality, risk control, as well as rich experience in auto loans and securitization. As the Originator and the Servicer in this transaction, VWFC has strong capability to provide good transaction-oriented services.

(2) Account Bank

Industrial and Commercial Bank of China Limited ("ICBC") Beijing Branch is the Account Bank in this transaction.

ICBC was founded in January 1984, and transformed to a joint stock limited company in October 2005. In October 2006, ICBC went on public in Shanghai and Hongkong Stock Exchange simultaneously. As end of June, 2022, the total amount of share capital of the ICBC was

RMB356.41 billion shares, of which the largest shareholder was Central Huijin Investment Ltd., holding 34.71% of the total shares, and the second largest shareholder was the Ministry of Finance of the People's Republic of China, holding 31.14% of the total shares.

As end of 2021, ICBC recorded total assets of RMB 35.17 trillion, with loans and advances totaling RMB 20.11 trillion; total liabilities of RMB 31.90 trillion, with customer deposits totaling RMB 26.44 trillion; and shareholders' equity of RMB 3.28 trillion. As end of 2021, ICBC recorded NPL ratio of 1.42%, capital adequacy ratio of 18.02%, and core Tier 1 capital adequacy ratio of 13.31%. In 2021, ICBC achieved operating income of RMB 942.76 billion and net profit of RMB 350.22 billion.

In terms of custody business, ICBC expands popular fields and emerging markets actively, and promotes intelligent custody bank construction and intelligent operating platform steadily. As of the end of 2021, the custody business amounted to RMB 2.21 trillion. In 2021, ICBC achieved custody business income of RMB 8.74 billion.

As of the end of June, 2022, ICBC recorded total assets of RMB 38.74 trillion, total liabilities of RMB 35.41 trillion, and shareholders' equity of RMB 3.33 trillion. From January to June 2022, ICBC achieved total operating income of RMB 487.27 billion and net profit of RMB 172.57 billion.

In terms of credit risk management, ICBC implements an independent, centralized, and vertical credit risk management mode, and continuously improves credit business processes, forming a management organization structure that separates the front, middle, and back offices of the credit business. In recent years, in accordance with changes in the macroeconomic environment and financial regulatory requirements, ICBC has actively supported the reasonable credit demand of the real economy, and maintained the growth of its total credit volume in line with the capital scale. ICBC has continued to promote the establishment of the credit system and optimize the credit operation process; timely adjust and improve various credit policies, intensify the adjustment of the credit structure, strictly control the credit risk in key areas, and strengthen the management of potential risky loans and the collection and disposal of non-performing loans. ICBC has continued to promote the application of internal rating results, accelerate the establishment of a credit risk monitoring and analysis center, improve the level of risk monitoring and supervision throughout the credit business process, and comprehensively strengthen credit risk management.

(3) Trust Company/Issuer

The Trust Company/Issuer of this transaction is CITIC Trust. CITIC Trust enjoys strong support from its shareholders, robust financial position, and well-established securities business, indicating strong capacity for fulfilling its duties.

CITIC Trust was established in March 1988. As end of 2021, CITIC Trust has a registered capital of RMB 11.28 billion. Its largest shareholder is China CITIC Co., Ltd., holding 82.26% of total shares, and its second largest shareholder is CITIC Industrial Investment Group Co., Ltd., holding 17.74% of total shares. The ultimate controller of CITIC Trust is CITIC Group Corporation Ltd.

As end of 2021, the total consolidated assets of CITIC Trust reached RMB 49.32 billion, total liabilities reached RMB 13.46 billion, and shareholders' equity stood at RMB 35.86 billion. In 2021, CITIC Trust achieved operating income of RMB 8.59 billion and net profit of RMB 3.50 billion.

CITIC Trust has rich experience in the field of asset securitization trusts. In recent years, CITIC Trust has issued multiple asset-backed securities.

In terms of risk management, CITIC Trust has established a Plan for Comprehensive Risk Management System to improve the complete risk management system from 5 aspects: organization, policies, process, technology and culture. Meanwhile, CITIC Trust also specifies overall risk preference and creates an annual risk preference and quota system, maintaining sufficient capital and liquidity to satisfy regulatory requirements and ensuring all risks are under control.

4. Legal and Other Factors

Legal opinions received: 1) VWFC is a limited liability corporation validly existing according to the PRC Laws and has the full capacity for civil rights and civil conducts to execute, deliver and perform the Transaction Documents to which it is a party according to the PRC Laws. 2) VWFC has obtained, pursuant to its articles of association and other relevant constitutional documents, all necessary internal authorizations for the execution, delivery and performance of the Transaction Documents of this Project. 3) The execution, delivery and performance of the Transaction Documents of this Project do not violate the PRC Laws applied to VWFC and its articles of association and other relevant constitutional documents. 4) Subject to the obtaining and completion of the below issues in section 5 below, the Transaction Documents, upon the legal and effective execution and delivery by the parties of this Project, shall constitute effective and binding documents to the parties of this Project and the parties may claim rights against other parties according to the provisions of the Transaction Documents. 5) The execution, delivery and performance of the Transaction Documents by VWFC to which it is a party is not subject to the approvals, permissions, authorizations and consents from any government authorities except for those which has already obtained and the issues as following: a) As the Originator, VWFC entrusts its specific auto mortgage creditor's rights, subsidiary mortgages and other subsidiary security interests to the Trust Company according to the Trust Agreement, and the Trust Company issues asset backed notes to the investment institution, which shall be registered in the CCRE and obtain the product information registration code; b) prior to the disclosure of information relating to the Asset Backed Notes contemplated to be issued, filing with PBOC according to the Notice on the Relevant Issues of the Administration of the Issuance of Asset Backed Notes; and c) for the purpose of trading of Asset Backed Notes in the National Inter-Bank Bond Market, the relationship between creditor and debtor shall be determined and clarified and registration shall be completed pursuant to Measures on Pilot Securitization Administration of Credit Assets and Adjustment to Administrative Policies on Bond Trading and Circulation in Inter-bank Bond Market. 6) Subject to the obtaining and completion of the above issues in section 5, the Trust is effectively established after filing with CBIRC and obtaining approval from PBOC in regard to this Project, the legal and effective execution and delivery of Transaction Documents of this Project by the parties and transfer of the specific collateral loan claims to be securitized from VWFC to the Trust Company according to the Trust Agreement. Trust Assets are separated from the other assets of VWFC. When VWFC is dissolved, revoked or declared bankrupt according to law, under the circumstance that VWFC is not the sole beneficiary of the Trust, the Trust would remain existing and the Trust Assets shall not be regarded as liquidation property, but only the trust beneficiary interest of subordinated Asset Backed Notes held by VWFC will be regarded as its liquidation property; under the circumstance that amounts payable of Senior Asset Backed Notes have been fully paid and VWFC as the holder of subordinated Asset Backed Notes is the sole beneficiary, then the Trust shall be terminated and the Trust Assets shall be its liquidation property. Trust Assets are also separated from the assets owned by the Trust Company. If the Trust Company is dissolved, revoked or declared bankrupt according to law, the Trust Assets shall not be regarded as its liquidation property. 7) Subject to the obtaining and completion of the above issues in section 5, the transfer of the specific collateral loan claims by VWFC shall have legal effect between VWFC and the Trust Company after filing with CBRC and obtaining approval from PBOC in regard to this Project, the legal and effective execution and delivery of Transaction Documents by the parties of this Project. If any event takes place under which Right Perfection Notice shall be delivered according to the Trust Agreement, the transfer of creditor's right shall have legal effect to the borrower after a notice of the transfer of creditor's right in the form of Right Perfection Notice has been given to the borrower. 8) When VWFC transfers the specific collateral loan claims to be securitized according to the Trust Agreement, it shall transfer the mortgage relating to the specific collateral loan claims in the meantime. Pursuant to Article 403 of the Civil Code of the People's Republic of China (hereinafter as "Civil Code"), for a mortgaged movable property, the mortgage rights are created on the date on which the mortgage contract enters into effect; without registration, the mortgage rights may not be used as a defense against a bone fide third party. According to Article 407 of the Civil Code, mortgage may not be assigned independently from the creditor's rights or used to secure other creditor's rights. Unless it is otherwise prescribed by any law or is otherwise stipulated by the parties, when the creditor's rights are assigned, the mortgage thereof shall be assigned concurrently. Moreover, according to Article 547 of the Civil Code, where a creditor assigns his claim, the assignee shall acquire the accessory right related to the claim, unless the accessory right belongs exclusively to the creditor. Failure to register the assignment of the accessory right or failure to transfer the possession thereof shall not affect the acquisition of the accessory right by the assignee. Therefore, in this Project, the Trust Company shall still enjoy the title to the mortgage over the automobile even without completing the registration of mortgage or registration of the change of mortgage, but it may not against a bona fide third party. 9) According to the due diligence, we are of the opinion that the examined sampled collateral loans are in line with the standard of representations and warranties of Underlying Asset Pool given by VWFC pursuant to the Trust Agreement and the related Loan Contracts, mortgage agreements and other relevant legal documents regarding the asset pool are in line with laws and regulations. 10) It complies with the Trust Law, Measures on Pilot Securitization Administration of Credit Assets, Measures for the Supervision and Administration of Pilot Projects of Credit Asset Securitization of Financial Institutions to utilize the specific collateral loan claims, subordinated mortgage and other subordinated security interests held by VWFC as the underlying assets of securitization of credit assets and the Underlying Asset Pool can be entrusted according to law.

Accounting opinions received: VWFC will consolidate the special purpose trust of Driver China fourteen Asset-Backed Securitization, The auto mortgage loans will not be de-recognized from the accounts of VWFC.

Tax opinions received: 1) Value-added tax (hereinafter referred to as the "VAT"): (1) Interest income earned from the trust property shall be fully subject to VAT. (2) The service fee income obtained by the loan servicer, the trust remuneration obtained by the trustee institution, the registration/custody fee obtained by the registration institution, and the service fee income obtained by other institutions providing VAT-taxable services for automobile mortgage securitization transactions shall be subject to VAT in accordance with the relevant policies and regulations. (3) If the income of investors of financial institutions (including banks and non-bank financial institutions) and non-financial institutional investors during the period of holding asset-backed securities of automobile mortgage loan (including maturity) is principal guaranteed income, it shall be regarded as loan service, and the corresponding interest income shall be subject to VAT. (4) VAT shall be paid on the difference income calculated by subtracting the selling price from buying price obtained by investors of financial institutions (including banks and non-bank financial institutions) and non-financial institutions from the sale of asset-backed securities of automobile mortgages.

2) Corporation Income Tax (hereinafter referred to as the "CIT"): (1) Income from the transfer of retail auto loan assets by VWFC as the Originator shall be subject to CIT according to relevant CIT policies, and the loss incurred from such asset transfer may be deducted according to CIT policies. (2) CIT is not imposed, at the trust level, return on the trust project that is allocated to institutional investors in the year where such return is acquired. For the part of the trust return that is not allocated to the institutional investors in the same year of acquisition, the trustee shall, at the trust level, declare and pay CIT in accordance with the policies on CIT. (3) The price spread from the auto loan securities trading made by institutional investors shall be subject to CIT in accordance with the CIT policies, while the losses occurred from retail auto loan securities trading may be deducted according to relevant CIT policies. Income derived from trust liquidation by institutional investors shall be subject to CIT according to relevant CIT policies, and losses occurred in the liquidation may be deducted according to relevant CIT regulations. (4) The service income obtained by VWFC as a loan service institution, the trust remuneration obtained by CITIC Trust as a trustee institution, the remuneration obtained by INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, BEIJING BRANCH, the remuneration obtained by the CDCC or other institutions designated by the regulatory department to provide Asset-backed Securities registration and custody services as a registration and custody institution, the service fee income obtained by other institutions providing services for the securitization of automobile mortgage assets shall be incorporated into their taxable income and paid corporate income tax at their applicable tax rates.

3) Stamp Duty ("SD"): All processes of this transaction are exempted from SD.

III. Credit Quality Analysis of Underlying Assets

Lianhe Ratings evaluates the credit risk of pooled assets in this transaction depending on the model, development and historical performance of the auto loan business, and considering the overall credit conditions of pooled assets.

1. Asset Pool Analysis

The initial assets are normal according to the "5-category" loan classification method, indicating a good quality.

More details of initial asset pool are summarized below.

Table 3 Initial Pooled Assets on Cut-off Date

Outstanding principal balance (RMB Bn)	7.84
Discounted receivables balance (RMB Bn)	8.00
Total contract value (RMB Bn)	11.29
Discount rate (%)	4.2758
Number of loans	101,103
Number of borrowers	99,492
Average discounted receivable balance per loan (RMB Thousand)	79.1
Average discounted receivable balance per borrower (RMB Thousand)	80.4
Max Original Loan Principal Balance per loan (RMB Mn)	2.78
Max discounted receivable balance per loan (RMB Mn)	2.52
Weighted average loan rate (%)	5.11
Max loan rate (%)	15.39
Borrower weighted average age (year)	36.50
Weighted average loan term (month)	39.55
Weighted average remaining term (month)	30.31
Weighted average loan age (month)	9.24
Max remaining term per loan (month)	58.00
Min remaining term per loan (month)	6.00
Weighted average initial mortgage rate (%)	64.99
Proportion of new car (%)	94.87

Note: 1. Weighted averages are calculated on the basis of outstanding discounted receivables balance on cut-off date. If not specified,

following statistics will be calculated under same data.
2. Ages, contract duration, remaining period and accounting aging as of the cut-off date are provided by VWFC.
3. The initial mortgage rate is calculated based on the down payment ratio provided by VWFC, the initial mortgage rate = 1 - down payment ratio
Sources: VWFC, compiled by Lianhe Ratings.

2. Distribution of Discounted Receivables Balance

The max discounted receivables balance per loan is RMB 2.5 million, accounting for 0.03% of aggregate discounted receivables balance. Average discounted receivables balance per loan is RMB 79.1 thousand with good diversification. See details in Table 4.

Table 4 Distribution of Discounted Receivables Balance

Unit: RMB Mn, %

Discounted Receivables Balance	No. of Loans	Discounted Receivables Balance	% in Total
(0, 0.05]	40,088	1,272.76	15.91
(0.05, 0.10]	38,557	2,760.90	34.51
(0.10, 0.15]	12,000	1,459.15	18.24
(0.15, 0.20]	5,271	909.39	11.37
(0.20, 0.25]	2,324	516.82	6.46
(0.25, 0.30]	1,186	323.26	4.04
(0.30, 0.35]	564	180.90	2.26
(0.35, 0.40]	341	127.05	1.59
> 0.40	772	449.94	5.62
Total	**101,103**	**8,000.16**	**100.00**

Notes: 1. (,] is a half-open range, for example, (0, 0.05] means more than 0 but less than or equal to 0.05, and so on.
Sources: VWFC, compiled by Lianhe Ratings.

3. Distribution of Down Payment Ratio

The weighted average down payment ratio of the pooled loans is 35.01%, and the aggregate discounted receivables balance of loans with down payment ratios ranging from 20% (inclusive) to 50% (inclusive) accounts for 88.47% of the total, showing a reasonable distribution (see the table below).

Table 5 Distribution of Down Payment

Unit: RMB Mn, %

Down Payments Ratio	No. of Loans	Discounted Receivables Balance	% in Total
[20, 30]	26,839	3,043.23	38.04
(30, 40]	26,551	2,132.65	26.66
(40, 50]	31,387	1,902.08	23.78
(50, 60]	12,711	740.73	9.26
(60, 70]	2,701	140.14	1.75
(70, 80]	902	40.81	0.51
(80, 90]	12	0.52	0.01
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

All else being equal, the probability of default is inversely correlated with the down payment ratio.

4. Distribution of Initial Mortgage Rate

84.71% of pooled loans have the initial mortgage rate more than 50%, and the weighted average initial mortgage rate is 64.99%, more details are shown below.

Table 6 Distribution of Initial Mortgage Rate

Unit: RMB Mn, %

Initial Mortgage Rate	No. of Loans	Discounted Receivables Balance	% in Total
(10, 20]	46	1.67	0.02
(20, 30]	909	42.03	0.53
(30, 40]	3,158	184.58	2.31
(40, 50]	16,227	995.03	12.44
(50, 60]	30,661	1,768.02	22.10
(60, 70]	26,813	2,297.57	28.72
(70, 100]	23,289	2,711.26	33.89
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

5. Distribution of Interest Rate

All pooled loans bear fixed interest rate, with weighted average interest rate of 5.11%, as detailed below.

Table 7 Distribution of Interest Rate

Unit: RMB Mn, %

Interest Rate	No. of Loans	Discounted Receivables Balance	% in Total
0	36,761	1,572.54	19.66

(0, 4]	13,417	814.95	10.19
(4, 5]	9,923	871.95	10.90
(5, 6]	12,427	1,142.57	14.28
(6, 7]	14,863	1,715.05	21.44
(7, 8]	7,554	1,074.44	13.43
(8, 9]	2,973	420.22	5.25
> 9	3,185	388.45	4.86
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

6. Loans Guarantee

All pooled loans are mortgage loans, which will help improve post-default recovery.

7. Distribution of Contract Term

The contract terms are mainly distributed between 24, 36 and 60 months, and the weighted average term is 39.55 months, as detailed below.

Table 8 Distribution of Contract Term

Unit: RMB Mn, %

Contract Term	No. of Loans	Discounted Receivables Balance	% in Total
12	434	35.81	0.45
18	208	8.62	0.11
24	44,412	2,087.63	26.09
36	38,391	3,427.77	42.85
48	3,384	340.90	4.26
60	14,274	2,099.42	26.24
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

8. Distribution of Loan Age

Loan ages are mainly less than 12 months, accounting for 78.02% of discounted receivables balance, and the weighted average loan age is 9.24 months.

Table 9 Distribution of Loan Age

Unit: RMB Mn, %

Loan Age	No. of Loans	Discounted Receivables Balance	% in Total
(2, 12]	71,814	6,241.40	78.02
(12, 24]	27,245	1,673.27	20.92
(24, 36]	1,976	82.66	1.03
> 36	68	2.83	0.04
Total	**101,103**	**8,000.16**	**100.00**

Note: [,] is a close interval, for example, [2, 12] means more than or equal to 2 but less than or equal to 12, and so on.
Sources: VWFC, compiled by Lianhe Ratings.

9. Distribution of Remaining Term

The weighted average remaining term in this transaction is 30.31 months, and the longest and shortest term are 58 and 6 months respectively.

Table 10 Distribution of Remaining Term

Unit: RMB Mn, %

Remaining Term	No. of Loans	Discounted Receivables Balance	% in Total
(6, 12]	17,001	525.69	6.57
(12, 24]	43,767	2,702.52	33.78
(24, 36]	24,579	2,492.35	31.15
(36, 48]	6,276	784.26	9.80
(48, 60]	9,480	1,495.33	18.69
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

10. Distribution of Loan Type

In this transaction there exists four types of loans: Non-Balloon Credit for New Car, Non-Balloon Credit for Used Car, Exquisite Easy Loan and Enjoyable Balance Loan, among which the Non-Balloon Credit for New Car accounts for 94.22% of the balance, as detailed below.

Table 11 Distribution of Loan Type

Unit: RMB Mn, %

Loan Type	No. of Loans	Discounted Receivables Balance	% in Total
Non-Balloon Credit for New Car	96,264	7,537.87	94.22
Non-Balloon Credit for Used Car	4,573	410.54	5.13
Exquisite Easy Loan	262	50.68	0.63
Enjoyable Balance Loan	4	1.06	0.01
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

11. Distribution of Personal Borrowers' Annual Income

According to VWFC, borrowers with an annual income of RMB 0.3 million or below accounted for 78.76% among personal borrowers as of the release date. More details are shown below.

Table 12 Distribution of Personal Borrowers' Annual Income (Excluding Corporation Loans)

Unit: RMB Mn, %

Income	No. of Loans	Discounted Receivables Balance	% in Total
(0, 10]	27,335	1,449.17	19.74
(10, 20]	45,296	3,096.36	42.17
(20, 30]	12,977	1,237.09	16.85
(30, 40]	4,413	556.85	7.58
(40, 50]	1,707	247.49	3.37
> 50	3,852	754.92	10.28
Total	**95,580**	**7,341.88**	**100.00**

Notes: 1. The asset pool involved a total of 95,580 personal loans, with a discounted receivables balance of RMB 7,341.88 million; involving 5,523 corporate loans, with a discounted receivables balance of RMB 658.28 million;

2. The percentages related to the characteristics of personal borrowers are calculated based on the loan size excluding corporation loans, and so on.

Sources: VWFC, compiled by Lianhe Ratings.

12. Distribution of Personal Borrowers' Age

As of the cut-off date, the weighted average borrower age in this transaction is 36.50 years old, and majority borrowers are on their career upswing with bright prospects and rising income. More details are shown below.

Table 13 Distribution of Personal Borrowers' Age (Excluding Corporation Loans)

Unit: RMB Mn, %

Age	No. of Loans	Discounted Receivables Balance	% in Total
[18, 20]	996	70.02	0.95
(20, 30]	28,039	2,086.17	28.41
(30, 40]	37,980	2,975.47	40.53
(40, 50]	19,221	1,482.35	20.19
> 50	9,344	727.86	9.91
Total	**95,580**	**7,341.88**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

13. Distribution of Borrowers' Career

According to VWFC, the borrower's career distribution are scattered, as details below.

Table 14 Distribution of Borrowers' Career

Unit: RMB Mn, %

Career	No. of Loans	Discounted Receivables Balance	% in Total
Employee	32,360	2,088.65	28.45
Manager	19,218	1,895.25	25.81
Self-employed	12,964	1,005.67	13.70
Worker	15,117	918.37	12.51
Legal Representative	3,735	516.58	7.04
Civil Servant	4,456	360.77	4.91
Professional (Doctor, Faculty)	4,762	339.68	4.63
Freelancer	1,284	94.13	1.28
Certified Professionals	241	19.36	0.26
Others	1,443	103.43	1.41
Total	**95,580**	**7,341.88**	**100.00**

Note: Careers are classified by VWFC.

Sources: VWFC, compiled by Lianhe Ratings.

14. Distribution of Pooled Assets by Region

The economic development and living cost are key factors affecting borrowers' capacity of repayment. The pooled assets distribute sparsely in 31 provinces and municipalities, among which the discounted receivables balance of Shandong Provinces accounts for most, up to 9.89%. More details are shown below.

Table 15 Outstanding Principal of Pooled Assets in Top 10 Regions

Unit: RMB Mn, %

Region	No. of Loans	Discounted Receivables Balance	% in Total
Shandong	10,443	791.51	9.89
Henan	7,323	514.59	6.43
Hebei	7,604	447.73	5.60
Guangdong	5,050	446.40	5.58
Zhejiang	6,381	426.31	5.33
Sichuan	5,431	394.63	4.93
Shanxi	4,117	387.49	4.84
Hubei	4,509	380.82	4.76

Beijing	4,226	367.37	4.59
Jiangsu	4,704	339.04	4.24
Total	**59,788**	**4,495.88**	**56.20**

Sources: VWFC, compiled by Lianhe Ratings.

15. Distribution of Auto Brand

The transaction involves Volkswagen, Audi, Skoda and other brands, among which the amount of FAW Volkswagen accounts for most of discounted receivables balance, at 58.58%. More details are shown below.

Table 16 Distribution of Auto Brand

Unit: RMB Mn, %

Brand	No. of Loans	Discounted Receivables Balance	% in Total
VW	70,910	4,686.77	58.58
Audi	14,290	2,182.07	27.28
Jetta	10,023	437.24	5.47
Porsche	556	243.12	3.04
Imported VW	590	125.45	1.57
Skoda	2,599	108.05	1.35
Bentley	20	34.04	0.43
Lamborghini	6	9.78	0.12
Others	2,109	173.63	2.17
Total	**101,103**	**8,000.16**	**100.00**

Note: The "VW" include "FAW Volkswagen" and "SAIC Volkswagen"
Sources: VWFC, compiled by Lianhe Ratings.

16. Distribution of Auto Price

The auto with initial price less than RMB 0.2 million accounts for 53.49% of discounted receivables balance. Some auto are priced more than RMB 0.4 million, and the highest is RMB 4.13 million, as detailed below.

Table 17 Distribution of Auto Price

Unit: RMB Mn, %

Price	No. of Loans	Discounted Receivables Balance	% in Total
(0, 0.1]	20,190	731.35	9.14
(0.1, 0.2]	55,980	3,548.09	44.35
(0.2, 0.3]	14,278	1,470.61	18.38
(0.3, 0.4]	7,168	1,172.26	14.65
> 0.4	3,487	1,077.85	13.47
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

17. Distribution of Collateral

In this transaction, the new and used cars account for 94.87% and 5.13% of discounted receivables balance respectively.

Table 18 Distribution of Collateral

Unit: RMB Mn, %

Collateral	No. of Loans	Discounted Receivables Balance	% in Total
New car	96,530	7,589.62	94.87
Used car	4,573	410.54	5.13
Total	**101,103**	**8,000.16**	**100.00**

Sources: VWFC, compiled by Lianhe Ratings.

IV. Quantitative Analysis

1. Cash Flow Analysis

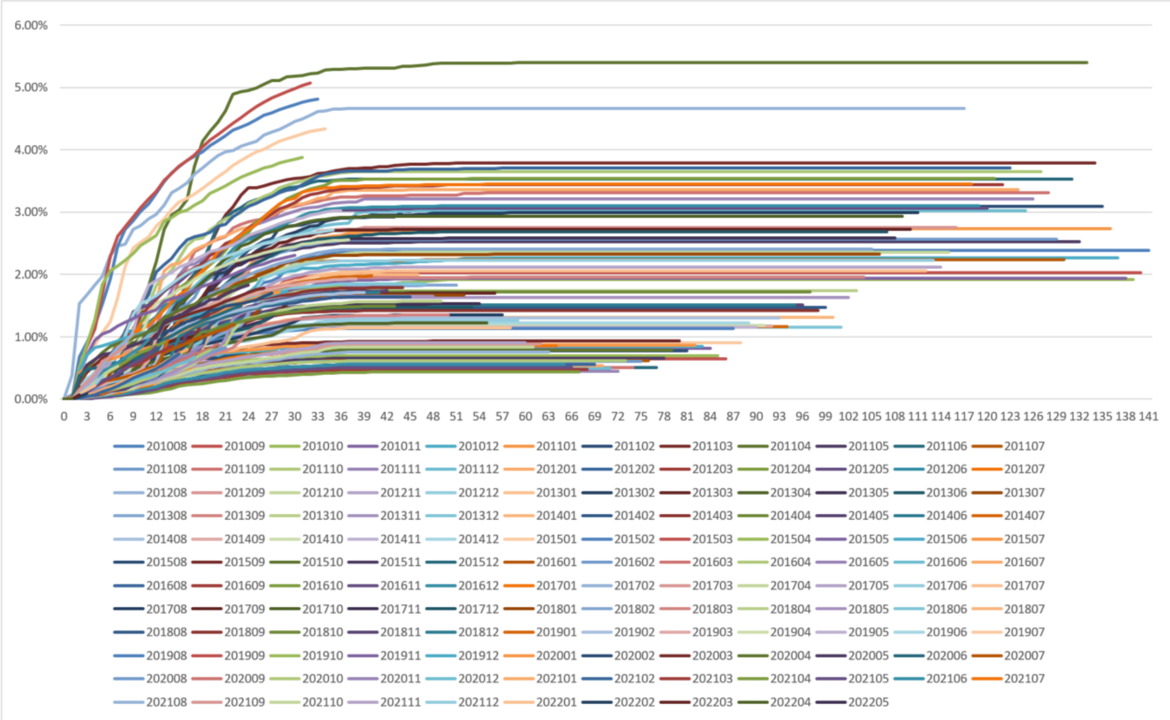
The underlying assets of the transaction involve the 101,103 personal auto loans granted by VWFC. Based on the cash-flow characteristics of the transaction, Lianhe Ratings figures out 3 quantitative indicators, i.e. accumulated default rate[6], recovery rate, and prepayment rate, based on the historical data of the subject business provided by VWFC, which are used to analyze the future cash flow conditions of the transaction.

Regarding the historical performance of personal loans with vehicles as collateral, Lianhe Ratings summarized the data of 142 static pools from August 2010 to May 2022 (the observation period of data from November 2021 to May 2022 is short and thus not referred to), and separately

[6] Lianhe Ratings defines loans overdue for more than 30 days in the rating project of auto financial asset securitization as default loans, based on which to calculate default rate.

calculated the accumulated default rate for observation. The accumulated default rates of the static pools in the ensuing months are detailed below:

Figure 2 Accumulated Default Rate (Overdue 30 Days or More) of the Static Pools in the Ensuing Months



Sources: VWFC, compiled by Lianhe Ratings..

Note: "201008" refers to loans issued between 1 August 2010 and 31 August 2010. The pattern also applies to other dates.

As an indicator measuring defaults on repayment of the underlying assets, accumulated default rate is calculated based on default distribution in the static pools and is used to simulate the decrease in the principal of the asset pool caused by defaults. Lianhe Ratings summarizes the incremental matrix of default rate of the available static pools in each month based on historical data, and calculates the average default rate increment of all available static pools in each period and the time distribution of default rate of the average default rate increment in each period, thus concluding that the expected accumulated default rate of the static asset pool in 60 terms[7] is 1.91%, and the expected accumulated default rate adjusted for loan age[8] is 1.21%.

Regarding the recovery rate, based on the formula that "Asset recovery rate = (Outstanding principal balance of assets overdue for more than 30 days in cumulative term in the static pools – outstanding principal balance[9] finally identified as bad loans in the static pools)/outstanding principal balance of assets overdue for more than 30 days in cumulative term in the static pools", Lianhe Ratings figures out the recovery rate of overdue assets in each static pool. Lianhe Ratings calculated the recovery rate of the assets in each month since August 2010, and determined the basic recovery rate of the assets pool is 50.79%, and concluded the recovery rate of the static pools as follows by calculating the arithmetic average recovery rate of the static pools after wiping off

[7] The longest contract term of the pooled assets is 60 months.

[8] The expected cumulative default rate of the remaining period (CDR_2) is used for forecast the default performance of the asset pool over the remaining period, the formula is $CDR_2 = CDR_0 - CDR_1$, CDR_0 is the expected cumulative default rate over the whole period, CDR_1 is the expected cumulative default rate over the exsiting loan age.

[9] Balance of outstanding principal of bad loans included in the static pool = balance of outstanding principal of loans that are past due more than 180 days + balance of outstanding principal of write-offs.

several static pool samples which do not display the recovery ability due to the short time span:

Table 19 Recovery Rate of The Assets of The Static Pools

Static Pool	Recovery Rate (%)	Static Pool	Recovery Rate (%)	Static Pool	Recovery Rate (%)
August 2010	75.83	March 2014	32.86	September 2017	46.89
September 2010	80.12	April 2014	44.00	October 2017	45.77
October 2010	74.95	May 2014	46.09	November 2017	52.70
November 2010	72.23	June 2014	38.48	December 2017	57.38
December 2010	79.03	July 2014	25.94	January 2018	47.78
January 2011	70.40	August 2014	47.24	February 2018	47.32
February 2011	69.99	September 2014	44.80	March 2018	48.32
March 2011	74.97	October 2014	37.79	April 2018	52.80
April 2011	82.18	November 2014	45.28	May 2018	52.19
May 2011	69.41	December 2014	51.42	June 2018	49.93
June 2011	76.61	January 2015	49.07	July 2018	55.51
July 2011	68.97	February 2015	50.30	August 2018	53.56
August 2011	65.04	March 2015	38.44	September 2018	56.04
September 2011	67.17	April 2015	54.12	October 2018	54.86
October 2011	74.09	May 2015	52.09	November 2018	55.74
November 2011	69.91	June 2015	33.50	December 2018	61.85
December 2011	69.32	July 2015	38.47	January 2019	64.93
January 2012	74.06	August 2015	28.25	February 2019	60.63
February 2012	71.23	September 2015	34.78	March 2019	59.68
March 2012	62.50	October 2015	44.16	April 2019	54.17
April 2012	68.10	November 2015	33.35	May 2019	50.90
May 2012	67.66	December 2015	32.92	June 2019	52.43
June 2012	70.65	January 2016	38.90	July 2019	43.61
July 2012	57.76	February 2016	49.68	August 2019	38.66
August 2012	71.44	March 2016	37.63	September 2019	37.25
September 2012	63.70	April 2016	30.71	October 2019	38.49
October 2012	63.35	May 2016	24.23	November 2019	40.95
November 2012	62.95	June 2016	34.90	December 2019	51.60
December 2012	60.29	July 2016	41.94	January 2020	54.36
January 2013	60.24	August 2016	25.55	February 2020	59.58
February 2013	62.85	September 2016	39.90	March 2020	34.35
March 2013	53.29	October 2016	40.60	April 2020	35.77
April 2013	55.69	November 2016	41.95	May 2020	36.70
May 2013	46.68	December 2016	45.18	June 2020	38.95
June 2013	52.25	January 2017	47.08	July 2020	46.56
July 2013	38.48	February 2017	42.97	August 2020	45.62
August 2013	56.10	March 2017	39.01	September 2020	40.78

September 2013	48.95	April 2017	40.74	October 2020	44.56
October 2013	37.66	May 2017	37.56	November 2020	36.20
November 2013	42.28	June 2017	43.48	December 2020	39.19
December 2013	49.93	July 2017	34.18	January 2021	46.05
January 2014	49.29	August 2017	41.74	February 2021	42.24
February 2014	48.52	**Average**		**50.79**	

Source: Lianhe Ratings

With respect to the prepayment rate, the transaction provides for the payment of interest on the Class A Notes on a monthly basis over the duration, and after the principal of the Class A Notes has been amortized on a pass-through basis until the corresponding target balance is reached, the funds remaining in the allocation account for the period will be used to repay interest and principal on the Subordinated Notes. The prepayment of the underlying assets reduces the interest generated by the pooled assets to a certain extent. A higher prepayment rate may result in the distribution of the recoveries to the Subordinated Notes and the originator before the senior tranche is repaid, which to a certain extent may adversely affect the payment of the Class A Notes at a later stage. Based on the available static pool, Lianhe Ratings has calculated the expected cumulative prepayment rate for 60 periods is 4.80%, adjusted for the loan age of the asset pool is 3.05%.

Table 20 Benchmark Parameters of Cash Flow Model

Parameter Name	Benchmark Parameter (%)
Accumulated default rate	1.21
Recovery rate	50.79
Prepayment rate	3.05

Source: Lianhe Ratings

2. Pressure Test

The benchmark parameters above are mainly used to forecast the cash flow of the asset pool in general. The Notes could be rated as investment grade or above only if they are equipped with sufficient tolerance. Lianhe Ratings simulates the asset pool under an extreme deterioration scenario through cash flow pressure tests, the Class A Notes show the capacity to repay fully and on time.

Amid the pandemic, most countries significantly suffer and the global economy falls into a deep recession. Benefiting from strengthened anti-cyclical macroeconomic policies which offset the negative impact of the pandemic, China’s economy recovers gradually. Nevertheless, the systematic risk arising from the macroeconomy may influence the overall credit performance of the asset pool. Lianhe Ratings has covered the impact of systematic risk within the pressure test standards.

(1) Pressure Test Standards

For cash flow model, Lianhe Ratings increases pressure on the inflow and outflow ends of cash flow respectively, so as to judge whether the Senior Notes can be fully redeemed under target rating.

Pressure standard on the inflow end of cash flow

Lianhe Ratings conducts pressure increase consideration based on the pressure times of the target ratings of the Class A Notes -- AAA_{sf} -- for the 2 quantitative indicators of accumulated default rate and recovery rate. Lianhe Ratings set a transitional period for the default rate, i.e., the period between the trust’s establishment and a designated month, in which the ultimate pressure parameter is reached. There is no transitional period for the recovery rate, meaning that the ultimate pressure parameter is reached directly. The transitional period for targeted rating AAA_{sf} is set for 4 months.

As for the prepayment rate, VWFC has bound the borrowers’ prepayment to a certain extent by charging extra fees. According to VWFC's historical data, the prepayment rates of all products were relatively low in general, therefore it is unlikely that the asset pool of the transaction experiences significant prepayment during its life. Through quantitative measuring, Lianhe Ratings notices higher prepayment rate also accelerates the repayment of principle, which offsets the default amount under the stress scenario and lowers the real default rate of the asset pool, though the asset pool may have some interest loss.

For stress adjustment parameters, VWFC has been operating on a large scale and steadily since 2010, and managing credit risk at an appropriate level. Under headquarters' risk management framework, VWFC not only satisfies local regulatory requirements but also enhances second-hand car business resources management, third-party information identification before loan, and accesses to the credit-issuing system of hundreds of banks, lowering risk loss through active adjustment of risk management policies.

Judging by the historical data provided by VWFC, the total value of personal auto loans issued varies from time to time; and overdue loans and collections decreases as the businesses become mature. Therefore, Lianhe Ratings has set the pressure adjustment factor to 1.00.

Finally, Lianhe Ratings concludes the pressure parameter results on the inflow end of cash flow as follow:

Table 21 Pressure Conditions of Pressure Test under The AAA_{sf} Scenario

Parameter Name	Accumulated Default Rate	Recovery Rate	Prepayment Rate
Benchmark result (%)	1.21	50.79	3.05
Multiplier under target rating/loss factor	5.5	0.45	--
Transition time (month)	4	0	--
Pressure adjustment factor	1.00		
Post-pressure parameter value (%)	**6.66**	**27.93**	**3.05**

Source: Lianhe Ratings

Setting of pressure factor on the outflow end of cash flow

On the outflow end of cash flow, Lianhe Ratings mainly increases pressure on the expenditures and gains the maximum pressure scenario.

Interest rate of Class A Notes: the interest rate of Class A Notes is 2.30%, with no further pressure was added.

Tax rate and fees of the transaction: the tax rate is 9.98%. Meanwhile, the underwriting fee, registration and custody fee, service fee of the payment agent, service fee of the trustee, remuneration of the rating agency, remuneration of the asset servicer, and asset custodian fee are considered comprehensively.

Table 22 Setting of Pressure Parameters of Cash Outflow

Parameter Name	Setting of Pressure Parameters
Initial cut-off date	30/09/2022
Expected trust establishment date	26/10/2022
Value-added tax rate	9.98%
Benchmark comprehensive rate	1.335%
Rate of return of Class A Notes	2.30%

Note: The initial and annum fees have been covered within the model.
Sources: VWFC, compiled by Lianhe Ratings.

Generally speaking, Lianhe Ratings set up different pressure factors on the inflow and outflow ends of cash flow based on the required target rating of Class A Notes, and determines whether Class A Notes pass the cash flow pressure test by judging whether the principal and interest of Class A Notes can be compensated on time and in full.

(2) Results of Pressure Test

By referring to the said arrangement of

pressure scenarios, Lianhe Ratings concludes the results pressure test of Class A Notes under the target rating of AAA_{sf} as follows:

Table 23 Results of Pressure Test of Class A Notes under AAA_{sf} Pressure Scenario

Unit: RMB Mn

Cash Inflow	Amount	Cash Outflow	Amount Payable	Amount Paid
Interest of Collections	543.48	Taxes and fees	227.70	227.70
		Interest of Class A Notes	178.91	178.91
		Interest of Subordinated Notes	148.85	139.77
Principal of Collections	7,363.54	Principal of Class A Notes	7,136.00	7,136.00
		Principal of Subordinated Notes	824.00	240.63
Cash Collateral Account	16.00	Final success Fee	--	--
Total inflow	**7,923.02**	**Total outflow**	**8,515.47**	**7,923.02**

Notes: 1. The simulation process of cash flow model is tested based on the amount of undiscounted auto loans.
2. The Cash Collateral Account in the table is the actual payment amount under the stress scenario.

Based on the pressure test results under AAA_{sf} pressure scenario, Class A Notes can pay off all principal and interest, while there is RMB 364.40[10] million in the trust account which can be used to redeem the principal and interest of the Subordinated Notes, forming a 5.11%[11] of safe distance for Class A Notes. Class A Notes can pass the pressure test at the level of AAA_{sf}.

Finally, Lianhe Ratings determines that the credit rating of the Class A Notes under Driver China fourteen Auto Loan Backed Securities is AAA_{sf}.

V. Conclusions

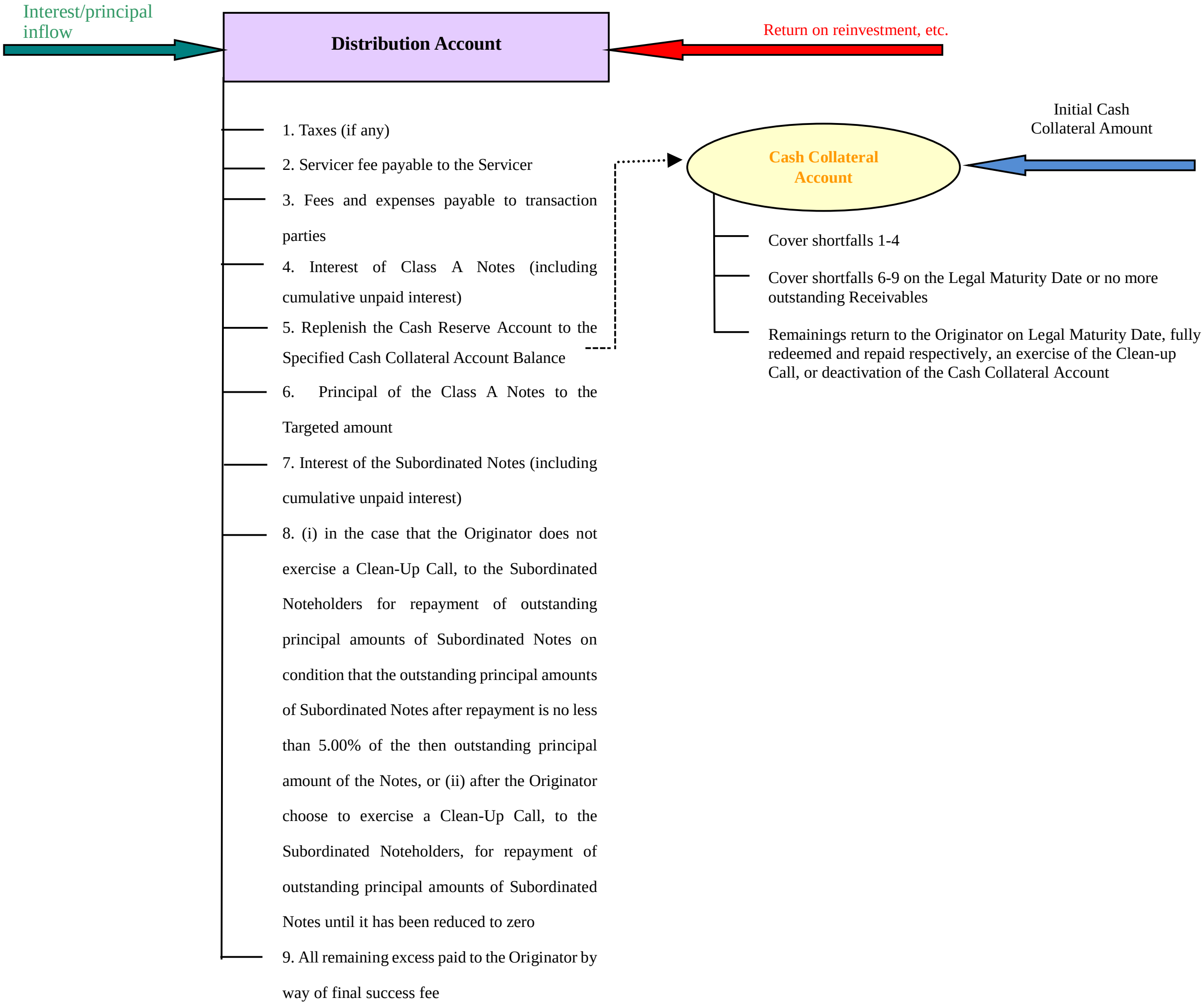
On the basis of comprehensively considering the underlying assets, transaction structure, legal factors and participants' performance risk and operational risk, among other factors, credit analysis on the asset pool, structure analysis and cash flow analysis, Lianhe Ratings determines the ratings for the Class A Notes of Driver China fourteen Auto Loan Backed Securities is AAA_{sf}, and the Subordinated Notes is not rated.

The above rating results indicate that Class A Notes have an extremely strong capability to repay interests on time and the principal in full on or before the legal maturity date, therefore the possibility of default is extremely low.

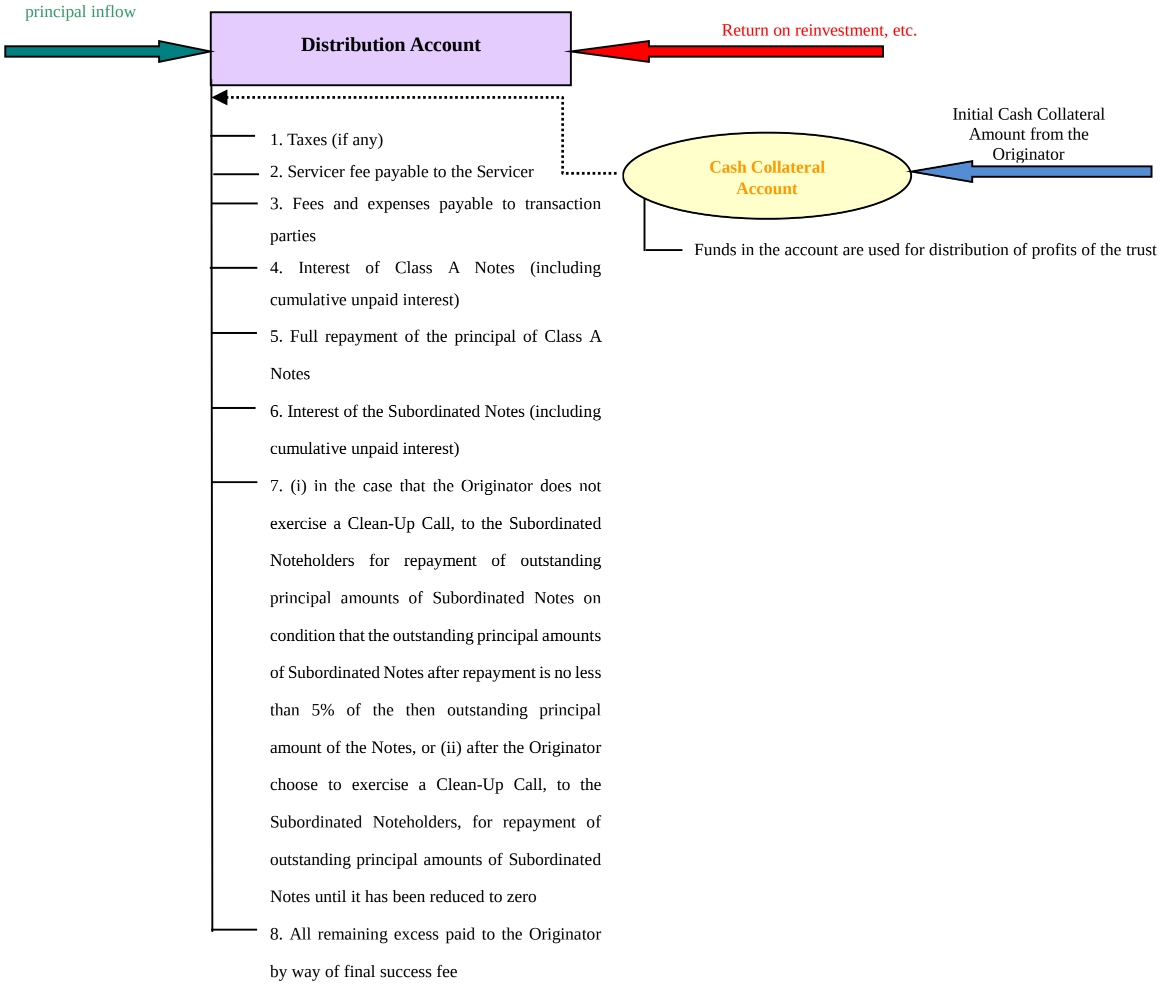
[10] RMB 131.13 million is used for repaying the interest of Subordinated Notes, RMB233.27 million is used for repaying the principal of Subordinated Notes.
[11] Safe distance of Class A Notes = Remaining cash after the payment of the principal and interest of Class A Notes/Issue size of Class A Notes.

Attached Chart: Cash Flow Payment Mechanism

Attached Chart 1: Cash Flow Prior to Foreclosure Event



Attached Chart 2: Cash Flow after Foreclosure Event



Appendix Setting and Definitions of Credit Ratings of Asset Backed Securities

Credit ratings of asset backed securities (including asset backed notes) assigned by Lianhe Ratings are classified into three levels and nine categories, which are AAA_{sf}, AA_{sf}, A_{sf}, BBB_{sf}, BB_{sf}, B_{sf}, CCC_{sf}, CC_{sf}, C_{sf}. Apart from AAA_{sf}, CCC_{sf} and below, all credit ratings may be modified by using the symbol "+" or "-", to show relative standing within the major rating categories. All credit ratings are defined in the table below:

The symbols for each credit rating represent the level of probability of default and the relative ranking of the rating targets, with the higher to lower credit ratings reflecting a gradual increase in the probability of default of the rating targets, but not excluding the possibility of default of the higher credit rating targets.

Ratings	Definitions
AAA_{sf}	Extremely strong capacity for principal and interest payment; hardly affected by adverse economic conditions; lowest expectation of default possibility.
AA_{sf}	Very strong capacity for principal and interest payment; slightly affected by adverse economic conditions; very low default possibility.
A_{sf}	Strong capacity for principal and interest payment; vulnerable to adverse economic conditions; low default possibility.
BBB_{sf}	Moderate capacity for principal and interest payment; more likely to be impaired by adverse economic conditions; moderate default possibility.
BB_{sf}	Weak capacity for principal and interest payment; significantly vulnerable to adverse economic conditions; high default possibility.
B_{sf}	Capacity for principal and interest payment is largely dependent on favorable economic conditions; very high default possibility.
CCC_{sf}	Capacity for principal and interest payment is extremely dependent on favorable economic conditions; extremely high default possibility.
CC_{sf}	Very weak capacity for principal and interest payment; highly vulnerable to nonpayment.
C_{sf}	Nonpayment has occurred.

Lianhe Ratings' Surveillance Arrangements for Driver China fourteen Auto Loan Backed Securities

Lianhe Ratings will carry out regular or ad hoc surveillance during the tenor of the Class A Notes of Driver China fourteen Auto Loan Backed Securities ("the Notes"), by relevant regulatory laws and regulations and relevant compliance requirements of Lianhe Ratings.

The Trustor of the credit rating agreement ("The Trustor") or The Trust Company shall provide relevant materials promptly according to the Lianhe Ratings' requirements of the list of materials for surveillance. Lianhe Ratings will release the surveillance results and reports within the tenor of the Notes.

In case of major changes or events that may greatly impact the credit status of the Notes, The Trustor/The Trust Company shall notify Lianhe Ratings of the major changes or emergency events, and provide Lianhe Ratings with relevant information.

Lianhe Ratings will pay close attention to the relevant information of the Notes. In case of major changes to the Notes, or any event that may have a material impact on the credit status of the Notes, Lianhe Ratings will carry out necessary investigation on the relevant events, conduct timely analysis on them, affirm or adjust the credit rating results based on its investigation and analysis on such events, issue surveillance reports and results in a timely manner according to regulatory requirements. Lianhe Ratings will also inform regulatory authorities and disclose relevant information according to the relevant provisions and credit rating agreements.

If The Trustor/The Trust Company fail to provide relevant information required for surveillances in a timely manner, or under other circumstances as stipulated in the regulation or agreed in the credit rating agreement Lianhe Ratings may terminate or withdraw the rating.