MOODY'S INVESTORS SERVICE

CREDIT OPINION
17 November 2021

New Issue

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Driver China thirteen Trust

New issue – Volkswagen Finance (China) Co., Ltd.'s (VWFC) second auto ABS transaction for 2021

Capital structure

Exhibit 1
Definitive rating

Class	Rating	Amount (RMB million)	% of pool balance	Expected maturity date*	Legal maturity date	Coupon	Credit enhancement**
Class A Notes	Aaa (sf)	7,136.00	89.20%	26-Jun-24	26-Dec-28	3.16% p.a.	12.00%
Sub Note	NR	824.00	10.30%	26-Jun-24	26-Dec-28		
Total liability		**7,960.00**	**99.50%**				
OC		40.08	0.50%				
Total		**8,000.08**	**100.00%**				

Where applicable, percentages in this report are based on the outstanding discounted receivables balance, which is the total discounted cash flow of the loans' scheduled periodic payments of principal and interest. The indicative discount rate of 5.0952% per annum is based on the indicated, senior fees and expenses plus weighted average interest rate on the notes.
*Including cleanup call.
**Credit enhancement includes 0.5% over-collateralization and the RMB96 million initial cash collateral amount (1.2% of the initial discounted receivables balance).
Sources: Moody's Investors Service and VWFC

Summary

Driver China thirteen Trust is the 13th cash securitization of auto loan transactions, the second one this year, sponsored by Volkswagen Finance (China) Co., Ltd. (VWFC) to obligors in China.

The key strengths of the transaction include favorable pool characteristics, strong credit enhancement and originator experience. The credit challenges in the transaction include risk arising from the revolving structure, an untested backup servicing arrangement, commingling risks and historical performance data that do not cover an economically stressed period.

Credit strengths

» ***Diversified collateral pool composition*:** The cutoff portfolio is highly granular, consisting of loans from more than 103,600 borrowers, with good geographic diversification across China. Typically, more granular pools have less volatile performance. (See "Asset description - Assets as of the pool cutoff date - Pool characteristics")

» ***Favorable pool characteristics:*** The cutoff pool has a high proportion (97.5%) of loans for the purpose of purchasing new vehicles. Typically, loans that are used to finance the purchase of used cars perform worse than those for new cars. The weighted average down payment rate of the cutoff pool is high at about 36.3%. Typically, borrowers have less incentive to default on these loans as they have built up significant equity shares (via down payments) in the vehicles, which secure the auto loans. (See "Asset description - Assets as of the pool cutoff date - 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 subordination of the notes; initial over-collateralization (OC); the increase in target OC levels based on different cumulative gross loss triggers during and after the revolving period; and the pre-funded reserve deposited in the cash collateral account. (See "Securitization structure description - Detailed description of the structure - Credit enhancement triggers")

» ***Originator experience:*** VWFC is 100% owned by Volkswagen Financial Services AG (VWFS, A3 stable), the largest auto finance service provider in Europe. The company was formally incorporated in Beijing and licensed as an auto finance company in 2004. The previous Driver China transactions rated by us performed generally in line with or better than our expectations. (See "Asset description - Originator" and "Asset analysis - Additional asset analysis - Origination quality")

Credit challenges

» ***Risk arising from the revolving structure:*** During the revolving period, VWFC can add new loans to the securitized portfolio, which will be subject to the additional variability of credit risk. There is no portfolio concentration limit, such as a limit on the portion of balloon loans, for the additional loan receivables purchased during the revolving period. The mitigants include eligibility criteria that governs the auto loans that can be added to the securitized portfolio, early amortization triggers that stop the revolving period when loan performance deteriorates, and a short revolving period of only three months. (See "Securitization structure description - Detailed description of the structure")

» ***Untested backup servicing arrangement:*** There is no backup servicer appointed at closing. Servicing of the transaction may be subject to disruption if the originator or servicer fails to perform when needed. Because of the lack of precedence of servicer transfer in China, the time and costs required to find and appoint a replacement servicer remains uncertain. The originator benefits from the experience of VWFS, which has sponsored numerous securitizations in the past 23 years worldwide. (See "Asset description - Servicer" and "Asset analysis - Additional asset analysis - Servicing quality")

» ***Commingling risks:*** The servicer will auto-debit (100% of the cutoff portfolio) the borrowers' bank accounts on each of the loan's monthly installment dates and commingle such collections with its own funds. This amount will be subject to commingling risk until the servicer transfers such collections for each monthly collection period to the issuer's trust account six business days before each payment date on the 26th day of each month. (See "Securitization structure analysis - Additional structural analysis - Cash commingling")

» ***Historical performance data do not cover an economically stressed period:*** Historical performance data are relatively short compared with mature ABS markets. The data provided mostly cover a period that coincides with strong economic growth in China, except for the first and second quarter of 2020 when the Chinese economy was moderately affected by the coronavirus pandemic. Accordingly, we have increased our mean default rate from those calculated with the historical pool performance data in our base case analysis. (See "Asset description - Historical performance data" and "Asset analysis - Primary asset analysis")

ESG considerations

We consider overall environmental, social, and governance (ESG) risk to be moderate for securitizations backed by auto loans. Our credit analysis of the transaction, which considers ESG risk, includes the risks to vehicles' recovery values from changes in carbon emissions regulations, the social and demographic trends that affect the obligors in ABS backed by auto loans, and the low exposure to severe weather events or other environmental factors. In addition, governance risk is largely mitigated by the structure of the transaction and our consideration of the transaction parties. Please refer to our cross-sector rating methodology, General Principles for Assessing Environmental, Social and Governance Risks (published 19 October 2021), which explains our general principles for assessing ESG risks in our credit analysis globally.

» ***Environmental:*** This transaction has moderate exposure to significant environmental risks. However, the potential consequences, mitigated by the short transaction tenor, are unlikely to be significant to the credit quality of the bonds. (See "Asset analysis - Additional asset analysis - Environmental considerations")

» ***Social:*** The social risk is generally low in auto ABS transactions. Technological obsolescence, shifting demand patterns and changes in government policy mean that some segments will experience greater volatility in auto sales, recovery levels, and residual values, but the short tenor of the transaction mitigates the risk from long-term trends. In addition, the geographical and demographical diversity of the obligors in loan pools should help protect the transaction from the risk of any one region or industry downturn. (See "Asset analysis - Additional asset analysis - Social considerations")

» ***Governance:*** Governance risks for this transaction are low based on the presence of transaction features, such as risk retention, an agreed-upon procedure report and the presence of representations and warranties (R&Ws) in the transaction documents. (See "Securitization structure analysis - Additional structural analysis - ESG - Governance considerations")

Key characteristics

Exhibit 2
Asset characteristics
Pool cutoff date as of 31 October 2021

Receivables:	Loans granted to individuals in China to finance the purchase of new and used vehicles
Methodology used:	Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS, September 2021
Total securitized portfolio amount:	Approximately RMB8,000 million
Length of revolving period:	The revolving period will end in February 2022 or date of early amortization, whichever is earlier
Number of borrowers:	103,679
Number of contracts:	105,931
Loan concentration:	Top 1: 0.05%; Top 10: 0.35%; Top 20: 0.57%
Type of obligors:	90.55% individuals, 9.45% Corporate
Status of vehicles:	97.45% new, 2.55% used
Types of vehicles:	Top 1: VW: 54.71%; Top 2: Audi: 30.90%
WA down-payment:	36.29%
WA remaining term:	28.17 months from cut-off date
WA seasoning:	8.05 months from origination to cut-off date
WAL of portfolio in years:	1.27 years (assuming no prepayments and defaults) from cut-off date
Interest basis:	100% fixed rate
Delinquency status:	All current as of cut-off date
Historical portfolio performance data	
Delinquencies observed:	1-30 days 0.89%; 31-60 days 0.11%; 61-90 days 0.07%; 91+ days 0.05% (historical dynamic data as of end June 2021)
Mean default rate observed:	1.06% (extrapolated on whole retail book historical vintage data)
Coefficient of variation of default observed:	59.14% (extrapolated on whole retail book historical vintage data)

Where applicable, percentages in this report are based on the outstanding discounted receivables balance.
Sources: VWFC and Moody's Investors Service

Exhibit 3

Securitization structure characteristics

Credit enhancement, liquidity and hedging	
Credit enhancement:	Subordination of the notes, initial overcollateralisation, cash collateral account balance of RMB96 million, fully funded at closing and maintained during revolving period, which can be used during the occurrence of a servicer replacement or disruption event. After the expiration of the revolving period, the required cash collateral amount is the greater of (a) 1.2% of the aggregate discounted receivables balance as of the end of the monthly period, and (b) the lesser of (i) RMB80 million and (ii) the aggregate outstanding principal amount of the Class A notes as of the end of the monthly period.
Form of liquidity:	Principal diversion to pay shortfall in interest collected; and upon servicer replacement event and/or servicer disruption event, the prefunded cash collateral account.
Number of interest payments covered by liquidity reserve:	3 months at closing
Notes interest payments:	Monthly in arrears on each payment date
Notes principal payments:	Pass-through on each payment date
Notes payment dates:	26th calendar day of each month
Hedging arrangements:	Not Available
Transaction parties	
Issuer:	Driver China thirteen Trust
Back-up servicer(s):	Not Available
Back-up servicer facilitator(s):	Not Available
Cash manager:	Not Available
Back-up cash manager:	Not Available
Calculation agent:	Not Available
Trustee:	CITIC Trust Co., Ltd.
Issuer account bank:	China Construction Bank Corporation (A1 deposit rating), Beijing Branch
Registry/paying agent:	China Central Depositary & Clearing Co., Ltd. (CCDC)
Corporate service provider:	Not Available
Lead underwriter:	HSBC Bank (China) Company Limited
Joint lead underwriters:	China Merchants Securities Co., Ltd. Mizuho Bank (China), Ltd. China Merchants Bank Co.
Data protection trustee:	Not Available
Interest rate swap counterparty:	Not Available

The discounted portfolio balance means the total discounted cash flow of all of the loans' scheduled periodic payments of principal and interest, at a discounted rate of 5.0952%.
Sources: VWFC and Moody's Investors Service

Asset description

The initial securitized portfolio consists of renminbi-denominated fixed-interest-rate auto loans granted by VWFC mainly to private individuals and some companies in China. The portfolio mainly consists of fully amortizing loans, with maturities of mostly one to three years. We assessed the portfolio as of the pool cutoff date (31 October 2021).

Assets as of the cutoff date

Pool characteristics

The discounted portfolio balance is around RMB8 billion from a total number of 105,931 loans. The portfolio is collateralized by 97.5% new cars and 2.5% used cars.

Fully amortizing loan products account for 99.0% of the securitized portfolio. The fully amortizing loan products offered by VWFC include Classic Credit (loans with equal monthly payments), and Structured Payment (amortizing loans whose monthly installment amounts can vary during the loan term).

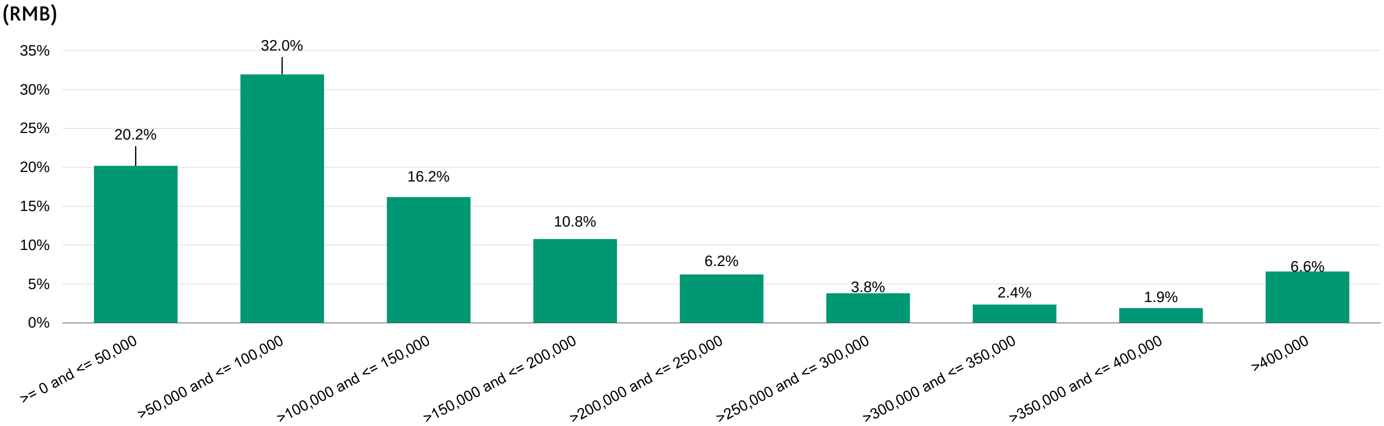
Balloon loan products account for 1.0% of the securitized portfolio. The balloon loan products offered by VWFC include Balloon Credit, Exquisite Easy Loan and Enjoyable Balance Loan. Each product allows for a different final balloon payment (as a percentage of the car price), where a higher final balloon payment typically requires a higher down payment and a shorter maximum loan term.

As is common for China's 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 on the vehicle to the issuer for the purpose of this transaction).

Exhibits 4-14 describe the pool characteristics of the portfolio.

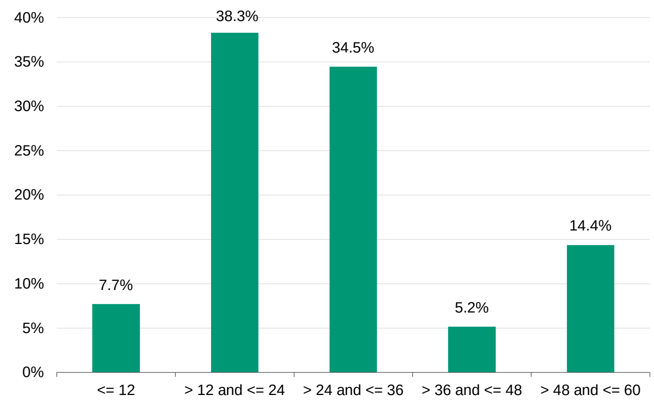
Exhibit 4

Outstanding discounted receivables balance (RMB)



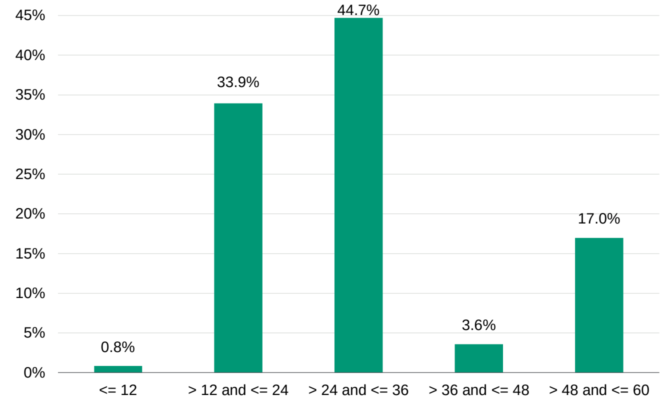
Source: VWFC

Exhibit 5
Remaining loan tenor
(Months)



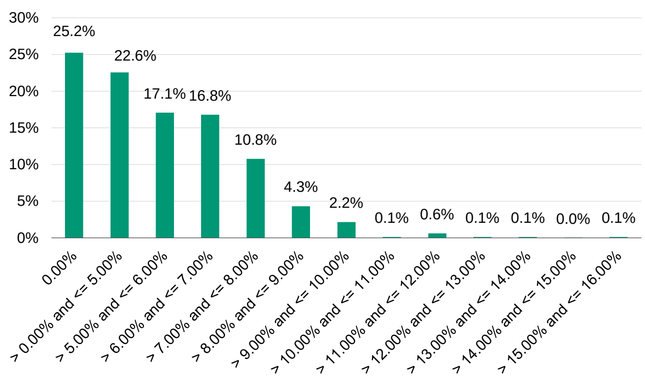
Source: VWFC

Exhibit 6
Original loan tenor
(Months)



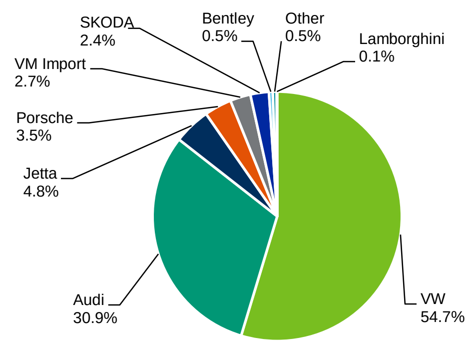
Source: VWFC

Exhibit 7
Effective interest rate



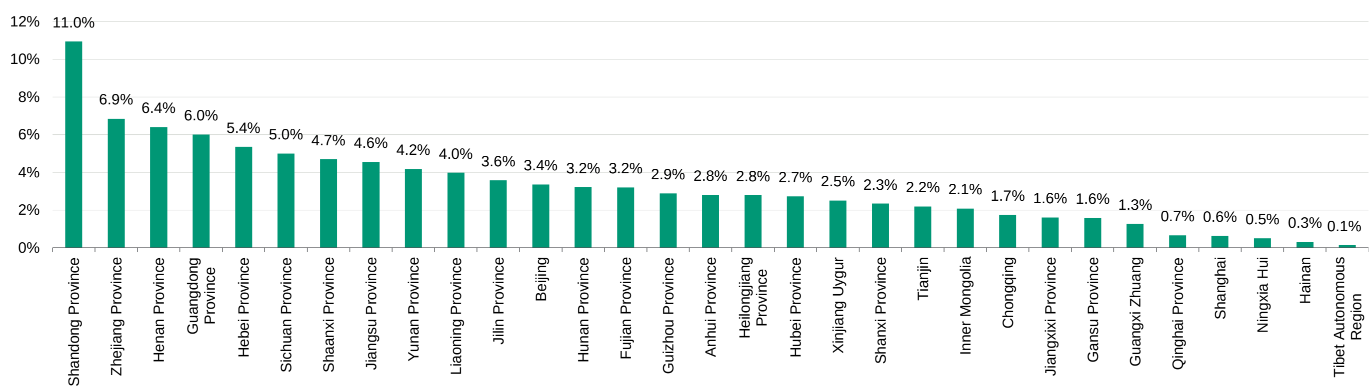
Source: VWFC

Exhibit 8
Vehicle brands



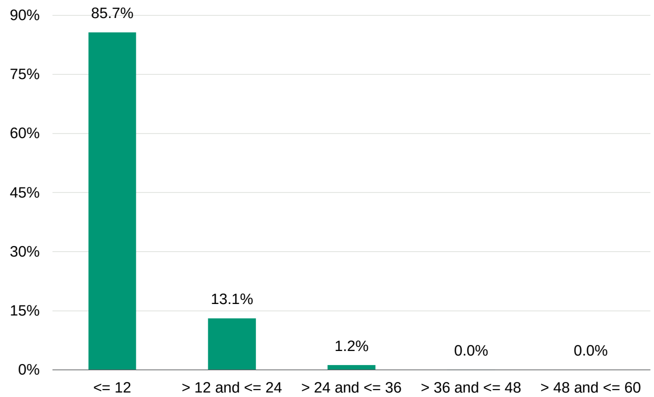
Source: VWFC

Exhibit 9
Geographic distribution



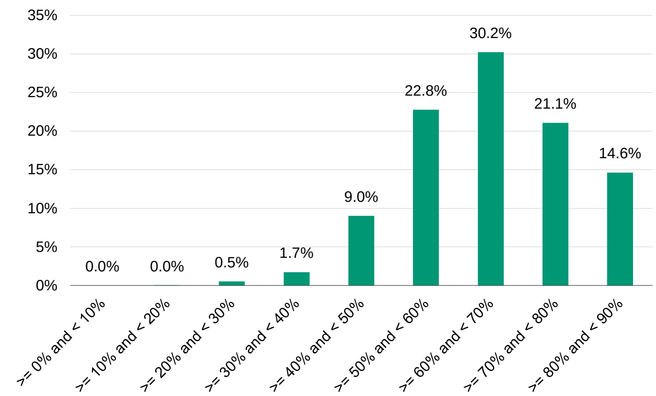
Source: VWFC

Exhibit 10
Seasoning
(Months)



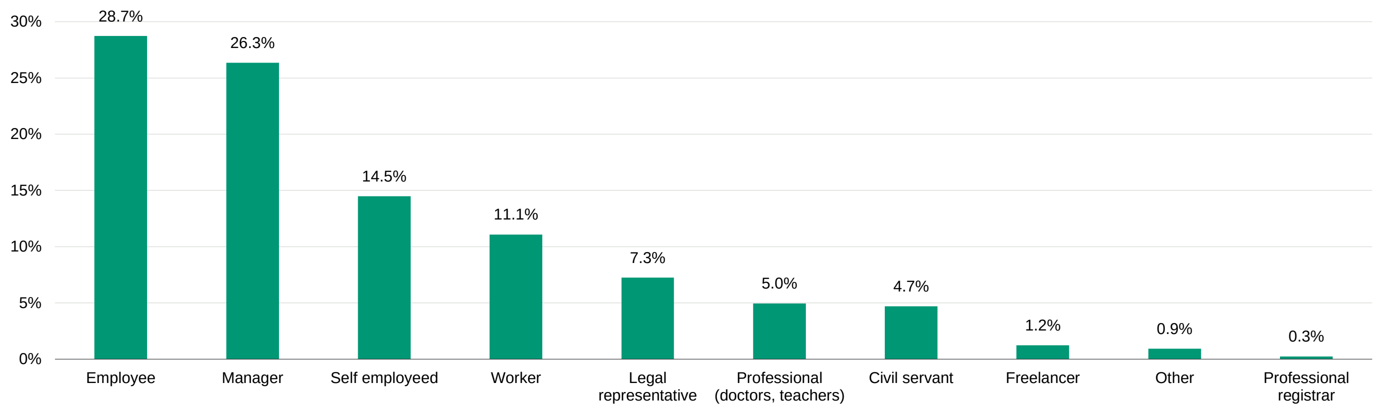
Source: VWFC

Exhibit 11
Initial loan-to-value (LTV) ratio



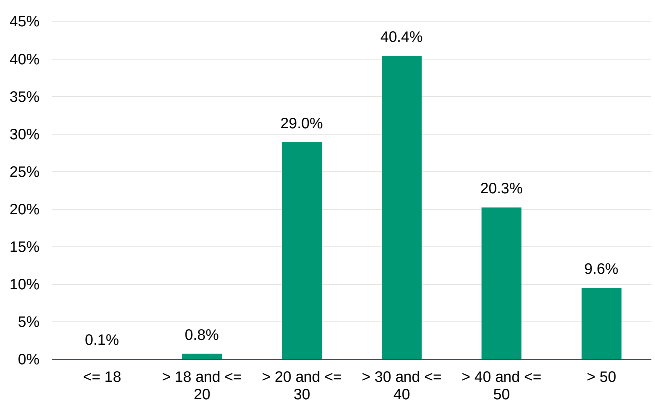
Source: VWFC

Exhibit 12
Employment type



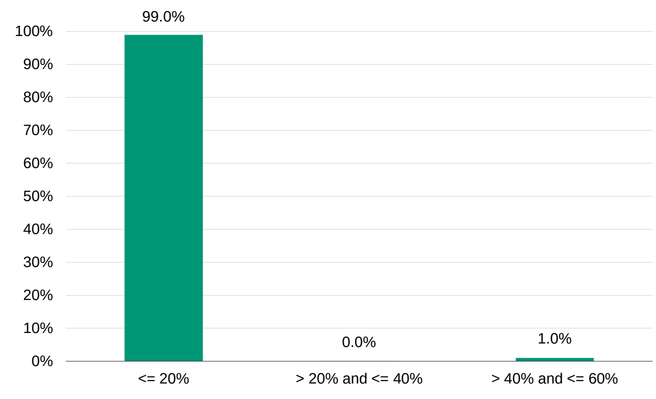
Source: VWFC

Exhibit 13
Borrower age



Source: VWFC

Exhibit 14
Balloon as a percentage of vehicle price



Source: VWFC

Originator

VWFC is a wholly owned subsidiary of VWFS, which, in turn, is owned by Volkswagen AG.

The originator established its Beijing office in 1998, started its retailed loan business in 2004 and initiated its dealer loan business in 2006. The originator issued its first auto ABS transaction in 2014.

The originator uses a comprehensive set of data and database searches (along with external data searches, which include the People's Bank of China's [PBOC] credit bureau and the National Citizen Identification Information Center system) to assess borrower credit profiles to make loan underwriting decisions.

Exhibit 15

Originator profile – VWFC

Date of operations review:	February 9, 2021
Financial institution group outlook for sector:	Not available
Ownership structure:	Volkswagen Finance (China) Co., Ltd. is a wholly owned subsidiary of Volkswagen Financial Services AG (A3 for its Senior Unsecured Rating), in turn owned by Volkswagen AG (A3, not on watch)
Asset size:	RMB76.9 billion in loan receivables as at December 2020 with regards to Volkswagen Finance (China) Co., Ltd.
% of total book securitized:	Approximately 22.29% of total book as of December 2020
Transaction as % of total asset:	Approximately 9.37% of total loan receivables as of December 2020
% of transaction retained:	10.8% of the issuance

Source: VWFC

Servicer

The originator, VWFC, acts as the servicer. There is no backup servicing arrangement at closing (see "Additional asset analysis - Servicing quality"). Upon the breach of certain triggers (see "Securitization structure analysis - Detailed description of the structure - Servicer replacement"), the servicer will nominate a backup servicer and will notify the issuer in writing.

Exhibit 16

Servicer background - VWFC

Rating:	Unrated
Regulated by:	China Banking and Insurance Regulatory Commission (CBIRC)
Total number of receivables serviced:	1,266,416 (as at December 2020)
Number of Staff:	Not disclosed

Source: VWFC

Eligibility criteria

All loans in the securitized portfolio must satisfy the following key eligibility criteria as of the initial cutoff date (for the initial portfolio) or additional cutoff dates (for the subsequent portfolios added during the revolving period):

- Loans provide for a mortgage of the relevant financed vehicle.
- Loan contracts constitute legal, valid, binding and enforceable agreements.
- Loan receivables are assignable.
- Loans are denominated in renminbi.
- The loan receivables are free of defenses, whether peremptory or otherwise, for the agreed term of the loan contracts, as well as free of the rights of third parties, and that the borrowers in particular have no set-off claim, or the status and enforceability of the loan receivables are not impaired by set-off rights.
- The loan contracts shall be governed by the laws of China and have not been concluded before January 2008.

- No loan receivable is overdue.
- At least two installments (include interest payments) have been paid in respect of each of the loan receivables, and will require monthly payments to be made within 60 months of the date of origination and may also provide for a final balloon payment.
- The loan receivables are normal loans according to the China Banking and Insurance Regulatory Commission's (CBIRC) five-category loan classification method.
- The status and enforceability of the purchased loan receivables are not impaired because of warranty claims or any other rights of the borrower.
- No insolvency proceedings have been initiated against any of the borrowers during the term of the relevant loan contract up to the cutoff date.
- None of the borrowers is an affiliate of Volkswagen Aktiengesellschaft (Volkswagen AG, A3 stable) or an employee of VWFC.
- Each of the loan receivables will mature no earlier than six months and no later than 58 months after the cutoff date.
- No termination of any loan contract has occurred.
- Borrowers are corporate entities with a registered office in China, or private individuals, and have their residences in China.
- Loans to a single borrower may not exceed the total outstanding amount of RMB4,000,000.
- The maximum delinquent days of each loan receivable were historically no more than 60 days.

Historical performance data

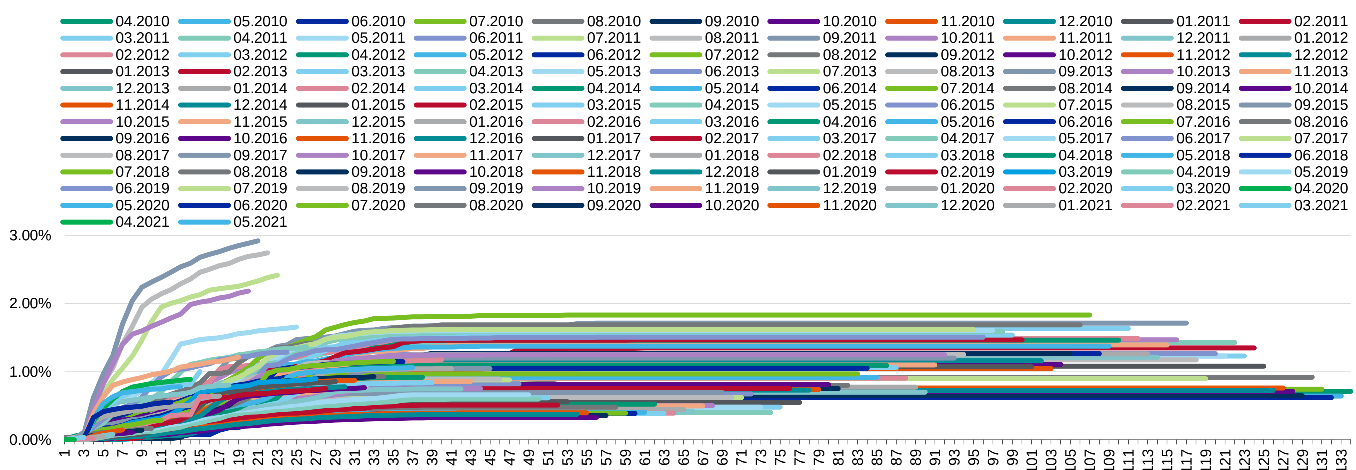
We received static vintage data from April 2010 to May 2021 (see Exhibits 17 and 18), which includes information on performance for each month by the origination period. According to VWFC, net losses are calculated after deducting the sales proceeds of a vehicle and any other recoveries from the outstanding balances of the respective loans up to the final write-off of the loan.

We also received dynamic performance data from April 2010 to June 2021, which includes information on prepayment, delinquency (see Exhibit 19), default, recovery and write-off amounts for each month. The historical data provided indicates that average dynamic annualized prepayment rates are around 3.3% (see Exhibit 20).

Exhibit 17

Vintage historical performance data

Gross loss vintage curves - Auto loan book (April 2010-May 2021)

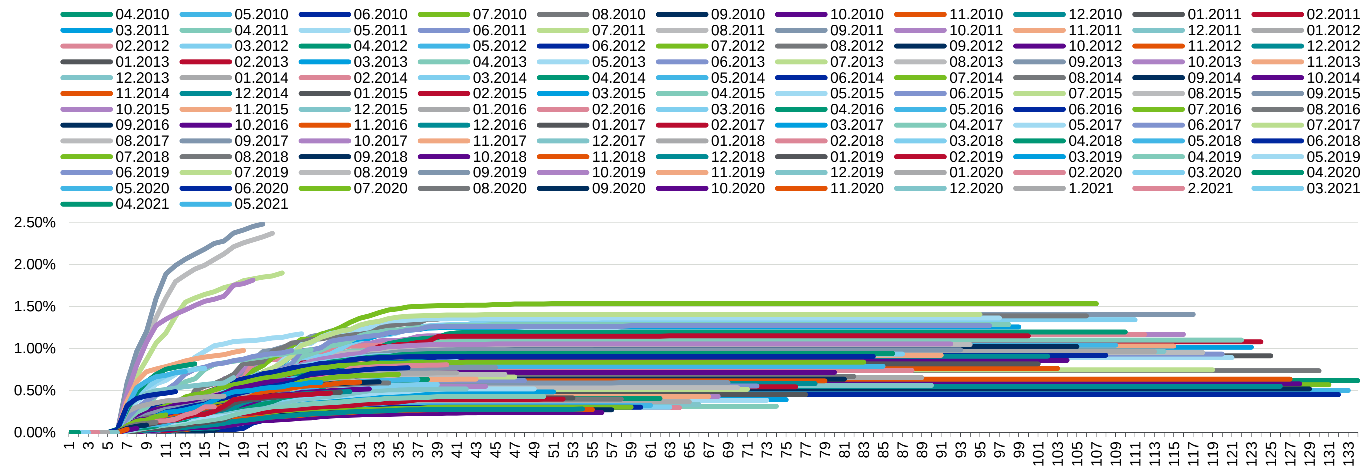


Source: VWFC

Exhibit 18

Vintage historical performance data

Net loss vintage curves - Auto loan book (April 2010-May 2021)

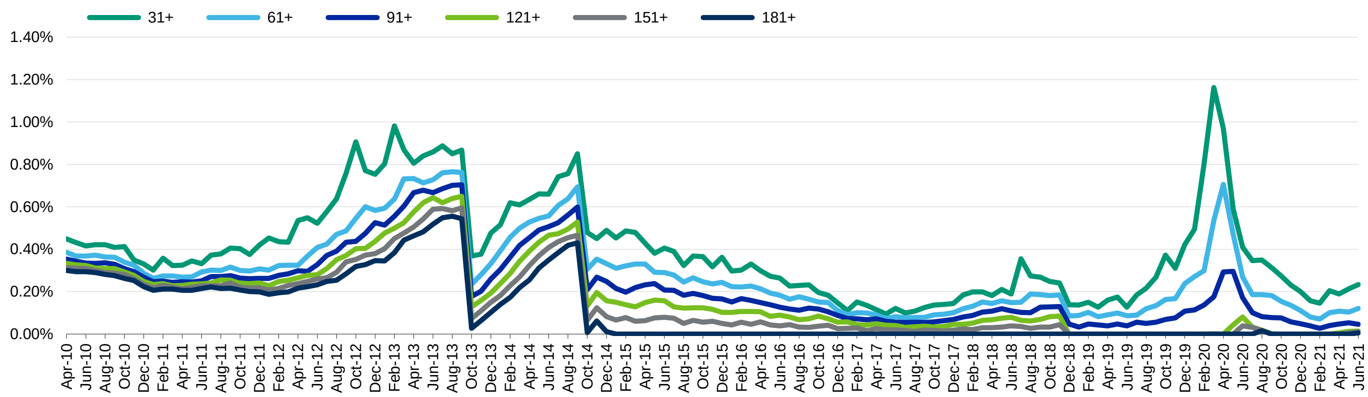


Source: VWFC

Exhibit 19

Dynamic delinquency

31+, 61+, 91+, 121+, 151+, 181+ day delinquency rates (April 2010-June 2021)

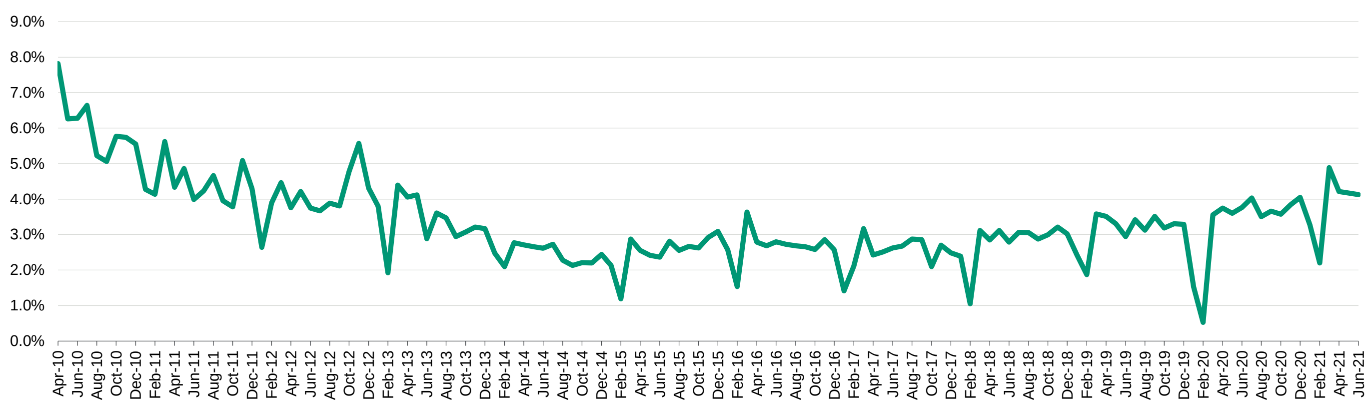


Source: VWFC

Exhibit 20

Annualized prepayment rate

(April 2010-June 2021)



Source: VWFC

Revolving pool

The portfolio is revolving and new loans can be added during the revolving period, subject to the eligibility criteria.

Asset analysis

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

Primary asset analysis

The transaction has favorable pool characteristics:

» The initial collateral pool is highly granular, consisting of 105,931 performing loans and 103,679 obligors randomly selected from the originator's loan portfolio, with the largest borrower and the top 20 borrowers representing 0.05% and 0.57% of the outstanding discounted receivables balance, respectively.

» The initial collateral pool is diversified, spread across 31 regions in China. The biggest portfolio concentration is in Shandong province, which comprises 11.0% of the pool.

» All loans in the portfolio have a minimum down payment of 20.0%, and the weighted average down payment rate of the initial pool is about 36.3%. Typically, borrowers are less likely to default on loans in which significant equity has built up in the underlying vehicle via down payments.

» No loans in the pool are in arrears at cutoff.

Default distribution

The first step in the rating analysis is to define a default distribution for the pool of loans to be securitized. Because of the large number of loans, we use a continuous distribution to approximate the default distribution: the lognormal distribution.

To determine the shape of the curve, two parameters are needed: the mean default and the portfolio credit enhancement (PCE). These parameters are generally derived from historical data; adjustments may be made based on further analytical elements.

Determination of the default rate and the PCE assumption

Our mean default rate assumption is 1.6%, and the PCE assumption is 8.5%. The PCE captures the loss that we expect the auto portfolio to suffer in the event of a severe recession scenario. The PCE is a parameter, together with mean loss, that is used to calibrate our lognormal portfolio loss distribution curve and associate a probability with each potential future loss scenario in our cash flow model to rate auto ABS.

These assumptions take into account rated transactions and originators' loan book performance, and reflect the application of our general approach regarding sovereign risk to auto ABS originated in China. The mean default rate assumption takes into account the potential increase in the portion of balloon loans in the securitized pool based on the observation of a higher portion of balloon loans in the whole retail portfolio of VWFC and the lack of a portfolio concentration limit for the additional loan receivables purchased during the revolving period.

We have estimated these two parameters on the basis of the credit quality and composition of the underlying loans, the historical performance trends of similar securitization transactions and that of the originator's managed portfolio, and our current expectation of economic conditions in China.

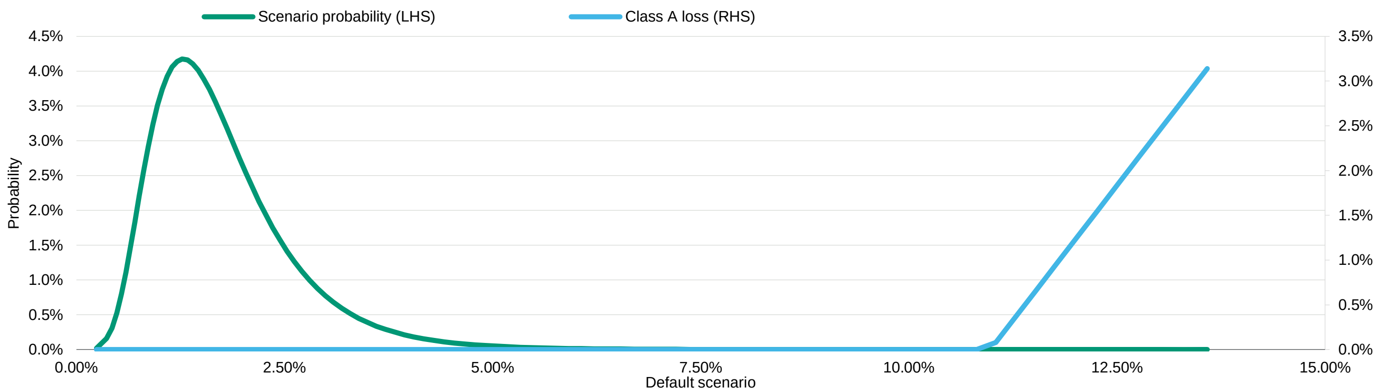
Most of the data coincided with a period of strong economic growth in China. Accordingly, we increased the default rate assumption and decreased the recovery rate assumption, compared with the historical performance data shown in the above section, to reflect the prospects of a slowdown in the economic growth of China.

The PCE has been determined following the analysis of 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 historical data variability; quantity, quality and relevance of historical performance data; origination quality; servicing quality; certain pool characteristics, such as asset concentration; and certain structural features, such as the revolving period.

Exhibit 21 represents the loss experienced by Class A notes (in our modeling) in each portfolio default scenario on the default distribution curve.

Exhibit 21
Lognormal default distribution



Source: Moody's Investors Service

Timing of default
Another key input into the cash flow model is the assumption of the timing of defaults. We have tested different default timing curves to assess the robustness of the ratings. In the base case, the default timing is assumed to follow a sine curve, with the parameters equal to 3 (no default period), 13 (peak period) and 39 (last default period).

Derivation of the recovery rate assumption
Our recovery rate assumption is 5%. It is stressed and estimated on the basis of the historical data provided by the originator, the expected slowdown in economic growth in China during the transaction period, the high reliance on efficient and effective measures to be taken by the servicer to maximize potential recoveries, and past ABS performance.

According to the originator, the main source of recovery of defaulted loans is the voluntary or negotiated repayment by the borrower, which may involve the borrower surrendering the underlying vehicle, selling some of its assets or getting monetary support from its family.

Exhibit 22 describes our key modeling assumptions.

Exhibit 22
Modeling assumptions

Default distribution:	Lognormal
Mean default:	1.60%
Default definition:	90+ days
Portfolio credit enhancement (Aaa):	8.50%
Timing of default curve:	Sine 3-13-39
Recovery:	5.00%
Recovery lag:	12 months
Residual value inputs:	Not applicable
Conditional prepayment rate (CPR):	5% for first 12 months / 8% thereafter
Amortization profile:	Vector, according to scheduled amortization of the assets
Fees:	2% p.a.
Commingling period:	1.5 months
Commingling recovery:	45%
PDL definition:	Not applicable

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

VWFC has issued 12 ABS transactions in the past.

» Driver China one Trust, which closed in August 2014 and was paid down in November 2015, had a cumulative gross loss of 1.03% of its initial discounted receivables balance at closing.

» Driver China two Trust, Driver China three Trust, Driver China four Trust and Driver China six Trust, which closed in July 2015, January 2016, July 2016 and May 2017, respectively, were paid down in April 2017, November 2017, June 2018 and March 2019, respectively. They had cumulative gross losses of 0.73%, 0.49%, 0.38% and 0.36% of their respective initial discounted receivables balance at closing.

» Driver China five Trust and Driver China nine Trust, which closed in December 2016 and November 2019, respectively, were revolving deals. Driver China five Trust was paid down in May 2019. During the revolving period, the issuer could purchase additional auto loans with the available funds. They had cumulative gross losses of 0.36% and 047% (as of April 2019 and September 2021 respectively) of the sum of the discounted receivables balance of the initial portfolio, as well as additional loans purchased after closing.

» Driver China eight Trust was closed in December 2017 and was paid down in September 2019. The transaction had a cumulative gross loss ratio of 0.45% of its initial discounted receivables balance at closing.

» Driver China twelve Trust was closed in May 2021. As of September 2021, the transaction had a cumulative gross loss ratio of 0.03% of its initial discounted receivables balance at closing.

Exhibits 23 and 24 compare the pool characteristics of Driver China thirteen Trust with the prior transactions of the sponsor.

Exhibit 23
Comparison of pool characteristics

Deal name	Driver China thirteen	Driver China twelve	Driver China nine	Driver China eight	Driver China six	Driver China five	Driver China four	Driver China three	Driver China two	Driver China one
Country	China	China	China	China	China	China	China	China	China	China
Closing date or rating review date (dd/mm/yyyy)	17-Nov-21	27-May-21	28-Nov-19	7-Dec-17	24-May-17	7-Dec-16	22-Jul-16	27-Jan-16	22-Jul-15	8-Jan-14
Originator	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC
Captive finance company?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Long-term Rating	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Short-term Rating	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Name of Servicer	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC	VWFC
Long-term Rating	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Short-term Rating	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Currency of securitized pool balance	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Securitized pool balance ("Total Pool")	RMB8,000m	RMB6,000m	RMB6,000m	RMB3,500m	RMB4,500m	RMB4,000m	RMB3,000m	RMB3,000m	RMB1,900m	RMB800 m
Rated notes volume (excluding NR and equity)	RMB7,136m	RMB5,326m	RMB5,370m	RMB3,205m	RMB4,118m	RMB3,650m	RMB2,767m	RMB 2,789m	RMB 1,766m	RMB 743m
Auto loan receivables %	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Portion of (fully) amortizing contracts %	99.0%	99.1%	98.9%	98.8%	99.0%	99.3%	99.1%	98.9%	99.4%	98.3%
Portion of bullet / balloon contracts %	1.0%	0.9%	1.1%	1.2%	1.0%	0.7%	1.0%	1.1%	0.6%	1.7%
20%-40% balloon payments loans %	0.0%	0.1%	1.0%	1.1%	1.0%	0.7%	0.8%	0.9%	N/A	N/A
40%-60% balloon payments loans %	1.0%	0.8%	0.0%	0.0%	0.0%	N/A	0.0%	0.1%	N/A	N/A
Monthly paying contracts %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Method of payment - direct debit (minimum payment)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%
Fixed-rate contracts %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
WA initial asset yield (total pool)	4.49%	4.00%	2.71%	1.87%	1.89%	2.79%	3.63%	4.34%	4.32%	8.81%
WAL of total pool initially (in years)	1.3	1.2	0.9	0.9	1.0	0.9	0.9	0.9	1.0	0.7
WA original term (in years)	3.0	2.9	2.6	2.5	2.5	2.6	2.6	2.6	2.6	3.1
WA seasoning (in years)	0.7	0.6	0.8	0.7	0.7	0.8	0.8	0.9	0.9	1.8
WA remaining term (in years)	2.3	2.3	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.3
Portfolio share in arrears > 30 days %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
No. of contracts	105,931	83,286	105,236	63,346	84,013	71,248	52,388	53,106	32,787	14,217
No. of obligors	103,679	82,299	102,534	62,579	82,911	70,167	51,728	52,442	32,488	14,063
Single obligor (group) concentration %	0.05%	0.06%	0.06%	0.07%	0.05%	0.05%	0.06%	0.09%	0.07%	0.21%
Top 10 obligor (group) concentration %	0.4%	0.4%	0.4%	0.5%	0.3%	0.3%	0.4%	0.6%	0.5%	0.9%
Top 20 obligor (group) concentration %	0.6%	0.6%	0.6%	0.7%	0.5%	0.5%	0.7%	0.9%	0.8%	1.6%

Deal names may be abbreviated.
Sources: Issuers and Moody's Investors Service

Exhibit 24
Comparison of pool characteristics (continued)

Deal Name	Driver China thirteen	Driver China twelve	Driver China nine	Driver China eight	Driver China six	Driver China five	Driver China four	Driver China three	Driver China two	Driver China one
Private obligors %	90.55%	92.82%	94.60%	96.45%	96.71%	96.16%	95.83%	95.34%	96.35%	95.31%
Commercial obligors %	9.45%	7.18%	6.40%	3.55%	3.29%	3.84%	4.17%	4.66%	3.65%	4.69%
Name										
1st largest manufacturer / brand	VW	VW	VW	VW	VW	VW	VW	VW	VW	VW
2nd largest manufacturer / brand	Audi	Audi	Audi	Audi	Audi	Audi	Audi	Audi	Audi	Audi
3rd largest manufacturer / brand	Jetta	Jetta	Skoda	Skoda	VW Imported	VW Imported	Porsche	VW Imported	VW Imported	VW Imported
Size %										
1st largest manufacturer / brand	54.71%	60.29%	62.70%	70.12%	69.37%	62.11%	58.01%	56.92%	60.27%	52.02%
2nd largest manufacturer / brand	30.90%	26.41%	20.90%	19.15%	19.33%	23.73%	26.12%	27.95%	27.80%	30.01%
3rd largest manufacturer / brand	4.77%	4.47%	6.30%	4.84%	4.18%	5.01%	6.26%	6.53%	7.34%	12.78%
New vehicles %	97.45%	98.46%	95.90%	99.15%	99.08%	98.94%	99.00%	99.28%	99.67%	96.66%
Used vehicles %	2.55%	1.54%	4.10%	0.85%	0.92%	1.06%	1.00%	0.72%	0.33%	0.34%
Name										
1st largest region	Shandong	Shandong	Zhejiang	Shandong	Shandong	Shandong	Shandong	Shandong	Shandong	Shandong
2nd largest region	Zhejiang	Zhejiang	Shandong	Guangdong	Guangdong	Guangdong	Guangdong	Hebei	Henan	Inner Mongolia
3rd largest region	Henan	Henan	Henan	Jiangsu	Hebei	Jiangsu	Jiangsu	Henan	Hebei	Henan
Size %										
1st largest region	10.95%	10.05%	8.80%	8.47%	8.43%	8.09%	8.39%	8.79%	8.98%	12.74%
2nd largest region	6.85%	7.48%	7.80%	7.55%	7.89%	7.71%	7.38%	7.15%	7.46%	9.13%
3rd largest region	6.40%	7.41%	7.50%	6.08%	6.70%	6.94%	6.81%	6.79%	7.16%	8.19%
Gross default / Net loss definition in this deal	3 months	3 months	3 months	3 months	3 months	3 months	3 months	3 months	3 months	3 months
Period covered by vintage data (in years)	11.1	10.8	9.5	7.3	6.8	6.3	5.9	5.4	4.9	3.9
Type of default / loss distribution	Lognormal	Lognormal	Lognormal	Lognormal	Lognormal	Lognormal	Lognormal	Lognormal	Lognormal	Lognormal
Model running on defaults / losses?	Defaults	Defaults	Defaults	Defaults	Defaults	Defaults	Defaults	Defaults	Defaults	Defaults
Mean gross default rate – initial pool	1.60%	1.60%	1.60%	1.70%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Increase in mean default rate per period for replenished pool	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mean gross default rate - replenished pool	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mean net loss rate - initial pool (calculated or directly modelled)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mean net loss rate - replenished pool	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Standard deviation	0.76%	0.75%	1.05%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
CoV	47.4%	47.1%	65.5%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%
Type of default timing curve	Sine	Sine	Sine	Sine	Sine	Sine	Sine	Sine	Sine	Sine
Sine default curve in periods, if applicable	3,13,39	3,11,33	3,9,26	3,9,27	3,9,26	3,9,26	3,9,26	3,9,26	3,9,27	3,6,18
Mean recovery rate	5.0%	5.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Recovery lag (in months)	12	12	12	12	12	12	12	12	12	12
Prepayment rate(s)	5% (first 12 months) / 8% (thereafter)	5% (first 12 months) / 8% (thereafter)	5% (first 12 months) / 8% (thereafter)	5%	5%	5%	5%	5%	5%	5.00%
Fees	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	1.57%	1.63%	1.82%
Discount rate	5.0952%	5.1261%	5.2987%	6.7472%	6.7799%	5.4055%	5.1514%	5.2573%	5.7629%	7.1168%

Deal names are abbreviated.
Sources: Issuers and Moody's Investors Service

Additional asset analysis

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

Origination quality

The originator was formally incorporated in Beijing and licensed as an auto finance company under the supervision of the CBIRC in 2004. As of June 2021, the originator's network of retail business covered 333 cities and 3,376 dealers. The originator has had experience of several prior securitization issuances and benefits from the experience of VWFS, which has sponsored numerous securitizations globally in the past 23 years.

Servicing quality

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

There is no backup servicing arrangement at closing. Upon the breach of certain triggers, the servicer will notify the issuer in writing and nominate a backup servicer that is acceptable to the issuer; this will increase the frequency of the cash being transferred to the trust account (see "Securitization structure description"). The servicing of the transaction may be subject to disruptions if the originator/servicer fails to perform when needed. We have not relied, in our rating analysis, on triggers based on ratings assigned by other rating agencies.

Any disruption can result in a significant impact because the transaction has more than 103,600 obligors located in various parts of China, in case of default of the servicer. There is no precedent in China of actual servicing transfers to date, although potential replacement servicers exist because there are several captive finance originators with obligors across the country.

The transaction pays notes' coupons on a monthly basis. Thus, a servicing disruption may have an immediate impact on the issuer's ability to pay the coupon in a timely manner. In addition, although the obligors are obliged to pay to the trust and the trustee has the right to make a claim, it may take a long time for each obligor to set up new payment instructions to the trust account.

We consider the high likelihood of the servicer receiving parental support a key mitigant to this concern. Although there is no explicit guarantee from the parent company, the servicer is 100% owned by VWFS in Germany and is strategically important to Volkswagen AG's auto business. VWFS has issued a letter of comfort to acknowledge the fact that it will exert influence to ensure that VWFC meets its liabilities to lenders in the agreed manner. The originator benefits from the experience of VWFS, which has sponsored numerous securitizations globally in the past 23 years.

Environmental considerations

The environmental risk for ABS backed by auto loans is moderate. Our analysis of the transaction, which considers ESG risk, includes the risks to vehicles' recovery values from changes in carbon emissions regulations. The risk is somewhat mitigated, however, by the short tenor of the transaction. Most auto loan pools can withstand severe weather events such as hurricanes and tornadoes because the obligors are spread over a large geographic footprint, resulting in very low exposure to any one severe weather event.

Social considerations

Social risk is generally low in Auto ABS transactions. Technological obsolescence, shifting demand patterns and changes in government policy mean that some segments will experience greater volatility in auto sales and recovery levels, but the short tenor of the transaction mitigates the risk from long term trends. In addition, the geographical and demographical borrower diversification of the pool should mitigate the risk of any one region's or industry's economic decline.

Securitization structure description

The issuer is a special-purpose trust with limited liability and was established under the laws of the People's Republic of China (PRC). The assets of the trust are segregated from the assets of the trustee and the originator.

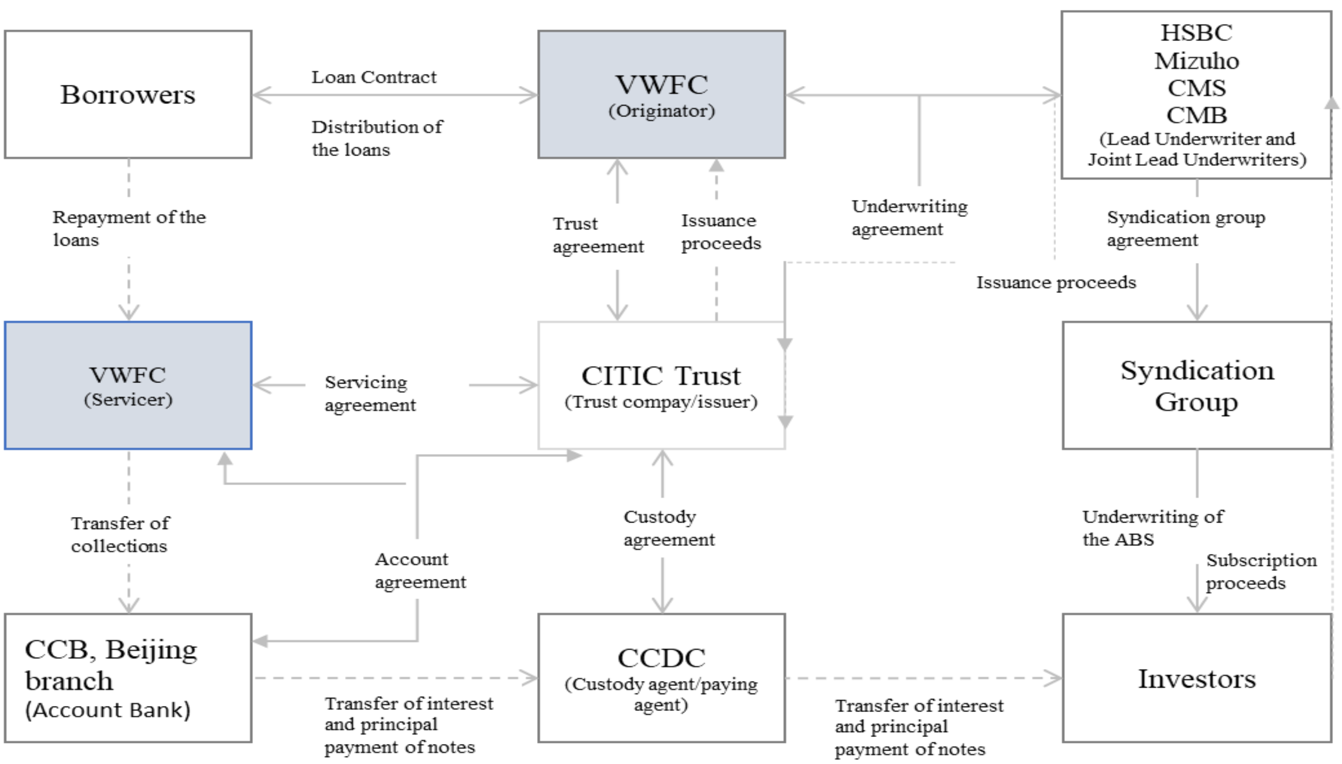
This is a revolving deal with the revolving period ending in February 2022 or the date of early amortization, whichever is earlier. During the revolving period, additional receivables will be continued to be purchased to the extent the target over-collateralization levels of the Class A notes is achieved.

After the revolving period, the interest and principal collections can be used to repay the rated notes to the target notes balance, which is the notes balance to achieve the target OC level (see “Detailed description of the structure - Credit enhancement triggers”). The target notes balance becomes zero (that is, all available collections will be used to repay the notes according to the waterfall) if the discounted balance of the securitized pool is less than 10% of the aggregate discounted balance of the receivables purchased as of the initial and additional cut-off dates, if a servicer replacement event occurs or if the target OC level becomes 100% because the cumulative gross loss ratio reaches 2% (see “Detailed description of the structure - Credit enhancement triggers”).

Structural diagram

Exhibit 25 is a structural diagram illustrating the relationships between the transaction parties and the noteholders.

Exhibit 25
Structure diagram



Source: VWFC

Detailed description of the structure

Credit enhancement

The transaction benefits from several sources of credit enhancement: subordination of the notes, the initial OC at closing and the required cash collateral amount.

Revolving mechanism

The revolving period ends on 26 February 2022 or the date of early amortization, whichever is earlier. During the revolving period, the trustee can purchase additional assets with the funds available from the payment waterfall. Such funds will first be deposited into an accumulation account in the name of the trust and then be used to purchase the additional assets at a purchase price equal to 98.3% of discounted balance of such assets. Upon the end of the revolving period, the accumulation account will be closed, and the funds in the account will be used for distribution in accordance with the payment waterfall.

The following are the early amortization events:

1. the occurrence of a servicer replacement event
2. the balance of the accumulation account on two consecutive payment dates exceeds in aggregate 15% of the discounted receivables balance
3. the Class A actual OC percentage is lower than 10.8% on any payment date falling after three consecutive payment dates following the issue date
4. the originator ceases to be an affiliate of VWFS or any successor thereto
5. the originator fails to perform its repurchase obligations for a breach of warranties
6. a Credit Enhancement Increase Condition is in effect, that is, a cumulative gross loss trigger is breached (see "Detailed description of the structure - Credit enhancement triggers")
7. the occurrence of a foreclosure event

Priority of payments

Pre-enforcement priority of payments

On each monthly payment date, the issuer's available funds, that is, interest and principal collections on the loans, will be applied in the following simplified order of priority:

1. taxes payable
2. servicing fee
3. senior fees and expenses
4. accrued and unpaid interest on Class A notes
5. replenish cash collateral account up to the level equal to the specified cash collateral account balance
6. (a) During the revolving period, to the accumulation account for an amount required to purchase additional receivables to achieve the targeted over-collateralization for Class A notes; (b) after the revolving period, to pay principal of Class A notes until the target balance is achieved
7. accrued and unpaid interest on subordinated notes
8. after the revolving period, payment of subordinated notes, such that the principal outstanding of the subordinated notes is no less than 5% of the outstanding notes in case the cleanup call is not exercised, or zero in case the cleanup call is exercised
9. to the originator by way of a final success fee

Post-enforcement priority of payments

Following the occurrence of a foreclosure event, the issuer's available funds, together with the reserve deposited in the cash collateral account, will be applied in the following simplified order of priority:

1. taxes payable
2. servicing fee
3. senior fees and expenses
4. accrued and unpaid interest of Class A notes
5. principal of Class A notes
6. accrued and unpaid interest on subordinated notes
7. payment of subordinated notes, such that the principal outstanding of the subordinated notes is no less than 5% of the outstanding notes in case the cleanup call is not exercised, or zero in case the cleanup call is exercised
8. to the originator by way of a final success fee

Key foreclosure events

The following are the key foreclosure events:

» an issuer insolvency event

» the issuer default on the payment of any interest payable, and such a default continuing for 10 business days (or longer periods as approved by a meeting of the controlling shareholders)

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

Cash collateral account

The initial cash collateral amount, equal to RMB96 million (around 1.2% of the initial discounted receivables balance), is pre-funded into the cash collateral account at closing.

During the revolving period, the cash collateral amount has to be maintained at RMB96 million. After the revolving period, the required cash collateral amount will become the higher of 1.2% of the outstanding discounted receivables balance, and the lesser of RMB80 million (around 1% of the initial discounted portfolio balance) and the outstanding principal amount of Class A notes.

The cash collateral account can cover for shortfalls down to and including item 4 of the pre-enforcement priority of payments before the legal maturity date, and can cover shortfalls in paying rated notes' principal on the legal maturity date, when there is no outstanding loans, or after the occurrence of the foreclosure event.

Over-collateralization

The initial OC amount is equal to 0.50% 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.

Credit enhancement triggers

There are triggers in place to increase the principal payment of the Class A notes by increasing the target OC levels according to the cumulative gross loss levels.

During the revolving period, the initial target OC level of Class A notes is 20.0% but once the cumulative gross loss level exceeds 1.2%, the Class A notes' target OC level will increase to 100%.

After the revolving period, the initial target OC level of Class A notes is 23.0% but once the cumulative gross loss level exceeds 1.2% up to and including September 2022, or 1.6% from October 2022 but before end May 2023, or 2% at any time during the life of the transaction, the Class A notes' target OC level will increase to 100%.

True sale

The legal true sale of the loan receivables to the issuer is achieved through the trust law of the People's Republic of China.

Servicer replacement

Upon the breach of certain triggers, the trustee will identify and appoint a backup servicer. The following are the key servicer termination events:

» Insolvency of the servicer

» Failure of the servicer to observe covenants, and any such unremedied failures remaining unremedied for five business days

» The CBIRC imposing sanctions against the servicer pursuant to Article 29 of the Measures for Administration of Auto-Finance Companies

» Dissolution by the CBIRC

In addition, the servicer will nominate a backup servicer that is agreeable to the issuer if the servicer's domestic rating falls below a certain trigger level. We have not relied, in our rating analysis, on triggers based on ratings assigned by other rating agencies.

Securitization structure analysis

Primary structural analysis

Our primary analysis of the structure focuses on the cash flow.

We use a lognormal distribution to describe the default distribution of the portfolio. Numerous default scenarios, as based on this distribution, are generated on the asset side to derive the level of losses on the notes.

Our analysis also takes into account how the cash flow generated by the loan portfolio is allocated to the parties within the transaction and the strength of the triggers to reduce the exposure of the portfolio to the originator's or the servicer's bankruptcy.

To determine the rating assigned to the relevant class of notes, we used an expected loss methodology that reflects the probability of default for that specific class of notes times the severity of the loss expected for that class of notes.

To allocate losses to the relevant class of notes in accordance with their priority of payment and relative sizes, we used a cash flow model (ABSROM) that reproduces many deal-specific characteristics. The loss severity upon default is weighed by its probability of default occurrence to compute the expected loss level for the particular class of notes, as well as the expected average life. Our model then compares the quantitative average loss values to our idealized expected loss table for that class of notes.

Comparables

Exhibit 26 and 27 compare the structural features of Driver China thirteen Trust with those of some prior transactions of the sponsor.

Exhibit 26
Comparison of structural features

Deal name	Driver China thirteen	Driver China twelve	Driver China nine	Driver China eight	Driver China six	Driver China five	Driver China four	Driver China three	Driver China two	Driver China one
Structural features										
Revolving period (in years)	0.25	0.25	1	0	0	1	0	0	0	0
Credit reserve ("RF") available and when can it be used prior to legal final maturity date?	Yes - cash collateral account can be used on any payment dates to cover liquidity shortfalls and also credit loss at legal maturity, or when the pool receivables balance is at zero	Yes - cash collateral account can be used on any payment dates to cover liquidity shortfalls and also credit loss at legal maturity, or when the pool receivables balance is at zero	Yes - cash collateral account can be used on any payment dates to cover liquidity shortfalls and also credit loss at legal maturity, or when the pool receivables balance is at zero	Yes - cash collateral account is for servicer replacement event and servicer disruption event only	Yes - cash collateral account is for servicer replacement event and servicer disruption event only	Yes - cash collateral account can be used on any payment dates to cover liquidity shortfalls and also credit loss at legal maturity, or when the pool receivables balance is at zero	Yes - cash collateral account can be used on any payment dates to cover liquidity shortfalls and also credit loss at legal maturity, or when the pool receivables balance is at zero	Yes - cash collateral account can be used on any payment dates to cover liquidity shortfalls and also credit loss at legal maturity, or when the pool receivables balance is at zero	Yes - cash collateral account is for servicer replacement event and servicer disruption event only	Yes - cash collateral account is for servicer replacement event and servicer disruption event only
Size of credit RF up front (as % of Total Pool)	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
RF amortization floor (as % of Total Pool)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Principal available to pay interest?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Set-off risk?	No	No	No	No	No	No	No	No	No	No
Set-off mitigant 1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Commingling risk?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Commingling mitigant 1	Cash advancing	Cash advancing	Cash advancing	Cash advancing	Cash advancing	Cash advancing	Cash advancing	Cash advancing	Cash advancing	Cash advancing
Commingling mitigant 2	Cash collateral account	Cash collateral account	Cash collateral account	Cash collateral account	Cash collateral account	Cash collateral account	Cash collateral account	Cash collateral account	Cash collateral account	Cash collateral account
Back-up servicer (BUS)	No BUS	No BUS	No BUS	No BUS	No BUS	No BUS	No BUS	No BUS	No BUS	No BUS
Back-up servicer to be appointed if servicer rated below	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating agencies	Loss of rating by local rating
Back-up servicer name	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Back-up servicer facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator	No BUS facilitator
Note interest payments	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
Swap in place?	No	No	No	No	No	No	No	No	No	No
Swap counterparty										
Long-term Rating	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Short-term Rating	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Type of swap	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Swap rate (as applicable)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Sources: Issuers and Moody's Investors Service

Exhibit 27
Comparison of structural features (continued)

Deal name	Driver China thirteen	Driver China twelve	Driver China nine	Driver China eight	Driver China six	Driver China five	Driver China four	Driver China three	Driver China two	Driver China one
Size of										
Aaa initial rated class	89.20%	88.77%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Aa3 initial rated class	0.00%	0.00%	87.80%	87.80%	87.78%	87.50%	87.73%	87.73%	87.47%	87.42%
A1 initial rated class	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A2 initial rated class	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A3 initial rated class	0.00%	0.00%	0.00%	3.77%	3.73%	3.75%	4.50%	5.23%	0.00%	0.00%
Baa1 initial rated class	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.47%	0.00%
Baa2 initial rated class	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.50%
Equity	10.30%	10.73%	7.93%	7.93%	7.99%	8.25%	7.27%	6.54%	6.55%	6.58%
Initial over-collateralization	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

We have not relied, in our rating analysis, on triggers based on ratings assigned by other rating agencies.
Sources: Issuers and Moody's Investors Service

Additional structural analysis

Our analysis of the structure focuses on the following additional issues.

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. Before the transfer to the issuer, the collections are kept in the general account of the servicer and, therefore, are subject to commingling risk.

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 0.825 months of cash collections and a 45% recovery rate on such exposure.

If VWFC fails to maintain certain required ratings from the local rating agencies, the servicer has to (1) promptly nominate a backup servicer, which shall be acceptable to the issuer, by notifying the issuer in writing; (2) advance an amount into the distribution account, equal to the sum of the monthly collateral part 1[1] and the monthly collateral part 2[2] for the monthly period in which the monthly collateral start date falls plus, if the monthly collateral start date falls on a date before the sixth business day before the payment date falling in such a monthly period, an amount equal to sum of the monthly collateral part 1 and the monthly collateral part 2 in respect of the preceding monthly period; (3) for any subsequent monthly period in which the servicer continues to fail to satisfy the servicer required rating: (a) on the 15th calendar day of the preceding monthly period, determine the amount representing the monthly collateral part 1 in respect of the monthly period, and transfer the monthly collateral part 1 to the distribution account to be retained until the sixth business day before the payment date relating to such a monthly period; (b) on the first calendar day of such a monthly period, determine the amount representing the monthly collateral part 2 in respect of the monthly period, and transfer the monthly collateral part 2 to the distribution account to be retained until the sixth business day before the payment date relating to such a monthly period; (4) alternatively, collections will be required to be remitted by the servicer to the distribution account on the third business day after receipt of such collections; and (5) promptly nominate a backup servicer, which shall be acceptable to the issuer, by notifying the issuer in writing.

We have not relied, in our rating analysis, on triggers based on ratings assigned by other rating agencies.

Set-off risk

VWFC is a non-deposit-taking institution; hence, there is no depositor set-off risk.

Excess spread

All assigned loan receivables were purchased at a discounted rate of 5.0952%. Having deducted the structural costs (senior fees plus interest on the rated notes and business tax on the interest portion of the collections on the loans), the transaction receives a limited excess spread benefit from the discount at closing.

Bankruptcy remoteness

The issuer is a special-purpose trust with limited liability and was established under the laws of the PRC.

ESG - Governance considerations

This securitization's governance risk is low and is typical of other ABS secured by vehicles in the market. Strong ABS governance relates to transaction features that promote the integrity of the operations of the transaction for the benefit of investors, as well as the data provided to investors. The following are some of the governance considerations related to the transaction:

» ***Risk retention:*** The originators retain the subordinated notes, which creates an alignment of interest to the performance of this transaction.

» ***AUP:*** An independent accounting firm reviewed a sample of loans in the portfolio for the Driver China thirteen Trust. The systems and processes have not undergone significant change since then. This increases the likelihood that the data provided to investors and us are accurate.

» ***R&W framework:*** This transaction includes an obligation of the R&W providers to remedy loans that breach R&Ws.

Methodology and monitoring

Methodology

» Methodology used: Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS, September 2021

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 servicing and trust reports include all the information necessary for us to monitor the transaction.

Data availability

» The monthly servicing reports will be provided by the servicer.

» The trust report is provided by the trustee, CITIC Trust Co., Ltd.

» The trust report is published monthly and shows the position of the trust assets corresponding to the notes, and information on the principal and interest payments corresponding to the notes for each of the relevant periods.

» Trust company reports are publicly available at the National Inter-bank Funding Centre through Chinamoney Net (www.chinamoney.com.cn) and China Central Depository and Clearing Co., Ltd. (www.chinabond.com.cn), and by other means required by the PBOC.

» Trust company reports are audited once a year.

» In the event of an unexpected major event that has a significant impact on the value of the trust assets, the trustee should provide information disclosure materials to the China Central Depository and Clearing Co., Ltd. within three business days after it became aware or should have become aware of such an event, and submit a report to the PBOC and the CBIRC.

Appendices

Appendix 1: Summary of the originator's underwriting policies and procedures

Exhibit 28

The originator's underwriting policies and procedures

Originator Ability:	
Sales and Marketing Practices	
Origination Channels:	3,376 dealerships as of June 2021
Origination Volume:	RMB27.9 billion for the first six months in 2021 (retail loans)
Average Length of Relationship Between Dealer and Originator:	Not disclosed
Underwriting Procedures	
% of Loans Automatically Underwritten:	Around 72% of applications
% of Loans Manually Underwritten:	Around 28% of applications
Number of Loans Underwritten per Full-Time Employee per Day:	Not disclosed
Average Experience in Underwriting or Tenure with Company:	Not disclosed
Approval Rate:	Over 84%
Percentage of Exceptions to Underwriting Policies:	Around 7%
Underwriting Policies	
Source of Credit History Checks:	Internal database, external database: PBOC credit system, black list from CBIRC and NCIIC (National Citizen Identification Information Center)
Methods Used to Assess Borrowers' Repayment Capabilities:	Not disclosed
Income Taken into Account in Affordability Calculations:	Not disclosed
Other Borrower's Exposures (i.e. other debts) Taken into Account in Affordability Calculations:	Not disclosed
Method Used for Income Verification:	Not disclosed
Maximum Loan Size:	Not disclosed
Average Deposit Required:	Not disclosed
Credit Risk Management	
Reporting Line of Chief Risk Officer:	To the corresponding management/executive boards and supervisory boards.
Ability to Track Loan Performance for Specific Loan Characteristics:	Yes: vehicle type (new/used), amortisation profile (i.e.: balloon/non balloon)
Originator Stability:	
Quality Controls and Audits	
Responsibility of Quality Assurance:	Head of Risk Management, Risk Management validates scorecards on a quarterly basis for short validation and on annual basis for complete validation. Risk Management validates underwriting policy whenever necessary according to company guideline.
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: VWFC

Appendix 2: Summary of the servicer's collection procedures

Exhibit 29
The servicer's collection procedures

Servicer Ability	
Loan Administration	
Entities Involved in Loan Administration:	The servicer itself
Early Stage Arrears Practices:	Contact borrowers by telephone and text message to remind repayment and a dunning letter will be generated.
Entities Involved in Early Stage Arrears:	The servicer itself
Definition of Arrears:	
Arrears Strategy for 1-30 Days Delinquent	Activity start after 1 day past due: up to 5 days past due letters and text message as well as wechat reminder is sent, informing overdue borrowers to deposit sufficient amount into their designated account for next arranged direct debit. From 6 to 30 days past due: reasons for overdue is investigated on a case by case basis, outsourced collections may be used at this point in time. Series of dunning letter and text messages are sent again to the borrower to ensure the borrower or other relate key person(s) is fully aware of overdue fact, repayment date and amount.
Arrears Strategy for 31 to 90 Days Delinquent	Start intensive collection process. Intensive collection calls will be made with serious warning. Field visit may be arranged depending on situation (e.g. overdue amount is high, or abnormal repayment performance is detected). Depending on the borrowers' repayment capability, the contract may be terminated when the instalment is overdue 90 days.
Arrears Strategy more than 90 Days Delinquent	All the loan contracts that are overdue more than 90 days will be transferred to legal department and risk department litigation team for court procedures or outsourced to service providers for continued collection activities.
Data Enhancement in Case Borrower Is Not Contactable:	Not disclosed
Loss Mitigation and Asset Management Practices:	
Transfer of a Loan to the Late Stage Arrears Team:	After termination or in case of borrower insolvency.
Entities Involved in Late Stage Arrears:	Legal department of the servicer and outsourced service providers
Ratio of Loans per Full-Time Collector:	Not disclosed
Time from First Default to Litigation/sale:	Approximately 3 months from first default to litigation.
Average Recovery Rate (on Vehicle):	Not disclosed
Channel Used to Sell Repossessed Vehicles:	Not disclosed
Average Total Recovery Rate (after vehicle sale):	Not disclosed
Servicer Stability	
Management and Staff	
Average Experience in Servicing or Tenure with Company:	On average 5 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
Management and Staff	
Average Experience in Servicing or Tenure with Company:	On average 2 years experience.

Source: VWFC

Moody's related publications

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

Methodology Used:

» Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS, September 2021

Credit Opinions:

» Government of China

» Volkswagen Aktiengesellschaft

» Volkswagen Financial Services AG

Sector In-Depth:

» Structured finance - China: Sector Update Q1 2021 – Issuance climbs as economic recovery builds, May 2021 (1278407)

» Auto ABS - Asia Pacific: Sector Update Q1 2021 – Performance is uneven amid divergent recovery from coronavirus downturn June 2021 (1280129)

New Issue Reports:

» Rongteng 2021-4 Retail Auto Loan Securitization

» Toyota Glory 2021 Phase II Retail Auto Loan Credit Asset-backed Securities

» Bavarian Sky China Leasing 2021-1 Trust

» Driver China twelve Trust

» Driver China nine Trust

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.

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Endnotes

1 Monthly collateral part 1 means the amount of, determined by the servicer, the expected collections for the period from (and including) the first through (and including) the 14th calendar day of each monthly period.

2 Monthly collateral part 2 means the amount of the collections determined by the servicer for the period from (and including) the 15th calendar day of a monthly period through (and including) the last calendar day of such a monthly period.

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