S&P Global Ratings

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Transaction Update: Driver Australia Master Trust

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Transaction Update: Driver Australia Master Trust

Ratings Detail

Ratings				
Class	**Rating**	**Amount (mil. A$)**	**Minimum credit support* (%)**	**Revolving period target credit support (%)**
A	AAA (sf)	Up to 1,650.00	14.2	16.5
B	A+ (sf)	Up to 200.00	8.7	10.5

Note: This report is based on information as of Dec. 20, 2024. *Minimum credit support for credit losses does not incorporate cash-flow modeling outcomes.

Profile	
Original rating date	June 29, 2016
Final maturity date	Feb. 25, 2034
Collateral	Receivables generated by a pool of chattel mortgage and consumer loan contracts backed by passenger and light commercial motor vehicles
Issuer	Perpetual Corporate Trust Ltd. as trustee of the Driver Australia Master Trust
Originator, seller, servicer, subtrust manager, and subordinated lender	Volkswagen Financial Services Australia Pty Ltd.
Trust manager	Perpetual Nominees Ltd.
Security trustee	P.T. Ltd.
Bank account provider	Australia and New Zealand Banking Group Ltd.
Interest-rate swap provider	ING Bank N.V.

Supporting Ratings	
Bank account provider	Australia and New Zealand Banking Group Ltd.
Interest-rate swap provider	ING Bank N.V.

Rationale

This is a revolving-pool transaction backed by collateral originated by Volkswagen Financial Services Australia Pty Ltd. (VWFS Australia). The transaction's revolving period was extended for a further 12 months, beginning Dec. 27, 2024. The ratings assigned to the notes issued by Perpetual Corporate Trust Ltd. as trustee of the Driver Australia Master Trust (the issuer) reflect the following factors.

The credit risk of the underlying collateral portfolio (discussed in more detail under "Collateral") and the credit support available are commensurate with the ratings assigned. Credit support for the class A notes comprises the subordination of the class B notes and the subordinated loan, and overcollateralization. Credit support for the class B notes includes the subordination of the subordinated loan and overcollateralization. In addition, any balance remaining in the cash reserve on the maturity date of the notes or when the receivables pool balance reaches zero can be applied toward redemption of the class A and class B notes, which could provide additional support.

All contract payments, including the residual or balloon payments, are an obligation of the borrower. As a result, the trust is not exposed to any market-value risk associated with the sale of the motor vehicles (on performing receivables), which is a risk that could be associated with other products, such as operating leases.

The issuer has the capacity to pay interest to the class A and class B note holders in full on each interest payment date, and to repay principal in full no later than the final maturity date, under rating stresses commensurate with the ratings assigned. All rating stresses are made on the basis that the issuer does not call the notes on or beyond the call-option date, and that the notes must be fully redeemed via the mechanisms under the transaction documents. Timely payment of senior expenses and note interest is supported by the use of principal collections and an amortizing cash reserve funded at closing by VWFS Australia--equal to 1.2% of the aggregate class A and class B note balance--and subject to a floor of the lesser of 0.7% of the maximum receivables balance reached during the revolving period or any previous revolving period and the outstanding amount of the class A and class B notes.

The legal structure of the issuer, which is established as a special-purpose entity, meets our criteria for insolvency remoteness.

Our ratings also take into account the counterparty support provided by Australia and New Zealand Banking Group Ltd. (ANZ) as bank account provider and by ING Bank N.V. as interest-rate swap provider. Fixed- to floating-rate interest-rate swaps are provided to hedge the mismatch between the fixed-rate payments on the receivables and the floating-rate interest payable on the notes. The transaction documents for the swaps and bank accounts include downgrade language consistent with our "Counterparty Risk Framework: Methodology And Assumptions" criteria, published on March 8, 2019, that requires the replacement of the counterparty or other remedy, should its rating fall below the applicable rating.

Notable Features

The transaction has a 12-month revolving period. Provided that an early amortization event has not occurred during this period, additional receivables can be purchased via retained collections or the issuance of additional notes. The issuance of further notes is subject to confirmation from S&P Global Ratings that the ratings on existing notes will not be adversely affected.

The class A and class B notes are issued in a number of different series, each corresponding to a different investor. Before the expiry of the revolving period, each series note holder can elect either to extend or amortize their series of notes (refer to "Note Terms And Conditions"). Any extension of the revolving period is subject to review of the transaction by S&P Global Ratings and confirmation that the ratings on existing notes will not be adversely affected.

The receivables portfolio is purchased by the issuer at a single fixed discount rate, which means the issuer could be acquiring the assets at a price that is, on average, above the par value of the collateral pool. This could result in prepayment losses. However, the current pool has not been purchased above par, and S&P Global Ratings is satisfied that--notwithstanding this is not a closed pool--prepayment losses do not present an additional risk for this transaction. We formed this view based on the proportions of VWFS Australia's annual ABS book originations from January 2013 to May 2016, which represent contracts with an interest rate higher than 9%, and observation of the proportion of contracts in the collateral pool that have an interest rate higher than 9% since the closing date of Driver Australia Master Trust. The discount rate is set by VWFS Australia at an amount that is intended to match the yield on the transaction to the issuer's expenses. Consequently, there is no excess spread in the transaction.

The transaction has a single--rather than "income" and "principal"--cash-flow priority of payments, and there is no concept of a principal deficiency ledger or invested/stated amounts of the notes.

Under the transaction's payment structure, collections--after payment of senior expenses and class A and class B note interest--initially will be allocated to the class A and class B notes on a sequential-payment basis, until the class A notes reach a target balance. Thereafter, provided certain performance triggers have not been breached, collections are to be allocated to the class A and class B notes until they reach, or in order to maintain, target balances. The target balances are determined using predefined minimum credit support (overcollateralization) levels for each class of notes (refer to "Priority Of Payments").

Strengths And Weaknesses

Strengths

In S&P Global Ratings' opinion, the strengths of the transaction observed in the rating analysis are:

- The entire portfolio comprises receivables that are backed by passenger and light commercial motor vehicles. S&P Global Ratings has taken this into account in its assessment of the minimum credit support at each rating level by giving credit to recoveries.
- The documented eligibility criteria require a minimum of 70.0% of the discounted pool balance to represent contracts for the purpose of financing a new motor vehicle. The historical losses when the motor vehicle financed was new are lower than those when the motor vehicle was used. We have factored this performance into our credit-support determination.
- The breach of certain performance triggers will switch the transaction's principal payment structure to fully sequential.

Weaknesses

In S&P Global Ratings' opinion, the weaknesses of the transaction observed in the rating analysis are:

- This is not a closed pool, which means that new receivables can be added during the transaction's revolving period, which could cause a shift in the collateral pool's credit quality and diversification. The only "portfolio parameters" are a cap of 30% of the collateral pool balance on contracts for the purpose of financing a used motor vehicle and of 70% on contracts used to purchase a non-Volkswagen Group-manufactured vehicle. There are no parameters that address potential concentrations such as geographic and balloon contracts or ensure diversification, such as in contract sizes and terms, for example. S&P Global Ratings has taken the potential for a shift in the credit quality of the collateral pool into account in its opinion of minimum credit support for credit losses, including via the rating stress multiple applied to our base-case gross loss assumption. In addition, at both a local and global level we have the benefit of observing numerous Volkswagen Financial Services securitization transactions and collateral pools in several countries, including similar revolving transactions, and, in some countries, over a long period of time.
- During the revolving period, collections that would otherwise be allocated to pay principal on the notes are retained

in the accumulation account. If the issuer is unable to reinvest the cash in eligible receivables, this creates negative carry risk because the interest on the notes exceeds the interest earned on the bank account. However, this is mitigated by a requirement that the transaction enter amortization should the amount retained in the accumulation account on two consecutive payment dates exceed 15% of the then-current aggregate discounted receivables balance.

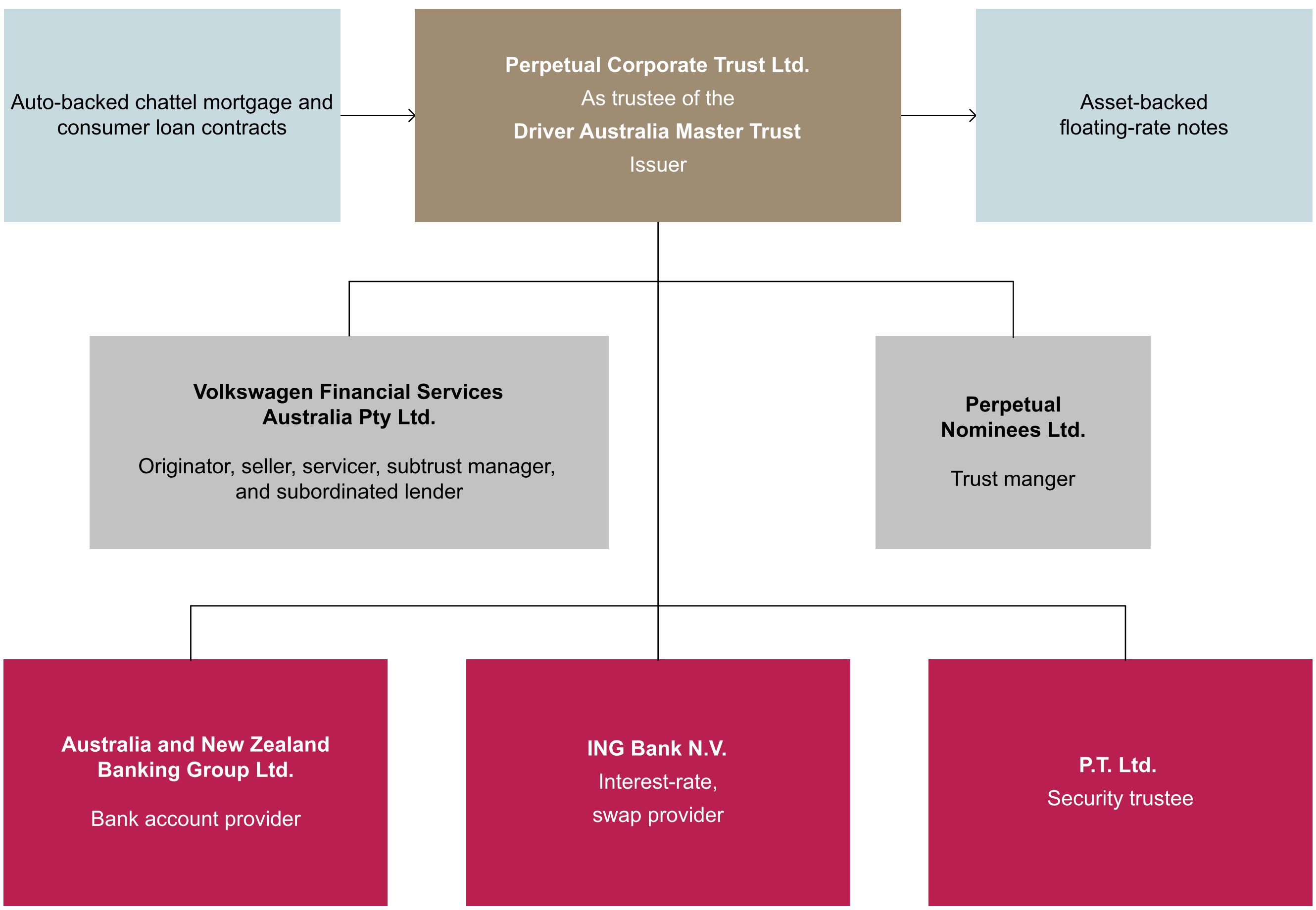
- Under the terms of the servicing agreement, the servicer may extend, defer, amend, modify, or adjust the receivable contracts in the collateral pool in accordance with its current practices.
- Once the transaction enters amortization, the transaction's principal payment structure is not fully sequential. Principal initially will be paid to the class A and class B notes on a sequential basis, until the class A notes reach a target balance. Thereafter, provided certain performance triggers have not been breached, principal is to be allocated to the class A and class B notes until they reach, then maintain, target balances based on predefined minimum credit support (overcollateralization) levels. In addition, there is no documented lock-out period from the commencement of amortization before collections are allocated to class B note principal. Nevertheless, S&P Global Ratings' cash-flow analysis of the transaction suggests that principal would not be paid to the class B notes during the first 12 months of amortization under rating stresses commensurate with the ratings assigned to the notes. Also, the repayment structure will switch back to fully sequential repayments after the discounted collateral pool balance reaches 10% of the maximum amount reached at any time during the transaction, further mitigating tail-end risk (refer to "Priority Of Payments").
- There is no excess spread in the transaction. Rather, the discount rate is set by VWFS Australia at a rate intended to match the yield on the assets to the expenses of the transaction. S&P Global Ratings' cash-flow analysis indicates that yield shortfalls would occur in the latter part of the transaction under certain rating-stress assumptions. In this scenario, principal collections that otherwise would be applied toward repayment of principal on the rated notes would be instead directed toward meeting senior expenses. This is equivalent to the use of principal draws to meet senior expenses in transactions that have separate "income" and "principal" cash-flow waterfall priority of payments. Our cash-flow analysis indicates that the risk that a portion of the principal collections required to repay the rated notes would be diverted to meet senior expenses under rating-stress assumptions is fully mitigated by the revolving period target credit support levels for the class A and class B notes, which exceed our opinion of the credit support required for credit losses.

Transaction Structure

The structure of the transaction is shown in chart 1.

Chart 1

Driver Australia Master Trust
Transaction structure



We understand that transaction counsel lodged the relevant financing statements on the Personal Property Securities Register in connection with the security interest.

Note Terms And Conditions

Interest payments and overcollateralization percentages

The notes are floating-rate, pass-through notes, paying a margin over the one-month bank-bill swap rate (BBSW) on the principal amount of the notes. Interest payments on the class A notes rank in priority to interest payments on the class B notes. The transaction does not have a principal deficiency ledger mechanism. Consequently, the concepts of charge offs, note invested amounts, and note stated amounts are not applicable in this transaction. Rather, credit support for the class A and class B notes at any point in time is measured by its overcollateralization percentage.

The overcollateralization percentage for the class A notes is determined by subtracting the current balance of the class A notes from the current discounted balance of the collateral pool--plus the accumulation account balance during the revolving period--and dividing the resultant figure by the current discounted balance of the collateral pool--plus the accumulation account balance during the revolving period.

The overcollateralization percentage for the class B notes is determined by subtracting the aggregate current balance of the class A and class B notes from the current discounted balance of the collateral pool--plus the accumulation account balance during the revolving period--and dividing the resultant figure by the current discounted balance of the collateral pool--plus the accumulation account balance during the revolving period.

Principal payment structure: Revolving period

Principal is allocated during the revolving period to the class A and class B notes until they reach, then maintain, their revolving period target overcollateralization percentages of 16.5% and 10.5%, respectively. The principal allocated will not be used to amortize the notes; it will be retained in the accumulation account.

Provided no early amortization event has occurred and the documented eligibility criteria will be met, cash in the accumulation account can be applied on any monthly payment date to fund the acquisition of additional receivables. Should the funds in the accumulation account be insufficient, additional notes could be issued, up to a limit of A$1,650 million of class A notes and A$200 million of class B notes. The issuance of further notes is subject to confirmation from S&P Global Ratings that the ratings on the notes will not be adversely affected.

Principal payment structure: Amortizing and nonamortizing series of notes

Before the end of the 12-month revolving period, each note holder will elect whether they wish to extend the revolving period--in which case their notes will remain nonamortizing--or not extend--in which case their notes convert to an amortizing series. The final maturity date of any amortizing series will not change, but the final maturity date of nonamortizing notes could be extended and the margin could change. The class B notes could amortize while either all or some of the class A notes remain nonamortizing. In this situation, principal will only be paid to the class B notes if the credit enhancement for the class A notes is maintained at their revolving period target overcollateralization percentage. When a note series converts to amortizing, its principal allocation percentage is set, based on the proportion that note series represents of the aggregate notes of that class that was nonamortizing on the conversion date. If there are multiple amortizing series of notes, then a series that has an earlier amortization start date will continue to receive its fixed proportion of the principal allocated to that class, regardless of the quantum of notes of that class outstanding at that time.

Principal repayment structure: Amortization

If an early amortization event occurs, then all funds in the accumulation account will be applied through the cash-flow waterfall and all notes of a class, regardless of whether they were an amortizing series or nonamortizing series immediately before the occurrence of the amortization event, will be paid pari passu and pro-rata. This also means that, notwithstanding that a series of notes that was amortizing before the end of the revolving period could have an earlier final maturity date, it will not be fully amortized any earlier than notes of that class that have a later final maturity date.

The transaction's principal repayment structure during amortization is not fully sequential. Principal will be initially paid to class A and class B notes on a sequential basis, until the class A notes reach a target balance, determined by the applicable class A target overcollateralization percentage. Thereafter, provided certain performance triggers have not been breached, principal is to be allocated to the class A and class B notes until they reach--or maintain, as the case may be--their target balances, determined by the applicable class A target overcollateralization percentage and class B target overcollateralization percentage. Provided that the class A and class B target balances are maintained, collections may be allocated to payments that rank below principal payments on the rated notes (refer to "Priority Of Payments").

There is no documented lock-out period from the commencement of amortization before collections may be allocated to paying class B note principal. Nevertheless, S&P Global Ratings' cash-flow analysis of the transaction suggests that, under rating stresses commensurate with the ratings assigned to the notes, collections would not be applied to pay class B note principal during the first 12 months of amortization.

In addition, the repayment structure will switch back to fully sequential principal repayments after the discounted collateral pool balance reaches 10% of the maximum amount reached at any time during the transaction, further mitigating tail-end risk.

Term takeout

During the revolving phase, receivables may be sold for the purposes of a new closed pool Driver Australia transaction. The proceeds from the sale of the receivables are not applied through the cash-flow waterfall. Rather, the proceeds are applied firstly to the class A notes, to the extent required to achieve their requisite level of credit support; next to the class B notes, to the extent required to achieve their requisite level of credit support; to the subordinated loan; then any amount remaining to the unit holder of the trust.

The requirement for the receivables sold to meet the eligibility criteria of the new term transaction could lead to a disproportionately higher proportion of receivables in arrears in the remaining collateral pool. The credit support targets for the class A and the class B notes post-takeout are increased, based on the percentage of the remaining collateral pool that is in arrears. As a consequence of this provision, we have observed that immediately following term takeouts, the actual credit support provided for the class A and class B notes exceeds the revolving period targets before decreasing to the revolving period targets during the following months. Early amortization would be triggered if the proportion of the aggregate discounted receivables balance that is more than 180 days in arrears exceeds 1.40%.

The sale of receivables for a term takeout is subject to confirmation from S&P Global Ratings that the ratings on the notes will not be adversely affected.

Call date

On any date on or after the discounted collateral pool balance reaches 10% of the maximum amount reached at any time during the transaction, the seller may notify the issuer and the trust manager that it is exercising a clean-up call. The clean-up call may only be exercised if the principal outstanding and accrued interest on the class A and class B notes will be repaid in full. Any balance remaining in the cash reserve at that time may be applied--via payment of the reserve balance to the seller and, in turn, its payment of the purchase price to the issuer--toward redemption of the class A and class B notes.

Priority Of Payments

The transaction has a combined interest and principal cash-flow waterfall priority of payments. The pre-enforcement priority of payments after the revolving period has ended is summarized in table 1.

Table 1

Priority Of Payments (Summarized)	
1	A$1 to the unit holder
2	Taxes (if any)
3	Trustee and security trustee fees and expenses; servicer, trust manager and sub-trust manager fees
4	Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party or, following a swap termination, due to an unremedied downgrade of the swap counterparty)
5	Interest on the class A notes
6	Interest on the class B notes
7	Top up of the cash reserve up to its required level
8	Class A note principal (to reach or maintain its target balance)
9	Class B note principal (to reach or maintain its target balance)
10	Other indemnities, costs, and expenses
11	Payments to the swap counterparty and note holders not paid above
12	Interest on the subordinated loan
13	Subordinated loan principal
14	Any remaining amounts to the unit holder of the trust

After the revolving period ends, the notes will be amortized sequentially until the class A notes reach their target balance, which is determined by the applicable class A note target overcollateralization level. Following that, provided the class A target balance is maintained, the class B notes will be amortized until they reach their target balance, which is determined by the applicable class B note target overcollateralization level.

The target overcollateralization levels applied to determine the target balance of the notes depend upon whether a credit enhancement trigger has been breached. If a trigger has not been breached, the class A and class B notes would continue to be amortized once they reach their initial target balances; however, there would be no further build up in credit support because the target overcollateralization percentage would remain unchanged.

The target overcollateralization level will be 100% for each class of notes, which equates to a fully sequential principal amortization structure if a credit enhancement trigger has been breached.

Credit enhancement triggers

The credit enhancement triggers are as follows:

- The dynamic net loss ratio for three consecutive payment dates exceeds 0.20%, if the weighted-average seasoning is less than or equal to 12 months; 0.25%, if the weighted-average seasoning is between 12 months (exclusive) and 24 months (inclusive); 0.30%, if the weighted-average seasoning is between 24 months (exclusive) and 36 months (inclusive); or 0.50%, if the weighted-average seasoning is greater than 36 months.
- The 12-month average dynamic net loss ratio for the preceding 12 consecutive payment dates exceeds 0.90% during the revolving period or 1.8% after the end of the revolving period.
- The percentage of the collateral pool that is in arrears by more than 180 days exceeds 1.40%.
- A servicer replacement event occurs and is continuing.
- The balance of the cash collateral account is less than its required balance.

There is no defined point, such as a maximum number of days in arrears, at which contracts must be recognized as a gross loss in this transaction. In such circumstances, there is the potential for contracts to sit in long-dated arrears buckets before being recognized as a loss. The performance triggers in this transaction do include an arrears test; however, we believe the level is set significantly higher than VWFS's historical arrears data would suggest is effective. In addition, VWFS Australia's practice is to generally recognize a net loss at the time recovery proceeds are received, unless the contract is fully written off earlier. As a result, there could be a timing lag in this transaction between any significant deterioration in collateral performance and its recognition in cumulative net losses, and, therefore, its measurement against the performance triggers. The dynamic net loss triggers are also set at levels higher than those sized by S&P Global Ratings. We have taken these features into account in our analysis of the transaction. However, the amortization phase target overcollateralization percentages are set at levels that largely mitigate this concern.

The target overcollateralization levels are set out in table 2.

Table 2

Overcollateralization Levels As A Percentage Of Discounted Collateral Pool Balance

	Target overcollateralization levels		
	Revolving phase	**Amortization phase**	**Credit enhancement trigger breached**
Class A notes	16.5	26.0	100.0
Class B notes	10.5	18.0	100.0

Because the repayment structure during amortization is not fully sequential, we analyzed the effect of a moderate stress on the transaction to determine whether the maximum expected rating transition of the notes under such a scenario would be in line with the credit stability parameters set out in "S&P Global Ratings Definitions," published Dec. 2, 2024. The results of our analysis suggest that under a moderate rating stress, the maximum expected rating transition on the class A and class B notes within time horizons of one year and three years would fall within the bounds of our parameters.

Originator/Servicer Overview

VWFS Australia is a 100% subsidiary of Volkswagen Financial Services Overseas AG (VWFS Overseas). VWFS Overseas has undertaken many securitizations worldwide under its Driver ABS (asset-backed securities) program. Driver Australia Master Trust is its only revolving-pool Australian transaction.

VWFS Australia was incorporated in June 2001. It has around 164 employees, most of whom are based at its head office in Chullora, New South Wales. Its management team has extensive experience in either the automotive or finance industry, or both. Although VWFS Australia's organizational structure includes its own risk and compliance function, VWFS Australia is subject to VWFS Overseas's global risk-management framework, and therefore benefits from its parent's support in risk management and the implementation of global policies.

VWFS Australia offers a range of financial products, including fleet leasing, and dealer floor plan and business loans to dealerships that represent automotive brands within the Volkswagen (VW) Group, including Audi, Bentley, Skoda, VW, and VW commercial. Its strategy also encompasses the provision of finance and insurance products to the Australian business and consumer market via such dealerships. Products offered include finance leases, novated leases, chattel mortgage, and consumer loans. These products are originated primarily through about 239 dealerships across Australia. VWFS Australia's strategy includes increasing its penetration rate (i.e., the percentage of VW Group-manufactured vehicles financed by VWFS Australia). Its penetration rate is currently about 44.2%.

The products securitized in this transaction include VWFS Australia's "ABS Book," which includes chattel mortgage and consumer loan contracts secured by new or used passenger or light commercial motor vehicles. Although such vehicles may include passenger vehicles used in businesses such as couriers and limousines, such vehicles are subject to additional credit-assessment criteria. The types of motor vehicles that VWFS Australia will not finance include trucks, buses, taxis, and commercial vehicles over 4.49T.

VWFS Australia may provide finance to borrowers for additional products such as comprehensive insurance, gap insurance, extended warranty insurance, and vehicle servicing; however, each of these is the subject of a separate contract to the vehicle finance contract.

As a captive auto financier, VWFS Australia's primary target market is potential acquirers of a new vehicle manufactured by the VW Group; however, VWFS Australia's origination channels include dealerships that are "multimanufacturer." Accordingly, the collateral pool for this transaction could be diversified by the inclusion of up to 70% (by discounted pool balance) of contracts that are secured by motor vehicles manufactured by a company outside the VW Group.

Although the dealerships are incentivized with commissions and, in some cases, volume bonuses, all credit decisions remain centralized at VWFS Australia's head office. In addition, such incentives are clawed back in cases when, before the expiration of the pre-agreed timeframes, contracts are terminated early or the financed vehicle is repossessed. Dealership performance is also tracked via hindsight reviews, month-end arrears performance, and quarterly reviews of relative dealer performance.

VWFS Australia's credit function has a reporting line to senior management that is separate to its sales function. While dealers may enter finance applications via the system's Access Catalyst dealer interface, all credit decision-making is centralized with VWFS Australia's credit team. Certain credit decisions are built into Access Catalyst and cannot be changed by the dealers, such as the maximum contract terms of 60 months for chattel mortgage and 84 months for consumer loans--unless the consumer loan has a balloon, in which case a maximum contract term of 60 months would apply.

Applications submitted are assessed via VWFS Australia's scorecard, where they are also subject to checks against credit policy. Applications may be auto-approved or -declined, or referred to retail credit, where they are assessed by a credit officer who holds the requisite delegated lending authority. Applications that are outside policy, such as vehicle age or balloon policy, are referred. If an application is declined, then resubmitted with changes, the new application would not be automatically referred. It could be auto-approved or referred to a different credit analyst and potentially be approved. However, an application will be locked down in the system if is resubmitted more than six times. Between January and June 2024, around 52.9% of applications were "auto-decisioned," with 47.1% of applications referred for manual assessment. VWFS Australia has an approval rate of 95%, which includes auto and manual assessment of applications. The scorecard is validated on a quarterly basis, with a full validation process undertaken annually.

VWFS Australia's credit process includes an assessment against any adverse credit history listed on the credit bureau, fraud checks, and other externally available databases such as Australian post and electoral role listings. If it receives a new finance application for a previous or existing borrower, it checks its own records of previous borrowers who have defaulted and might also undertake checks against its system to determine payment history.

The production of contract documentation is controlled by VWFS Australia systems. Documents are printed by the dealer, signed by the borrower, and sent to VWFS Australia's settlements team. System-generated, customized settlement checklists, which are produced for each contract and include any approval conditions, assist the settlement team in its verification process. The process must be completed before contracts can be uploaded to the system. All documentation is scanned into VWFS Australia's document-management system.

VWFS Australia is responsible for servicing the receivables in the collateral pool. Its customer service and collections teams report to the front office. Both functions are centralized at the head office in Chullora. The customer service team comprises a team leader, a senior customer service officer, and six customer service officers. The collections team comprises the team leader, a senior collections officer, two collections officers, one agent coordinator, one loss mitigation officer, one recovery officer, and a hardship officer. VWFS Australia offers a variety of payment methods, including direct debit and BPAY, but direct debit is the initially elected payment method for more than 96% of the current collateral pool, both by balance of the discounted collateral pool and by number of contracts.

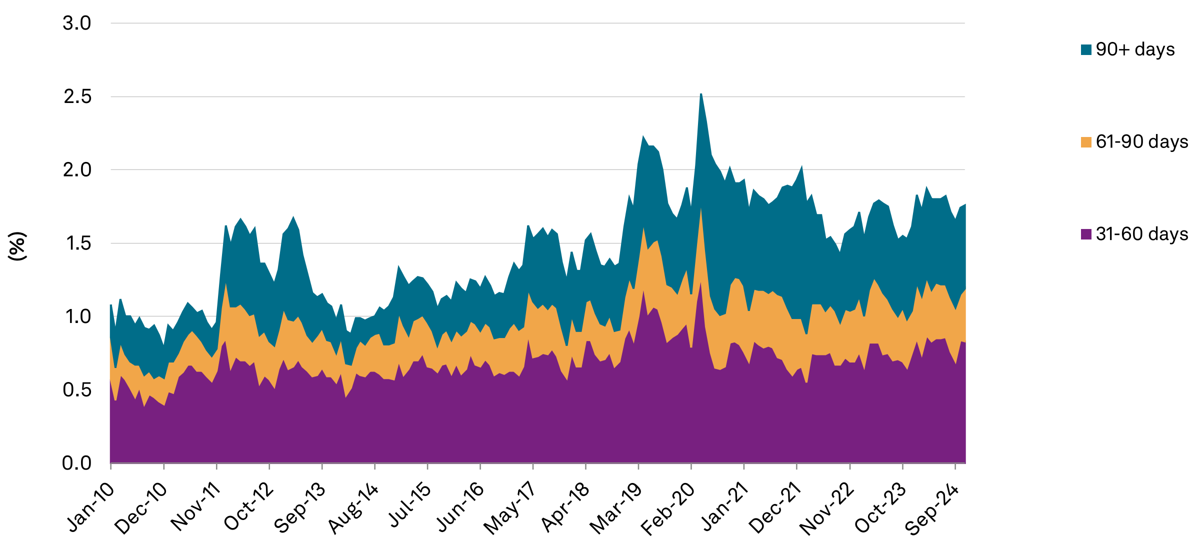
Contracts that fall into arrears are classified as either early or late-stage collections. Early-stage collections include contracts that are one to 21 days in arrears. During this phase, borrowers are contacted by telephone and mail to attempt to make a payment arrangement. Automated SMS contact is made at 10 days in arrears, and a behavioral scorecard helps to guide collections strategy. A default notice will be issued if the borrower does not remedy the outstanding payment. From August 2017, the management of arrears from one to 30 days was outsourced to

Queensland-based Collection House, though any hardship cases are referred to VWFS Australia. Late-stage collections are managed by VWFS Australia's internal collections team. Contracts in arrears that have an outstanding balance greater than A$150,000 or an overdue balloon payment, are sent to a separate work queue that is managed internally and in partnership with Collection House. Recovery action can commence when the 30-day default notice period expires. This is usually between 51 and 90 days in arrears. About 43% of the accounts issued to a recovery agent are resolved by the borrower paying the arrears. VWFS Australia generally recognizes contracts as a gross loss upon the earlier of 180 days in arrears and repossession of the vehicle. Recognition of a net loss might not occur until the contract is 270 days in arrears, following a lengthening of this period by VWFS Australia during 2016 to provide for potential Australian Financial Complaints Authority involvement and longer time to try to recover on the contract. Auctioneers are used for the storage and sale of repossessed motor vehicles, with prestige auctions selected for prestige vehicles to optimize sale proceeds. The average time from repossession to sale fluctuates, though it is generally 30-90 days.

VWFS Australia's historical arrears performance for its total retail book, of which the ABS products are a subset, is reflected in chart 2.

Chart 2

VWFS Australia
Arrears history



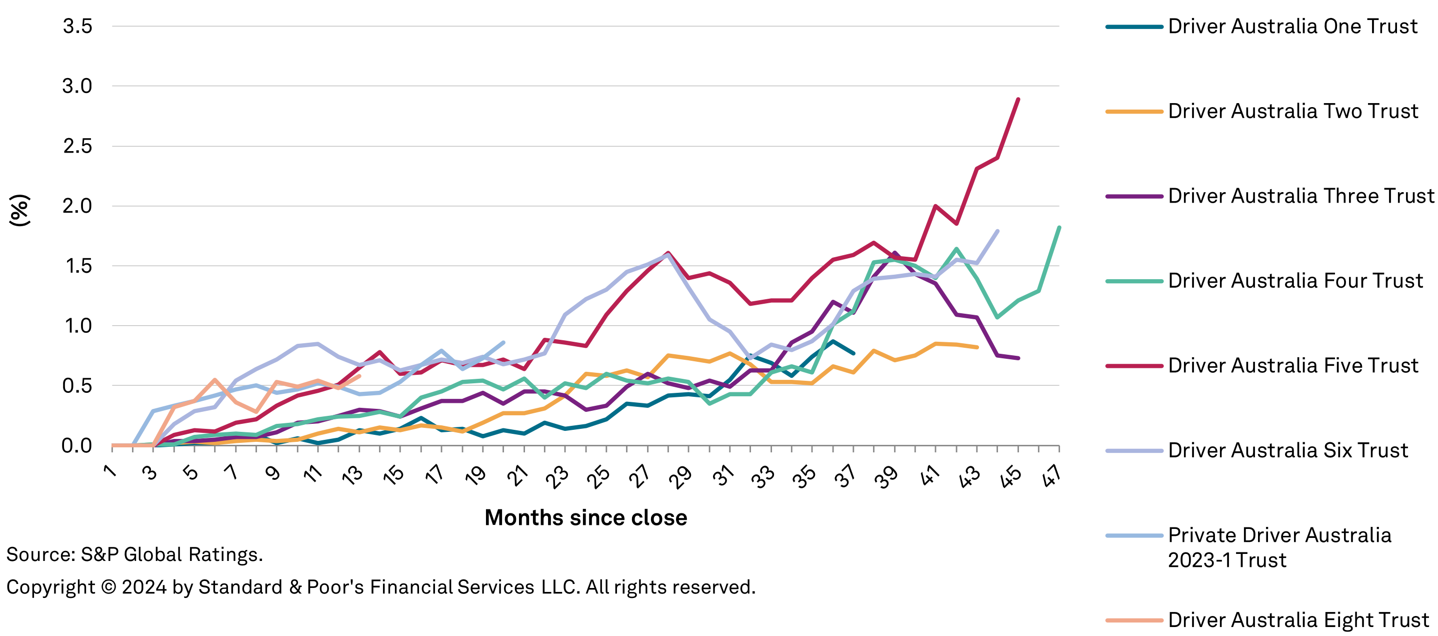
Source: S&P Global Ratings.

Performance Of Previous Transactions

The arrears performance of Driver Australia One Trust, Driver Australia Two Trust, Driver Australia Three Trust, Driver Australia four Trust, Driver Australia five Trust, Driver Australia six Trust, Private Driver Australia 2023-1 Trust, and Driver Australia eight Trust is illustrated in chart 3 and the net loss performance is shown in chart 4. The notes of Private Driver Australia 2023-1 Trust remain outstanding; however, each of the other rated transactions were redeemed in full on their respective call dates.

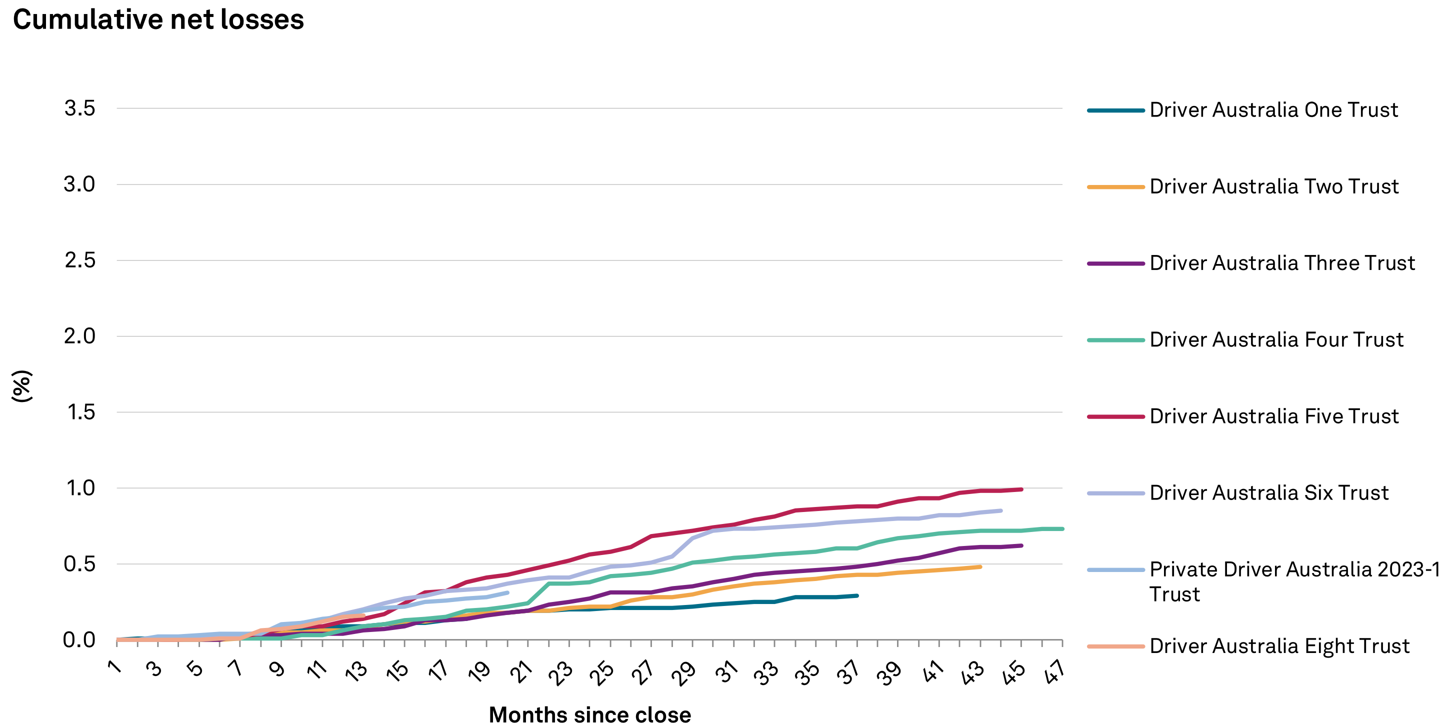
Chart 3

Volkswagen Financial Services Australia Pty Ltd.
Contract balance in arrears greater than 90 days



Source: S&P Global Ratings.

Chart 4



Source: S&P Global Ratings.

Collateral

The current collateral pool contains 22,138 contracts, comprising chattel mortgage, and consumer-loan contracts, secured by passenger and light commercial vehicles. The aggregate discounted principal balance is about A$766 million. The receivables and associated rights are equitably assigned to the issuer by VWFS Australia. Title may be perfected if certain events occur, such as the insolvency of VWFS Australia or the occurrence of a servicer replacement event (if VWFS Australia is the servicer), including a failure of the servicer to remit collections to the issuer when due or an unremedied breach of a material covenant that has a material adverse effect.

The current receivables pool for Driver Australia Master Trust as of Nov. 30, 2024, is summarized and compared with Driver Australia ten Trust at transaction close in table 3 and table 4.

Table 3

Summary Characteristics

	Driver Australia Master Current Pool	Driver Australia ten Trust
Total number of contracts	22,138	20,086
Total discounted principal balance of contracts (A$)	766,059,845	750,015,812
Maximum discounted principal balance of contracts (A$)	682,803	550,231
Average current discounted contract principal balance (A$)	34,604	37,340
Weighted-average contract rate (%)	8.8	8.2
Discount rate (%)	8.9	8.9

Table 3

Summary Characteristics (cont.)

	Driver Australia Master Current Pool	Driver Australia ten Trust
Total balloon payments as a percentage of total pool balance (%)	21.4	26.2
Weighted-average contract seasoning (months)	17.3	19.1
Weighted-average remaining term to maturity (months)	40.9	38.1

Note: The discount rate includes a buffer (refer to "Buffer Release").

Table 4

Pool Characteristics (% pool by discounted balance)

	Driver Australia Master Current Pool	Driver Australia ten Trust
Finance type		
Chattel mortgage	63.4	78.3
Consumer loan	36.6	21.7
Customer type		
Retail	100.0	100.0
Corporate	0.0	0.0
New and used		
New	70.9	76.5
Used	29.1	23.5
Geographic distribution		
New South Wales	37.2	36.1
Victoria	22.0	25.2
Queensland	18.0	18.5
Western Australia	11.2	10.2
Australian Capital Territory	2.9	2.4
South Australia	4.1	4.2
Tasmania	3.9	3.0
Northern Territory	0.7	0.4
Seasoning		
Less than one year	42.3	28.4
1-2 years	32.0	42.4
2-3 years	16.5	20.4
3-4 years	5.8	6.2
4-5 years	2.6	2.5
Greater than five years	0.8	0.1
Remaining term to maturity		
Less than one year	3.6	3.9
1-2 years	9.3	11.0
2-3 years	20.2	23.2
3-4 years	28.1	34.7
4-5 years	34.9	25.4
Greater than five years	3.9	1.8

Table 4

Pool Characteristics (% pool by discounted balance) (cont.)		
	Driver Australia Master Current Pool	**Driver Australia ten Trust**
Balloon payment		
No balloon	57.2	49.4
Balloon	42.8	50.6
Outstanding discounted principal balance		
Less than or equal to A$20,000	11.4	10.3
A$20,000 to A$40,000	28.5	26.7
A$40,000 to A$60,000	22.6	22.3
A$60,000 to A$80,000	12.6	13.2
A$80,000 to A$100,000	6.3	6.9
A$100,000 to A$150,000	8.7	9.9
Greater than A$150,000	9.8	10.7
Manufacturer		
Volkswagen Group	44.0	43.4
Non-Volkswagen Group	56.0	56.6

The top 10 obligor concentrations for the current collateral pool are set out in table 5.

VWFS Australia permits multiple borrowers for one contract. Examples include a couple jointly purchasing a motor vehicle and a credit application by an initial borrower that requires secondary support, such as when a young person's parents are supporting the application. VWFS Australia counts each borrower as a separate obligor, even if the borrowers are parties to a single contract. Its rationale is that a default by one obligor would only result in a default on the contract if the joint or secondary borrower went into bankruptcy at the same time. VWFS Australia's measurement methodology means that although each of the obligors listed in table 5 is a separate borrower, there may be an overlap or duplication of contracts. This is different to the manner in which obligor concentrations are measured and disclosed for other ABS originators. There are no portfolio parameters surrounding obligor concentrations. However, the eligibility criteria include an obligor cap of A$750,000.

Table 5

Top 10 Obligor Concentrations (% discounted pool balance)		
	Driver Australia Master Current Pool	**Driver Australia ten Trust**
Obligor 1	0.09	0.10
Obligor 2	0.09	0.07
Obligor 3	0.08	0.07
Obligor 4	0.08	0.07
Obligor 5	0.07	0.07
Obligor 6	0.07	0.07
Obligor 7	0.06	0.07
Obligor 8	0.06	0.07
Obligor 9	0.06	0.07
Obligor 10	0.06	0.07

Eligibility Criteria

The acquisition of additional receivables is subject to representations and warranties made in respect of the receivables by VWFS Australia on the relevant cut-off date that include, but are not limited to:

- The purchase of the receivables will not result in a breach of the 30% concentration limits for used vehicles and 70% for non-VW group brand vehicles.
- The obligations of the obligor being legal, valid, binding, and enforceable.
- The receivable being approved and originated by the seller in the ordinary course of its business.
- The terms of the contract requiring the obligor to maintain insurance in respect of the financed object.
- The terms of the contract requiring the obligor to make payments free of set-off.
- The receivable being governed by the laws of a state or territory of Australia.
- The obligor being either a corporation or registrable Australian body; an entity otherwise established under Australian law; a permanent resident or citizen of Australia or a citizen of New Zealand; or a person residing in Australia on a work visa whose work entitlements have been verified and in respect of which the provision of credit has been assessed under internal guidelines, including special consideration of the loan term relative to the visa term, the deposit or trade and the inclusion of a residual or balloon payment.
- The scheduled maturity date of the receivable being no earlier than three months after the cut-off date and no later than 84 months after its date of origination.
- The maximum obligor balance not exceeding A$750,000.
- The receivable being denominated and payable in Australian dollars in Australia.
- The receivable not being in arrears by more than 1 month.
- At least two payments having been received and the contract requiring substantially equal monthly payments to be made within 84 months of origination and perhaps providing for a final balloon payment.
- The receivable being subject to the seller's standard terms and conditions and having been serviced in all material respects in accordance with its servicing standards since origination.

Early Amortization Events

If an early amortization event occurs, then the revolving period will cease, no new receivables can be acquired, and principal will be passed through to note holders. The early amortization events are:

- A transaction event of default occurs.
- The amount of cash held in the accumulation account on two consecutive payment dates exceeds 15% of the then-current aggregate discounted receivables balance.
- A credit enhancement increase condition has occurred (refer to "Credit Enhancement Triggers").
- If an event of default or termination occurs under an interest-rate swap and the swap provider is not replaced, or the

swap provider fails to post collateral within the documented timeframe.

- VWFS Australia ceases to be a wholly owned subsidiary of Volkswagen Financial Services Overseas AG.
- On any payment date the actual class A overcollateralization percentage is less than 15.9%, or the actual class B note overcollateralization percentage is less than 9.9%.

Commingling Risk

Bank accounts for this transaction in the name of the issuer are held with ANZ pursuant to the account agreement. The bank accounts include the cash collateral account, in which the cash reserve is maintained; the monthly collateral account; the distribution account; and the accumulation account. The transaction documents require all accounts to be held with or guaranteed by a bank that has a minimum long-term rating of 'A'.

An advance mechanism will be applied to address servicer commingling risk if our short-term issuer credit rating (ICR) on VWFS Overseas falls below 'A-2' and our long-term ICR falls below 'BBB', our long-term ICR on VWFS Overseas falls below 'BBB' if there is no short-term rating, or we consider that the servicer is no longer deemed eligible under our counterparty criteria. Under this mechanism, the servicer is obligated to remit expected collections to the monthly collateral account in advance (twice during each monthly collection period) and transfer the actual amount of monthly collections to the distribution account two business days after the end of each half-monthly collection prepayment period. We consider that the advance mechanism fully mitigates commingling risk.

Set-Off Risk

There is no set-off risk for cash deposits in this transaction because VWFS Australia is not an authorized deposit-taking institution. In addition, the representations and warranties provided by VWFS Australia in respect of the collateral pool include that the terms of the contract require the obligor to make payments free of set-off.

Liquidity And Yield

Liquidity is provided in the form of an amortizing cash reserve equal to 1.2% of the aggregate class A and class B note balance, and subject to a floor that is the lesser of 0.7% of the maximum collateral balance reached during the revolving period or any previous revolving period and the aggregate current balance of the class A and class B notes. The initial reserve was funded by VWFS Australia at closing and is increased if additional notes are issued. The cash reserve can be drawn to meet senior costs and expenses as well as interest on the class A and class B notes. It is to be topped up to its required balance to the extent that funds are available for that purpose. If the balance of the reserve exceeds its required amount, the excess is released to VWFS Australia via repayments of interest and then principal on the subordinated loan. The remaining balance of the cash reserve also may be drawn and used toward repayment of principal on the class A and class B notes on their final maturity date, or when the collateral pool balance is reduced to zero, which could provide additional support.

Interest-Rate Risk

The entire collateral pool comprises fixed-rate receivables. To hedge the mismatch between the fixed-rate asset cash flows and the floating-rate interest payable on the notes, the issuer has entered into fixed- to floating-rate interest-rate swaps with ING Bank N.V. The notional balances under the swaps will automatically increase if additional notes are issued during the revolving period and decrease to the extent the notes are amortized. The swap agreements include downgrade language consistent with our "Counterparty Risk Framework: Methodology And Assumptions" criteria, published on March 8, 2019, that requires the posting of collateral or the replacement of the swap counterparty or other remedy if the swap counterparty rating falls below the applicable rating. The extension of any series of notes at the end of the revolving period is subject to appropriate hedging being in place. Accordingly, the issuer has an option to terminate the existing swaps without cost to enter into new swaps that reflect the new maturity date of the note series being extended. The pricing of the replacement swaps and the interest-rate swap provider might be different to the existing swaps.

Buffer Release

There is no excess spread in this transaction. Rather, the receivables pool is discounted at a rate intended to match the issuer's expenses over the life of the transaction. Each contract in the collateral pool for Driver Australia Master Trust is discounted at a rate of 8.8897%. This rate represents the discount rate--assuming the transaction revolves for a period of 12 months, then enters amortization--plus a buffer. Should a series of notes be extended, the replacement swaps will be repriced and the note margins might change. In addition, other transaction expenses might change over time. If note margins, swap pricing, or other transaction expenses increase upon extension, then the buffer would be reduced. Extension of the revolving period is subject to the buffer being greater than or equal to zero.

Provided VFWS Australia is not insolvent, on each payment date the buffer amount will be deducted from collections and paid to VWFS Australia, before the remainder of the collections is applied through the cash flow waterfall.

Credit And Cash-Flow Analysis

S&P Global Ratings considers the principal rating transition risk for this transaction to be a significant deterioration in the performance of the underlying receivables.

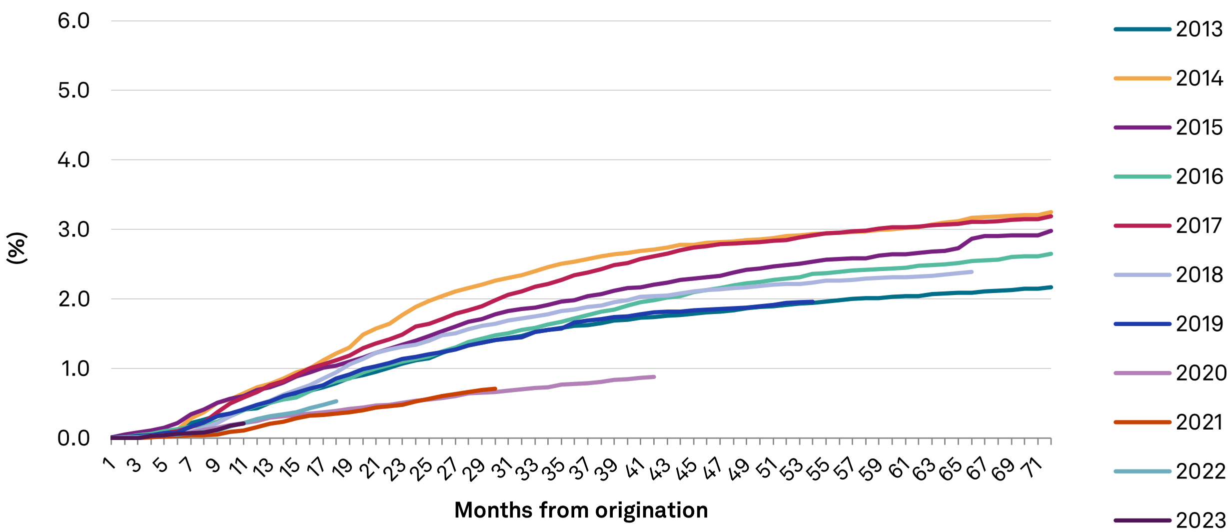
We have received monthly static gross and net loss data that show cumulative gross losses and cumulative net losses between January 2006 and June 2024. VWFS Australia does not record a net loss until the month when recovery proceeds from the sale of the vehicle have been received (unless written off earlier if there was no expectation of a recovery; for example, if the vehicle is deemed missing and the contract reaches 270 days in arrears). Accordingly, a loss will only be recognized in VWFS Australia's cumulative net loss curve as a net loss, and after recovery proceeds have been received. This is why there is an observable timing lag between the cumulative gross loss curves and the cumulative net loss curves for VWFS Australia that is generally not seen in the cumulative loss curves for other ABS originators in this region.

Charts 5 and 6 illustrate the cumulative gross default and cumulative net loss experience of VWFS Australia's total ABS portfolio from January 2013 to June 2024.

Chart 5

VWFS Australia

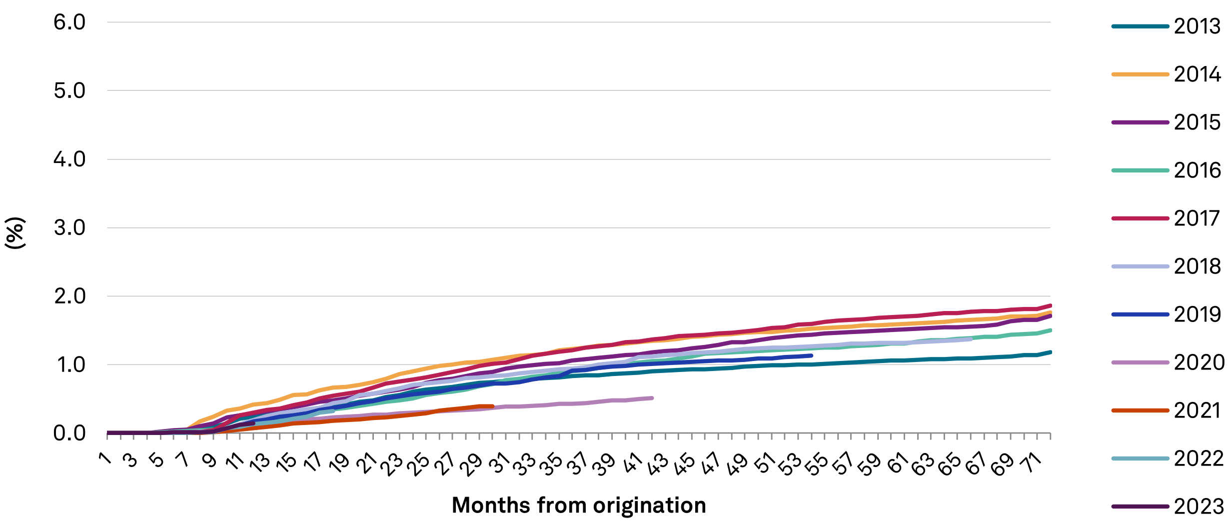
Cumulative gross losses--Total ABS book



Source: S&P Global Ratings.

Chart 6

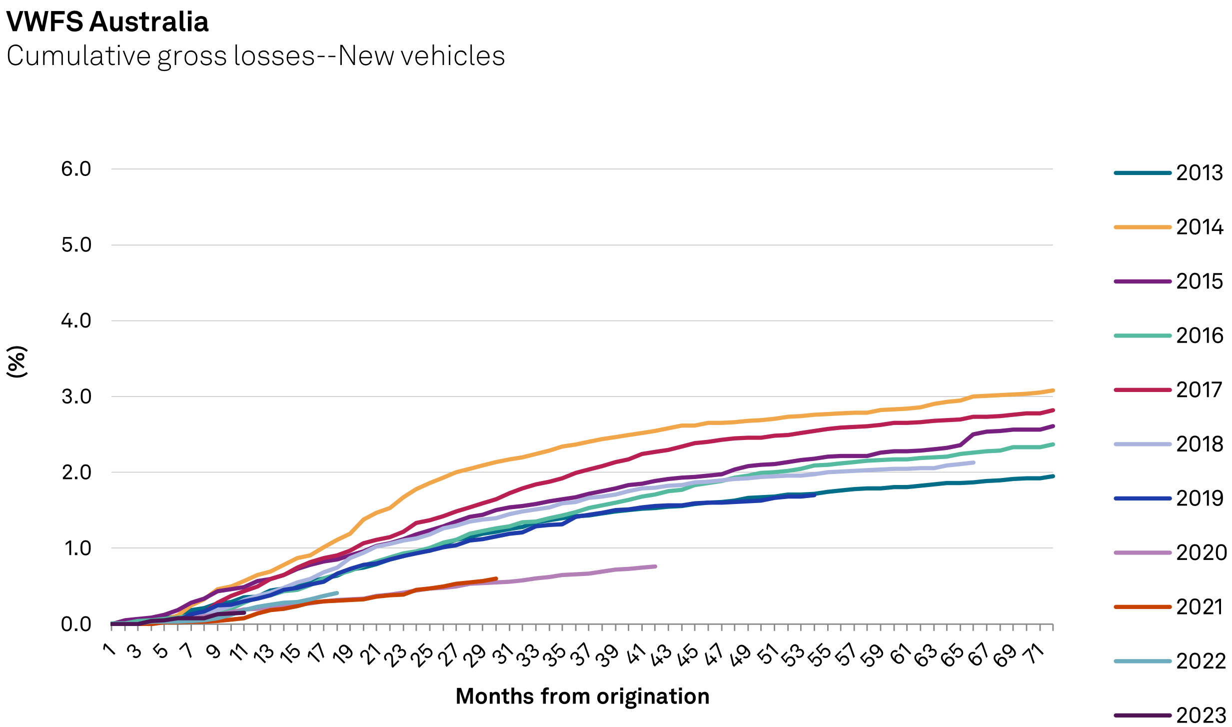
VWFS Australia
Cumulative net losses--Total ABS book



Source: S&P Global Ratings.

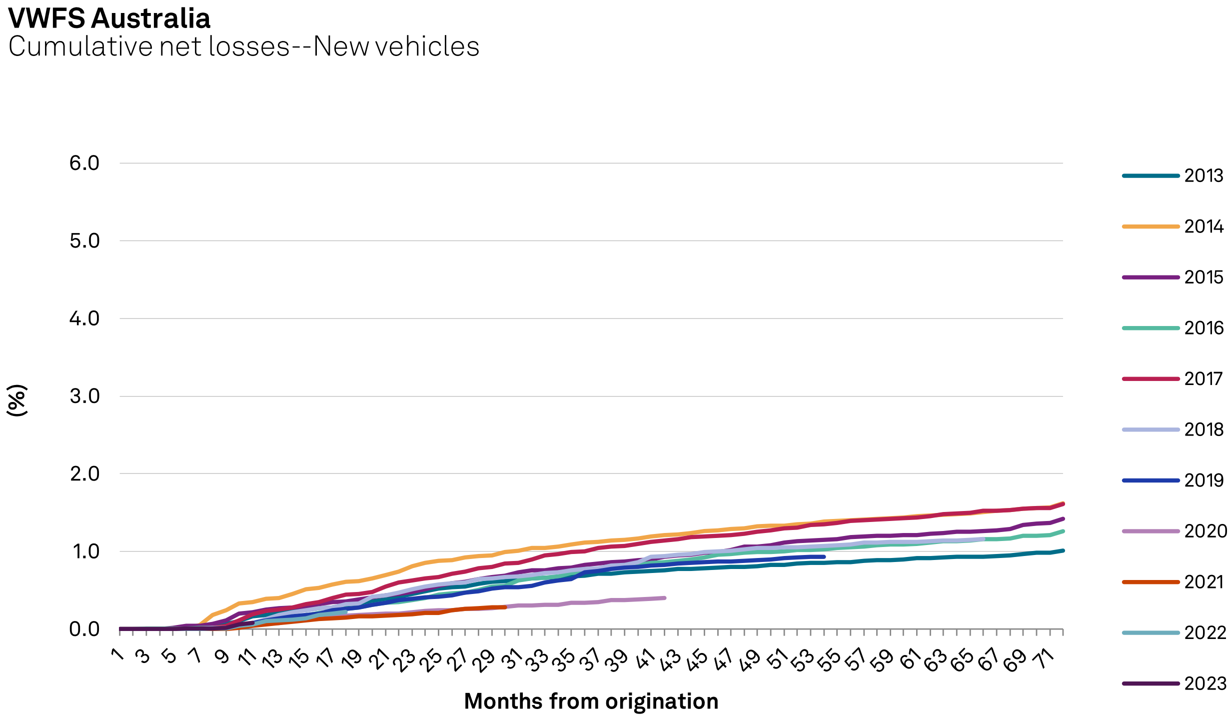
Charts 7 and 8 illustrate the cumulative gross default and cumulative net loss experience of VWFS Australia's ABS portfolio from January 2013 until June 2024 for instances in which the vehicle financed was new.

Chart 7



Source: S&P Global Ratings.

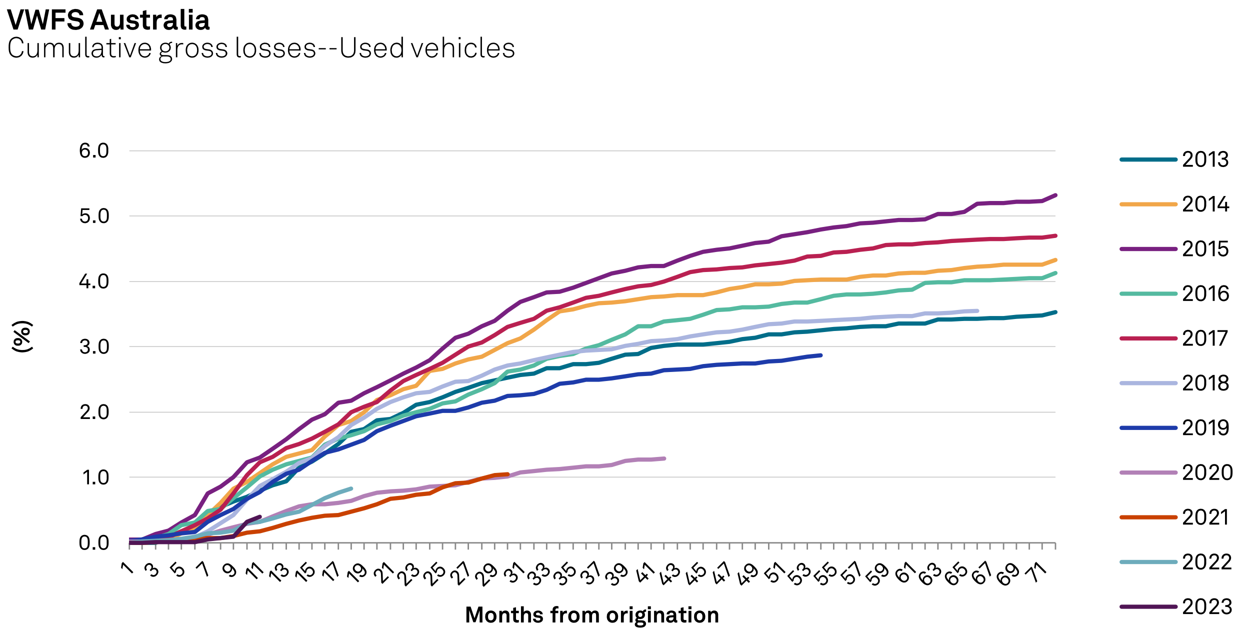
Chart 8



Source: S&P Global Ratings.

Charts 9 and 10 illustrate the cumulative gross default and cumulative net loss experience of VWFS Australia's ABS portfolio from January 2013 until June 2024 for instances in which the vehicle financed was used.

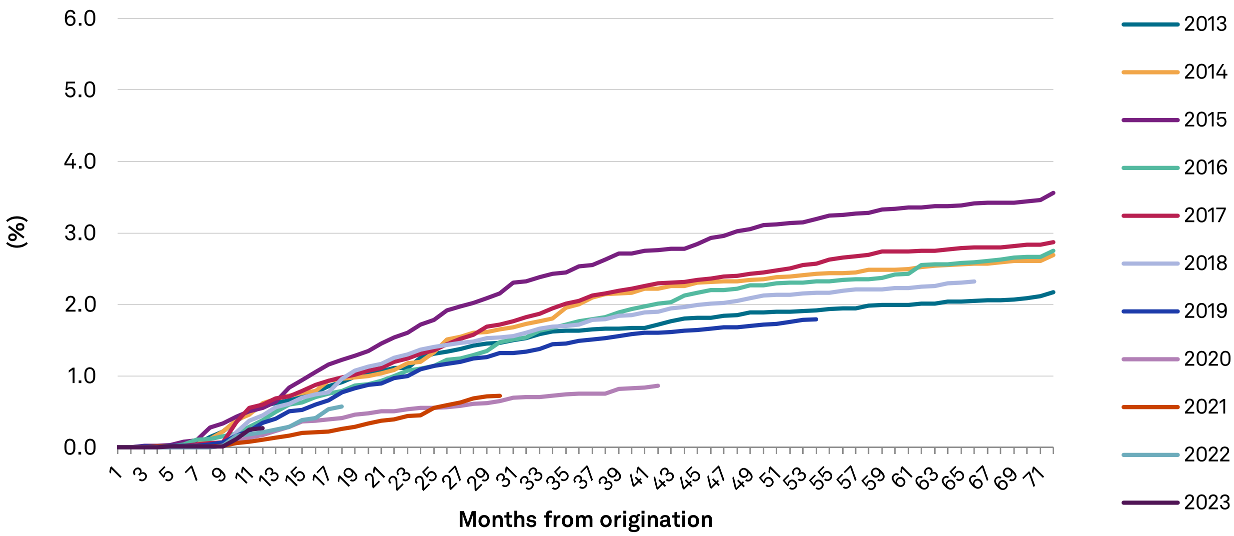
Chart 9



Source: S&P Global Ratings.

Chart 10

VWFS Australia
Cumulative net losses--Used vehicles



Source: S&P Global Ratings.

In relation to the partially amortized pools, S&P Global Ratings has extrapolated the loss curves based on the historical loss performance of VWFS Australia's fully amortized loss curves.

Historical gross loss and recovery data

For the purposes of our loss analysis, in addition to analyzing the total ABS book static loss data, we separately analyzed the new and used vehicle data subsets provided by VWFS Australia. We adopted a similar approach to the analysis of VWFS Australia's net loss data.

Our base-case gross loss assumption for the collateral pool is 2.8%. We applied a stress multiple to the base-case gross default percentage at each given ratings category. The magnitude of the stress multiple applied depends on the rating level, whereby the higher rated notes are subject to a higher stress multiple in the analysis.

Credit was given to recoveries. Our base-case recovery assumption for the collateral pool is 44.9%. The credit given to recovery at each given ratings category is a percentage of base-case expected recoveries.

Based on the above, our net loss expectation--also commonly referred to as "base-case loss level"--for the underlying pool is 1.54%. The net loss expectation reflects our opinion of the combination of the expected gross loss on the underlying pool of 2.8%, and the expected recoveries of 44.9% from sales of the underlying motor vehicles upon a default.

Table 6 shows a summary of the credit assessment.

Table 6

Summary Credit Assessment		
	AAA	**A+**
Stress multiple used (x)	6.5	4.3
Default frequency (%)	18.2	12.2
Loss severity (%)	77.5	71.2
Minimum credit support after credit to recovery (%)	14.2	8.7

Cash-flow analysis

We analyzed the capacity of the transaction's cash flow to support the rated notes during amortization by running several different scenarios at each rating category. Our cash-flow analysis encompassed the following factors:

- Level of gross defaults and recoveries commensurate with each rating level.
- Recovery period (assumed to be nine months).

Prepayment rates: We modeled two different prepayment curves. The prepayment stresses assumed are shown in table 7 and include only voluntary prepayments.

Timing of defaults: We modeled three different loss curves: a front-loaded, back-loaded, and normal default curve. The curves employed were reflective of the loss timing observed in VWFS Australia's static loss curves.

Table 7

Assumed Conditional Prepayment Rates		
Months from transaction close	**Low CPR (% per year)**	**High CPR (% per year)**
0 to 3	0.0	12.0
4 to 6	0.0	13.0
7 to 9	0.0	16.0
10 to 12	0.0	18.0
13 to 18	0.0	19.0
19 to 24	0.0	21.0
25 to 30	0.0	22.0
31 onward	1.0	22.0

Note: Total CPR shown is inclusive of voluntary and involuntary (defaults) prepayments.

Our ratings address not only the availability of funds for full payment of interest and principal, but also the timeliness of these payments in accordance with the terms of the rated securities.

Environmental, Social, And Governance

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors (see "ESG Industry Report Card: Credit Card Asset-Backed Securities," March 31, 2021).

The transaction's above-average exposure to environmental credit factors is in line with our sector benchmark.

The transaction's exposure to social credit factors is average, in line with the sector benchmark. Social risks for the auto sector could become more relevant over the longer term if consumer preferences change regarding vehicle ownership and usage.

The transaction's exposure to governance credit factors is below average, in line with the sector benchmark. Given the nature of structured finance transactions, most have relatively strong governance frameworks that typically restrict what activities the special-purpose entity can undertake. We consider the risk-management and governance practices in place to be consistent with industry standards and our benchmark expectations.

Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, July 26, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- ESG Industry Report Card: Credit Card Asset-Backed Securities, March 31, 2021
- Australia And New Zealand Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, April 17, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Yield Considerations In Standard & Poor's Cash-Flow Analysis Of Australian And New Zealand ABS, Nov. 21, 2013
- Repayment Structures Of Australian RMBS and ABS Play An Important Role in Supporting Ratings Stability, Aug. 16, 2010

- Auto ABS Arrears Statistics: Australia, published monthly
- ABS Performance Watch: Australia and New Zealand, published quarterly

The issuer has not informed S&P Global Ratings Australia Pty Ltd. whether the issuer is publicly disclosing all relevant information about the structured finance instruments that are subject to this rating report or whether relevant information remains nonpublic.