

Auto Loans
Germany
New Issue

Private Driver 2011-1 GmbH

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Related Research

Applicable Criteria

- *EMEA Consumer ABS Rating Criteria (July 2011)*
- *EMEA Consumer ABS Rating Criteria -Auto Residual Value Addendum (July 2011)*
- *Global Structured Finance Rating Criteria (August 2010)*
- *Counterparty Criteria for Structured Finance Transactions (March 2011)*
- *Counterparty Criteria for Structured Finance Transactions: Derivative Addendum (March 2011)*
- *Criteria for Interest Rate Stresses in Structured Finance Transactions (March 2011)*

Other Research

- *Tyre Tracks Fitch European Auto ABS Index (May 2011)*

Contents

Transaction Summary	1
Transaction and Legal Structure	4
Asset Analysis	7
Financial Structure and Cash Flow Modelling.....	13
Counterparty Risk.....	14
Performance Analytics	16
Appendix A: Transaction Overview	17

Final Ratings

Class	Amount (EURm)	Final Maturity	Rating	CE (%)	Outlook
A	300.0	August 2017	AAAsf	9.20	Stable
Schuldschein loan	350.0	August 2017	AAAsf	9.20	Stable
B	23.0	August 2017	A+sf	5.95	Stable
Subordinated loan	30.0	August 2017	n.r.	n.a.	n.a.
OC	3.5		n.r.	n.a.	n.a.
Total	706.5				
Cash collateral account	8.5				

Source: Fitch

Transaction Summary

This transaction is a securitisation of auto loan receivables originated by Volkswagen Bank GmbH (VWB, the seller) within Germany. VWB is a wholly-owned subsidiary of Volkswagen Financial Services AG (VWFS), which itself is a wholly-owned subsidiary of Volkswagen Group ('A-/Stable/'F2'). The proceeds from the issuance of the class A and B notes, the Schuldschein loan and subordinated loan were used to purchase a portfolio of loans to German borrowers and to fund the cash collateral account (CCA) of EUR8.5m. The transaction is static and will amortise from closing. The final portfolio consists of 56,929 loans, with an outstanding discounted principal balance of EUR706.5m and an average balance of EUR12,411 per loan.

Key Rating Drivers

- **Performance of Underlying Receivables:** the performance of the notes will be affected in particular by default and recovery levels on the underlying receivables. Fitch Ratings has analysed the credit and asset value risks and formed a loss rate assumption based on historical data provided by VWB. Stress tests on default and recovery rate expectations were used to analyse the effect on the transaction's cash flows.
- **Counterparty Exposure to VWB:** the transaction is dependent on VWB's credit and operational capabilities as the originator will act as servicer and no back-up servicer is envisaged at closing. VWB will further collect the monthly loan instalments into its own accounts, which may cause commingling risk. Risks resulting from a potential default of VWB are reduced by a number of mitigating factors, for example an advance mechanism for commingling risk.
- **Stressed Balloon Payments:** should the borrower not be able to return the car to the dealer, nor to refinance the balloon portion, the borrower will be obliged to pay this final instalment. If the borrower has previously decided to exercise the return option or to refinance, such borrower is at a higher risk of default. Fitch has considered such higher risk in its analysis.
- **Asset Outlook:** Germany's economy has weathered the economic cycle well. Economic growth, initially driven by exports, has been supported by robust consumption fuelled by decreasing unemployment, which is expected to fall further over the next 24 months.

Key Parties

Issuer: Private Driver 2011-1 GmbH

Security Trustee: Wilmington Trust SP Services

Originator and Servicer: Volkswagen Bank GmbH^a

Issuer Account Bank: BNP Paribas Securities Services, Luxembourg Branch

Swap Counterparty: Mizuho Corporate Bank, Ltd., London Branch

^a VWB is not publicly rated by Fitch. However, the agency has formed an internal credit opinion on the ability of VWB to perform its obligations in accordance with the relevant criteria

Rating Sensitivity¹

This section of the report provides a greater insight into the model implied sensitivities the transaction faces when one risk factor is stressed, while holding others equal. The modelling process first uses the estimation and stress of base case assumptions to reflect asset performance in a stressed environment and secondly the structural protection was analysed in a customised proprietary cash flow model (see *Financial Structure and Cash Flow Modelling*). The results below should only be considered as one potential outcome given that the transaction is exposed to multiple risk factors that are all dynamic variables.

Rating Sensitivity to Default Rates

The change in rating (ie ratings migration), if the base case probability of default for each loan is increased or decreased by a relative amount, is demonstrated in the Rating Sensitivity to Defaults table. For example, increasing the base case default rate by 50% may result in a three-notch downgrade of class A from 'AAAsf' to 'AA-sf'.

Rating Sensitivity to Defaults

	Class A/Schuldschein loan	Class B
Original default rate base case (= 2.5%)	AAAsf	A+sf
Increase in default rate base case by 10% (= 2.8%)	AA+sf	A+sf
Increase in default rate base case by 25% (= 3.2%)	AAsf	A+sf
Increase in default rate base case by 50% (= 3.8%)	AA-sf	A-sf

Source: Fitch

Rating Sensitivity to Recovery Rates

The change in rating if the base case recovery rates are adjusted is demonstrated in the Rating Sensitivity to Recovery Rates table.

Rating Sensitivity to Recovery Rates

	Class A/Schuldschein loan	Class B
Original rating recovery rate base case (= 59.3%)	AAAsf	A+sf
Decrease in rating recovery rate base case by 10% (= 53.3%)	AAAsf	AA-sf
Decrease in rating recovery rate base case by 25% (= 44.4%)	AA+sf	A+sf
Decrease in rating recovery rate base case by 50% (= 29.6%)	AAsf	Asf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors

The Rating Sensitivity to Multiple Factors table summarises the rating sensitivity to stressing multiple factors concurrently. Three scenarios are evaluated to demonstrate the sensitivity of the rating to varying degrees of stress, ie mild, moderate and severe changes to the expected level of defaults and recoveries.

Rating Sensitivity to Multiple Factors

	Class A/ Schuldschein loan	Class B
Original base case assumptions (default rate: 2.5%, recovery rate: 59.3%)	AAAsf	A+sf
Mild stresses: Default base case increase of 10%, recovery rate decrease of 10%	AA+sf	A+sf
Moderate stresses: Default base case increase of 25%, recovery rate decrease of 25%	AAsf	A-sf
Severe stresses: Default base case increase of 50%, recovery rate decrease of 50%	Asf	BBBsf

Source: Fitch

¹ These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

Model, Criteria Application and Data Adequacy

Fitch has analysed the risk of debtor default in accordance with its “[EMEA Consumer ABS Rating Criteria](#)”, dated 14 July 2011, available at www.fitchratings.com. The following information was provided by the originator to support Fitch's collateral analysis:

- net loss rate vintages broken down into four sub-categories based on vehicle age (new versus used) and amortisation type (fully amortising versus balloon loans) going back to the beginning of 2000;
- origination volumes since 2000;
- dynamic loss data going back to the beginning 2000;
- dynamic delinquency data since the end of 2008;
- stratification tables for the final pool cut of Private Driver 2011-1; and
- the scheduled amortisation of the Private Driver 2011-1 portfolio.

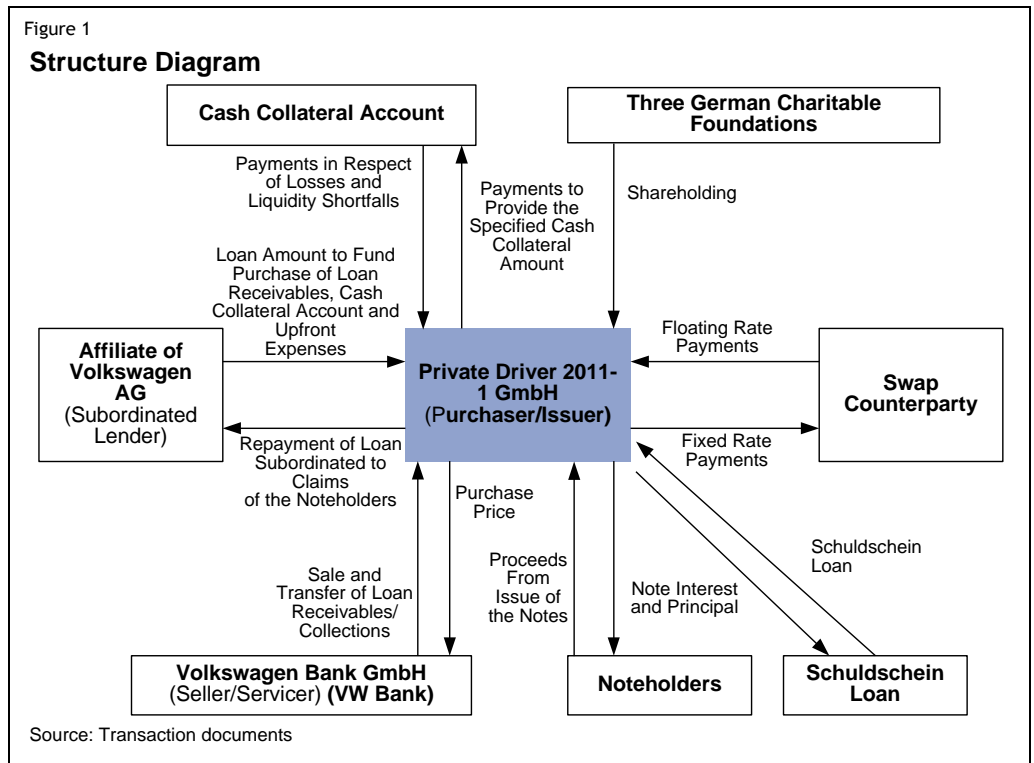
In addition, Fitch has used performance data collected for the previous transactions Driver One to Driver Eight.

No default and recovery rate data were available (these are key drivers in the agency's approach to auto loan transactions). The agency determined recovery input factors via a peer group comparison and recovery data derived from the previous Driver transactions. Default rates were then determined based on the recovery base case and the net loss base cases.

Fitch determined that an adequate level of data was provided in order to apply the above rating criteria.

Fitch used its proprietary cash flow model to analyse the impact of its default rate, recovery rate and the respective timing assumptions, as regards the issuer's ability to meet its debt service under the notes.

Transaction and Legal Structure



Issuer and True Sale

Private Driver 2011-1 GmbH is a bankruptcy remote, limited liability company, founded under German law and is jointly and equally owned by three German charitable trusts.

At closing, the issuer has purchased loan receivables, as well as additional rights connected with the loan receivables from the seller. The seller has also transfer the security title of the financed vehicles under the loan agreements to the issuer.

The issuer has appointed the security trustee to act in the fiduciary interest of noteholders. A first-ranking security interest over the assets of the issuer has been granted to the security trustee to secure the issuer's liabilities.

Capital Structure and Credit Enhancement

All securitised receivables within the portfolio have been discounted with a single rate. This is based on the prevailing swap rate at closing (including the weighted-average (WA) note margin), the servicing fee and senior expenses.

The servicing fee component equals the amount due to VWB under the servicing agreement. As such, the discount rate matches the issuer's expenses and hence the transaction does not contain excess spread.

At closing, the issuer's assets and liabilities are as follows.

Figure 2
Discount Rate Calculation (%)

Swap rate	2.7251
Servicing fee	1.00
Senior expenses	0.03
Sum	3.7551

Source: Volkswagen Bank GmbH

Figure 3

Private Driver 2011-1 GmbH Structure

Asset	Amount (EURm)	Liabilities	Amount	Size as % of receivables' balance
Receivables	706.5	Class A	300.0	92.0%
		Schuldschein loan	350.0	
		Class B	23.0	3.25
		Sub loan	30.0	4.25
		OC	3.5	0.5
Sum	706.5		706.5	
Cash collateral account	8.5	Purchase price discount (CCA)	8.5	1.2

Source: Fitch, transaction documents

Receivables purchased with the proceeds of the subordinated loan – that have an initial share of 4.25% of the total receivables' balance – together with overcollateralisation (0.5%) and the CCA (1.20%) provide credit enhancement (CE) to the class B notes of 5.95%. The class A notes and the Schuldschein loan are further protected by subordination of the class B notes, leading to CE of 9.2% for the class A notes and the Schuldschein loan. The cash reserve, which will only be available to repay outstanding debt at the maturity date, is funded through a purchase price discount.

The loss protection at the start of the transaction is at the same level as for the Driver Eight and Driver Nine transactions.

Interest Rate Swap

The issuer has entered into two interest rate swaps to hedge itself against the mismatch between the fixed rate received from the loan contracts and the floating-rate amounts payable on the notes.

The first swap is referenced to the interest due on the class A notes and Schuldschein loan, and the second is referenced to interest payments due on the class B notes. The issuer pays a predetermined fixed rate including the note margins and the swap counterparty pays one-month-Euribor plus the note margins. Both swaps are linked to the outstanding balance of the respective notes.

Eligibility Criteria and Concentration Limits

The eligibility criteria stipulate, inter alia, the following:

- no loan receivable was overdue as of the cut-off date;
- on the cut-off date, at least two loan instalments were paid in respect of each of the loan contracts;
- each loan contract has a maximum original tenor of 72 months, a minimum remaining term of 18 months and a maximum remaining term of 60 months;
- the total amount of loan receivables will not exceed EUR500,000 in respect of any single obligor; and
- borrowers have either their registered offices or their place of residence in Germany.

In the event of any breach of the eligibility criteria, the seller will have 60 days in which to repurchase the receivables concerned at a price equal to the net present value (NPV) calculated using the discount rate mentioned above.

Priority of Payments

The transaction uses a combined waterfall for principal and interest payments. According to the discount mechanism, no excess spread is available to cover defaults. Prior to an issuer event of default, distributions are made on each payment date from the available distribution amount in the following order of priority.

Figure 4

Priority of Payments

Position	Description
1-5	Senior expenses
6	Payments due to the swap counterparty, including termination fees, except where the termination is attributable to the swap counterparty
7	Pro rata and pari passu: <ul style="list-style-type: none"> • Accrued and unpaid interest on the Class A notes • Accrued and unpaid interest on the Schuldschein loan
8	Accrued and unpaid interest on the class B notes
9	Replenishment of the CCA to its required amount to cover previous interest shortfall advances
10	Pro rata and pari passu: <ul style="list-style-type: none"> • Reduction of principal on the class A notes down to the targeted class A/Schuldschein loan balance • Reduction of principal on the Schuldschein loan down to the targeted class A/Schuldschein loan balance (see table, Targeted OC Levels)
11	Reduction of principal on the class B notes down to the targeted class B note balance (see table, Targeted OC Levels)
12	If VWB is no longer deemed to be rated at least 'F3' by Fitch, to credit the cash collateral increase amount to the CCA to secure a potential tax liability (see Tax Risk below)
13	Following a swap termination attributable to the swap counterparty, all amounts due and payable under the swap agreement
14	Amounts payable in respect of accrued and unpaid interest on the subordinated loan
15	To the subordinated lender, until the aggregate principal amount of the subordinated loan has been reduced to zero
16	Remaining balance to the seller

Source: Transaction documents, Fitch

Performance Triggers

The notes and loan will start to amortise sequentially until the relevant targeted OC levels are reached. If the relevant OC levels equal the relevant targeted level, the class B and the subordinated loan are amortised to maintain the OC at the target levels.

The target levels are dependent on two triggers, which are related to the performance of the portfolio.

Figure 5

Targeted OC Levels^a

Trigger (%)	Target OC class A/ Schuldschein loan	Target OC class B
Initial available level	8.0	4.75
No trigger breached	11.0	7.0
Level 1 trigger breached	14.0	8.0
Level 2 trigger breached/asset balance amortises below 10%	100.0	100.0

^a OC is calculated by deducting the CCA from the credit enhancement levels

Source: Transaction documents

A level 1 trigger is hit if the cumulative losses exceed the following thresholds:

- until and including the 15th payment date (October 2012): 0.50%; and
- from the 16th (November 2012) until the 25th payment date (August 2013): 1.15%.

Should the level 1 trigger be breached, the priority of payments will return to a sequential pay-down until either the new targeted OC level is reached or the notes are repaid in full.

A level 2 trigger is hit if the cumulative losses exceed 1.6% at any payment date.

If the level 2 trigger has been breached, or as soon as the notes have reduced below 10% of their initial balance, the amortisation will change back to a sequential order until the final maturity date is reached.

Cash Collateral Account (CCA)

The CCA available to the issuer was fully funded on the closing date. Up to the maturity date, the CCA will be available to cover potential interest shortfalls. As soon as the maturity date is reached, the CCA is released and outstanding amounts are also available to redeem the notes.

During the amortisation period, the CCA is maintained at its required amount, which is equal to the lower of:

- EUR8.48m (ie 1.20% of the initial asset balance); or
- the outstanding notes' balance.

Legal Opinions

Fitch has reviewed final opinions that cover German and English law and which support Fitch's analytical assumptions; these have been factored into the credit analysis with respect to the transaction.

These opine on, among other things: the enforceability of the obligations of the parties under the transaction; and that the bankruptcy remoteness is legal, valid, binding and enforceable.

According to its counterparty criteria, Fitch also expects to be provided with legal opinions in the swap counterparty's jurisdiction of incorporation, opining on the enforceability of the priority of payments with regards to the subordinated swap payments. However, for this transaction, no Japanese legal opinion was provided.

The agency nevertheless is comfortable in assigning the ratings without being provided with such opinion. Comfort was drawn mainly from the short weighted average life of the notes and the relatively low prevailing swap rates at closing. This combination limits the magnitude of potential termination payments payable by the issuer, which is why, in this case, the agency considers the risk as being non-material for assigning the ratings.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Asset Analysis

Originator Overview

VWB is a wholly-owned subsidiary of Volkswagen Financial Services AG (VWFS), which itself is a wholly-owned subsidiary of Volkswagen Group ('A-/Stable/'F2'). VWB's main activities include promoting the automotive sales of the VW Group (mainly VW, Audi, Volkswagen Nutzfahrzeuge, SEAT and Skoda) and strengthening customer loyalty to the VW Group brands. It holds a banking licence, is regulated by the German banking supervisor, Bafin, and is a member of the German Federal Deposit Insurance Fund.

Loan Products

VWB offers different kinds of financing for new and used cars. Some 17.8% of the Private Driver 2011-1 portfolio balance consisted of fully amortising "classic credit" loans, while 82.2% consisted of balloon "auto credit" loans.

Classic Credit Loans

This type of financing corresponds to a classic loan agreement. It is financed at a fixed interest rate and with the full amortisation of the loan amount through equal monthly instalments. The annuity is paid until the loan amount, plus interest, has been paid in full.

Auto Credit Loans

Auto credit loan borrowers have three options at loan maturity: (i) to pay off the final balloon payment; (ii) to refinance the final balloon payment; or (iii) to return the vehicle to the dealer: under a guarantee to the seller, the dealer is obliged to make the final balloon payment to VWB. If the dealer defaults and fails to fulfil its duties, the borrower will be liable for the final balloon payment under the loan agreement.

According to a survey conducted by VWB in February 2009, 56% of obligors selected the first option, 15% selected the second option and 29% selected the third option. In most cases, obligors who selected to return vehicles subsequently purchased a new car.

In the past, dealer defaults were limited and borrowers could in most cases return their cars to the dealers, who then settled the balloon payments. In the case of a dealer insolvency, VWB will seek to transfer the vehicle repurchase obligation to another dealer. Hence, historical default data do not reflect scenarios where a large number of dealers default. Fitch has therefore considered the impact of a joint default of the dealer and the borrower. For more details on the balloon risk analysis, please see *Balloon Loans* below.

Underwriting, Servicing and Collections

Fitch meets with VWB annually to discuss the servicing and origination processes and also to receive updates on changes to the established processes. The last review took place in August 2010. VWB has advised that since then no material changes were made to its underwriting and servicing procedures. Fitch will continue to monitor the servicing and collection processes as part of its ongoing reviews. The agency considers VWB's underwriting and servicing departments and its procedures to be adequate and capable of exercising all tasks necessary for securitisation transactions.

The Private Client Origination Centre/Underwriting (Einzelkunden Neugeschäft)

Volkswagen Financial Services manages its underwriting and distribution channel through the Private Client Origination Centre (PCOC). The PCOC processes all loans and co-operates/builds relationships with a network of more than 2,800 distributors/ dealers. PCOC employees must receive several months' training before carrying out any operational duties. VWFS's policy is normally to employ people with at least three years' experience in banking or who hold an appropriate business degree. The PCOC has 93 area managers who are responsible for about 30 dealers each.

The main in-house systems used by the PCOC are KREDIS (credit information system), LEASIS (leasing information system), LAM (leasing asset management), ZGP (customer data) and IXOS (electronic documentation). All dealers have front-end systems with the same input fields to handle customer enquires.

The application process is fully automated once the dealer has forwarded the loan application, customer profile and information on the vehicle to be financed to the PCOC. The PCOC checks the overall commitment and legal status of the applicant, obtains a credit score from an external credit agency (Schufa, Creditreform, Buerger), scores the applicant based on the internal scoring system, and sends the decision to the dealer. Loans are settled once all the information required to make a decision has been checked for accuracy. All successful applications are usually processed within 24 hours.

The authority to approve a loan depends on the seniority of staff. For example, a junior loan administrator can approve a loan of up to EUR50,000, while applications greater than EUR50,000 are approved by a senior loan administrator. Loans with a balance greater than EUR175,000 are managed by the special clients' team.

The Debt Management Team/Servicing

The debt management team is responsible for dealing with delinquent contracts.

Borrowers receive a call from VWFS's call centre within a few days of the missed payment to discuss the reasons. The obligors receive a reminder letter 12 days after the due date, a second letter after 24 days and a third reminder is sent to the borrower 36 days after the due date. In addition to the written reminders, VWFS has a specialised team which phones the customer on an ongoing basis, according to a scoring system showing the urgency for actions. The loan can be terminated and transferred to the collection department after a loan contract is more than 53 days overdue.

The debt management team, as well as the collection department, is able to identify the more vulnerable loans through ongoing monitoring, and these are prioritised. The debt management team's call centre consists of more than 50 full-time employees who will call an obligor immediately after a promise to pay is broken and they can approve payment holidays.

The Collection Centre/Collections

As soon as the contract is terminated it is transferred to the collection centre. It is responsible for repossession, second-hand vehicle marketing, court collections and charge-offs and employs two external collection agencies, which are compensated on the basis of their performance and success rates.

Vehicles can be repossessed at the earliest after the due date of the contract termination. VWFS requires three bids from the dealer network before the vehicle is sold. A court settlement to determine the borrower's outstanding obligation is initiated around four months after the due date, while the foreclosure process normally commences around six months after the due date, and is followed by write-off.

Portfolio Summary

The loan claims have all been originated by the seller and are to German private and commercial entities. The portfolio composition is quite similar to the previous Driver transactions.

The characteristics of the final portfolio, as of the cut off date, are shown in the Preliminary Portfolio Characteristics table.

The majority of the portfolio consists of VW group vehicles (97.6% VW, Audi, Skoda and SEAT). The concentration of vehicle manufacturers is shown in the Vehicle Manufacturer chart above.

The portfolio is well distributed across Germany and shows no significant single borrower concentrations, with the biggest twenty debtors having a total share of 0.27% via 43 loan contracts.

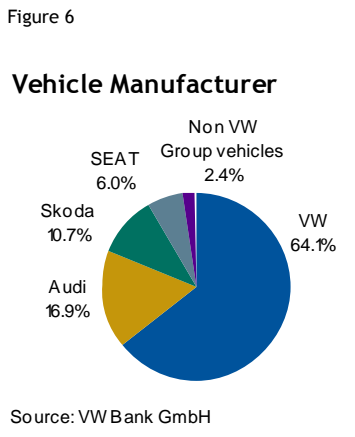


Figure 7
**Private Driver 2011-1
Portfolio Characteristics**

Average balance (EUR)	12,411
WA original term (months)	47.06
WA remaining term (months)	34.01
New vehicles (%)	65.9
Used vehicles (%)	34.1
Direct debit (%)	99.8
Fully amortising (%)	17.8
Balloon loans (%)	82.2
Corporate borrowers (%)	26.6
Retail borrowers (%)	73.4

^a Percentages shown are by asset balance
Source: Fitch and VW Bank GmbH

Figure 8

German Unemployment Rates



Source: Deutsche Bundesbank/Bloomberg

Portfolio Credit Analysis

Loss Rate

Fitch was provided with net loss data in vintage form going back to the beginning of 2000. The data were split into four sub-categories, distinguishing between new and used car financings and balloon (auto credit (AC) loans) and fully amortising loans (car credit (CC) loans). Fitch analysed the vintage curves for all four categories and assigned four separate base-case default rates. In accordance with the eligibility criteria, the agency has derived its base case over the maximum tenor of 72 months. Different default behaviour across the four categories was observed. The differences were as expected by the agency and similar to auto loan portfolios of other originators. The portfolio's overall base case net loss rate was then calculated based on the portfolio's composition.

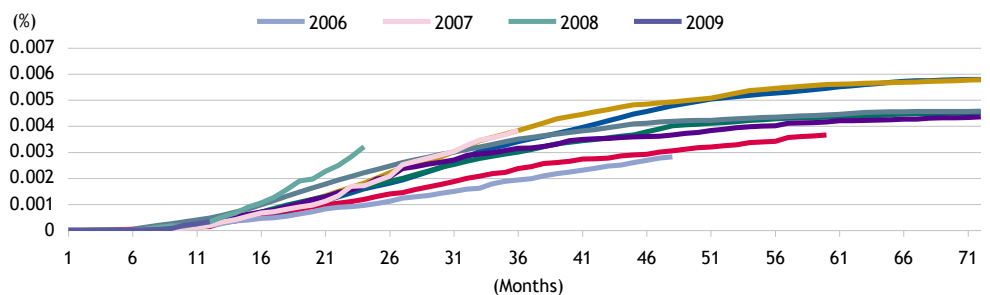
The charts Classic Credit New Vehicles, Auto Credit New Vehicles, Classic Credit Used Vehicles and Auto Credit Used Vehicles below show the annual performance, based on monthly vintages provided by the seller, for the four product groups.

In Fitch's opinion, unemployment and growth rates are key drivers of consumer ABS performance. As shown in the German Unemployment Rate chart, unemployment increased from 2001 to 2005, peaking at 12.1% in Q105 before improving significantly to a low of 7.6% in Q308. During the recent crisis, unemployment increased moderately again, but has fallen back to around 7.3%.

Figure 9

Classic Credit

New vehicles net loss



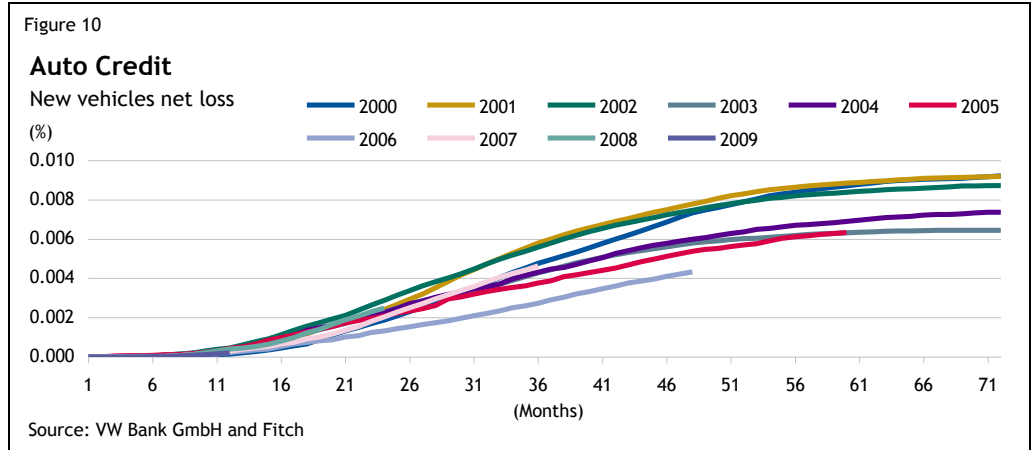
Source: VW Bank GmbH and Fitch

The performance of the provided cohorts reflects the development of the unemployment rate: the 2000 to 2002 cohorts generally show the highest loss rates, whereas the 2005 and 2006 cohorts outperformed the previous levels, influenced both by the ongoing improvement in collections, scoring and underwriting processes as well as the favourable economic environment in Germany during this time. The 2007 and 2008 cohorts do not continue the improving trend but show net loss ratios in the median range of the historical cohorts.

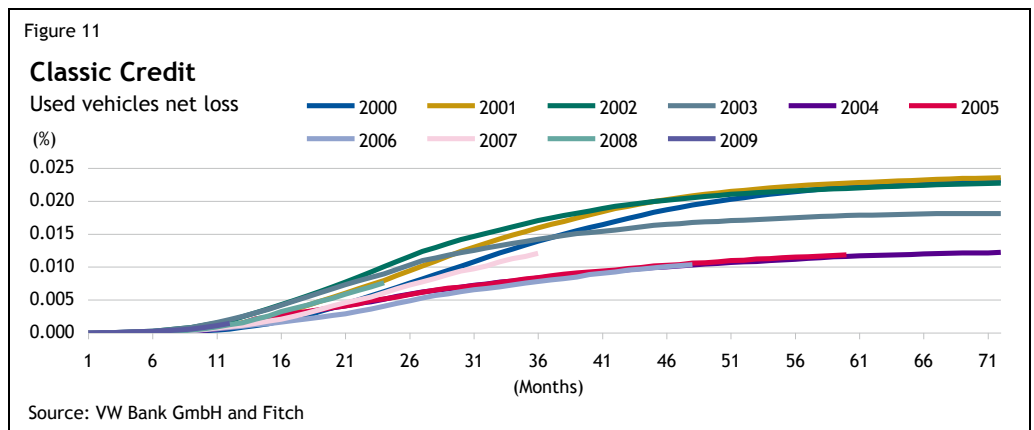
Fitch considers this to be due to the negative economic environment in 2008 and 2009, characterised by the recession, increased corporate insolvencies and slightly increased unemployment in Germany. In 2010, the unemployment rate again started to decrease, reaching a historical low in March 2011 of 7.3%. Fitch expects German unemployment to fall further to around 7.1% in 2011 and 6.8% in 2012 and expects loss rates in Private Driver 2011-1 to be lower than the rates seen in the 2007 to 2008 vintages. The base cases set for Private Driver 2011-1 reflect the agency's expectations.

For the classic credit new vehicles portfolio, Fitch has assumed a base case loss rate of 0.60%.

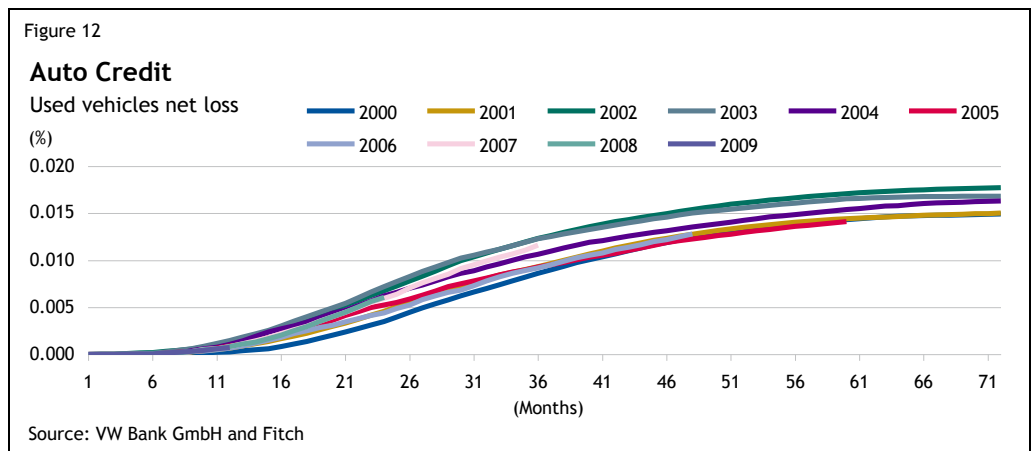
For the auto credit new vehicles portfolio, the 2007 and 2008 vintages are slightly above the average of all historical vintages. Fitch assumed a base case loss rate of 0.75%.



For the classic credit used vehicles portfolio, the 2007 to 2008 vintages are in line with the long-term average. Fitch assumed a base case loss rate of 1.80%.



The historical vintages of auto credit loans financing used vehicles all performed relatively similarly. Fitch applied a base case loss rate of 1.65%.



Defaults and Recovery Rates

VWB did not provide historical default and recovery rates, only net loss data; thus Fitch determined these values via the following steps.

- Four base case loss rates were derived for the different product types classic credit new vehicles (CC-N), auto credit new vehicles (AC-New), classic credit used vehicles (CC-Used) and auto credit used vehicles (AC-Used).
- Base case recovery rate assumptions were assumed, based on recovery rate data derived from previous Driver transactions and peer comparison data (base case recovery rates of 62% for new vehicles and 54% for used vehicles were assumed, which are comparable to previous Driver transactions).
- Base case default rates were then determined for all four sub-categories, based on the base case recovery rates and the four net loss base cases.

Figure 13

Key Assumptions

Product (%)	Loss base case	Recovery rate base case	Resulting default rate base case	Portfolio share
CC-N	0.60	62.00	1.58	8.6
AC-N	0.75	62.00	1.97	57.3
CC-U	1.80	54.00	3.91	9.2
AC-U	1.65	54.00	3.59	24.9
WA/total	1.06	59.26	2.52	100

Source: Fitch

Typically, the foreclosure process takes between 30 days and six months; therefore, Fitch has taken the view that the time to recovery will be a maximum of six months.

Defaults and Recovery Stresses

In line with its criteria, Fitch has applied stresses below the median level to the default rate expectation of 2.5% (4.5x for 'AAAsf' and 3.0x for 'A+sf'), and recovery stress haircuts below the median (45.0% for 'AAAsf' and 30.0% for 'A+sf') to its recovery rate expectation. This is to reflect Fitch's view that the base cases already incorporate a certain level of economic stress. It also takes into account that origination procedures and volumes were relatively stable over the observed period and the pool benefits from a high level of obligor diversity.

Balloon Loans

Fitch has also considered the additional risks arising from the balloon loans. Should the borrower choose to return the vehicle to the dealer, the dealer is obliged to make the final balloon payment. The borrower will only be liable for this payment if the dealer defaults. Similarly, if VWB does not offer refinancing, the borrower is obliged to pay. If VWB and the dealers default, any borrowers that would have chosen the refinancing or return option are at a higher risk of default. This is because the final balloon payment could cause borrowers to experience a refinancing risk, especially if the residual value of the vehicle is well below the balloon payment.

Fitch has incorporated this risk by applying the joint probability of default of the dealers and the debtors, combined with the haircuts applied for used car prices, in the stressed rating scenarios. When determining the haircuts on used car prices the agency has applied medium market value stresses of 35% for 'AAAsf' and 26.7% for 'A+sf', in line with its criteria *"EMEA Consumer ABS Rating Criteria - Auto Residual Value Addendum"*, dated 14 July 2011.

The resulting loss expectations were calculated, considering the share of the balloon portion, and were incorporated into the cash flow model calculations. This had an impact on the agency's calculated CE levels of around 1.0% in a 'AAAsf' and 0.4% in a 'A+sf' scenario. According to the underlying documents, neither the customer nor the dealer has the option to return the vehicle to the issuer, which is why the issuer is exposed to significantly lower residual value risk compared to an auto lease transaction.

Figure 14

Stressed Assumptions

(%)	Rating default rate	Rating recover y rate	Rating loss rate
AAAsf	11.4	32.6	7.7
A+sf	7.5	41.5	4.4

Source: Fitch

Prepayment Risk

The transaction is exposed to the risk of a shortfall between the interest rate of a prepaid loan and the discount rate for loans whose interest rate is above the discount rate (approximately 45% of the portfolio). Should borrowers of loans with interest rates higher than the discount rate prepay, the difference between the actual interest rate and the assumed discount rate will not be received.

This risk is mitigated by VWB's obligation to make a payment adjustment in such cases and would only become relevant if VWB could no longer make such payments.

Financial Structure and Cash Flow Modelling

To analyse the credit enhancement levels available for each rating, the agency ran several scenarios using its proprietary cash flow model to analyse structural elements, such as sequential and pro-rata pay-down. Defaults were allocated over the amortisation profile using a default distribution that was first derived from historical net loss vintages; the default timing vector was then front-loaded. Recoveries were distributed up to six months after the simulated default, thus replicating the maximum foreclosure period. Furthermore, prepayments were considered.

Each rating scenario was tested for rising and falling interest rate stresses and prepayment stresses.

Default and Recovery Timing

In addition to the timing assumptions derived from historical data, Fitch has tested front- and back-loaded default and recovery timing scenarios. The mechanism whereby the transaction starts amortising on a sequential basis and only switches to pro-rata amortisation if the targeted OC levels are reached (as described above) makes the structure relatively insensitive to changes in default and recovery timing. The available credit enhancement for the class A and B notes is sufficient to pass all tested scenarios.

Interest Rate Stress

Starting with a one-month Euribor rate of 1.1%, Fitch tested increasing, stable and decreasing interest rates in accordance with its stresses, which are updated monthly (see "[Criteria for Interest Rate Stresses in Structured Finance Transactions](#)", published on 21 March 2011 and available at www.fitchratings.com).

The structure is insensitive to changes in interest rates as the transaction is hedged against the interest rate exposure that arises from the mismatch between the fixed interest bearing portfolio and floating interest payable under the notes.

Prepayment Rates

Fitch derived its base case prepayment assumptions based on the performance of the current Driver transactions. Prepayments show an increasing trend with the ongoing seasoning of the transaction, but were generally lower in the younger Driver transactions.

Based on the expectation for low prepayment rates in the next one to two years, Fitch applied an annual constant prepayment rate (CPR) base case of 7.5% for year one and two, 10% for year three and 15% thereafter. The base case rates were stressed upwards and downwards by a factor of 1.5 at 'AAAsf' and 1.3 at 'A+sf'.

The structure is relatively insensitive to changes in prepayment assumptions.

Counterparty Risk

Servicing

At closing, VWB acts as servicer. A back-up servicer has not been appointed. VWB is a wholly-owned subsidiary of Volkswagen Financial Services AG (VWFS), which itself is a wholly-owned subsidiary of Volkswagen Group ('A-/Stable/'F2').

A servicer replacement event will occur, inter alia, upon:

- failure (unremedied for three days) by VWB to make any due payment to the issuer;
- failure (unremedied for three days) by VWB to duly perform any material aspect of its covenants or agreements under the transaction;
- withdrawal of VWB's banking licence; and
- insolvency proceedings being commenced against VWB.

On the occurrence of a servicer replacement event, the defaulted servicer will no longer have the authority to collect amounts in its own accounts. Additionally, it will immediately cancel the direct debit agreements with the borrowers concerned, notifying them of this change. On the occurrence of this event, borrowers will be instructed to make payments directly into the distribution account of the issuer. A servicer dismissal will become effective only after a new servicer has assumed all of its rights and obligations.

The discount rate is calculated using a 1% p.a. servicing fee. Hence, the receivables are purchased at a price that factors in potential back-up servicing expenses. Fitch has modelled the transaction accordingly and deems a 1% p.a. servicing fee to be sufficient to fund a replacement servicer if necessary.

VWB will be entitled to receive any amounts received from loan receivables after the date of their write-off. In Fitch's opinion, the definition of write-off limits the possibility of the servicer accelerating this date, thereby depriving the transaction of expected recoveries.

Due to VWB being a frequent seller in securitisation transactions, Fitch regularly meets with the company and receives an update on its servicing and origination processes. Fitch deems VWB's servicing procedures and current credit profile as adequate to assign the highest ratings.

In the event of a servicer default leading to collection disruptions, the cash collateral account is available to cover around five months of senior costs and swap payments, which further mitigates the servicer risk.

Commingling Risk

From closing onwards, VWB will collect the loan instalments and balloon payments on its own accounts and will forward the collections to the issuer monthly. This may – in the case of VWB becoming subject to insolvency proceedings – lead to funds owed to Private Driver 2011-1 being commingled with other VWB funds.

When Fitch's internal view of the creditworthiness of VWB is below a level consistent with an 'A'/'F1' rating (which is the case at the date of this report), an advance mechanism is applied, reducing the commingling horizon to a two-day period. Furthermore, the structure foresees that, if Fitch's internal view of the creditworthiness of VWB falls below a level consistent with an 'BBB+'/'F2' rating, the advance mechanism will be amended to reduce commingling risk to a same-day horizon.

Fitch deems the proposed mechanisms to be in line with its counterparty criteria.

Set-Off Risk

While providing auto loan products, VWB also offers different deposit accounts to retail customers and issues corporate bonds. This may – in the case of VWB becoming subject to insolvency proceedings – lead to borrowers setting off loan payments with deposits held at VWB, and hence the issuer having no recourse against the borrower. There is also a theoretical possibility for a borrower to set off loan payments against purchased corporate bonds, but this is deemed unlikely as the bonds are typically issued at a EUR50,000 denomination and are thus not likely investment targets for an average borrower.

The eligibility criteria exclude borrowers that hold a deposit with VW Bank at the cut-off date. However, borrowers may open an account and deposit funds during the life of the transaction. Set-off risk from deposits for the previous Driver transactions is rather limited (ie below 1%). The risk that a borrower offsets its deposits against the loan instalments is partially mitigated by VWB's obligation to post a set-off reserve, if: the total amount of potential set-off risk is greater than 1% of the outstanding asset balance; and VWB is no longer deemed to be investment grade by Fitch. The reserve will be in an amount equal to the potential set-off risk and will be adjusted monthly.

Although this set-off trigger is at a lower rating level compared to other European securitisation transactions regularly analysed by Fitch, the agency is still comfortable with the trigger levels, due to the structural mitigants in place and the relatively low set-off exposure seen for existing Driver transactions. Fitch does not expect that the deposits with VWB will increase significantly, as they currently make up 30% of the refinancing mix and are close to their target level. Fitch will closely monitor the set-off risk exposure, which is regularly reported to the agency, and may take rating action should the exposure increase significantly.

Account Bank

BNP Paribas Securities Services, Luxembourg Branch will act as the issuer account bank ('AA-/Stable/'F1+'). The documentation contains downgrade language in line with Fitch's counterparty criteria. For details on Fitch's criteria, please refer to the report, "[Counterparty Criteria for Structured Finance Transactions](#)", published on 14 March 2011 and available at www.fitchratings.com

Interest Rate Swap Counterparty

At closing, the issuer entered into two swap agreements to hedge against the mismatch between the fixed rate received from the loan contracts and the floating rate amounts payable on the notes. The swap counterparty is Mizuho Corporate Bank Ltd. London Branch, (rated 'A'/Stable/'F1'). Fitch has reviewed whether the downgrade language in the swap agreements is in line with Fitch's counterparty rating criteria.

As stated in the *Legal Opinions* section, Fitch was not provided with a Japanese opinion and hence did not receive guidance about the enforceability of the priority of payments with regards to the subordinated swap payments under Japanese law.

For counterparties affected by the potential invalidity of flip clauses, Fitch expects replacement or guarantee upon any downgrade below 'BBB+' or 'F2' and thereby expects collateralisation to end as a remedy earlier than is the case for counterparties that are not affected by this issue. This provision is intended to mitigate the enhanced risk to affected transactions in the event of insolvency of the relevant counterparty. Please see "[Lehman Court Settlement Leaves Legal Conflict for Structured Finance Derivatives; Criteria Amended](#)", published on 14 March 2011 for more detail.

Downgrade language in the swaps for this transaction lacks such provision and therefore marks a deviation from Fitch's counterparty criteria. The agency nevertheless is comfortable in assigning the ratings. Comfort was drawn mainly

from the short weighted average life of the notes and the relatively low prevailing swap rates at closing, limiting the magnitude of potential termination payments payable by the issuer.

For details on Fitch's criteria, please refer to the report, "*Counterparty Criteria for Structured Finance Transactions: Derivative Addendum*", published 14 March 2011 and available at www.fitchratings.com.

Performance Analytics

Throughout the life of the transaction, Fitch will monitor the performance of the collateral and any changes at the servicer, or with the structure, that may influence the ratings of the notes.

Fitch will receive monthly servicer reports detailing the performance of the portfolio. These will provide the basis for the agency's surveillance of the performance of the transaction against both base case expectations and the performance of the industry as a whole. The ratings on the Private Driver 2011-1 transaction will be reviewed by a committee on average every 12 months, or where considered appropriate (eg in the event of a deterioration in performance, an industry-wide development, or a change at VWB that may influence the transaction) with any affirmation or change in the ratings disseminated publicly.

Fitch's quantitative analysis will focus on monitoring the key performance parameters (delinquencies, defaults, recoveries and prepayments) against the base case assumptions.

Fitch's structured finance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. Details of the transaction's performance are available to subscribers at www.fitchratings.com.

Please call the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing performance.

Appendix A: Transaction Overview

Private Driver 2011-1 GmbH

Germany/Auto Loans

Figure 15
Capital Structure

Class	Ratings ^a	Size (%)	Size (EURm)	CE (%)	Interest rate (%)	PMT freq.	1st IPD	Final maturity	ISIN/CUSIP
A	AAAsf	92.0	300.0	9.20	1-month Euribor + 0.60	Monthly	August 2011	August 2017	XS0643353591
Schuldschein loan	AAAsf		350.0	9.20	1-month Euribor + 0.60	Monthly	August 2011	August 2017	n.a.
B	A+sf	3.25	23.0	5.95	1-month Euribor + 1.30	Monthly	August 2011	August 2017	XS0643353757
Sub-loan		4.25	30.0	TBD		Monthly	August 2011	August 2017	n.a.
Overcollateralisation		0.50	3.5						
Total			706.5						
Cash collateral account (CCA)		1.20							
Cash reserve (= CCA)	4.6	Credit enhancement		Subordination, subordinated loan, cash collateral account and overcollateralisation					
Scheduled revolving period	none	Swaps		Class A/Schuldschein loan and class B interest rate swaps					

^a All rated classes have a Stable Outlook
Source: Fitch

Key Information

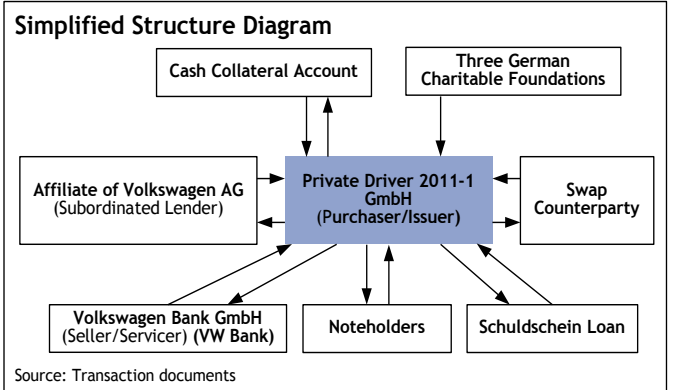
Details	Parties
Closing date	28 July 2011
Country of assets and type	Germany, auto loans
Country of SPV	Germany
Analyst	Uli Maute uli.maute@fitchratings.com +49 69 768076 238
Surveillance analyst	Uli Maute
	Seller/originator Volkswagen Bank GmbH
	Servicer Volkswagen Bank GmbH
	Back-up servicer n.a.
	Issuer Private Driver 2011-1 GmbH
	Issuer account bank provider BNP Paribas Securities Services
	Guarantor n.a.
	Security trustee Wilmington Trust (London) Limited
	Swap counterparty Mizuho Corporate Bank Ltd., London Branch
	Frequency Monthly

Source: Fitch

Key Rating Drivers

- Performance of Underlying Receivables:** The performance of the notes will be affected in particular by default and recovery levels on the underlying receivables. Fitch has analysed the credit and asset value risks and formed a loss rate assumption based on historical data provided by VWB. Stress tests on default and recovery rate expectations were used to analyse the effect on the transaction's cash flows.
- Counterparty Exposure to VWB:** The transaction is dependent on VWB's credit and operational capabilities. This is because the originator will act as servicer and no back-up servicer is envisaged at closing. VWB will further collect the monthly loan instalments into its own accounts, which may cause commingling risk. Risks resulting from a potential default of VWB are reduced by a number of mitigating factors, for example an advance mechanism for commingling risk.
- Stressed Balloon Payments:** Should the borrower not be able to return the car to the dealer, nor to refinance the balloon portion, the borrower will be obliged to pay this final instalment. If the borrower has previously decided to exercise the return option or to refinance, such borrower is at a higher risk of default. Fitch has considered such higher risk in its analysis.
- Asset Outlook:** Germany's economy has weathered the economic cycle well. Economic growth, initially driven by exports, has been supported by robust consumption fuelled by decreasing unemployment, which is expected to fall further over the next 24 months. The default rates for this preliminary portfolio are expected to align with the levels of the 2005 to 2006 vintages.

Source: Fitch



Source: Transaction documents

Appendix B: Transaction Comparison

Figure 16
Transaction Comparison
Overview of most recent German Driver transactions

Issuer registered	Driver Six GmbH	Driver Seven GmbH	Driver Eight GmbH	Driver Nine GmbH
Office of the issuer	Germany	Germany	Germany	Germany
Originator	VWB	VWB	VWB	VWB
Notes as of closing				
Issuance volume (EURm)	1,000.00	519.1	750.00	750.07
Class	Class A	Class A	Class A	Class A
Rating	AAA	AAA	AAA	AAA
Amount (EURm)	936.00	500.00	690.00	690.00
Credit enhancement (%)	7.90	9.75	9.20	9.20
Class	Class B	Class B	Class B	Class B
Rating	A+	A+	A+	A+
Amount (EURm)	31.00	19.10	24.40	24.40
Credit enhancement (%)	4.80	6.25	5.95	5.95
Class	Sub loan	Sub loan	Sub loan	Sub loan
Rating	NR	NR	NR	NR
Amount (EURm)	28.00	24.66	31.86	31.92
Portfolio summary as of closing				
Type	Static	Static	Static	Static
Type of receivables	Auto loans	Auto loans	Auto loans	Auto loans
Total discounted principal amount	1,000,000,795	546,456,491.00	750,005,150.09	750,072,070.67
Number of receivables	80,521	41,946	60,299	60,701
Av. outstanding balance	12,419.00	13,028.00	12,438.00	12,357.00
WA remaining term in months	35.4	35.4	34.2	34.0
Min. remaining term in months	18.0	18.0	18.0	18.0
Max. remaining term in months	60.0	60.0	60.0	60.0
WA seasoning in month	11.5	10.6	12.8	13.4
WA original term in months	46.6	45.7	46.8	47.0
Max. original term in months	72.0	72.0	72.0	72.0
Collateral by asset balance				
Age of vehicle				
Share CC-New (%)	8.7	8.3	8.6	8.4
Share CC-Used (%)	10.8	9.0	9.2	9.3
Share AC-New (%)	55.3	52.9	57.3	57.4
Share AC-Used (%)	25.2	29.8	24.9	24.9
Make				
VW (total) (%)	57.6	61.7	64.6	64.0
Audi (%)	20.3	19.9	16.5	17.0
Skoda (%)	11.9	10.5	10.7	10.7
SEAT (%)	6.0	5.5	5.7	6.0
Others (%)	4.1	2.5	2.5	2.4
Borrower type				
Corporate (%)	28.8	25.4	25.6	26.4
Retail (%)	71.2	74.6	74.4	73.6
Payment method				
Direct debit (%)	99.7	99.8	99.8	99.8

Figure 16

Transaction Comparison

Overview of most recent German Driver transactions

Issuer registered	Driver Six GmbH	Driver Seven GmbH	Driver Eight GmbH	Driver Nine GmbH
Base case assumptions (%)				
Probability of default	CC-new: 1.32 CC-used: 4.24 AC-new: 2.24 AC-used: 3.70	CC-new: 1.45 CC-used: 4.35 AC-new: 2.24 AC-used: 3.91	CC-new: 1.58 CC-used: 4.24 AC-new: 2.11 AC-used: 3.70	CC-new: 1.58 CC-used: 3.91 AC-new: 1.97 AC-used: 3.59
Loss Rate	CC-new: 0.50 CC-used: 1.95 AC-new: 0.85 AC-used: 1.70	CC-new: 0.55 CC-used: 2.00 AC-new: 0.85 AC-used: 1.80	CC-new: 0.60 CC-used: 1.95 AC-new: 0.80 AC-used: 1.70	CC-new: 0.60 CC-used: 1.80 AC-new: 0.75 AC-used: 1.65
Recovery	CC-new: 62.0 CC-used: 54.0 AC-new: 62.0 AC-used: 54.0	CC-new: 62.0 CC-used: 54.0 AC-new: 62.0 AC-used: 54.0	CC-new: 62.0 CC-used: 54.0 AC-new: 62.0 AC-used: 54.0	CC-new: 62.0 CC-used: 54.0 AC-new: 62.0 AC-used: 54.0
Prepayment rate	10% for year one, 15% for year two, 25% for year three and 30% thereafter. The base-case rates were stressed upwards by 1.5 at 'AAA' and 1.3 at 'A+'.	7.5% for year one and two, 10% for year three, and 15% thereafter. The base case rates were stressed upwards and downwards by 1.5 at 'AAA' and 1.3 at 'A+'.	7.5% for year one and two, 10% for year three and 15% thereafter. The base case rate were stressed upwards and downwards by 1.5 at 'AAAsf' and 1.3 at 'A+sf'	7.5% for year one and two, 10% for year three and 15% thereafter. The base case rate were stressed upwards and downwards by 1.5 at 'AAAsf' and 1.3 at 'A+sf'

Source: Fitch

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