Creditreform Structured Finance

Driver UK Multi-Compartment S.A.,
Compartment Private Driver UK 2020-1

Creditreform Rating

Rating Object	Rating Information	
Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2020-1	Assigned Rating / Outlook: Class A: **AAA_{sf} / stable**	Type: Initial Rating, New Issue Report
Closing Date: April 27, 2020 Legal Final Maturity: March 25, 2028 Exchange: Luxembourg Stock Exchange Issuer: Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2020-1 Issuer Type: Luxembourg Special Purpose Vehicle Arranger: Lloyds Bank plc Asset Class : Auto Loan Receivables	Rating Date: April 21, 2020 End of Monitoring: March 25, 2028 Rating Methodologies: CRA "Auto ABS Securitizations" (v1.4) CRA "Technical Documentation Portfolio Loss Distributions" (v1.4) CRA "Rating Criteria and Definitions" (v1.3)	

Class	Rating / Outlook	Amount (GBP)	Initial CE*	Index	Margin**	Final Maturity	ISIN
A	AAA_{sf} / stable	253,400,000.00	27.60%	Sonia	+ 1.05%	March 25, 2028	XS2141588090
B	NR	29,900,000.00	19.06%	Sonia	+ 2.05%	March 25, 2028	XS2141588256
Sub. Loan	NR	52,993,364.72	3.92%	Sonia	N/A	March 25, 2028	N/A
OC	-	13,720,000.00	-	-	-	-	-

* Current Credit Enhancement for Class A notes consisting of (1) Class B subordination, (2) subordinated loan and (3) overcollateralization and for Class B notes consisting of (1) subordinated loan and (2) overcollateralization, see "Capital Structure" below. ** The coupon is floored to zero.

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Transaction Summary

The Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2020-1 transaction ("PDUK 2020-1") is a securitisation of a pool of auto financing contracts originated in U.K. by Volkswagen Financial Services UK Ltd. ("VWFS"), acting as Seller and Servicer of these receivables, and itself a wholly owned subsidiary of Volkswagen Finance Overseas B.V. ("VWFO"), which itself is a wholly owned subsidiary of Volkswagen Financial Services AG ("VWFS AG"). VWFS AG is a captive and 100% subsidiary of Volkswagen AG ("VW AG").

The initial securitised asset pool is a portfolio consisting of 17,714 contracts originated by VWFS to retail and corporate customers. The transaction features a 11-month revolving period and is secured by new and used vehicle financing contracts. The portfolio has a weighted average remaining term of approximately 43.22 months and a total volume of GBP 350,013,364.72.

Creditreform Rating AG ("Creditreform Rating" or "CRA") has assigned a rating to the PDUK 2020-1 Class A notes. In addition to the issuance of the rated Class A notes, a Class B notes tranche will be issued and a Subordinated Loan will be granted to fund the purchase of financing contracts. The combination of the Class B notes, the Subordinated Loan and purchase price discount overcollateralization will provide credit enhancement to the rated Class A notes. Additionally, the Cash Collateral Account ("CCA") includes a cash reserve, which is available to cover senior costs and note interest payments. The CCA will also be available to redeem notes on the final maturity date or on the date on which the aggregated discounted receivables balance has been reduced to zero, as long as no enforcement event has occurred.

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Key Rating Findings

\+ Proven origination, servicing & recovery procedures

\+ Downgrade collateral and replacement provisions mitigate counterparty risk exposure w.r.t. the Swap Counterparty and Account Bank

\- Potentially indirect negative impact of VW AG NOx emission allegations on future portfolio performance

\- Concentrated contractual (Personal Contract Purchase) portfolio composition

\- Extended 11-month revolving period may adversely affect portfolio quality

\- Increased macroeconomic uncertainty ("Brexit" and coronavirus crisis) and potential market decline may have adverse effect on VWFS's ABS strategy and future portfolio performance

Transaction Structure

Transaction Parties

Table 1: Transaction Parties

Role	Name
Issuer	Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2020-1, Luxembourg
Seller / Servicer	Volkswagen Financial Services (UK) Limited, Milton Keynes
Arranger, Lead Manager	Lloyds Bank plc, London
Subordinated Lender	Volkswagen International Luxemburg S.A., Luxembourg
Security Trustee	Intertrust Trustees GmbH, Frankfurt
Data Protection Trustee	Data Custody Agent Services B.V., Amsterdam
Paying Agent, Interest Determination Agent, Account Bank	Elavon Financial Services DAC, Dublin
Cash Administrator	U.S. Bank Global Corporate Trust Limited, London
Swap Counterparties	Banco Santander, S.A., Madrid, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main
Corporate Service Provider	Circumference FS, Luxembourg
Registrar	Elavon Financial Services DAC, UK Branch, London

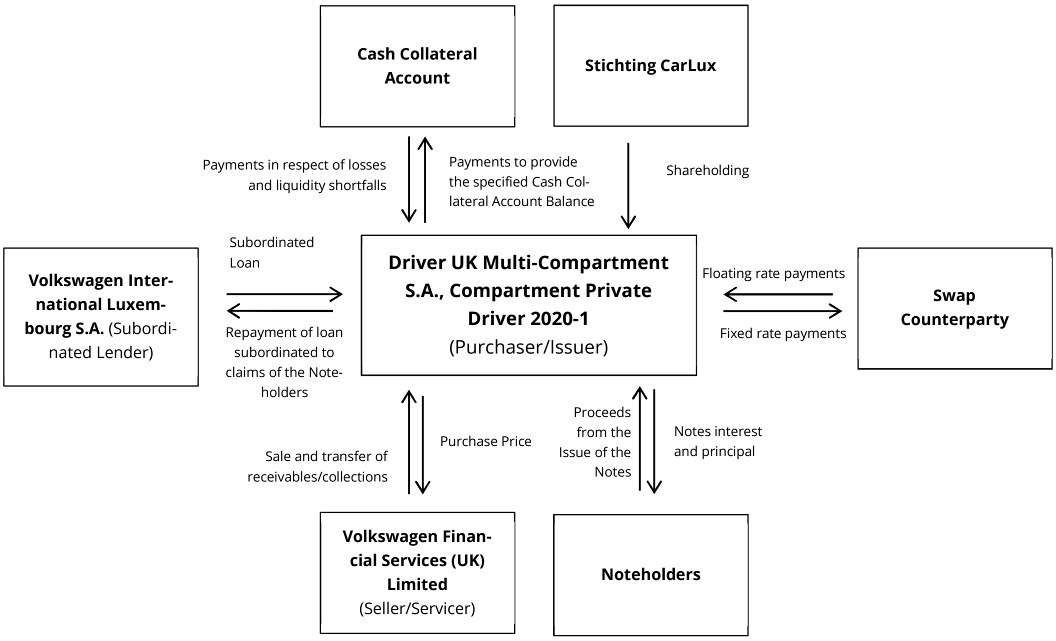
Issuer

The structure of the transaction is shown below (Figure 1). The Issuer, Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Private Driver UK 2020-1, is a special purpose vehicle (SPV) incorporated under the laws of Luxembourg. The public limited liability company (société anonyme) is registered with the Luxembourg Trade and Companies Register and has explicitly stated in its Articles of Incorporation to be governed by the Luxembourg Securitisation Law. The Issuer is a securitisation company with the sole purpose of entering into securitisation transactions through separate compartments.

Risks related to the Issuer are limited, by the compartment structure being ring-fenced and with limited recourse to other creditors of the Issuer, including non-petition provisions. We regard to the structure of the Issuer as being bankruptcy-remote. CRA conducted its rating assuming no adverse future change in Luxembourg securitisation law. A legal opinion addressing the Issuer structure was provided.

The Issuer has entered into a receivables purchase agreement, agreeing on the initial and revolving purchase of receivables pursuant to the ordinary course of the seller's business, where the related financing contracts are governed under the laws of England and Wales or Scotland. Apart from legal specifics (pending perfection of assignment, trustees for different jurisdictions) PDUK 2020-1 will acquire all right, title and interest arising from such receivables. Legal opinions addressing the legality, validity and enforceability of such receivables were provided.

Figure 1: Transaction Structure I Source: VWFS



Tap-Issuance

During the revolving period, and notwithstanding the purchase of replenishment receivables, the Issuer may from time to time offer noteholders an increase of the issue amount of existing note series and/or conduct an issuance of further note series in order to purchase additional receivables. Here, noteholders of existing series have the right, but not the obligation, to increase their respective issue amounts. However, a tap-issuance shall only be realised if the rating of Class A notes will remain unaffected by such action.

Upon occurrence of a tap-issuance, new and existing noteholders share a new portfolio with potentially different characteristics. The larger pool may have higher granularity and the relative share of delinquent and defaulted receivables may decrease because eligibility criteria exclude those receivables from purchase. However, the effects on portfolio diversification depend on the characteristics of the portfolio that will be purchased. As a general rule, tap-issuance receivables will be selected randomly and not with the intention to prejudice the noteholders, which reduces potential adverse effects on diversification. Moreover, while the receivables will be purchased at a 5.125%[1] discount, this will dilute (decrease) the built-up overcollateralization for Class A and Class B notes, which have been accumulated by the revolving period replenishment and/or note amortisation.

Revolving Period

The transaction features an initial revolving period of 11 months. During this period, and according to the Order of Priority, the remaining distributions less taxes, fees, costs and interest for Class A and Class B notes will be used for the purchase of new receivables instead of amortisation. Since the additional receivables are bought with a purchase price discount, the overcollateralization of notes will increase until the target OC percentages are reached. The purchase of additional receivables during the revolving period does not depend on rating agency confirmation. Potentially negative effects of a changing portfolio structure have to be taken into account. At the same time, the occurrence of an early amortisation event (also see "Order of Priority and Triggers") may end the revolving period prematurely.

Seller and Servicer

VWFS is challenged by saturated markets and VW AG NOx issue.

VWFS is a wholly owned subsidiary of VWFO and acts as Seller and Servicer of the lease financing contracts. VWFO itself is a wholly owned subsidiary of VWFS AG. VW AG is the parent company of VWFS AG, holding 100% of its shares and thus a controlling interest. VW AG´s non-bank-related financial division, as represented by VWFS AG, is a core business of the group with a significant contribution to group total earnings. CRA undertook an unsolicited rating of VW AG.

VW AG is currently facing legal and financial uncertainties resulting from the use of particular software in type EA 189 EU5 diesel engines. On September 18, 2015, the US Environmental Protection Agency (EPA) published a Notice of Violation alleging Volkswagen of having used certain software in diesel engines to circumvent emission standards under the Clean Air Act. According to a public announcement by VW AG, around 11 million vehicles worldwide might be affected. On December 16, 2015, Volkswagen announced that the presented technical measures have generally been approved by the German Federal Motor Transport Authority (KBA) with the consequence that the measures also apply to the EU-28 markets.

In its FY2019 report, VW AG recorded provisions of EUR 21.4bn, which increased by EUR 1.3bn, partly due to additional provisions in connection with the diesel issue, and identified six potential material consequences for its result of operations, financial position and net assets:

- Criminal and administrative proceedings all over the world (excluding USA/Canada)
- Product-related lawsuits worldwide (excluding USA/Canada)
- Lawsuits filed by investors worldwide (excluding USA/Canada)
- Proceedings in the USA/Canada
- Additional proceedings
- Risk assessment regarding the diesel issue

In its FY2019 report, VW AG reported sales revenues of EUR 252.6bn (+7.1% YoY) and an operating profit of EUR 17.0bn up from EUR 13.9bn the prior year. Special items amounted to EUR 2.3bn. However, the Automotive Division's net cash flow improved to EUR 10.8bn from EUR -0.3bn. For FY2020 VW AG expects the sales revenues to grow by approximately 4% YoY. But

[1] "Additional Receivables Overcollateralization Percentage"

according to VW AG, continuing restrictions due to the coronavirus crisis could adversely affect the results.

VW AG is in exchange of information with authorities to coordinate remedial actions. Although VW AG could conclude several settlement agreements in the United States and has reached several agreements with numerous authorities in other countries, VW AG is still exposed to various investigations as well as lawsuits in which authorities, investors and individuals have asserted claims against VW AG. The long-term implications of the manipulation of diesel emissions might include reputational damage, sale contractions, and negative financial impacts due to fines, costs of recall campaigns and higher financing costs. Creditreform Rating will closely monitor all future developments and implications for the transaction (also see "Volkswagen NOx Emissions Allegations" below).

True Sale

The securitised financing contracts were ruled by the jurisdictions of England, Wales and Scotland. Since the assignment of receivables from VWFS to the Issuer will take place in equity only, no notice of the assignment and sale need to be given to obligors at closing. In order to mitigate the risk that Scottish receivables transfer could be considered not valid, VWFS will declare a Scottish Trust in favour to the Issuer.

We obtained legal opinion that the relevant financing contracts constitute legal valid, binding and enforceable agreements.

Eligibility Criteria

The criteria are presented in reduced form. VWFS as seller warrants that, as of the purchase date:

- Receivables have been selected randomly and not with the intention to prejudice the noteholders
- Concentration limits: used cars max. 50%, PCP used contracts max. 40%, non-VW group brand vehicles max. 10%
- No obligor is an affiliate of VWFS
- No defaulted receivables
- Currency is GBP
- No overdue receivables
- Receivables from England, Wales or Scotland
- Contracts are legal valid, binding and enforceable
- Enforceability of the purchased receivables is not impaired
- Receivables free from rights of third parties
- No set-off rights or obligor's deposits on accounts with VWFS
- CCA compliant contracts
- Contracts from ordinary course of business
- Obligor has at least paid one instalment
- Instalments are substantially equal through time
- Max. contract term of 72 months
- Maturity of each of the purchased receivables not earlier than 6 months and no later than 71 months after the cut-off date
- Balloon payments allowed
- Compliance with data protection

- Obligor obligation to pay insurance, repair, maintenance, taxes
- No total damaged or stolen cars
- Single obligor concentration limit: 0.5% of the aggregate discounted receivables balance
- No Porsche PCP contracts
- Receivables do not relate to credit-impaired obligors or guarantors who
    - have been declared insolvent, or
    - had a court grant their creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination, or
    - have undergone a debt-restructuring process with regard to their non-performing exposures within three years prior to the date of transfer of the Purchased Receivable to the Issuer, or
    - were, at the time of origination, where applicable, on a public credit registry of persons with adverse credit history or, where there is no such public credit registry, another credit registry that is available to VWFS, or
    - have a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for com-parable receivables held by VWFS which are not securitised.

Capital Structure

The discounted receivables balance is calculated using a discount rate equal to 5.8720% per annum. The discount rate is used to cover senior expenses and the servicing fee as well as the weighted average swap rate based on the notional amounts outstanding at each date. At the onset of the transaction, it is calculated as follows (Table 2):

Table 2: Discount Rate Composition

Parameters	
Weighted average swap rate (%)	1.9265
Interest Compensation Rate (%)	1.2000
Servicing fee (%)	1.0000
Senior expenses (%)	0.0300
Subtotal (%)	4.1565
Buffer release rate (%)	1.7155
Discount Rate (%)	**5.8720**

A buffer release amount, calculated as the product of the buffer release rate and the future discounted receivables balance, is paid to the Seller as long as no insolvency event on the part of VWFS has occurred. In the event of insolvency, the structure will additionally benefit from the buffer release rate.

The Class A notes series benefit from a current CE of 27.60%, calculated as the sum of Class B subordination, the Subordinated Loan and PPD OC. The Class B notes series benefit from a total CE of 19.06%, respectively. Additionally, a cash reserve of 1.20% of the aggregated nominal amount of the Class A and B notes will be available to cover senior costs and note interest payments and, prior to an enforcement event, is available to redeem notes on the final maturity date or on the date on which the aggregated discounted receivables balance has been reduced to zero. The total balance sheet of the Issuer is shown in Table 3 and is composed as follows:

Table 3: PDUK 2020-1 Balance Sheet

Assets	Amount (GBP)	Liabilities	Amount (GBP)	Size (%)
Receivables	350,013,364.72	Class A	253,400,000.00	72.40
Cash Reserve (CCA)	3,400,000.00	Class B	29,900,000.00	8.55
		Sub Loan	52,993,364.72	15.13
		PPD OC	13,720,000.00	3.92
		Cash Reserve (CCA)	3,,400,000.00	0.97
Total	353,413,364,72		353,413,364,72	100.97

Interest Shortfalls

Interest shortfalls are losses resulting from a difference of the obligor's balance and the securitised balance when an obligor prepays his contract under the UK Consumer Credit Act legislation. The difference is a result of different discount rates applied when a contract is securitised (obligor's contract- and transaction-rate).

To cover these losses a dedicated interest compensation ledger was funded by the Seller with currently GBP 2m. Although it will be held on the cash collateral account, it will not form part of the general cash collateral amount.

The interest compensation amount[2] will be used to compensate the actual interest shortfalls due to early settlements. Any remainder is then credited to the interest compensation ledger. If the ledger exceeds the amount of GBP 4m, any surplus shall be paid to the Seller.

An average contract with an average contract rate of 6.31%, purchased at a discount rate of 5.8720% and which has an average remaining term of 43.22 months, will have a maximum spread, calculated as securitised balance divided by obligors balance, of 0.29% over its life. Comparing this to the contractual interest compensation rate of 1.20% available to cover interest shortfalls, the interest compensation mechanism is, in our view, sufficient to cover losses arising from interest shortfalls.

FX and Interest Rate Risk

To hedge the interest rate risk arising from a mismatch between fixed lease payments and floating-rate interest payments on Class A and Class B notes, the Issuer will enter into two swap agreements to receive floating (Sonia + 1.05% for Class A notes and Sonia + 2.05% for Class B notes floored at zero) while paying the fixed leg of each swap. The fixed rates have been calculated to include the Class A or Class B margins; payments under the swaps are linked to the outstanding balance of the respective notes.

The account agreement allows for charges to any of the Issuer's accounts or balances, if the corresponding reference value is negative or zero. Any charges will be subject to the applicable order of priority.

[2] (interest compensation rate / 12) * (future discounted receivables balance)

Indirect interest rate risks arise if VWFS changes its average contract rate within the revolving period. A widening spread between transaction- and contract rate would result in potentially higher interest shortfalls. The transaction is not exposed to FX-risk because assets and liabilities were calculated on the same currency (GBP).

Order of Priority and Triggers

Monthly payments to transaction parties are calculated on the available distribution amount and will be distributed according to the priority of payments. The monthly amount available for distribution and the order of priority are shown below (Table 4, Table 5):

Table 4: Available Distribution Amount

Available Distribution Amount	
1	+ Interest accrued on the accumulation account and the distribution account
2	+ Collections received or collected by the Servicer
3	+ Payments from CCA
4	+ Net swap receipts
5	+ amounts allocated in accordance with clause 20.3 of the Trust Agreement
6	+ Accumulation account (upon end of revolving period or occurence of an Early Amortisation Event)
7	- Buffer release amount to VWFS (provided that no Insolvency Event occurred in respect of VWFS)
8	+ Interest compensation order of priority amount
9	- Interest compensation amount

Table 5: Priority of Payments

Order of Priority	
1	Taxes, senior expenses and fees
2	Net swap payments, first, for the class A note, second, for the class B note (except termination payments for defaulting swap counterparty)
3	Interest payments on the class A note (accrued and unpaid)
4	Interest payments on the class B note (accrued and unpaid)
5	Payment to the cash collateral account
6	Payment to the Class A amortisation amount for amortising series or to the Class A accumulation amount for revolving series
7	Payment to the Class B amortisation amount for amortising series or to the Class B accumulation amount for revolving series
8	Payments to the swap counterparties under the swap agreement (to the extent not paid under item 2 above)
9	Accrued and unpaid interest on the subordinated loan
10	Principal payment of the outstanding balance of the subordinated loan
11	Payment of a final success fee

Interest payments of Class A notes rank senior to interest payments of Class B notes. The targeted note balances are calculated with respect to a target level of overcollateralization. The overcollateralization level can be defined as the relative excess of the aggregate discounted receivables balance over the nominal amount of the Class A or Class B notes.

Principal payments of Class A note are granted sequential priority over those of Class B until the Class A target OC level has been reached ("sequential amortisation"). After this event, Class A and B notes will be redeemed on a pro-rata basis, maintaining the Class A target OC level while redeeming Class B notes until the Class B target OC level has been reached. Table 6 shows the transaction's target OC levels.

Table 6: Target Overcollateralization Levels

Triggers	Class A	Class B
Initial OC level (%)	27.60	19.06
Target OC, during revolving period (%)	30.70	21.20
Target OC, after revolving period (%)	33.70	24.20
Target OC, upon CEIC is in effect (%)	100.0	100.0

The structure will switch to sequential amortisation when the asset balance has amortised to 10% of the maximum discounted receivables balance or pursuant to an early amortisation event (Table 7).

Table 7: Early Amortisation Event

Early Amortisation Event	
1	Servicer replacement
2	No more receivables to purchase (accumulation balance > 15% of discounted receivables balance, on two consecutive payment dates)
3	Class A OC level drops below 27.60% (with grace period of 3 consecutive months)
4	VWFS ceases to be an affiliate of VWFS AG or any successor
5	VWFS does not fulfil repurchase obligations
6	The Issuer fails to enter into a replacement swap agreement within 30 calendar days after the termination of a swap agreement
7	Credit Enhancement Increase Condition is in effect
8	Occurrence of foreclosure event

Portfolio deterioration through losses can trigger an early amortisation event (a "credit enhancement increase condition," CEIC).

Table 8: CEIC upon Dynamic Net Loss Ratio

Weighted Average Seasoning in months	Dynamic Net Loss Ratio exceeds (%)
0 <= x <= 12	0.25
12 < x <= 22	0.45
22 < x <= 34	2.00
> 34	n.a.

Table 9: CEIC upon Cumulative Net Loss Ratio and Late Delinquency Ratio

Period	Cumulative Net Loss Ratio exceeds (%)	Late Delinquency Ratio exceeds (%)
First 6 month of revolving period	0.80	0.70
Until the end of the revolving period	1.60	
Amortisation period	4.00	n.a.

8 and Table 9 show the conditions for a CEIC, which depend on the dynamic net loss ratio, cumulative net loss ratio and late delinquency ratio. The dynamic net loss ratio depends on specific seasonings of the portfolio and are more restrictive in earlier seasonings. The cumulative net loss ratio and late delinquency ratio depends on the specific period of the transaction.

Cash Collateral Account

The Cash Collateral Account includes several positions. A cash reserve, initially amounting to 1.20% of the aggregated nominal amount of the Class A and B notes (the "General Cash Collateral Amount") is available to cover senior costs and note interest payments. Prior to the occurrence of a foreclosure event, the cash collateral account will be refunded on each payment date from the available distribution amount remaining after items 1-4 of the priority of payments. The CCA balance equals the greater of:

- 1.20% of the aggregated nominal amount of the notes as of the end of the monthly period, or
- The lesser of 0.60% of the maximum discounted receivables balance and the aggregated outstanding volume of Class A and Class B notes as of the end of the monthly period

If either the final maturity date is reached or the aggregate discounted receivables balance has been reduced to zero, any remaining General Cash Collateral Amount may be used to redeem the Class A and Class B notes, providing credit enhancement to the notes. Otherwise and before final maturity, any excess cash standing to the credit of the CCA will be distributed to make principal and interest payments of the Subordinated Loan or released as a final success fee to VWFS. The CCA is providing liquidity for fees, expenses and interest of approximately half a year.

Operational Risk

Economic Outlook and UK Car Market

A reduced output growth of 1.4% in 2019 compared to the cycle high of 2.6% in 2014 was mainly driven by weaker private consumption. With an increase in exports by 3.7% and import growth of 3.6%, net trade seems to have had a broadly neutral effect on GDP growth in 2019. The UK unemployment rate further decreased to 3.8% in the first three quarters of 2019 while employment growth came in at 1.0% in Q3-2019. The government's total managed expenditure-to-GDP ratio fell by 7.0 p.p. to 39.3% in that period. In the current financial year (FY19/20), the deficit should have reversed and risen to about 2.2%.

We expect the British economy to further lose steam, with domestic demand remaining the main driver. External demand should remain muted, as uncertainty about the UK's future trade relationship with the EU is likely to persist and economic growth in the country's main trading partners should lose momentum. Our near-term outlook is seriously dampened by the Covid-19 fallout, with possibly disruptive effects on domestic demand and production.

Therefore, on March 27, 2020, Creditreform Rating has revised the outlook on the United Kingdom to “negative” from “stable” and affirmed the unsolicited long-term sovereign rating of “AA” for the United Kingdom. The long-term rating indicates a continued very high creditworthiness, and overall mirrors a very strong underlying macro institutional setting, underperforming fiscal metrics and generally robust external finances.

After a record business in 2016, the UK car market experienced a downturn in 2018 (-6.8%). Nevertheless, new car registrations remained high at 2.3m vehicles in 2019, the sixth biggest year in a decade. The slowdown in the used car market was marginal with a decline by 0.1% to 7.9m registrations. The market share of diesel cars in newly registered cars declined from 31.7% in 2018 to 26.6% in 2019.

Uncertainty on the future relationship between the UK and the EU as well as other third parties remains high with a particular focus on importers and the consequences for their business model going forward. Taking into account a potentially lower inclination to buy new cars in 2020 and a macroeconomic environment of risen uncertainty and potential market cool-down, especially in the context of the coronavirus crisis, we consider weaker macroeconomic support for VWFS UK business and their ABS strategy. Our outlook for the UK car financing market is negative based on our macroeconomic expectations.

Origination and Underwriting

Established and proven origination and underwriting procedures, IT systems and operation units

VWFS is the originator of the purchased receivables. UK operations are represented by VWFS. VWFS will enter into a receivables purchase agreement with PDUK 2020-1 to sell receivables. VWFS provides financing solutions for new and used Volkswagen, Porsche, Audi, Seat, Skoda, Bentley, Lamborghini, and other brands to commercial and non-commercial customers. VWFS co-operates closely with the group dealership network as well as manufacturing departments to scale VW AG’s business. Co-operations are established by dealer agreements.

Managing its portfolio, VWFS has to ensure high consistency and quality of underwriting procedures in its financing operations and business entities. Being one of the largest servicers in the European auto loan and auto financing business, VWFS AG as parent company relies on established processes and IT systems to support its operations. VWFS has implemented internal scorecards including credit scores sourced from external credit bureaus to assess customer credit profiles. For low risk customers, applications are processed and approved automatically without involvement of VWFS staff. For customers with a higher credit risk profile, qualified credit officers evaluate a credit decision. Certain limits for credit engagements are established, as well as special guidelines for applications with a large aggregate amount.

VWFS has integrated a separate fraud detection team in its operations unit. Employees are required to complete annual computer based training. Therefore, VWFS is ensuring ongoing internal training to improve professional qualifications.

Creditreform Rating analysts conducted an on-site review and due diligence in VWFS’s facilities in Milton Keynes (UK) in March 2019. In addition, VWFS provided a digital due diligence presentation in March 2020. CRA got a fair picture of servicing and underwriting capacities, as well as of debt management, collection procedures and risk management.

In our view, a long track record of financing originations as well as proven and established procedures in servicing and debt management enable VWFS to fulfil its obligations as Servicer as defined in the PDUK 2020-1 transaction documents. However, currently no backup servicer agreement is in place, which might have negative effects on the Issuer's capacity of a timely payment of its obligations in case insolvency of VWFS.

Contract Types

The transaction securitises two types of financing agreements within the jurisdiction of England, Wales and Scotland..

Personal Contract Purchase ("PCP") contracts are typically entered into with retail clients. In general, after a small initial lump sum payment the balance is partly amortised with equal monthly instalments. At the end of the contract term, the obligor may choose to purchase the vehicle by paying a final balloon. PCPs are exposed to residual value ("RV") risk when the obligor returns the vehicle instead, and the final balloon (subject to vehicle condition and agreed mileage) must be funded by the vehicle sale proceeds.

Hire Purchase ("HP") contracts are also typical retail products. In contrast to PCPs, the obligor pays a larger initial deposit. With equal monthly instalments, the balance is amortised completely.

Under the UK Consumer Credit Act, a regulated financing contract may be terminated voluntarily. If (among other conditions) one half of the total amount which would have been payable is paid, the obligor returns the vehicle. Regulated contracts are therefore exposed to voluntary termination ("VT") risk, when the vehicle sale proceeds must cover the remaining payments.

The Issuer enters into a redelivery repurchase agreement with VWFS to sell the receivable back to VWFS whenever the obligor terminates a regulated financing contract voluntary due to the UK Consumer Credit Act or the obligor of a PCP agreement opts to make full and final settlement of a PCP agreement by redelivery of the vehicle to the Seller.

Servicing and Collections

VWFS services the financing contracts over time and is responsible for collections and repossession of financed vehicles. The first instalment is due when the vehicle is handed over to the obligor. In the UK, customers are generally required to pay by direct debit. VWFS employs a debt management team to handle delinquent contracts with the aim to minimise losses and assert all claims against defaulted customers. The debt management team uses reminder letters and phone contact to collect overdue outstanding payments. Standardised collection and debt management procedures are implemented to reduce court orders and legal enforcement measures. VWFS's debt management employees are authorised to grant reasonable payment extensions, if a commercial obligor has failed to pay two instalments.

The employees in the debt management services work closely with the collection centre to ensure the timely repossession of vehicles from terminated financing contracts. The main tasks of the collection centre are negotiating on agreements on payment extensions, the processing of corporate and consumer insolvencies, the use of payment guarantees and processing of irrecoverable debt and write-offs. If obligors do not return the vehicles voluntarily, VWFS mandates external repossession servicers upon termination. For enforcement purposes, VWFS will refer to the resources of the entire VW group to enforce interests and claims.

As a consequence of the coronavirus crisis more obligors will get or have already got into economic difficulties. Late payments or missed payments could reduce the amount of collections and therefore increase the risk of non-timely payments under the notes. VWFS changed its customary operating practices to expand the scope of its customary forbearance activities. This includes easing the arrangements to pay, granting one-off payments, extension of the period in which VWFS will not actively pursue arrears, extension of the period that the financing contract is placed into arrears, and postponing the date of the repossession of the vehicle. Moreover, VWFS will offer its obligors of a PCP contract an informal extension to the original contract term. If the extension for a contract in the portfolio of PDUK 2020-1 is accepted, VWFS will repurchase the contract and transfer the determined repurchase price to the Issuer.

Residual Value Management

The uncertainty of a vehicle's residual value represents a major risk for creditors of a financing contract, primarily when obligors opt to terminate their contracts voluntarily in the mid or end of the term. Therefore, it is a strategic goal of VWFS to keep the vehicles in equity to the obligor and balance that goal with attractive financing conditions as a support for marketing.

VWFS has set-up a Residual Value Committee consisting of stakeholders from across the business, which is meeting regularly, in order to monitor and adjust strategies. CRA is conducting independent analyses relying on third party data to monitor the development of current and future residual values as well as potential strategic changes.

Counterparty Risk

Volkswagen NOx Emissions Allegations

VW NOx issue may threaten future financial position; pose indirect risk to future portfolio performance

On September 18, 2015, the US Environmental Protection Agency issued a Notice of Violation to Volkswagen Group of America Inc. alleging that VW had been using software to circumvent emission standards under the Clean Air Act. Subsequently, VW AG announced that irregularities concerning particular software used in type EA 189 EU5 diesel engines affected approximately 11 million vehicles worldwide and approximately 8.5 million vehicles in Europe (VW AG press release, October 15, 2015).

A number of legal proceedings were subsequently iniciated in several countries. VW AG could end many proceedings by entering settlement agreements and agreements on the implementation of technical measures with numerous authorities. However, several other proceedings in relation to the diesel issue are still ongoing, including class actions in some jurisdictions.

On June 13, 2018, the Braunschweig public prosecutor issued a fine notice of EUR 1bn against VW AG due to violations of supervisory duties in the context of the diesel issue. The fine consists of the maximum penalty legally provided for of EUR 5m and the penalty for economic benefits due to the offence of EUR 995m. On November 1, 2018, German consumer group VZBZ has filed a class action lawsuit against VW AG on diesel test emission manipulation. On February 22, 2019, the German Federal Supreme Court has published an indicative court order confirming the opinion of the claimant that software circumventing emission standards should be assumed to be a material defect. On February 28, 2020, VW AG and VZBZ reached a out-of-court settlement on compensation for the claimants. On April 6, 2020, in a English group litigation a British court stated that VW AG used a prohibited defeat device to subvert air pollution tests. This decision could lead to compensatory damages for 91,000 claimants in England and Wales.

As of today, it is not possible to quantify all current and future commercial and financial implications of NOx related issues. According to transaction legal counsel, HP and PCP customers in the UK may endeavour to pursue claims for damages from VWFS for any loss they claim they suffered as a consequence of a defect i.e. if the product was not of satisfactory quality at the point of delivery. A customer may claim such cases should be treated as a repudiatory breach entitling him to terminate the contract in addition to claiming damages. A customer who is a consumer may also claim to have non-contractual rights to damages or a discount against VWFS if the information provided about the vehicle's emissions could be regarded as misleading or false.

The Seller represents and warrants that, as of the cut-off date, the purchased financing contracts are "legally valid, binding and enforceable" and that their "status and enforceability is not impaired due to warranty claims or any other rights" of the lessee (see "Eligibility Criteria"). According to transaction documentation, if claims were ultimately determined in a claimants' favour at trial, absent remediation, VWFS would be required to repurchase any relevant affected receivables from the Issuer on the basis that the status and enforceability of such affected purchased receivables was impaired due to warranty claims or any other rights of the obligor or that the status and enforceability of the affected receivables was impaired by set-off rights.

According to information provided by VWFS, only 2 contracts in the PDUK 2020-1 portfolio are affected by EA189 software irregularities. In our view, a buyback of this relatively minor share as a remedy measure following a breach of eligibility criteria would not significantly affect the portfolio composition or observed credit quality.

Overall, CRA decided to maintain a conservative margin in its base case assumptions. Furthermore, we take into account potential market impact on residual values from the NOx issue by stressing the recovery rate haircuts. We closely monitor VW AG's financial position and any impact of future developments on the structure and the duties of VW AG and its subsidiaries within the transaction. We will update our rating subject to new information that will be available in the future.

Commingling Risk

The transaction is structured to include a mechanism to protect against counterparty exposure resulting from VWFS acting as a Seller and Servicer. As long as VWFS is the Servicer for PDUK 2020-1, the Servicing Agreement grants a right to VWFS to commingle funds such as monthly collections or proceeds from the realisation of vehicles with its own funds during each monthly period and to use these funds at its own risk and for its own benefit until the next relevant payment date. In the case of a default of VWFS, such funds may be lost in the Servicer´s insolvency estate, resulting in a (potentially non-recoverable) loss of monthly collections, including prepayments, for Investors. To mitigate this risk, VWFS will fund a CCA of 1.20% initially of the the aggregated nominal amount of the Class A and B notes, which may be used to cover senior cost and interest. In addition, the structure obliges the Servicer to advance expected collections if target minimum ratings of VW AG were no longer satisfied (Monthly Remittance Condition).

Set-Off

According to the eligibility criteria, the purchased receivables must exclude those contracts where the obligor maintains a deposit with VWFS. In addition, VWFS currently acts only as an intermediary for insurance products and not as counterparty. Therefore, we consider set-off risks to be limited. However, VWFS offers maintenance and service plans where set off-risks may arise in case of a VWFS insolvency.

Tax Risk

CRA received legal opinion from transaction counsel clarifying that the Issuer has no exposure to Value added Tax (VAT) risk, no exposure to withholding tax risk and only limited exposure to income tax risk. The financing contracts are governed by the laws of England and Wales and Scotland. Regarding VAT, the purchase of the receivables is payable exclusive of any VAT portion. If any future VAT liability with respect to the purchase of the receivables becomes due, the Seller is deemed to bear for any of such sums. While assessing the rating of the Class A notes, we assumed no change in Luxembourg Securitization law over the lifetime of the transaction.

Account Bank and Swap Counterparty

VWFS has entered into a service agreement with the Issuer to perform tasks according to its usual business practices, such as the service and administration of the receivables. To fulfil its duties, VWFS will transfer the collected funds to the Account Bank on behalf of the Issuer. The Issuer has established accounts as defined in the Account Agreement and in accordance with the transaction structure. The Issuer is exposed to the default risk of Elavon Financial Services DAC("Elavon"), appointed to be the Account Bank. However, default risks are mitigated by certain downgrade provisions linked to the rating of the Account Bank. Should Elavon be downgraded, the Account Bank is required to transfer the balance of the account to another bank with sufficient ratings on its own cost. To assess the risk relating to the Account Bank, Creditreform Rating has undertaken an internal credit assessment of U.S. Bankcorp, the parent company of its 100% subsidiary Elavon Financial Services DAC.

The Issuer will enter into two separate swap agreements with Banco Santander, S.A. ("Santander") and DZ BANK AG Deutsche Zentral-Genossenschaftsbank ("DZ Bank") to mitigate exposure to interest rate changes over time and hedge the interest rate risk arising from receiving fixed rate payments under the lease receivables and paying a floating rate on the Class A and Class B notes. Under the terms of the swap agreements, the Issuer expects to receive floating rate payments based on Sonia plus spread in return of a fixed rate paid to the Swap Counterparties.

The Issuer is exposed to the risk of the Swap Counterparties failing on any monthly payment, in which case the available distribution amount (including the cash reserve) may be insufficient to make required payments on the notes. Depending on the future development of interest rates, the Issuer may also be obliged to transfer net payments to the Swap Counterparties. As the monthly net swap payments rank senior to any liabilities on the notes, the available distribution amount may be insufficient to cover all required payments on the notes. The transaction is also exposed to the risk of Swap Counterparties insolvency. In this case, substantial swap termination payments may arise depending on the future development of interest rates and the future market value of the swap.

To mitigate Swap Counterparties exposure, the structure foresees certain downgrade provisions linked to the rating of the Swap Counterparties, which require certain actions, should its ratings fall below a minimum rating threshold. These actions may include the collateralization of the referenced amounts by the Swap Counterparties, a transfer of obligations to a replacement Swap Counterparties, or the procurement of a guarantee. To assess the risk relating to the Class A notes Swap Counterparty, Creditreform Rating has undertaken an unsolicited bank rating of DZ Bank. The current rating of DZ Bank as of March 2020 is AA- with a qualifier of watch negative.

Credit and Portfolio Risk

Creditreform Rating´s credit and portfolio analyses were based on data provided by VWFS, which included gross and net loss vintage performance curves, recovery data for different product types, PCP performance and voluntary termination data going back to 2002, as well as delinquency data going back to 2007 and data on prepayments from 2008 onwards. VWFS provided stratification tables based on the black pool, which allow a credit risk assessment of the portfolio. The quality and quantity of data available for our analysis was considered sufficient.

Receivables Pool Characteristics

Portfolio Composition

The initial portfolio consists of loans originated by VWFS and entered into between obligors and VWFS. It includes different vehicle brands. The financing agreements are extended to retail and corporate customers.

Table 10: Portfolio Characteristics

Portfolio Characteristics	
Outstanding Discounted Receivables Balance (GBP)	350,013,364.72
Number of financing contracts	17,714
Number of obligors	17,697
Type of financing agreement:	
*Hire Purchase, HP (%)**	7.33
*Personal Contract Purchase, PCP (%)**	92.67
Average discounted balance / contract (GBP)	19,759.14
WA seasoning (months)	4.04
WA remaining term (months)	43.22
Type of Customer	
*Retail (%)**	97.18
*Corporate (%)**	2.82
Type of Car	
*New (%)**	54.72
*Used (%)**	45.28
Type EA 189 engine vehicles (%)*	0.00

* Percentage of the Outstanding Discounted Balance

The following graphs show the maturity profile of the portfolio at the cut-off date as well as the distribution of vehicles by brand (see below):

Figure 2: Contract Maturity Profile I Source: VWFS, CRA

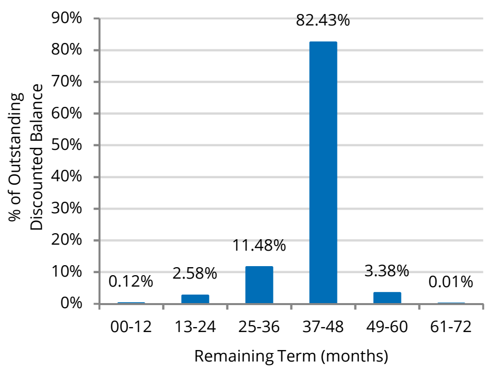
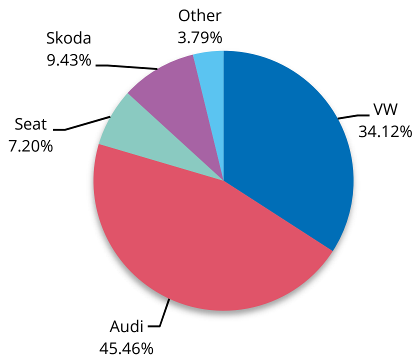


Figure 3: Brand Distribution I Source: VWFS, CRA

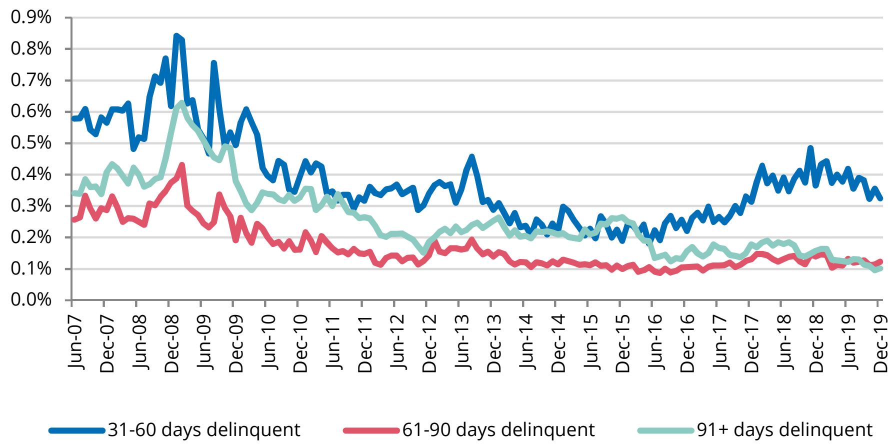


Historical Performance

VWFS provided delinquency performance data on retail and corporate customers going back to 2007, which covered the performance of HP and PCP financing agreements. Historically, delinquencies over 61 days have shown an overall decreasing trend, while delinquencies between 31 and 60 days increased between mid-2016 and mid-2018 (see Figure 4).

The financing agreements extended to customers typically grant a right to VWFS to terminate a contract when the obligor is due more than two monthly instalments. As described in "Origination and Underwriting" above, VWFS normally reaches payment arrangements to remedy any outstanding liabilities with a client before terminating a lease contract.

Figure 4: Delinquencies by Delinquency Period | Source: VWFS, CRA



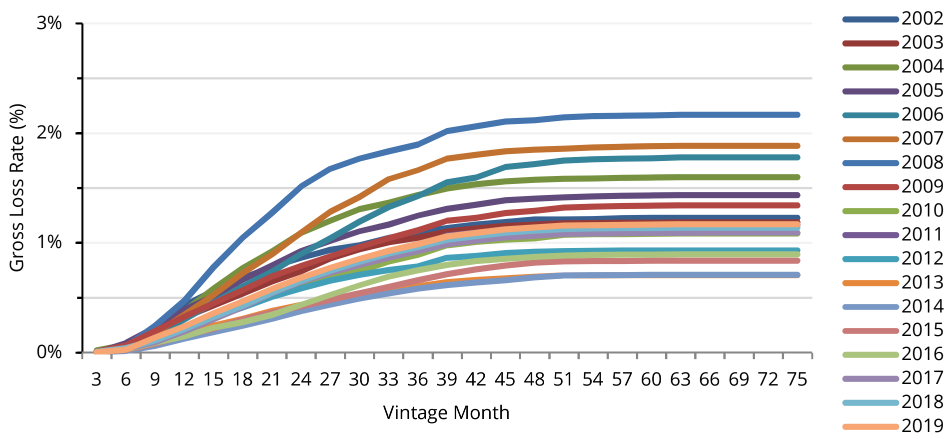
Credit Risk

Defaults

Creditreform Rating set its gross loss base case at 1.10%

VWFS provided detailed total book vintage data on gross and net losses for different contract types and used conditions. Creditreform Rating used this information to analyse the historical gross loss performance of different vintages (see Figure 5):

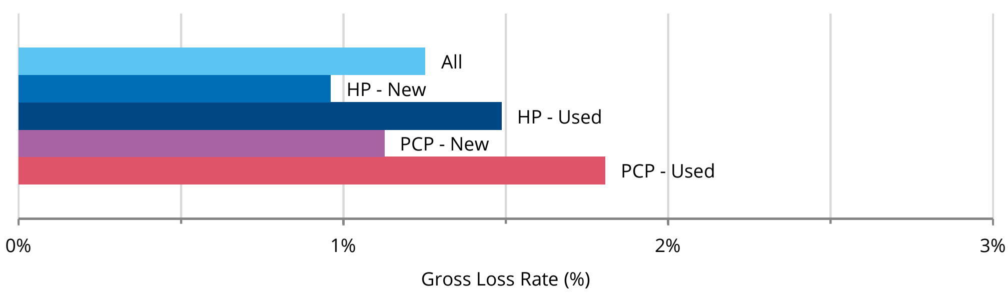
Figure 5: Gross Loss Rates of VWFS Total Lease Book by Year, extrapolated I Source: VWFS, CRA



Historical and projected losses show a trend towards lower loss rates in younger vintages. This effect may, in part, be explained by improved servicing and collection performance of the Servicer. Moreover, we consider the development of the overall economy in UK, characterized by modest economic growth, strong labour market and subdued consumer inclination to buy cars, the main driver of portfolio performance in the current loan securitisation. Overall, our economic outlook for UK is stable and we expect a moderate economic development (see "Economic outlook" above).

Depending on the contract type and the used condition, average unweighted gross loss rates differ after 75 months, as shown in Figure 6:

Figure 6: Average Gross Loss Rates after 75 Months | Source: VWFS, CRA



In general, used vehicle financing agreements have a higher probability of default than financings of new vehicles. Furthermore, PCP agreements show significantly higher gross loss rates compared to HP contracts.

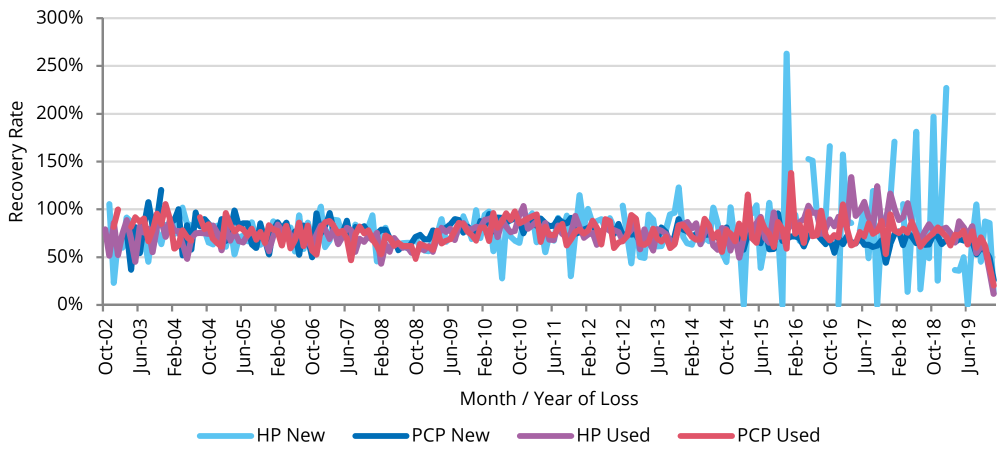
In deriving our base case loss rate assumption, younger vintages were considered a better indicator of future performance. Based on improved historical performance and a stable economic outlook, Creditreform Rating has set a base case gross loss expectation of 1.09% for its rating analyses, taking into account the typical maturity profile of loan products and adjusting for the specific composition of contract types and maturity profile of PDUK 2020-1.

Recoveries

Creditreform Rating set the recovery base case at 75.53%

VWFS provided historical data on the recovery performance of PCP and HP contracts, each separately listed for used and new vehicles. This information was deemed sufficient to gauge the recovery performance of the Servicer id not provide explicit historical data on the recovery performance of its leases and leasing portfolios. However, an analysis of data on previous Driver UK transactions derived from investor reports provided sufficient information to gauge the recovery performance of the Servicer (Figure 7).

Figure 7: Historical recovery performance of contract type I Source: VWFS, CRA



Despite a relatively stable performance (between 60%-90%), the data reveal a fair amount of variation over time. As a cross-check, Creditreform Rating also used vintage loss curve data to compare gross defaults to recorded net losses and assuming a granular and homogeneous distribution of contract values in order to calculate implied recovery rates at different points in time. Creditreform Rating has set the recovery base case at 75.53%.

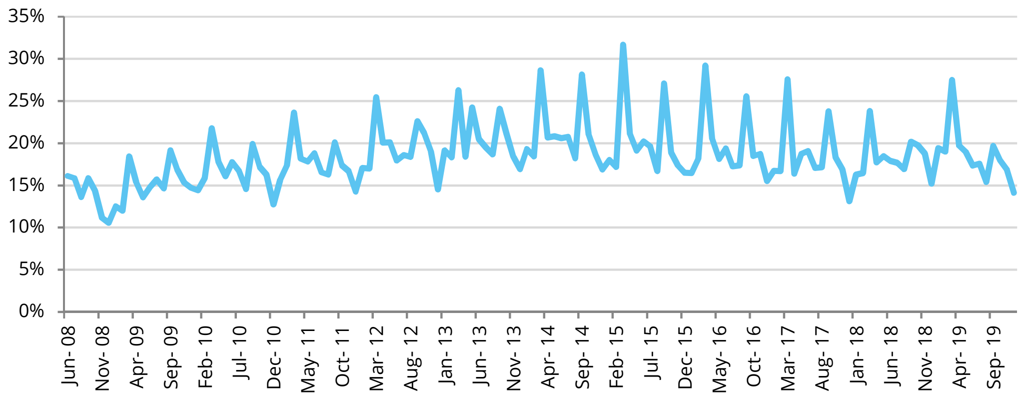
Prepayments

Creditreform Rating used historical prepayment performance data on VWFS´s total HP and PCP portfolio, dating back to 2008. Under the UK Consumer Credit Act, obligors in a regulated financing agreement have the right to make partial prepayments at any time before the final payment. Prepayments have historically ranged between 10% and close to 30% annualised CPR, averaging about 18.47% CPR annualised (see Figure 8).

It is Creditreform Rating´s view that higher prepayments contribute positively to the structural stability of the transaction. From a rating perspective, lower prepayment assumptions represent a more conservative approach because the structure has to sustain the higher WAL of the notes resulting from an overall lower cash inflow.

Following the analysis of empirical data available, stressed prepayment assumptions were set at 8.49% for the AAA_{sf} rating scenario.

Figure 8: Historical prepayments, total lease book, HP, PCP (annualised CPR) I Source: VWFS, CRA



Residual Value Risk

PCP loans offer to borrowers the option to settle the contract with a balloon payment at maturity if they choose to keep the vehicle, or return the vehicle in lieu of making the final balloon payment. The Issuer is exposed to the risk of not recovering the full amount to settle a contract if the market value of the vehicle has declined below the contractual residual value, i.e. the final balloon payment. With a total PCP share of currently 92.67%, residual value risk is a major risk factor in the current transaction (see also "Residual Value Setting" above).

To size RV risk, Creditreform received historical data on the performance of PCP contracts from VWFS´s lease book dating back to 2002. The data was deemed sufficient for the assessment of RV risks and analysed with respect to (1) PCP turn-in rates and (2) PCP recovery performance.

Historically, monthly turn-ins of PCP contracts have been limited; Creditreform therefore set the assumed turn-in rates at approximately 100% in the AAA_{sf} rating scenarios, respectively. Base-case PCP recoveries were analysed on a monthly aggregate basis and sized at 66.50% of the contractual RV. To address a further potential decline in market values, an additional 5% haircut was applied, resulting in stressed PCP recoveries of 63.17%.

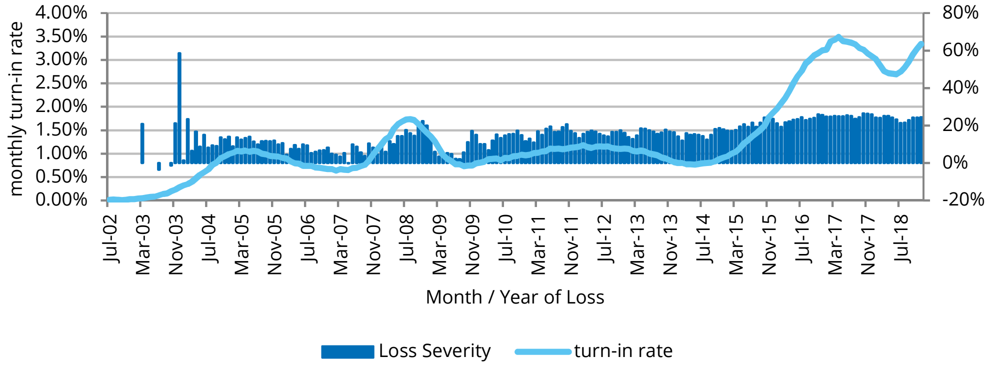
The exposure to RV risk was further stressed by assuming an increase in the total share of PCP contracts during the revolving period due to replacements of the revolving portfolio, increasing the share up to 94.54%. The resulting PCP exposure of 49.86% translated into a total RV risk assumption of 16.26% in the AAAsf rating scenario..

Voluntary Termination Risk

At any time before the last payment falls due, an obligor may, with a financing agreement being regulated under the UK Consumer Credit Act, opt to return the vehicle after paying 50% of the total amount payable to VWFS. The transaction is therefore exposed to the risk of voluntary terminations by obligors, in which case, and similar to RV risk, the Issuer will have to repossess the vehicle and use the proceeds from the vehicle sale to cover the remaining balance of the contract. VT losses may result when the sale proceeds are not sufficient to cover the remaining amounts.

To assess VT risk, Creditreform used monthly VT performance data by contract type and status of the vehicle (new or used) dating back to 2002, provided by VWFS. Creditreform used this data to assess historical VT turn-in rates and expected recoveries for voluntary terminations, adjusting for the overall portfolio composition with respect to the different contract types. Since 2015, monthly VT turn-ins have been increasing to reach an all-time high in the beginning of 2018. In particular, based on aggregate VT data provided by VWFS, turn-ins of PCP contracts have increased significantly, being accompanied by higher net loss rates.

Figure 9: Voluntary termination turn-ins and loss severity | Source: VWFS, CRA



Similar to RV risk and general recovery performance, stressed VT loss severities were derived by applying a 5% haircut to account for further potential declines in vehicle market values. The scenario-specific VT risk was calculated from a simulation of VT losses and resulting VT loss distributions, which took into account the increased volatility observed in the data. The total VT risk was sized at 4.16% in the AAAsf rating scenario.

Cashflow Analysis

Creditreform Rating analysed the transaction cash flows in its proprietary cash flow model, which was tailored to reflect the structure of PDUK 2020-1. The purpose of the cash flow analysis is to test the transactions´ ability of paying interest and ultimate payment of principal by final maturity using stressed base case assumptions in each specific rating scenario. Creditreform Rating also tested the sensitivity of the transaction´s performance with respect to increases in the default rate base case, decreases in the recovery rates, and prepayment scenarios.

A run-out schedule of the portfolio was implemented into the cash flow model taking into consideration the timing of defaults, residual value and voluntary termination losses terminations, the amount of prepayments.

Rating Scenarios

CRA base case stresses:

AAA$_{sf}$: x5.68 default multiple
67.03% recovery haircut

Taking our loss assumptions as a starting point, Creditreform Rating then stressed its base case assumptions in higher rating scenarios in order to account for unexpected economic deterioration and worsening portfolio performance. Separate stress factors were applied to default and recovery rates to arrive at scenario-specific stressed loss expectations, which were then fed into the cash flow model.

Default Rates

Following our “Rating of Auto ABS Securitisations” methodology and depending on the specific rating scenarios (AAAsf), the stress multiples for default rates were set at x5.68. This leads to the rating-specific stressed gross losses of 6.20% for AAAsf.

Recovery Rates

The base case recovery expectation of 75.53% was subjected to a rating haircut in each rating scenario. The recovery rate haircuts were set to 67.03% in the AAAsf scenario. The haircuts take into account transaction-specific features such as observed volatility, potential market value risks, and established recovery procedures. As a result, the stressed recovery rates were set to 24.90% in an AAAsf scenario. The scenario-specific expected losses were calculated by applying our rating multiples and haircuts to the base case (Table 11).

Table 11: Stressed Assumptions

Rating Scenario	**AAAsf**
Base Case Gross Loss (%)	1.10
Default Multiple	5.68
Rating Loss Rate (%)	6.27
Base Case Recovery Rate (%)	75.53
Recovery Haircut (%)	67.03
Rating Recovery Rate (%)	24.90
Expected Net Loss (%)	**4.71**

Sensitivity Analysis

In order to gauge the effect of variations in default and recovery rates on rating indications, Creditreform Rating conducted a sensitivity analysis including independent and combined stresses of the default and recovery base case assumptions. Table 12 shows the resulting rating indications for the Class A notes. Furthermore, Creditreform Rating derived a best case scenario by reducing the base case default rate by 25% and increasing the base case recovery rate by 25%. This would suggest a best case rating of AAAsf.

Table 12: Class A Sensitivities

Recovery / Default	**Base Case**	**-10%**	**-25%**	**-50%**
Base Case	AAAsf	AAAsf	AAAsf	AAAsf
+10%	AAAsf	AAAsf	AAAsf	AAAsf
+25%	AAAsf	AAAsf	AAAsf	AAAsf
+50%	AAAsf	AAAsf	AAAsf	AAAsf

Creditreform Rating tested scenarios with back-, even-, and front-loaded default timings. Creditreform Rating also assessed the effect of changing the prepayment rate to 0% (Table 13). Overall, we observed reduced sensitivities of the Class A.

Table 13: Class A Prepayment Sensitivity

Prepayment Rate	**Class A**
Base Case	AAAsf
Zero	AAAsf

Table 14 shows the resulting rating indications for the Class A for VT and RV risk sensitivities. If the VT and RV losses were set to increase by 10%, our analysis would suggest no change for the Class A notes. The worst case rating of AA_{sf} for the Class A notes represents a scenario, where a severe 100% stress is applied to the base case default rate in combination with a 50% stress on the base case recovery rate and the VT and RV losses, respectively. In our view, this rating would represent a scenario with higher default correlation and market decline in a stressed pandemic scenario.

Table 14: Class A VT and RV Sensitivities

VT and RV Risk	Class A
Base Case	AAA_{sf}
+10%	AAA_{sf}
+25%	AAA_{sf}
+50%	$AA+_{sf}$

ESG Criteria

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing the rating object. Overall, ESG factors have a less significant impact on the current ratings of the Class A and B notes. Nevertheless, CRA identifies macroeconomic factors (particularly with regard to potential changes in consumer behaviour) to have a high significant impact. Increased macroeconomic uncertainty ("Brexit" and the coronavirus crisis) and potential market decline may have adverse effect on VWFS's ABS strategy and future portfolio performance. Governance is relevant to the ratings with respect to counterparty risk, but downgrade collateral and replacement provisions mitigate counterparty risk exposure with respect to the Swap Counterparty and Account Bank. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

Appendix

Rating History

Event	Rating Date	Publication Date	Result
Initial Rating	21.04.2020	27.04.2020	Class A AAA_{sf} /stable

Regulatory Requirements

Creditreform Rating AG was mandated on February 05, 2020 by VWFS to conduct a rating for the Class A notes issued by Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Private Driver UK 2020-1. The rating was conducted on the basis of Creditreform Rating AG's Rating Methodology "Auto ABS Securitizations, Version 1.4, July 2018" in conjunction with Creditreform Rating AG's "Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018" and Creditreform Rating's basic document "Rating Criteria and Definitions, Version 1.3, January 2018".

Important sources of information in the context of the rating were, in addition to the submitted documents, a due diligence meeting in Milton Keynes (UK) on March 18, 2019. In addition, VWFS provided a digital due diligence presentation on March 11, 2020. The submitted documents and information from VWFS were sufficient to meet the requirements of Creditreform Rating AG's rating methodology.

A complete description of Creditreform Rating´s rating methodologies is published on the following internet page: On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document "The Impact of ESG Factors on Credit Ratings", which is available on the homepage under the following link:
https://www.creditreform-rating.de/en/regulatory-requirements/

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document "The Impact of ESG Factors on Credit Ratings", which is available on the homepage under the following link:

https://www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Philip Michaelis (Lead) and Sijia Aulenbacher, and the function of Person Approving Credit Ratings (PAC) was performed by Stephan Giebler, all located in Neuss/Germany.

The black pool cut-off date is March 31, 2020. Closing occurs on April 27, 2020. The rating is based on the black pool portfolio information as of February 09, 2020, as provided by the originator.

The Issuer or all relevant parties have examined the rating report prior to publication and were provided with at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction documentation

2. Collateral performance data

3. Audited financial statements

4. Website of the participants

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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Creditreform Rating AG

Creditreform Rating

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Dr. Michael Munsch
Chairman of the board:
Prof. Dr. Helmut Rödl

HRB 10522, Amtsgericht Neuss

April 27, 2020

Rated entity:

Class A 2020-1 Asset Backed Floating Rate Notes [with ISIN: XS2141588090] issued by Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Private Driver UK 2020-1

Rating:

AAA_{sf}

Rating outlook / watch:

Outlook stable

Rating summary:

Creditreform Rating has assigned a rating to the Class A notes of Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Private Driver UK 2020-1 (PDUK 2020-1), as follows:

GBP 253,400,000 Class A 2020-1 Asset Backed Floating Rate Notes: AAA_{sf} / stable

The transaction is a securitization of auto financing contracts in UK, originated by Volkswagen Financial Services (UK) Limited (VWFS). PDUK 2020-1 features a 11-month revolving period and is secured by new and used vehicle financing contracts. A combination of Class B notes, Subordinated Loan, overcollateralization and a cash reserve will provide credit enhancement to the rated Class A notes.

VWFS will credit to the Cash Collateral Account certain amounts, which will be available to cover senior costs and note interest payments. Furthermore, the CCA will also be available to redeem notes on the final maturity date or on the date on which the aggregated discounted receivables balance has been reduced to zero, as long as no enforcement event has occurred. To mitigate commingling risk, the structure obliges the Servicer to advance the aggregate value of all receivables payments due in the next monthly period if minimum ratings of Volkswagen AG are no longer satisfied. Downgrade collateral and replacement provisions mitigate counterparty risk exposures with respect to the Swap Counterparties and Account Bank. Risks related to the Issuer are limited, the compartment structure being ring-fenced and with limited recourse to other creditors of the Issuer.

To size the credit risk, the voluntary termination risk and the residual value risk of the portfolio and to derive base case assumptions about loss rates and expected recovery performance, Creditreform Rating used data provided by VWFS as well as internal databases. Following the analysis of historical data, CRA set the base case gross loss rate at 1.10% and the base case recovery rate at 75.53%.

CRA selects a default multiple at x5.68 in the AAA_{sf} rating scenario. Moreover, CRA set the recovery haircut at 67.03%, taking into account transaction-specific features such as observed volatility and established recovery procedures, as well as potential market value risks. This resulted in an expected net loss of 4.66% in the relevant AAA_{sf} rating scenario. The total VT risk was sized at 4.16% and the total RV risk was sized at 16.26% in the AAA_{sf} rating scenario. These scenario-specific assumptions were tested in CRA's proprietary cash flow model, which was tailored to reflect the structure of PDUK 2020-1 and to assess the Issuer's ability to service its debt in a full and timely manner.

Primary key rating driver:

+ Proven origination, servicing & recovery procedures
+ Downgrade collateral and replacement provisions mitigate counterparty risk exposure w.r.t. the Swap Counterparty and Account Bank
- Potentially indirect negative impact of VW AG NOx emission allegations on future portfolio performance
- Concentrated contractual (Personal Contract Purchase) portfolio composition
- Extended 11-month revolving period may adversely affect portfolio quality
- Increased macroeconomic uncertainty ("Brexit" and coronavirus crisis) and potential market decline may have adverse effect on VWFS's ABS strategy and future portfolio performance

Rating sensitivities:

Best-case scenario: In this scenario, we stressed (ceteris paribus) the base case default rate by an amount of -25% and the base case recovery rate by an amount of +25%, resulting in a rating of AAA_{sf}.

Worst-case scenario: In this scenario, a severe 100% stress is applied to the base case default rate in combination with a 50% stress on the base case recovery rate and the VT and RV losses, respectively, resulting in a rating of AA_{sf}. In our view, this rating would represent a scenario with higher default correlation and market decline in a stressed pandemic scenario.

ESG-criteria:

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing the rating object. Overall, ESG factors have a less significant impact on the current ratings of the Class A and B notes. Nevertheless, CRA identifies macroeconomic factors (particularly with regard to potential changes in consumer behaviour) to have a high significant impact. Increased macroeconomic uncertainty ("Brexit" and the coronavirus crisis) and potential market decline may have adverse effect on VWFS's ABS strategy and future portfolio performance. Governance is relevant to the ratings with respect to counterparty risk, but downgrade collateral and replacement provisions mitigate counterparty risk exposure with respect to the Swap Counterparties and Account Bank. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

https://www.creditreform-rating.de/de/regulatory-requirements/

Date of inception / disclosure to rated entity / maximum validity:

February 5, 2020 / April 21, 2020 / March 25, 2028

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

Initial rating date:

April 21, 2020

Lead-analyst – position / Person approving (PAC):

Philip Michaelis (Lead) – Senior Analyst

Stephan Giebler (PAC) – Senior Analyst

Name & address of legal entity:

Creditreform Rating AG, Hellersbergstraße 11, 41460 Neuss, Germany

Status of solicitation:

The rating is a solicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: Yes

With Access to Internal Documents: Yes

With Access to Management: Yes

Rating methodology / Version / Date of application / Link:

Rating Methodology Auto ABS Securitizations, Version 1.4, July 2018 (https://www.creditreform-rating.de/pub/media/global/page_document/Rating_Methodology_Auto_ABS_Securitizations.pdf)

Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018 (https://www.creditreform-rating.de/pub/media/global/page_document/Technical_Documentation_Portfolio_Loss_Distributions.pdf)

Rating Criteria and Definitions, Version 1.3, January 2018 (https://www.creditreform-rating.de/pub/media/global/page_document/CRAG_Rating_Criteria_and_Definitions_v1_3_01-2018.pdf)

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuing documents

4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.