

Presale:

# Driver UK Multi-Compartment S.A., Compartment Driver UK eight

February 9, 2024

## Preliminary ratings assigned

Class	Preliminary rating*	Amount (mil. £)	Overcollateralization and subordination (%)	Cash reserve (%)	Available credit enhancement (%)§	Interest (%)	Legal final maturity
A	AAA (sf)	TBD	28.86	1.19	30.05	Daily compounded SONIA + margin	Sept. 25, 2031
B	A+ (sf)	TBD	17.96	1.19	19.15	Daily compounded SONIA + margin	Sept. 25, 2031
Subordinated loan	NR	TBD	N/A	N/A	N/A	TBD	Sept. 25, 2031

\*This presale report is based on information as of Feb. 9, 2024. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. \*Our preliminary ratings on the class A, and B notes address timely payment of interest and payment of principal no later than the legal final maturity date. §Available credit enhancement comprises overcollateralization, subordination and the initial cash reserve expressed as a percentage of the class A and B notes closing balance. NR--Not rated. N/A--Not applicable. TBD--To be determined.

## PRIMARY CREDIT ANALYST

**Marta O'Gorman**  
London  
+ 44 20 7176 2523  
marta.ogorman  
@spglobal.com

## RESEARCH CONTRIBUTOR

**Trupti Patil**  
CRISIL Global Analytical Center, an  
S&P affiliate, Pune

## Transaction Summary

- S&P Global Ratings today assigned its preliminary 'AAA (sf)' credit rating to Driver UK Multi-Compartment S.A., Compartment Driver UK eight's (Driver UK eight) class A notes and its preliminary 'A+ (sf)' credit rating to the class B notes. At closing, Driver UK eight will also be granted an unrated subordinated loan.
- The issuer will use the proceeds of the notes, and a subordinated loan, to purchase a portfolio of auto loans originated by Volkswagen Financial Services (U.K.) Ltd. (VWFS UK), and to fund the cash collateral account and interest compensation ledger.
- The underlying collateral comprises loans representing either hire purchase (HP), personal contract purchase (PCP), or lease purchase (LP) agreements in the U.K. All receivables are

- sterling-denominated, and all borrowers are U.K. residents.
- At closing, Driver UK eight will purchase the underlying collateral pool at a discount rate, which is 7.7% for the preliminary pool. Unlike in some other VW transactions (please see "New Issue: Driver UK Master S.A., Compartment 7," published Nov. 27, 2023), this discount rate does not include a buffer. The buffer is designed to meet any cost fluctuations if the replenishment period is extended. Under the current transaction structure, the replenishment period is not expected to be extended; hence, there is no risk of cost fluctuations and no need for a buffer.
  - The transaction is expected to revolve for six months from the expected closing date, until the payment date in September 2024. During this period, Driver UK eight can purchase further eligible receivables if no early amortization event occurs. New receivables will be purchased at a 3.481% purchase price discount.
  - Collections will be distributed monthly according to a combined waterfall. During the amortization period, principal will be paid sequentially until target overcollateralization levels are achieved, post which the transaction switches to pro rata amortization, until breach of a credit enhancement increase condition (CEIC) trigger.
  - Subordination, overcollateralization, and a cash collateral reserve provide credit enhancement.
  - Commingling risk is fully mitigated through an advance mechanism upon the downgrade of a servicer below a certain rating level. The transaction is exposed to potential employee setoff risk, which we have considered in our analysis.
  - Since the rated notes pay daily compounded Sterling Overnight Index Average (SONIA) rate plus a margin subject to a floor of zero, while the assets are purchased at a fixed discount rate, the rated notes benefit from an interest rate swap that fully mitigates any interest rate risk in the transaction.
  - The preliminary ratings are not constrained by counterparty, operational, or sovereign risk. We consider the issuer to be bankruptcy remote. We expect to assign final credit ratings on the closing date, subject to a satisfactory review of the transaction documents, pool audit report, and legal opinion.

The Credit Story

Strengths	Concerns and mitigating factors
VWFS UK is currently fully owned by Volkswagen Finance Overseas B.V. It has over 22 years' origination and servicing experience. It is currently the Volkswagen group's second-largest retail financing subsidiary, after its German parent company.	During the six-month revolving period, the pool's credit quality may shift and the transaction's performance may deteriorate as a result of the substitution of amortizing assets. However, the transaction has a few structural mitigants, such as a cap on used personal contract plan agreement loan vehicles (which cannot comprise more than 55%) and certain performance triggers (see "Credit enhancement increase conditions"), which would stop the replenishment period if the transaction's performance were to deteriorate substantially. Furthermore, our base-case loss assumptions consider deteriorating credit quality due to changes in the portfolio's composition.
The pool is granular and well diversified geographically. As of the pool cut-off date, the largest and top 20 borrowers are 0.05% and 0.80%, respectively.	The transaction's payment structure is not fully sequential. Once certain target overcollateralization levels have been reached (and if they are maintained), the issuer pays principal pro rata on the class A and class B notes. We have factored this into our cash flow analysis.

Strengths	Concerns and mitigating factors
Under certain conditions related to deteriorating asset performance, the transaction switches from pro rata back to sequential amortization.	Balloon loans (PCP loans) do not fully amortize in regular installments, and therefore have a single large payment at the contract's end. If borrowers elect to return their financed vehicles instead of making the final balloon payments at contract maturity, the transaction would be exposed to residual value risk (if the returned vehicles' sale proceeds are lower than the balloon amount) and to borrower payment shock. Additionally, during the revolving period the exposure to balloon loans might increase as no replenishment condition exists to mitigate the exposure. The available credit enhancement is sufficient to mitigate the risk of back-loaded losses, and the potential losses on larger contract exposures at the end of the transaction's life. Moreover, we have applied additional stresses to address market value risk, the risk that the asset's value is lower than anticipated at the end of the contract term for balloon loans.
The structure benefits from an amortizing cash reserve, which the issuer will fully fund at closing through the purchase price discount. The cash reserve serves primarily as liquidity support to mitigate any cash shortfalls in the items of the combined waterfall up to payment of interest on the class A and class B notes. Ultimately, it is available to repay the notes at the end of the transaction's life.	Unlike most other European auto ABS transactions (but consistent with all other VW auto ABS transactions rated by us in EMEA), the structure does not have any excess spread. At closing, Driver UK eight will purchase the underlying collateral pool at a discount rate, which is 7.7% for the preliminary pool. Cash shortfalls could arise from prepayments, because, when borrowers prepay, they only repay the loan's nominal value. To mitigate this loss, the transaction features an interest compensation reserve, which is available to compensate the issuer for interest shortfalls it suffers as a result of early prepayments. To mitigate this risk, the structure includes a mechanism to draw on the interest compensation reserve to fund this difference. Further, if the CEIC trigger breaches, the entire balance of the interest compensation ledger become part of the issuer's available funds to be distributed as per the payment priority.
	The issuer is exposed to potential gross losses from voluntary termination, as permitted by the U.K. Consumer Credit Act. Therefore, the transaction is exposed to residual value risk if the returned vehicle's sale proceeds are lower than the outstanding receivables balance at the time the borrowers elect to exercise their right of voluntary termination. We have considered this when sizing the voluntary termination gross loss base-case assumptions.
	The cash reserve amortizes, subject to a floor (minimum level). This reduces protection for the noteholders as the transaction nears maturity. An early amortization event, in relation to the cash reserve, will be triggered if the specified general cash collateral account is below the required level for two consecutive payment dates.
	We have incorporated an amortizing cash reserve in our cash flow analysis to account for its effect on the available credit enhancement, as well as liquidity coverage. The cash reserve is sized at 1.45% of the class A and class B notes balance.
	The transaction is exposed to commingling and setoff risk if the originator becomes insolvent. A specific advance mechanism fully mitigates commingling risk. In our cash flow analysis, we stressed for the unmitigated potential setoff exposure.

## Collateral Description

As of the cut-off date, based on the preliminary pool, the collateral pool backing the instruments comprised 25,992 loans to private and commercial obligors totaling £500,007,143.7. All receivables are sterling-denominated, and all borrowers are U.K. residents. The overall quality of data provided is in line with our standards. The discount rate for the pool was 7.7%.

The loans represent either HP, PCP, or LP agreements. The HP agreements are fixed-rate, fully amortizing loan contracts, repayable in equal installments over the loan term. The PCP and LP agreements are also fixed-rate, fully amortizing finance contracts repayable in a series of equal installments followed by a larger final balloon installment.

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In the case of PCP loans, at contract maturity, when payment of the balloon installment is optional, the borrower can choose between: (i) retaining the vehicle and making the balloon payment; or (ii) returning the vehicle to the lender, thereby discharging all liability--the issuer is therefore directly exposed to market value risk. In the case of LP loans, at contract maturity, any borrower default on the final balloon installment exposes the issuer to indirect market value risk. HP loans do not have exposure to either balloon payments or market value risk.

Table 1

**Collateral key features\***

Pool characteristics	Driver UK						
	Driver UK Multi-Compartment S.A., Compartment Driver UK eight	Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2018-1	Driver UK Multi-Compartment S.A., Compartment Driver UK six	Driver UK Master Compartment 7	Driver UK Master Compartment 6	Driver UK Master Compartment 2	Driver UK Master Compartment 3
Pool cutoff date	Nov. 30, 2023	Nov. 30, 2017	Aug. 31, 2017	Oct. 31, 2023	Feb. 28, 2023	Oct. 31, 2022	Aug. 31, 2022
Closing date	March 2024	March 26, 2018	Sept. 25, 2017	Nov. 27, 2023	March 27, 2023	Nov. 25, 2022	Sept. 27, 2022
Aggregate discounted principal balance outstanding (£)	500,007,143.7	1,250,011,203.3	450,001,234.6	5,155,199,103	1,107,304,422	6,644,976,782	609,920,643
Discount rate (%)	7.6871	4.2390	4.2390	8.6	8.00	8.25	6.3718
Average remaining discounted loan principal balance (£)	19,236.96	18,918.64	18,395.18	18,524	18,483	15,924	24,055
Weighted-average life (months)	28	30	30	27	24	23	20
Weighted-average original term (months)	47.81	46.17	45.88	48.0	47.7	48.0	45.8
Weighted-average remaining term (months)	35.30	41.38	40.99	34.2	30.0	30.3	24.7
Weighted-average seasoning (months)	12.51	4.74	4.84	13.8	17.8	17.7	21.1
Payment by direct debit (%)	99.83	99.89	99.84	99.91	99.94	99.85	99.79
Top 3 geographic concentration (%)	South East & London (24.38); Scotland (13.53); North West (12.18)	South East(21.15); North West (11.93); West Midlands(9.57)	South East(22.36); North West (12.25); West Midlands(10.02)	South East & London (24.61); Scotland (13.76); North West (12.19)	South East & London (26.88); North West (11.39); Scotland (10.82)	South East & London (27.0); North West (12.4); Scotland (11.4)	South East & London (28.2); Northern Ireland (20.9); North West (7.9)
<b>Vehicle type (%)</b>							
New cars	53.64	71.31	69.85	54.27	69.97	59.24	52.4
Used cars	46.36	28.69	30.15	45.73	30.03	40.76	47.6
<b>Loan type (%)</b>							
Share of PCP	92.2	93.67	93.38	92.0	94.3	91.9	80.9

Table 1

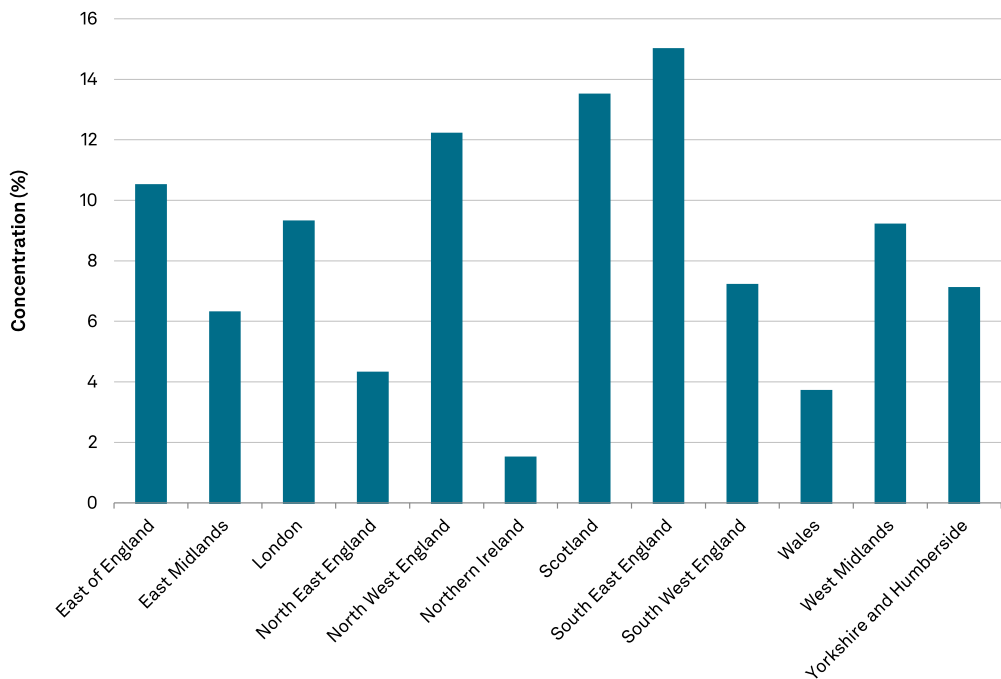
**Collateral key features\* (cont.)**

Pool characteristics	Driver UK						
	Driver UK Multi-Compartment S.A., Compartment Driver UK eight	Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2018-1	Driver UK Multi-Compartment S.A., Compartment Driver UK six	Driver UK Master Compartment 7	Driver UK Master Compartment 6	Driver UK Master Compartment 2	Driver UK Master Compartment 3
Share of HP	7.3	6.33	6.62	7.6	4.5	8.1	4.1
Share of LP	0.5	N/A	N/A	0.3	1.2	-	15.0
Balloon/residual value component		47.57	47.20				69.9
<b>Engine type (%)</b>							
Gasoline	71.9	55.23	52.80	72.0	68.5	68.8	71.4
Diesel	18.7	44.77	47.20	18.8	19.7	24.7	27.5
BEV	6.5	N/A	N/A	6.3	7.7	4.5	0.8
Hybrid	2.8	N/A	N/A	2.9	4.1	2.0	0.3
<b>Borrower type (%)</b>							
Private obligor	99.2	97.06	97.02	99.3	98.6	95.7	84.3
Commercial obligor	0.8	2.94	2.98	0.7	1.4	4.3	15.7
<b>Brand (%)</b>							
Audi	38.16	51.23	49.94	38.4	36.0	44.2	8.8
Volkswagen	31.31	31.35	31.60	31.3	30.5	34.9	23.9
Skoda	9.37	9.11	9.54	9.6	9.2	10.6	2.5
Seat	4.73	5.57	5.52	5.0	5.2	6.5	1.5
Porsche	7.40	-	-	6.9	15.1	0.6	61.8
Other	9.03	2.74	3.41	5.7	4.0	3.1	1.5
<b>Borrower concentration (%)</b>							
Largest borrower	0.05	0.02	0.05	0.01	0.03	0.05	0.06
Top 20 borrowers	0.80	0.35	0.76	0.11	0.34	0.15	0.69

\*Calculations are according to S&P Global Ratings' methodology and based on the outstanding discounted principal balance. LTV--Loan-to-value. PCP--Personal contract purchase. HP--Hire purchase. LP--Lease purchase. N/A--Not applicable.

Chart 1

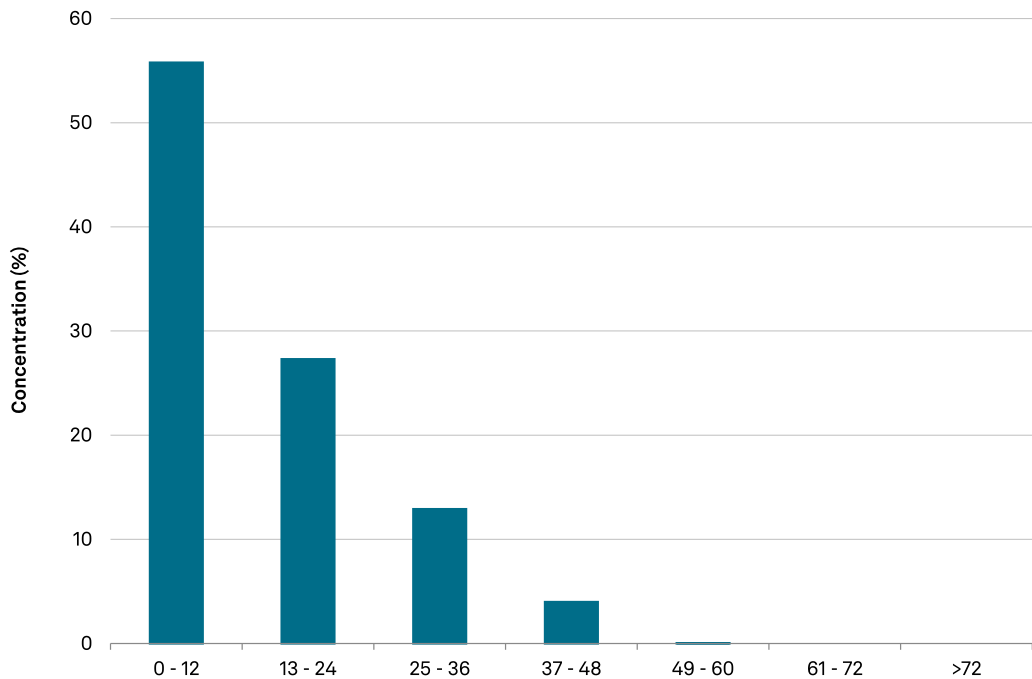
Geographic distribution



Source: S&P Global Ratings.  
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Chart 2

Seasoning distribution



Source: S&P Global Ratings.  
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Eligibility criteria and concentration limits

The transaction documents set out certain eligibility criteria for the receivables and client accounts, some of which are highlighted below:

- The obligor is a resident of/has a registered office in England, Wales, Scotland, or Northern Ireland.
- The obligor is not insolvent or credit-impaired.
- The receivable is denominated and payable in sterling and not overdue.
- At least one installment has already been paid and all the payments need to be made within 72 months of originating the receivable, including any final balloon payment.
- The relevant financing contracts constitute legal valid, binding, and enforceable agreements with full recourse to the obligor.
- No obligor is an affiliate of the seller and no obligor maintains deposits on accounts with VWFS.

VWFS UK is the legal and beneficial owner of the receivables and they were originated during the normal course of VWFS UK's activities and comply with the Consumer Credit Act.

During the six-month revolving period, new purchases must comply with the eligibility criteria as well as the replenishment criteria limits. We have used these to size the worst-case pool composition at the start of the amortization period.

Table 2

### **Preliminary pool compared with replenishment criteria limits**

<b>Collateral characteristics</b>	<b>Preliminary pool</b>	<b>Limit</b>
Maximum share of non-VW group branded vehicles (%)	5.9	10
Maximum share of PCP used contracts (%)	39.5	55
Maximum share of used vehicles (%)	46.4	60

## **Originator And Servicer**

Volkswagen Financial Services UK Ltd. (VWFS UK) is currently fully owned by Volkswagen Finance Overseas B.V. On Feb. 29, 2024, we expect a transfer of ownership to take place, by which VWFS UK will be owned by Volkswagen Finance Europe B.V. going forward. VWFS UK is currently the second largest finance subsidiary within the Volkswagen Group AG (VW Group) after the German parent company. VWFS UK provides financial services to support all the VW Group automotive brands (e.g., Volkswagen, Audi, Bentley, SEAT, Skoda, and Porsche). The originator cooperates closely with approximately 800 VW Group dealerships.

## **Underwriting policy**

VWFS UK checks the customer's credit profile prior to it accepting an application. During the application process, it utilizes an automated scoring system. Following this stage of the underwriting process, it then assesses information from the credit reference agencies and assesses the customer profile data.

## **Servicing policy**

We have considered VWFS UK's ability to service the portfolio under our operational risk criteria and we are satisfied in its ability to perform its functions in the transaction. The transaction has no back-up servicer. We rely on the general availability of servicing in the U.K. to mitigate the risk of servicing disruption and have applied a stressed servicing fee in our cash flow analysis, in line with market standards. Consequently, our operational risk criteria do not constrain the maximum potential rating assignable to the transaction.

## **Credit Analysis And Assumptions**

Our analysis includes an assessment of the credit risk inherent in the transaction under various stress scenarios. We based our credit analysis on our global auto ABS criteria. We received historical quarterly performance data from September 2002 to October 2023.

## **Macroeconomic and sector outlook**

In our analysis, we considered the following economic data and their baseline effect on collateral



credit quality in determining our credit assumptions (see "Related Research").

We expect a 0.4% growth in the U.K.'s GDP in 2024, before a moderate rebound, as interest rates remain restrictive for an extended period. At the same time, the labor market is set to remain relatively resilient, preventing a worse outcome.

We think inflation will continue to fall by four percentage points to an average 3.0% in 2024.

Table 3

## Economic factors

	Actual		Forecast		
	2021	2022	2023	2024	2025
Real GDP (y/y growth, %)	8.7	4.3	0.5	0.4	1.5
Unemployment rate (annual average, %)	4.5	3.7	4.2	4.6	4.3
CPI inflation (%)	2.6	9.1	7.3	3.0	2.2

Sources: S&P Global Ratings.

## Defaults

Charts 6-17 in the Appendix show gross losses after loans were classified by the servicer as hostile terminations (HTs) or voluntary terminations (VTs) for each of the 12 subpools.

We set our gross loss base-case assumptions for a total of 12 subpools split between loan type (HP, PCP, or LP), vehicle type (new or used), and gross loss type (HT or VT). When sizing our base-case gross loss assumptions we considered our latest U.K. economic outlook and the outstanding Driver U.K. transactions' performance.

We analyzed both HT and VT gross loss types separately. Losses incurred through VT are borne through the obligor's option, arising under the U.K. Consumer Credit Act, to hand the car back once the obligor has paid 50% of the total cost of credit. The risk of VT generally arises when obligors are in negative equity.

In our view, the subpools' performance is comparable to our Nov. 27, 2023, assessments of the preceding transaction, Driver UK Master Compartment 7. As such, we left our gross loss base-case assumptions across the 12 subpools unchanged.

We set our gross loss multiples considering the originator's experience and the quality of the data provided. We assigned a slightly lower gross loss multiple for HT receivables of 4.5x at the 'AAA' rating level and 3.0x at the 'A+' rating level, to reflect lesser uncertainty associated to a shorter revolving period. Similarly, we reduced a multiple for voluntarily terminated receivables to 2.1x at the 'AAA' rating level and 1.73x at the 'A+' rating level. Table 5 summarizes our credit assumptions.

We stressed PCP residual value risk as an additional loss to the figures in table 5.

## Recoveries and recovery timings

Recoveries combine vehicle sale proceeds and ancillary payments (invoices, guarantees, etc.) received from the borrowers. The originator provided monthly static cumulative recoveries data from October 2002 to October 2023. In a similar manner to gross losses, we assigned base-case recoveries to 12 subpools split between loan, vehicle, and gross loss type as shown in table 4.

Under our global auto ABS criteria, we establish a recovery rate base-case assumption and increasingly stressful recovery rate haircuts at higher ratings (tiered recoveries). We also establish recovery rate assumptions (base-case recovery rate and recovery rate haircuts) based primarily on our analysis of historical recovery rates for the issuer and the market, the volatility of past performance, as well as credit, operational, or other factors that might affect the timing, amount, and sustainability of recovery rates. We apply haircuts to the base-case recoveries to derive stressed recovery rates at each rating. Typical haircuts applied to our base-case assumption at the 'AAA' rating range from 15% to 50%. We apply the same stressed recovery assumptions for both HTs and VTs.

In assigning a recovery rate base-case assumption of 60% and a 'AAA' haircut of 32.5%, we considered the observed historical performance, overall recovery process, collateral features such as loan-to-value ratios, concentration of luxury and electric vehicles, etc. This is consistent with the recovery rate we assumed during our November 2023 analysis of the Driver UK Master, Compartment 7 transaction. For HTs, we assume that recovery proceeds are available to the transaction 12 months after the borrowers default. For VTs, we assume no recovery delay, which is unchanged from predecessor transactions.

## Worst-case pool composition

To incorporate the risk of portfolio deterioration through adverse replenishment during the revolving period, we have constructed a worst-case pool based on the portfolio concentration limits dictated by the eligibility criteria, and calculated the weighted-average gross loss base case for the total pool based on this, rather than on the final pool composition. In the absence of any limit on the concentration of PCP loans in the portfolio, we consider on a worst-case basis a complete migration of the pool to PCP loans.

Table 4

### Cumulative gross loss and recovery assumptions (%)

Segment	Closing pool (%)	Worst-case pool	Base-case gross losses		Base-case recovery assumption
			Hostile terminations	Voluntary terminations	
New vehicle PCP contracts	52.8	45	1.3	4.25	60.0
Used vehicle PCP contracts	39.5	55	2.4	3.25	60.0
New vehicle HP contracts	0.6	0	1.3	1.0	60.0
Used vehicle HP contracts	6.7	0	1.9	1.7	60.0
New vehicle LP contracts	0.2	0	3.6	4.0	60.0
Used vehicle LP contracts	0.3	0	4.5	5.0	60.0
Total	100	100	1.91	3.70	60.0

PCP--Personal contract purchase. HP--Hire purchase. LP--Lease purchase

Table 5

**Credit assumptions summary**

Rating level	Cumulative hostile termination base-case (%)	Stress multiple	Stressed cumulative hostile terminations (%)	Cumulative voluntary termination base case (%)	Stress multiple	Stressed cumulative voluntary terminations (%)	Recovery rate base-case (%)	Recovery rate haircut (%)	Stressed recovery rate (%)	Stressed cumulative net losses (%)
AAA	1.91	4.50	8.57	3.70	2.10	7.77	60.0	32.5	40.5	9.72
AA	1.91	3.50	6.67	3.70	1.85	6.85	60.0	31.0	41.4	7.92
A+	1.91	3.00	5.72	3.70	1.73	6.40	60.0	28.7	42.8	6.93
BBB	1.91	1.75	3.33	3.70	1.35	5.00	60.0	21.3	47.2	4.4
BB	1.91	1.50	2.86	3.70	1.19	4.40	60.0	16.3	50.2	3.61

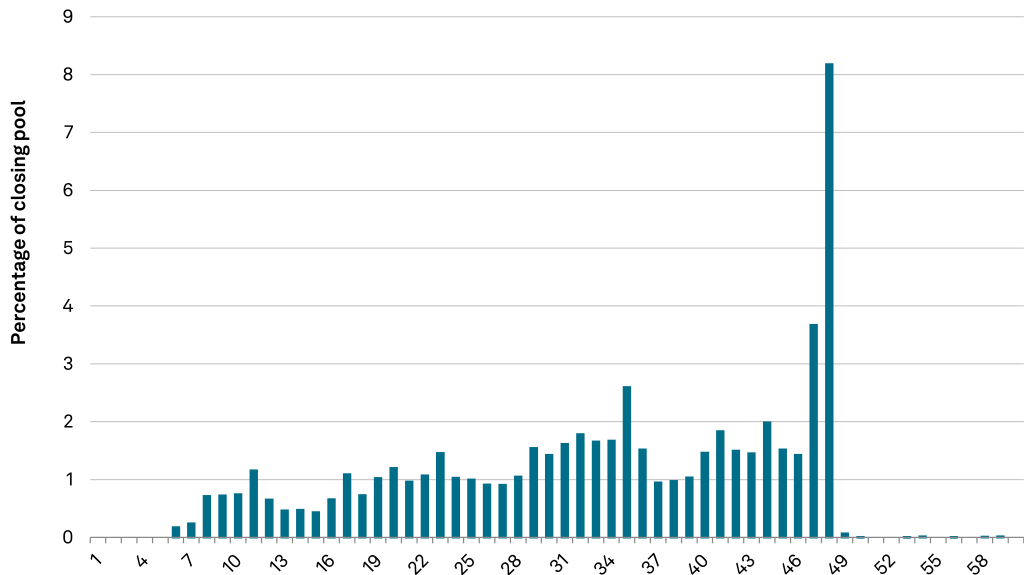
**Residual value analysis**

In addition to the HT and VT losses applied as outlined in table 5 above, we applied separate residual value losses to the balloon installments of the PCP loans that remain after considering prepayments and the other losses. If VWFS UK does not meet its obligation under the redelivery repurchase agreement, the transaction would be fully exposed to residual value risk.

We assumed a base residual value haircut of 34% in our 'AAA' rating scenario and adjusted it for excess concentrations loans with residual values maturing in each period and for electric vehicles along with lack of concentration limits on electric and luxury vehicles. We also incorporated necessary adjustments to reflect our assessment of the country characteristics and the originator residual value setting policy. We assumed a return rate of 90% in our 'AAA' rating scenario. Accordingly, we determined our 'AAA' residual value losses at 35.2%.

Chart 3

Securitized portfolio  
Contract balloon maturity profile



Source: S&P Global Ratings.  
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Table 6

Residual value loss assumptions

Rating level	Turn-in rate (%)	Stressed residual value loss (%)
AAA	90.0	35.2
AA	85.0	25.5
A+	82.5	22.6
BBB	75.0	14.6
BB	65.0	8.9

Balloon risk

Balloon contracts may introduce additional obligor default risk to the transaction, if we assume that obligors expect to be able to finance the final balloon payment through the sale of the vehicle at contract maturity. In a stressed economic environment, such obligors may default on the balloon payment because the market value of the vehicle could have declined to below the amount needed to pay the final balloon payment. If an obligor defaults on the balloon payment, Driver UK eight will incur an additional loss equal to the difference between the balloon installment and the

vehicle's sale proceeds.

For lease purchase contracts, we have set our balloon loan gross loss assumption at a 'AAA' level at 7.5%, based on the vehicle type diversification, VW's balloon setting policy, and the overall size and concentration of maturing balloon payments.

Table 7

## Peer comparison

Rating level	Driver UK Multi-Compartment S.A., Compartment Driver UK eight	Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2018-1	Driver UK Multi-Compartment S.A., Compartment Driver UK six	Driver UK Master Compartment 7	Driver UK Master Compartment 6	Driver UK Master Compartment 2	Driver UK Master Compartment 3
Weighted-average base case (%)	1.91	1.85	1.67	1.91	1.91	1.85	1.85
Gross loss multiple ('AAA')	4.50	4.50	4.50	4.60	4.60	4.50	4.60
Weighted-average voluntary termination base case (%)	3.70	4.50	4.17	3.70	3.70	3.75	3.75
Voluntary termination multiple ('AAA')	2.1	2.0	2.0	2.2	2.2	2.0	2.20
Stressed combined cumulative gross loss (%)	16.34	17.3	15.85	16.90	16.90	15.83	16.76
Recovery rate base case (%)	60.00	38.4	37.91	60.00	60.00	60.00	56.00
Stressed recovery rate ('AAA') (%)	40.50	38.4	37.91	40.50	40.50	40.50	37.80
Stressed combined cumulative net loss (%)	9.72	10.8	9.9	10.06	10.06	9.42	10.42
Residual value loss ('AAA') (%)	35.2	37.42	35.68	35.2	35.1	35.1	38.7
Balloon loss (('AAA') (%)	7.5	-	-	7.5	7.5	7.5	7.5

## No title over the vehicles

The issuer does not have any rights over the vehicles itself, but only in connection with the sale proceeds of the assets. Accordingly, if the seller becomes insolvent, the issuer relies on any insolvency official taking appropriate steps to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency official does not have any financial incentive to take such steps as it does not benefit the bankruptcy estate's creditors.

This risk is mitigated by the inclusion, at a senior level in the priority of payments, of an insolvency administrator's incentive fee.

In our analysis, to account for this risk, we considered that 5.0% of recovery proceeds would have to be paid to the insolvency administrator. We consider this level is sufficient to incentivize the insolvency official.

## **Environmental, Social, And Governance**

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For auto loan ABS, we view the exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," published on March 31, 2021). On this basis, we have applied similar assessments for this transaction.

In our view, the transaction's exposure to environmental credit factors is above average, to social factors is average and to governance credit factors is below average, in line with the sector benchmarks.

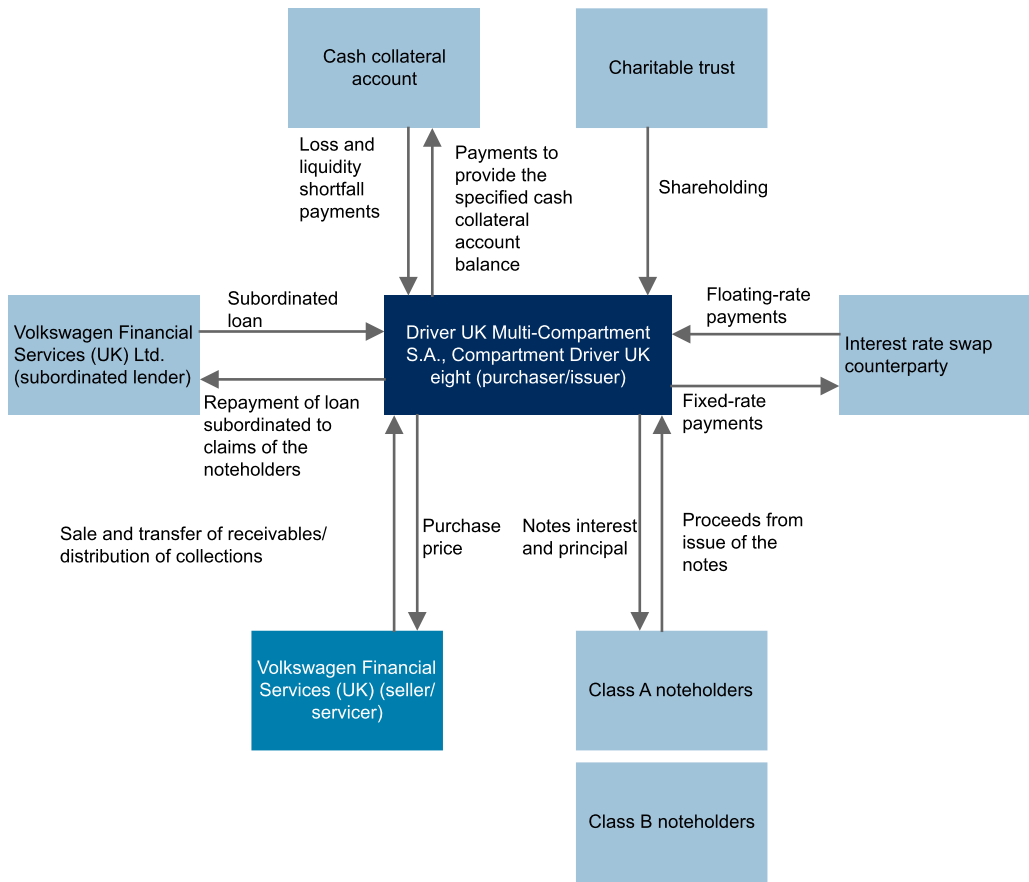
## **Transaction Structure**

At closing, the issuer will purchase a pool of auto loan receivables (see chart 4). The loan receivables are discounted at a fixed rate of interest (expected to be 7.7% at closing), so the interest available to the issuer is reduced, leaving no excess spread in the transaction. Therefore, the discount rate is equal to the sum of:

- The weighted-average fixed rate due to the swap counterparty under the terms of the swaps on the class A and class notes;
- The fixed interest rate on the subordinated loan;
- The amount due to the interest compensation rate; and
- Administrative expenses and a servicing fee.

Chart 4

Transaction structure



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The issuer is a Luxembourg special-purpose entity (SPE), which we assume to be bankruptcy remote under our legal criteria. We expect to receive final transaction's legal opinions confirming that the sale of the assets would survive the seller's insolvency.

Cash Flow Mechanics

The transaction features a combined interest and principal waterfall. Interest on the class A and class B notes is payable monthly in accordance with the interest waterfall.

The class A and B notes and subordinated loan are denominated in British pounds sterling. The class A and class B notes pay interest at a floating rate, while the subordinated loan pays a fixed interest rate. The legal final maturity date is in September 2031.

If the security trustee delivers an enforcement notice to the issuer following an event of default, all funds from the enforced security are distributed according to post-enforcement priority of payments. We reviewed the issuer events of defaults and concluded they are remote in our ratings scenarios. As a result, our analysis solely focuses on the pre-enforcement payment priority.

## **Early amortization events**

The transaction will revolve for six months ending in September 2024, if none of the early amortization events listed below occur, or a credit enhancement increase condition comes into effect. The key asset performance triggers listed below guard against significant credit performance deterioration of the receivables and provide some comfort as to the performance of the transaction during the revolving period:

- Servicer replacement event.
- On two consecutive payment dates, the balance in the issuer accumulation account exceeds 15% of the non-defaulted asset balance.
- On any payment date that falls after three consecutive payment dates following the initial issue date, the class A notes' actual overcollateralization percentage, under the transaction documents, is lower than 28.61%.
- The seller fails to perform its obligations under the receivables purchase agreement.
- The issuer fails to enter into a replacement swap agreement within 30 calendar days following swap termination or if the swap counterparty fails to post collateral within 10 business days.
- VWFS UK is no longer an affiliate of Volkswagen Financial Services AG, or any of its successors.
- A foreclosure event occurs.
- A CEIC is in effect.
- The cash reserve falls below its required amount for two consecutive payment dates.

## **Credit enhancement increase conditions**

- For three consecutive payment dates, the dynamic net loss ratio exceeds: (i) 0.30%, if the weighted-average seasoning is less than 12 months (inclusive); (ii) 0.75%, if the weighted-average seasoning is between 12 (exclusive) and 22 months (inclusive); (iii) 2%, if the weighted-average seasoning is between 22 months (exclusive) and 34 months (inclusive); or (iv) if the weighted-average seasoning is greater than 34 months, the condition does not apply.
- The cumulative net loss ratio exceeds: (i) 0.8%, during the first five months (inclusive) from the closing date; (ii) 1.8% between the sixth (inclusive) and 11th (inclusive) months from closing; or (iii) 4% after the 12th month from closing.
- If the late delinquency ratio exceeds 1.30% on any payment date.

Considering that the transaction could continue to revolve for an additional two payment dates, from the time when the cash reserve falls below the required level, we have assessed the potential impact of a cash reserve below the required level, at the start of amortization in our cash flow analysis. We also observed a reduction in the overall liquidity coverage from the cash reserve due to an overall rise in costs and embedded this consideration in our overall assessment.

## **Priority of payments**

The class A and B notes pay interest on a designated date each month, at a rate of SONIA plus a margin. The first interest payment date (IPD) is on April 25, 2024.



On each monthly IPD, the issuer applies to the priority of payments any asset collections, net swap receipts, and amounts from the cash reserve over the previous month, in the order outlined in table 8.

Table 8

### Priority of payments (simplified)

1	Taxes.
2	Payments to the trustee.
3	Servicer fees.
4	Senior fees, including payments to the corporate services provider, and data protection trustee.
5	Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party or downgraded below threshold).
6	Interest on the class A notes.
7	Interest on the class B notes.
8	Top-up cash reserve up to required level.
9	Class A notes' principal up to the principal payment amount (sequential or pro rata).
10	Class B notes' principal up to the principal payment amount (sequential or pro rata).
11	Payments to the swap counterparty not paid above.
12	Interest and principal on the subordinated loan.
13	All remaining amounts back to VWFS UK through a final success fee.

During the revolving period, once the target overcollateralization levels for the class A and B notes are reached, the issuer uses the excess proceeds to pay the subordinated loan.

During the amortization period, the issuer redeems the notes sequentially until they reach the target overcollateralization levels. After that, the transaction switches to pro rata amortization from sequential. Moreover, the transaction switches back to sequential amortization if a CEIC trigger occurs.

### Overcollateralization

Table 9 describes the initial overcollateralization levels and target overcollateralization levels, both during and after amortization, and after a trigger breach. A target overcollateralization level of 100% implies a permanent switch to sequential amortization from pro rata, which could happen any time after a CEIC trigger occurs. The overcollateralization levels for the class A and class B notes will be set at closing.

Table 9

### Overcollateralization levels

	Expected overcollateralization at closing (%)	Documented floor overcollateralization (%)	Target overcollateralization levels (%)		
			Revolving period	Amortization period	Breach of a credit enhancement increase event
Class A	28.86	28.61	31.10	33.10	100

Table 9

**Overcollateralization levels (cont.)**

	Expected overcollateralization at closing (%)	Documented floor overcollateralization (%)	Target overcollateralization levels (%)		
			Revolving period	Amortization period	Breach of a credit enhancement increase event
Class B	17.96	17.96	20.30	22.30	100

**Cash reserve**

The issuer will deposit 1.45% of the class A and B notes' nominal amount as a general cash reserve at closing. Amounts deposited in the general cash reserve account are available to mitigate any liquidity shortfalls in the payment of senior costs and expenses, and interest on the class A and B notes. On the scheduled maturity date, the issuer can also use the cash reserve to redeem the class A and B notes. The cash reserve amortizes at the greater of: (i) 1.45% of the nominal amount of the class A and B notes, and (ii) the lesser of (a) 1.0% of the initial nominal amount of class A and B notes the and (b) the class A and B notes' outstanding amount.

An early amortization event will be triggered if the balance of the reserve is below the required level for two consecutive payment dates.

If no CEIC trigger is breached, any amounts released from the reserve are paid directly to the subordinated loan.

**Purchase at the discounted cash flow valuation**

The SPE purchases the assets at a discounted cash flow valuation. Due to this revaluation, cash shortfalls could arise from prepayments, because when borrowers prepay, they only repay the loan's nominal value.

In this case, the SPE suffers a loss, which is the difference between the nominal value and the outstanding discounted balance. The earlier the loan prepays, the higher the prepayment loss.

As the issuer will purchase the receivables at a discounted cash flow value, prepayments typically result in a prepayment loss for the SPE, as the prepayments are at a nominal value. To mitigate this loss, the transaction has an interest compensation reserve.

At closing, this ledger in relation to this reserve will be funded at £4 million. Thereafter, each month, the reserve works by taking the product of the interest compensation rate (currently 0.9%) divided by 12, and the future discounted receivables balance, from the collections. The issuer then uses this amount to credit an interest compensation ledger up to a maximum limit. When a prepayment loss is recorded, then an amount equal to that loss (subject to the balance available in the interest compensation ledger) is released from the ledger into the priority of payments. If prepayment losses exceed what is available in the interest compensation reserve, then a debit is recorded in the ledger, which is to be cleared on subsequent payment dates.

If the interest compensation reserve is at target and the prepayment loss in any period is less than the 0.9% multiplied by the future discounted receivables balance, the excess up to this 0.9% can

cover any buffer top-up shortfall. The buffer top-up shortfall is the excess of the following over the discount rate:

- The weighted-average fixed rate due to the swap counterparty under the terms of the swaps on the class A and class B notes;
- The fixed interest rate due under the subordinated loan;
- The amount due to the interest compensation rate; and
- Administrative expenses and a servicing fee.

At closing, the transaction will not have any buffer top-up shortfall. After compensating for prepayment losses, the interest compensation ledger being at target level, and compensating the buffer top-up shortfall, provided no CEIC trigger has breached, the seller directly receives any remaining excess. On any payment date, if the CEIC trigger has breached, the balance in the interest compensation ledger will become fully available as part of the issuer available funds.

## **Hedging**

To hedge the interest rate mismatch between the fixed-rate interest on the collateral and the floating-rate interest on the class A and the class B notes, the issuer will enter into separate interest rate swap agreements for class A and class B notes. The issuer will pay a fixed interest rate and receives daily compounded SONIA under the swap agreement plus spread. We anticipate that the swap agreements at closing will likely be in line with our current counterparty criteria.

The notional for each swap agreement will be equal to the relevant class of notes' outstanding principal balance.

## **Mitigation Of Seller Risks**

### **Commingling risk**

VWFS UK as the servicer receives borrower collections. These collections are not heavily concentrated on any specific monthly day and most collections are received via direct debit.

VWFS UK does not provide a declaration of trust for the issuer or security trustee's benefit connected with these collections sitting in the servicer collection bank account.

Collections from the purchased receivables will be deposited in the servicer collection account. The servicer will transfer received collections into the SPE's transaction account bank opened with an eligible bank in the issuer's name. Collections will be swept monthly.

An advance mechanism will be applied to address the commingling risk if:

- Our short-term rating on the parent of Volkswagen Finance Overseas B.V. falls below 'A-2';
- Our long-term rating on the parent of Volkswagen Finance Overseas B.V. falls below 'BBB+' if there is no short-term rating; or
- We consider that the servicer is no longer deemed eligible.

If the conditions above are not met, the servicer advances collections expected for the following two weeks, two weeks in advance.

Therefore, the issuer always receives two weeks of expected collections in advance. Twice a month, the servicer nets collections advanced in the previous two weeks against the collections that it has received for the relevant two-week period. We consider that the updated mechanism fully mitigates commingling risk.

## Setoff risk

VWFS UK is not a deposit taking institution, so there is no deposit setoff risk in the transaction. However, there is setoff risk from borrowers who are also the seller's employees and we have sized for this potential loss when running our cash flow stresses.

## Cash Flow Analysis

In our cash flow modeling, we did not consider the revolving period, and so we analyzed the transaction's cash flows only during the amortization stage.

Table 10

### Cash flow assumptions

Recession start	Closing
Length of recession	WAL (28 months)
Cumulative gross loss (HT and VT)	Evenly distributed over weighted average life and back loaded; VT start in month 11
Recovery lag (months)	HT: 12 months; VT: immediate
Delinquency	Two-thirds of credit losses recovered six months later
Initial WAC (%)	7.6871 (same as discount rate)
Relative WAC compression (%)	N/A
Servicing fee (%)	1.03
Fixed fees (£)	100,000
Other fees (insolvency administrator incentive fee, %)	5.0 (as a % of recovery proceeds); subject to 1% cap of initial pool balance \$
Prepayments (high/low) (%)	30/0.5
Interest rates	Stressed interest rate curves
Commingling stress (%)	N/A
Setoff loss (%)	0.10

\$Calculations are according to S&P Global Ratings' methodology. WAL--Weighted-average life. WAC--Weighted-average coupon. HT--Hostile termination. VT--Voluntary termination.

Currently, our analysis calculates the losses from prepayments due to asset price revaluations at 0.

We assumed asset yield to be equal to the discount rate set out in the transaction documents and have not sized any further coupon compression. The model incorporates the payment structure including the sequential/pro rata amortization feature of the notes and the cash reserve's amortizing nature.

We tested the notes' ability to pay timely interest and ultimate principal on the class A and class B notes under the above stress assumption in our cash flow model. Based on the assumptions

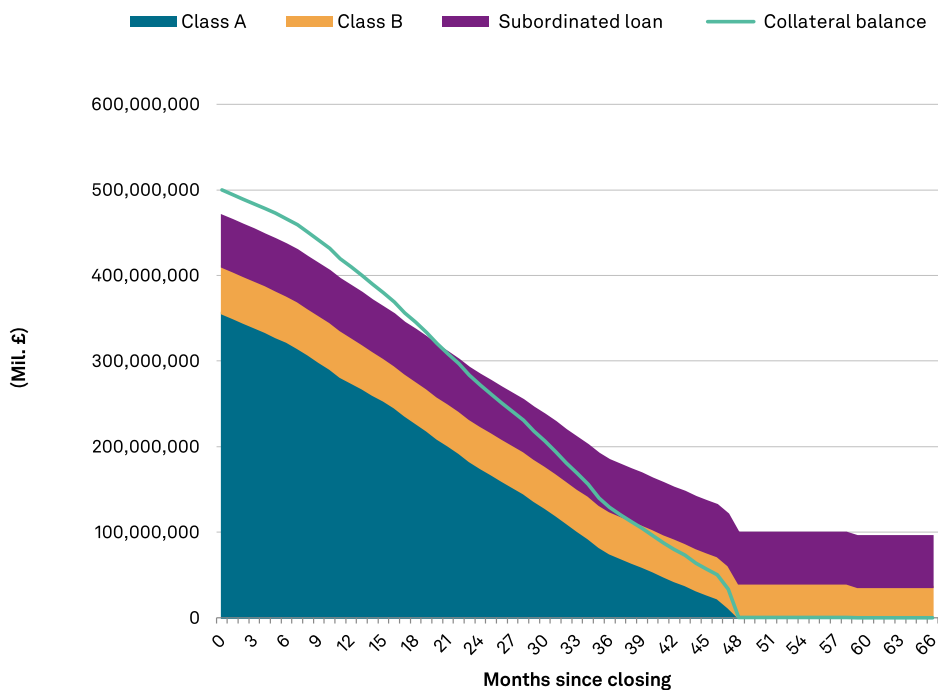
discussed above, the low prepayment scenarios have proved more stressful, mostly because they lead to higher residual value losses on the PCP balloon payments.

Our preliminary ratings address the availability of funds for the full payment of interest and principal, and the timeliness of these payments in accordance with the terms of the rated securities.

Chart 5 shows the collateral and the note amortization profile under our most stressful scenario.

Chart 5

**Collateral and note balances (End of period)**  
In the 'AAA' most stressful scenario



Source: S&P Global Ratings.  
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Our analysis indicates the available credit enhancement for the class A notes is sufficient to withstand the credit and cash flow stresses we apply at the 'AAA' rating level. Our cash flow analysis indicates the available credit enhancement for the class B notes is commensurate with higher ratings than that currently assigned. However, we have assigned an 'A+ (sf)' preliminary rating on the class B notes on account of the transaction's sensitivity to backloaded defaults in our scenario runs.

**Counterparty Risk**

We have analyzed counterparty risk by applying our counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). We expect the replacement mechanisms in the transaction documents to mitigate these risks in line with our

current counterparty criteria. We anticipate that the swap agreements at closing will likely be in line with our counterparty criteria.

Table 11

## Supporting ratings

Institution/role	Rating	Collateral Framework	Replacement trigger	Collateral posting trigger
The Bank of New York Mellon, London Branch as transaction bank account provider*	ICR: AA-/Stable/A-1+	N/A	A/A-1	N/A
TBD, as interest rate swap counterparty	RCR: TBD			

\*Based on the rating on the parent company, The Bank of New York Mellon, in line with our bank-branch criteria (see "Related Criteria". ICR--Issuer credit rating. RCR--Resolution counterparty rating. N/A--Not applicable. TBD--To be determined.

## Sovereign Risk

Under our structured finance sovereign risk criteria, the maximum differential between the rating on the security and the rating on the sovereign depends on the asset sensitivity to country risk and the sovereign rating. We view the asset sensitivity to country risk as low, and our long-term unsolicited sovereign credit rating on the U.K. is 'AA'. Consequently, our sovereign risk criteria do not cap our preliminary ratings on the rated notes.

## Sensitivity Analysis

As part of our analysis we also conducted additional sensitivity analysis to assess the effect of, all else being equal, an increased gross default base case for HT and VT, residual value loss and a haircut to the recovery rate base case. For this purpose, we ran eight sensitivity runs by either increasing stressed defaults and/or reducing expected recoveries along with higher residual value losses, as below.

Table 12

### Scenario Stresses

Gross HT and VT default rate base case (%)	Recovery rate base case and residual value loss (%)		
	0.0	Recovery rate: -10.0; market value decline +5.0	Recovery rate: -30.0; market value decline: +15.0
0.0	Base case	Scenario 3	Scenario 4
10.0	Scenario 1	Scenario 5	Scenario 7
30.0	Scenario 2	Scenario 6	Scenario 8

Table 13

### Scenarios

Class	Base case	1	2	3	4	5	6	7	8
Gross default rate HT (%)	1.91	2.10	2.48	1.91	1.91	2.10	2.48	2.10	2.48
Gross default rate VT (%)	3.70	4.07	4.81	3.70	3.70	4.07	4.81	4.07	4.81
Recovery rate (%)	60.00	60.00	60.00	54.00	42.00	54.00	54.00	42.00	42.00

Table 13

## Scenarios (cont.)

Class	Base case	1	2	3	4	5	6	7	8
'AAA' residual value loss (%)	35.20	35.20	35.20	36.96	40.48	36.96	36.96	40.48	40.48
Class A notes	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA+
Class B notes	AA-	A+	A	A+	A	A	A-	A	A-
Subordinated loan	NR	NR	NR	NR	NR	NR	NR	NR	NR

NR--Not rated.

## Monitoring And Surveillance

We assess quarterly the underlying portfolio's performance, including defaults and delinquencies.

Additionally, we also assess annually:

- The supporting ratings;
- The servicer's operations and its ability to maintain minimum servicing standards; and
- Whether the then-available credit enhancement for the senior notes is sufficient to withstand losses that are commensurate with the current ratings assigned.

## Appendix

### Participants

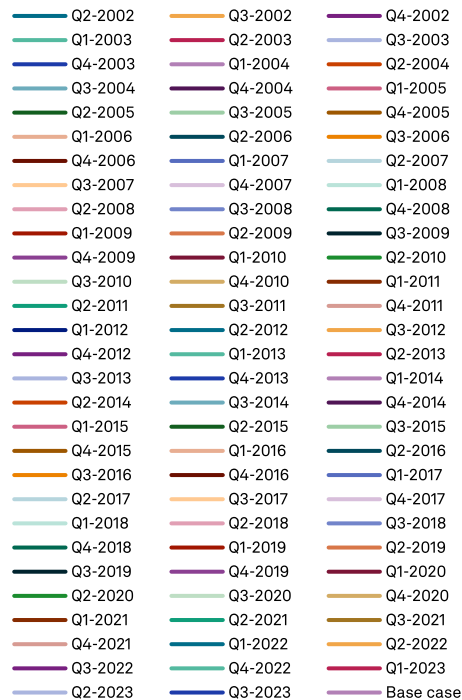
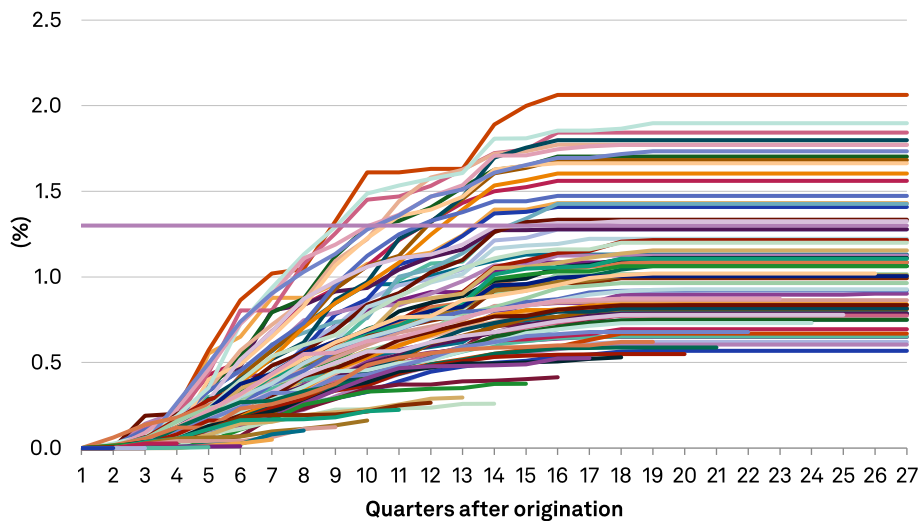
#### Transaction participants

Originator, seller, and servicer	Volkswagen Financial Services (UK) Ltd.
Arranger and lead manager	Lloyds Bank
Security trustee	Intertrust Trustees GmbH
Corporate services provider	Circumference FS Services (Luxembourg) S.A.
Cash administrator	The Bank of New York Mellon
Principal paying agent, calculation agent, interest determination agent, and custodian	The Bank of New York Mellon
Subordinated lender	Volkswagen Financial Services (UK) Ltd.
Data protection trustee	Data Custody Agent Services B.V.

### Gross loss curves

Chart 6

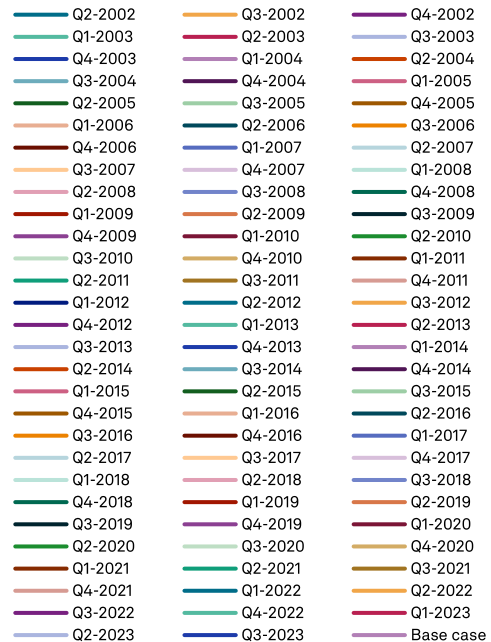
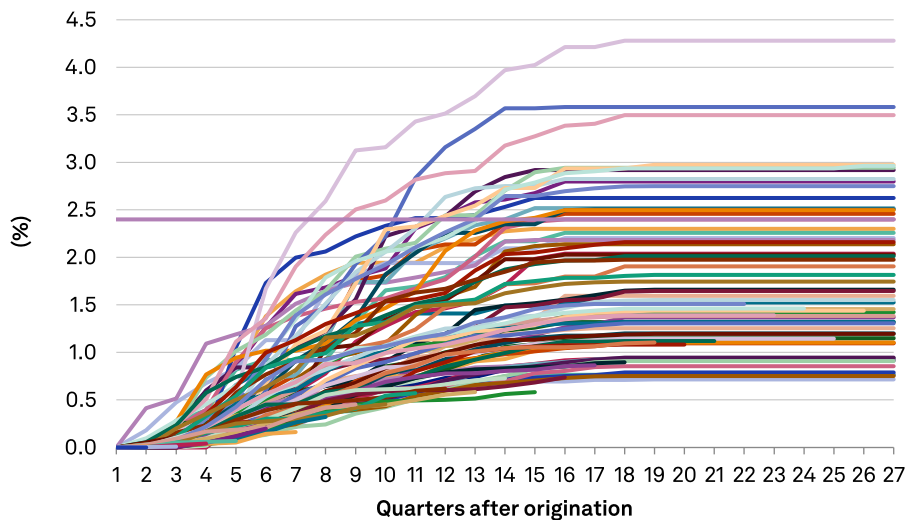
Cumulative gross loss: PCP new HT



Q--Quarter. Source: S&P Global Ratings.  
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Chart 7

Cumulative gross loss: PCP used HT

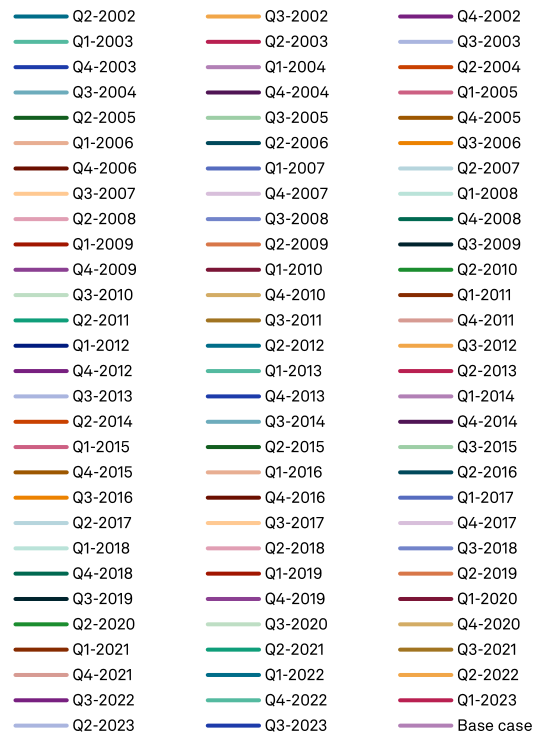
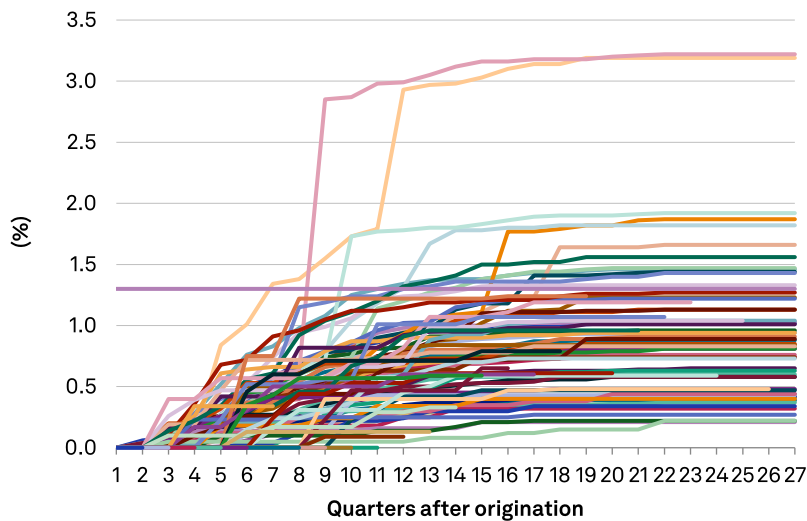


Q--Quarter. Source: S&P Global Ratings.  
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Chart 8

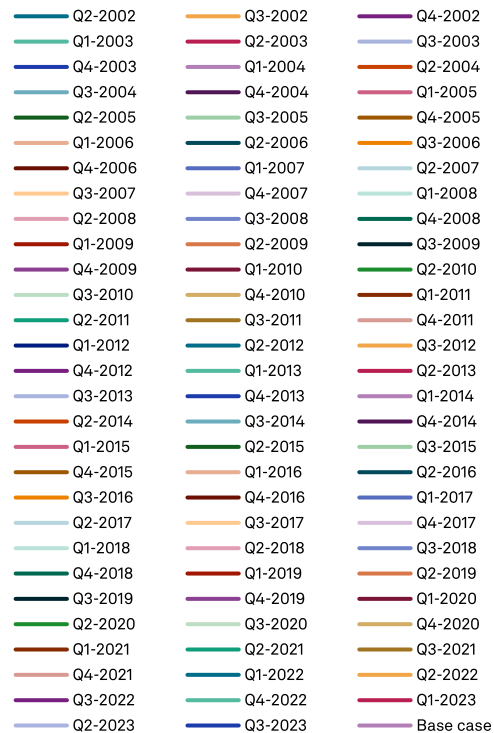
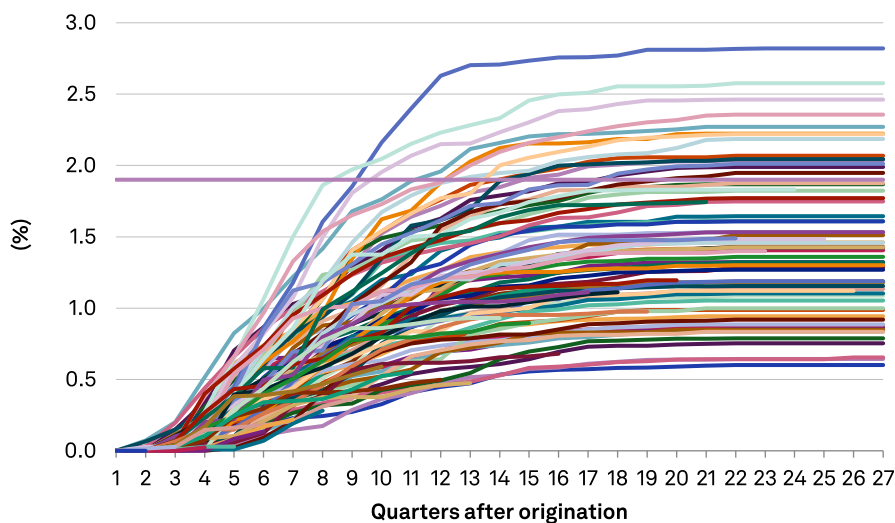
Cumulative gross loss: HP new HT



Q--Quarter. Source: S&P Global Ratings.  
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Chart 9

Cumulative gross loss: HP used HT



Q--Quarter. Source: S&P Global Ratings.  
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Chart 10

Cumulative gross loss: LP new HT

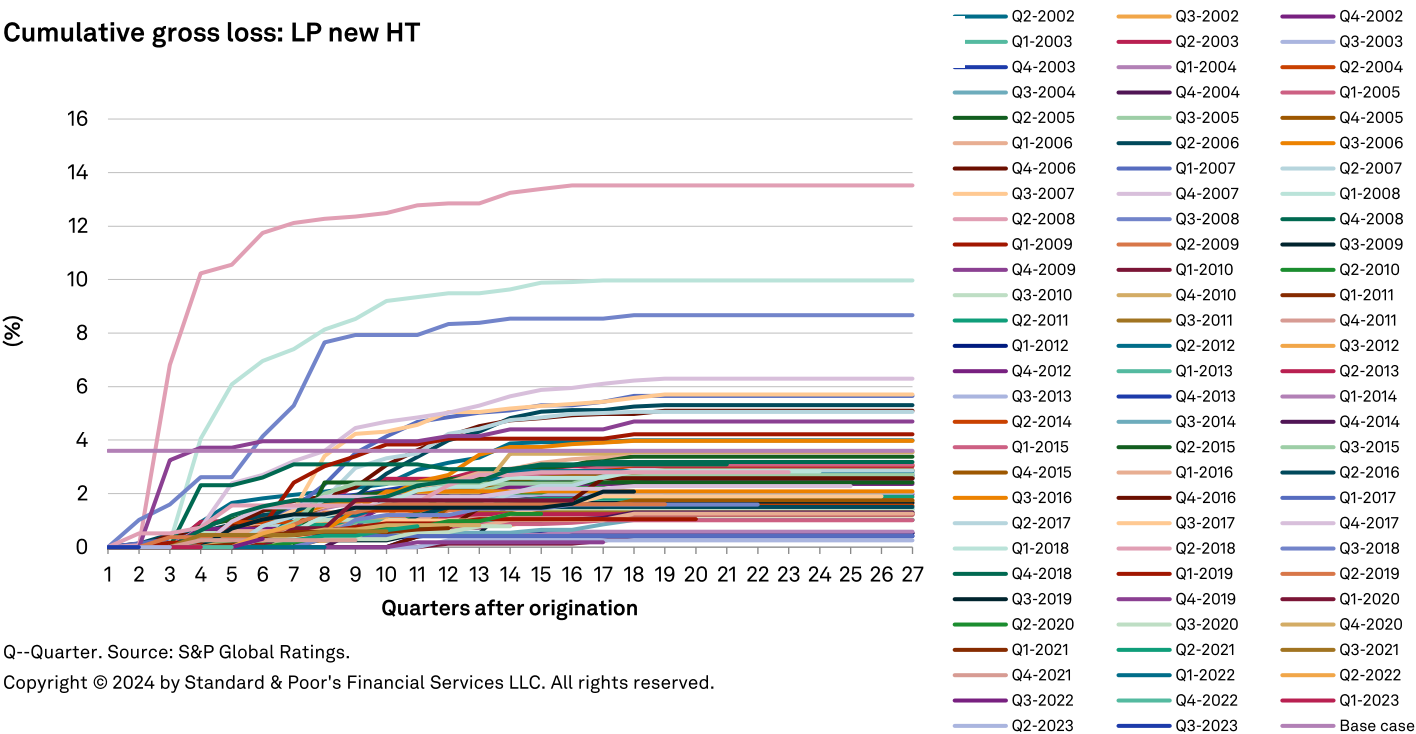


Chart 11

Cumulative gross loss: LP used HT

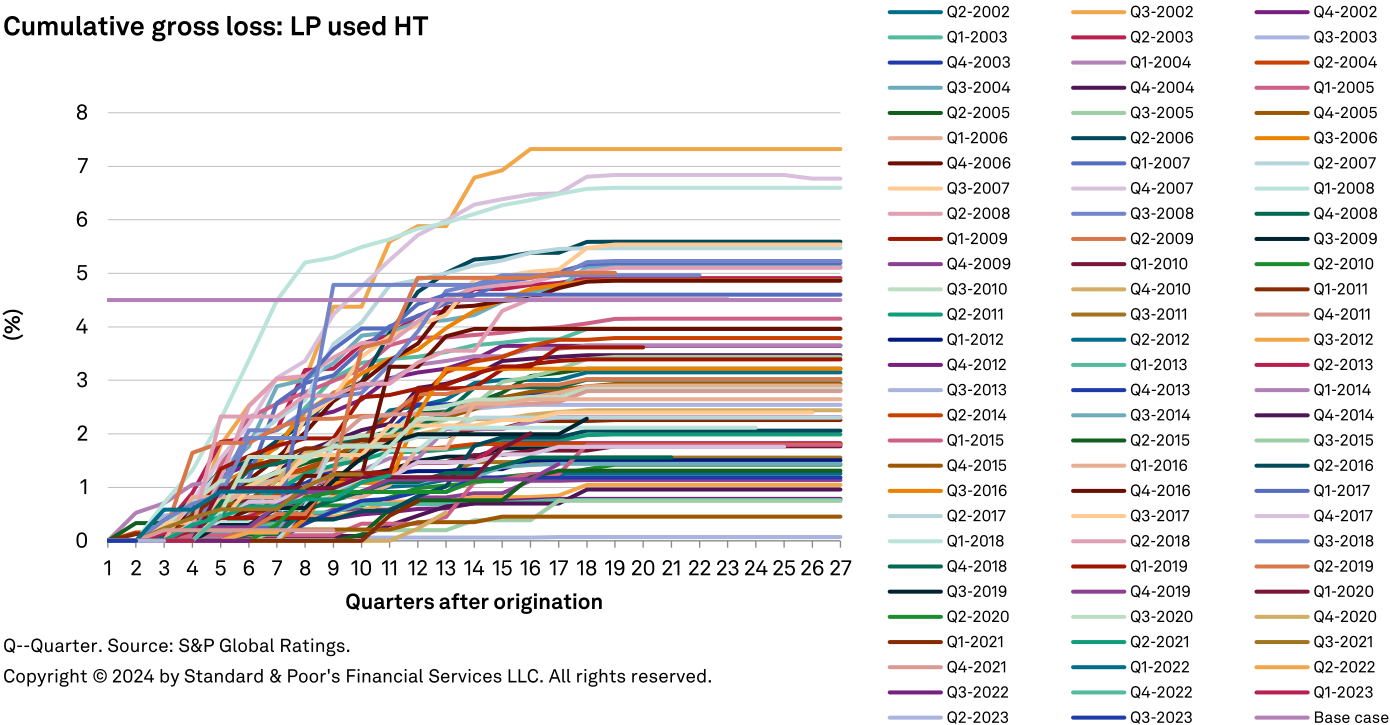


Chart 12

Cumulative gross loss: PCP new VT

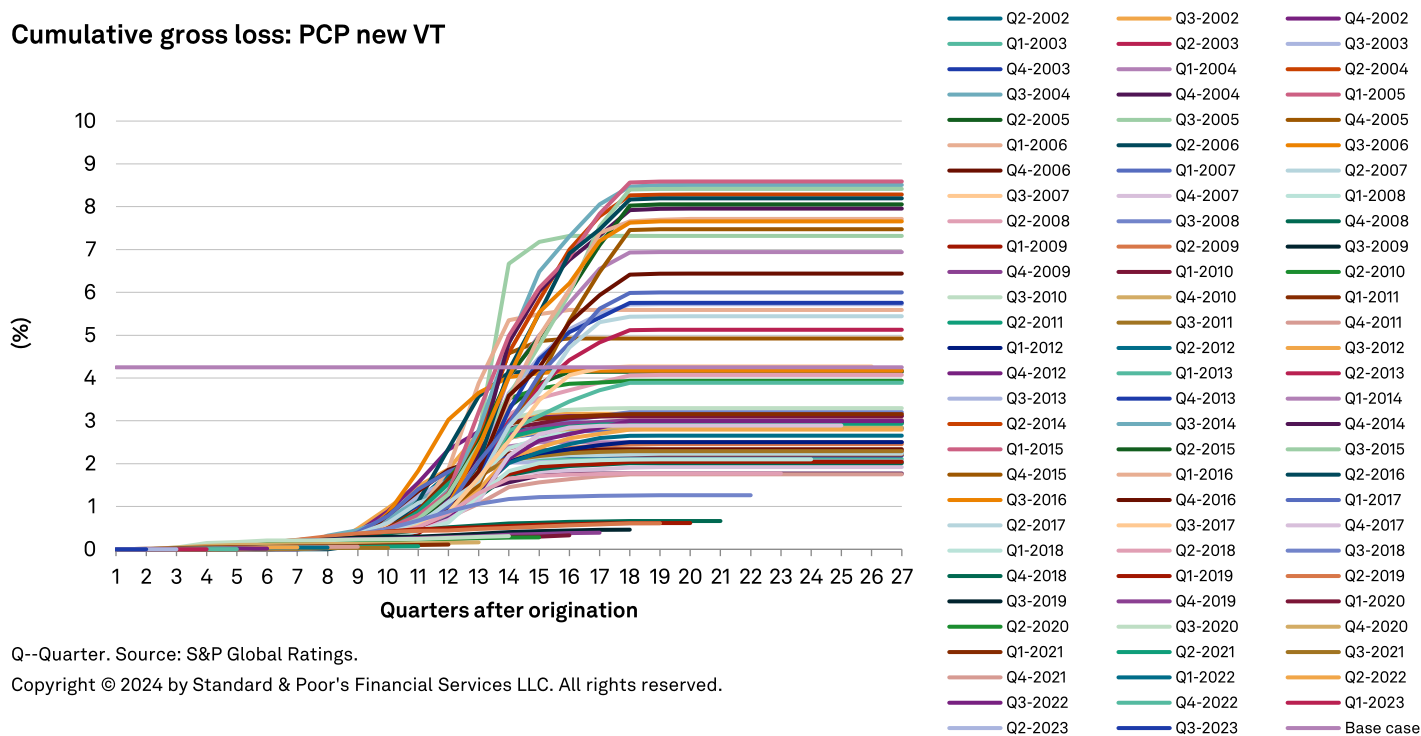


Chart 13

Cumulative gross loss: PCP used VT

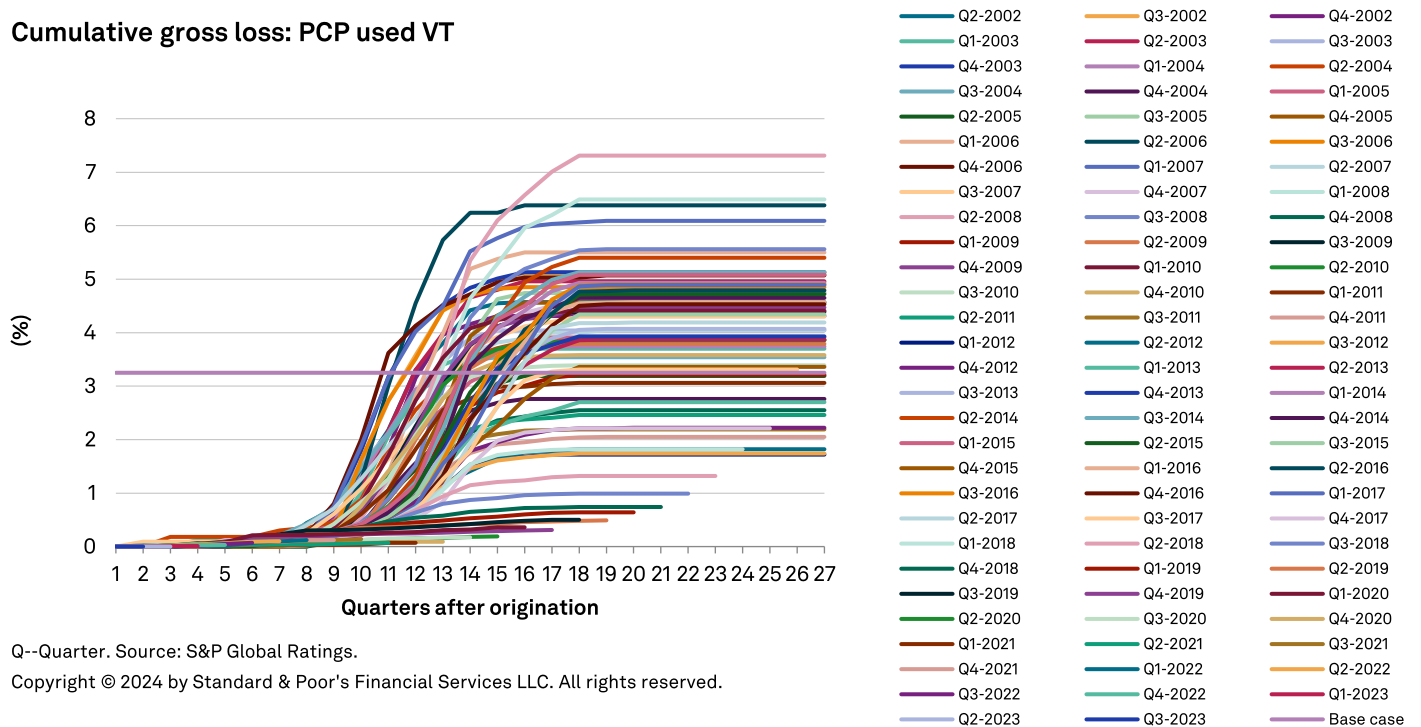
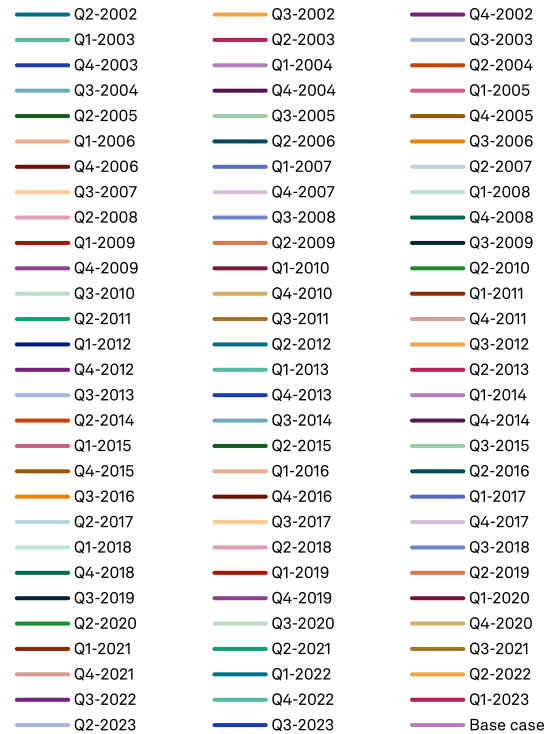
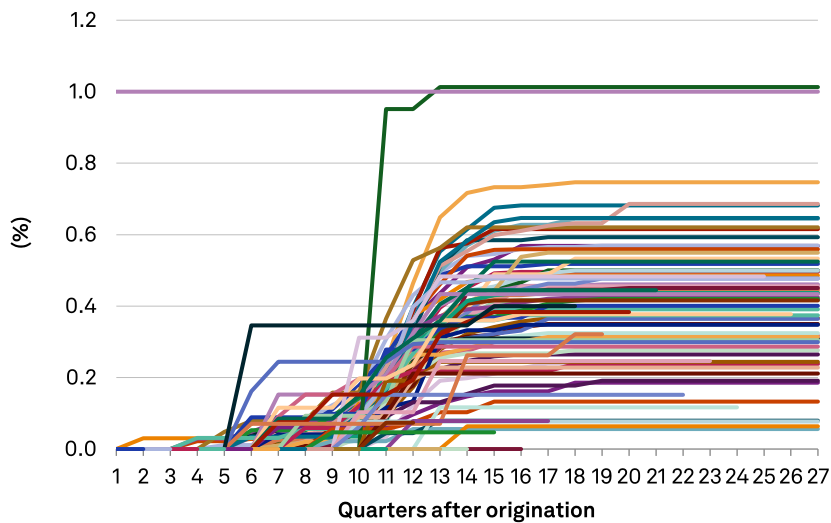


Chart 14

### Cumulative gross loss: HP new VT

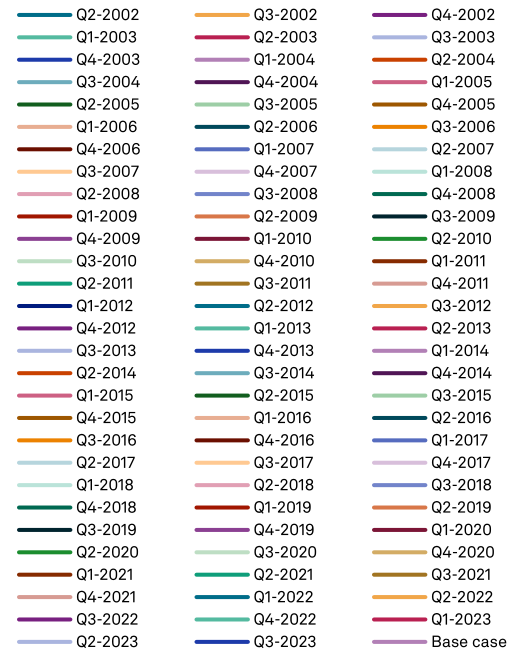
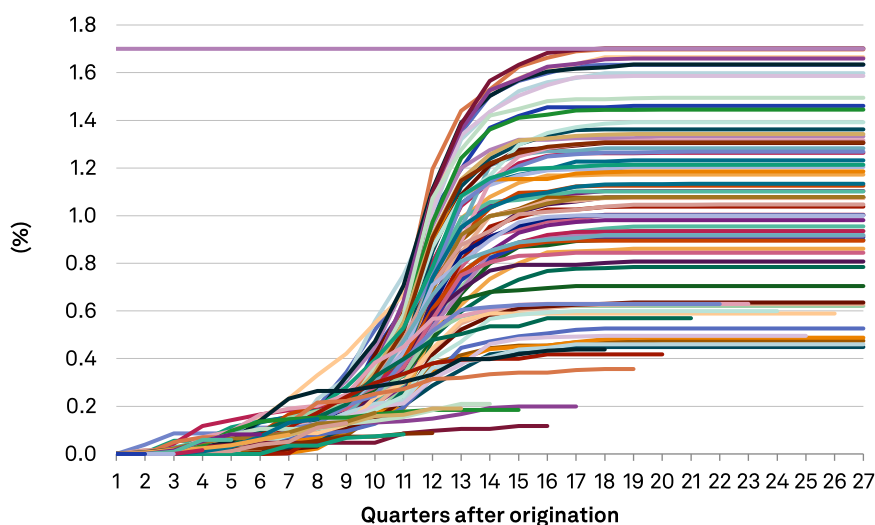


Q--Quarter. Source: S&P Global Ratings.

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Chart 15

### Cumulative gross loss: HP used VT



Q--Quarter. Source: S&P Global Ratings.

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Chart 16

Cumulative gross loss: LP new VT

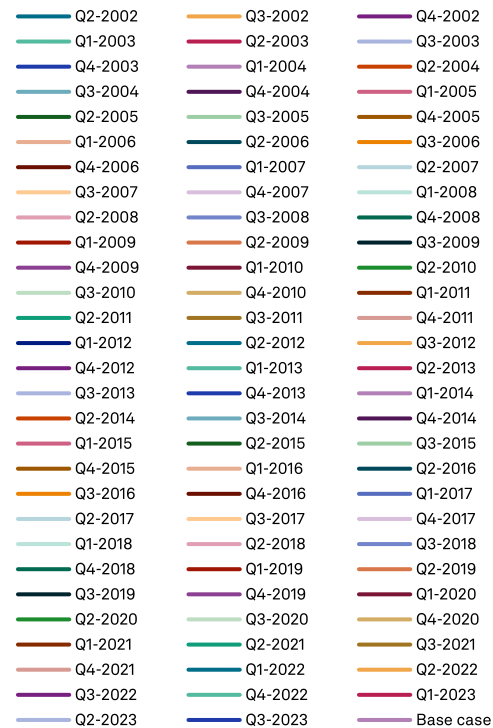
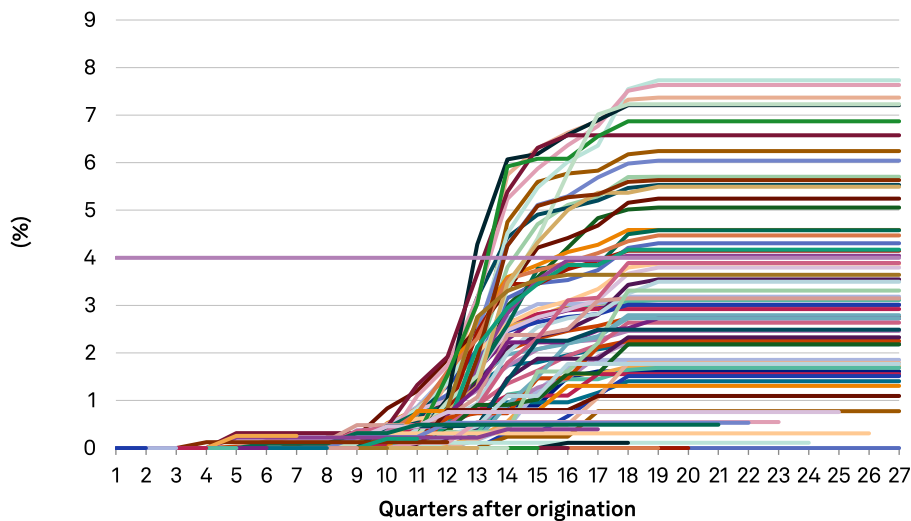
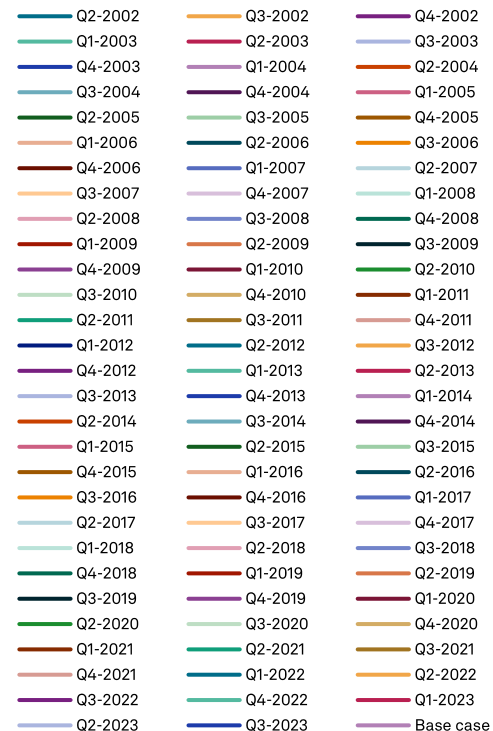
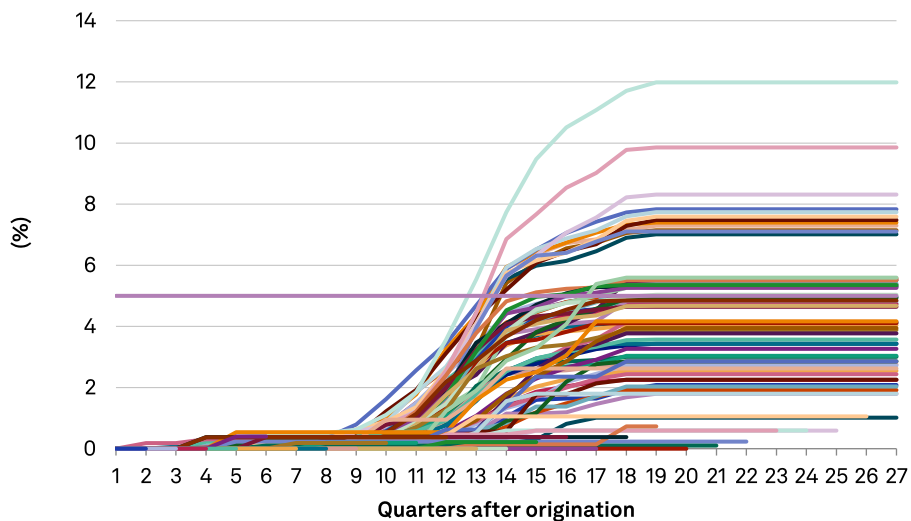


Chart 17

Cumulative gross loss: LP used VT



## **Related Criteria**

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions, March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

## **Related Research**

- New Issue: Driver UK Master S.A., Compartment 7, Nov. 27, 2023
- U.K. Economic Outlook 2024: More Stagflation Ahead, Nov. 27, 2023
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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