FitchRatings

Structured Finance
Auto - Loan (non-US)
United Kingdom

Driver UK Master S.A. - Compartment 6

Capital Structure

Class [c]	Rating	Outlook	Amount [b] (GBPm)	CE [a] (%)	Interest Rate (%)	Legal Final Maturity
Class A 2023-1	AAAsf	Stable	227.2	29.1	SONIA + 0.80	May 31
Class A 2023-2	AAAsf	Stable	419.7	29.1	SONIA + 0.57	May 31
Senior Schuldschein 2023-1	AAAsf	Stable	98.5	29.1	SONIA + 0.80	May 31
Senior Schuldschein 2023-2	AAAsf	Stable	39.4	29.1	SONIA + 0.80	May 31
Class B 2023-1	A+sf	Stable	22.8	18.3	SONIA + 1.70	May 31
Class B 2023-2	NRsf	Stable	42.4	18.3	SONIA + 1.20	May 31
Junior Schuldschein 2023-1	A+sf	Stable	54.3	18.3	SONIA + 1.70	May 31
Subordinated Loan	NRsf	n.a.	136.4	6.0	7.66	May 31
Total			**1,040.7**			

[a] Credit Enhancement (CE) is provided by overcollateralisation (OC). There is also a cash reserve fund, sized at 1.2% of the outstanding notes.
[b] Instruments can be issued up to a maximum programme size of GBP5bn during the revolving period. The amounts shown represent current issuance amounts as of the closing date.
[c] The class A 2023-2 and class B 2023-2 notes are amortising from closing. All other series are revolving.

Driver UK Master S.A. – Compartment 6 is a 14-month revolving securitisation of auto loan receivables originated by Volkswagen Financial Services (UK) Ltd (VWFS UK) in England, Scotland, Wales and Northern Ireland. The portfolio consists of personal contract purchase (PCP), hire purchase (HP) and lease purchase (LP) loans, financing predominantly VW Group brand vehicles. The transaction includes both notes and Schuldschein loans. Notes and Schuldschein loans of the same seniority are pari passu with one another.

Key Rating Drivers

Used-Car Price Exposure: Loans regulated by the Consumer Credit Act provide obligors with voluntary termination (VT) rights, allowing them to return the vehicle before maturity. PCP loans also provide the option of returning the vehicle at maturity instead of paying a balloon amount. The issuer is exposed to the risk of declines in used-car prices, as proceeds from the sale of returned vehicles may be lower than the outstanding loan balance. Fitch Ratings assumed a total residual value (RV) and VT loss of 24.8% at 'AAAsf, and 16.4% at 'A+sf'.

Prime Portfolio Resilient to Inflationary Pressures: Fitch has assumed a weighted-average base case default rate of about 1.3%. The low level of the base case reflects the high credit quality of the pool and the stable performance of VWFS UK's book over time. The assumption is set above recent performance, to account for an expectation of a limited increase in defaults as the impact of falling real incomes in the UK weakens household finances. However, we believe there are sufficient buffers in the finances of the typical prime borrower in this portfolio to absorb higher living costs and avoid a large increase in defaults.

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Applicable Criteria

Consumer ABS Rating Criteria – Residual Value Addendum (November 2021)

Global Structured Finance Rating Criteria (March 2023)

Consumer ABS Rating Criteria (August 2022)

Structured Finance and Covered Bonds Counterparty Rating Criteria (July 2022)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (December 2022)

Structured Finance and Covered Bonds Country Risk Rating Criteria (February 2023)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (August 2022)

Related Research

European Auto ABS Index – 1Q23

Global Economic Outlook - March 2023

Europe ABS Asset Performance to Weaken on Living Costs, Rate Rises (January 2023)

Representations, Warranties and Enforcement Mechanisms Appendix

New Issue Disclaimer

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We applied a 'AAA' default multiple of 6.5x, accounting for the low absolute level of the base case and the risks posed by the 14-month revolving period. The recovery base case and 'AAA' recovery haircut were set at 65% and 45%, respectively. The strength of the UK used car market over the last two years has been highly supportive of recoveries. We expect values to remain elevated in the near term, which will provide additional protection against a potential uptick in defaults.

Sensitivity to Pro rata Period: The transaction features a pro rata amortisation of notes and Schuldschein loans if certain overcollateralisation conditions are fulfilled and performance triggers are not breached. The length of the pro-rata period and therefore outflow of funds to junior positions on the waterfall is driven by the lifetime losses, combined with the default and recovery timing. Lower losses with back-loaded timing may lead to a later switch back to sequential amortisation and could be more detrimental for the notes than higher losses with a front-loaded timing.

Seller-Related Risks Addressed: Commingling risk is mitigated by a cash advance mechanism that comes into effect upon the seller losing eligibility in line with Fitch's counterparty criteria. Payment interruption risk is addressed by the liquidity from the cash reserve fund, while Fitch views servicer continuity risk to be adequately reduced by the high availability of replacement servicers in the UK market.

Key Rating Driver (Negative/Positive/Neutral)

Rating Impact	Key Rating Driver
Negative	Used Car Price Exposure
Positive	Prime Portfolio Resilient to Inflationary Pressures
Negative	Sensitivity to Pro-Rata Period
Positive	Seller-Related Risks Addressed

Source: Fitch Ratings

Highlights

Effect	Highlight
Neutral	**Schuldschein Loans:** The issuer requested advances under the senior and junior Schuldschein loans from the lenders, as well as issuing notes to noteholders on the closing date. The Schuldschein loans are evidenced by certificates of indebtedness, and rank pari passu with notes of equivalent seniority. Fitch has reviewed the transaction documents and legal opinions, and believes that there are no material differences in credit risk between the two types of instrument.
Positive	**Pool Sold at a Discount:** The weighted-average interest rate of the portfolio as of closing is about 5.9%, whereas the discount rate used to compute the net present value of the receivables is 8.0%. This increases the effective pool yield, and supports the ability of the issuer to meet high swap payments. Further receivables transferred during the revolving period will also be sold with a haircut to their purchase price, which may allow for some build-up of OC in the revolving period up to target levels.
Negative	**Loose Early Amortisation Triggers:** Fitch believes it is extremely unlikely the early amortisation triggers linked to net losses and 180+dpd delinquencies will be breached during the 14-month revolving period, even under a high degree of stress. There is also a trigger linked to the senior instrument OC percentage, set at 0.25pp below the level of the senior OC at closing. Fitch has assumed that OC will fall to this trigger threshold by the start of amortisation.
Neutral	**Revolving Master Structure:** The revolving period may be extended beyond its initial scheduled length, subject to investor consent and rating agency confirmations. Moreover, the issuer may issue further instruments or tap-up existing series during the revolving period, subject to certain conditions being satisfied and a maximum programme size of GBP5 billion. Further issuances are subject to same senior and junior instrument OC levels as in the initial structure as of closing.
Negative	**High Residual Value Share:** The pool has a RV share of 64.3% as of closing. This figure is expected to increase further during the revolving period. The high RV share is largely the result of high average seasoning at closing, and is a key driver of Fitch's stressed loss assumptions. The relatively short weighted-average life of the portfolio also has a compressing impact on lifetime excess spread in the transaction.

Source: Fitch Ratings

Key Transaction Parties

Role	Name	Fitch Rating
Issuer	Driver UK Master S.A. – Compartment 6	Not rated
Originator	Volkswagen Financial Services (UK) Limited	Not rated
Servicer	Volkswagen Financial Services (UK) Limited	Not rated
Transaction Account Bank	The Bank of New York Mellon, London Branch	AA / Stable / F1+
Swap Provider	ING Bank N.V.	AA-(dcr) / Stable / F1+
Trustee	Intertrust Trustees GmbH	Not rated
Corporate Services Provider	Circumference FS (Luxembourg) S.A.	Not rated

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

Transaction Comparisons

These transactions were selected for comparison due to their similarity, in terms of financed assets, to Driver UK Master S.A. – Compartment 6. All selected transactions are securitisation of UK auto loans.

Transaction Comparison

	Driver UK Master Compartment 6	Driver UK Master Compartment 2	Bavarian Sky UK 4 Plc	Silver Arrow UK 2021-2	Cars Alliance UK Master Plc
Closing	March 2023	November 2022	August 2021	October 2021	October 2021
Country of assets	UK	UK	UK	UK	UK
Seller	VWFS UK	VWFS UK	BMW FS GB	MBFS UK	RCI FS
Class	**Class A / Senior Loan**	**Class A**	**Class A**	**Class A**	**Class A**
Rating	AAAsf	AAAsf	AAAsf	AAAsf	AAAsf
Amount (GBPm)	784.8	4,624.9	400.0	400.0	750.0
Credit enhancement (%)	29.1	30.4	24.5	24.9	28.0
Class	**Class B / Junior Loan**	**Class B**	**Class B**	**Class B**	**Class B**
Rating	A+sf	A+sf	Asf	NRsf	NRsf
Amount	119.5	632.3	70.2	129.8	291.7
Credit enhancement	18.3	20.9	11.1	0.4	0.0
Class	**Subordinated Loan**	**Subordinated Loan**	**Class C**	**Subordinated Loan**	**Subordinated Loan**
Rating	NRsf	NRsf	NRsf	NRsf	NRsf
Amount	136.4	842.5	54.0	2.0	10.4
Credit enhancement	6.0	8.2	n.a.	n.a.	n.a.
Portfolio summary					
Revolving period length	14 months	12 months	12 months	Static	48 months
Discounted principal balance (GBPm)	1,107.3	6,645.0	524.2	529.8	1,041.9
Number of receivables	59,910	417,283	27,197	24,963	103,362
Average outstanding balance (GBP)	18,483	15,924	19,275	21,223	10,078
WA remaining term in months	30	30	36	31	28
WA seasoning in months	18	18	11	15	18
Collateral by balance (%)					
New vehicles	70.0	59.2	50.0	66.1	74.1
Used vehicles	30.0	40.8	50.0	33.9	25.9
Fitch assumptions (%)					
Default base case	1.3	1.4	1.8	1.6	1.8
Recovery base case	65.0	65.0	60.0	70.0	65.0
'AAAsf' RDR	8.8	9.0	9.6	9.1	11.7
'AAAsf' RRR	35.8	35.8	33.0	38.5	35.8
'AAAsf' RLR (instalments)	5.6	5.8	6.4	5.6	7.5
'AAAsf' RV and VT loss	24.8	24.1	23.3	22.0	25.9

Source: Fitch Ratings, transaction documents

Sector Risks: Additional Perspective

Key Sector Risks

Sector or asset outlook	Deteriorating
Macro or sector risks	Fitch forecasts economic growth for the UK of minus 0.7% and (plus) 1.2% in 2023 and 2024, respectively. CPI inflation exceeded 11% in October 2022, and will remain high in 1H23. Fitch expects inflation to be around 3.5% at the end of 2023. The combination of low growth, high inflation and rising interest rates will weigh on household finances, likely leading to a deterioration in underlying asset performance across the consumer finance sector.
Relevant Research	See Related Research.

Source: Fitch Ratings

Portfolio Stratification

The portfolio consists of fixed rate auto loans originated by VWFS UK and granted to private and commercial customers in the UK. The vast majority of the pool comprises PCP loans, which lead to RV exposure. The loan agreements are also predominantly regulated under the UK Consumer Credit Act, meaning most of the borrowers have VT rights.

There are three product types included within the portfolio:

1. PCP agreements: obligors pay equal monthly instalments to amortise the loan balance to a pre-defined balloon amount. The borrower has the option of either paying the final balloon amount at contract maturity to take ownership of the vehicle, or returning the vehicle in lieu of paying the balloon amount.
2. HP agreements: obligors pay equal monthly instalments to amortise the loan balance to zero by the contract maturity, at which point the title of the vehicle is transferred to the obligor.
3. LP agreements: this contract type combines elements of both PCP and HP loans. There is a final balloon payment, but the obligor does not have the option of returning the vehicle in lieu of paying it. They are contractually obliged to pay the balloon, at which point the title of the vehicle is transferred to them.

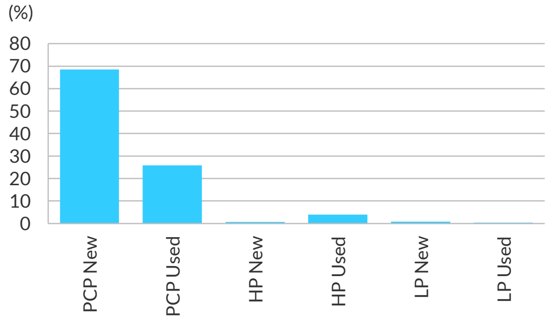
The table and charts below summarise the key characteristics of the securitised portfolio.

Transaction Portfolio as at 28 February 2023

	Replenishment criteria	Portfolio
Number of loans		59,910
Total discounted loan balance (GBP)		1,107,304,422
Average outstanding loan balance (GBP)		18,483
WA original term (months)		47.7
WA remaining term (months)		30.0
WA seasoning (months)		17.8
New (%)		70.0
Used (%)	≤60	30.0
PCP (%)		94.3
HP (%)		4.5
LP (%)		1.2
PCP used (%)	≤55	25.8
Non-VW Group vehicles (%)	≤10	0.5
WA effective interest rate (%)		5.9
Residual value (%)		64.3
Petrol (%)		68.5
Diesel (%)		19.7
Battery Electric (%)		7.7
Hybrid (%)		4.1
Top 1 borrower (%)	≤0.5	0.03
Top 10 borrowers (%)		0.19
Direct debit (%)		99.9

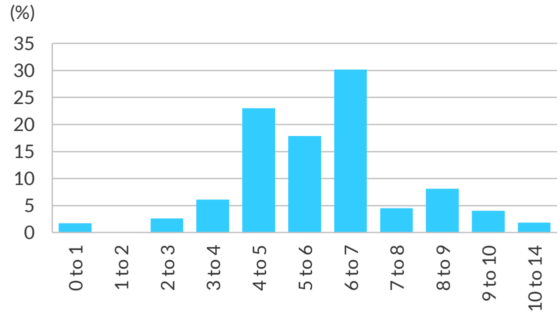
Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

Sub-Portfolios



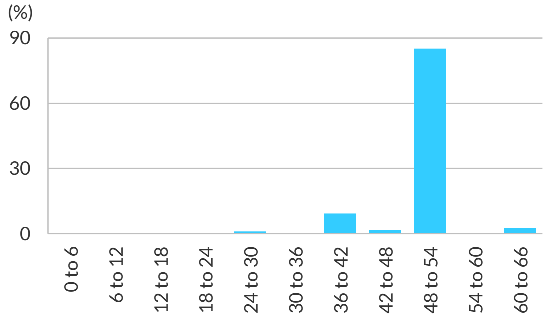
Source: Fitch Ratings, VWFS UK

Interest Rate (%)



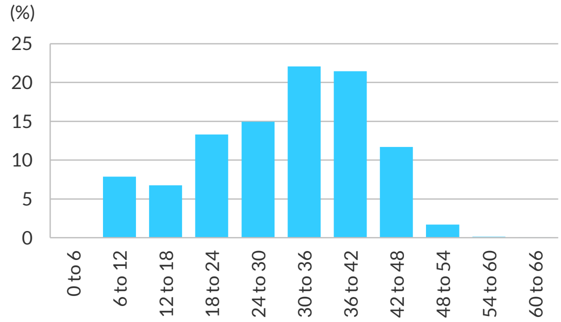
Source: Fitch Ratings, VWFS UK

Original Term (Months)



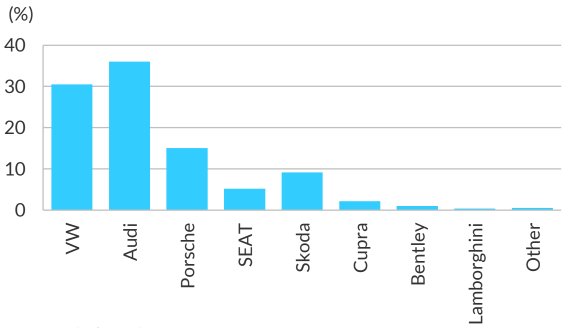
Source: Fitch Ratings, VWFS UK

Remaining Term (Months)



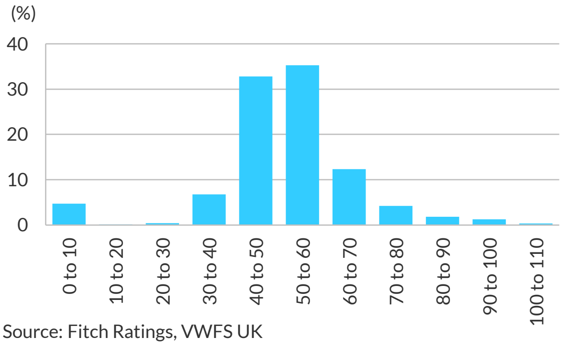
Source: Fitch Ratings, VWFS UK

Vehicle Brands



Source: Fitch Ratings, VWFS UK

RV (% of Financed Amount)



Source: Fitch Ratings, VWFS UK

Asset Analysis

Portfolio Credit Analysis

The issuer is exposed to the credit risk of the underlying obligors, and to the market value risk on vehicles returned by the borrowers either due to VT or in lieu of paying the RV amount at contract maturity. Fitch analysed the three types of exposure separately, applying its *Consumer ABS Rating Criteria* and *Consumer ABS Rating Criteria – Residual Value Addendum*.

Fitch derived its asset assumptions based on historical performance and portfolio data provided by the originator. We also took into account other considerations such as the origination and servicing practices of VWFS UK (see Appendix 1: Origination and Servicing) and our macroeconomic outlook for the UK.

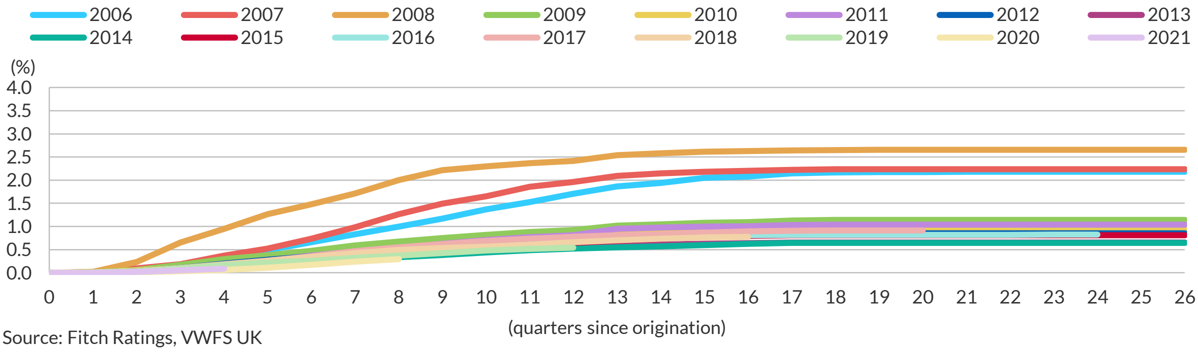
Default Risk

The charts below show the cumulative default rates by annual origination vintage for VWFS UK's total book, split by new and used vehicles. Fitch set separate base cases for new and used vehicles, noting the differences in performance between the two sub-pools and the possibility of portfolio migration during the revolving period.

The dataset provided covers the period 3Q02 to 4Q22, meaning it comfortably captures the full economic cycle. Fitch focussed primarily on vintages from 2006 onwards in its analysis. VWFS UK typically record defaults at 90 days of delinquency.

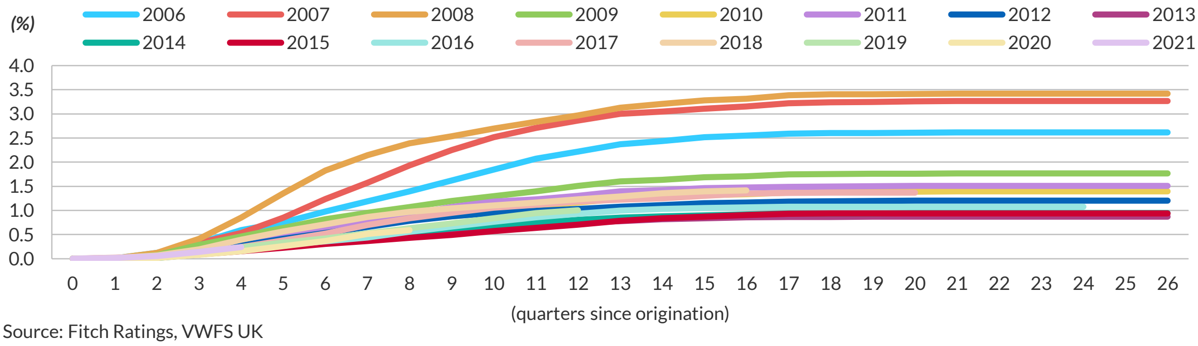
We also received the historical data split by product type. There are differences in the performances of different contract types, with LP loans showing materially higher default rates than PCP or LP loans. However, we opted not to set different assumptions for LP loans given the very low share of this sub-pool.

Default Vintages - New



Source: Fitch Ratings, VWFS UK

Default Vintages - Used



Source: Fitch Ratings, VWFS UK

Fitch has assumed a base-case default rates of 1.1% and 1.75% for new and used vehicles, respectively.

The absolute level of the base case reflects the prime nature of the underlying borrowers, low historically observed defaults and the continued stability of delinquencies as inflation has risen. Nevertheless, the assumptions are set materially above the level of recent vintages in relative terms to account for our expectation that performance will deteriorate as real incomes are reduced by higher living costs. However, we believe a large absolute-terms increase in defaults is unlikely. Unemployment is expected to remain relatively low, and prime borrowers have more headroom in their finances to absorb higher expenses.

Fitch has also assumed an increase in the share of used vehicles to 38.0% by the end of the 14-month revolving period, from 30% at closing. This considers the increasing proportion of loans financing used vehicles within VWFS UK's originations. The weighted-average total pool default base case is about 1.3% considering the stressed sub-pool weights.

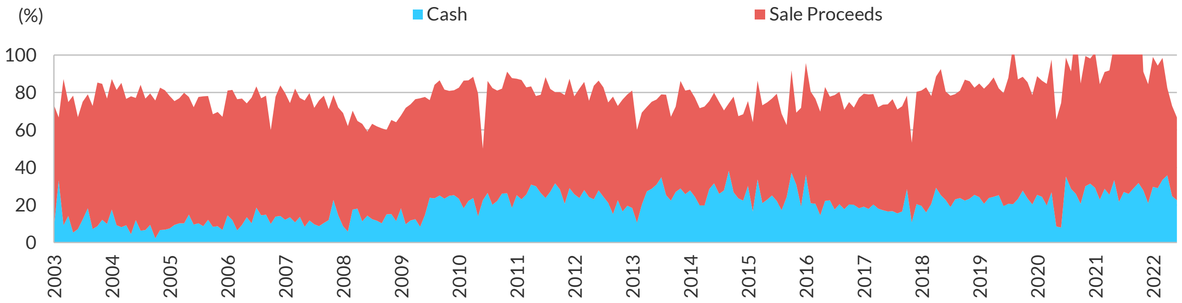
Fitch applied a 'AAAsf' default multiple of 6.5x to the base case. The multiple primarily considers the low absolute level of the base case and presence of a revolving period on the one hand, and the long available data history on the other.

Recovery Rates

The chart below shows recoveries for the total book, split by those received from the sale of the vehicle and as cash amounts from the borrower. We considered both secured and unsecured recoveries in forming our base case assumption and recovery timing vector, although the vehicle sale proceeds make up the majority of total amounts recovered.

We set a base case of 65%, using both the total book data and performance information from prior Driver UK securitisations. Recoveries have been particularly strong in 2021 and 2022, owing to the rapid increase in used car prices during the global semiconductor shortage. We expect a partial correction in residual values as supply chains recover and demand is dampened by adverse economic conditions. The base case is therefore set closer to long-term averages, rather than being overly skewed towards recent spikes.

Recoveries from Default: Total Pool



Source: Fitch Ratings, VWFS UK

The tables below summarise Fitch's default and recovery expectations and stress assumptions.

Base-Case Expectations

(%)	Stressed weight	Default rate	Recovery rate	Loss rate
New vehicles	62.0	1.10	65.0	4.6
Used vehicles	38.0	1.25	65.0	7.3
Total stressed pool	100.0	1.35	65.0	5.6

Source: Fitch Ratings

Stressed Assumptions

(%)	Rating default rate	Rating recovery rate	Rating loss rate
AAAsf	8.8	35.8	5.6
A+sf	5.8	45.5	3.2
Base case	1.3	65.0	5.6

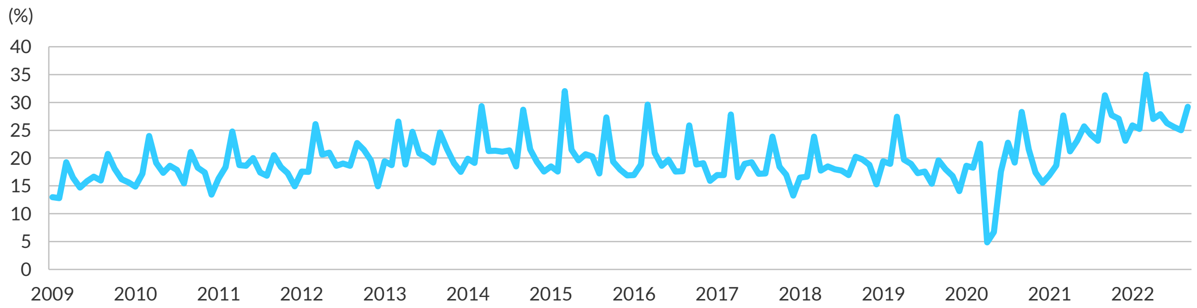
Source: Fitch Ratings

Prepayments

Fitch received historical dynamic data on prepayments since June 2008. The agency applied a 20% annual prepayments base case. This is in line with the long-term trend in VWFS UK's book. Although prepayments dropped sharply in April 2020 following the imposition of lockdown restrictions, they quickly returned to pre-pandemic levels. There has been an uptick in prepayments since 2021, likely driven rising used car prices improving the equity position of borrowers. However, we expect high living costs and rising interest rates to dampen prepayments in the future.

To derive rating-specific prepayment rates, Fitch applied a linear interpolation between 20% at 'Bsf' and 0% at 'AA-sf', in line with the RV addendum criteria for loans exposed to VT risk. This is because in a high stress scenario, Fitch assumes borrowers are likely to use their VT rights instead of prepaying to terminate their agreement early, given that borrowers are likely to be in negative equity. Rating scenarios above 'AA-sf' are assumed to have 0% annual prepayments.

Annualised Prepayment Rate



Source: Fitch Ratings, VWFS UK

Key Asset Eligibility Criteria

Description
The purchase of the relevant receivables will not cause a breach of the following concentration limits
None of the obligors are an affiliate of VWFS
Obligors reside/are registered in England, Scotland, Wales or Northern Ireland
Obligors have no pending bankruptcy or insolvency preceding against them
Receivables are denominated in sterling
Receivables are non-delinquent
The financing contracts are governed by the laws of England and Wales, Northern Ireland or Scotland
The financing contracts are legal, valid, binding and enforceable
The status and enforceability of the receivable is not impaired due to warranty claims or any other rights of the obligor
The status and enforceability of the receivable is not impaired by set-off rights
The obligor does not maintain any deposits on accounts with VWFS
The financing agreement complies with the Consumer Credit Act
At least one payment has been made under the finance contract as of the cut-off date
The original term of the agreement does not exceed 72 months
No obligor accounts for more than 0.5% of the aggregate portfolio
The obligor is required to pay all insurance, repair/maintenance and taxes with respect to the related vehicle

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

Portfolio Covenants

Description
Used vehicle share: must not exceed 60%
PCP-Used share: must not exceed 55%
Non-VW Group brands: must not exceed 10%

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

Residual Value Risk

Borrowers with PCP agreements, which comprise almost 95% of the portfolio, have the option to return their vehicle at contract maturity instead of paying the final RV amount. The issuer may incur RV losses if the sale proceeds from returned vehicles are less than the relevant contractual RV amounts. Fitch's analysis therefore considers the appropriateness of the originator's RV-setting, and incorporates rating-specific market value decline assumptions.

VWFS UK will repurchase any contracts where the obligor has opted to turn-in the vehicle. This means the issuer is only exposed to the market value risk if the seller is insolvent. Fitch has not given credit to this repurchase obligation in its analysis, as the seller is unrated and its ultimate parent is rated below the most junior instrument.

Base Case Sale Proceeds

Fitch set its base-case sale proceeds assumption at 100% of the contractual RV amount. There are three main considerations driving this.

- We believe VWFS's RV-setting policies are sufficiently conservative (see Residual Value Setting).
- RV turn-in rates are low, with less than 5% of monthly contract maturities typically resulting in a RV hand-back. In Fitch's view, this suggests that RVs have been set appropriately, as borrowers would have a strong incentive to turn in their vehicles if they were in negative equity at maturity.
- VWFS UK has not incurred any material losses even on vehicles that are returned, despite the negative selection bias in the historical data (i.e. the data only cover contracts where the borrower has opted to return the car, which suggests an increased likelihood of negative equity relative to contracts where the borrower has opted to pay the balloon amount).

RV Market Value Stress

Fitch applied an RV market value stress of 35% at 'AAAsf'. This is at the median level specified in our criteria.

A key consideration is the captive nature of the originator, which means there is an almost 100% concentration in VW Group brands (e.g. VW, Audi, Porsche, SEAT, Skoda). This increases the exposure of the pool to a potential default by the manufacturer, or to any quality or reputational issues affecting specific brands.

Nevertheless, the assumption gives credit to the large and liquid used car market in the UK, the well-distributed RV maturities and our expectation that parts and servicing will still be available for VW Group cars even following a default of the manufacturer.

Selling Costs and Administrator Fees

Fitch assumed average selling costs of GBP250 per vehicle to account for the expenses incurred to realise the sale proceeds (e.g. transportation and storage of the vehicle).

We also applied an additional insolvency administrator incentive recovery fee of 2.5% of the stressed vehicle value, in line with Fitch's *Consumer ABS Rating Criteria – Residual Value Addendum*.

Residual Value Turn-in Rates

Fitch applied RV turn-in rates in line with its *Consumer ABS Rating Criteria – Residual Value Addendum*. The RV 'AAAsf' turn-in rate was set at 100%.

Time to Sale

We applied our standard time to sale assumptions as outlined in our criteria, i.e. three months at 'AAAsf'.

Residual Value Share

Fitch expects that the RV share as a percentage of the outstanding portfolio balance will increase during the revolving period owing to the mechanical consequence of increased loan seasoning. There is also a risk that VWFS UK will set RVs for future originations higher than the current weighted-average in the portfolio. Fitch assumes the RV share within the PCP pool will increase to 69.9% by the end of the 14-month revolving period, from 67.4% in the initial portfolio.

Voluntary Termination Risk

Under the UK Consumer Credit Act, obligors have a statutory right to return vehicles to the originator after paying 50% of the total amount payable (including the deposit) under the finance agreement, in lieu of making the remaining payments. Fitch assumes that customers will exercise their VT rights only if they are in negative equity. Fitch's approach to VT risk is described in Appendix 2 of its *Consumer ABS Rating Criteria – Residual Value Addendum*.

We received loan-by-loan data for the final portfolio, which were used in Fitch's UK VT model to analyse the VT exposure and loss. The portfolio had a cut-off date of February 2023. For each contract, the model projects the outstanding principal balance of loan once 50% of the total amount payable has been paid, and compares it with the depreciated stressed car value at the same date. The VT exposure is adjusted to only be relevant to non-defaulted and non-prepaid borrowers, depending on the rating scenario.

Voluntary Termination Turn-in Rates

VWFS UK provided Fitch with VT performance data from 2002 onwards. It demonstrated termination volumes comparable to other UK transactions. We applied VT turn-in rates according to criteria. The VT 'AAAsf' turn-in rates were set at 50%.

Depreciation Rate

Fitch applied a weighted-average monthly depreciation of 1.7% to project car values. The assumption was determined through an analysis of third-party used car price data provided by Autovista, for both the entire UK market and for the VW Group brands specifically. We also considered the share of new and used vehicles in the pool, assuming faster depreciation for new cars.

Voluntary Termination Market Value Haircut

Fitch assumed an add-on of 5% on top of the market value haircut applied for RVs across all rating scenarios. This is primarily to reflect the possible clustering of VTs during periods of macroeconomic stress, as the equity position of all borrowers simultaneously weakens. The 'AAA' VT market value haircut is therefore 40.0%.

Administrator Fee

Fitch also applied the insolvency administrator incentive recovery fee criteria assumption of 2.5%, similarly to the assumption for RV risk.

Time to Sale

The time to sell the vehicle is set in line with the assumption for RV, i.e. three months at 'AAAsf'.

Integration of VT and RV Risk

The pool consists of PCP, HP and LP obligors, both of which have voluntary termination rights. However, only the PCP loans are exposed to RV losses as they have the option to return the car at maturity instead of paying the contractual balloon amount. The agency assumes that PCP obligors are aware of the option to return the vehicle at maturity and are therefore more likely to do so than to exercise their VT rights.

However, even when aware of the VT option, borrowers do not always choose to voluntarily terminate their contracts. In line with its criteria, Fitch assumes in its loan-by-loan calculations that, for PCP contracts where the loan maturity is within 12 months of the obligor's VT point, obligors would choose to hand the car back at maturity instead of exercising their VT right. This would expose the loan to an RV loss instead of a VT loss.

Fitch applied a VT turn-in rate of 50% in the 'AAAsf' scenario for contracts that have a period longer than 12 months between the time they repay 50% of the loan and loan maturity, exposing the loan to VT risk. For all other PCP contracts, Fitch assumed that borrowers would not VT, but rather consider handing back the vehicle at loan maturity. The agency assumed that, in the 'AAAsf' scenario all of those borrowers would turn in their vehicles at maturity, exposing the contract to RV loss. In lower rating scenarios, Fitch assumes that not all PCP borrowers hand back their vehicles.

Given the above, after considering defaults and prepayments in the respective ratings scenarios, Fitch has calculated an overall RV and VT loss of 24.8% at 'AAAsf' and 16.4% at 'A+sf'. These figures factor the assumed increase in the share of PCP loans by the end of the revolving period.

Cash Flow Analysis

Credit Enhancement

The senior and junior instruments benefit from initial OC of 29.1% and 18.3%, respectively. It is possible OC will increase up to target thresholds during the revolving period as further receivables used to replenish the pool are sold with a haircut to their purchase price, and some series will amortise from closing. However, in determining the level of OC to consider in its modelling of the amortisation phase, Fitch considered the following.

- The potential build-up of OC can be subsequently diluted by further issuances and tap-ups, the capital structure for which has the same senior and junior instrument OC levels as in the structure as of closing.
- Loss and delinquency-based early amortisation triggers are weak, and are unlikely to be breached before the trigger linked to senior OC (see Revolving Period). This trigger is set at about 28.9%, 0.25pp below the initial senior OC.

Fitch therefore assumed that OC for the senior and junior instruments will decrease during the revolving period to 28.9% and 18.0%, respectively.

There is also an amortising cash reserve fund sized at 1.2% of the outstanding instruments. However, this provides limited credit enhancement as it is topped up in a senior position in the waterfall and the majority of release amounts are paid out of the structure to VW.

Portfolio Amortisation

The originator provided the scheduled amortisation profile of the portfolio, split by the PCP, HP and LP sub-portfolios and by the instalment and RV portions of the receivables. Fitch then accounted for the impact of defaults and prepayments on the speed at which the portfolio amortises in its cash flow model. Interest income was generated on non-delinquent receivables. Available cash was distributed in line with the transaction's waterfall.

Default Timing

Defaults were allocated using front-, evenly and back-loaded default timing assumptions, which consider the weighted average life (WAL) of the portfolio net of base case prepayments, in line with Fitch's *Consumer ABS Rating Criteria*. The months in the table below refer to the month in which the borrower first becomes overdue. The default is assumed to follow three months later, in line with the typical policies of the servicer.

Default Timing – PCP Loans (19 Months Net WAL)

Months (%)	1-5	6-10	11-14	15-19	20-24	25-29	30-33
Front	40	25	20	10	5	0	0
Even	17	17	17	17	17	15	0
Back	10	12.5	12.5	15	22	15	13

Source: Fitch Ratings

Default Timing – HP and LP Loans (15 Months Net WAL)

Months (%)	1-4	5-8	9-11	12-15	16-19	20-23	24-26
Front	40	25	20	10	5	0	0
Even	17	17	17	17	17	15	0
Back	10	12.5	12.5	15	22	15	13

Source: Fitch Ratings

The front-loaded default timing scenario is the most stressful for the transaction, despite the fact that amortisation is non-sequential. As discussed in the Transaction Structure section, amortisation begins sequentially until the senior instruments build OC up to a target threshold. The target OC is never reached under high rating stresses, meaning the timing of loss-based performance triggers does not impact the length of the pro rata period. This results in front-loaded defaults being most stressful, because in this scenario the performing receivables balance reduces more quickly, which has a compressing impact on excess spread.

Prepayments

Fitch tested the structure under a 0% prepayment assumption in high rating scenarios and modelled a linear distribution between 0% at 'AA-sf' and base case (i.e. 20%) at 'Bsf' in line with its criteria for transactions exposed to VT risk. The agency did not differentiate between high and low prepayment scenarios.

Lower prepayments are more stressful for the transaction. Although the compression of excess spread is reduced in the absence of prepayments, this effect is dominated by the fact that prepayments result in lower RV exposure. Borrowers who prepay their loan must pay the full outstanding balance of their loan, meaning no market value risk arises.

Recovery Timing

The recovery timing was derived qualitatively based on the servicer's collection process and the servicer reports of other transactions rated by Fitch. The agency assumed that the majority of recoveries are received when vehicles are sold, assumed to occur within three months of a default.

Recovery Timing

Month after default	3	6	9	18	24
Recovery timing (%)	65	10	10	10	5

Source: Fitch Ratings

Portfolio Yield and Discount Rate

Fitch modelled a dynamic portfolio yield available to the issuer which evolves over time.

The weighted-average contractual yield of the portfolio is 5.8%, but the receivables were sold to the issuer applying a fixed discount rate of 8.0%. As of the closing date, this discount rate consists of the following components.

Discount Rate Calculation (%)

Weighted average swap rate	5.22
Servicing fee	1.00
Senior expenses	0.03
Interest compensation rate	0.60
Buffer release rate	1.15
Total	**8.00**

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

In determining the yield available to the issuer, Fitch considered the following:

- Unless a performance trigger is breached, the buffer release component of the discount rate is paid back to the seller, and so does not provide excess spread to the transaction.
- However, because the weighted-average swap rate tends upwards as the senior instruments amortise (given their lower swap rates), and the buffer release is calculated as the differences between 8% and the sum of the other discount rate components, the buffer release rate decreases over time.
- The interest compensation rate is initially only available to cover for losses related to the early termination of loans sold to the issuer at a premium.
- However, if the weighted-average swap rate increases to such an extent that the buffer release rate becomes negative, a portion of the interest compensation rate may be used to offset the negative buffer release amounts, subject to certain conditions being satisfied. Moreover, if a performance trigger is breached, the interest compensation rate becomes fully available to the issuer in available funds.

In our modelling, we therefore initially deduct the interest compensation and buffer release rates from the modelled yield. As the instruments amortise, the WA swap rate increasing causes the buffer release to decrease, resulting in a gradual increase in the yield modelled until the senior and junior instruments are amortising pro-rata with one another. If a performance trigger is breached, the full buffer release and interest compensation rates are added to the modelled yield.

Senior Fees

Fitch modelled 1.03% annual senior fees in each rating scenario. This is based on the documented 1.0% servicing fee and 0.03% administrative costs. We also assumed an annual fee floor of GBP220,000.

Interest Rate Stresses

We tested the ability of the structure to withstand rising, stable and decreasing interest rate scenarios. The applied interest rate stress assumptions were derived in accordance with Fitch's *Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria*.

Interest rate risk is mostly mitigated by the interest rate swap. Decreasing interest rates are marginally more stressful, because we assume the issuer earns a negative interest rate on its accounts in this scenario.

Rating Sensitivities

Rating Sensitivity to Increased Defaults and Reduced Recoveries

	Class A	Class B
Original Rating	AAAsf	A+sf
Increase defaults by 10%	AA+sf	A+sf
Increase defaults by 25%	AA+sf	A+sf
Increase defaults by 50%	AA+sf	A+sf
Reduce recoveries by 10%	AA+sf	A+sf
Reduce recoveries by 25%	AA+sf	A+sf
Reduce recoveries by 50%	AA+sf	A+sf
Increase defaults and reduce recoveries by 10% each	AA+sf	A+sf
Increase defaults and reduce recoveries by 25% each	AA+sf	A+sf
Increase defaults and reduce recoveries by 50% each	AA+sf	Asf

Source: Fitch Ratings

Rating Sensitivity to Reduced Net Sale Proceeds

	Class A	Class B
Original Rating	AAAsf	A+sf
Reduce net sale proceeds by 10%	AAsf	Asf
Reduce net sale proceeds by 25%	A+sf	BBBsf
Reduce net sale proceeds by 50%	BBBsf	BB+sf

Source: Fitch Ratings

Rating Sensitivity to Multiple Factors

	Class A	Class B
Original Rating	AAAsf	A+sf
Increase defaults by 10% and reduce recoveries and net sale proceeds by 10% each	AAsf	A-sf
Increase defaults by 25% and reduce recoveries and net sale proceeds by 25% each	Asf	BBBsf
Increase defaults by 50% and reduce recoveries and net sale proceeds by 50% each	BBBsf	BBsf

Source: Fitch Ratings

Rating Sensitivity to Positive Factors

	Class A	Class B
Original Rating	AAAsf	A+sf
Reduce defaults and increase recoveries by 10% each	See below	A+sf
Increase net sale proceeds by 10%	See below	AA+sf
Reduce defaults by 10% and increase recoveries and net sale proceeds by 10% each	See below	AA+sf

Source: Fitch Ratings

The class A notes / senior Schuldschein Loans are at their maximum achievable rating and cannot be upgraded.

The Rating Sensitivity section provides insight into the model-implied sensitivities the transaction faces when one assumption is stressed, while holding others equal. The modelling process uses the estimation and stress of these variables to reflect asset performance in a stressed environment. The results below should only be considered as one potential outcome, as the transaction is exposed to multiple dynamic risk factors. It should not be used as an indicator of possible future performance.

No change or positive change	-1 category change	-3 or larger category change
Negative change within same category	-2 category change	

Transaction Structure

The table below shows a simplified overview of the issuer balance sheet at closing.

Balance Sheet at Closing

Assets	Amount (GBPm)	Liabilities	Amount (GBPm)	Size (% of Receivables)
Receivables	1,107.3	Class A	646.9	58.4
Cash reserve	10.9	Senior Schuldschein Loans	137.9	12.5
		Class B	65.2	5.9
		Junior Schuldschein Loans	54.3	4.9
		Subordinated Loan	136.4	12.3
		PPD OC	66.6	6.0
		PPD cash reserve	10.9	1.0
Total	**1,118.2**		**1,118.2**	**101.0**

Notes: PPD - Purchase price discount. Liabilities' total is based on the unrounded liabilities' amounts
Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

The issuance consists of both notes and Schuldschein loans. The classes A and B notes rank pari passu with the senior and junior Schuldschein loans, respectively. The acquisition of the portfolio was financed through the issuance of the rated instruments, the subordinated loan and a discount to the purchase price (which provides further OC).

In addition, there is a cash reserve fund sized at 1.2% of the outstanding instruments. This was also financed through a purchase price discount. The reserve will amortise in line with the senior and junior instruments, subject to a floor of the greater between 0.6% of the maximum discounted receivables balance and the outstanding balance of the instruments.

The reserve primarily provides liquidity coverage for senior fees and interest on the instruments. Its ability to provide credit enhancement is limited, because release amounts from the reserve as it amortises will be paid first to the subordinated lender and then to VWFS UK (unless a credit enhancement increase condition is in effect). However, the reserve can be released to amortise the instruments at the earlier of the legal final maturity date and the date on which the portfolio balance decrease to zero, at which point it can provide CE.

The issuer purchased the portfolio at a net present value price, calculated using a single discount rate fixed at 8.0%. The fact that the discount rate exceeds the weighted-average contractual interest rate of the pool means that there is some artificial excess spread provided by the discounting. However, a portion of the discount rate will usually be excluded from available funds. See Portfolio Yield and Discount Rate.

Revolving Period

The transaction features a 14-month revolving period, during which time collections from the portfolio will be used to purchase further receivables rather than to amortise the notes.

The revolving period will irreversibly end upon the occurrence of any of the following:

a. A servicer replacement event;

b. The accumulation balance on two consecutive payment dates exceeds 15% of the outstanding discounted portfolio balance;

c. Senior instrument actual OC percentage falls below 28.87% on any payment date;

d. VWFS UK ceases to be an affiliate of VWFS AG or of any of its successors;

e. Seller fails to perform repurchase related obligations;

f. Issuer fails to replace the swap counterparty within 30 calendar days of termination or the swap counterparty does not post collateral according to provisions;

g. Foreclosure event (issuer insolvency events); or

h. Credit enhancement increase condition (CEIC) is in effect.

Credit Enhancement Increase Conditions

Trigger variable	Condition	Trigger level (%)
Dynamic net loss ratio	WA seasoning (WAS) of portfolio is ≤12 months	0.3
	WAS of portfolio is >12 and ≤22 months	0.75
	WAS of portfolio is >22 and ≤34 months	2.0
	WAS of portfolio is >34 months	n.a.
Cumulative net loss ratio	Months 1-5	0.8
	Months 6-14	1.8
	Month 15 onwards	4.0
180+ delinquency ratio	On any payment date until May 2024	1.3
A servicer replacement event (including servicer insolvency) occurs		
Insolvency of VWFS UK		
The cash reserve is not at its target amount for three consecutive payment dates		
The cash reserve is lower than 0.8% of the notes' balance on two consecutive determination dates		

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

In Fitch's view, the triggers linked to net losses and 180+ delinquencies are very unlikely to be breached during the revolving period. We believe the most effective performance trigger is the one linked to the senior OC, which is set 0.25pp below the level of OC at closing. We assume a migration of senior OC down to this trigger threshold during the revolving period.

Simplified Priority of Payments

Item	Description
1	Taxes
2	Amounts payable to the security trustee
3	Servicing fee
4	Other fees – e.g. to the account bank, corporate services provider, etc.
5	Payments to the swap counterparty
6	Class A / Senior Loan interest
7	Class B / Junior Loan interest
8	Replenishment of the reserve to its target amount
9	Class A / Senior Loan principal up to the target amount (or purchase receivables during revolving period)
10	Class B / Junior Loan principal up to the target amount (or purchase receivables during revolving period)
11	Payments to the swap counterparty other than those covered by (5)
12	Subordinated loan interest
13	Subordinated loan principal
14	Remaining amounts paid to VWFS UK

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

The transaction has a combined waterfall with hybrid pro rata amortisation. The senior and junior instruments have target OC levels as summarised below.

Current and Target OC Levels (%)

	OC at Closing	Target OC During Revolving Period	Target OC During Amortisation	Target OC After Occurrence of CEIC
Class A/Senior Loan	29.12	31.12	33.12	100.0
Class B/Junior Loan	18.32	20.32	22.32	100.0

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

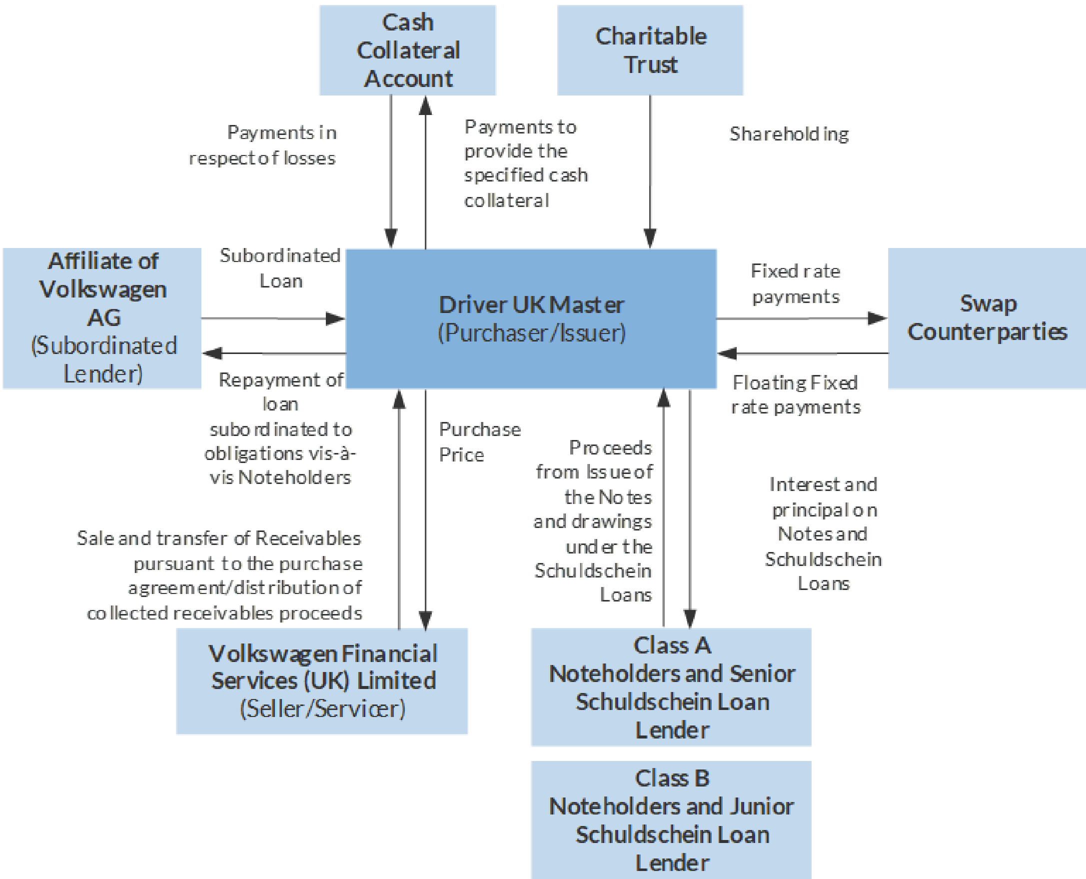
During the revolving period, further receivables transferred to the issuer to replenish the portfolio are sold with a 3.664% haircut to the purchase price, allowing for a build-up of OC towards to the target OC thresholds applicable during the revolving period. Once these targets are satisfied, any excess cash is allowed to flow down the waterfall to make payments to the subordinated loan.

Following the end of the revolving period, all instruments will begin amortising sequentially until the senior instruments have reached their target OC applicable during the amortisation period. At this point, the senior OC will be held constant at the target, with excess cash allocated to the junior instruments until their target OC is reached. When both the senior and junior instruments are at target OC, they amortise pro rata with one another to hold these levels stable, with excess cash being used to amortise the subordinated loan.

If a CEIC occurs, or if the remaining balance of the portfolio is less than 10% of its maximum balance, the target OC will increase to 100% for all classes, meaning amortisation becomes irreversibly strictly sequential.

Fitch incorporated the CEICs and amortisation mechanics in its cash flow modelling. We observed that under high rating stresses, there is limited reliance on the loss triggers to end the pro rata period. This is because it is difficult for target OC thresholds to be satisfied when portfolio losses are high, preventing the initial switch to pro rata. In lower rating scenarios, pro rata periods are naturally much longer.

Structure Diagram



Source: Fitch Ratings

Tap Issuances and Additional Series

The issuer may issue further instruments during the revolving period – either by tapping up existing instruments or by issuing entirely new series. This would also result in an increase in the balance of the portfolio, as the further issuances would finance additional receivables. The reserve fund would also need to increase in size, proportionally with the increase in the balance of the outstanding instruments.

Further issuances must comply with a documented capital structure, in which the senior and junior instrument OC is aligned with initial OC levels as of closing. If the actual OC levels at the time of the further issuance exceed the levels in this documented structure, then such issuance could have a diluting effect on overall OC which may have built up during the revolving period.

The proceeds from any further issuances will be used to purchase performing assets only, reducing the relative share of delinquent loans in the aggregate portfolio.

Term Take-Outs

The transaction documents allow receivables to be taken out of the portfolio acquired by the issuer in order to be securitised in a term transaction. The portfolio may change materially when a term take-out occurs. The documents foresee that Fitch will receive a confirmation request prior to the execution of the onward transfer and will review the post take-out pool composition.

Only performing receivables are eligible for a term take-out, meaning the relative share of delinquent receivables in the pool increases. However, the portfolio deterioration is captured by the redemption mechanism, which applies funds received from the sale of the assets outside the waterfall first to amortise the senior instruments to a target balance, then the junior instruments to a target balance. Only the remaining portion is used to amortise the subordinated loan.

Only limited credit is therefore given to the delinquent portion of the pool in the calculation of the required redemption amounts. This mechanism results in a build-up of OC to compensate for the increased share of non-performing assets.

Amortising and Non-Amortising Series

The class A 2023-2 and class B 2023-2 will be amortising from closing, while all other series will revolve during the initial 14-month revolving period. After this, although the overall transaction revolving period may be extended, each respective investor can decide not to prolong their series. In such a case, this series will become an amortising series.

If all investors decide not to prolong their series, then the revolving period is terminated and the transaction becomes amortising.

If some series becomes amortising while others continue to revolve, funds will be applied to these series according to fixed amortisation factors equal to the relative size of each series at the point amortisation starts. Fitch does not believe the revolving series are worse off from a credit perspective, since the minimum CE has to be maintained to continue the revolving period.

In case all series start amortising (once the revolving period ends), the amortisation factors will be re-calculated based on the relative size of each of the series in that period. These amortisation factors will be applied to redeem instruments of the same seniority on a pro-rata basis. In this case, all series which are pari passu with one another will be repaid down to zero at the same time.

Interest Compensation Mechanism

Although the portfolio is sold at a discount on aggregate, some loans in the pool have a contractual interest rate which exceeds 8%, meaning they are purchased at a premium.

If a contract that was purchased at a premium is terminated before maturity due to default, VT or prepayment, the issuer will incur an additional loss, because the terminated balance, calculated using the contractual APR, will be lower than the outstanding balance calculated using the discount rate. Any sale proceeds following VT, prepayments or recoveries will therefore be received based on a lower net present value.

The portion of the discount rate corresponding to the interest compensation rate may be used to compensate the issuer for such losses.

Upon the occurrence of a credit enhancement increase condition, the full balance of the interest compensation ledger (which was funded at GBP4 million at closing), as well as any future receipts related to the interest compensation rate component of the discount rate, will form part of available funds and provide further protection to the rated instruments.

Interest Rate Swap

At closing, the issuer entered into swap agreements with ING Bank N.V. to hedge against the fixed-floating interest rate mismatch. The issuer pays a fixed rate, and receives SONIA plus the margin on the instruments.

The swap notional is the outstanding balance of the senior and junior instruments, unless a servicer termination event has occurred, in which case the notional for the senior instruments switches to become the lesser of the outstanding senior instrument balance and a 0% CPR notional schedule.

Fitch believes that senior instrument notional following a servicer termination event could lead to a small amount of under-hedging in the tail of the transaction. However, in our view the available CE is sufficient to cover this.

Clean-Up Call

VWFS UK has the option to repurchase all receivables to redeem the notes at the earlier of the payment date on which the aggregate outstanding portfolio balance is less than 10% of the maximum discounted portfolio balance. Fitch has not considered this clean-up call option in its cash flow modelling, instead modelling the transaction for timely payment of interest and ultimate payment of principal by the legal final maturity date.

Rating Confirmations

Fitch is not a transaction party and has no obligation to provide rating confirmations. We will continue to exercise our discretion in choosing to issue a rating confirmation or otherwise. Where relevant to our ratings, we prefer to issue public commentary on the rating impact of the change. Fitch's approach to and concerns regarding rating confirmation are highlighted in the agency's report *Rating Confirmations in Structured Finance and Covered Bonds*.

Disclaimer

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

Impact of Banking Act 2009 and Related Secondary Legislation

The Banking Act 2009 and related secondary legislation (the Act) confers wide-ranging powers on the UK financial authorities to deal with the failure (or likely failure) of certain UK incorporated entities, including authorised deposit-taking institutions and investment firms. The greatest element of uncertainty arises from the provisions in the Act that empower the authorities to potentially override the contractual obligations of a financial institution (or a related group company) in a structured finance transaction. This could have implications for the enforceability of contractual or servicing arrangements within structured finance transactions.

Fitch does not expect the Act to affect ratings for structured finance transactions. This is based on several factors, including the government's guidance as to how and in what circumstances the authorities will use their powers under the Act, which provides for certain safeguards applicable to structured finance arrangements.

Nevertheless, Fitch will continue to monitor developments with respect to the Act to determine whether there could be any rating impact to the transaction.

Counterparty Risk

Counterparty Risk Exposures

Counterparty Type	Counterparty Name	Rating	Minimum ratings and remedial actions under documents	Analytical adjustments
Transaction Account Bank	Bank of New York Mellon, London Branch	Deposit Rating: AA+ / Stable / F1+	Minimum IDR (or deposit ratings as applicable) of 'A' or 'F1'; replacement or guarantee within 60 calendar days of downgrade below both minimum ratings.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Interest Rate Swap Provider	ING Bank N.V.	DCR: AA-(dcr) IDR: AA-/Stable/F1+	Minimum IDR (or derivative counterparty rating, as applicable) of 'A' or 'F1'. Upon the loss of 'A' and 'F1', post the mark-to-market portion of the collateral within 14 calendar days, and within 60 calendar days either post the volatility cushion and liquidity adjustment portions of the collateral, replace the counterparty with an eligible institution or obtain a guarantee. Upon the loss of 'BBB-' and 'F3', post the mark-to-market, volatility cushion and liquidity adjustment portions of the collateral within 14 calendar days, and either replace the counterparty with an eligible institution or obtain a guarantee within 60 days.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Servicer	Volkswagen Financial Services (UK) Ltd.	Not rated. Volkswagen AG as ultimate parent is rated A-/ Stable.	Upon the loss of 'BBB' or 'F2', post collateral within 14 calendar days to cover expected future collections.	No adjustment. Minimum rating and remedial actions are sufficient to mitigate commingling risk.

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 6

Criteria Application, Model and Data Adequacy

Criteria Application

See page 1 for the list of Applicable Criteria.

Fitch applies the *Consumer ABS Rating Criteria* and the *Consumer ABS Rating Criteria – Residual Value Addendum* as its sector-specific criteria under the overarching framework provided by the *Global Structured Finance Rating Criteria*, which is the master criteria for the sector. The *Structured Finance and Covered Bonds Country Risk Rating Criteria* outline Fitch's approach to assigning and maintaining structured finance and covered bond ratings, where the relevant sovereign's Local-Currency Issuer Default Rating is below 'AAA'. The remaining criteria listed under *Applicable Criteria* are cross-sector criteria that outline Fitch's approach to counterparty risk and interest rate change vulnerability that are relevant for the ratings.

Models

The models below were used in the analysis. Click on the link for a description of the model.

Consumer ABS Asset Model

UK Voluntary Termination Model

Multi-Asset Cash Flow Model

Data Adequacy

Fitch relied on the following key data sources provided by VWFS UK in its analysis:

- origination volumes since 2002 for the sub-portfolios of new/used vehicles and HP/PCP/LP contracts;
- dynamic, monthly delinquency data from June 2007 for the combinations of sub-portfolios of new/used vehicles and HP/PCP/LP contracts;
- static, quarterly gross and net loss vintages since 2002 for all combinations of the sub-portfolios of product type (PCP/HP/LP), vehicle type (new/used) and termination type (default, VT, RV early settlement);
- recovery data since 2002, split by all combinations of contract type (PCP/HP/LP), vehicle type (new/used) and termination type (default, VT, RV, early settlement). The data are split by cash and sale recoveries, and by amounts received before and after 18 months from default;
- dynamic, monthly profit and loss data on VT terminations since July 2002 and RV sale proceeds since September 2004;
- loan-by-loan data of the final pool with cut-off date February 2023;
- scheduled amortisation profiles for the final pool; and
- dynamic, monthly prepayment data from June 2008 for the originator's overall loan book.

In Fitch's view, the overall level of data available was adequate to support the rating analysis.

Use of Third-Party Due Diligence Pursuant to SEC Rule 17g-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

Surveillance

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

Fitch will receive monthly investor reports detailing the performance of the portfolio. The monthly reports will provide the basis for the agency's surveillance of the performance of the transaction against base-case expectations and the performance of the industry as a whole. Where appropriate, the agency may ask to monitor further data from VWFS UK.

The ratings on the transaction will be reviewed by a committee at least once every 12 months, or when considered appropriate (e.g. if there is a deterioration in performance, an industry-wide development, or a change at VWFS UK that may influence the transaction) with any affirmation or change in the ratings disseminated publicly.

Appendix 1: Origination and Servicing

Originator Overview

VWFS UK is wholly owned by VW Finance Overseas B.V. which, in turn, is a wholly owned subsidiary of VWFS AG, which has its headquarters in Braunschweig, Germany. It offers finance products in the UK, supporting the automotive brands within the VW Group, including Volkswagen, Volkswagen commercial vehicles, Audi, Porsche, Lamborghini, Bentley, Cupra, SEAT and Skoda.

VWFS UK was established in 1994. It is the second-largest (in terms of retail financing) finance subsidiary within the VW Group after the German parent company operation. The subsidiary employs more than 900 people at its administrative and operational base in Milton Keynes.

Origination volumes grew rapidly from 2010 to 2017, supported by increasing finance penetration in the UK and the popularity of PCP agreements. New business growth flattened in 2018 and 2019, mirroring broader trends in the UK car market, before falling rapidly in 2020 due to the Covid-19 pandemic. Volumes have since recovered, driven by increased used car financing and further supported by rising car prices leading to higher average financed amounts.

Underwriting

Contract applications are made through VW's dealer network. The applications are input by the dealer in VWFS UK's in-house-developed credit application system. The system then accesses data from Experian and TransUnion, two credit reference agencies, to verify customer data and obtain additional credit information on the applicant.

The scoring system used by the originator classifies applications into five risk bands (low to high). The lowest-risk bands are generally automatically accepted as part of the scoring process; the higher-risk bandings are judged by an underwriter and have lower acceptance rates. The highest bands will have zero acceptances.

Prior to contract activation of accepted applications, additional fraud and anti-money laundering checks are performed. Both automated and manual approvals are monitored by VWFS UK's risk management against internal targets.

Residual Value Setting

For setting the RVs of the VW brands, VWFS UK relies mainly on its own monthly disposal data and on an anonymous comparison of RVs across the industry provided by an external provider. Remarketing performance data are used both from VWFS UK and VW Group to set the starting point value for each key model. The expected life cycle depreciation is incorporated based on historical experience. At the same time, depreciation is adjusted depending on the specifics of each model, including all the possible variations of the model and its accessories.

The contractual RV is set and reviewed in a committee consisting of senior staff from across the business on a monthly basis for VW Group brands. The contractual balloon amount at maturity is set with a buffer below the projected market RV to avoid remarketing losses. Only a small percentage of vehicles from monthly maturing PCP contracts has been returned historically.

VWFS UK regularly monitors the vehicles' remarketing performance. It also tracks the return rates of vehicles on PCP agreements and the forecast equity of vehicles based on external valuation forecasts. Finally, the average value of used cars is tracked against the retail price index to indicate how the market is behaving in comparison to the wider economy.

Servicing and Collections

Obligors pay via direct debit. VWFS UK's collection process is managed in-house for the early arrears stages. Based on the contracts' risk profiles and balance, arrears cases are assigned to different work queues. If a payment is not received by VWFS UK it is usual to automatically re-send the payment request. If payment fails for a second time, VWFS UK will contact the obligors by telephone or, if the obligors cannot be contacted by telephone, by letter.

Contracts are typically terminated by VWFS UK after 90 days of delinquency and written off 180 days after termination. The repossession process is outsourced to external agents who will either arrange for the delivery of the vehicle or alternatively collect payment of the outstanding balance. If a customer has paid more than a third of the total amount payable prior to termination, then VWFS UK will proceed with a return of goods action via its solicitors.

VWFS UK's remarketing strategy uses a "blended" sales approach that aims to maximise used vehicle sales values and volumes, control stock and protect residual values. Vehicles are mainly sold through VWFS UK's online portal, offered first to the dealer network and then to third party buyers. Unsold vehicles are then moved to centres run by BCA Marketplace. Additional sales channels place vehicles with the brand network or through joint brand auction initiatives. Auction performance, stock and conversion rates are regularly monitored by brand and contract and benchmarked.

Appendix 2: ESG Relevance Score

FitchRatings

Driver UK Master S.A. - Compartment 6

SF ESG Navigator
ABS - Auto

Credit-Relevant ESG Derivation

Driver UK Master S.A. - Compartment 6 has 6 ESG potential rating drivers

- Driver UK Master S.A. - Compartment 6 has exposure to regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards but this has very low impact on the rating.
- Driver UK Master S.A. - Compartment 6 has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	4	issues	2
	4	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	3	Regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards	Asset Quality; Surveillance	5
Energy Management	2	Assets' energy/fuel efficiency and impact on valuation	Asset Quality; Surveillance	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Surveillance	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Compliance with consumer protection related regulatory requirements, such as fair/transparent lending, data security, and safety standards	Operational Risk; Surveillance	4
Labor Relations & Practices	2	Labor practices, pension obligations and related litigation	Surveillance	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior	Asset Quality; Surveillance	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Asset Isolation and Legal Structure; Asset Quality; Rating Caps; Surveillance	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Rating Caps; Surveillance	4
Transaction Parties & Operational Risk	3	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Asset Quality; Financial Structure; Operational Risk; Rating Caps; Surveillance	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Surveillance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the Sustainability Accounting Standards Board (SASB).

CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

New Issue Disclaimer

Closing occurred on 27 March 2023. The ratings disclosed in this report are based on the portfolio information as of 28 February 2023 and final documents as of 27 March 2023. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other material should be reviewed prior to any purchase.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.