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Ratings

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New Issue: Driver UK Master S.A., Compartment 2 (Series 2019-1 And 2019-2)

Up To £10 Billion Asset-Backed Floating-Rate Notes Program

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Ratings Detail

Ratings Assigned

Class	Rating*	Amount (mil. £)	Overcollateralization and subordination (%)	Cash reserve (%)	Available credit enhancement (%)	Interest (%)	Legal final maturity
A 2019-1	AAA (sf)	156.20	31.63	0.95	32.58	1ML + 0.65%	May 25, 2027
A 2019-2	AAA (sf)	124.90	31.63	0.95	32.58	1ML + 0.65%	May 25, 2027

*Our ratings address timely payment of interest and payment of principal no later than the legal final maturity date. 1ML – One-Month Sterling LIBOR

Supporting Ratings

Institution/role	Rating	Replacement trigger	Collateral posting trigger
HSBC Bank PLC as transaction bank account provider	AA-/Stable/A-1+	A/A-1	N/A
DZ BANK AG Deutsche Zentral-Genossenschaftsbank as interest rate swap counterparty	AA-/Stable/A-1+	A-	A-
Skandinaviska Enskilda Banken AB (publ) as interest rate swap counterparty	A+/Stable/A-1	A-	A-
Bank of Nova Scotia Bank as interest rate swap counterparty	A+/Stable/A-1	A	A

There are no counterparty constraints on the ratings of the notes in this transaction. The replacement language in the documentation is line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on March 9, 2019. For a full list of transaction participants, please refer to the appendix. N/A--Not applicable.

Transaction Summary

S&P Global Ratings today assigned its credit ratings to Driver UK Master S.A., Compartment 2's (DUKM C2) series 2019-1 and 2019-2 class A notes.

As part of the issuance of the series 2019 notes, Driver UK Master amended the transaction structure, including the credit enhancement increase condition mechanics and target overcollateralization levels for the outstanding class A and B notes issued in previous series.

This is a revolving transaction and as permitted under the transaction documentation, the issuer has extended the 12-month revolving period to May 2020 from May 2019.

A combination of subordination, overcollateralization, and a cash reserve provides credit enhancement.

Our analysis indicates that the series 2019 class A notes' available credit enhancement is sufficient to withstand losses that are commensurate with a 'AAA' rating.

Our ratings in this transaction are not constrained by the application of our sovereign risk in structured finance transactions, counterparty, or operational risk criteria (see "Related Criteria").

At closing, DUKM C2 used the issuance proceeds of the new rated notes and further advances (tap up) of the series 2016-2 class A notes, as well as an unrated subordinated loan, to purchase a portfolio of auto loans originated by Volkswagen Financial Services (UK) Ltd. (VWFS UK) and to partially redeem the series 2015-1 class A.

Following closing of the series 2019, the total outstanding issuance for the class A notes is £3,974 million, £611 million for the class B notes, and £955 million for the subordinated loan. The series 2019-1 and 2019-2 class A notes rank pro rata with the previously issued class A notes, and have the same levels of target credit enhancement and liquidity support.

Table 1

Capital Structure As Of The May 2019 Payment Date

	Balance(£)	Receivables balance (%)	Closing overcollateralization (%)
Total class A	3,974,340,262.43	68.37	31.63
Total class B	611,200,000.00	10.51	21.12
Subordinated loan	955,629,682.45	16.44	-
Overcollateralization	272,028,690.20	4.68	-

New receivables will be discounted at 5.872%, but the issuer will purchase them at a 2.83% purchase price discount.

The Credit Story

Strengths	Concerns and mitigating factors
• VWFS UK is a wholly owned subsidiary of Volkswagen Financial Services AG. It has over 17 years' origination and servicing experience. It is currently the Volkswagen group's second-largest retail financing subsidiary, after its German parent company. • The pool is granular and geographically diversified across the U.K. The pool has low borrower concentration risk, with the top 20 borrowers accounting for only 13 basis points. • Under certain conditions related to deteriorating asset performance, the transaction switches from pro rata to sequential amortization. • The structure benefits from an amortizing cash reserve, which the issuer fully funded 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 B notes. Ultimately, it is available to repay the notes at the end of the transaction's life.	• The transaction's payment structure is not fully sequential. Once certain target overcollateralization levels have been reached (and as long as they are maintained), the issuer pays principal pro rata on the class A and B notes. We have accordingly stressed cash flows for each rating level, which included modeling the potential switch from pro rata to sequential payment. • During the 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 personal contract plan agreement loan used vehicles (which cannot comprise more than 40%) and certain performance triggers (see "Credit enhancement increase condition"), which would stop the replenishment period if the transaction's performance were to deteriorate substantially. Furthermore, our base-case loss assumptions take into account deteriorating credit quality due to changes in the portfolio's composition. • There are balloon loans (personal contract plan loans), which do not fully amortize with the regular installments, and therefore have a single large payment at the contract's end. As a result, the transaction is exposed to market value risk and borrower payment shock. Additionally, during the revolving period the exposure to balloons might increase as there is no replenishment condition limiting the exposure to it. 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. 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 issuer is exposed to potential gross losses from voluntary termination, as permitted by the U.K. Consumer Credit Act. We have considered this when sizing the gross loss base-case assumptions. • Unlike most other European auto ABS transactions,

the structure does not have any excess spread. VWFS UK matches the transaction's interest receipts and expenses through the discounting mechanism, and if it is solvent, it receives any remaining amounts.

- The cash reserve amortizes, subject to a floor (minimum level). This reduces protection for the noteholders as the transaction nears maturity. We have incorporated the amortizing features in our cash flow model to account for its effect on available credit enhancement.
- 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 assumptions, we have stressed for the set-off open exposure.

Asset Description

The portfolio comprises auto finance receivables arising under hire purchase (HP) and personal contract purchase (PCP) agreements. The HP agreements are fixed rate, fully amortizing loan contracts, repayable in equal installments over the loan term. The PCP agreements are also fixed rate, fully amortizing finance contracts repayable in a series of equal installments followed by a larger optional final balloon installment.

In the case of PCP loans, at contract maturity, 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. HP loans do not have exposure to either balloon payments or market value risk.

The pool was audited by PricewaterhouseCoopers and the scope and results are within our permitted range. At closing, the securitized pool complied with the eligibility criteria.

Table 2

Collateral Distribution Of The Pool

Pool characteristics	Driver UK Master Compartment 2	Driver UK Master Compartment 2	Driver UK Master Compartment 2
Originator	VWFS UK	VWFS UK	VWFS UK
Country	U.K.	U.K.	U.K.
Pool cut-off date	April 30, 2019	April 30 2018	Jan. 31 2018
Closing date	May 28, 2019	May 25 2018	Feb. 26 2018
Aggregate discounted principal balance outstanding (£)	5,813,198,635	5,542,036,312	5,201,380,301
Discount rate (%)	5.8720	5.8720	5.8720

Table 2

Collateral Distribution Of The Pool (cont.)

Pool characteristics	Driver UK Master Compartment 2	Driver UK Master Compartment 2	Driver UK Master Compartment 2
Average remaining discounted loan principal balance (£)	14,981	14,313	13,906
Weighted-average life (months)	22	22	22
Weighted-average original term (months)	47.01	46.44	46.25
Weighted-average remaining term (months)	29.94	28.81	27.85
Weighted-average seasoning (months)	17.04	17.58	18.35
Percentage of pool discounted principal balance (%)			
Share of PCP	94.72	94.72	94.72
Share of HP	5.28	5.28	5.28
Balloon/residual value component	59.00	59.86	60.52
Share of new vehicles	69.86	74.06	75.44
Engine type			
Gasoline	58.91	52.06	50.17
Diesel	41.07	47.91	49.83
Other	0.02	0.04	-
EA 189 affected engines	0.14	0.51	5.25
Collection method - direct debit	99.75	99.66	99.62
Private obligor	97.35	97.24	97.24
Commercial obligor	2.65	2.76	2.76
Audi	49.93	51.41	51.13
Volkswagen	32.10	32.03	32.33
Skoda	9.17	8.90	8.89
Seat	6.50	5.59	5.56
Other	2.29	2.07	2.10
Largest borrower (%)	0.04	0.01	
Top 20 borrowers (%)	0.13	0.09	

*The pool is subject to change as the pool cut is based on an aggregate discounted principal balance. PCP--Personal contract purchase. HP--Hire purchase.

Originator And Servicer

VWFS UK is a wholly owned subsidiary of Volkswagen Financial Services AG and 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 of 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 credit profile of the customer 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 their ability to perform its functions in the transaction. Consequently, our operational risk criteria do not constrain the maximum potential rating assignable to the transaction.

As part of our analysis, we conducted an on-site visit to VWFS UK's headquarters in Milton Keynes and are satisfied that the underwriting and servicing standards remain among the highest of all European ABS issuers. There is no back-up servicer in place.

Credit Analysis

Our analysis includes an assessment of the credit risk inherent in the transaction under various stress scenarios. We based our credit analysis on our European auto ABS criteria for hostile terminations (HT) and voluntary terminations (VT) and our European consumer finance criteria for the residual value analysis (see "Related Criteria"). We have received historical quarterly performance data from September 2002 to December 2018. The quality of the data provided is in line with our standards.

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(also see related research).

Table 3

Economic Factors

	Actual	Forecast			
	2018	2019f	2020f	2021f	Baseline effect
Real GDP (y/y Growth, %)	1.4	1.1	1.4	1.3	Neutral
Unemployment Rate (annual average, %)	4.1	4.1	4.4	4.5	Neutral
CPI (%)	2.5	1.9	1.8	2.6	Neutral

Sources: National statistics offices, OECD, Eurostat, Bank of England, European Central Bank, S&P Global Ratings. CPI--Consumer price index. f--Forecast.

Defaults

Charts 1 and 2 show aggregated gross losses after loans were classified by the servicer as HT or VT for HP and PCP loans for new and used vehicles.

Chart 1

Cumulative Gross Loss Curves: HT Total Pool

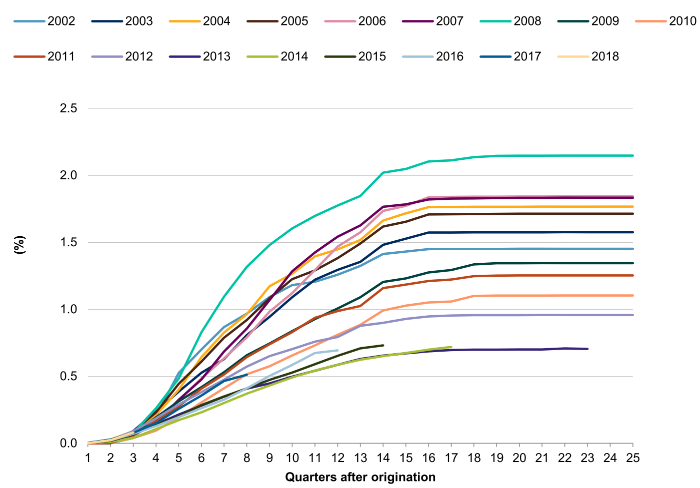
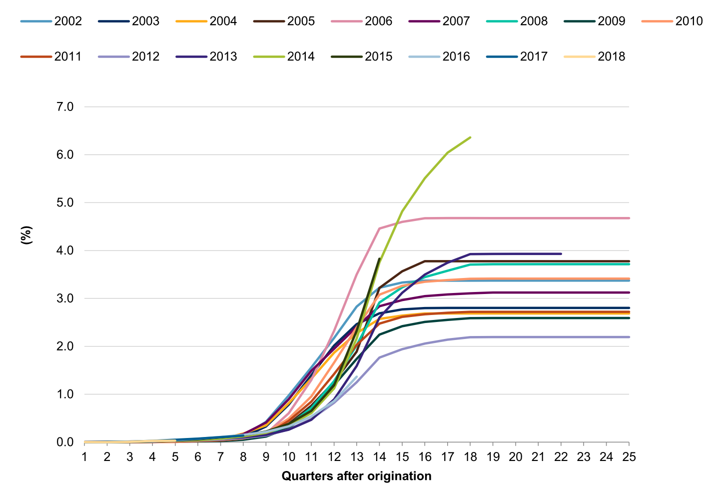


Chart 2

Cumulative Gross Loss Curves: VT Total Pool



We set our gross loss base-case assumptions for a total of eight subpools split between loan type (HP or PCP), vehicle type (new or used), and gross loss type (HT or VT). When sizing our base-case gross loss assumptions we took into consideration our latest U.K. economic outlook and the performance of the outstanding Driver UK transactions. 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 have calculated the weighted-average gross loss base case for the total pool based on this, rather than on the final pool composition. We set our gross loss multiples considering the originator's experience and the quality of the data provided. Table 6 summarizes our credit assumptions.

Table 4

Cumulative Gross Loss Rate And Cumulative Recovery

Sub-pools	Closing pool (%)	WPC (%)	Base-case gross losses (%)		Stressed recoveries for HT and VT	
			HT	VT	HT	VT
PCP new	68.99	50.00	1.30	5.00	40.00	40.00
PCP used	25.73	40.00	2.40	5.00	40.00	40.00
HP new	0.87	0.00	1.30	1.00	40.00	40.00
HP used	4.41	10.00	1.70	1.70	40.00	40.00
Weighted-average closing pool			1.60	4.82	40.00	40.00
Weighted-average WPC			1.78	5.00	40.00	40.00

PCP--Personal contract plan. HP--Hire purchase agreements. HT--Hostile terminated. VT--Voluntary terminated. WPC--worst pool composition.

In relation to HTs, borrowers' credit performance has slightly deteriorated in recent vintages. That said, in our view the deterioration is not sufficient to warrant a change in our assumptions for each subpool in comparison to our May 2018 review.

On the other hand, the performance of the VT subpool has deteriorated in recent years. Losses and the frequency of contracts exercising the right to voluntarily terminate have increased over the past three years. We previously increased our assumptions for VTs and consider that the current level is sufficiently conservative for all subpools.

We have maintained our gross loss multiple assumptions for HT receivables of 4.5x at a 'AAA' rating level and 3.0x at a 'A+' rating level. Similarly, we continue to assume a multiple of 2.0x for voluntarily terminated receivables at a 'AAA' rating level and 1.63x at a 'A+' rating level. We stressed PCP residual value risk as an additional loss to the figures in table 7.

Table 5

Loss Multiples

Rating level	Hostile terminations-gross loss multiple	Voluntary terminations-gross loss multiple
AAA	4.50	2.00
A+	3.00	1.63

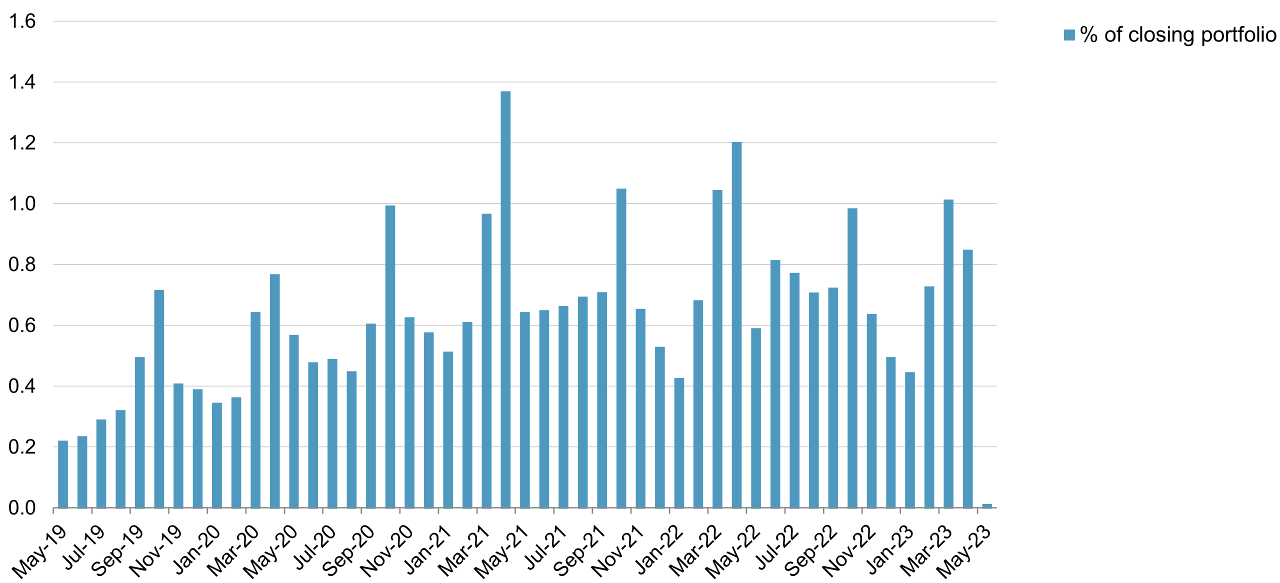
Residual value analysis

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

We assumed an adjusted market value decline of 33.6% in our 'AAA' rating scenario and of 22.8% in our 'A+' rating scenario. These assumptions build mainly on our assessment of the country characteristics, a softening of the market value of diesel vehicles, fleet composition, and the originator residual value setting policy, in addition to our standard market value decline assumption. We've based these figures on an assumed "turn-in rate" of 90%.

Chart 3

Securitized Portfolio
Contract Balloon Maturity Profile



Recovery timings and recovery rate haircuts

The originator has provided monthly static cumulative recoveries data from January 2005 to December 2018. In a similar manner to gross losses, we have assigned base-case recoveries to each subpool (see table 5). We have also adjusted our recovery assumption to incorporate this transaction's purchase above par feature. The adjusted recovery rate is of 39.70%.

We have set our base-case assumptions with a recovery period of 12 months.

No title over the equipment

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.

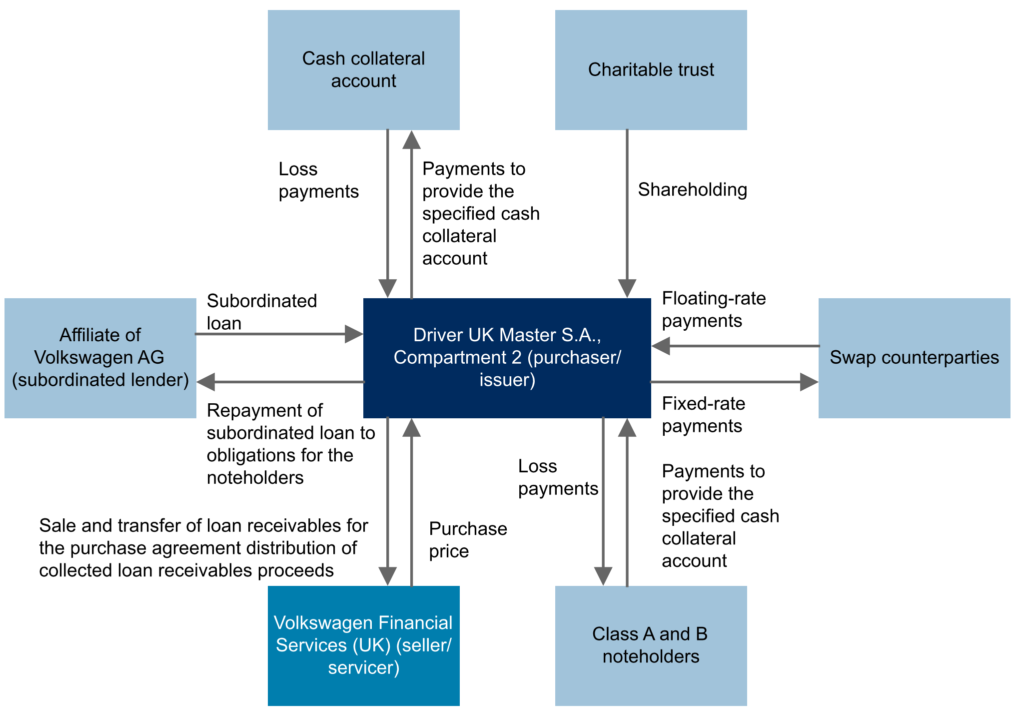
Transaction Structure

At closing, the issuer purchased a pool of auto loan receivables (see chart 4). The loan receivables are discounted at a fixed rate of interest, so that 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 B notes;
- The hypothetical swap rate due under the subordinated loan;
- The amount due to the interest compensation rate;
- The buffer rate; and
- Administrative expenses and a servicing fee.

Chart 4

Transaction Structure



The issuer is a Luxembourg special-purpose entity (SPE), which we assume to be bankruptcy remote for our credit analysis. We analyzed its corporate structure in line with our legal criteria and reviewed the transaction legal opinion, which provides comfort as to whether the structure achieves a valid and effective sale of assets (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). We believe that the sale of the assets would survive the seller's insolvency.

We have also reviewed tax opinions, which set out the issuer's tax liabilities under the current tax legislation. We believe that the issuer's cash flows are sufficient to meet all the tax liabilities identified.

Cash Flow Mechanics

The class A, B, and subordinated notes are denominated in British pounds sterling. The class A and B notes and the subordinated notes pay interest at a floating rate. The legal final maturity date is in May 2027.

Hedging

The issuer entered into fixed-to-floating interest swap agreements with three swap counterparties to hedge the risk between the fixed rate of interest paid by the assets and the floating rate of interest payable on the notes. The swaps are entered into for each of the 15 outstanding class A notes and the seven outstanding class B notes.

Issuer available funds

Before the issuer available funds calculation, provided that VWFS UK is solvent, the buffer release rate (of approximately 1.62% per year at closing) is deducted from the interest collections and paid to the seller outside the waterfall. Based on this, the effective yield of the portfolio equals 4.22% per year (5.872% per year discount rate, minus the buffer release rate). The buffer release could change if the revolving period were extended to compensate for changes in the interest rate in the structure. If the servicer becomes insolvent, the buffer rate will not be released and will be part of the issuer available funds.

Revolving period

During the revolving period, the issuer uses collections from the assets to purchase new receivables from the seller. The transaction revolves for an additional 12 months ending in May 2020, as long as none of the early amortization events occur, or a credit enhancement increase condition comes into effect.

Early amortization events

- Servicer replacement event.
- On two consecutive payment dates, the amounts sitting in the issuer accumulation account exceed 15% of the non-defaulted asset balance.
- On any payment date that falls after six consecutive payment dates following the initial issue date, the "Actual Class A Overcollateralization Percentage," under the transaction documents, is lower than 28.7%.
- The seller fails to perform its obligations under the receivables purchase agreement.
- VWFS UK is no longer an affiliate of Volkswagen Financial Services AG, or any of its successors.
- Foreclosure event.
- A credit enhancement increase condition is in effect.

Eligibility criteria

The transaction documents set out certain eligibility criteria for the initial pool and for the subsequent subpools added during the revolving phase. We considered this in our cash flow analysis when creating the worst potential pool at the end of the revolving period.

Eligibility criteria

- Borrowers are resident in England, Scotland, or Wales and are not affiliated with VWFS UK. Furthermore, defaulted or insolvent borrowers are excluded
- Receivables are denominated and payable in British pound sterling
- No purchased receivables are overdue
- Receivables come from valid financing contracts under the laws of England, Scotland, and Wales
- VWFS UK is the legal and beneficial owner of the receivables
- Receivables were originated during the normal course of VWFS UK's activities and comply with the Consumer Credit Act
- No receivable is overdue and maximum original maturity is 72 months
- The borrower must have paid at least one installment
- Receivables from loans with the same borrower cannot be higher than 0.02% of the pool balance
- The share of used vehicles limit is 50%
- The share of PCP for used vehicles limit is 40%
- The share of non-VW Group branded vehicles limit is 10%

Priority of payments

The class A and B notes pay interest in arrears on a designated date each month, at a rate of LIBOR plus a respective margin. The first interest payment date (IPD) is on June 25, 2019. The legal final maturity of the notes will be in May 2027.

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 2.

Table 6

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.

Table 6

Priority Of Payments (Simplified) (cont.)	
7	Interest on the class B notes.
8	Top-up cash reserve (only if drawn upon previously).
9	Class A notes' principal (sequential or pro rata).
10	Class B notes' principal (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 there is a credit enhancement increase condition, or if the servicer becomes insolvent.

A credit enhancement increase condition becomes effective if:

- For three consecutive payment dates, the dynamic net loss ratio exceeds: (i) 0.25%, if the weighted-average seasoning is less than 12 months (inclusive); (ii) 0.45%, if the weighted-average seasoning is between 12 (exclusive) and 22 months (inclusive); (iii) 2%, if the weighted-average seasoning is between 22 (exclusive) and 34 months (inclusive); or (iv) Not applicable, if the weighted-average seasoning is greater than 34 months.
- The cumulative net loss ratio exceeds: (i) 1.85%, during the revolving period; or (ii) 4.0% once the revolving period has ended. The definition of the cumulative net loss ratio has changed as part of this issuance.
- If the late delinquency ratio exceeds 0.7% on any payment date. During the revolving period, if it exceeds 0.7%, a rating agency confirmation could be obtained to waive this event.
- The originator becomes insolvent.
- The cash reserve falls below its required amount.

Table 7 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 at any time after a credit enhancement increase event occurs, or if the servicer becomes insolvent. Since May 2018, the actual overcollateralization percentages for the class A and B notes have 0.7% and 0.8%, respectively.

Table 7

Overcollateralization Levels

	Actual overcollateralization (%)		Target overcollateralization levels (%)		
Class	At closing	For any new issuance	Revolving period	Amortization period	Breach of a credit enhancement increase event
A	31.63	27.80	30.7	33.7	100.00
B	21.12	19.3	21.2	24.2	100.00

Further notes can be issued, subject to overcollateralization floor levels of 27.8% and 19.3% for the class A and B notes, respectively. We have therefore considered these levels for our cash flow assumptions.

Cash reserve

The issuer deposited 1.2% of the nominal amount of the notes 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) 1.2% of the nominal amount of the notes' balance, and (ii) the lesser of (a) 0.6% of the pool closing balance and (b) the class A and B notes' outstanding amount. If no credit enhancement increase condition is in place, the amounts that are released from the reserve are paid directly to the subordinated loan.

The issuer can invest funds in this account for terms of no longer than 30 days and, under the documentation, they must be invested with banks rated at least 'A-1'.

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 purchased 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. The reserve works by taking from the collections, each month, an amount (1.3%, multiplied by the future discounted receivables balance). 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 is released from the ledger into the priority of payments. If prepayment losses are greater than 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. After compensating for prepayment losses and the reserve being at target level, provided that the seller is solvent it directly receives any remaining excess.

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 the majority of 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 are deposited in the servicer collection account. The servicer transfers received collections into the SPE's transaction account bank opened with HSBC Bank PLC in the issuer's name.

Collections are swept monthly.

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

- Our short-term rating on Volkswagen Financial Services AG falls below 'A-2';
- Our long-term rating on Volkswagen Financial Services AG 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 actually 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 8

Cash Flow Assumptions

	Class A	Class B
Scenario	AAA (sf)	A+ (sf)
HT cumulative gross loss (%)	8.01	5.34
VT cumulative gross loss (%)	9.34	7.59
Recession start	Closing	Closing
HT and VT cumulative gross loss curve 1 (evenly distributed across 22 months; %)	1/22 per period	1/22 per period
HT and VT cumulative gross loss curve 2 (distributed across 22 months; %)	20/20/30/30	20/20/30/30
Recoveries (40% recovery rate adjusted by purchase price as a percentage of par; %)	39.7	39.7
Recovery lag (months)	12	12
Residual loss (applied over the survivor balloon portion after prepayment and defaults; %)	33.6	22.8
Residual realization lag (months)	0	0
WAC (%)	4.22	4.22
WAC after compression/WAC compression (%)	4.22	4.22
Servicing fee (%)	1.03	1.03

Table 8

Cash Flow Assumptions (cont.)

	Class A	Class B
Fixed fees (£)	100,000	100,000
Other fees (insolvency administrator incentive fee, as a percentage over recoveries [HTs, VTs, and RVs]; %)	5.0	5.0
CPR high (%)	30	30
CPR low (%)	0.5	0.5
Interest up	Up from current level to 14% in 2% monthly increase	Up from current level to 14% in 2% monthly increase
Interest down	From current level to 0% in 2% monthly decrease	From current level to 0% in 2% monthly decrease
Interest flat	At current level	At current level
Commingling loss (%)	0	0
Set-off loss (employee set off, other risks) applied on day 1 over closing balance (%)	0.13	0.13
Balloon/amortizing share (%)	60/40	60/40

HT--Hostile termination. VT--Voluntary termination. WAC--Weighted-average coupon. RV--Residual value. CPR--Constant prepayment rate.

We applied two different default curves distributed over a 22-month period (equivalent to the pool's weighted-average life). We stressed the prepayment rates and ran interest rate scenarios at the current levels, down to 0%, and up to 14%. We have also considered losses coming from prepayments due to asset price revaluations.

We also tested a negative interest rate scenario on the interest rate swaps, as the floating leg of the swaps does not contain a floor. We considered the exposure to negative interest rates for the amounts held in the issuer accounts, mainly collections and the cash reserve.

We have assumed asset yield to be equal to the discount rate net of the buffer component 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.

Our analysis indicates that the available credit enhancement for the class A and B notes is sufficient to withstand the credit and cash flow stresses that we apply at the 'AAA' and 'A+' rating levels, respectively.

Our ratings address both 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.

Sovereign Risk

Our long-term unsolicited credit rating on the U.K. is 'AA'. Therefore, our ratings in this transaction are not constrained by our structured finance sovereign risk criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities," published on Jan. 30, 2019).

Scenario Analysis

We analyzed the effect of a moderate stress on the credit variables and its ultimate effect on our ratings on the notes. We ran two scenarios to test the rating's stability, and the results are in line with our credit stability criteria (see "Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer To Future European Auto ABS Performance," published on May 12, 2009, and "Methodology: Credit Stability Criteria," published on May 3, 2010).

Appendix

Transaction Participants	
Originator and servicer	Volkswagen Financial Services (UK) Ltd.
Arranger	Lloyds Bank PLC
Lead manager	Lloyds Bank PLC
Managers	Mizuho Bank Ltd., DBS Bank Ltd., Citibank Europe PLC (London Branch), Barclays Bank Ireland PLC, Credit Agricole Corporate and Investment Bank, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Lloyds Bank PLC, Norddeutsche Landesbank Girozentrale, Santander Global Corporate Banking, Scotiabank (Ireland) DAC, Standard Chartered Bank, MUFG Securities EMEA PLC, NatWest Markets PLC, Barclays Bank PLC, BNP Paribas S.A., Bank of America N.A., London Branch, Skandinaviska Enskilda Banken AB (publ.), and Wells Fargo Bank N.A. (London Branch).
Seller	Volkswagen Financial Services (UK) Ltd.
Security trustee	Wilmington Trust (London) Ltd.
Corporate services provider	Circumference FS Services (Luxembourg) S.A.
Cash administrator	HSBC Bank PLC
Paying agent, calculation agent, interest determination agent, and custodian	HSBC Bank PLC
Subordinated lender	Volkswagen International Luxemburg S.A.
Data protection trustee	Wilmington Trust SP Services (Frankfurt) GmbH

Related Criteria

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- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities,

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Related Research

- European Auto ABS Index Report Q1 2019, May 17, 2019
- European Economic Snapshots: Domestic Demand Still A Safety Net, April 12, 2019
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- 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
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