MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns a definitive rating to new notes in Driver UK Master S.A., Compartment 2 Auto ABS

25 Nov 2021

24.9 million additional ABS Notes rated, relating to a portfolio of UK auto receivables

London, 25 November 2021 -- Moody's Investors Service, ("Moody's") has assigned the following definitive rating to Notes issued by Driver UK Master S.A., acting for its Compartment 2:

....GBP 24.9M Class B Series 2021-1 Floating Rate Asset Backed Notes due November 2029, Assigned Aa3 (sf)

Moody's has not assigned a rating to the GBP 71.0M Class B Series 2021-2 Floating Rate Asset Backed Notes due November 2029.

Moody's also affirms the existing ratings of Class A Notes issued by Driver UK Master S.A., Compartment 2:

....GBP 419.5M Class A Series 2013-2 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 200.0M Class A Series 2013-4 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 225.0M Class A Series 2013-8 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 100.0M Class A Series 2014-1 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 200.0M Class A Series 2014-2 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 394.5M Class A Series 2014-3 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 444.5M Class A Series 2015-1 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 484.5M Class A Series 2016-2 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 222.3M Class A Series 2018-1 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 237.2M Class A Series 2018-2 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 71.2M Class A Series 2018-3 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 337.5M Class A Series 2019-1 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 246.8M Class A Series 2019-2 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 182.8M Class A Series 2020-1 Notes, Affirmed Aaa (sf); previously on May 25, 2021 Affirmed Aaa (sf)

....GBP 84.1M Class A Series 2020-3 Notes Affirmed Aaa (sf); previously on May 25, 2021 Assigned Aaa (sf)

Moody's has also affirmed the existing ratings of Class B Notes issued by Driver UK Master S.A., Compartment 2:

....GBP 140.6M Class B Series 2013-3 Notes, Affirmed Aa3 (sf); previously on May 25, 2021 Affirmed Aa3 (sf)

....GBP 27.7M Class B Series 2018-1 Notes, Affirmed Aa3 (sf); previously on May 25, 2021 Affirmed Aa3 (sf)

....GBP 88.4M Class B Series 2018-2 Notes, Affirmed Aa3 (sf); previously on May 25, 2021 Affirmed Aa3 (sf)

....GBP 0.1M Class B Series 2018-3 Notes, Affirmed Aa3 (sf); previously on May 25, 2021 Affirmed Aa3 (sf)

....GBP 68.7M Class B Series 2020-1 Notes Affirmed Aa3 (sf); previously on May 25, 2021 Assigned Aa3 (sf)

RATINGS RATIONALE

The transaction is a revolving cash securitisation of hire purchase receivables and PCP receivables with related residual value cash flows extended by Volkswagen Financial Services (UK) Limited ("VWFS UK") (not rated) (fully owned by Volkswagen Financial Services AG (A3/P-2) to obligors located in the UK. The revolving period ends in November 2022.

The portfolio of underlying assets consists of auto financing agreements distributed through auto dealers in the UK and has a total amount of approximately GBP 6,714M.

As of October 2021, the pool cut shows 422,172 contracts with a weighted average seasoning of 17.8 months. The portfolio is collateralised by approximately 61% new cars and 39% used cars, and the vast majority of the financed vehicles are VW brands. Personal contract purchase ("PCP") agreements constitute approximately 93% and hire purchase agreements approximately 7% of the portfolio (of Outstanding Discounted Balance).

The ratings are primarily based on the credit quality of the portfolio, the structural features of the transaction and its legal integrity.

According to Moody's, the transaction benefits from credit strengths such as (i) the granularity of the portfolio; (ii) financial strength and securitisation experience of the originator; and (iii) high credit enhancement levels. However, Moody's notes that the transaction features some credit challenges such as residual value risk, a high degree of linkage to VWFS UK and commingling risk.

The revolving master structure allows for flexibility which could change the credit enhancement levels. This flexibility includes (i) the increase of the Notes' balances of existing series to the maximum issuance amounts; (ii) the issuance of additional series of Notes; and (iii) the take-out of assets in order to securitize them in the form of a term transaction ("term take-out").

Various mitigants have been put in place in the transaction structure, such as early amortization triggers, performance related triggers to switch to sequential amortization, eligibility criteria and provisions to ensure that the transaction is not negatively affected by the execution of the flexibility outlined above. Furthermore, rating triggers will provide additional reserves in case of a trigger breach. Collections are commingled at the collection account during monthly collection periods. The resulting commingling risk is partially mitigated by (i) the current rating of the servicer's ultimate parent Volkswagen Financial Services AG; (ii) cash advances upon a downgrade of Volkswagen Financial Services AG; and (iii) borrower notification to pay into the issuer account upon servicer insolvency.

Moody's analysis focused, amongst other factors, on (i) an evaluation of the underlying portfolio of receivables; (ii) historical performance on defaults and recoveries from Q3 2002 to Q2 2021; (iii) the credit enhancement provided by subordination and cash reserve; (iv) the liquidity support available in the transaction by way of the cash fund, principal to pay interest, and excess spread; and (v) the legal and structural aspects of the transaction.

PCP Handbacks: PCP agreements include a final balloon payment and permit obligors to return their vehicle at the end of the contract in lieu of final payment ("PCP Handbacks"). Therefore, portfolio cash flows result from fixed periodic instalment cash flows (approx. 40%) and residual value cash flows at the end of the PCP agreement (approx. 60%). There is no guarantee that actual RV cash flows will match the expectation, since such cash flows are by their nature subject to market value fluctuations. However, the transaction includes a commitment from the originator to repurchase receivables which have been subject to PCP Handback. This should substantially cover losses arising from lower residual values as long as VWFS UK continues to be solvent and able to execute these repurchases (see "Residual value risk credit enhancement ("RV CE") ").

Voluntary Terminations: Both HP and PCP agreements may be subject to voluntary termination ("VT") pursuant to the Consumer Credit Act. The lessee may, pursuant to section 99 of the CCA, terminate the relevant underlying contract and return the vehicle to the originator if the obligor has made payments equal to at least one half of the total amount which is payable for the good (including any deposit). VTs leave the lessor with the residual value (RV) risk of the vehicle.

The risk of losses from VTs is partially reduced in this transaction through a repurchase commitment by VWFS UK, which will repurchase receivables subject to voluntary terminations at their outstanding principal balance (together with any arrears outstanding) as long as VWFS UK continues to be solvent and able to execute these repurchases.

Moody's determined the portfolio lifetime mean loss rate ("expected loss") of 1% and Aaa portfolio credit enhancement ("PCE") of 8.5% related to borrower receivables. The mean loss rate captures our expectations of performance considering the current economic outlook, while the PCE captures the loss we expect the portfolio to suffer in the event of a severe recession scenario. Mean loss and PCE are parameters used by Moody's to calibrate its lognormal portfolio loss distribution curve and to associate a probability with each potential future loss scenario in its ABSROM cash flow model to rate Auto ABS.

The expected loss of 1% is lower than the EMEA Auto ABS average and is based on Moody's assessment of the lifetime expectation for the pool taking into account (i) historic performance of the book of the originator, (ii) benchmark transactions, and (iii) other qualitative considerations, such as the high balloon component of the portfolio.

The PCE of 8.5% is lower than the EMEA Auto ABS average and is based on Moody's assessment of the pool which is mainly driven by (i) the exposure to balloon payments despite considering the strength of the originator, and (ii) the relative ranking to originator peers in the EMEA market.

RESIDUAL VALUE RISK CREDIT ENHANCEMENT ("RV CE")

Moody's determined the Aaa RV CE of 17.6% and the Aa3 RV CE of 13.5% to account for the residual value market risk. RV CE captures additional portfolio losses which would arise on the securitised RV cash flows following a decline in the market prices of used cars in a severe recession environment. The pool contains lease agreements which permit the lessee to return their vehicle at the end of the lease in lieu of the final payment, which is not a default and thus is not captured in the loss assumptions for the lease receivables described in the previous section. Because of the rating gap between the notes' rating and the rating of the orignator's ultimate parent, the commitment from the originator to repurchase receivables, which have been subject to PCP handback, is only taken into account for the Aa3 RV CE. The sum of the RV CE and PCE, as described above, determines the total credit enhancement that is needed to be consistent with the rating for each Class of notes.

The principal methodology used in these ratings was "Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS" published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_1264141 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors that may cause an upgrade of the ratings of the Class B Notes include significantly better than expected performance of the pool together with an increase in credit enhancement of Notes.

Factors that may cause a downgrade of the ratings of the notes include a worsening in the overall performance of the pool, or a meaningful deterioration of the credit profile of the servicers or sponsor.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

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