Presale Report

Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK seven

DBRS Morningstar
September 2023

Contents

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Ratings, Issuer's Assets, and Liabilities

Debt	Par Amount (GBP)[1]	Initial Subordination (%)[2]	Coupon (%)[3]	Rating[4]	Rating Action	Rating Action Date
Class A Notes XS2673109042	[•]	29.1	Compounded Daily Sonia + [•]%	AAA (sf)	New Rating – Provisional	11 September 2023
Class B Notes XS2673109125	[•]	18.3	Compounded Daily Sonia + [•]%	A (high) (sf)	New Rating – Provisional	11 September 2023
Subordinated Loan	[•]	6.0	8.92	N/A	N/A	N/A
Overcollateralisation	[•]	0.0	N/A	N/A	N/A	N/A

1 Expected size as at the issue date.
2 Subordination is expressed in terms of portfolio overcollateralisation, and does not include the cash collateral account.
3 The minimum rate of interest on both classes of notes is floored at zero.
4 The ratings on the Class A Notes and Class B Notes address the timely payment of scheduled interest and the ultimate repayment of principal by the legal maturity date. For additional information on the meaning and scope of the financial obligations identified in this credit rating, please see Appendix D: Scope and Meaning of Financial Obligations.

	Initial Amount (GBP)	Size
Provisional Portfolio	500,009,488	100%
Cash Collateral Account	[•]	1.6% of the Rated Notes

DBRS Ratings Limited (DBRS Morningstar) assigned provisional ratings to the Class A Notes and Class B Notes (together, the Rated Notes) to be issued by Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK seven (the Issuer, or DUK7). The Issuer is a public limited liability company (société anonyme) incorporated in the Grand Duchy of Luxembourg, acting as a special-purpose entity specifically for the purpose of this transaction.

The transaction represents the issuance of Rated Notes backed by a provisional portfolio of approximately GBP 500 million in receivables related to hire purchase (HP), personal contract purchase (PCP), and lease purchase (LP) auto loans granted by Volkswagen Financial Services (UK) Limited (VWFSUK; the originator or the seller) to borrowers in England, Wales, Northern Ireland, and Scotland. The underlying motor vehicles related to the finance contracts consist of new and used passenger and light-commercial vehicles. VWFSUK also services the receivables.

Asset Class	Auto Loans with and without Residual Value
Governing Jurisdiction	United Kingdom of Great Britain and Northern Ireland
Sovereign Rating	AA, Stable trend

Provisional Portfolio Summary (as of 31 July 2023)

Provisional Portfolio Characteristics	DUK7
Number of agreements	23,885
Original aggregate outstanding receivables balance (GBP)	588,025,833
Outstanding aggregate discounted receivables balance (GBP)	500,009,488
-- of which new vehicles (%)	63.2
-- of which used vehicles (%)	36.8
-- of which PCP new vehicles (%)	62.2
-- of which PCP used vehicles (%)	31.0
-- of which HP new vehicles (%)	0.6
-- of which HP used vehicles (%)	5.4
-- of which LP new vehicles (%)	0.4
-- of which LP used vehicles (%)	0.3
-- of which retail customers (%)	99.1
-- of which corporate customers (%)	0.9
Average original outstanding receivables balance (GBP)	36,355
Average outstanding discounted receivables balance (GBP)	24,619
Weighted-Average Original Term (months)	47.4
Weighted-Average Remaining Term (months)	36.6
Weighted-Average Seasoning (months)	11.2
Weighted-Average LTV at Origination (%)	82.5

Source: VWFSUK.

Transaction Parties

Roles	Counterparty	Rating[1]
Issuer	Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK seven	Not Rated
Seller/Servicer/Subordinated Lender	Volkswagen Financial Services (UK) Limited	Not Rated
Cash Collateral Account Bank/Distribution Account Bank/Accumulation Account Bank/Counterparty Downgrade Collateral Account Bank/Cash Administrator/Paying Agent and Interest Determination Agent	The Bank of New York Mellon, London branch	AA (high), Stable trend
Registrar	The Bank of New York Mellon SA/NV, Luxembourg branch	AA (high), Stable trend
Security Trustee	Intertrust Trustees GmbH	Not Rated
Swap Counterparty	[•]	Not Applicable
Data Protection Trustee	Data Custody Agent Services B.V.	Not Rated
Corporate Services Provider	Circumference FS (Luxembourg) S.A.	Not Rated
Arranger/Joint Lead Manager	BNP Paribas	AA (low), Stable trend
Joint Lead Manager	BofA Securities	Not Rated
Joint Lead Manager	Lloyds Bank Corporate Markets Wertpapierhandelsbank GmbH	Not Rated

1 Ratings refer to Long-Term Issuer Ratings or Long-Term Senior Unsecured Debt Ratings unless otherwise specified.

Relevant Dates

Term	Description
Initial Cut-Off Date	31 July 2023
Closing Date / Issue Date	25 October 2023
Payment Date	25th calendar day of each month. The first payment date is 27 November 2023.
Additional Purchase Date	Any payment date, during the revolving period, when the amount standing to the credit of the accumulation account is used to purchase additional receivables from VWFSUK.
Revolving Period	From the closing date to the earlier of (1) the payment date falling in April 2024 and (2) the occurrence of an early amortisation event.
Class A/Class B Scheduled Repayment Date	25 March 2030
Final Maturity Date	25 April 2031

Rating Considerations

Notable Features

- The transaction represents the securitisation of automotive loan contracts comprising amortising loans, balloon loan receivables with and without a mandatory, final balloon payment. The initial pool of receivables comprises PCP (93.2%), HP (6.0%), and LP (0.9%). Most of the loans were granted to retail customers (99.1%), with the remainder (0.7%) granted to commercial customers. Most of the receivables are represented by new vehicles (63.2%).
- The Issuer is incorporated in the Grand Duchy of Luxembourg and the transaction documents are governed by English law and German law, while the loan contracts constituting the receivables are governed by English law.
- The transaction includes a six-month revolving period wherein the Issuer may purchase additional receivables subject to eligibility criteria and portfolio concentration limits.
- The discount rate of 8.244% is applied to the gross receivables balance, which includes all future interest and principal, to calculate the purchase price. The discount rate considers the transaction's senior liability costs plus an interest compensation rate of 0.6%.
- The discount rate comprises an interest compensation rate of 0.6%, which is available to compensate the Issuer for interest shortfalls suffered as a result of early settlements. The compensation is calculated as the difference between the discounted receivables balance of loans subject to early settlement and the net present value of the future payments of these contracts using the relevant internal rate of return (i.e. not the discount rate).
- The transaction has a mixed sequential/pro rata amortisation structure. Initially, all collections arising from the receivables will pay down the Class A Notes (in accordance with the relevant priority of payments). Once the Class A targeted overcollateralisation (OC) percentage reaches its target (31.1% during the revolving period and 33.1% after the revolving period), the Class B Notes begin to amortise. Once the Class B targeted OC percentage reaches its target (20.30% during the revolving period and 22.3% after the revolving period), the available distribution amounts are allocated on a pro rata basis to the Rated Notes until and unless the specified credit enhancement increase condition triggers are breached.
- All underlying contracts are fixed rate while the Rated Notes are floating rate. The swap counterparty for the transaction will be confirmed prior to closing.
- The majority of the loans relate to PCP contracts where the obligor repays less than the entire principal balance of the loan during its term, resulting in lower monthly payments and an optional, final balloon payment. The customer may elect to return the vehicle in lieu of the final balloon

payment. The optionality to return the vehicle introduces the transaction to residual value risk. The LP loans allow for the obligor to repay less than the entire principal balance of the loan during its term, resulting in lower monthly payments followed by a mandatory, final balloon payment, resulting in more concentrated collections when the balloon payments fall due. This payment can be affected by the underlying performance and liquidity of the used car market or the availability of refinancing opportunities, as the final balloon payment is typically funded through vehicle sales proceeds or is refinanced through another funding arrangement. The inclusion of the LP loans introduces incremental risk to the transaction.

- Some of the underlying loans were granted to individuals and are regulated by the UK Consumer Credit Act (CCA). The CCA grants additional rights to borrowers, such as the right to voluntarily terminate (VT) a finance contract. Upon exercising this right, the customer must pay or have paid at least 50% of the total amount due under the finance contract plus any outstanding arrears. The borrower is expected to take reasonable care of the goods, and the creditor is also entitled to recompense if that is not the case. The sale of a vehicle returned after the obligor exercises its right to VT may result in recoveries that amount to less than the amount outstanding under the financing contract; this feature directly exposes the Issuer to VT risk.
- Approximately 7.9% of the outstanding discounted balance consists of electric vehicles and approximately 3.8% consists of hybrid vehicles.

Strengths

- VWFSUK is a well-established and financially strong captive finance lender in the United Kingdom, and DBRS Morningstar considers it an experienced servicer. The transaction represents further European issuances of Notes backed by auto loan agreements through European subsidiaries of Volkswagen Financial Services AG.
- Prior transactions originated by VWFSUK have performed within DBRS Morningstar's expectations.
- Set-off risk is limited as the Originator is not a deposit-taking institution and VWFSUK represents and warrants to the security trustee that no purchased receivable is impaired by set-off rights.
- The transaction benefits from a liquidity reserve (the cash collateral amount) that is fully funded on the closing date. Amounts standing to the credit of the liquidity reserve are available to cover senior fees and expenses, the senior swap payments, and interest payments on the Rated Notes, and is available in full to the priority of payments on earlier of (1) the final maturity date or (2) the day on which the aggregate discounted receivables balance reduces to zero. The liquidity reserve is initially sized at 1.6% of the Rated Notes, and thereafter the higher of (1) 1.6% of the Rated Notes' outstanding balance as at each monthly period and (2) the lower of (a) 1.0% of the initial nominal amount of the Rated Notes and (b) the aggregate nominal amount of the Rated Notes outstanding as at the end of the monthly period. DBRS Morningstar estimates that this provides at least three months of coverage to pay interest in the absence of collections and after considering stressed senior fee and interest payment assumptions.
- DBRS Morningstar considers the portfolio to be granular. The maximum concentration of individual borrowers does not exceed 0.06% of the initial portfolio. The top 10 debtor exposure of the initial pool is 0.4%.
- The portfolio is mature with a WA seasoning of 11.2 months. DBRS Morningstar considers the portfolio's seasoned nature to be positive with respect to (1) the consistency of the transaction cash flows and (2) the credit risk associated with the underlying borrowers.

Challenges and Mitigating Factors

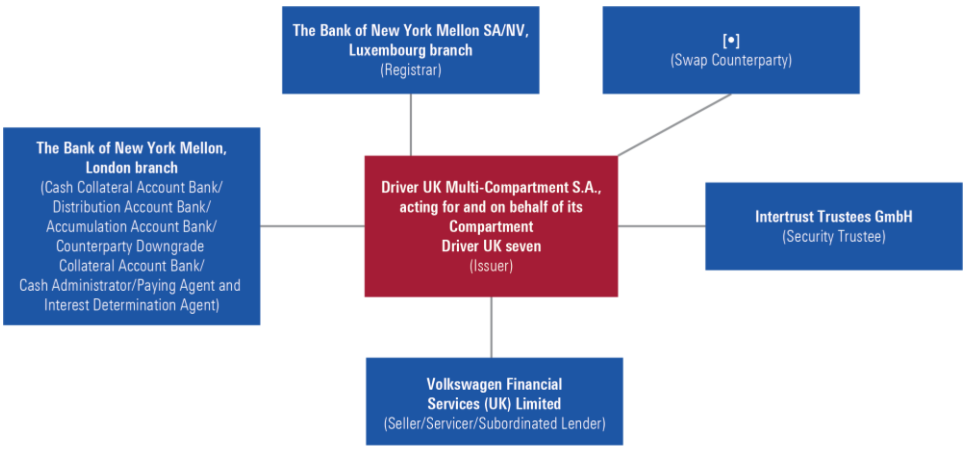
- Because of the transaction's mixed sequential/pro rata structure, there may be circumstances when the Class B Notes and the subordinated loan both amortise, while the Class A Notes are still outstanding.
  Mitigant: DBRS Morningstar has considered the transaction structure within its cash flow analysis. The Class A Notes also benefit from elevated target OC levels after the revolving period ends.
- Since the Issuer is expected to purchase additional receivables during the six-month revolving period, the pool composition at the end of the revolving period may differ from that at the issuance date.
  Mitigant: Additional receivables added to the portfolio during the revolving period must adhere to the specific global portfolio limits outlined in the transaction documents. DBRS Morningstar adjusted its cash flow analysis to accommodate a deterioration in the pool.
- The borrowers will repay approximately 0.7% of the aggregate discounted receivables balance in the form of loans exhibiting a mandatory, balloon payment at contract maturity. The final balloon components account for 0.4% of the aggregate discounted receivables balance. The concentration of final balloon payments exposes the transaction to incremental risk compared with amortising loans, as the borrower repays only a portion of principal until the final instalment of the loan and is then required to make the final balloon payment. This payment can be affected by the used car market's underlying performance and liquidity, as the final balloon payment is typically funded with vehicle sales proceeds.
  Mitigant: To mitigate the risk arising from balloon loans, DBRS Morningstar considered incremental balloon exposure as part of its rating-specific asset stresses. When assessing the sufficiency of credit enhancement afforded to the Rated Notes, DBRS Morningstar adjusted default multiples to include incremental balloon stresses.
- Receivables are subject to potential voluntary terminations (VT) pursuant to the UK CCA. DBRS Morningstar observed an increase in VT rates in the UK, specifically among PCP agreements with terms of four years or longer; these represent approximately 83.0% of the aggregate discounted receivables balance.
  Mitigant: DBRS Morningstar received static vintage data that outlined where customers have exercised VT and considered the portfolio's historic performance in arriving at its assumptions.
- Although the lease receivables are transferred at a discount rate of 8.244%, any excess is returned to the seller through the buffer release amount as described in the transaction waterfall (subject to the credit enhancement increase condition not being in effect).
  Mitigant: DBRS Morningstar considered the buffer release rate mechanism when analysing the transaction.

Transaction Structure

Transaction Summary	
Currency	The Issuer's assets and liabilities are denominated in British pound sterling (GBP).
Relevant Jurisdictions	Loan contracts are governed by the laws of England and Wales, Scots or Northern Irish law, as applicable. The English and German and Scots transaction documents are governed by the laws of England and Wales, the Republic of Germany, and Scotland, respectively. The Notes are governed by the laws of Germany. The Issuer is incorporated under the laws of the Grand Duchy of Luxembourg.
Interest Rate Hedging	An interest rate swaps will be in place at closing. Issuer pays: [•]% and [•]% under the Class A Notes and Class B Notes swaps, respectively.

Transaction Summary		
	Issuer receives: Compounded daily Sonia plus the Class A and Class B interest margins (as applicable). Notional: The applicable Class A Notes or Class B Notes principal amount outstanding. Floor: No floor.	
Basis Risk Hedging	N/A	
Liquidity Reserve	The liquidity reserve component of the cash collateral account provides liquidity support to the Class A Notes and Class B Notes. The reserve can be used to cover senior expenses, swap payments, and interest shortfalls.	
	Initial amount at closing	GBP [•] Corresponding to 1.6% of the Rated Notes' aggregate nominal amount at closing.
	Target amount	The higher of (1) 1.6% of the Rated Notes' aggregate nominal amount outstanding as at the end of the monthly period and (2) the lower of (a) 1.0% of the initial nominal amount of the Rated Notes and (b) the aggregate nominal amount of the Rated Notes outstanding as at the end of the monthly period.

The transaction structure is summarised below:



Source: Transaction documents.

Counterparty Assessment

Account Bank

The Bank of New York Mellon, London branch (BONYM-LB) has been appointed as the Issuer's account bank for the transaction. DBRS Morningstar publicly rates BONYM-LB as follows:

Debt Rated	Long-Term Rating	Long-Term Rating Trend	Short-Term Rating	Short-Term Rating Trend
Issuer Rating	--	--	R-1 (high)	Stable
Senior Debt	AA (high)	Stable	--	--
Deposits	AA (high)	Stable	--	--

DBRS Morningstar concludes that BONYM-LB meets the minimum criteria to act in this capacity. The transaction documents contain downgrade provisions relating to the account bank consistent with DBRS Morningstar's legal criteria where a replacement must be sought within 60 calendar days if the long-term rating of the account bank falls below a specific threshold (DBRS Morningstar: "A"). The Issuer's accounts include the distribution account, the cash collateral account, the counterparty downgrade collateral account, and the accumulation account.

Hedging Counterparty

The swap counterparty for the transaction will be confirmed prior to closing. DBRS Morningstar understands that the swap counterparty is expected to meet DBRS Morningstar's minimum criteria to act in such capacity. The hedging documents are expected to contain downgrade provisions consistent with DBRS Morningstar criteria.

Set-Off Risk

The servicer does not take customer deposits and the seller represents and warrants that none of the purchased receivables are impaired by set-off rights. Although some of the obligors may be employees, DBRS Morningstar understands that these loan contracts would have been granted at an arm's length transaction and are not part of an employee car scheme.

Although VWFSUK offers a range of maintenance services, any payments related to such services and value-added tax thereon form part of the excluded collections and are not capitalised in the transaction.

Commingling Risk

The servicer is permitted to commingle collections with its own funds and is required to transfer these monies to the Issuer's account on each payment date, subject to the satisfaction of the monthly remittance condition. The monthly remittance condition is no longer satisfied if the ratings of Volkswagen Financial Service AG or each company, which holds at least 50% of the seller and with whom the seller has a profit and loss sharing agreement in place, falls below BBB (high).

Upon breach of the trigger, VWFSUK will be required to either:

- Transfer to the Issuer the monthly collateral, comprising the expected following monthly payments, including prepayments estimated to be 5% falling due and payable; or,
- If the monthly collateral is not paid to the Issuer, the collections must be transferred to the Issuer within three business days from receipt thereof.

DBRS Morningstar considered a commingling loss commensurate with the provisional ratings assigned to the Class A Notes and Class B Notes, the triggers linked to the monthly remittance condition, the expected distribution of monthly collections, and the portfolio's amortisation profile. DBRS Morningstar considers that the current ratings are commensurate with the resulting commingling risk exposure, taking into account that VWFS as the servicer is allowed to commingle up to nearly two months of collections, and considering the credit strength of Volkswagen Financial Services AG and the seller's shareholder.

Servicing of the Portfolio and Collections

VWFSUK has been appointed to service the receivables in accordance with the servicing agreement between itself and the Issuer. The servicer receives an annualised servicing fee of 1.0%, based on the principal balance of the receivables at the end of each collection period.

The transaction documents foresee the appointment of a standby servicer by the closing date. It is envisaged that, following the invocation, the standby servicer would assume its role within 30 days of receiving the standby servicer notice.

The Issuer has appointed the servicer to collect payments from borrowers and other proceeds related to the receivables. For the purpose of the priority of payments, amounts are classified as either available revenue receipts or available principal receipts.

The available distribution amount includes, inter alia:

- Interest earned on cash at bank;
- Interest and principal collections, including inter alia collections arising from the ancillary rights, vehicle sales, and other recovery proceeds and regulation 38 VAT adjustments due from HMRC;
- Payments from the cash collateral account;
- Net swap receipts;
- The interest compensation shortfall redemption amounts;
- And, as long as the credit enhancement increase condition is in effect, the interest compensation ledger release amounts;
- The buffer top-up amount; less
- The buffer release amount, as long as no credit enhancement increase condition is in effect.

Priority of Payments

Prior to the occurrence of an enforcement event, the available distribution amounts are disbursed as follows:

- Issuer's taxes;
- Security trustee fees;
- Servicing fees;
- Fees due to transaction parties;
- Senior swap payments;
- Interest on the Class A Notes, including brought forward interest shortfalls;
- Interest on the Class B Notes, including brought forward interest shortfalls;
- Replenishment of the cash collateral account to its required level;
- Principal on the Class A Notes (or, during the revolving period, towards the purchase of new receivables);
- Principal on the Class B Notes (or, during the revolving period, towards the purchase of new receivables);
- Junior swap payments;
- Interest on the subordinated loan;
- Principal on the subordinated loan; and,
- All remaining excess to VWFS.

Principal Redemption Amounts

The Class A principal payment amount is calculated as the amount required to reduce the Class A Notes' outstanding balance to the applicable targeted Class A Notes balance, determined by using the then applicable targeted overcollateralisation percentages.

The Class B principal payment amount is calculated as the amount required to reduce the Class B Notes' outstanding balance to the applicable targeted Class B Notes balance, determined by using the then applicable targeted overcollateralisation percentages.

Target OC (%)	During the revolving period and no credit enhancement increase condition in place	After the revolving period and no credit enhancement increase condition in place	Following the occurrence of a credit enhancement increase condition
Class A Notes	31.1%	33.1%	100.0%
Class B Notes	20.3%	22.3%	100.0%

The credit enhancement increase condition is in effect at the earlier of:

- The dynamic net loss ratio, for three consecutive payment dates, exceeding (1) 0.3% if the portfolio's weighted-average seasoning is less than or equal to 12 months (inclusive), or (2) 0.75% if the portfolio's weighted-average seasoning is between 12 months (exclusive) and 22 months (inclusive), or (3) 2.0% if the portfolio's weighted-average seasoning is between 22 months (exclusive) and 34 months (inclusive). If the portfolio's weighted-average seasoning exceeds 34 months, the dynamic net loss ratio does not apply.
- The cumulative net loss ratio exceeding (i) 0.8% during the first five months (inclusive) following the closing date, (2) exceeding 1.8% between six and 11 months (both inclusive) following the closing date, or (3) exceeding 4.0% after the 11th month (exclusive) following the closing date; or,
- The late delinquency ratio exceeding 1.3% on any payment date on or before October 2024.

The dynamic net loss ratio considers the quotient of the aggregate charged off amounts in the monthly period less any recoveries collected during the month in relation to previously charged off receivables, which includes receivables not received on time, receivables yet to be paid in the future, and PCP handbacks and VT handbacks that became charged off, divided by the discounted receivables balance as at the beginning of the monthly period.

The cumulative net loss ratio considers the quotient of the aggregate charged off amount of all purchased receivables (including receivables not received on time or remaining to be paid, and any PCP handbacks and VT handbacks that became charged off receivables after being repurchased by VWFSUK) less any recoveries made in relation to charged off receivables since the cut-off date, divided by the aggregate discounted receivables balance.

The late delinquency ratio considers the quotient of the aggregate discounted principal balance of all late delinquent receivables (i.e., those that are not terminated or defaulted but remain unpaid for more than 180 days) divided by the aggregate discounted receivables balance (other than defaulted receivables) as at the beginning of the monthly period.

Event of Default

The occurrence of any of the below constitutes a foreclosure event, resulting in an enforcement event where the security trustee serves an enforcement notice to the Issuer:

- With respect to the Issuer, an insolvency event occurs; or
- The Issuer defaults in the payment of any interest on the most senior class of notes when the same becomes due and payable, and such default continues for a period of five business days; or
- The Issuer defaults in the payment of principal of any Rated Notes on the legal maturity date.

Following the occurrence of an enforcement event, the available distribution amounts are disbursed as follows:

- Issuer's taxes;
- Security trustee fees;
- Servicing fees;
- Fees due to transaction parties;
- Senior swap payments;
- Interest on the Class A Notes;
- Principal on the Class A Notes;
- Interest on the Class B Notes;
- Principal on the Class B Notes;
- Junior swap payments;
- Interest on the subordinated loan;
- Principal on the subordinated loan; and,
- All remaining excess to VWFS.

As the accelerated priority of payments is applicable in case of the Issuer’s insolvency, it is not usually relevant in any rating scenario.

Optional Redemption

Prior to the legal maturity date and aside from the expected cash flows of the transaction, the Notes may only be redeemed entirely following the seller exercising the cleanup call option. The cleanup call option is available to the seller when the aggregate discounted receivables balance of all outstanding purchased receivables falls to below 10.0% of the aggregate discounted receivables balance as of the initial cut-off date.

The repurchase price is set as the lesser of (1) the outstanding discounted receivables balance on the last calendar day of the month in which the repurchase becomes effective or (2) an amount equal to the theoretical present value of the purchased receivables remaining to be paid, calculated using a discount rate equal to (a) the weighted-average fixed rates under the swap agreement plus (b) the servicer fee of 1.0% plus (c) 0.03% for administrative fees and costs calculated as at the last calendar day of the month in which the repurchase becomes effective.

Origination and Servicing

DBRS Morningstar conducted an operational review of Volkswagen Financial Services (UK) Limited's auto finance operations in August 2023. DBRS Morningstar considers VWFSUK's origination and servicing practices to be consistent with those observed among other auto finance companies.

VWFSUK, established in the UK in 1994, is a wholly owned subsidiary of Volkswagen Financial Services AG (WVFS), which in turn is a subsidiary of Volkswagen AG. VWFSUK provides financing for the purchase and leasing of vehicles of the Volkswagen group of brands across the UK. VWFSUK moved to its headquarters in Milton Keynes in 1999, and subsequently into its new headquarters in 2015. The company launched the UK branch of VW Bank GmbH (VWB) in 2005.

VWB was founded in 1949 and is headquartered in Braunschweig, Germany. VWB together with Volkswagen Financial Services AG (VWFS) is responsible for coordinating the worldwide financial services activities of the Volkswagen Group. VWB provides finance to retailers and dealers in addition to taking deposits. Furthermore, VWB is supervised and regulated by the ECB.

In March 2023, a planned reorganisation of the subgroups of VWFS and VWB was announced. This will involve the creation of a new VWFS that will become the holding company for European and UK financial services activities, while the existing VWFS will become VWFS Overseas AG and will become the holding company for non-European activities. The shares in VW Leasing GmbH will be transferred to VWB. The project is to be implemented in mid-2024.

DBRS Morningstar does not publicly rate VWFSUK or VWFS, although a private rating has been assigned to VWFS. Further information on origination and servicing is available in the Appendix.

Collateral Summary

The receivables represent claims against obligors in respect of payments under the financing contracts for the provision of credit for the purchase of motor vehicles. The auto loan contracts are granted to private and commercial customers for the purchase of new and used passenger or light-commercial vehicles or motorcycles. The portfolio contains three types of products: HP, PCP, and LP.

HP agreements, granted for the purchase of new and used vehicles, feature equal monthly payments with the exception of final payments, where loans include option-to-purchase. Following the payment of all monthly instalments and the option-to-purchase fee, the borrower obtains ownership of the financed vehicle.

PCP agreements, granted for the purchase of new and used vehicles, feature comparatively lower monthly payments, followed by a larger, optional balloon payment falling due at the end of the financing period. At the end of the contract term, the customer is presented one of three alternatives: (1) settle in full the balloon payment, (2) return the vehicle in lieu of the balloon payment, or (3) the customer may refinance with seller or another lender the balloon payment. As the vehicle may be returned to the seller, there are prescribed mileage restrictions and expectations that the car is kept in acceptable condition. Any deviation may result in additional charges levied on the customer. If the customer settles the balloon payment and the option-to-purchase fee, title to the vehicle is passed to the customer. If a customer returns the vehicle, the seller remarkets the asset and uses the proceeds to extinguish the remaining amount owed by the customer. If the sales proceeds are lower than the amount owed, the seller suffers a loss. The optionality to return the vehicle, granted to the customer, exposes the transaction to residual value risk.

Lease purchase agreements, granted for the purchase of new and used vehicles, feature a larger deposit followed by comparatively lower monthly payment and a final, mandatory balloon payment where the customer is not granted the option to return the vehicle to the seller. Following the payment of the final, mandatory balloon payment and the option-to-purchase fee, the borrower obtains ownership of the financed vehicle. The balloon payments are often paid through either the sales proceeds of the vehicle or the balloon portion is refinanced. Although the lease purchase contracts do not expose the transaction to residual value risk, the cash flows arising from concentrated final, mandatory balloon payments present an incremental risk.

Under the UK CCA, a finance customer is entitled to VT an agreement after paying the finance provider 50% of the total price, including outstanding arrears. The borrower is expected to take reasonable care of the goods, and the creditor is entitled to recompense if that is not the case. Once a customer pays 50% of the total amount payable under the finance contract, the customer is permitted (under the UK CCA) to return the car to the finance provider. This may lead to a loss for the Issuer if it does not receive vehicle sales proceeds (after costs) at a price that covers the outstanding finance amount.

Eligibility Criteria

The seller represents and warrants that receivables assigned to the Issuer meet certain criteria specified in the transaction documents as at the relevant cut-off date. Some of the criteria required for assignment of each receivable are summarised below:

- The exposure to used vehicles may not exceed 60% of the discounted receivables balance;
- The exposure to used vehicles financed through PCP contracts may not exceed 55% of the discounted receivables balance;
- The exposure to vehicles not manufactured by the Volkswagen Group may not exceed 10%;
- None of the obligors are an affiliate of the seller, although they may be employees of the seller;
- The registered offices of corporate borrowers and individual borrowers are in England, Scotland, Norther Ireland, or Wales;
- There is no pending bankruptcy or insolvency proceedings initiated against the obligor;
- The purchase receivables are denominated in British pound sterling;
- No purchased receivable is overdue;
- Each financing agreement is governed by English, Scots, or Northern Irish law;
- Each agreement constitutes a valid, binding, and enforceable agreement with full recourse to the obligor;
- The status and enforceability of the purchased receivables is not impaired due to warranty claims or any other right of the obligor;
- No obligor maintains deposits on account with the seller;
- The seller is the legal and beneficial owner of the purchased receivables and they are free from any security interest created;

- Each contract was originated in the seller's ordinary course of business in accordance with its customary operating practices;
- The seller, at the time of origination, was in possession of all necessary licenses and permissions;
- Each loan is at least one month seasoned, and requires borrowers to pay substantially equal monthly payments for up to 72 months and may also include a final balloon payment;
- Each financing contract requires the obligor to obtain insurance, and provide for repair and maintenance and settle taxes in relation to the vehicle;
- No vehicle is registered as a total loss for insurance purposes, or is stolen;
- The exposure to any single obligor may not exceed 0.5% of the aggregate discounted balance;
- Each receivable assigned as at each cut-off date will not expire in less than six months or more than 71 months;
- The details of each vehicle arising from the purchased receivables has been submitted by the seller to HP Information Limited;
- No obligor is deemed to be unlikely to pay, is not past due by more than 90 days, or is credit impaired.

Pool Characteristics

DBRS Morningstar analysed a provisional pool selected by VWFSUK as at 31 July 2023. The main characteristics of the portfolio are summarised below:

Provisional Portfolio Characteristics	DUK7
Number of agreements	23,885
Original aggregate outstanding receivables balance (GBP)	588,025,833
Outstanding aggregate discounted receivables balance (GBP)	500,009,488
-- of which new vehicles (%)	63.2
-- of which used vehicles (%)	36.8
-- of which PCP new vehicles (%)	62.2
-- of which PCP used vehicles (%)	31.0
-- of which HP new vehicles (%)	0.6
-- of which HP used vehicles (%)	5.4
-- of which LP new vehicles (%)	0.4
-- of which LP used vehicles (%)	0.3
-- of which retail customers (%)	99.1
-- of which corporate customers (%)	0.9
Average original outstanding receivables balance (GBP)	36,355
Average current discounted receivables balance (GBP)	24,619
Weighted-Average Original Term (months)	47.7
Weighted-Average Remaining Term (months)	36.6
Weighted-Average Seasoning (months)	11.2
Weighted-Average LTV at Origination (%)	82.5

Pool Characteristics (% of Aggregate Outstanding Principal Balance)

Vehicle Brand (Top 5)	%	Geographic Mix (Top 5 Regions)	%
Audi	33.0	South East of England	15.2
Volkswagen	31.6	Scotland	12.6
Porsche	13.9	North West of England	12.1
Škoda	7.9	East of England	10.0
Cupra	4.2	West Midlands	8.9

Fuel Type	%	Borrower Concentration	%
Petrol	71.9	Largest Borrower	0.06
Diesel	16.4	Top 3	0.16
Battery Electric	7.9	Top 5	0.25
Hybrid	3.8	Top 10	0.44
		Top 20	0.78

Source: VWFSUK.

Exhibit 1 Original Aggregate Outstanding Receivables Balance (GBP)

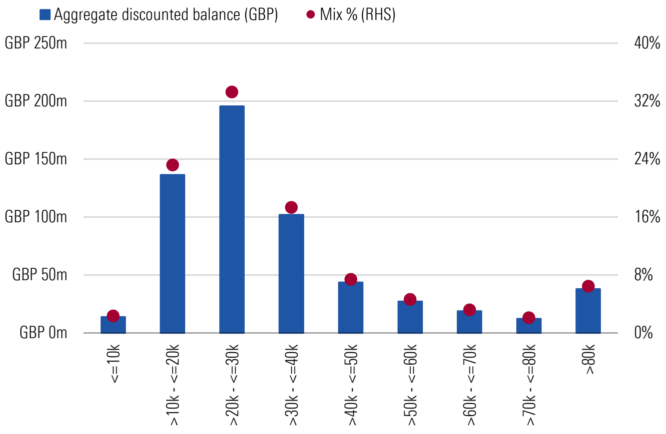
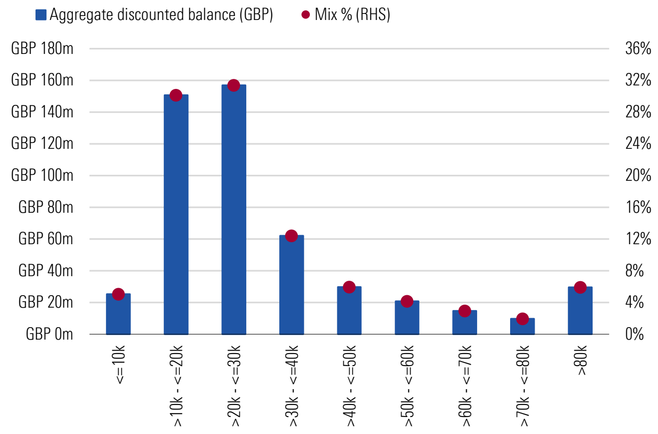


Exhibit 2 Current Aggregate Discounted Receivables Balance (GBP)



Source: VWFSUK.

Exhibit 3 Original Term (Months)

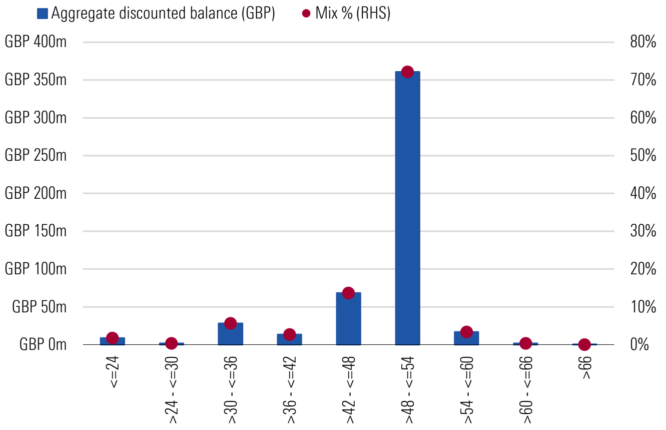
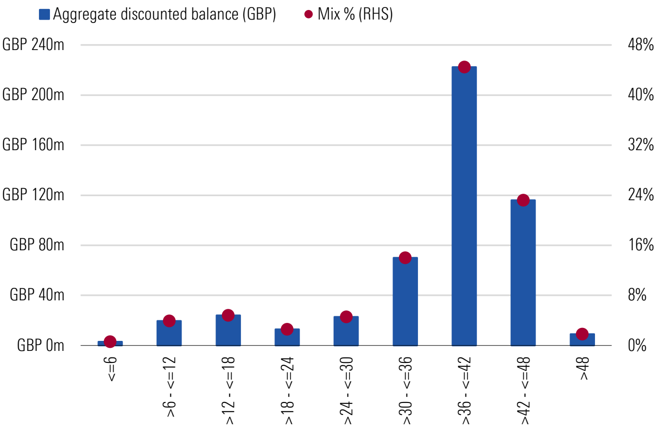


Exhibit 4 Remaining Term (Months)



Source: VWFSUK.

Exhibit 5 Seasoning (Months)

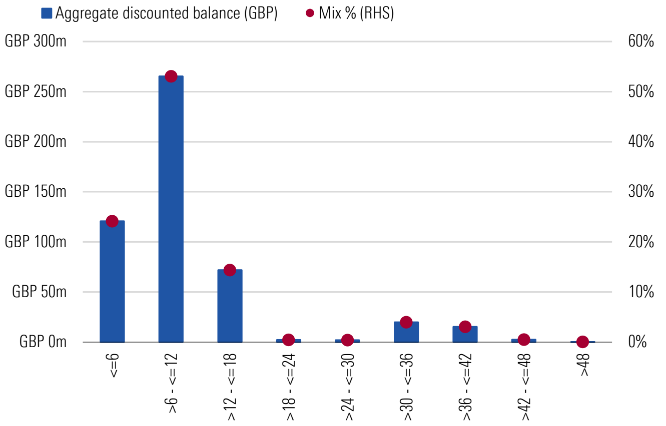
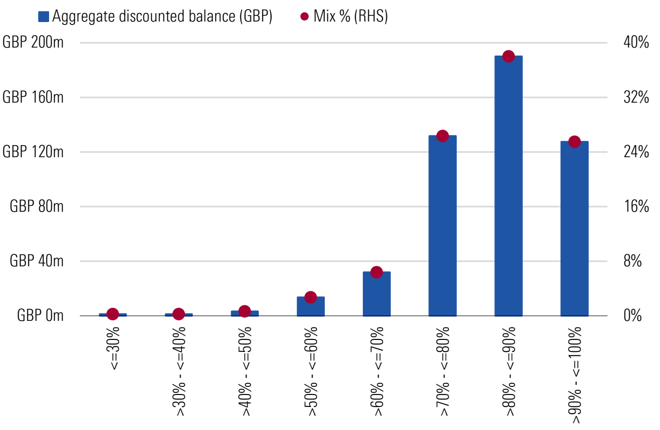


Exhibit 6 Original LTV (%)



Source: VWFSUK.

Exhibit 7 Marque

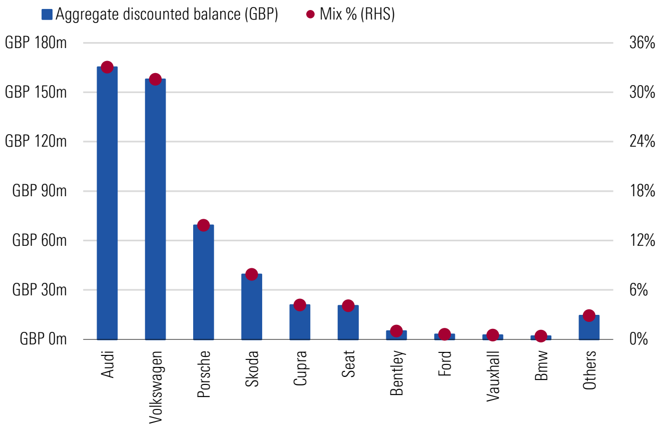
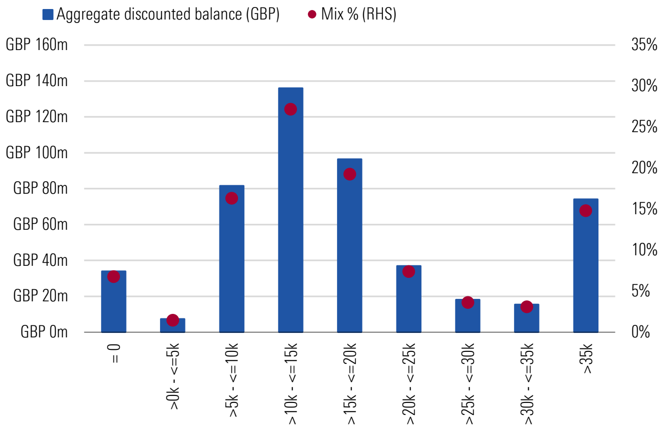


Exhibit 8 RV Distribution (%)



Source: VWFSUK.

Exhibit 9 Fuel Type

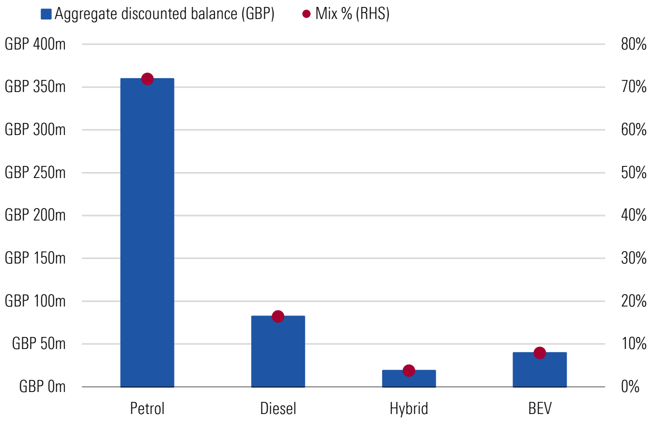
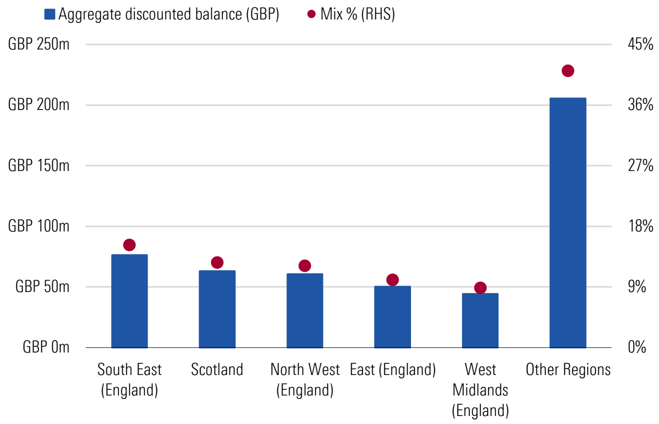


Exhibit 10 Top Regions



Source: VWFSUK.

DBRS Morningstar notes the following when comparing the portfolio with other UK auto ABS transactions:

- Approximately 93.2% of the receivables relate to PCP contract, with the remainder split between HP (6.0%) and LP (0.7%) contracts. Auto ABS transactions sponsored by prime UK lenders normally feature a large share of PCP contracts, reflective of the wider UK auto market.
- The majority of the underlying agreements have an original term between 48 and 49 months. DBRS Morningstar earlier released a market commentary focused on the increased voluntary termination risk arising from elongated contract terms observed for PCP contracts.
- The portfolio is relatively seasoned at approximately 11.2 months.
- The majority of the portfolio relates to vehicles manufactured by brands of the Volkswagen Group. The largest manufacturer exposure is to Audi (33.0%), followed by Volkswagen (31.6%) and Porsche (13.9%).
- As is typical with more seasoned transactions containing PCP contracts, the portfolio's RV exposure is approximately 47.6% as at the cut-off date. In the absence of any concentration limits around the RV exposure, the share of RV may increase during the six-month revolving period.

- The majority of the portfolio (71.9%) relates to vehicles equipped with a petrol powertrain. The rest of the portfolio is split between diesel (16.4%), electric vehicles (7.9%), and hybrid vehicles (3.8%). For a recent market commentary discussing the UK auto ABS portfolio's transition to alternatively fueled vehicles please refer to *European Auto ABS: UK Portfolios Transition to Alternatively Fueled Vehicles*.
- The portfolio is geographically disbursed. The largest exposure is to the South East of England (15.2%), followed by Scotland (12.6%) and North West of England (12.1%).
- The portfolio is granular. The majority of borrowers only have single vehicle, and only 72 obligors have more than one contract. The single largest exposure is sized at 0.06% of the outstanding discounted receivables balance.

Rating Analysis

DBRS Morningstar based its ratings on a review of the following analytical considerations:

- The transaction capital structure, including form and sufficiency of available credit enhancement;
- Relevant credit enhancement in the form of subordination, the cash collateral account, and excess spread;
- Credit enhancement levels that are sufficient to support DBRS Morningstar's projected cumulative net loss and RV loss assumptions under various stressed cash flow assumptions for the Rated Notes;
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms under which they have invested;
- VWFSUK’s capabilities with regard to originations, underwriting, servicing, and financial strength;
- The transaction parties’ financial strength with regard to their respective roles;
- The credit quality of the collateral and historical and projected performance of the seller’s portfolio;
- DBRS Morningstar's sovereign rating on the United Kingdom, currently at AA with a Stable trend; and
- The expected consistency of the transaction's legal structure with DBRS Morningstar’s *Legal Criteria for European Structured Finance Transactions* methodology and the presence of legal opinions that are expected to address the true sale of the assets to the Issuer.

Portfolio Performance Data

DBRS Morningstar received the following sets of data from VWFSUK or its agents:

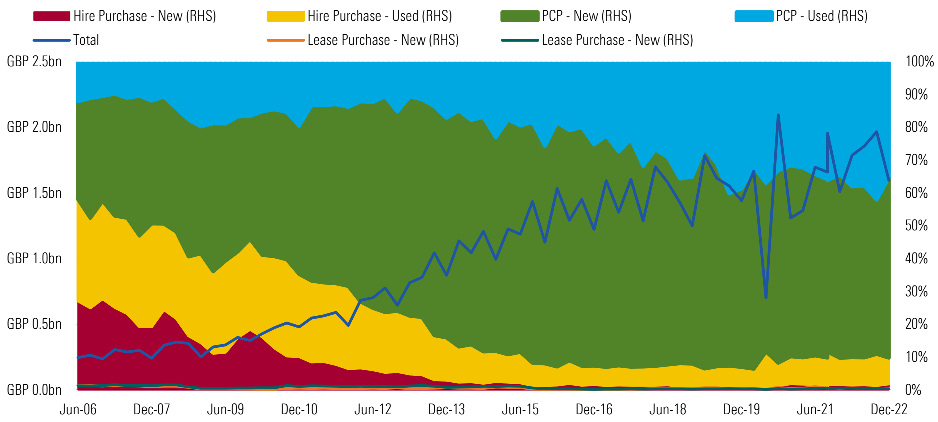
- Quarterly static cumulative gross loss data from Q3 2002 to Q3 2023 split by credit defaults and VTs on a total portfolio basis and split into product and new/used subsets;
- Quarterly static cumulative net loss data from Q3 2002 to Q3 2023 split by credit defaults and VTs on a total portfolio basis and split into product and new/used subsets;
- Quarterly origination amounts from Q3 2002 to Q3 2023 split into product and new/used subsets;
- Monthly dynamic prepayment data from June 2008 to June 2023;
- Monthly dynamic delinquency data from June 2007 to June 2023, split into product and new/used subsets;
- Monthly PCP handback data from July 2002 to June 2023;
- Monthly recovery performance data detailing cash and vehicle sale recoveries up to 18 months and over 18 months split into credit and VT recoveries, product, and new/used subsets;
- Monthly VT handback data from July 2002 to June 2023 split into product and new/used subsets;
- Portfolio monthly payment day distribution;

- Stratification data of the portfolio as at 31 July 2023;
- Loan-level portfolio data as at 31 July 2023; and,
- Amortisation schedule of the portfolio split into product and new/used subsets.

Originations and Outstanding Balances

VWFSUK's origination volumes have been growing steadily since 2006. As is typical with captive lenders in the UK, there is a noticeable seasonal variability in origination volumes, reflective of the bi-annual release of the new number plates that occurs in March and September.

Exhibit 13 Cumulative Quarterly Originations

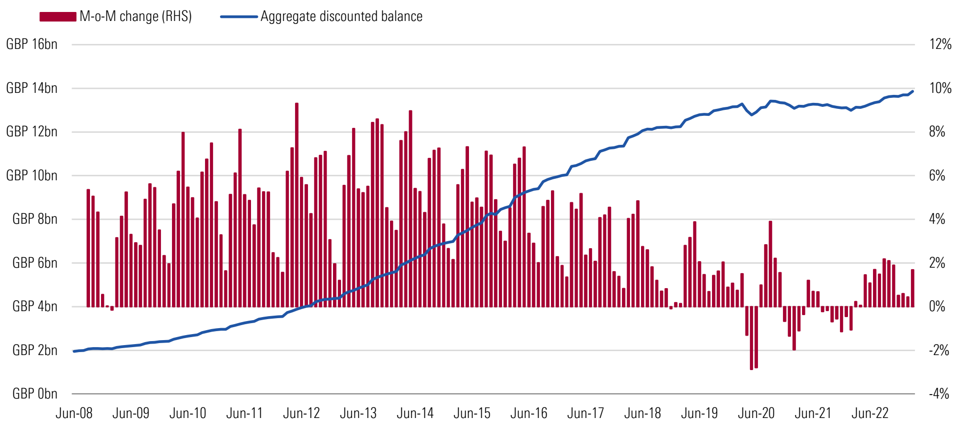


Source: VWFSUK.

The changing customer sentiments observable in the wider UK market from ownership to usage in the form of PCP contracts is also reflecting in VWFS's origination mix. The share of hire purchase origination volumes has been in steady decline since 2009, and it has largely disappeared in relation to new vehicle financing. DBRS Morningstar also notes the increase of used PCP contracts in the origination mix since 2015.

The growth trend in originations has also reflected in a growing portfolio. With the exception of the Coronavirus Disease (COVID-19)-related lockdown period and the subsequent shortage in vehicle supply, VWFSUK demonstrated continued growth.

Exhibit 14 Outstanding Evolution

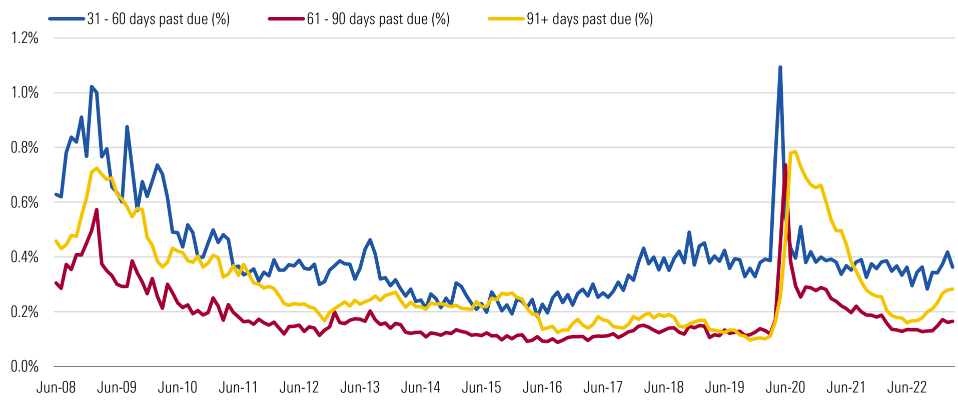


Source: VWFSUK.

Delinquencies

The delinquency levels of VWFSUK have been consistent and low over the past ten years, with the exception of the coronavirus-related lockdowns. Nevertheless, even at its highest, the peak was only moderate.

Exhibit 15 Delinquencies (%)



Source: VWFSUK.

Vintage Default and Recovery Data Credit Risk

Exhibit 16 Cumulative Credit Defaults

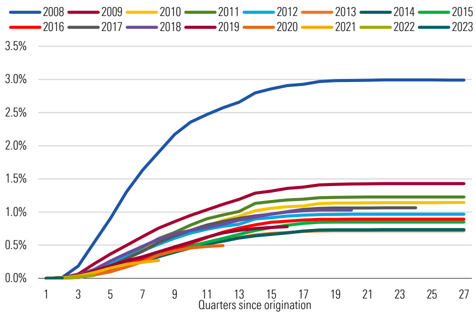
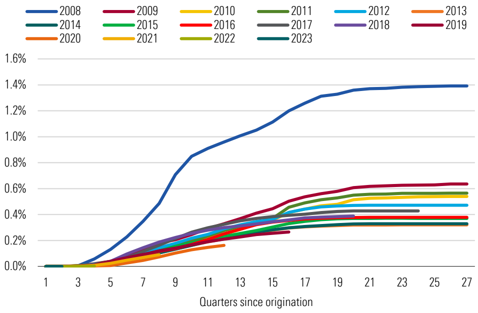


Exhibit 17 Cumulative Net Losses on Credit Defaults



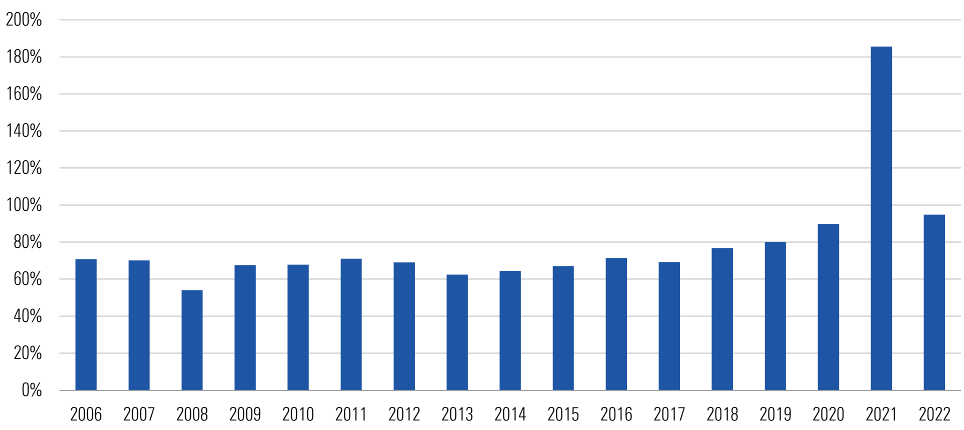
Source: VWFSUK.

DBRS Morningstar understands that the default definition is the same definition outlined in the transaction documents, whereby:

- A purchased receivable has been written off as without value in accordance with the servicer's customary operating practices;
- A purchased receivable that has been hostile terminated in accordance with the servicer's customary operating practices; or,
- A PCP contract where the obligor has elected to handback the vehicle and such receivable has not been realised by the servicer within 91 days from the return date.

Credit defaults are tracking in line with other DBRS Morningstar-rated UK auto ABS transactions sponsored by captive lenders. Recent origination vintages are showing improved credit default performance. The primary driver of credit risk is the LP product, although the portfolio's exposure to LP is limited. DBRS Morningstar observes a comparably worse credit default performance in the used subsets.

Exhibit 18 Annual Recoveries on Credit Defaults



Source: VWFSUK.

Exhibit 18 shows the annualised cash and asset sale recoveries up to 18 months after termination. Recoveries on credit defaults are consistent with peers in the UK. DBRS Morningstar understands that the recoveries include Regulation 38 claims (Reg 38) that enables VWFSUK to reclaim part of the value added tax (VAT) that has been paid already. It is further understood that Reg 38 claims primarily benefit voluntary terminations, but also positively affected recoveries on credit defaults. The arising VAT adjustments have now been assigned to the Issuer, and form part of the collections. As is typical, recoveries on credit defaults are normally lower than on voluntary terminations.

Voluntary Terminations

Exhibit 19 Cumulative Gross VTs

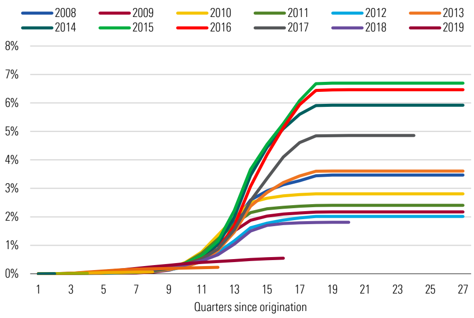
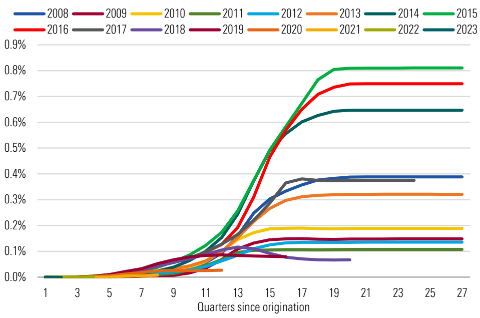


Exhibit 20 Cumulative Net Losses on VTs

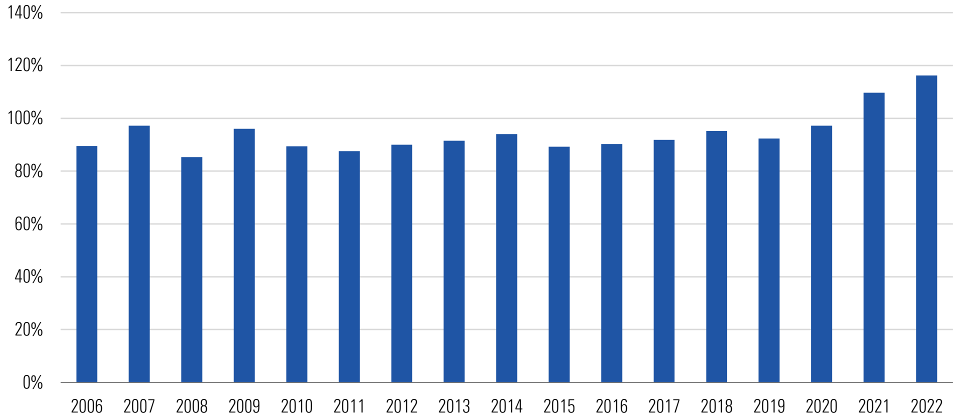


Source: VWFSUK.

Given the requirements for meeting the VT threshold (where the customer has to have paid at least 50.0% of the total amount due under the financing contract, including any outstanding arrears), VT timings for PCP agreements predominantly occur between quarter 12 and quarter 14 after origination. Since original terms for PCP agreements have extended to 60 months (although 88.7% of all PCP contracts have an original term between 48 months and 50 months), there is now a greater window available for a borrower to voluntarily terminate. For more information regarding the increased VT risk from four-year PCP agreements, please refer to DBRS Morningstar's commentary, *U.K. Autos: Elongated PCP Terms Increase the Risk of Voluntary Termination*.

DBRS Morningstar further notes the flattening of the gross VT curves of more recent originations. DBRS Morningstar considers the main drivers of VT performance to be (1) contract tenor, (2) customer deposit levels, (3) the strength of the new and used car markets, and (4) wider macroeconomic factors affecting borrowers' ability to meet their monthly loan repayments. The combination of these variables determines whether it is advantageous to VT and the length of time that a customer has available to make this decision prior to contract maturity. Autovista estimates vehicle prices are approximately 21% higher now than they were in the middle of 2020: it is economically more advantageous for obligors to early settle their vehicle loans and sell the vehicle for a profit than to voluntary terminate their agreements. Such behaviour can be observed by the recent prepayment activity and the comparatively low net VT losses.

Exhibit 21 Annual Recoveries on Gross VTs



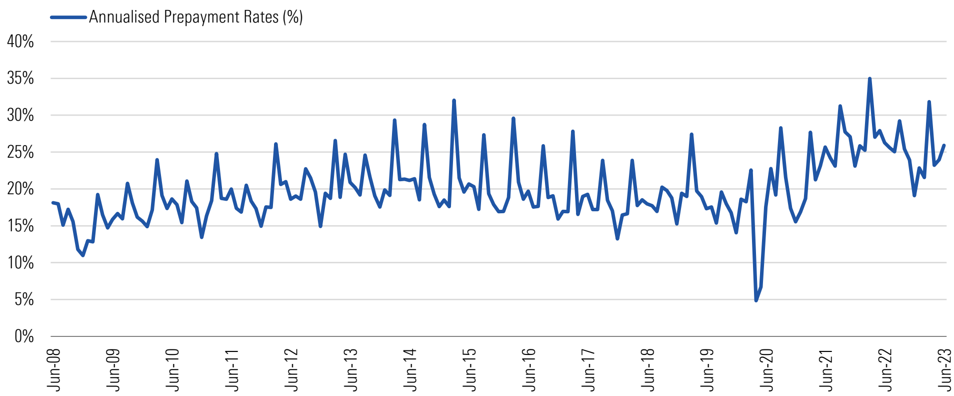
Source: VWFSUK.

As is typical, recoveries on credit defaults are normally lower than on voluntary terminations. DBRS Morningstar understands that the recoveries include Regulation 38 claims (Reg 38) that enables VWFSUK to reclaim part of the value added tax (VAT) that has been paid already. The arising VAT adjustments have now been assigned to the Issuer, and form part of the collections.

Prepayments

DBRS Morningstar received monthly dynamic prepayment data for the total portfolio. Annualised prepayment rates have been, on average, consistently in the region of 15% and 25%: higher than peers. The recent uptick in the price of used vehicles in the UK inflated prepayment levels in 2021 and 2022.

Exhibit 22 Annualised Prepayment Rate

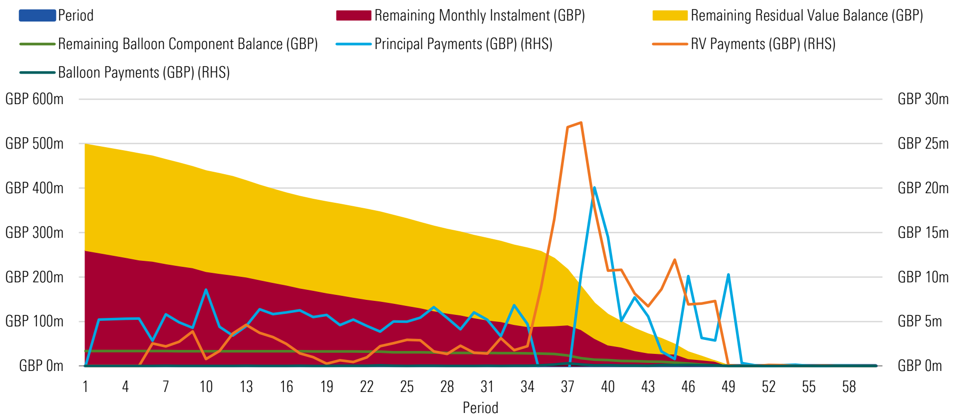


Source: VWFSUK.

Portfolio Amortisation and Interest Rate

Exhibit 23 outlines the scheduled amortisation of the portfolio as at the cut-off date provided by VWFSUK.

Exhibit 23 Portfolio Amortisation Schedule at Cut-Off Date



Source: VWFSUK.

As the portfolio includes the optional and mandatory balloon payments arising from the PCP and LP contracts, the payment profile shows volatility.

Summary of the Cash Flow Scenarios

DBRS Morningstar's cash flow assumptions focused on the amount and timing of defaults and recoveries, prepayment speeds, interest rates, and RV losses following turn-in at maturity. DBRS Morningstar evaluated several different prepayment scenarios when assessing the sufficiency of credit enhancement that considered the impact of a reduction in excess spread with changes to RV exposure.

DBRS Morningstar assessed a total of 18 cash flow scenarios to evaluate the performance of the Rated Notes that incorporated front-, mid-, and back-loaded default timings and interest rates stresses.

Interest Rate Risk and Basis Risk

The interest rate risk in the transaction arises from the fixed interest rate on the loans and the compounded daily SONIA floating rate on the issued notes. To mitigate the risk, the Issuer is expected to enter into swap agreements with a swap counterparty that is expected to meet DBRS Morningstar's minimum criteria to act in such capacity.

As a result, the Issuer pays a fixed rate on the Class A Notes and Class B Notes, on each payment date while the swap counterparty pays compounded daily SONIA plus the corresponding spread on the respective class of Notes. The notional for each swap is the aggregate outstanding balance for each class of the Notes.

Default and Recovery Assumptions

DBRS Morningstar considered default maturity to be aligned with the maximum term of the underlying agreements. For vintages that were not fully seasoned, DBRS Morningstar projected defaults to maturity using historical data relating to default timings. DBRS Morningstar applied the following assumptions as part of its cash flow analysis:

	Expected Default Rates (%)	Expected Recovery Rates (%)
Credit Defaults	0.9	60.0
Voluntary Terminations	3.5	80.0
Total	4.4	75.8

DBRS Morningstar applied mid-range core multiples to the expected default rate.

DBRS Morningstar derived rating-specific recovery rates for credit defaults and VTs. DBRS Morningstar noted that recovery rates for VT contracts were higher than those observed in the case of credit defaults.

DBRS Morningstar applied the following rating-specific recovery rates, reflecting the mix of VTs and credit defaults: 47.4% at AAA (sf) and 55.0% at A (high) (sf) rating levels.

Residual Value Loss

DBRS Morningstar evaluated the originator's aggregated PCP RV performance data in conjunction with other comparable transactions and UK market data. The combination of these components allowed DBRS Morningstar to determine rating-specific RV losses as follows:

	RV Haircut (%)	Turn-in Rate at Maturity (%)	RV Loss at Maturity (%)
AAA (sf)	42.2	100.0	42.2
A (high) (sf)	32.9	91.7	30.1

Prepayment Speeds and Prepayment Stress

Prepayments may lead to a reduction in RV exposure, but also result in a reduction of excess spread. DBRS Morningstar evaluated various prepayment scenarios where the minimum level assumed an increase in PCP handbacks while the maximum assumed a stressed annual prepayment level higher than historically reported. Under a AAA scenario, DBRS Morningstar assessed annualised prepayment rates of between 2.8% and 25.0%, with the former determining the constraining scenarios within DBRS Morningstar's cash flow analysis.

DBRS Morningstar considered higher minimum prepayment rates applied to lower rating levels to recognise the potential for early settlements prior to contract maturity

Interest Rate Stresses

DBRS Morningstar applied its standard interest rate stresses as detailed in its *Interest Rate Stresses for European Structured Finance Transactions* methodology.

Default and Recovery Timings

DBRS Morningstar estimated the default timing patterns by considering the static nature of the pool and the weighting of credit defaults and VTs. DBRS Morningstar assessed the following front-, mid, and back-loaded default curves:

Months	Front (%)	Mid (%)	Back (%)
1-10	50	25	20
11-20	30	50	30
21-30	20	25	50

DBRS Morningstar has considered a recovery lag of six months.

Risk Sensitivity

DBRS Morningstar determines RV losses as well as expected PD and LGD for each class of Rated Notes based on a review of historical data. Adverse changes to asset performance may cause stresses to base case assumptions and therefore have a negative effect on credit ratings. The tables below illustrate the sensitivity of the rating to various changes in the RV loss, default rates, and loss severity assumptions relative to the assumptions that DBRS Morningstar used in assigning the ratings.

Class A Notes

		Increase in PD and LGD (%)		
		0	25	50
Increase in RV loss (%)	0	AAA (sf)	AA (sf)	AA (low) (sf)
	25	AA (sf)	AA (low) (sf)	A (high) (sf)
	50	A (high) (sf)	A (high) (sf)	A (sf)

Class B Notes

		Increase in PD and LGD (%)		
		0	25	50
Increase in RV loss (%))	0	A (high) (sf)	A (sf)	BBB (high) (sf)
	25	BBB (high) (sf)	BBB (high) (sf)	BBB (high) (Sf)
	50	BBB (low) (sf)	BBB (sf)	BBB (low) (sf)

Appendix A: Origination & Underwriting

Origination and Underwriting

Origination and Sourcing

In the UK the VWFSUK business model and risk management practices closely follow the policies and procedures in place for retail originations in Germany, offering different kinds of products for financing new and used cars. As VWFSUK is the financing arm of VWFS in the UK, it is the chief provider of auto financing for the Volkswagen group of brands.

VWFS provides various retail financing products to: a 'Standard Hire Purchase' agreement represents finance at a fixed interest rate where the loan balance fully amortises through equal monthly instalments. A second type of finance is called 'Solutions (Personal Contact Purchase – PCP)' where borrowers pay an equal monthly instalment followed by an optional, final balloon payment at the end of the fixed term. The borrower has the option to pay the balloon and take ownership of the vehicle, refinance the balloon, or return the vehicle. The final financing option is a 'Lease Purchase' where the borrower pays for the cost of the product in equal monthly instalments followed by an option to fully settle or refinance the final, mandatory balloon payment. The company underwrote over 361,000 contracts in 2022 including HP (16%), LP (1%), PCP (69%), and Leasing contracts (14%), up from 344,000 contracts the previous year.

Underwriting Process

All underwriting activities at VWFSUK are appropriately segregated from marketing and sales. VWFSUK adheres to standard identify verification practices including collection of identity cards, proof of address and utility bills are reviewed. External credit data is retrieved from two nationally recognised bureaux (Experian and Trans Union) and incorporated into the automated credit scoring models. In 2011, VWFSUK was the first captive auto finance company in the UK with dual bureau data capability, and since April 2014, all applications have been searched using both bureaux.

Applications are analysed through VWFSUK's internal credit scoring system, which assigns a 'band' to the loan application denoting the risk associated with the borrower and loan. Dual bureau data is primarily used for high risk bands. Automatic decisioning only exists for the low risk bands and, as expected, the approval rate is considerably lower for higher risk bands.

VWFSUK launched four new scorecards in 2011 based on the vehicle type (new and used), the applicant's age, and dual bureau data. The scorecards follow a rules based system including responsible lending rules to address regulatory guidelines. All rules are analysed monthly including the rules 'hit' ratios, subsequent underwriting action, and performance. The rule parameters are maintained within risk management independent of underwriting.

The underwriting team at VWFSUK is divided into three groups based on customer type. The specialist lending unit (SLU) handles all corporate non-dealer applications sourced through VWFS Leasing or the VWFSUK sales team as well as the Porsche and Bentley financial services business.

Approval is generally granted automatically through the scoring system particularly for lower risk bands 'A' and 'B' if no policy rules are breached. Higher risk bands 'C' and 'D' require further assessment while Risk band 'Z' are declined.

Summary Strengths

- Global brands with good reputation and strong position within the UK market.
- Rising penetration rate over the past few years.
- Use of multiple rules-based credit scoring models incorporating dual credit bureau data and monthly analysis of rules and performance metrics.
- Strong fraud detection process including checks at underwriting and pre-contract activation along with use of leading UK database, Hunter.
- Centralised and independent credit and risk management functions with underwriting teams split between retail (individuals and business) and corporates.

Servicing

Servicing begins during the final stages of initial financing with the customer services department reviewing all borrower documents and credit terms including interest rates, loan maturity, insurance coverage requirements, and prepayment terms. Over 99% of payments are made via direct debit and contracts have monthly payment frequencies; all new contracts must be paid by direct debit.

Servicing is centralised in Milton Keynes and the company places considerable focus on customer service evidenced through proactive assessment of customer satisfaction following contract execution and quarterly surveys. VWFSUK employs a customer contact council as well as a professional planning forum to ensure adherence to corporate strategies involving customer service.

The arrears management process is heavily automated and is driven by an SAP workflow system providing collection teams daily workload reports and performance monitoring statistics. VWFSUK complies with all regulatory guidelines including the debt collection procedures outlined by the Office of Fair Trading (OFT) and the FCA's 'treating customers fairly' regime. The company's behavioural scoring model, which assigns a probability of default (PD) and loss given default (LGD) to each loan, is used to segregate arrears cases based on the risk profile. VWFSUK continues to focus on specialised collections for vulnerable customers.

The company's collection efforts involve a combination of verbal and automated lettering campaigns during the first month of arrears with telephone contact initiated almost immediately after notification of a missed payment. VWFSUK does not currently employ dialler technology given the low arrears rate (less than 1% for loans 31-60 days delinquent) and the high self-cure rate. VWFSUK begins discussions concerning repossession of the vehicle either voluntarily by the borrower or through legal means once a loan is 61 days past due. External agents are used for enforcement activities and VWFSUK actively monitors agents' performance; approximately 50% of repossessed vehicles are returned through extra-judicial means.

The enforcement, repossession, and sale process is expedient with repossession taking approximately 11 days and eventual sale around 30 days. VWFSUK avoids private sales to prevent complaints from borrowers in relation to selling the vehicle below its market value and most cars are sold through auction sites. The company uses six main auction centres, which sell approximately 400 vehicles per month. Additional channels are also used to diversify the sales options and support sales values when deemed appropriate.

When a vehicle arrives at the nominated auction site, it is scanned upon entry to the site and entered into a stock management system. Vehicles are then sold in a series of auctions; some of these are specific to VWFSUK vehicles. If any liability remains outstanding following the sale of the vehicle, the customer is advised of the outstanding amount by letter and, if unable to clear the liability in full, an attempt is made to establish a payment plan. In cases where the customer is unable or unwilling to pay, an evaluation is made to determine whether legal action or full and final write off is the appropriate course of action.

Residual Value

VWFSUK follows an analytical approach to RV forecasting that incorporates current and recent auction performance, long-term historical value tracking, model comparison and benchmarking, and specification and technology considerations. There is no singular industry guide or publication that is relied upon for establishing RVs. RV exposure is closely monitored on a monthly basis that includes a monthly revaluation of all assets in order to provide the earliest indication possible of potential exposures. The ongoing monitoring also includes comparing the contractual RVs against industry minimum, maximum, and average RVs as well as the CAP Monitor forecast benchmark. This consistent RV monitoring has allowed VWFSUK to achieve disposal performance that consistently outperforms the BCA Sector Average.

A Residual Value Committee, including members from all business areas across VWFSUK as well as representatives from Volkswagen, Audi, and Porsche, meets monthly. Standalone RV committees for Porsche and non-VW group vehicles meet biannually, and the majority of data and analysis discussed in the committees are provided by the asset risk management group.

Summary Strengths

- Majority of payments made via direct debit.
- Low default rate and stable recovery rates.
- Active early arrears management practices, which benefit from automated workflows and behavioural scoring that segregates arrears cases based on risk and loan size.

Summary Weaknesses

- Increased RV risk as VWFSUK focuses more attention on PCP product versus lease purchase.
  Mitigants: PCP provides more opportunities for customer retention and the company’s RV calculation processes are sound. Depreciation on Volkswagen group vehicles is traditionally better than its peers.
- No dialler technology for outbound calling activity.
  Mitigants: Established arrears management practices; current arrears and default rates have not reached the scale typically associated with implementation of automated diallers.

Opinion on Backup Servicer

No back-up servicer will be appointed on the programme. DBRS Morningstar believes that VWFSUK's current financial condition mitigates the risk of a possible disruption in servicing following a potential servicer event of default including insolvency.

Appendix B: Methodologies

Methodologies Applied

The principal methodology applicable to assign ratings to this transaction is *Rating European Consumer and Commercial Asset-Backed Securitisations* (19 October 2022), https://www.dbrsmorningstar.com/research/404212/rating-european-consumer-and-commercial-asset-backed-securitisations.

Other methodologies referenced in this transaction are listed below:

- *Legal Criteria for European Structured Finance Transactions* (30 June 2023), https://www.dbrsmorningstar.com/research/416730/legal-criteria-for-european-structured-finance-transactions.
- *Rating European Structured Finance Transactions Methodology* (15 July 2022), https://www.dbrsmorningstar.com/research/399899/rating-european-structured-finance-transactions-methodology.
- *Operational Risk Assessment for European Structured Finance Servicers* (15 September 2022), https://www.dbrsmorningstar.com/research/402774/operational-risk-assessment-for-european-structured-finance-servicers.
- *Operational Risk Assessment for European Structured Finance Originators* (15 September 2022), https://www.dbrsmorningstar.com/research/402773/operational-risk-assessment-for-european-structured-finance-originators.
- *Derivative Criteria for European Structured Finance Transactions* (16 June 2023), https://www.dbrsmorningstar.com/research/415976/derivative-criteria-for-european-structured-finance-transactions.
- *Interest Rate Stresses for European Structured Finance Transactions* (22 September 2022), https://www.dbrsmorningstar.com/research/402943/interest-rate-stresses-for-european-structured-finance-transactions.
- *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (4 July 2023), https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

The rating methodologies and criteria used in the analysis of this transaction can be found at: http://www.dbrsmorningstar.com/about/methodologies. Alternatively, please contact info@dbrsmorningstar.com.

Surveillance Methodology

DBRS Morningstar monitors this transaction in accordance with its *Master European Structured Finance Surveillance Methodology*, which is available at www.dbrsmorningstar.com under Methodologies & Criteria. Alternatively, please contact info@dbrsmorningstar.com.

Appendix C: Environmental, Social, and Governance (ESG) Checklist and Considerations

Environmental, Social and Governance (ESG) Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		Overall:	Y	R
	Emissions, Effluents, and Waste	Do the costs or risks result in a higher default risk or lower recoveries for the securitized assets?	N	N
	Carbon and GHG Costs	Do the costs or risks related to GHG emissions result in higher default risk or lower recoveries of the securitized assets?	Y	R
		Are there potential benefits of GHG-efficient assets on affordability, financeability, or future values (recoveries)?	N	N
		Carbon and GHG Costs	Y	R
	Climate and Weather Risks	Are the securitized assets in regions exposed to climate change and adverse weather events affecting expected default rates, future valuations, and/or recoveries?	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		Overall:	N	N
	Social Impact of Products and Services	Do the securitized assets have an extraordinarily positive or negative social impact on the borrowers and/or society, and do these characteristics of these assets result in different default rates and/or recovery expectations?	N	N
		Does the business model or the underlying borrower(s) have an extraordinarily positive or negative effect on their stakeholders and society, and does this result in different default rates and/or recovery expectations?	N	N
		Considering changes in consumer behavior or secular social trends: does this affect the default and/or loss expectations for the securitized assets?	N	N
		Social Impact of Products and Services	N	N
	Human Capital and Human Rights	Are the originator, servicer, or underlying borrower(s) exposed to staffing risks and could this have a financial or operational effect on the structured finance issuer?	N	N
		Is there unmitigated compliance risk due to mis-selling, lending practices, or work-out procedures that could result in higher default risk and/or lower recovery expectations for the securitized assets?	N	N
		Human Capital and Human Rights	N	N
	Product Governance	Does the originator's, servicer's, or underlying borrower(s)' failure to deliver quality products and services cause damage that may result in higher default risk and/or lower recovery expectations for the securitized assets?	N	N
	Data Privacy and Security	Does the originator's, servicer's, or underlying borrower(s)' misuse or negligence in maintaining private client or stakeholder data result in financial penalties or losses to the issuer?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		Overall:	N	N
	Corporate / Transaction Governance	Does the transaction structure affect the assessment of the credit risk posed to investors due to a lack of appropriate independence of the issuer from the originator and/or other transaction parties?	N	N
		Considering the alignment of interest between the transaction parties and noteholders: does this affect the assessment of credit risk posed to investors because the alignment of interest is inferior or superior to comparable transactions in the sector?	N	N
		Does the lack of appropriately defined mechanisms in the structure on how to deal with future events affect the assessment of credit risk posed to investors?	N	N
		Considering how the transaction structure provides for timely and appropriate performance and asset reporting: does this affect the assessment of credit risk posed to investors because it is inferior or superior to comparable transactions in the sector?	N	N
		Corporate / Transaction Governance	N	N
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	Y	R

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

ESG Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the checklist above.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the checklist above.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the checklist above.

The above ESG discussion relates to credit risk factors that could impact the financial profile and therefor the rating of the issuer. They are separate from ESG sustainability factors, which are generally outside the scope of this analysis. A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

Appendix D: Scope and Meaning of Financial Obligations

DBRS Morningstar’s credit ratings on the Class A Notes and Class B Notes address the credit risk associated with the identified financial obligations in accordance with the relevant transaction documents. For Information on the associated financial obligations, please refer to the corresponding press release published for this credit rating action.

DBRS Morningstar’s credit rating does not address non-payment risk associated with contractual payment obligations contemplated in the applicable transaction document(s) that are not financial obligations.

DBRS Morningstar’s long-term credit ratings provide opinions on risk of default. DBRS Morningstar considers risk of default to be the risk that an issuer will fail to satisfy the financial obligations in accordance with the terms under which a long-term obligation has been issued.

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