

# **DRIVER UK Multi- Compartment S.A.**

**acting for and on behalf of its  
Compartment Driver UK seven  
[GBP•] Asset Backed Securities**



**VOLKSWAGEN  
FINANCIAL SERVICES**  
THE KEY TO MOBILITY

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## Executive Summary

This pre-sale report summarises Kroll Bond Rating Agency's (KBRA) analysis of Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK seven (Driver UK 7 or the Issuer), a United Kingdom (UK) retail auto loan receivables ABS transaction. This report is based on information as of September 2023. The ratings shown are preliminary and subsequent information may result in assigned ratings that differ from the preliminary ratings. This report does not constitute a recommendation to buy, hold, or sell securities.

Rated Notes						
Class	Initial Amount (£)	Interest Rate	Scheduled Revolving Period End Date	Legal Final Maturity Date	Initial Credit Enhancement (%) <sup>1</sup>	KBRA Preliminary Rating
A	[•]	SONIA+[TBD]	April 2024	25 April 2031	30.41%	AAA (sf)
B	[•]	SONIA+[TBD]	April 2024	25 April 2031	19.61%	AA (sf)
Subordinated Loan	[•]	[TBD]	April 2024	25 April 2031	6.00%	NR
Total	[•]					

<sup>1</sup> Initial Credit Enhancement displayed consists of subordination, cash collateral and overcollateralisation.

Driver UK 7 represents the latest public securitisation for Volkswagen Financial Services AG's (VWFS) UK subsidiary Volkswagen Financial Services (UK) Limited (VWFS (UK) or Seller or Servicer) under the Driver Brand. VWFS has been securitising its assets, including hire purchase contract receivables, auto loan receivables, auto lease receivables and dealer floorplan receivables since 1996 and since 2002 for UK receivables.

Established in 1994, VWFS (UK) provides financial products and services to retail and business customers purchasing Volkswagen and related brand vehicles in the UK. VWFS (UK) is fully authorised and regulated by the Financial Conduct Authority (FCA) in the UK in respect of regulated consumer credit and leasing activities. With over 360,000 new contracts funded in 2022 for a total value of GBP8.8 billion, VWFS (UK) provided financing for 52.6% of all new Volkswagen group vehicles registered in the UK in 2022. VWFS (UK) had a funded loan/lease book of approximately GBP17.3 billion as at 31 December 2022 which it funded primarily through a combination of securitisation and intercompany funding.

VWFS is a captive financial services company, operating in 46 countries through its various subsidiaries, shareholdings and joint ventures. As a wholly owned subsidiary of Volkswagen AG (VW Group or VW), it operates and coordinates the financial services activities of the VW Group around the world (excludes USA, Canada, Trucks and Bus divisions and Porsche Financial Services). With total assets of €133.3 billion as at 31 December 2022 (2021: €124.6 billion), VWFS reported a consolidated operating profit of €3.2 billion (2021: €2.9 billion) with over 11,000 employees and, according to the company, is the largest automotive financial provider in the world.

Driver UK 7 is expected to issue Class A notes and Class B notes (together the Notes) and a subordinated loan facility (Subordinated Loan) collateralised by a revolving pool of Personal Contract Purchases (PCP), Hire Purchase Contracts (HP) and Lease Purchase Agreements (LP). PCPs are amortising contracts with an option for the customer to make a final balloon payment at maturity and take ownership of the vehicle or return the vehicle to VWFS (UK) in lieu of the final balloon payment. HPs are fully amortising hire purchase contracts with no balloon payment and LPs are fixed instalment agreements with a final balloon repayment. All products are extended to consumer and commercial customers located in the UK. The transaction features a revolving period (Revolving Period), which will end on the earlier of (i) the payment date falling in April 2024 and (ii) the date on which an early amortisation event has occurred. During the Revolving Period, VWFS (UK) may sell additional receivables subject to certain eligibility requirements.

Credit enhancement consists of subordination, overcollateralisation, excess spread and an amortising liquidity reserve account which will be initially funded on the closing date in an amount equal to [1.6%] of the aggregate nominal amount of the Notes. During the revolving period, no principal payments are made to the notes, instead OC builds to the target levels through a discounted purchase price on new receivables. In the absence of a credit enhancement increase condition being in effect, the transaction will amortise on a pro-rata basis after target overcollateralisation levels have been met. The Notes are floating rate notes that accrue interest based on compounded daily Sonia plus a margin. To mitigate the risk between the fixed rate cashflows and the floating rate notes, a swap will be entered into prior to the transaction closing date and paid for through the monthly priority of payments.

The underlying collateral consists of UK auto loan agreements with fixed monthly instalments. As above, the LP product includes a final balloon payment while the PCP product includes an optional final balloon payment or return of the vehicle to VWFS (UK). Should an obligor elect to return the vehicle in lieu of the optional final balloon payment, VWFS (UK) will sell the vehicle and realise a gain or loss if the sales proceeds differ from the optional final balloon payment (Residual Value or RV).



The purchase price for the receivables transferred to the Issuer is calculated based on the net present value of the monthly payments and Residual Value of the receivables. The discount rate used to determine the net present value is [8.244%]. As of the preliminary pool cut-off date (31 July 2023), the aggregate discounted balance of the receivables is GBP500 million, comprising of 23,885 individual contracts. Approximately 93.2% of the portfolio comprises PCP contracts including an optional return of the vehicle and discounted aggregate optional final payment amount of GBP238.2 million (47.6% of portfolio), 6.0% of the portfolio consists of HP contracts and 0.7% consists of LP contracts. The weighted average original term of the portfolio is 47.7 months with a weighted average remaining term of 36.6 months. New vehicles comprise 63.2% of the aggregate discounted balance and 99.1% relates to loans to private individuals.

The key transaction parties for this transaction are listed below:

<b>Transaction Parties</b>	
Issuer	Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK seven, Luxembourg
Seller, Servicer, Subordinated Lender	Volkswagen Financial Services (UK) Limited
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
Swap Counterparty	TBD
Corporate Services Provider	Circumference FS (Luxembourg) S.A.
Security Trustee	Intertrust Trustees GmbH
Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch
Arranger	BNP Paribas

<b>Key Credit Considerations</b>	<b>+/-</b>
<p><b>Experienced Originator/Servicer</b>            VWFS (UK) is the captive subsidiary of VWFS, which in turn is a subsidiary of the VW Group, primarily supports VW customers through the provision of financing options to customers to acquire Volkswagen and related brand vehicles.</p> <p>VWFS (UK) operates from a centralised business center and primarily originates through an approved franchised dealer network using established credit application and control processes.</p> <p>As at 31 December 2022, VWFS (UK) reported total assets of GBP19.1 billion (up from GBP18.0 billion in 2021) and a profit for the year of GBP580.4 million (down from GBP642.5 million in 2021) with a year-end total capital ratio of 14.1%. The company's funding structure at year-end 2022 had approximately 45% of assets funded through securitisation, 41% through intercompany debt and 14% equity.</p> <p>VWFS operates and coordinates the financial services activities of its parent, VW Group, around the world (excludes USA, Canada, Trucks and Bus divisions and Porsche Financial Services). With total assets of €133.3 billion as at December 2022 (up from €124.6 billion in 2021), VWFS reported an operating profit of €3.2 billion (up from €2.9 billion in 2021) with over 11,000 employees.</p> <p>The VW Group is one of the largest auto manufacturers in the world with global revenues of €279.2 billion for year ending 31 December 2022 (up from €250.2 billion in 2021) and an operating profit of €22.1 billion (up from €19.3 billion in 2021).</p>	+
<p><b>Transaction Structure</b>            The transaction benefits from credit enhancement levels that are sufficient to withstand KBRA's rating stresses. Credit enhancement to the Class A and Class B Notes is comprised of subordination of more junior note classes, overcollateralisation, excess spread, and reserves, as follows:</p>	



**Targeted Overcollateralisation Amount:** Following the end of the Revolving Period and in accordance with the priority of payments, each class of notes will receive principal until their respective target overcollateralisation amounts have been reached (see the [Transaction Structure](#) section for the Notes target overcollateralisation levels). Target overcollateralisation includes subordination but excludes reserves, effectively targets a 2% increase from initial credit enhancement during the revolving period and a cumulative 4% increase from initial credit enhancement after the revolving period. If a [Credit Enhancement Increase Condition](#) is in effect, the structure will revert to sequential payment priority where the Class A Notes receive principal until paid in full, followed by the Class B Notes. Additionally, following a Credit Enhancement Increase Condition being in effect, interest on the Subordinated Loan will not be paid until the Notes have been repaid in full.

**Subordination:** Subordination is 23.1% and 12.3% for the Class A Notes and Class B Notes respectively.

**Overcollateralisation:** Initial overcollateralisation is 6.0% of the closing aggregate discounted pool balance.

**Excess Spread:** The discount rate (the purchase price paid for the receivables by the Issuer to the seller is calculated by discounting each future total instalment plus Residual Value) has been calculated to target close to zero per cent (initially will be approximately 0.4%) excess spread rate on the transaction. Notwithstanding this, following a Credit Enhancement Increase Condition being in effect, after which the transaction reverts to a fully sequential priority of payments, excess spread would be available to support the Notes.

**Cash Reserve Account:** An amortising cash reserve account of [GBP6.5] million will be funded at closing, initially sized at [1.6%] of the aggregate outstanding receivables balance (refer to [Transaction Structure](#)). The reserve account is available to cover senior fees and expenses and interest due on the Notes or to pay principal on the Notes on the final legal maturity date. The reserve will be replenished to the extent there are available cashflows following payment of interest on the Class B notes in subsequent periods. Releases from the cash reserve account as a result of a reduced cash reserve requirement will be paid to the subordinated lender in the absence of a Credit Enhancement Increase Condition being in effect.

#### **Pro Rata Amortisation of Notes Subject to Triggers**

Prior to the occurrence of a Credit Enhancement Increase Condition being in effect and after the target overcollateralisation levels have been reached, the Notes and the Subordinated Loan will amortise on a pro-rata basis.

The occurrence of a Credit Enhancement Increase Conditions will cause the amortisation of the Notes and Subordinated Loan to change from pro rata to a sequential pay structure. Credit Enhancement Increase Conditions are listed below:

- The aggregate cumulative net loss amount as a percent of the initial reference portfolio is greater than 0.8% between months one to five, greater than 1.8% between months six to eleven, and greater than 4.0% from month twelve onward.
- The dynamic net loss ratio for three consecutive months exceeds 0.3% if the weighted average seasoning of the receivables is less than or equal to 12 months, 0.75%, between month 12 and month 22 or 2.0% between month 22 and month 34. If the weighted average seasoning is greater than 34 months, the dynamic net loss ratio shall not apply.
- The late delinquency ratio exceeds [1.3%] on or before October 2024

As the contracts amortise, Residual Value will represent a greater percentage of the aggregate discounted pool balance. KBRA notes that the proportional exposure to Residual Value losses for the Notes increases, the longer the Credit Enhancement Increase Condition trigger is not in effect and the Notes pay pro rata. KBRA considered the maximum potential residual value proportional (relative to credit enhancement) exposure in its analysis.

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### Revolving Period

During the transaction's maximum six-month Revolving Period, cash received from available principal collections may be reinvested to purchase additional assets in the absence of an early amortisation event. Additional assets are acquired by the Issuer applying a replenished receivables overcollateralisation percentage of [3.481%]. The existence of a Revolving Period adds uncertainty to the portfolio composition and could allow the collateral pool to become more concentrated or drift to lower credit quality receivables.

To mitigate the uncertainty brought upon by the Revolving Period, the transaction includes eligibility criteria which need to be complied with for additional assets to be included. Eligibility criteria account for underlying terms and conditions of the assets including tenor restrictions and alongside certain concentration criteria in relation to the overall portfolio.

Early amortisation events, if triggered, will lead to the end of the Revolving Period. These events include triggers on the ongoing performance of the collateral as well as a trigger if the overcollateralisation ratio on the Class A Notes falls below a certain level. Please refer to [Early Amortisation Events](#) for more information.

KBRA notes that the concentration criteria are limited compared to other revolving ABS transactions. KBRA has considered the limited criteria in its analysis.

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### Residual Value under PCP Contracts

A customer can satisfy its obligations under a PCP contract by returning a financed vehicle to VWFS (UK) in lieu of the final payment. This creates the potential for residual value risk within the subject transaction as the servicer will (if the vehicles are turned back) sell the returned vehicles and the proceeds from the sale of the financed vehicle may be less than the amount outstanding under the agreement. The preliminary portfolio contains 47.6% exposure to Residual Value.

The residual value risk on vehicles is therefore dependent on both VWFS (UK)'s ability to accurately forecast future car values and the state of the used car market. Despite low historically observed turn-in rates, turn-in rates are expected to increase if used vehicle prices decline as obligors would be financially motivated to return the vehicle rather than make the balloon repayment at a higher market price. KBRA considered this dynamic in its rating analysis.

KBRA further considered:

- the historic realisations against original VWFS (UK)'s assessments.
- the changes in the used car market price indices in the UK since 2008.
- the concentration profile of the RV risk in the transaction where a significant portion (37.1%) of PCP contract maturities occur within a four-month horizon based on the preliminary pool cut.
- the potential increase in the proportion of RV relative to credit enhancement levels given the pro-rata amortisation feature in the transaction.
- the concentration profile of manufacturer and model in the subject transaction.

KBRA notes that VWFS (UK) are obliged under a redelivery repurchase agreement to make whole the amount of RV exposure when it crystallises. KBRA has not factored in this obligation in its analysis of the transaction.

### The Ability for Voluntary Terminations

In addition to residual value exposure arising from PCP contracts, in accordance with the 1974 Consumer Credit Act, all consumers have the right to end a car finance agreement through voluntary termination (VT) once 50% of the total amount payable over the entire course of the agreement (including interest, fees and final balloon payment) has been paid. If a customer elects to voluntarily terminate the contract, the servicer will sell the associated vehicle and use the proceeds to prepay the loan amount. If net proceeds are less than the loan amount, the transaction will record this shortfall as a net loss. Recently, VT levels have been at historical lows although this has been positively influenced by a buoyant used car market.

KBRA has stressed the expected VT and losses arising from these VTs as part of its rating analysis.

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<p><b>Historical Performance</b> VWFS (UK) has a long history in auto loan origination and servicing and provided 20 years of historical data including cumulative gross losses (defaults and voluntary terminations), recoveries and residual value realisations.</p> <p>KBRA notes that given the tenor of the performance data provided, it does include various periods of credit stress in the UK economy. VWFS (UK) has experienced low levels of defaults and voluntary terminations (albeit certain periods did exhibit some stress) throughout the period observed. Furthermore, the turn-in rates for PCP agreements have been low and losses from the optional final payment in PCP agreements have been minimal. Please refer to the <a href="#">Historical Performance</a> section for further details.</p>	+
<p><b>Used Car Market</b> Despite a recent easing, in particular for battery electric vehicles, the market for used vehicles has experienced significant price inflation since the latter half of 2020 due to high demand and limited supply caused by supply chain and production delays following the onset of COVID-19. This creates the potential for lower recovery rates and higher net losses on defaulted collateral, PCP loans or VT if used car pricing returns to historical levels.</p> <p>According to the Company, VWFS (UK) considers current and future market conditions when setting residual values. KBRA considered the potential impact of the inflated used vehicle market and specifics of the loan products when formulating its base case cumulative gross default, recovery and residual value assumptions.</p>	-/+
<p><b>Commingling Risk</b> Commingling risk is present as VWFS (UK), in its capacity as servicer, collects the ongoing payments associated with the portfolio into VWFS (UK) accounts and is required to remit the collections to the Issuer on a monthly basis. As such, the Issuer is exposed to non-payment by VWFS (UK), prior to a redirection of cashflows to the Issuers account.</p> <p>This risk is partially mitigated by requirement for VWFS (UK) to advance funds to the Issuer covering a calculated amount of expected receipts for the next month if among other conditions, VW Group or VWFS ceases to have an investment grade rating (as defined).</p>	-/+
<p><b>Back-up Servicer Arrangements</b> Following a servicer replacement event, the Issuer or the Security Trustee may terminate the appointment of the Servicer, whose termination would become effective following the appointment of a replacement servicer. Servicer replacement events include failure to pay (within certain grace periods), failure to materially perform (within certain grace periods), incorrectness of a material representation or warranty (which is not remedied) or an insolvency event.</p> <p>No back-up servicer is appointed at closing and the Issuer is required to use all reasonable endeavors to search for and appoint a replacement servicer.</p> <p>A servicing disruption event could have a negative impact on the performance of the transaction. KBRA has considered the credit quality of the Servicer, structural mitigants within the transaction as well as the relatively standardised nature of the underlying collateral and the current availability of replacement service providers within the UK.</p>	-
<p><b>Legal Title Over Sale Proceeds</b> The Issuer does not have any rights in or over the vehicles that are financed by the financing contracts, it only has rights in connection with the sale proceeds of those vehicles.</p> <p>Accordingly, in the event of any insolvency of VWFS (UK), the Issuer is reliant on any administrator or liquidator of VWFS taking appropriate steps to sell such vehicles or assist the then servicer in selling such vehicles.</p> <p>This risk is mitigated by the inclusion of a provision in the servicing agreement providing that the Issuer will pay, in accordance with the order of priority, any administrator or liquidator's costs and expenses in selling such vehicles and an administrator recovery incentive fee. KBRA has considered a stressed incentive fee as part of its rating analysis.</p>	-



### **Underwriting and Borrower Verification**

VWFS (UK) uses established purchase guidelines and control processes in their underwriting process.

Before an application is accepted, VWFS assesses the credit standing of the obligor. Retail applications are assessed against a bespoke scoring model and internal policy rules; if the results of the scoring are above a prescribed level and all rules are satisfied the application will approve automatically (typically circa 74% of applications are approved automatically).

External credit reference agency data is passed through bespoke scorecards covering both consumer and commercial applications, to generate a bespoke score. This score is converted into a Risk Band (A-D and Z) for every application. The scorecards have been developed using advanced analytical techniques and based on historical data sets. The identity of every applicant is verified at the point of application. Approximately 90% are authenticated electronically using credit reference agency data, otherwise applicants are verified using proof of address and photo identification.

Please refer to the [Underwriting Process](#) section for further information.

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### **Interest Rate Risk**

The underlying receivables are all fixed throughout the contracts whereas the Notes pay interest on a floating rate basis.

In order to mitigate this risk, the Issuer will enter into an interest rate swap with the swap counterparty where the fixed payments made to the swap counterparty are paid through the transaction waterfall and floating rate payments made by the swap counterparty are used to make payments on the Notes. The swap is a balance guaranteed swap where the notional amount will be equal to the outstanding principal balance of the notes. KBRA has considered the impact of the hedging in its analysis.

The swap counterparty is required to be an entity which is an eligible swap counterparty, the criteria for which is in accordance with KBRA's [Global Structured Finance Counterparty Methodology](#).

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### **Granular Portfolio, Regional Diversity**

The preliminary portfolio is highly granular with 23,885 individual contracts, the largest single obligor exposure being 0.1% and the top 10 obligor exposures at 0.4%.

The preliminary portfolio is also geographically diverse within the UK with the highest geographical concentrations being South-East (15.2%), Scotland (12.6%) and North-West (12.1%).

36.8% of the portfolio provides financing relating to a used vehicle. The eligibility criteria limits contracts representing used vehicles to a maximum of 60% of the portfolio.

KBRA notes the granularity of the composition of the preliminary portfolio and the limited number of contracts scheduled to mature within the maximum length of the revolving period.

Please refer to the [Collateral Analysis](#) for specific detail on the preliminary portfolio composition.

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### **Manufacture Concentration, Brand Diversity**

The transaction has significant manufacture concentration in the transaction (95.9% VW Group). However, KBRA believes the portfolio is comprised of brands that have demonstrated an ability to retain value. Additionally, the portfolio is somewhat diversified by vehicle brands, with Audi (33.0%), Volkswagen (31.6%) and Porsche (13.9%) comprising the top vehicle brands under the portfolio. Furthermore, the top 3 models Volkswagen Tiguan (6.6%), Volkswagen Golf (5.9%) and Volkswagen Polo (5.4%) represent a relatively small portion of the overall portfolio.

Please refer to the [Collateral Analysis](#) for specific detail on the preliminary portfolio composition.

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### **Electric Vehicle Transition**

The uptake of electric vehicles has increased significantly over the last few years. With 1.6 million new car registrations in the UK in 2022, Battery Electric Vehicles (BEV) represented 16.6% of all new registrations, increasing from 11.6% in 2021 while hybrid vehicles comprised an additional 36.0% according to figures released by SMMT.

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The increase in the uptake of EVs is expected to continue as countries continue to pursue net zero emission targets and the UK government has recently confirmed its plan to end the sale of new petrol and diesel cars by 2030. Given the composition of the preliminary portfolio and the length of the scheduled revolving period, no material changes to the composition of the portfolio are expected during the revolving period. 7.9% of the loans in the preliminary portfolio are associated with a BEV.

### **Regulatory Environment**

VWFS (UK) operates within a regulated environment with an increasing emphasis on consumer protection. The FCA has introduced a new "Consumer Duty" regulation which came into effect in July 2023 for new and existing products and applies to firms in the distribution chain for products and services to retail customers. The Consumer Duty includes new requirements on governance, culture and monitoring of customer outcomes in order to set higher and clearer standards of consumer protection across financial services. Firms are required to ensure their products and services are fit for purpose, offer fair value and help consumers make effective choices or act in their interests. The Consumer Duty applies not only at origination but throughout the life of a product.

VWFS (UK) has clear underwriting and collections procedures within a defined set of product offerings and customer interaction procedures which clearly focus on the customer experience. VWFS (UK) has indicated that its credit underwriting and procedures ensure the required focus on affordability metrics and compliance with all consumer duty requirements is maintained.

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### **Macroeconomic Factors**

From mid-2020 through 2H 2021, many consumer finance sectors experienced positive credit performance owing to tighter origination standards through the early part of the pandemic, increased personal savings rates and reduced consumer debt burdens. Credit performance was influenced by a strong labour market pre-pandemic, low interest rate environment, and widespread borrower assistance programs, including the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS). In addition, several rounds of government stimulus and mini-budgets through the crisis meaningfully contributed to positive credit performance.

However, consumer credit performance since 2H 2021 has been showing weaker year-over-year metrics as credit trends normalised towards or above pre-pandemic levels. All meaningful borrower relief programs have ended and most issuers have reverted to pre-pandemic origination practices. Inflationary pressures and rising interest rates weigh on consumer balance sheets. While the tight labour markets should help to hamper the pace and magnitude of any credit deterioration, declining savings rates indicate that wage increases are not keeping up with inflation and that consumers are accessing savings built up during the pandemic to support expenses. Furthermore, the Bank of England's efforts to fight inflation increase the possibility of an economic slowdown and higher unemployment.

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These factors were considered in KBRA's rating analysis, which assumed losses will increase to higher levels over the term of the subject securitisation.

## Transaction Summary

The table below shows the characteristics of the preliminary collateral pool of this transaction as on 31 July 2023 compared to a recently rated KBRA transaction with auto loan contracts in the UK, Globaldrive UK 2023-A noting that the ratings assigned to Globaldrive UK 2023-A are different to the preliminary ratings assigned to this transaction.

Deal Name	Driver UK Master SA Multi Compartment 7	Globaldrive UK 2023-A
Closing Date	[TBD]	24-Apr-23
Originator	Volkswagen Financial Services (UK) Ltd	FCE Bank plc
<b>Collateral Stratification</b>		
Discounted Balance	£500,009,488	£500,009,758
o/w Receivable Payments	£261,853,005	£241,225,985
o/w LP Balloon Payment	£1,671,465	£17,541,991
o/w Optional Final Payment	£238,156,483	£258,783,773
Number of Receivables	23,885	33,161
Avg Original Amount Financed	£24,619	£20,703
Wtd Avg Interest Rate	7.0%	2.0%
Wtd Avg Original Term (months)	47.7	37.4
Wtd Avg Seasoning (months)	11.2	9.8
Wtd Avg Remaining Term (months)	36.6	27.7
% New Vehicles	63.2%	99.7%
<b>Product Type</b>		
Hire Purchase (Globaldrive: Standard)	6.0%	9.3%
Lease Purchase (Globaldrive: Standard Balloon)	0.7%	7.8%
PCP (Globaldrive: TCM)	93.2%	83.0%
<b>Obligor Type</b>		
Consumer	99.1%	85.2%
Corporate	0.9%	14.8%
<b>Fuel Type</b>		
Battery Electric	7.9%	1.6%
Diesel	16.4%	20.3%
Hybrid	3.8%	42.3%
Petrol	71.9%	35.7%
<b>Top Geographic Concentration</b>		
Region 1:	South East: 15.2%	East: 14.9%
Region 2:	Scotland: 12.6%	South East: 14.3%
Region 3:	North West: 12.1%	North West: 12.8%
<b>Top Vehicle Brands</b>		
Brand 1	Audi: 33.0%	Ford: 100%
Brand 2	Volkswagen: 31.6%	NA
Brand 3	Porsche 13.9%	NA
<b>Top Vehicle Models</b>		
Model 1	Tiguan: 6.6%	Fiesta: 24.6%
Model 2	Golf: 5.9%	Puma: 19.0%
Model 3	Polo: 5.4%	Kuga: 17.4%
<b>Note Balance</b>		
Class A	[●]	£422,500,000
Class B	[●]	£27,500,000
Subordinated Loan (Class C for Globaldrive)	[●]	£50,009,758
<b>Gross Excess Spread</b>		
Effective Interest Rate	8.2%	8.0%
Interest Cost (weighted, including swap)	6.2%	5.0%
Servicing Fees*	1.0%	0.8%
Interest Compensation	0.6%	NA
Total Gross Excess Spread	0.4%	2.2%
<b>Total Initial Credit Enhancement</b>		
Class A	30.4%	16.9%
Class B	19.6%	11.4%
Subordinated Loan (Class C for Globaldrive)	6.0%	0.0%

\*Does not include other fees.

## KBRA Process

KBRA analysed the transaction using the [Auto Loan ABS Global Rating Methodology](#) as well as its [ABS General Global Rating Methodology for Asset Backed Securities](#) owing to features associated with the PCP contract collateral, including residual value risk. KBRA also utilised its [Global Structured Finance Counterparty Methodology](#) and [ESG Global Rating Methodology](#). In applying the methodology, KBRA analysed VWFS (UK)'s historical performance data segmented by credit characteristics including product type, the underlying collateral pool, market price information on the performance of used cars and the capital structure using stressed cash flow assumptions. KBRA considered its operational review of VWFS (UK), which was conducted in August 2023. Operative agreements and legal opinions will be reviewed prior to closing.

## Originator and Servicer Review

The information in this section is based on materials provided by VWFS (UK) and/or public sources.

### VWFS:

Headquartered in Germany, VWFS operates and coordinates the financial services activities of its parent, VW Group, around the world (excludes USA, Canada, Trucks and Bus divisions and Porsche Financial Services). With total assets of €133.3 billion as at 31 December 2022 (2021: €124.6 billion), VWFS reported an operating profit of €3.2 billion (2021: €2.9 billion) with over 11,000 employees.

VWFS offers a range of products and services, comprising customer financing, leasing, insurance and other services in the perspective of operational leasing and fleet management. VWFS's client portfolio broadly comprises of granular non-commercial customers. VWFS is a wholly owned subsidiary of Volkswagen AG.

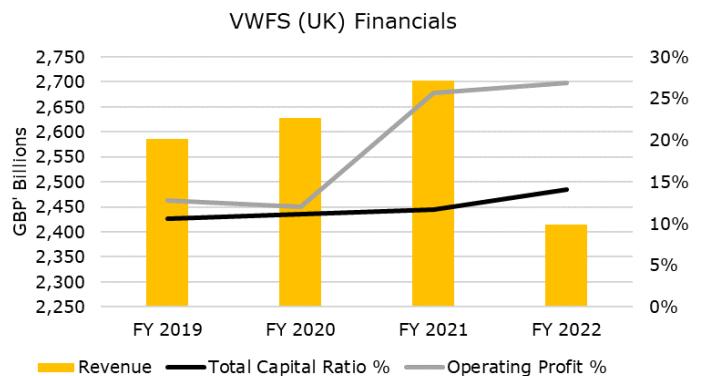
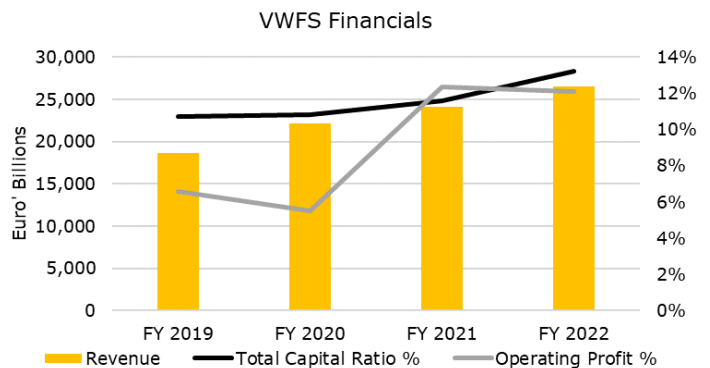
### VWFS (UK):

Established in 1994, VWFS (UK) provides financial products and services to retail and business customers purchasing Volkswagen and related brand vehicles in the UK. VWFS (UK) is fully authorised and regulated by the Financial Conduct Authority (FCA) in the UK in respect of regulated consumer credit and leasing activities.

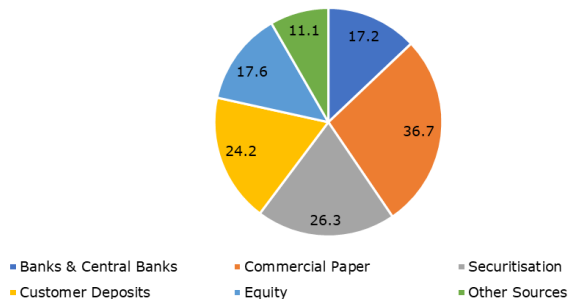
VWFS UK is a subsidiary of VWFS operating in the United Kingdom and is authorised and regulated by the FCA. As at 31 December 2022, VWFS UK has nearly 1,000 full time employees and had total assets of GBP19.1 billion, while recording an operating profit of GBP649.0 million for the financial year.

## Funding and Liquidity

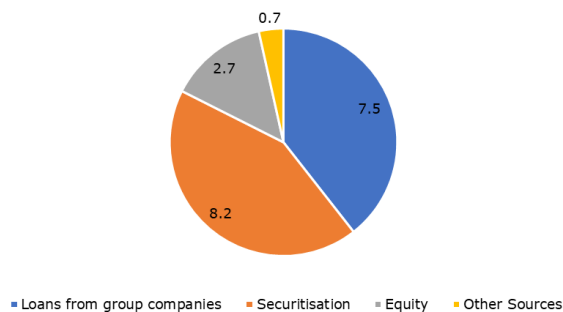
VWFS (UK)'s funding strategy relies on three key channels. Securitisation has been the primary source of funding over the last few years at close to half of their total funding. However, the reliance on securitisation has trended downwards from 2019 to date, dropping from 54.9% in 2019 to 43.0% in 2022. The second major source of funding for VWFS (UK) is through loans taken from group companies, primarily VWFS, which coordinates the overall bank/funding lines and facilities from its relationship lenders and distributes accordingly to its subsidiaries which itself has a relatively diverse funding base (see chart below). VWFS (UK) has increased its intercompany debt from GBP5.1 billion in 2019 to GBP7.5 billion in 2022. VWFS (UK)'s equity has increased through retained profits and expanded from GBP1.8 billion in 2019 to GBP2.7 billion in 2022.



**VWFS Funding Structure as at 31 December 2022 (Euro Billions)**



**VWFS (UK) Funding Structure as at 31 December 2022 (GBP Billions)**



## Product & Services

VWFS (UK)'s primary business is to support the sale of Volkswagen AG and related brand vehicles by providing a range of financial products to dealers' retail and business customers to purchase new and used vehicles.

VWFS (UK)'s retail programs included in Driver UK 7 are offered to both retail and commercial customers and summarised in the table below:

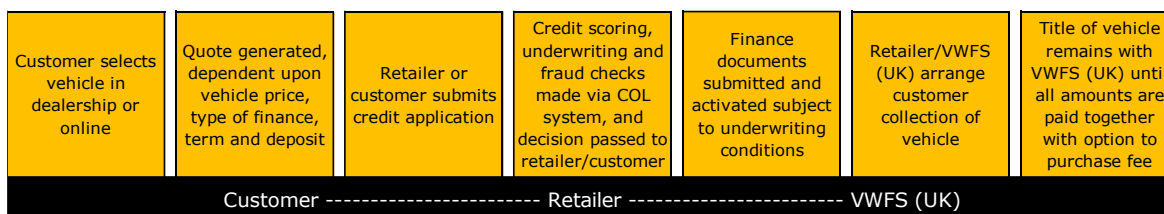
Product	PCP	Hire Purchase	Lease Purchase
Contract Type	<ul style="list-style-type: none"> <li>Amortising balloon contracts with an optional return of the vehicle at maturity in lieu of repayment</li> </ul>	<ul style="list-style-type: none"> <li>Fully amortising hire purchase contract</li> </ul>	<ul style="list-style-type: none"> <li>Amortising loan contract with a final balloon payment</li> </ul>
Typical Contract Term	<ul style="list-style-type: none"> <li>Minimum 12 months plus balloon payment</li> <li>Maximum 49 months plus balloon payment</li> </ul>	<ul style="list-style-type: none"> <li>Minimum 12 months</li> <li>Maximum 60 months</li> </ul>	<ul style="list-style-type: none"> <li>Minimum 12 months plus balloon payment</li> <li>Maximum 49 months plus balloon payment</li> </ul>

The obligor pays a contractually specified monthly instalment at a stipulated payment date, with the number of payments corresponding with the number of months covered by the financing period. In the case of personal contract purchase agreements, a larger final instalment is due at the end of the contract term. Under personal contract purchase agreements, the obligor has the right to return the vehicle at the contract maturity without payment of the balloon payment, provided that if the vehicle has completed greater than the specified number of miles, excess mileage charges are due from the obligor.

VWFS requests each obligor to accept a procedure by which the monthly instalments shall be debited directly from the obligor's bank account. Over 99.8% of obligors in the proposed pool pay by direct debit.

## Underwriting Process

The process from underwriting to vehicle disbursement is depicted below:



VWFS (UK) uses established purchase guidelines and control processes in their underwriting process. A creditworthiness and affordability assessment is conducted for all applicants.

Before an application is accepted, VWFS (UK) reviews the credit standing of the obligor. Consumer applications are assessed against a bespoke scoring model and internal policy rules; if the results of the scoring are above a prescribed level and all rules are satisfied, the application will be automatically approved (currently circa 74% of applications are approved automatically).



External credit reference agency data is passed through bespoke scorecards covering both consumer and commercial applications, to generate a bespoke score. This score is converted into a Risk Band (A-D and Z) for every application. The scorecards have been developed using advanced analytical techniques and based on historical data sets.

### **Know Your Customer**

The identity of every applicant is verified at the point of application. Approximately 90% are authenticated electronically using credit reference agency data, otherwise applicants are verified using proof of address and photo identification.

### **Collections**

VWFS (UK) receives regular direct debit payments from obligors on the due date specified in the underlying contract. If a payment is not received by VWFS (UK), typically VWFS (UK) will automatically re-present the direct debit application request. If payment fails for a second time, VWFS (UK) will contact the obligor by multiple contact channels such as telephone, letter, SMS and e-mail. All contracts in arrears are managed by a risk-based automated collections system.

The aim is to identify, wherever possible, workable arrangements and to allow the customer reasonable time and opportunity to repay amounts where required.

Collections and recoveries advisors have the authority to enable them to work effectively with the customer and have access to a higher authority referral process for accounts that fall outside of their mandate. The stated strategy is to understand the customer's financial circumstances, why the customer is experiencing financial difficulties and work with the customer to tailor a payment plan according to their financial circumstances. VWFS (UK) will only proceed to debt collection, litigation or repossession action after attempting to agree an acceptable payment plan with the customer.

Where it is not possible to rectify the arrears that have arisen under a contract, VWFS (UK)'s collections department follows a collections process. Once all appropriate reminder notices have been issued (e.g. a default notice is served in respect of a regulated contract) and expired, a termination notice is issued. Once the financing contract has been terminated, VWFS secures the legal return of the vehicle as quickly as possible using the most appropriate methods through repossession agents or if the obligor has paid one-third or more of the total amount payable under the relevant regulated contract, VWFS (UK) will first attempt to obtain a voluntary surrender of the asset and if this is not possible a return of goods action via VWFS (UK)'s panel of law firms.

VWFS (UK) has a panel of specialist debt recovery firms who advise on the appropriate actions to take both before and leading to/during legal proceedings. Procedures differ dependent upon the geographic location of the agreement holder i.e. whether the customer is situated within the legal jurisdictions of England and Wales, Scotland or Northern Ireland.

Upon termination of a financing contract, the obligor is required to pay the full balance or the financing contract is transferred to one of VWFS (UK)'s contracted repossession agencies to make contact with the obligor.

### **Residual Value Management**

The VWFS (UK) RV setting process is an analytical data driven process. For all vehicle types, the RV setting process commences with consideration of the current market value position of a vehicle within the product range using VWFS (UK)'s, VWFS's and VW Group's experience of the remarketing performance.

Life-cycle calculation and new model premiums adjust the current value to provide a forecast RV. RV valuations are monitored on an ongoing basis using a basket of key vehicles covering all VW model ranges and including data on CAP (a leading valuation agent in the UK) trade and forecast valuations (black and gold book, which are common industry adopted indexes for both existing and future value on used vehicles).

Newly proposed RV positions are compared to CAP gold book forecasts and the previously ratified RV as well as CAP black book market values for preceding model year variants.

Electric vehicle models and ranges are reviewed at 10,000 miles and are subject to more frequent review cycles.

Various areas of portfolio and market performance are monitored on an ongoing basis. Focus areas for VWFS (UK) management are:

- The return rates and forecast equity of vehicles on PCP agreements
- Remarketing performance is reviewed daily and processes are adjusted based on current demand and incoming supply
- The volume of VTs in the portfolio
- BEV used market values are on quarterly reviews cycles.

## Residual Value Realisation

At the end of the PCP contract, the customer has three options:

Renew – trade the vehicle in with a dealer and purchase a new vehicle;

Retain – pay or refinance the optional final payment and keep the vehicle;

Return – return the vehicle to VWFS (UK) and walk away with no further obligations, subject to excess mileage and fair wear and tear charges.

If the customer decides to return the vehicle, VWFS (UK) (and hence the subject transaction) is exposed to residual value risk, i.e. that the disposal proceeds from sale of vehicle is less than the optional final payment (OFP).

VWFS (UK)'s strategy is to ensure that PCP offering product generally aims to have low return rates. When determining the optional final payment in a contract, VWFS (UK) typically set the amount at a minimum of 5.0% below their RV estimate. This creates a potential equity cushion to support sustainable trade cycles, i.e. incentivising the customer to trade the vehicle and enter into a new PCP contract at maturity using positive equity in the financed vehicle as a deposit and prolong the commercial relationship with VWFS (UK).

The return rate has also been influenced by a buoyant used car market in the UK and return rates have averaged 2.3% since 2016, peaking at 11.6% in April 2020 due to Covid-19 and currently close to zero.

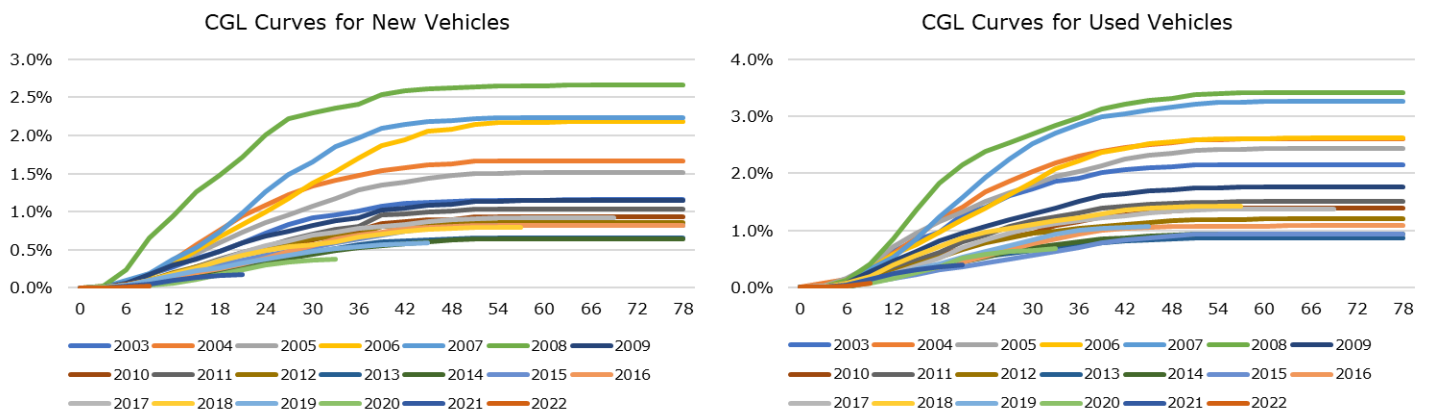
If the vehicle is returned, VWFS (UK) will endeavor to achieve the optimal sales price on the vehicle. VWFS (UK) has a large active buyer base and multiple online and auction suppliers to handle the diverse product mix and variable volumes of returned vehicles.

## Historical Performance

KBRA analysed VWFS (UK)'s historical PCP, HP and LP static pool data by vehicle type (new & used) since 2003. Using this historical performance, KBRA was able to develop base case cumulative gross loss, recovery, and voluntary termination driven loss assumptions.

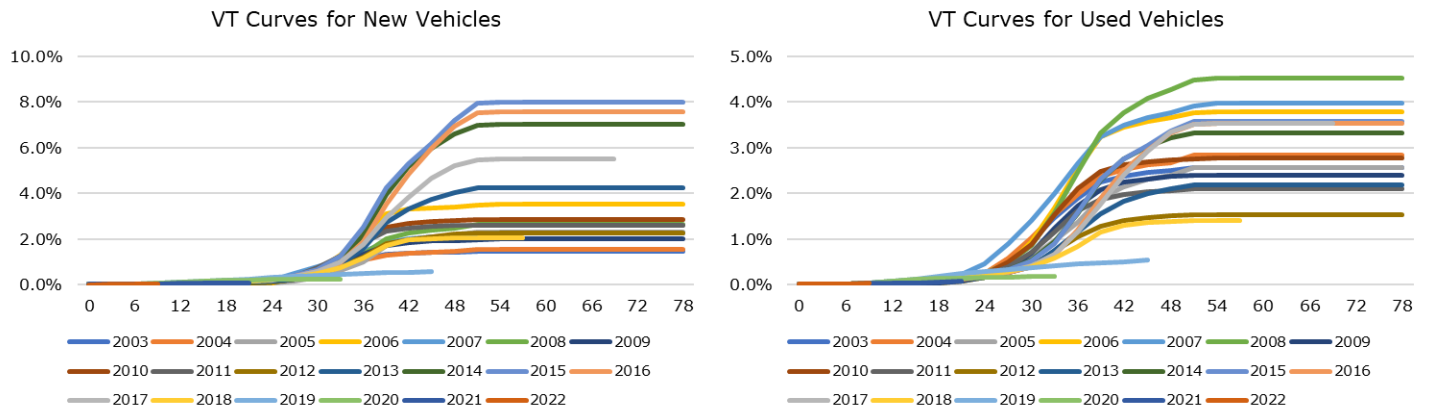
VWFS (UK) has historically experienced low levels of defaults with cumulative annual default rates peaking at 2.4% for new vehicles and 3.7% for used vehicles both of which occurrences were observed in 2008. New and used vehicles comprise 63.2% and 36.8% respectively of the preliminary portfolio as of the cutoff date. However, concentration limits within the eligibility criteria permit used vehicles to increase to up to 60% of the portfolio during the Revolving Period.

### Cumulative Gross Loss Curves from Defaults by Vehicle Type and Yearly Vintage.



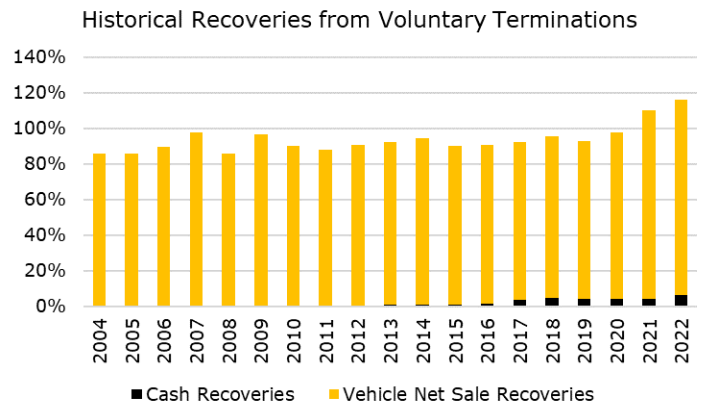
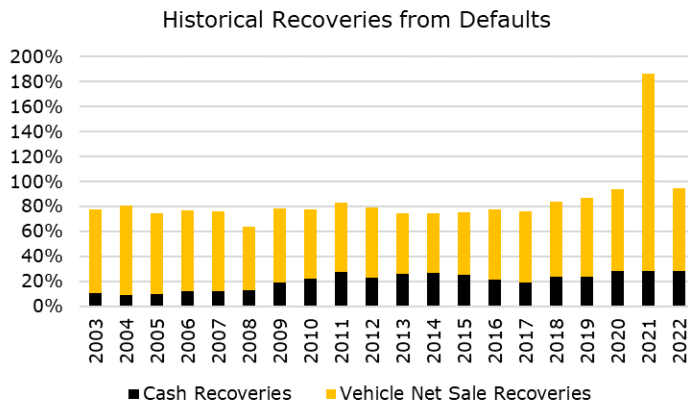
VT rates for new vehicles tend to be higher than used vehicles and have trended lower in recent years, in line with the buoyant used car market. In addition, VT rates are higher for PCP and LP agreements compared to HP agreements. The higher VT rates in PCP and LP agreements can be attributed to the nature of the agreements which provide more flexibility and tend to attract consumers that ultimately may not be motivated to own a vehicle.

## Cumulative Gross Loss Curves from VT by Vehicle Type and Yearly Vintage



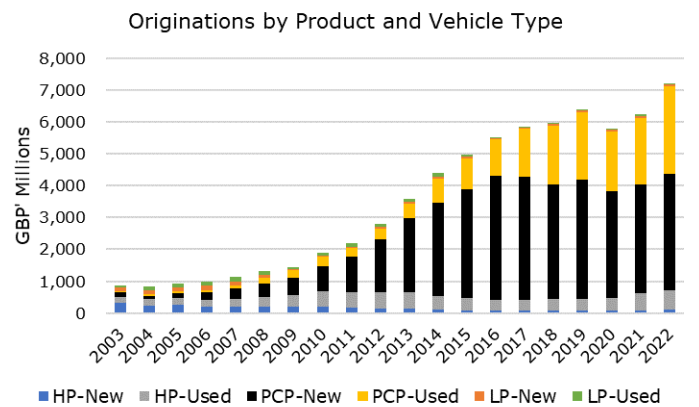
### Recoveries

VWFS (UK) has a proven track record of generating recovery rates on defaulted and VT assets. Cash recoveries make up approximately 20% of recoveries from defaults. Driven by their collection and repossession policies as well as large active buyer base and multiple online and auction suppliers that can handle a diverse product mix and fluctuating volumes, VWFS (UK) has experienced a recovery rate greater than 64% from defaulted agreements since 2008 and a recovery rate greater than 86% for agreements that VT. KBRA analysed VWFS (UK)'s recovery rates by a annually cohort of defaults and VT dating back to 2003 and developed base case recovery assumptions for the obligors.



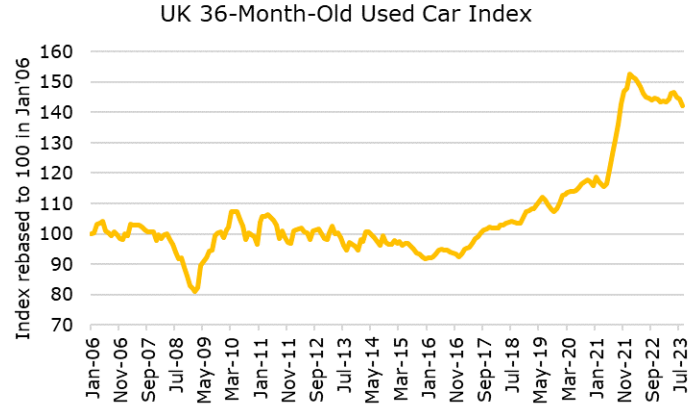
### Originations

Approximately GBP60.3 billion of PCP agreements, GBP11.2 billion of HP agreements and GBP3.0 billion of LP agreements have been originated since Q3 2002. Annual originations have grown at a high rate since 2010 and peaked in 2022 at GBP7.2 billion. The growth in originations is predominantly driven by VWFS (UK)'s PCP agreement originations. KBRA notes that there was no substantial decline in originations during the COVID-19 pandemic.



### UK 36-Month-Old Used Car Values

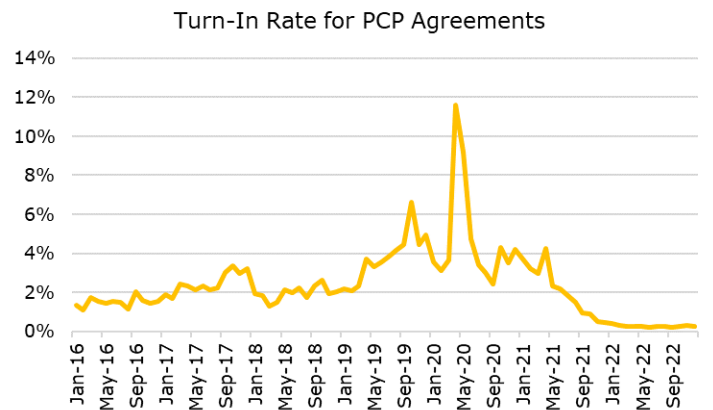
Commencing from 2021, the value of 36-month-old used cars in the UK have witnessed a significant increase, primarily as a result of supply chain issues driving up used car market prices as displayed in the graph. Using this index, KBRA derived an expected loss on the optional final payment element of the PCP agreement at the Class A and Class B rating levels. The historical used car valuation data used to develop this index was sourced from Bowkett Auto Consulting Ltd, experteye and Indicata.



Source: Bowkett Auto Consulting Ltd, experteye and Indicata

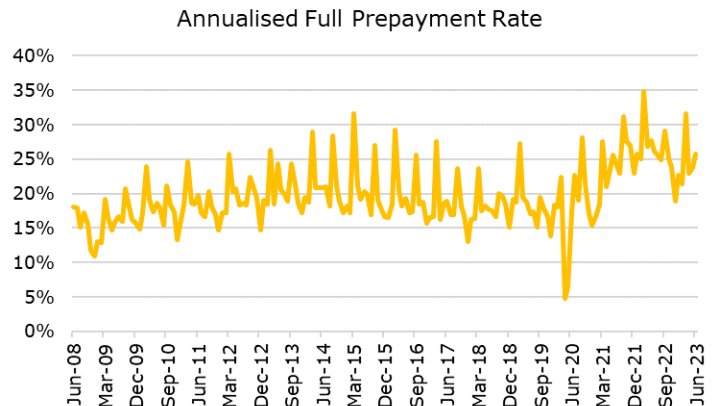
### Turn-In Rates

VWFS (UK) has historically experienced low turn-in rates for PCP agreements. Although the turn-in rate reached 11.6% in April 2020 (driven by COVID-19), the rate has averaged 2.3% since January 2016. As indicated in the UK 36-month-old used car index above, the period from April 2021 to date has been a benign period in the UK used car market which also accounts for the low turn-in rates that VWFS (UK) has experienced in this period. Where vehicles have been returned, VWFS (UK) has achieved average realisations above 85% which have trended higher from 2021.



### Full Prepayments

VWFS (UK) has historically experienced high full prepayments rates which have generally been above 15% and averaging approximately 20% through time. KBRA note that full prepayments remained high during 2008 and 2009, a period when the UK used car market experienced a sharp decline (as can be seen in KBRA’s 36-month-old used car index). During this period, the lowest full prepayment rate was 11.0%, which occurred in December 2008. The full prepayment rate declined to 4.8% and 6.5% respectively, in April 2020 and May 2020 which can be attributed to COVID-19. However, full prepayment rates returned to historical levels in June 2020.



## Collateral Analysis

The collateral pool in Driver UK 7 as at the preliminary cut-off date (31 July 2023) includes 23,885 auto loan agreements together with related vehicles, with an aggregate outstanding discounted balance of GBP500 million. The transaction includes a 6-month revolving period, during which the collateral composition of the portfolio can change.

As of the preliminary pool cut-off date, the majority of agreements are with private individuals (99.1%) and consist primarily of PCP agreements (93.2%), followed by Hire Purchase agreements (6.0%). The weighted average remaining term of the portfolio is 36.6 months and the average original amount financed is GBP24,619.



Product Type	Discounted Balance (GBP,000)	% of Balance
PCP	466,132	93.2%
Hire Purchase	30,204	6.0%
Lease Purchase	3,673	0.7%
Total	500,009	100.0%

New/Used	Discounted Balance (GBP,000)	% of Balance
New	316,191	63.2%
Used	183,818	36.8%
Total	500,009	100.0%

Obligor Type	Discounted Balance (GBP,000)	% of Balance
Retail	495,713	99.1%
Corporate	4,297	0.9%
Total	500,009	100.0%

Fuel Type	Discounted Balance (GBP,000)	% of Balance
Petrol	359,539	71.9%
Diesel	82,006	16.4%
Battery Electric	39,551	7.9%
Hybrid	18,914	3.8%
Total	500,009	100.0%

Original Term	Discounted Balance (GBP,000)	% of Balance
≤24	8,770	1.8%
25-36	30,179	6.0%
37-48	81,789	16.4%
>48	379,271	75.9%
Total	500,009	100.0%

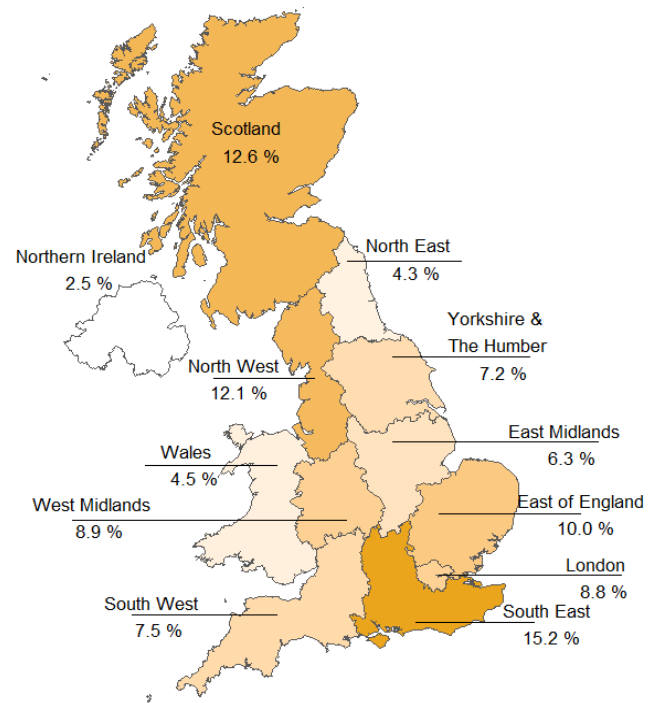
Remaining Term	Discounted Balance (GBP,000)	% of Balance
≤12	22,593	4.5%
13-24	37,018	7.4%
25-36	92,885	18.6%
37-48	338,487	67.7%
>48	9,026	1.8%
Total	500,009	100.0%

Seasoning	Discounted Balance (GBP,000)	% of Balance
≤12	386,044	77.2%
13-24	74,250	14.8%
25-36	21,633	4.3%
37-48	17,898	3.6%
>48	185	0.0%
<b>Total</b>	<b>500,009</b>	<b>100.0%</b>

Vehicle Brand	Discounted Balance (GBP,000)	% of Balance
Audi	165,251	33.0%
Volkswagen	157,776	31.6%
Porsche	69,278	13.9%
Skoda	39,480	7.9%
Cupra	20,910	4.2%
Seat	20,363	4.1%
Bentley	5,073	1.0%
Lamborghini	1,504	0.3%
Other Brands	20,375	4.1%
<b>Total</b>	<b>500,009</b>	<b>100.0%</b>

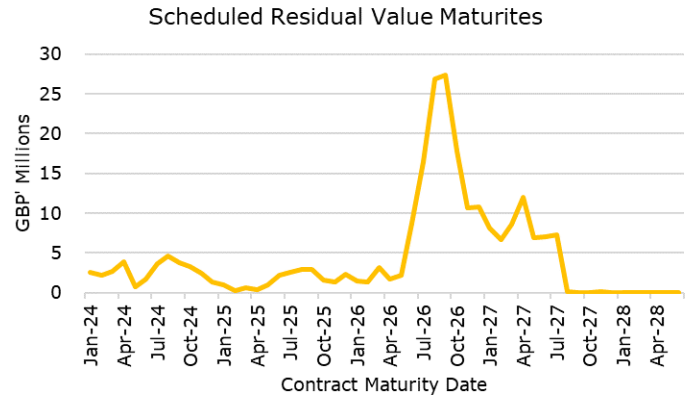
### Geographical Distribution

As shown in the geographical breakout chart to the right, the asset pool is geographically diverse with the largest region, South-East, accounting for 15.2% of the total discount balance and Scotland accounting for 12.6% of the total discount balance.



## Scheduled Residual Value Maturities

The residual value maturities within the preliminary portfolio have a high concentration where 37.1% of the maturities occur in a four-month period between July 2026 and October 2026.



## KBRA Loss Expectation

In formulating its base case loss assumptions KBRA analysed 1) the risk of obligor default or the obligor opting to VT their contract and the recovery amount following default or VT and 2) the risk of loss at the end of the PCP contract if the vehicle is returned and sold.

### Cumulative Gross Loss Analysis from Defaults and Voluntary Terminations

In relation to both obligors defaulting and obligors opting to VT on their contract obligations, KBRA analysed VWFS (UK)'s historical static pool quarterly cumulative gross loss (CGL) default and VT data for contracts originated since 2002. From analysing the data, KBRA developed a base case timing curve and loss expectation for both defaults and VT by product and by new and used vehicles split. Considering the ability for the portfolio to migrate to a more used vehicle mix (which has higher base case CGL assumptions) during the revolving period, KBRA's base case CGL assumption on the overall portfolio for defaults is 1.2% and is 4.1% for VT.

### Recovery Rates

KBRA analysed the static pool vintage recovery levels to derive its base case recovery curves. KBRA's weighted average recovery rate assumption is 70.0% in relation to obligor defaults and 90.5% for VT, realised over 18 months from the date the obligor defaults or over three months if they opt to VT their contract. KBRA considered used car market movements over time when assessing its stressed recovery analysis (see below).

### Residual Values

To assess the risk of loss if the obligor does not pay the optional final payment in PCP contracts and the vehicle is turned back and sold, KBRA analysed the historic actual end of contract realisations against VWFS (UK)'s original residual value assumption. Based on the data analysed since 2002, KBRA assumed a base case loss of 0.5% (i.e. realisations would be 99.5% of VWFS (UK)'s assessment) in relation to VWFS (UK)'s ability to forecast residual values noting that VWFS (UK) has historically experienced a very low turn-in rate evidencing that the VWFS (UK) RV historical assessments have generally resulted in incentives for customers to either refinance or keep the vehicle rather than return the vehicle. KBRA also considered used car market movements over time when considering its stressed analysis (please refer to [36-Month Old Used Car Index](#)).

## Cash Flow Modeling

KBRA conducted cash flow modelling on both the contracted loan receivable element of the transaction and the residual value component arising from the optional nature of the final payment in relation to the PCP product, to determine whether the proposed structure is sufficient to support the rating of the Notes under KBRA's stressed cash flow scenarios.

In establishing its assumptions for turn-in rates for the PCP product, i.e. the amount of customers electing to return the vehicle at contract maturity, thereby introducing residual value risk, despite the low historic turn-in rates observed in the historic data, KBRA assumes higher turn-in rates in situations where used car prices have declined. Refer to [Scenario Analysis](#).

The analysis considered the transaction's structural features, including credit enhancement and the various performance triggers and concentration limits. In carrying out the analysis KBRA applied stress assumptions to the 1) underlying auto loan receivable contracts entering default and recoveries received thereafter and 2) the originator's estimated residual values in order to test the structure and 3) the proportion of residual value in the transaction relative to credit enhancement noting the pro-rata nature of the transaction prior to the Credit Enhancement Increase Condition being in effect. Detail on each of the inputs are as follows:

## Contractual Receivables Element

In relation to the contractual receivables element, KBRA applied a stressed multiple to its base case cumulative gross loss (CGL and VT) assumptions which were established for each individual product type. Following these assumptions KBRA then applied stressed recovery rates at the assessed rating level.

The base case CGLs and VT were determined by reference to the historical performance of the products in the portfolio. The stress assumption applied a 5x stress factor to base case losses in relation to the Class A Notes and a 4x stress in relation to the Class B Notes.

The stress assumption for recoveries applied a haircut to the base case considering the residual value assumptions as highlighted below. This resulted in an applied stressed recovery rate of 60% for VT and 40% for CGL for the Class A Notes and 64.5% for VT and 44.0% for CGL for the Class B Notes.

## Residual Value

In its analysis, market price information on the performance of used cars by fuel type (including electric vehicles) in the UK market was obtained from Bowkett Auto Consulting Ltd, experteye and Indicata. The information was used in KBRA's analysis, which assessed the price movements over various liquidation periods dating back to 2006. KBRA considered various scenarios which incorporated stressed price declines over a liquidation period that indicated that the enhancement within the structure is sufficient to absorb losses in a manner that is commensurate with the assigned rating.

KBRA also considered stressed turn-in rates of 100% and 95% for the Class A Notes and Class B Notes respectively.

Considering KBRA's base case decline assumption on VWFS (UK)'s optional final payment and a stress to the observed used car price market movements and volatility since 2006. Under "Scenario 4:", the structure was resilient to a residual value decline of 34.5% for the Class A Notes and 30.0% for the Class B Notes. KBRA additionally took into account selling costs and potential administrator incentive fees.

KBRA's analysis indicated that the stresses applied to the rated class of notes is consistent with the rating assigned to the Class A Notes and Class B Notes.

## Scenario Results:

KBRA considered a number of scenarios to test the resiliency of the structure to various combinations of auto loan losses and residual value declines and proportion of residual present in the transaction. The table below summarises the results of a number of KBRA's stress case scenarios as part of its cash flow analysis:

Scenario Analysis			
Assumptions	KBRA Base Case	Class A Stress	Class B Stress
CGL & VT	2.0%	10.1%	8.0%
Recovery Rate	78.3%	48.3%	52.5%
CNL	0.4%	5.2%	3.8%
Residual Value Haircut	0.5%	34.5%	30.0%
Annualised Prepayment Rate	17.5%	5.0%	7.5%
Turn-In Rate	2.3%	100.0%	95.0%
Scenarios			
Scenario 1: Standard Scenario	Pass	Pass	Pass
Scenario 2: Increase CGL & VT by 140%	Pass	Pass	Pass
Scenario 3: Increase Residual Value Haircut by 35%	Pass	Pass	Pass
Scenario 4: Late Switch from Pro Rata to Sequential	Pass	Pass	Pass
Scenario 5: Scenario 4 + Increase Residual Value Haircut by 15%	Pass	Pass	Pass

- Scenario 1: Is the scenario based on KBRA's assumptions above. A "pass" result indicates that timely payment of interest and ultimate payment of principal on the class of notes being stressed was met in the scenario.
- Scenario 2: Holds all other assumptions constant from Scenario 1, while increasing stressed CGL's by 140%, which is approximately equal to the level of defaults that the transaction can withstand in this scenario prior to a loss on the class of notes being analysed.

- Scenario 3: Holds all other assumptions constant from Scenario 1, while increasing the residual value haircut by 35%, which is approximately equal to the level of residual value haircut that the transaction can withstand in this scenario prior to a loss on the class of notes being analysed.
- Scenario 4: Holds all other assumptions constant from Scenario 1 while testing a back-loaded scenario whereby the Credit Enhancement Increase Condition is not in effect and the stressed RV losses accumulate from month 36. This is the point at which, given the potential pro-rata amortisation of the transaction, the proportion of residual value relative to the enhancement in the transaction is at its peak. Due to the seasoning of the portfolio, at this juncture, the pool will have a meaningfully higher exposure to residual value risk.
- Scenario 5: Holds all other assumptions constant from Scenario 4 while increasing the residual value haircut by 15% which is approximately equal to the level of residual value haircut that the transaction can withstand in this scenario prior to a loss on the class of notes being analysed.

In addition to the scenarios above, additional scenarios were examined to determine whether the enhancement levels are sufficient to support the rating for the Class A Notes and Class B Notes. These included a front-loaded scenario where 50% of defaults were assumed to occur in year one and year two respectively and a back-loaded scenario where defaults and Residual Value losses were assumed to occur from year two onwards which in the scenarios run was more stressful given the pro-rata nature of the Notes. The impact of high and low levels of prepayments throughout the life of the transaction was also examined.

## Rating Sensitivity Analysis

The ratings assigned to Driver UK 7 will be monitored through the life of the transaction, which may include ongoing monitoring of the servicer, news media, performance data, used car market data and reviews of post-securitisation events. KBRA's review of the most recent data available from the servicer may be used to determine whether KBRA will consider making rating changes. A primary factor that KBRA considers in this securitisation is the development of returns within the transaction and the development of the used car market. The table is a visual illustration of potential rating sensitivities based on the development of residual value results.

The table illustrates the potential for downgrade of the transaction ratings following declines in residual value. 'Stable' means a downgrade is unlikely. 'Moderate' means a potential downgrade of up to one rating category is possible. 'Severe' indicates a multi-category downgrade is possible.




In addition to providing insight into the risk of rating migration, the table also indicates which scenarios may cause the notes to default. Any scenario that indicates 'Default' means that our cash flow projection indicated a default in the payment of principal under that scenario.

RV Losses	Rating Sensitivity	
	Class A	Class B
5.0%	Stable	Stable
7.5%	Stable	Stable
10.0%	Stable	Stable
12.5%	Stable	Stable
15.0%	Stable	Stable
17.5%	Stable	Stable
20.0%	Stable	Moderate
22.5%	Stable	Moderate
25.0%	Moderate	Severe
27.5%	Moderate	Severe
30.0%	Moderate	Severe
32.5%	Severe	Severe
35.0%	Severe	Severe
37.5%	Severe	Severe
40.0%	Severe	Default

It should be noted that many factors, including economic stress, market conditions and servicing operations can impact the performance of the collateral pool and influence rating decisions, both positively and negatively. Furthermore, the above table considers the current credit enhancement available to the transaction as well as KBRA's assumptions regarding the timing of losses.

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## ESG Considerations

KBRA ratings incorporate relevant credit factors, including those that relate to Environmental, Social, and Governance (ESG). The following section highlights ESG considerations that are generally associated with ABS securitizations such as the subject transaction. Transaction-specific ESG factors are highlighted below, where applicable, using  Environmental,  Social, and  Governance indicators.

### Environmental Factors

#### Climate Change and Natural Disasters

Climate change, natural disasters, and the outbreak of epidemic disease can pose long-term economic risk that can put meaningful and, at times, sudden, pressure on the cash flows of obligors. Portfolio diversity at the individual obligor and corporate sector level can help mitigate this risk relative to more concentrated pools. Conversely, high regional concentration leaves the collateral pool susceptible to adverse economic conditions, regional recessions, and natural disasters, which may negatively affect loan performance or collections. Certain areas are vulnerable to natural disasters such as earthquakes, wildfires, and hurricanes. The occurrence of such an event may cause increased voluntary or involuntary delinquencies for loans in the transaction. KBRA's analytical process incorporates positive adjustments for portfolio diversification by obligor and industry. Highlights regarding the subject transaction's portfolio diversity profile are available in the Collateral Analysis section of this report.



- The top three regions as at the preliminary pool cut-off date with the largest exposures are the South-East of England (15.2%), Scotland (12.6%) and the North-West of England (12.1%).

#### Environmental Laws/Regulations

Government regulators may enact fuel efficiency standards on new model year vehicles to implement environmental initiatives and increase investment in clean technologies. Such changes could influence the value of certain used vehicles, and in turn, recovery values of defaulted collateral. Values may also be affected owing to changes in gasoline prices. For example, prices of low efficiency SUVs may decrease if gas prices increase.



- The primary fuel types of the vehicles securing the auto loans in the preliminary portfolio (as a percentage of aggregated discounted balance) are petrol (71.9%) followed by diesel (16.4%), BEV (7.9%) and hybrid electric vehicles (3.8%).

### Social Factors

#### Demographic and Economic Trends

Demographic trends drive consumer preferences and the overall direction of the economy, which influences the demand for products and the performance of financial assets. Changes in demographic trends and consumer preferences impact the long-term viability of the product and Company. KBRA considers changes in demographic trends, consumer preferences, and the long-term viability of the product and Company in its rating assessment. Products with low customer satisfaction, that are inefficient, or have not embraced technological developments have a greater likelihood of being disintermediated or replaced by newer products that address these factors. Demand for financial products is also affected by population growth and consumers' age, demographic changes, employment rates, consumer behavior, and other secular trends.

### Governance Factors

#### Key Transaction Parties

KBRA considers the capabilities of key parties and their respective affiliates involved in effectuating transaction functions in its analysis. Historical performance data, which includes charge-offs, defaults, recoveries, residual values, and prepayments, are important considerations used to predict future performance of the underlying assets. KBRA segmented this data by vintage cohorts. The Company has an experienced compliance and legal department that manages legal and regulatory risks and compliance with applicable laws. This department helps identify weaknesses in and evaluates the effectiveness of Company controls enabling adherence to regulatory requirements.

#### Structure

Transaction structure is an important governance factor in structured finance transactions as many structural aspects, such as adherence to representations and warranties, compliance with origination standards and eligibility criteria, reporting of collateral performance, and segregation and application of cashflows, require



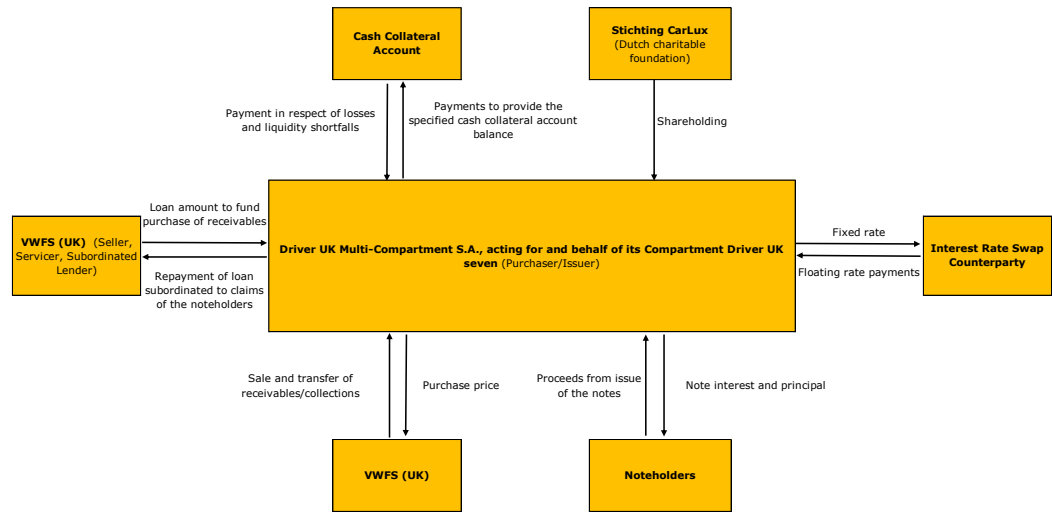
parties to act in good faith and certify the accuracy of such information. Failure to do so could impact actual performance. KBRA considers various aspects of the transaction structure in its analysis, including, but not limited to, the bankruptcy remoteness of collateral, perfection of collateral security interests, how loans are underwritten and serviced, and the transaction waterfall, as well as the applicable operative documents. KBRA holistically considers these structural features, credit enhancement, and transaction documents during the course of our credit analysis and ratings assignment process. A summary of the transaction's structure can be found in the Transaction Structure Key Credit Consideration.

# Transaction Structure

Please note that the following is intended to be a concise summary of the transaction structure. It does not contain all the information that may be relevant to understanding the transaction’s mechanics, which are available in the offering materials and/or transaction documents.

## Legal Structure

**Transaction Structure** The Driver UK 7 notes are newly issued asset-backed securities collateralised by a pool of UK auto loan receivables including vehicle proceeds given the optional final payment for PCP contracts. The following diagram illustrates the basic securitisation structure:



**Credit Enhancement** The credit enhancement provides protection for the notes against losses and delays in payment on the receivables or other shortfalls in cash flow. The credit enhancement for the Notes consists of the reserve account, excess spread on the assets, overcollateralisation and, in the case of the Class A notes and the Class B notes, subordination of certain payments as described below.

The credit enhancement for the Notes is as follows:

Rated Notes								
Class	Initial Amount (\$)	% of Total Pool Balance	O/C	Subordination	Reserve Account	Initial Hard CE	Interest Rate	Legal Final Maturity Date
A	[•]	70.90%	6.00%	23.10%	1.31%	30.41%	SONIA+TBD	25 Apr, 2031
B	[•]	10.80%	6.00%	12.30%	1.31%	19.61%	SONIA+TBD	25 Apr, 2031
Subordinated Loan	[•]	12.30%	6.00%	0.00%	1.31%	6.00%	TBD	25 Apr, 2031
O/C	[•]	6.00%						
<b>Total</b>	<b>[•]</b>	<b>100.00%</b>						

\* Amortising Reserve Account is available to cover senior expenses and interest due on the Class A and Class B notes and to pay principal on the Class A and Class B notes on the final legal maturity date

Estimated excess spread attributable to the structure is as follows:

Gross Excess Spread	
Effective Interest Rate	8.2%
Interest Cost (weighted, including swap)	6.2%
Servicing Fees*	1.0%
Interest Compensation	0.6%
<b>Total Gross Excess Spread</b>	<b>0.4%</b>

\* Does not include other fees.

In the absence of a Credit Enhancement Increase Condition being in effect, positive excess spread can be released to VWFS (UK) over time through a Buffer Release Amount / Interest Compensation Surplus Amount mechanism. Notwithstanding this, following a Credit Enhancement Increase Condition being in effect, after which the transaction reverts to fully sequential, estimated excess spread to support the rated notes would be as follows:

Gross Excess Spread	
Effective Interest Rate	8.2%
Interest Cost for Rated Notes (weighted, including swap)	5.1%
Servicing Fees*	1.0%
Interest Compensation	0.6%
<b>Total Gross Excess Spread</b>	<b>1.5%</b>

**Target Overcollateralis** The Class A targeted overcollateralisation means:





ation Percentages	<p>(a) [31.1%] during the revolving period until a Credit Enhancement Increase Condition is in effect,</p> <p>(b) [33.1%] after the revolving period until a Credit Enhancement Increase Condition is in effect,</p> <p>(c) 100.0% if a Credit Enhancement Increase Condition is in effect.</p> <p>The Class B targeted overcollateralisation means:</p> <p>(a) [20.3%] during the revolving period until a Credit Enhancement Increase Condition is in effect,</p> <p>(b) [22.3%] after the revolving period until a Credit Enhancement Increase Condition is in effect, 100.0% if a Credit Enhancement Increase Condition is in effect.</p>
Priority of Payments prior to an Enforcement Event	<p>On each payment date before an enforcement notice, available interest collections and any net swap counterparty receipts will be applied in the following order of priority:</p> <ul style="list-style-type: none"><li>▪ Amounts due and payable in respect of taxes by the Issuer;</li><li>▪ Amounts payable to the Security Trustee;</li><li>▪ Servicing fees;</li><li>▪ Administrative fees to the directors of the issuer, corporate services provider, agents under the agency agreement, account bank and cash administrator, rating agency fees, data protection trustee fees, joint lead manager fees, and to the issuer for any other administrative costs;</li><li>▪ Net amounts due to the swap counterparty (other than swap subordinated payments);</li><li>▪ Interest to the Class A noteholders;</li><li>▪ Interest to the Class B noteholders;</li><li>▪ To the cash collateral account to meet the required cash collateral balance;</li><li>▪ Class A amortisation amount;</li><li>▪ Class B amortisation amount;</li><li>▪ Swap subordinated amounts;</li><li>▪ Subordinated lender amounts;</li><li>▪ All remaining excess to VWFS (UK) by way of a final success fee;</li></ul>
Priority of Payments following an Enforcement Event	<p>Following the occurrence of an enforcement event, available interest collections and any net swap counterparty receipts will be applied in the following order of priority:</p> <ul style="list-style-type: none"><li>▪ Amounts due and payable in respect of taxes by the Issuer;</li><li>▪ Amounts payable to the Security Trustee;</li><li>▪ Servicing fees;</li><li>▪ Administrative fees to the directors of the issuer, corporate services provider, agents under the agency agreement, account bank and cash administrator, rating agency fees, data protection trustee fees, joint lead manager fees, and to the issuer for any other administrative costs;</li><li>▪ Net amounts due to the swap counterparty (other than swap subordinated payments);</li><li>▪ Interest to the Class A noteholders;</li><li>▪ Principal to the Class A noteholders;</li><li>▪ Interest to the Class B noteholders;</li><li>▪ Principal to the Class B noteholders;</li><li>▪ Swap subordinated amounts;</li><li>▪ Subordinated lender amounts;</li><li>▪ All remaining excess to VWFS (UK) by way of a final success fee;</li></ul>
Early Amortisation Event	<p>The occurrence of any one of the following events will constitute an early amortisation event:</p> <ul style="list-style-type: none"><li>▪ the occurrence of a servicer replacement event;</li><li>▪ the accumulation balance on two consecutive payment dates exceeds 15 per cent. of the discounted receivables balance</li><li>▪ on any payment date falling after 3 consecutive payment dates following the Closing Date, the Class A actual overcollateralisation percentage is lower than [28.85]%;</li><li>▪ VWFS (UK) ceases to be an affiliate of VWFS, or any successor thereto;</li><li>▪ the Seller fails to perform its repurchase obligations</li><li>▪ the Issuer fails to enter into a replacement swap agreement within 30 calendar days following the termination of the swap agreement or the swap counterparty fails to post collateral, in each case within the time period specified in the applicable swap agreement\</li></ul>



	<ul style="list-style-type: none"><li>▪ the credit enhancement increase condition is in effect; or</li><li>▪ the occurrence of an Insolvency Event with respect to VWFS (UK); or</li><li>▪ the occurrence of a Foreclosure Event.</li></ul>
Credit Enhancement Increase Condition	Shall be deemed to be in effect if: <ul style="list-style-type: none"><li>▪ the dynamic net loss ratio for three consecutive payment dates exceeds (i) 0.30 per cent., if the weighted average seasoning is less than or equal to 12 months (inclusive) (ii) 0.75 per cent., if the weighted average seasoning is between 12 months (exclusive) and 22 months (inclusive), or (iii) 2.00 per cent., if the weighted average seasoning is between 22 months (exclusive) and 34 months (inclusive), or (iv) if the weighted average seasoning is greater than 34 months, the dynamic net loss ratio shall not apply; or</li><li>▪ the cumulative net loss ratio exceeds (i) 0.80 per cent. during the first 5 months (inclusive) following the closing date, (ii) 1.80 per cent. after the 6<sup>th</sup> month (inclusive) until the 11<sup>th</sup> month (inclusive) following the closing date (iii) 4.00 per cent. after the 12<sup>th</sup> month following the closing date; or</li><li>▪ the late delinquency ratio exceeds [1.30] per cent. on any payment date on or before October 2024.</li></ul>
Dynamic Net Loss Ratio	means for any payment date, a fraction expressed as a percentage rate, the numerator of which is the sum of the aggregate charged-off amounts for the monthly period less any recoveries made in relation to the receivables that were previously charged-off receivables during the monthly period and the denominator of which is the discounted receivables balance as at the beginning of the monthly period.
Cumulative Net Loss Ratio	means for any payment date a fraction expressed as a percentage, the numerator of which is the aggregate charged-off amount of all purchased Receivables (including purchased receivables which were not received on time and purchased receivables remaining to be paid in the future and any redelivery purchased receivables which became charged off receivables after being repurchased by VWFS (UK)) less any recoveries made in relation to charged-off receivables with effect from the Cut-Off Date and the denominator of which is the aggregate discounted receivables balance.
Foreclosure Event	The occurrence of any of the following events would be a foreclosure event which, following the service of an enforcement notice by the security trustee, result in the enforcement of the collateral. An enforcement notice is a notice served by the security trustee on the Issuer upon the occurrence of an Foreclosure Event stating that the security trustee commences the enforcement of the security. <ul style="list-style-type: none"><li>▪ with respect to the Issuer an insolvency event occurs;</li><li>▪ the Issuer defaults in the payment of any interest on the most senior class of Notes then outstanding when the same becomes due and payable, and such default continues for a period of five Business Days</li><li>▪ the Issuer defaults in the payment of principal of any Note on the Final Maturity Date</li></ul>
Servicer Replacement Event	Means the occurrence of any of the following events: <ul style="list-style-type: none"><li>▪ Failure of the servicer to make a payment (subject to certain grace periods)</li><li>▪ Fail to perform or comply with its material obligations (unremedied within 60 business days of notice)</li><li>▪ any material written representation or warranty made by the Servicer proves to have been incorrect</li><li>▪ An insolvency event of the servicer</li></ul>
Specified General Cash Collateral Account Balance	Means initially GBP[6,536,000] and on each payment date, the greater of: <ul style="list-style-type: none"><li>(i) [1.6%] of the aggregate nominal amount of the notes outstanding as at the end of the monthly period and</li><li>(ii) The lesser of [1.0%] of the initial nominal amount of the notes and the aggregate nominal amount outstanding of the notes at the end of the monthly period</li></ul>
Eligibility Criteria	Each receivable sold by VWFS (UK) to the Issuer is required to satisfy (among others) the following conditions on the initial cut-off date for the initial receivables and each additional cut-off date in relation to additional receivables:



- that the purchase of the receivables may not have the result that the aggregate discounted receivables balance of all purchased receivables exceeds the following concentration limits:
  - used vehicles: 60%.
  - PCP used contracts: 55%
  - under financing contracts for non-VW group brand vehicles: 10%
- none of the obligors is an affiliate of the seller
- the registered office (corporate obligors) or place of residence of obligors is England, Scotland, Northern Ireland or Wales
- that no pending bankruptcy or insolvency proceedings are initiated against any of the obligors
- that such purchased receivable is denominated and payable in Sterling;
- that no purchased receivable is overdue
- that the related financing contracts shall be governed by the laws of England and Wales, Northern Ireland or Scotland (depending on where the obligor is resident or incorporated)
- that the relevant financing contracts constitute legal valid, binding and enforceable agreements with full recourse to the obligor;
- that the status and enforceability of the purchased receivables is not impaired by set-off rights and that no obligor maintains deposits on accounts with VWFS (UK) ;
- that those related financing contracts comply in all material respects with the requirements of the Consumer Credit Act 1974, as amended, (the CCA)
- that such purchased receivable arises under a financing contract that (a) contains an obligation to pay a specified sum of money and is subject to no contingencies (other than an obligation to pay interest on overdue amounts), (b) does not require the obligor under such financing contract to consent to the transfer, sale or assignment of the rights and duties of the Seller under such financing contract or to the sale to a third party of the vehicle the subject thereof, and (c) does not contain a confidentiality provision that purports to restrict the purchaser's or the security trustee's exercise of rights under the receivables purchase agreement, including, without limitation, the right to review such financing contract;
- the Seller is the legal and beneficial owner, free from any security interest, of the purchased receivables
- that at least one instalment has been paid in respect of each of the purchased receivables and that the purchased receivables require substantially equal monthly payments to be made within 72 months of the date of origination of the financing contract and may also provide for a final balloon payment
- that the terms of the financing contract require the obligor to pay all insurance, repair/maintenance and taxes with respect to the related vehicle
- that the purchase of receivables may not have the result that the total outstanding amount of purchased receivables resulting from financing contracts with one and the same obligor exceeds 0.5%
- that each of the purchased Receivables will mature no earlier than 6 months and no later than 71 months after the cut-off date
- that the Obligor related to the Purchased Receivable is not:
- an Obligor:
  - who VWFS considers as unlikely to pay its obligations to VWFS (UK)
  - and/or to an Obligor who is past due more than 90 days on any material credit obligation to VWFS (UK);
  - a credit-impaired Obligor or guarantor
  - has been declared insolvent
  - was, at the time of origination, where applicable, on a public credit registry of persons with adverse credit history or, where there is no such public credit registry, another credit registry that is available to VWFS (UK)
  - has a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for comparable receivables held by VWFS (UK) which are not securitised.



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