Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

Inside This Report | Page

Key Rating Drivers	1
Highlights	2
Key Transaction Parties	2
Transaction Comparison	3
Asset Analysis	4
Cash Flow Analysis	11
Rating Sensitivity	16
Transaction Structure	17
Counterparty Risk	18
Criteria Application, Model and Data Adequacy	20
Surveillance	21
Appendix 1: Origination and Servicing	22
Appendix 2: ESG Relevance Score	24

Closing occurred on 27 April 2020. The transfer of the portfolio to the issuer occurred on the same day. The ratings assigned above are based on the portfolio information as of 31 March 2020, provided by the originator. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other material should be reviewed prior to any purchase.

Capital Structure

Class	Rating	Outlook	Amount (GBPm)	CE (%)	Interest Rate (%)	Legal Final Maturity
A	AAAsf	Stable	253.4	27.6	SONIA+1.05	March 2028
B	NRsf	n.a.	29.9	19.1	SONIA+2.05	March 2028
Subordinated loan	NRsf	n.a.	53.0	3.9	n.a.	n.a.
Total notes			**283.3**			

Notes: The amounts shown are the current issuance amount. Notes can be issued up to a maximum programme size of GBP1 billion. Credit enhancement (CE) is provided by overcollateralisation and by the cash reserve floor. The initial portfolio size is GBP350 million. The actual size of the reserve is 1.2% of the sum of class A and B notes.

This is an 11-month revolving securitisation of auto loan receivables originated in England, Wales and Scotland. The seller, Volkswagen Financial Services (UK) Ltd. (VWFS UK), is a wholly owned subsidiary of VW Finance Overseas BV, in turn wholly owned by Volkswagen Financial Services AG (VWFS AG), and ultimately by Volkswagen AG (VW AG). The transaction includes personal contract purchase (PCP) and hire purchase (HP) loans.

Key Rating Drivers

Used-Car Price Exposure: PCP and HP loans regulated by the Consumer Credit Act provide obligors with voluntary termination (VT) rights, allowing them to return the vehicle before maturity. PCP loans provide the option of returning the vehicle at maturity instead of paying the balloon amount. The issuer is exposed to the risk of declines in used-car prices, as proceeds from the sale of returned vehicles may be lower than the outstanding loan balance. Fitch Ratings assumed a total residual value (RV) and VT loss of 20.9% at 'AAAsf'.

Coronavirus-Related Disruption Impact Losses: Fitch applied default and recovery base cases of 1.8% and 60%, respectively, to the stressed portfolio assumed by the end of the revolving period. Base cases reflect VWFS UK's historical data and our expectation for the UK economy, together with our view that coronavirus pandemic and the related containment measures taken by the UK government will substantially affect asset performance, bringing them closer to that observed in the years of the financial crisis.

The stressed pool's assumed 'AAAsf' weighted average (WA) default multiple is 5.1x and the recovery haircut is 45%, resulting in overall credit losses of 6.1% at 'AAAsf'.

Sensitivity to Pro-Rata Period: The transaction features a pro-rata amortisation of notes if certain overcollateralisation (OC) conditions are fulfilled and performance triggers are not breached. The length of the pro-rata period and therefore outflow of funds to junior positions on the waterfall is driven by the lifetime losses, combined with the default and recovery timing.

Lower losses with back-loaded timing may lead to a later switch back to sequential amortisation and could be more detrimental for the notes than higher losses with a front-loaded timing.

Representations, Warranties and Enforcement Mechanisms

Analysts

Lorenzo Cherchi, CFA
+44 20 3530 1735
lorenzo.cherchi@fitchratings.com

Tom Deacon
+44 20 3530 1939
tom.deacon@fitchratings.com

Seller-Related Risks Addressed: A cash reserve protects the transaction from payment interruption risk for at least five months. Commingling risk is mitigated by a cash advance mechanism upon the seller losing eligibility in line with Fitch's counterparty criteria.

Highlights

Cumulative Loss Trigger Key to Ratings: After the end of the revolving period, the transaction will repay sequentially until the OC of the class A notes reach its target of 33.7%; repayment will then switch to pro rata. Pro-rata repayment prevents the transaction from building up credit enhancement (CE), exposing the rated notes to back-loaded defaults.

In its analysis, Fitch found that – among all performance-based triggers which, if breached, cause the transaction to switch back to sequential repayment (see *Credit Enhancement Increase Conditions* below) – the cumulative net losses ratio trigger is the only one which will be hit in high rating scenario, thereby being key to protecting the senior noteholders.

Increasing Used Originations: VWFS UK has seen increasing volumes to finance the purchase of used vehicles over the past three to four years. While used borrowers are still more likely to choose the HP contract compared to new borrowers, PCP is now the preferred contract type for used borrowers as well. Loans to finance the purchase of used vehicles have a higher default expectation as informed by historical evidence. This has been accounted for in our stress projection of a stressed portfolio composition during the revolving period.

Libor Exposure: the transaction does not have exposure to Libor. The asset pool pays a fixed interest rate and the notes pay a coupon linked to SONIA.

Minimal Credit Impact from ESG: The highest level of ESG credit relevance is a score of '3', meaning that ESG issues are credit neutral or have only a minimal credit impact on the transaction, either due to their nature or the way in which they are being managed. See ESG Navigator in *Appendix 2*.

Key Transaction Parties

Key Transaction Parties

Role	Name	Fitch rating
Issuer	Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1	Not rated
Originator, seller and servicer	Volkswagen Financial Services (UK) Ltd	Not rated
Account bank	Elavon Financial Services DAC	AA-/Stable/F1+
Trustee	Intertrust Trustees GmbH	Not rated
Swap provider (class A swap)	DZ Bank AG Deutsche Zentral-Genossenschaftsbank	AA-/Negative/F1+
Swap provider (class B swap)	Banco Santander, S.A.	A-/Negative/F2
Corporate services provider	Circumference FS (Luxembourg) S.A.	Not rated

Note: Banco Santander, S.A. has a derivative counterparty rating of 'A(dcr)'.
Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

Applicable Criteria

Global Structured Finance Rating Criteria (May 2019)
Consumer ABS Rating Criteria (December 2019)
Consumer ABS Rating Criteria – Residual Value Addendum (December 2019)
Structured Finance and Covered Bonds Counterparty Rating Criteria (January 2020)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (January 2020)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (December 2019)
Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (Excel) (December 2019)
Structured Finance and Covered Bonds Country Risk Rating Criteria (February 2020)

Related Research

Global Economic Outlook: Crisis Update Late April 2020 - Coronavirus Recession Unparalleled (April 2020)
Car Market Shutdown Will Affect UK Auto ABS Assumptions (April 2020)
European Auto ABS Index – 1Q20 (February 2020)
UK Auto Transactions' Sensitivity to Car Value Decline (November 2019)
What Investors Want to Know: Voluntary Terminations Growth Does Not Trigger UK Auto ABS Rating Actions (May 2019)
Cars and the World Economy (May 2019)
ABS Compare (April 2020)

Transaction Comparison

These four transactions were selected for comparison due to their similarity, in terms of financed assets, with Private Driver UK 2020-1 Plc. All selected transactions are securitisation of UK auto loans, including HP and PCP.

Transaction Comparison

	Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1	Driver UK Master S.A. – Compartment 2	Driver UK Master S.A. – Compartment 5	Bavarian Sky UK 3 Plc	Orbita Funding 2020-1 Plc
Closing	April 2020	May 2019	March 2019	April 2020	Feb 2020
Country of assets	UK	UK	UK	UK	UK
Seller	VWFS UK	VWFS UK	VWFS UK	BMW FS GB	Close Brothers
Total issuance (GBPm)	283.3	4,585.5	502.8	393.1	352.9
Class	**Class A**	**Class A**	**Class A**	**Class A**	**Class A**
Rating	AAAsf	AAAsf	AAAsf	AAAsf	AAAsf
Amount	253.4	3,974.3	450	300.0	300.0
Credit enhancement (%)	27.6	32.2	28.1	24.5	15.9
Class	**Class B**	**Class B**	**Class B**	**Class B**	**Sub-note**
Rating	NRsf	A+sf	AA-sf	A+sf	NRsf
Amount	29.9	611.2	52.8	52.6	52.9
Credit enhancement (%)	19.1	21.7	19.6	11.1	n.a.
Class	**Sub-loan**	**Sub-loan**	**Sub-loan**	**Class C**	
Rating	NRsf	NRsf	NRsf	NRsf	
Amount	53.0	955.6	68.2	40.5	
Credit enhancement (%)	n.a.	n.a.	n.a.	n.a.	
Portfolio summary					
Length revolving period	11 months	12 months	24 months	12 months	12 months
Collateral balance (GBPm)	350.0[a]	5,813.2[a]	620.7[a]	393.1[a]	352.9
Number of receivables	17,714	388,021	32,903	18,627	54,431
Average loan balance (GBP)	19,759	14,982	18,865	21,104	6,484
WA seasoning (months)	4.0	17.0	4.3	35.3	14.8
WA remaining term (months)	43.2	29.9	42.6	11.3	36.9
Collateral by balance (%)					
New vehicles (%)	54.7	69.9	60.4	70.0	6.9
Used vehicles (%)	45.3	30.1	39.6	30.0	93.1
Direct debit	99.9	99.8	99.9	100.0	100.0
Fitch assumptions (%)					
Default rate	1.8	1.3	1.4	2.4	2.5
Recovery rate	60.0	65.0	65.0	60.0	40.0
'AAAsf' RDR	9.1	8.7	9.2	9.6	14.4
'AAAsf' RRR	33.0	35.8	35.8	33.0	22.0
'AAAsf' RLR (instalments)	6.1	5.6	5.9	6.4	11.2
'AAAsf' VT loss	2.2	3.0	3.4	1.7	2.1
'AAAsf' RV loss	18.8	19.7	19.1	20.8	3.4

[a] Discounted
Note: The default, recoveries, RV and VT assumptions listed above are based on those assigned upon closing (or last renewal) of the transactions. They do not consider any subsequent revision.
Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

Asset Analysis

Key Asset Eligibility Criteria

For the initial asset purchase, and for additional purchases during the replenishment period, the following eligibility criteria, among others, have to be fulfilled.

- The purchase of the initial or additional receivables will not cause a breach of the following concentration limits:
  - maximum 50% of the discounted portfolio corresponds to used vehicles;
  - maximum 40% of the discounted portfolio is PCP used vehicles;
  - maximum 10% of the discounted portfolio is non-VW Group brand vehicles;
- None of the obligors is an affiliate of VWFS UK;
- Obligors reside/are registered in England, Scotland or Wales;
- Obligors have no pending bankruptcy or insolvency proceeding against them;
- Receivables are denominated in sterling;
- Receivables are non-delinquent;
- The financing contracts are governed by the laws of England and Wales or Scotland;
- The financing contracts are legal, valid, binding and enforceable;
- The status and enforceability of the receivables is not impaired due to warranty claims or any other rights of the obligor (even if the issuer knew or could have known on the cut-off date of the existence of such defences or rights);
- The status and enforceability of the receivables is not impaired by set-off rights and that no obligor maintains deposits on accounts with VWFS UK;
- At least one payment has been made under the finance contract as of the cut-off date;
- Maximum original term of 72 months;
- The terms of the contracts require the obligor to pay all related insurance, repair/maintenance and taxes in respect of the vehicle;
- Maximum single-obligor exposure of 0.5% of the discounted portfolio balance;
- The receivables mature between six and 71 months from the closing date;
- The vehicle relating to a PCP agreement must not be a Porsche; and
- The obligor of the receivable is not credit-impaired according to information obtained either from a third party or in the course of VWFS UK's servicing procedures.

Portfolio Summary

The loan receivables have all been originated by VWFS UK to private and commercial borrowers. The portfolio composition used by Fitch in its analysis is based on a pool with a cut-off date of March 2020. The portfolio is well distributed across the UK and shows no significant single borrower concentration, with the largest borrower and top 10 obligors corresponding to 0.07% and 0.60% of the pool, respectively. The key pool characteristics are included in the table below.

Key Characteristics of the Portfolio as at 31 March 2020

Replenishment criteria	Portfolio
Number of loans	17,714
Total discounted loan balance (GBP)	350,013,365
Average outstanding discounted loan balance	19,759
WA original term (months)	47.1

Key Characteristics of the Portfolio as at 31 March 2020 (Cont.)

	Replenishment criteria	Portfolio
WA remaining term (months)		43.2
WA seasoning		4.0
New (%)		54.7
Used (%)	≤50	45.3
PCP used (%)	≤40	38.8
Non-VW Group vehicles	≤10	0.4
WA effective interest rate (%)		6.3
Residual value (%)		48.9
Top 1 borrower	≤0.5	0.07
Top 10 borrowers (%)		0.60
Direct debit (%)		99.9

Source: Fitch Ratings, Private Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

Performance Triggers and Early Amortisation Events

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

a. A servicer replacement event;

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

c. Class A actual OC percentage falls below 27.6% on any payment date after three periods from the initial issue date;

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

e. Seller fails to perform repurchase related obligations;

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

g. Foreclosure event (issuer insolvency events); or

h. Credit enhancement increase condition is in effect.

Credit Enhancement Increase Conditions

Trigger variable	Condition	Trigger level (%)
Dynamic net loss ratio	Weighted average seasoning (WAS) of portfolio is ≤12 months	0.25
	WAS of portfolio is >12 and ≤22 months	0.45
	WAS of portfolio is >22 and ≤34 months	2.0
	WAS of portfolio is >34 months	n.a.
Cumulative net loss ratio	From the issue date to October 2020 (exclusive)	0.8
	From October 2020 to the end of the revolving period	1.6
	After the revolving period	4.0
Late delinquency ratio	On any payment date until 25 March 2021	0.7
A servicer replacement event (including servicer insolvency) occurs		
Insolvency of VWFS UK		
The cash reserve is not at its target amount		

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

The dynamic net loss ratio is defined as the net losses (from default, VT and RV) in the current collection period minus recoveries from previous months' losses over the outstanding balance at the beginning of the month. The trigger is breached if the ratio exceeds the limit on three consecutive payment dates.

The portfolio seasoning may also change as a result of tap issuances. If the dynamic net loss ratio trigger has been breached once, it cannot be cured by switching to a different applicable trigger level, i.e. due to increased seasoning.

The cumulative net loss ratio records net losses since closing, minus any subsequent recoveries of those contracts. The denominator is the sum of all receivables at the time they are transferred to the issuer, including those added during the revolving period.

The late delinquency ratio corresponds to the receivables which are overdue for more than 180 days over the outstanding balance at the beginning of the month.

Should a CE increase condition be in effect during the revolving period, the transaction will enter into early amortisation and the notes will irreversibly amortise sequentially.

In Fitch's view, the performance trigger levels are loose compared with the provided historical data from the originators. As a result, in the base-case and mildly stressed scenarios, we assume rather long pro-rata periods.

Portfolio Credit Analysis

The issuer is exposed to the credit risk of the underlying loan portfolio, to the market value risk of the underlying vehicles and to VT of the agreements. Fitch has analysed the three types of exposure separately, applying the agency's *Consumer ABS Rating Criteria* and *Consumer ABS Rating Criteria – Residual Value Addendum*, available at www.fitchratings.com .

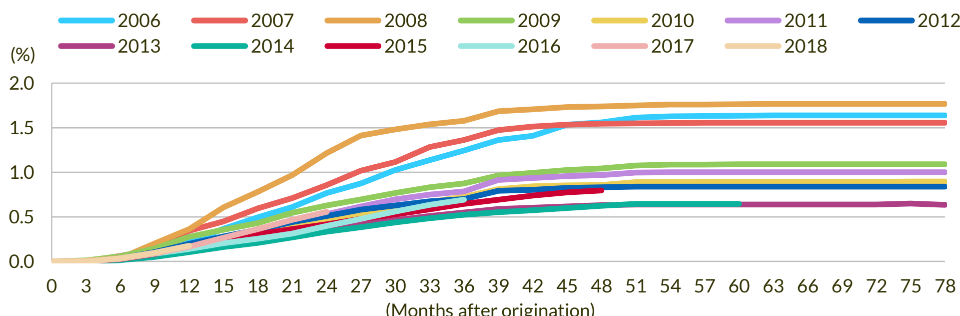
Fitch derived base-case default, recovery, prepayment, RV and VT assumptions based on historical performance and portfolio data provided by the originator, and incorporating different stresses for the relevant rating levels. In our asset analysis, we considered that, in light of the health crisis due to the coronavirus pandemic and the impact that related containment measures will have on the UK's economy, recent years of good performance may not necessarily be predictive of losses in the portfolio.

Default Risk

Fitch reviewed separate default data per origination vintage split by various sub-pools provided by VWFS UK. Fitch analysed the data and observed that new vehicles were performing better than used vehicles. In addition, the low share of HP in the final pool and the projected pool at the end of the revolving period meant that a differentiation by contract type would not be meaningful. Based on the above, Fitch decided to assign a separate default base case to new and used vehicles.

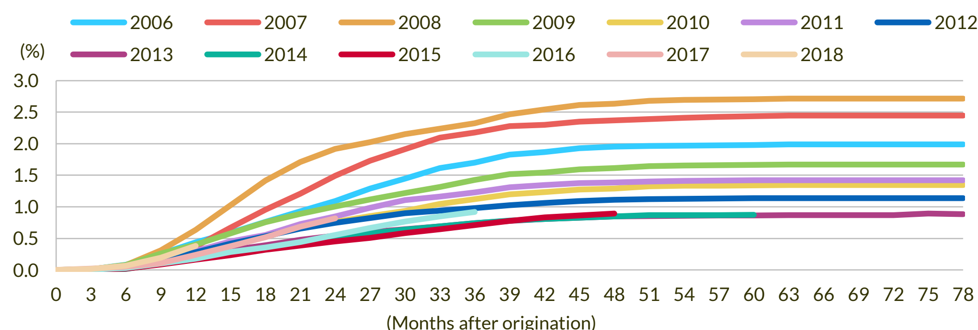
Historical default rates by sub-pool in VWFS UK's loan portfolio are shown in the following charts. We received vintages since 2002 and the charts include those since 2006.

Gross Losses - New Vehicles



Source: Fitch Ratings, VWFS UK

Gross Losses - Used Vehicles



Source: VWFS UK, Fitch Ratings

The cumulative default charts above are based on hostile terminations according to the credit and collection policies of the originator. In most cases, this occurs when the loan is 90 days' past due, although there may be some loans in later delinquency buckets which are not yet terminated. This is mostly due to certain write-off policies relating to vulnerable customers. In any event, the percentage of these contracts is low.

Fitch has assumed a base-case default rate of 1.4% and 2.25% for new and used vehicles, respectively. This assumption is based on the observed historical performance, taking into account that the coronavirus outbreak and the containment measures taken by the UK government to limit its spread will materially worsen future asset performance as described in *Asset Outlook* above. We expect performance to worsen materially, getting closer to the levels experienced during the financial crisis. The package of support measures already announced by the government, together with our expectation that the crisis will be fairly short-lived make a rapid bounce-back recovery likely, which we have incorporated in our assumptions.

Fitch has assumed a migration of the pool considering the observed origination trends between PCP and HP split in new and used. Specifically, we assumed a shift towards used vehicles, which total 45% of stressed portfolio. This resulted in a WA overall portfolio base case default expectation of 1.8%.

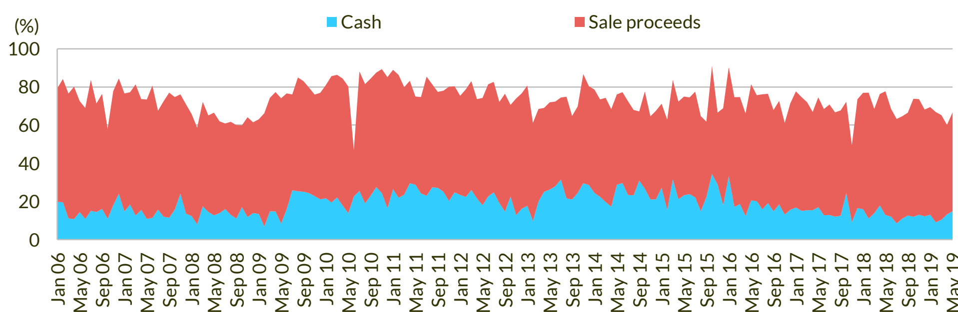
Fitch stressed the expected base case with a 'AAAsf' default multiple of 5.25x and 5.0x for new and used vehicles, respectively. The multiples take into account, among other factors, the length of the revolving period, the absolute level of expected defaults, the sustained growth in origination figures (particularly on PCP) and the adequate extent and quality of available data.

We supplemented our analysis of VWFS UK's historical performance data with peer comparisons against UK originators.

Recovery Rates

Recovery data from hostile terminations were provided on a cumulative basis since 2002. The chart below shows recoveries since 2006. Fitch has derived a base case of 60% for both new and used vehicles. In setting our assumption we have considered that the containment measures to counter the coronavirus spread are likely to impose a contraction in the repossession and sale of the vehicles, at least in the near-term, which we expect to revert to the usual levels thereafter. The majority of recoveries are proceeds from vehicle sales; in addition, a part of the recoveries consists of cash payments by the borrowers. Fitch considered both secured and unsecured recoveries when setting its recovery assumptions and recovery timings.

Recoveries - Total Book



Source: Fitch Ratings, VWFS UK

We applied recovery haircuts at the median to lower end of our base-case expectations, i.e. a 45% haircut at 'AAAsf'. The haircut reflects the secured nature for the majority of recoveries, our perception of a clearly defined recovery process applied by the originator and the adequate quantity and quality of data.

Fitch's base-case assumptions for the sub-portfolios, the applied stressed pool composition, and rating-specific stress assumptions are summarised in the tables below. Results below are rounded to one decimal point.

Base-Case Expectations

(%)	Stressed pool weight	Default rate	Recovery rate	Loss rate
New vehicles	55.0	1.4	60.0	0.6
Used vehicles	45.0	2.3	60.0	0.9
Stressed pool	100.0	1.8	60.0	0.7

Source: Fitch Ratings

Stressed Assumptions

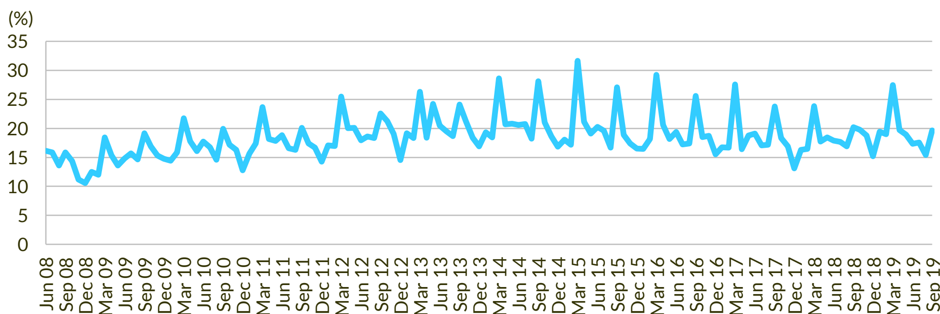
(%)	Rating default rate	Rating recovery rate	Rating loss rate
AAAsf	9.1	33.0	6.1
Base-case stressed pool	1.8	60.0	0.7

Source: Fitch Ratings

Prepayments

Fitch received historical dynamic data on prepayments since June 2008. The agency applied a 15% annual prepayments base case. While the assumption is lower than the historical trend observed, we expect prepayments to drop in the near-term due to the lockdown measures to contain the coronavirus outbreak. For the rating-specific assumption, Fitch applied linear interpolation between 15% at 'Bsf' and 0% at 'AA-sf', in line with the RV addendum criteria for loans exposed to VT risk (see *Financial Structure and Cash Flow Modelling*). This is because in a stress scenario, Fitch assumes borrowers are likely to use a VT instead of a prepayment to exit the contractual obligations. Rating scenarios above 'AA-sf' are assumed to have 0% annual prepayments.

Prepayments - Annual Prepayment Rate



Source: Fitch Ratings, VWFS UK

Residual Value Risk

RV losses may arise if used-car prices decline and there is a difference between the contractual RV and the actual sales proceeds of the vehicle received by the issuer. The risk is only applicable to the PCP share of the pool.

Base-Case Sales Proceeds

The quantification of RV risk was based on 98% base-case sales proceeds, as supported by historical remarketing data since 2004 provided by the originator. Data showed that sale proceeds are not consistently above the contractual balloon amount at maturity, in recent years. The share of returned cars at their respective maturities is increasing, but remains small in proportion with the originator's book. Fitch was also presented with the RV-setting policies of VWFS UK, which were considered robust and based on extensive experience of the market.

Additionally, we considered the risk that, as car remarketing is halted while lockdown measures are in place, VWFS UK may grant short-term informal extensions to maturing PCP contracts for a period up to six months. After that, the car returned to VWFS will have depreciated. However, the risk is mitigated by the low portfolio seasoning, as the portfolio exhibits the first RV maturity in September 2020, six months from the issue date, when the situation is expected to have normalised to an extent. Overall, just 0.02% of RV maturities are expected to occur over the first 12 months.

All these observations were taken into account when assigning the base case.

Base-Case Sales Proceeds Haircut

Fitch applied an RV market value stress of 35.0% in a 'AAAsf' rating scenario. This is driven by our view that the captive nature of the portfolio is offset by the size and liquidity of the UK market, the market share of VWFS UK and the strong model and car-segment diversification in the pool. We also considered the significant concentration of RV maturities in a single six-month period, which attracts higher stresses.

Selling Costs and Administrator Fees

Fitch assumed average selling costs of GBP250 per vehicle to account for a reduction in the sales price achieved.

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

RV Turn-in Rates

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

Time to Sale

We applied our standard time to sale assumptions as outlined in the criteria, i.e. three months at 'AAAsf'. While we expect the coronavirus-related disruption to cause delays in selling vehicles in the coming months, as RV maturities will not meaningfully materialise in the near

future we expect this not to reduce the ability of the servicer to sell returned vehicles in a timely manner.

RV Share

Fitch assumed that during the one-year revolving period, the RV share within the PCP pool will increase to 58.9% from 52.7% in the initial portfolio. Such an increase is assumed to occur as the initial portfolio seasons during the revolving period, thereby increasing the magnitude of the balloon instalment over the total portfolio. The RV share as a percentage of the total pool balance at the end of the revolving period is assumed to be 56.0%, compared with about 48.9% in the initial portfolio.

Voluntary Termination Risk

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

We received loan-by-loan data for the final portfolio, which were used in Fitch's UK VT model to analyse the VT exposure and loss. The portfolio had a cut-off date of March 2020. For each contract, the model projected the outstanding loan value at the half-point, after accounting for any down payments, and compared it with the depreciated car value at the same date. The VT exposure is adjusted to only be relevant to non-defaulted and non-prepaid borrowers, depending on the rating scenario.

VT Turn-in Rates

VWFS UK provided Fitch with VT data since 2002 and demonstrated termination volumes comparable to other UK transactions. Fitch observes increasing VT trends across originators in recent years. We applied VT turn-in rates according to criteria. The VT 'AAAsf' turn-in rates was set at 50%.

Depreciation Rate

Fitch applied a monthly depreciation of 1.8% to forecast car values. This depreciation rate is based on the typical vehicle depreciation curves in the UK market and accounts for the relative share of new and used vehicles in the stressed pool.

VT Market Value Haircut

Fitch assumed an add-on of 5% on top of the market value haircut applied for RV across all rating scenarios to account for the mismatch between dealer trade and retail price. We have also considered that, in a lockdown scenario, borrowers in financial difficulty may be more willing to exercise their VT rights and hand back the car rather than keeping on paying the instalments, as they may not be able to use the car. This potential clustering of VT in an economic downturn is factored in to the haircut applied for VT. This resulted in a VT market value haircut of 40% at 'AAAsf'.

Administrator Fee

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

Time to Sale

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

Integration of VT and RV Risk

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

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

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

Given the above, after considering defaults and prepayments in the respective ratings scenarios, Fitch has calculated a total VT loss of 2.2% and an RV loss of 18.8% at 'AAAsf' for the total pool. These figures factor the assumed increase in the share of PCP loans by the end of the revolving period.

The aforementioned loss levels are indicative as they do not consider the amortisation profile of the balloons at maturity, nor the modelled timing for defaults. They are therefore a static representation of the expected losses after accounting for defaults and prepayments. Fitch's cash flow model incorporates the outputs of the VT model, and then applies defaults and prepayments dynamically to determine the final loss levels in each rating scenario and default timing.

Asset Outlook

Fitch downgraded the UK to 'AA-'/'F1' on 27 March 2020 with a Negative Outlook. We also maintain a negative asset performance outlook on UK auto and unsecured consumer ABS. Real GDP growth was 1.4% in 2018 and 1.9% in 2019, but we envisage a sharp drop of 6.3% in 2020 resulting from the coronavirus crisis and related lockdown measures, followed by a recovery of 3.9% in 2021. Further to the coronavirus disruption, while a "no-deal" Brexit was avoided, uncertainty persists over the future trade relationships between the UK and the EU. The macroeconomic outlook is highly sensitive to post-Brexit developments.

Cash Flow Analysis

Fitch analysed the ability of the transaction to withstand various stresses, using its proprietary cash flow model. The scenarios combine different default distributions (front-, evenly- and back-loaded) and stressed prepayments in combination with rising, stable and decreasing interest rates, in line with the agency's *Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria*.

When conducting cash flow analysis, Fitch's model first projects the portfolio scheduled amortisation proceeds and any voluntary prepayments for each reporting period of the transaction life assuming no defaults (and no VTs). In each rating stress scenario, such scheduled amortisation proceeds and prepayments are then reduced by a scale factor equivalent to the overall percentage of loans that are not assumed to default (or to be voluntary terminated). This adjustment avoids running out of performing collateral due to amortization and voluntary prepayments and ensures all of the defaults projected to occur in each rating stress are realised in a manner consistent with Fitch's published default timing curve.

Fitch tested the structure using bespoke default timing for the PCP portfolio, while using the one for 18-month WA life portfolios outlined in the *Consumer ABS Rating Criteria* for the HP portfolio. The recovery timing was derived qualitatively based on the servicer's collection process and the servicer reports of other transactions rated by Fitch. The agency assumed that the majority of recoveries are received upon vehicle sale, assumed to occur within three months of a default. Given its relevance in the determination of the net loss-based triggers, Fitch tested the sensitivity of the transaction to more back-loaded recovery timing, which proved to be marginal.

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

The portfolio amortisation was modelled based on the amortisation profile of the pool provided to Fitch. Defaults, recoveries and prepayments were applied as per the rating-specific stressed assumptions. Interest income was generated on non-delinquent receivables at a rate equal to the discount rate less the interest compensation rate. Available cash was distributed in line with the transaction's waterfall.

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

Fitch tested the transaction's sensitivity to different default distributions (front-loaded, evenly distributed and back-loaded) combined with rising, decreasing or stable interest rates.

The cash flow model was also populated with all assumptions relevant to RV and VT risk, as described above.

The transaction is sensitive to the length of the pro rata period, which is primarily determined by the amortisation profile and the level as well as the timing of net losses. The latter is driven by the default and recovery timing, the RV amortisation and time to sale and the VT timing and time to sale.

Back-loaded defaults lead to a later switch (back) to sequential note amortisation even in a stressed scenario as the cumulative net loss trigger is breached at a later date.

Fitch considers the available CE for the rated notes adequate under all considered stressed scenarios.

Capital Structure and Credit Enhancement

The table below shows the balance sheet of the issuer as of closing. As outlined below, the balance sheet of the securitisation may change during the revolving period due to tap issuances, term take-outs and replenishment.

Balance Sheet at Closing

Assets	Amount (GBPm)	Liabilities	Amount (GBPm)	Size in % of receivables' balance
Receivables	350.0	Class A	253.4	72.4
Cash reserve	3.4	Class B	29.9	8.6
		Sub-loan	53.0	15.1
		PPD[a] OC	13.7	3.9
		PPD[a] cash reserve	3.4	1.0
Sum	**353.4**		**353.4**[b]	**101.0**

[a] PPD: Purchase price discount.
[b] Based on the unrounded liabilities' amounts.
Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

The issuance consists of the series of class A and B notes, as well as a subordinated loan. CE is provided by OC and the amortising cash reserve. The initial size of the reserve is 1.2% of the sum of class A and B notes). However, amounts in excess of the monthly required amount of the reserve may flow back firstly to the subordinated lender and secondly to the seller outside the waterfall, depending on portfolio performance. If a CEIC is in effect, released amounts will be retained on the issuer's accounts and will be ultimately released to repay the notes.

The issuer purchased the portfolio at a present value price, calculated using a single discount rate fixed at 5.872%.

Discount Rate Calculation (%)

Weighted average swap rate (including hypothetical sub-loan swap)	1.93
Servicing fee	1.00
Senior expenses	0.03
Subtotal	2.96
Buffer release rate	1.72
Interest compensation rate	1.20
Total	**5.87**

Note: The total discount rate calculation does not equal the sum of the parts due to rounding.
Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

The WA swap rate comprises the fixed swap rates for the class A and B notes, and the rate on the subordinated loan that it set at a hypothetical value by the seller. Floating-rate payments on the subordinated loan are not hedged. The WA swap rate above has been calculated based on the actual structure as of closing.

The buffer release rate will be released directly to the seller, and is only available to the issuer in the event that the seller becomes insolvent. Fitch does not take into account the buffer release rate as potential excess spread available for note redemption. This is because, in Fitch's view, structural elements that are relied upon in order to pay timely interest and ultimate principal on the notes cannot be conditional on the occurrence of events like a seller default.

If a contract that was purchased at a premium is terminated before maturity due to default, VT or prepayment, the issuer will incur an additional loss, because the terminated balance, calculated using the contractual APR (WA APR is 6.4%), will be lower than the outstanding balance calculated using the discount rate. Therefore, any sale proceeds following VT, prepayments or recoveries will be received based on a lower net present value.

To compensate for these prepayment and VT losses, an interest compensation mechanism has been incorporated. A dedicated interest compensation ledger is available and is replenished by crediting to it the interest compensation rate, which is part of the receivables purchase discount rate. The ledger, which is held in the issuer's account, is capped at GBP2 million – any excess is release to the seller. After GBP2 million are repaid to the seller, the cap increases to GBP4 million. It is debited prior to each note payment date by the amount of losses incurred from prepaid or voluntarily terminated receivables due to the discount mechanism. Prepaid contracts are those where the obligor pays all future instalments and balloon (if applicable) and retains the vehicle.

VTs involve returning the vehicle after having paid 50% of the total amount payable including the deposit under the finance agreement, in lieu of making the remaining payments. Additional losses resulting from lower recoveries on defaulted receivables due to discounting are not covered by the interest compensation mechanism.

As the interest compensation rate is allocated towards the compensation ledger or released out of the structure, and the buffer release rate is released to the seller, the issuer effectively only benefits from a pool interest rate of 2.96%, applicable to all receivables (equal to the 'Subtotal' shown above).

Fitch finds the interest compensation ledger sufficient to cover for the additional VT losses caused by the difference between the discount rate and the WA APR of the pool. Prepayments are 0% at 'AAAsf'. Discount losses due to prepayments in these scenarios therefore do not arise or are very low and covered by the interest compensation ledger. Reduction in the actual recoveries from defaults due to the interest rate difference is likely to be low and covered by the available CE.

Tap Issuance and Additional Series of Notes

The issuer may increase the amounts of the existing series of notes up to their maximum issuance amounts, as well as issue new series of notes to purchase additional loan receivables. There is no difference between the two from a credit perspective.

During the revolving period, class A needs to maintain a minimum OC level of 27.6% on any payment date after three periods from the initial issue date, otherwise early amortisation starts. Additionally, for each further issuance (tap-up or new series), the class A and B increase amounts need to be at least 27.6% and 19.1%, respectively, of the increased asset balance. The cash reserve will also have to be funded with 1.2% of the sum of the increased class A and B balance.

Cash Collateral Account

An amortising cash reserve was funded through a purchase price discount at closing. The reserve balance is subject to change over time due to tap-ups. The target reserve amount equals on each payment date the higher of 1.2% of the sum of the balance of class A and B notes and the lower of 0.6% of the maximum discounted receivables' balance during the lifetime of the transaction or the outstanding notes' balance.

The reserve is available to cover senior expenses, net swap payments, class A and class B notes' interest. Amounts in excess of the target balance will be released on any payment date, firstly towards the subordinated lender and secondly to the seller outside the waterfall as long as no CE increase condition (defined in *Performance Triggers* below) is in effect. The reserve can be used for note redemption upon the earlier of the legal final maturity or when the assets balance is zero. If a CE increase condition is in effect, amounts released under the reserve will be retained in the issuer's account, therefore available to repay the notes at legal final maturity or when the asset balance reaches zero.

Interest Rate Swap

At closing, the issuer entered into swap agreements for each series of notes separately to hedge against the fixed-floating interest rate mismatch. While it receives fixed interest payments from the receivables, its obligations under the notes are linked to daily-compounded SONIA.

The class A swap notional amount depends on whether a servicer replacement event has occurred prior to a payment date. So long as there is no servicer replacement event, the class A swap notional amount is equal to the outstanding balance of the class A notes. Following a servicer event, a class A swap notional schedule will be determined assuming zero prepayments and defaults. This will then be reduced by any excess of class A and class B over the discounted portfolio balance, on each monthly period.

Fitch believes that the size of the class A swap notional amount following a servicer replacement event could create an under-hedging for class A in the tail end of the transaction depending on the rating scenario. The agency assessed the impact and found that it is not material to the notes' ratings.

The class B swap notional amount is equal to the outstanding balance of the class B notes.

The fixed rates the issuer pays on the swaps are 1.223% and 2.205% on class A and B notes, respectively.

The swap rates paid by the swap counterparty are equal to daily-compounded SONIA plus the margin on the class A and B notes series over the respective swap notional amount. The floating swap amounts are not floored at zero.

Priority of Payments

Prior to an enforcement event, payments of principal and interest are made monthly in accordance with the pre-enforcement priority of payments, which is a combined waterfall. The available distribution amount and waterfall are shown below.

Available Distribution Amount

+	Collections received by the servicer (including sale proceeds, recoveries and repurchases)
+	Amounts drawn from the cash reserve
+	Net swap receipts
+	Upon amortisation: accumulation account balance
+	Accrued interest in the issuer and accumulation (replenishment) account
-	Buffer release amount (provided no insolvency event with respect to VWFS UK has occurred)
+	Interest compensation due to issuer
-	Interest compensation ledger release to VWFS UK

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

Transaction Waterfall

1	Senior expenses
2	Net swap payments other than in case of a default of the swap counterparty
3	Class A interest
4	Class B interest
5	To the cash collateral account up to its required balance
6	On a pro rata basis: amortisation amounts to each amortising series of class A notes until it is at its target size; amounts to be transferred to the replenishment account for additional purchases of receivables until target OC is achieved
7	On a pro rata basis: amortisation amounts to each amortising series of class B notes until it is at its target size; amounts to be transferred to the replenishment account for additional purchases of receivables until target OC is achieved
8	Swap payments other than those under item 2 (i.e. subordinated swap payments)
9	Interest on the sub-loan
10	Redemption of the sub-loan until reduced to zero
11	Remainder to the sellers as a final success fee

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

During the revolving period, incoming cash is allocated to the accumulation account for the purchase of further receivables at a discount until the target OC for class A and class B is reached. The target OC levels during the revolving period are 30.7% for class A and 21.2% for class B.

During the amortisation phase, incoming funds are applied sequentially, first to the redemption of the class A notes until the target OC is reached (33.7%) and then to the redemption of class B notes until their target OC is reached (24.2%).

In each case, all funds that are in excess of what is needed to maintain the target OC will flow through the waterfall and will either be used to redeem the subordinated loan or be released to the originator. Such pro-rata amortisation of funds will switch back to a sequential order of priority, as soon as:

- a CE increase condition is in effect (see above); and
- the discounted asset balance has reached 10% of the maximum discounted asset balance during the life of the transaction.

Note Amortisation

Certain series of notes may start amortising at the revolving period end date (while others continue to revolve), in case an extension of the programme is being offered. The legal final maturity dates of revolving and amortising series will be aligned in case the revolving period is extended.

Amortising series benefit from a fixed amortisation factor equal to the series' relative size at the point when amortisation starts. In this manner, amortising series may be fully amortised while the revolving ones are still outstanding. Fitch deems the replenishing series not to be worse off from a credit perspective, since the minimum CE has to be maintained to continue the revolving period. Fitch deems the minimum CE sufficient to support the current ratings of the notes.

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

Clean-Up Call

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

Rating Sensitivity

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

Rating Sensitivity to Increased Defaults and Reduced Recoveries

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

Source: Fitch Ratings

Rating Sensitivity to Reduced Net Sale Proceeds

	Class A
Original Rating	AAAsf
Reduce net sale proceeds by 10%	AA+sf
Reduce net sale proceeds by 25%	A+sf
Reduce net sale proceeds by 50%	BBB-sf

Source: Fitch Ratings

Rating Sensitivity to Multiple Factors

	Class A
Original Rating	AAAsf
Increase defaults by 10% and reduce recoveries and net sale proceeds by 10% each	AA+sf
Increase defaults by 25% and reduce recoveries and net sale proceeds by 25% each	A+sf
Increase defaults by 50% and reduce recoveries and net sale proceeds by 50% each	BBB-sf

Source: Fitch Ratings

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

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

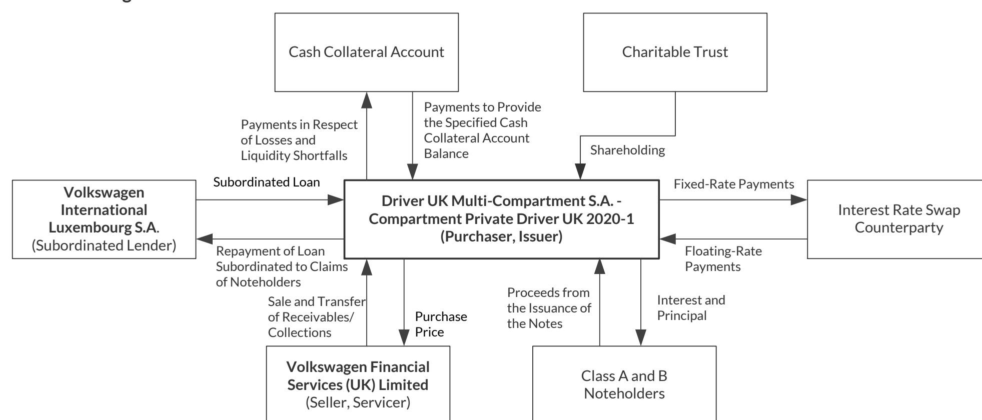
See report for further details

Coronavirus Downside Scenario Sensitivity

Fitch has added a coronavirus downside sensitivity analysis that contemplates a more severe and prolonged economic stress caused by a re-emergence of infections in the major economies, before a slow recovery begins in 2Q21. In this downside scenario, Fitch assumes a sharper increase in delinquencies than what was experienced during the global financial crisis, leading to increased defaults compared with our assumption in the baseline scenario. Under this downside scenario, the notes' ratings would be 'AA+sf', compared with 'AAAsf' currently.

Transaction Structure

Structure Diagram



Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

Issuer and True Sale

The issuer, Driver UK Multi-Compartment S.A., acting on behalf of its Compartment Private Driver UK 2020-1, is a special-purpose vehicle (SPV) incorporated under the laws of Luxembourg for the sole purpose of issuing the notes and entering into certain agreements relating to the securitisation of the vehicles and the associated loans.

On the closing date and on each monthly payment date thereafter, the issuer acquired a portfolio of UK auto loan receivables from the seller, VWFS UK. The receivables arise from vehicle financing contracts entered into by consumers and commercial obligors under the laws of England, Scotland and Wales.

The transaction has an 11-month revolving period during which the asset pool can be replenished, subject to eligibility criteria.

The assignment of receivables to the issuer takes place in equity only. Obligors have not been notified of the assignment and sale at closing. Notification will only take place upon the occurrence of a notification event, including the insolvency of the seller.

The issuer acquired the right to receive collections from the underlying finance agreements, which include instalments and enforcement proceeds from the sale of vehicles. Based on the transaction structure, including the contractual obligations of the seller and the provision for an administrator's recovery incentive fee, Fitch has assumed that the issuer will have access to net enforcement proceeds in its asset analysis.

Disclaimer

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

Impact of Banking Act 2009 and Related Secondary Legislation

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

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

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

Counterparty Risk

Fitch assesses the counterparty risk under its *Structured Finance and Covered Bonds Counterparty Rating Criteria* to be in line with the ratings assigned based on the documentation provisions and analytical adjustments described in the following table.

[The following is example wording only. Please amend to the specifics of this transaction and delete or add rows, as appropriate. You can also use the space below the table for additional information regarding how any counterparty role or risk (such as commingling, payment interruption and/or set-off risk) is addressed in the transaction.]

Counterparty Risk Exposures

Counterparty role/risk	Counterparty	Relevant rating under criteria	Minimum ratings and remedial actions	Adjustment to analysis if minimum ratings and remedial actions not in line with criteria
Issuer account bank	Elavon Financial Services DAC	IDR: AA-/Stable/F1+	Minimum IDR (or deposit ratings as applicable) of 'A' or 'F1'; replacement or guarantee within 60 calendar days of downgrade below both minimum ratings.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Interest rate swap provider	DZ Bank AG Banco Santander, S.A.	IDR: AA-/Negative/F1+ dcr: A/Negative/F2	Minimum IDR (or derivative counterparty rating, as applicable) of 'A' or 'F1'; collateral posting required within 14 calendar days and replacement or guarantee within 30 days of downgrade below both minimum ratings. If the counterparty elects to post collateral, minimum IDR (or derivative counterparty rating) of 'BBB' or 'F3'; replacement or guarantee within 30 days of downgrade below both minimum ratings.	No adjustment. Minimum ratings and remedial actions in line with criteria. Banco Santander, S.A. acts as interest rate swap provider for the class B swap, hence it is irrelevant for the rating analysis.

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Private Driver UK 2020-1

Servicing

VWFS UK acts as the servicer for the transaction. The servicer is not rated by Fitch; however, it is a wholly owned subsidiary of VW Overseas B.V., in turn wholly owned by VWFS AG. The latter is itself a wholly owned subsidiary of VW AG. A servicer replacement event is triggered by, among other things:

- failure by the servicer to make any payment or deposit to the distribution account, with five business days grace period;
- failure by the servicer to observe or perform in any material respect any term, covenant or agreement, with 60 days' grace period;
- any material representation or warranty provided by the servicer proves to be incorrect in any material respect (provided that repurchase or replacement of the affected assets it is deemed to remedy such failure), with 60 days' grace period;
- the servicer becoming insolvent; and
- the failure by the servicer to renew or revocation the necessary licences according to the relevant regulations.

The termination of the servicer upon a replacement event shall not become effective until a successor servicer is appointed.

Commingling and Payment Interruption Risk

VWFS UK receives collections on its own accounts and forwards them to the issuer monthly. In case of servicer insolvency, collections held at the servicer's accounts could fall within its insolvency estate. As a result, the transaction would suffer a loss of the commingled funds.

Upon any of the following events, the monthly remittance condition is deemed not to be satisfied and an advance mechanism will be applied to address commingling risk.

- Fitch's rating of VW AG is below 'BBB' or 'F2'; or
- the profit- and loss-sharing agreement between VW AG and VWFS AG as parent of VW Overseas B.V. (or any of its successors within VW Group as parent of the servicer) is no longer in place; or
- VWFS AG (or any of its successors within VW Group as parent of VW Overseas B.V.) does not own 100% of VW Overseas B.V.; or
- VWFS AG (or any of its successors within VW Group as parent of the servicer) does not own 100% of VWFS UK.

The advance mechanism will be in effect within 14 calendar days of the breach. The servicer will collateralise, bi-weekly, expected collections from the receivables for a two-week period starting about a week after the actual posting date.

The first advance will cover the expected collections for the month and, if the event occurs prior to the payment date occurring in that month, the advance will cover also expected collections in respect of the preceding month (i.e. collections which would have been distributed in the upcoming payment date).

Then, if the monthly remittance condition is still not satisfied, the following advances will be made:

- On the 15th day of the month, covering expected collections from the first 15 days of the following month, and
- On the first of the following month, covering expected collections from the 16th day onward.

On any payment date, VWSF UK may net its obligation to pay the actual collections to the issuer's account with its claim for repayment of the collateral posted.

The mechanism considers scheduled repayments of principal and interest, as well as expected prepayments based on a 20% prepayment rate.

Fitch deems the proposed mechanisms to adequately address commingling risk.

Upon a servicer replacement event, the servicer following instruction by the issuer, shall cease collecting into its collection account and a replacement servicer shall take over upon appointment. Upon servicer insolvency, which would constitute a notification event, obligors will be instructed to pay directly into the issuer's account or such other account as specified by the issuer.

The servicer is committed to transfer collections to the issuer's account within 90 business days of the due date. If not, it would constitute a servicer replacement event unless it is due to reasons outside the servicer's control and remedied within 90 days. This would include the event of default of the bank holding collections, thus making payment of received collections an implicit guarantee by VWFS UK.

The reserve in the cash collateral account is in place to cover potential payment disruptions in such an event for about six months. The combination of these structural elements adequately reduces payment interruption risk, in our view.

Set-Off Risk

Fitch considers set-off risk immaterial in the transaction. VWFS UK is not a deposit-taking entity so there can be no deposit set-off risk. Further, even though customers are obliged to take out third-party insurance, these insurance premiums are not financed. VWFS UK finances maintenance contracts, but those are not securitised and constitute separate contracts to the vehicle financing agreement. Therefore, no legal set-off right arises against VWFS UK or the issuer under UK consumer law.

Account Bank

Elavon Financial Services DAC acts as account bank for the issuer.

The account bank is an eligible counterparty, according to Fitch's counterparty criteria. Should the account bank not be rated at least, either 'A' or 'F1', the downgraded bank is contractually obliged to replace itself with an eligible entity rated at least 'A' or 'F1'.

The replacement shall be implemented between 60 days from the downgrade. Replacement costs will be borne by the account bank up to a cap, any excess will be borne by the issuer. The outgoing account bank will continue to provide services under the bank account agreement until an eligible replacement is appointed.

Swap Counterparty

At closing, the issuer entered into two interest rate swap agreements, one with DZ Bank AG (AA-/Negative/F1+) for the class A swap and another one with Banco Santander, S.A. (a(dcr)/Negative/F2) for the class B swap. The mechanics of the swaps are described in more detail in *Interest Rate Swap*. The swaps will be in place for the entire lifetime of the rated notes, as per the documentation.

The list of swap counterparties is included in the *Transaction Parties* table. According to the transaction documentation, the swap counterparties of the revolving series need to be rated at least 'A' or 'F1' to be eligible. Otherwise, they are contractually obliged to post collateral while being rated at least 'BBB-' or 'F3' or procure an eligible guarantee. The swap counterparties are eligible, according to Fitch's counterparty criteria.

The swap agreements contain provisions for the calculation of collateral amount and for the timing to post it in line with *Fitch's Structured Finance and Covered Bonds Counterparty Criteria: Derivative Addendum*.

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of Applicable Criteria.

The nature of the underlying receivables is highly granular and homogeneous, so Fitch has analysed the portfolio credit risk in accordance with its *Consumer ABS Rating Criteria*. The VT and RV risk were analysed using *Consumer ABS Rating Criteria – Residual Value Addendum*.

Models

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

UK Voluntary Termination Model

Multi-Asset Cash Flow Model

Data Adequacy

Fitch was provided with an extensive set of data for the asset analysis. The list below is not exhaustive but includes a comprehensive representation of what was provided.

- detailed stratifications of the total loan book as of December 2019;
- origination volumes since 2002 for the sub-portfolios of new/used and HP/PCP vehicles;
- dynamic, monthly delinquency data from June 2007 for the combinations of sub-portfolios of new/used and HP/PCP vehicles;
- monthly outstanding loan book balance since June 2007 for the combinations of sub-portfolios of new/used and HP/PCP vehicles;
- static, quarterly gross and net loss vintages since 2002 for all combinations of the sub-portfolios of product type (PCP/HP), vehicle type (new/used) and termination type (default, VT, RV early settlement);
- dynamic recoveries since 2002, split by all combinations of contract type (PCP/HP), vehicle type (new/used) and termination type (default, VT, RV, early settlement) split in cash and sale recoveries. The data are split in two groups; recoveries received within and after 18 months of termination;
- dynamic, monthly profit and loss data on VT terminations since July 2002 and RV sale proceeds since September 2004;
- loan-by-loan data of the final pool with cut-off date March 2020, including among others original and remaining balance, deposit, contractual RV, seasoning and remaining term;
- detailed pool stratifications and amortisation profiles for the monthly loan instalments and residual values for the final pool with cut-off date March 2020; and
- dynamic, monthly prepayment data from June 2008 for the originator's overall loan book.

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

Surveillance

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

Fitch will receive monthly investor reports detailing the performance of the portfolio. The agency assigned an Issuer Report Grade of five stars, in accordance with its special report *EMEA ABS Issuer Report Grades*, dated 14 November 2011. The monthly reports will provide the basis for the agency's surveillance of the performance of the transaction against base-case expectations and the performance of the industry as a whole. Where appropriate, the agency may ask to monitor further data from VWFS UK.

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

Appendix 1: Origination and Servicing

Originator Overview

VWFS UK is a wholly owned subsidiary of VWFS AG, which has its headquarters in Braunschweig, Germany.

VWFS UK offers finance products in the UK supporting the automotive brands within the VW Group, including Volkswagen, Volkswagen commercial vehicles, Audi, Bentley, SEAT and Skoda. The portfolio also includes Porsche and Lamborghini vehicles.

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

Originator Overview

VWFS UK predominantly offers two standard retail financing products to its UK customers, both of which take the legal form of a HP agreement:

- **PCP agreements**: Under a PCP contract, obligors pay equal monthly instalments. At the end of the term, they have the option to purchase the vehicle by making the balloon payment or returning the vehicle to VWFS UK. PCP contracts are typically originated with terms between 18 and 48 months.
- **HP agreements**: Under an HP contract, obligors pay equal monthly instalments throughout the term of the loan, after which the title is transferred to the obligor after settlement of the title transfer fee. Typical HP contract tenors range from 12-60 months.

VWFS UK's lending portfolio has grown significantly over the past five years, with recent growth driven by an increased focus on PCP products, which offer customers lower monthly payments than HP. VWFS UK markets its PCP product by making it affordable to customers and encouraging them to purchase a new vehicle when the contract matures. Most originations are through PCP vehicles. The origination share of new PCP vehicles appears to have plateaued and has floated at about 70% of originations over the past few years. The share of PCP used vehicles is still growing, whereas the overall share of HP contracts has declined to less than 10%.

Underwriting

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

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

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

Residual Value Setting

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

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

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

Servicing and Collections

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

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

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

Appendix 2: ESG Relevance Score

FitchRatings **Private Driver UK 2020-1**

SF ESG Navigator
ABS - Auto

Credit-Relevant ESG Derivation

Private Driver UK 2020-1 has 6 ESG potential rating drivers

- Private Driver UK 2020-1 has exposure to regulatory risks, fines, or compliance costs related to emissions, energy consumption and/or related reporting standards but this has very low impact on the rating.
- Private Driver UK 2020-1 has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

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

Environmental (E)

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

Social (S)

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

Governance (G)

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

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

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

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

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

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

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

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.