Inside This Report

Key Rating Drivers
Transaction Summary
Transaction Comparison
Transaction Parties
Transaction and Legal Structure
Asset Analysis
Financial Structure and Cash Flow Analysis
Rating Sensitivity
Counterparty Risk
Criteria Application, Model and Data Adequacy
Surveillance

Related Appendix
Driver UK Master S.A. – Compartment 2

Capital Structure

<table>
<thead>
<tr>
<th>Class</th>
<th>Rating</th>
<th>Outlook</th>
<th>Amount (GBPm)*</th>
<th>CE (%)</th>
<th>Interest Rate (%)</th>
<th>Final Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Series</td>
<td>AAAsf</td>
<td>Stable</td>
<td>3,974.3</td>
<td>32.2</td>
<td>1m Libor + 0.65%</td>
<td>May 2027</td>
</tr>
<tr>
<td>B Series</td>
<td>A+sf</td>
<td>Stable</td>
<td>611.2</td>
<td>21.7</td>
<td>1m Libor + 1.20%</td>
<td>May 2027</td>
</tr>
<tr>
<td>Subordinated Loan</td>
<td>NRsf</td>
<td>n.a.</td>
<td>955.6</td>
<td>n.a.</td>
<td>1m Libor + 2.89%</td>
<td>May 2027</td>
</tr>
<tr>
<td><strong>Total Issuance (excl. sub-loan)</strong></td>
<td><strong>4,585.5</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Closing occurred on 28 May 2019. The ratings assigned are based on portfolio information as of 30 April 2019. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any purchase.

The amounts shown are the current issuance amounts. Notes can be issued up to a maximum programme size of GBP10.0 billion. Class A includes Series A 2013-5, which is not rated by Fitch. As of the closing date, Series A 2013-5 has an outstanding balance of GBP425.0 million. Details of each outstanding series’ amounts are shown on page 5.

The credit enhancement (CE) consists of overcollateralisation (31.6% for the class A and 21.1% for the class B) based on the asset pool, and the reserve fund floor of 0.6% of the portfolio balance. The actual size of the reserve is 1.2% of the class A and class B balance.

The amortising Series A 2013-3, Series A 2016-1 and Series B 2013-2, pay an interest rate of one-month Libor plus 0.55%, 0.55% and 0.95%, respectively.

Transaction Summary

This is a one-year 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 Volkswagen Financial Services AG (VWFS AG), which itself is wholly owned 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 assumed a total Residual Value (RV) and VT loss of 22.7% at ‘AAAsf’ and 15.4% at ‘A+sf’.

Low Credit Losses: Fitch applied default and recovery base cases of 1.3% and 65%, 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. The stressed pool’s assumed ‘AAAsf’ default multiple is 6.5x and the recovery haircut is 45%, resulting in overall credit losses of 5.6% at ‘AAAsf’ and 3.2% at ‘A+sf’.

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.

Seller-Related Risks Addressed: A cash reserve protects the transaction from payment interruption risk. Commingling risk is mitigated by a cash advance mechanism upon the seller losing eligibility in line with Fitch’s counterparty criteria.
# Transaction Comparison

## Transaction Comparison Table

<table>
<thead>
<tr>
<th>Role</th>
<th>Issuer</th>
<th>Counterparty</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
<td>Driver UK Master S.A. – Compartment 2</td>
<td>Bavarian Sky UK 2 plc</td>
<td>Not Rated</td>
</tr>
<tr>
<td>Origination and servicing</td>
<td>Volkswagen Financial Services (UK) Ltd</td>
<td>Not Rated</td>
<td></td>
</tr>
<tr>
<td>Issuer</td>
<td>HSBC Bank plc</td>
<td>AA+/Rating Watch Negative/F1+</td>
<td></td>
</tr>
<tr>
<td>Trustee</td>
<td>Wilmington Trust (London) Limited</td>
<td>Not Rated</td>
<td></td>
</tr>
<tr>
<td>Swap provider</td>
<td>The Bank of Nova Scotia</td>
<td>AAA/ Stable/F1+</td>
<td></td>
</tr>
<tr>
<td>Corporate services provider</td>
<td>Circumference FS (Luxembourg) S.A.</td>
<td>Not Rated</td>
<td></td>
</tr>
<tr>
<td>Paying agent, calculation agent, registrar and interest determination agent</td>
<td>HSBC Bank plc</td>
<td>AA+/Rating Watch Negative/F1+</td>
<td></td>
</tr>
</tbody>
</table>

## Transaction Parties

### Issuer
- **Driver UK Master S.A. – Compartment 2**

### Counterparty
- **Bavarian Sky UK 2 plc**
- **Volkswagen Financial Services (UK) Ltd**
- **HSBC Bank plc**
- **Wilmington Trust (London) Limited**
- **The Bank of Nova Scotia**
- **Circumference FS (Luxembourg) S.A.**
- **HSBC Bank plc**

### Rating
- **Not Rated**
- **AA+/Rating Watch Negative/F1+**
- **AAA/ Stable/F1+**
- **AAA/ Stable/F1+**
- **AA+/ Stable/F1+**
- **AAA/ Stable/F1+**
- **AA+/ Rating Watch Negative/F1+**

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**Related Research**
- Auto ABS Index – Europe 2019 (May 2019)
- ABS Compare (May 2019)
- United Kingdom (November 2018)
- What Investors Want to Know: Voluntary Terminations Growth Does Not Trigger UK Auto ABS Rating Actions (May 2019)
- Weakening UK Household Finances Pose Risks (May 2018)
- European Car Financing Vulnerable to Residual Value Outlook (October 2018)
Issuer and True Sale

The issuer, Driver UK Master S.A. (acting on behalf of its Compartment 2), 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 a 12-month revolving period during which, subject to eligibility criteria, the asset pool can be replenished.

The assignment of receivables to the issuer takes place in equity only. Obligors will not be 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.
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

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount (GBPm)</th>
<th>Liabilities Amount (GBPm)</th>
<th>Size in % of receivables’ balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>5,813.2</td>
<td>3,974.3</td>
<td>68.4</td>
</tr>
<tr>
<td>Cash reserve</td>
<td>55.0</td>
<td>611.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Sub-loan</td>
<td>955.6</td>
<td></td>
<td>16.4</td>
</tr>
<tr>
<td>PPD OC</td>
<td>272.0</td>
<td></td>
<td>4.7</td>
</tr>
<tr>
<td>PPD cash reserve</td>
<td>55.0</td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>Sum</td>
<td>5,868.2</td>
<td>5,868.2*</td>
<td>100.9</td>
</tr>
</tbody>
</table>

* PPD: Purchase price discount  
* Based on the unrounded liabilities’ amounts.  
Source: Fitch Ratings, Driver UK Master S.A. – Compartment 2

The issuance consists of the series of class A and B notes, as well as a subordinated loan. Credit enhancement is provided by OC and the amortising cash reserve. The initial size of the reserve is 1.2% of the class A and class B balance (0.9% of the portfolio balance). 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.

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) | 1.92 |
| Servicing fee                                                   | 1.00 |
| Senior expenses                                                 | 0.03 |
| Subtotal                                                       | 2.95 |
| Interest compensation rate                                      | 1.30 |
| Buffer release rate                                             | 1.62 |
| **Sum**                                                        | **5.87** |

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 2

The weighted average (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 6.1%), 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 GBP8
million and any release amounts are paid to the seller. 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.

Voluntary terminations 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 2.95%, 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’ and 1.8% at ‘A+sf’. 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 credit enhancement.

**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.

Class A needs to maintain a minimum OC level of 28.7% on any payment date during the revolving period, otherwise early amortisation starts. Additionally, for each further issuance (tap-up or new series), the class A and class B increase amounts need to be at least 27.8% and 19.3%, respectively, of the increased asset balance. The cash reserve will also have to be funded with 1.2% of the newly issued notes’ balance.

The table below shows the current and maximum issuance amounts for each series of notes.

<table>
<thead>
<tr>
<th>Overview of Note Series</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Series</strong></td>
</tr>
<tr>
<td>Series A 2013-1</td>
</tr>
<tr>
<td>Series A 2013-2</td>
</tr>
<tr>
<td>Series A 2013-3*</td>
</tr>
<tr>
<td>Series A 2013-4</td>
</tr>
<tr>
<td>Series A 2013-5*</td>
</tr>
<tr>
<td>Series A 2013-8</td>
</tr>
<tr>
<td>Series A 2014-1</td>
</tr>
<tr>
<td>Series A 2014-2</td>
</tr>
<tr>
<td>Series A 2014-3</td>
</tr>
<tr>
<td>Series A 2015-1</td>
</tr>
<tr>
<td>Series A 2016-1*</td>
</tr>
<tr>
<td>Series A 2016-2</td>
</tr>
<tr>
<td>Series A 2018-1</td>
</tr>
<tr>
<td>Series A 2018-2</td>
</tr>
<tr>
<td>Series A 2018-3</td>
</tr>
<tr>
<td>Series A 2019-1</td>
</tr>
<tr>
<td>Series A 2019-2</td>
</tr>
<tr>
<td>Series B 2013-1</td>
</tr>
<tr>
<td>Series B 2013-2*</td>
</tr>
<tr>
<td>Series B 2013-3</td>
</tr>
<tr>
<td>Series B 2015-1</td>
</tr>
<tr>
<td>Series B 2016-2</td>
</tr>
</tbody>
</table>
### Overview of Note Series (Cont.)

<table>
<thead>
<tr>
<th>Series</th>
<th>Current issuance amount (GBPm)</th>
<th>Max. issuance amount (GBPm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series B 2018-1</td>
<td>27.7</td>
<td>27.7</td>
</tr>
<tr>
<td>Series B 2018-2</td>
<td>65.7</td>
<td>88.4</td>
</tr>
<tr>
<td>Series B 2018-3</td>
<td>20.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

* Maximum issuance amounts can be increased at any time during the revolving period, but can only be decreased at each renewal date. The maximum programme amount is GBP10.0 billion.

b Amortising series.

c Not rated by Fitch.

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 2

### Term Take-Outs

The transaction documents allow receivables to be taken out of the portfolio acquired by the issuer in order to be securitised in a term transaction. The portfolio may change materially when a term take-out occurs. The documents foresee that Fitch will receive a confirmation request prior to the execution of the onward transfer and will review the post take-out pool composition.

Only performing receivables are eligible for a term take-out, meaning the relative share of delinquent receivables in the pool increases. However, the portfolio deterioration is captured by the redemption mechanism, which applies funds received from the sale of the assets outside the waterfall first to amortise the class A notes to a target balance, then the class B notes to a target balance. Only the remaining portion is used to amortise the sub-loan.

Only limited credit is therefore given to the delinquent portion of the pool in the calculation of the required redemption amounts. This mechanism results in a build-up of OC to compensate for the increased share of non-performing assets.

### 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 and take-outs. The target reserve amount equals on each payment date the higher of 1.2% of the outstanding notes’ balance 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 credit enhancement 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.

### 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 will receive fixed interest payments from the receivables, its obligations under the notes will be linked to one-month Libor.

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 will be 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 SPV pays on the swaps are 1.482% and 2.0343% on the revolving class A and class B notes, respectively. The issuer pays a different fixed rate on the amortising series; 0.95% on Series A 2013-3 and Series A 2016-1 and 1.91% on Series B 2013-2.

The swap rates paid by the swap counterparty are equal to one-month Libor plus the margin on the class A and class B notes series over the respective swap notional amount. The margins of the amortising series are lower than those of the revolving series. The margins of the amortising Series A 2013-3, Series A 2016-1 and Series B 2013-2 are 0.55%, 0.55% and 0.95%, respectively. The floating swap amounts are not floored at zero.

Eligibility Criteria and Concentration Limits

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:
  a. maximum 50% of the discounted portfolio corresponds to used vehicles;
  b. maximum 40% of the discounted portfolio is PCP used vehicles;
  c. 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;
- Maximum single-obligor exposure of 0.2% of the discounted portfolio balance;
- The vehicle relating to a PCP agreement must not be a Porsche;
- 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.
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 28.7% on any payment date after six periods from the initial issue date (in 2013);
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);
h) Credit enhancement increase condition is in effect.

Credit Enhancement Increase Conditions

<table>
<thead>
<tr>
<th>Trigger variable</th>
<th>Condition</th>
<th>Trigger level (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dynamic net loss ratio</td>
<td>Weighted average seasoning (WAS) of portfolio ≤ 12 months</td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td>WAS of portfolio &gt;12 and ≤ 22 months</td>
<td>0.45</td>
</tr>
<tr>
<td></td>
<td>WAS of portfolio &gt;22 and ≤ 34 months</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>WAS of portfolio &gt;34 months</td>
<td>n.a.</td>
</tr>
<tr>
<td>Cumulative net loss ratio</td>
<td>During the revolving period</td>
<td>1.85</td>
</tr>
<tr>
<td></td>
<td>After the revolving period</td>
<td>4.0</td>
</tr>
<tr>
<td>Late delinquency ratio</td>
<td>On any payment date until 25 May 2020</td>
<td>0.7</td>
</tr>
<tr>
<td>A servicer replacement event (including servicer insolvency) occurs</td>
<td>The cash reserve is not at its target amount</td>
<td></td>
</tr>
</tbody>
</table>

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, ie due to increased seasoning.

The cumulative net loss ratio records net losses over a 24-month rolling period. The numerator includes the cumulative net losses in the past 24 months minus any subsequent recoveries of those contracts. The denominator is the sum of a) the initial discounted balance of all contracts which are outstanding at each payment date; and b) the initial discounted balance of all contracts which have matured, terminated or been repurchased by the seller over the past 24 months.

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 credit enhancement 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.
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

+ Accrued interest in the issuer and accumulation (replenishment) account.
+ 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.
+ Unused amounts converted into another currency and reconverted into sterling.
+ Interest compensation due to issuer.
- Buffer release amount (provided no insolvency event with respect to VWFS UK has occurred)

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 2

Transaction Waterfall

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

Source: Fitch Ratings, Driver UK Master S.A. – Compartment 2

During the revolving period, incoming cash will be 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 will be 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 credit enhancement increase condition is in effect (see above);
- 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.

Series A 2013-3 and Series A 2016-1 have been amortising since June 2018. Series B 2013-2 will start amortising in June 2019.

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 discounted asset balance at the initial cut-off date prior to closing or at the cut-off date immediately preceding a tap issuance. 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.

Disclaimer
For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch 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 several factors, including the government commitment to reviving the mortgage-backed security markets, which are considered important in reviving the capacity of lenders to provide funding in the economy.

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

Asset Analysis
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.

Loan Products
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 Callcredit, two UK 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 represent 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 British Car Auction centres. 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.

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 cut-off date April 2019. 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 0.04% and 0.09% of the pool, respectively. The key pool characteristics are included in the table below.

#### Key Characteristics of the Final Portfolio

<table>
<thead>
<tr>
<th>Replenishment Criteria</th>
<th>Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of loans</td>
<td>388,021</td>
</tr>
<tr>
<td>Total discounted loan balance (GBP)</td>
<td>5,813,198,635</td>
</tr>
<tr>
<td>Average outstanding discounted loan balance</td>
<td>14,982</td>
</tr>
<tr>
<td>WA original term (months)</td>
<td>47.0</td>
</tr>
<tr>
<td>WA remaining term (months)</td>
<td>29.9</td>
</tr>
<tr>
<td>WA seasoning</td>
<td>17.0</td>
</tr>
<tr>
<td>New (%)</td>
<td>69.9</td>
</tr>
<tr>
<td>Used (%)</td>
<td>30.1</td>
</tr>
<tr>
<td>PCP used (%) ≤40</td>
<td>25.7</td>
</tr>
<tr>
<td>Non-VW Group vehicles ≤10</td>
<td>0.2</td>
</tr>
<tr>
<td>WA effective interest rate (%)</td>
<td>6.1</td>
</tr>
<tr>
<td>Residual value (%)</td>
<td>59.0</td>
</tr>
<tr>
<td>Top 10 borrowers (%)</td>
<td>0.09</td>
</tr>
<tr>
<td>Direct debit (%)</td>
<td>99.8</td>
</tr>
</tbody>
</table>

Source: Fitch Ratings, VWFS UK

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.

**Asset Outlook**

Fitch has a stable/negative asset performance outlook on UK auto and unsecured consumer ABS. Moreover, the potential for rate rises could have an adverse impact on asset performance in the context of increasing household indebtedness in the UK. Real GDP growth was 1.4% in 2018 and forecast at 1.6% in 2019 and 1.8% in 2020. The forecasts assume that a “no-deal” Brexit will be avoided. The macroeconomic outlook is highly sensitive to Brexit developments. The impact of a no-deal Brexit on growth is highly uncertain, but a recession on the scale of that seen in the UK in the early 1990s would be a reasonable comparison for gauging the potential macroeconomic stress.

**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. The charts include those since 2006.

**Cumulative Defaults - New Vehicles**

![Cumulative Defaults - New Vehicles](chart1.png)

Source: Fitch Ratings, VWFS UK

**Cumulative Defaults - Used Vehicles**

![Cumulative Defaults - Used Vehicles](chart2.png)

Source: Fitch Ratings, VWFS UK

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 1.1% and 1.7% for new and used vehicles, respectively. This assumption is based on the observed historical performance, taking into account the asset performance outlook in the UK, as described in Asset Outlook above. The 2006-2008 default vintages perform worse than the rest, as they were fully exposed to the economic crisis in 2009, but Fitch does not believe that these represent the base-case scenario for the lifetime of the transaction.

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 40% of stressed portfolio. This resulted in a WA overall portfolio base case default expectation of 1.3%.

Fitch stressed the expected base case with a ‘AAAsf’ default multiple of 6.5x, which is higher than the typical range outlined in Consumer ABS Rating Criteria. The ‘A+sf’ multiple was set at 4.3x. The multiple takes into account, among other factors, the length of the revolving period, the low absolute level of expected defaults, the sustained growth in origination figures and the adequate extent and quality of available data. The low level of defaults was the driving consideration.

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

Recovery Rates
Recovery data from hostile terminations was provided on a cumulative basis since 2002. The chart below shows recoveries since 2006. Fitch has derived a base case of 65% for both new and used vehicles. 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 Pool

We applied recovery haircuts at the median to lower end of our base-case expectations, i.e a 45% haircut at ‘AAAsf’ and 30% at ‘A+sf’. 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 the first decimal point.
Prepayment Risk

Fitch received historical dynamic data on prepayments since June 2008. The agency applied a 20% annual prepayments base case. For the rating-specific assumption, Fitch applied linear interpolation between 20% 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 in order to exit the contractual obligations. Rating scenarios above ‘AA-sf’ are assumed to have 0% annual prepayments.

Dynamic Prepayment Rate

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 PGP share of the pool.

Base-Case Sale 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. However, the share of returned cars at their respective maturities is small. Additionally, Fitch was presented with the RV-setting policies of VWFS UK, which were considered robust and based on extensive experience of the market. All these observations were taken into account when assigning the base case.

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.
Base-Case Sale Proceeds Haircut
Fitch applied a RV market value stress of 35.0% in a ‘AAAsf’ rating scenario and 26.7% at ‘A+sf’. 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 segment diversification in the pool.

RV Turn-In Rates
Fitch applied RV turn-in rates in line with Consumer ABS Rating Criteria – Residual Value Addendum. The RV ‘AAAsf’ and ‘A+sf’ turn-in rates were set at 100% and 83.3%, respectively.

Time to Sale
The time to sell the vehicle is set according to Fitch criteria, ie three months at ‘AAAsf’ and two months at ‘A+sf’. This assumption is intended to test the ability of the transaction to withstand a liquidity stress in a situation when a timely disposal of vehicles may be impeded.

RV Share
Fitch assumed that during the one-year revolving period, the RV share within the PCP pool will remain unchanged, ie 62.3%. Contrary to other transactions, this one includes a seasoned pool in which the RV share has reached a stable level. This means that the rise of the RV exposure due to the amortisation of existing loans is offset by the replenishment of the pool with less seasoned PCP loans. The RV share as a percentage of the total pool balance at the end of the revolving period is assumed to be 59.2% from about 59.0% at closing. The marginal increase is driven by our assumption that by the end of the revolving period, the PCP loans will increase to 95% from 94.7% by balance.

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 voluntary termination model to analyse the VT exposure and loss. The portfolio had a cut-off date of April 2019. For each contract, the model projected the outstanding loan value at the half-point, after accounting for any downpayments, 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’ and ‘A+sf’ turn-in rates were set at 50% and 37.5%, respectively.

Depreciation Rate
Fitch applied a monthly depreciation of 2.0% 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 potential clustering of VT in an economic downturn. Using a higher market value haircut applied for VT relative to RV is in line with Fitch’s criteria. This resulted in a VT market value haircut of 40% at ‘AAAsf and 31.7% at ‘A+sf’.
Administrator Fees

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 according to Fitch criteria, i.e. three months at ‘AAAsf’ and two months at ‘A+sf’.

Integration of RV and VT 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. The RV and VT turn-in rates in the lower rating scenarios were according to criteria, i.e. 83.3% and 37.5% at ‘A+sf’, respectively.

Given the above, after considering defaults and prepayments in the respective ratings scenarios, Fitch has calculated a total VT loss of 3.0% and an RV loss of 19.7% at ‘AAAsf’ for the total pool. The ‘A+sf’, VT and RV losses are 1.7% and 13.7%, respectively. These figures factor the assumed marginal 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.

Financial Structure and 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.
As available CE may decrease during the revolving period, Fitch tested a number of scenarios with different OC levels and found that class A and class B can pass at 'AAAs' and 'A+sf' in all cases. Fitch modelled the following scenarios:

a. The actual structure as of closing;

b. A structure where class A breaches the early amortisation trigger of 28.7% OC;

c. A structure in line with the class A and class B increase amounts as per the documents; ie 27.8% and 19.3%, respectively.

In addition to the above, we tested the resilience of the notes’ ratings in a scenario where Series A 2013-3, Series A 2016-1 and Series B 2013-2 are unhedged and found that there is no rating impact. The test was performed because these amortising series contain no swap replacement triggers upon a Fitch rating downgrade of their respective swap counterparties.

When modelling the transaction, Fitch also factored in Series A 2013-5 even though this series is not rated. Series A 2013-5 ranks pari passu and has the same final maturity date with the remaining class A series.

Fitch tested the structure using the default timing for an 18-month weighted average life portfolio outlined in the Consumer ABS Rating Criteria. 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 will be received within three months of a default.

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 final 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 sum of the interest compensation rate and buffer release 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 GBP227,000.

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 a) the default and recovery timing, b) the RV amortisation and time to sale and c) 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 credit enhancement for the rated notes adequate under all considered stressed scenarios.
Rating Sensitivity

This section of the report provides a greater insight into the model-implied sensitivities the transaction faces when one risk factor is stressed, while holding others equal. The modelling process first uses the estimation and stress of base-case assumptions to reflect asset performance in a stressed environment. The results below should only be considered as one potential outcome, given that the transaction is exposed to multiple risk factors that are all dynamic variables. We have used the actual structure as of closing as the basis for the sensitivities shown below.

Rating Sensitivity to Default and Recovery Rates

The tables below reflect rating changes if the base-case default or recovery rate for the portfolio is increased or decreased by a relative amount.

### Rating Sensitivity to Increased Default Rate Assumptions

<table>
<thead>
<tr>
<th>Class A</th>
<th>Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original rating</td>
<td>AAAAsf</td>
</tr>
<tr>
<td>Increase in default rate base case by 10%</td>
<td>AAAAsf</td>
</tr>
<tr>
<td>Increase in default rate base case by 25%</td>
<td>AAAAsf</td>
</tr>
<tr>
<td>Increase in default rate base case by 50%</td>
<td>AAAAsf</td>
</tr>
</tbody>
</table>

Source: Fitch Ratings

The change in rating if the base-case recovery rates are stressed is shown below.

### Rating Sensitivity to Reduced Recovery Rate Assumptions

<table>
<thead>
<tr>
<th>Class A</th>
<th>Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original rating</td>
<td>AAAAsf</td>
</tr>
<tr>
<td>Decrease in recovery rate base case by 10%</td>
<td>AAAAsf</td>
</tr>
<tr>
<td>Decrease in recovery rate base case by 25%</td>
<td>AAAAsf</td>
</tr>
<tr>
<td>Decrease in recovery rate base case by 50%</td>
<td>AAAAsf</td>
</tr>
</tbody>
</table>

Source: Fitch Ratings

### Rating Sensitivity to Used-Car Market Value Stress

The change in ratings if the used-car market assumptions are adjusted is shown in the Rating Sensitivity to Increased Used Car Market Value Stress table below. The stress affects the level of instalment losses due to lower recovery proceeds on defaulted accounts and the level of RV and VT losses, as the sale proceeds after a vehicle is sold reduce.

Fitch considers the sensitivities in the table below to also provide an indication on rating changes upon a potential deterioration of used car prices for vehicles equipped with diesel engines. The originator provided Fitch with a quantification of the total diesel share in the final portfolio (about 41%). Assuming a decrease of 25% in the recovery proceeds for diesel vehicles and an increase of 25% in the market value decline (MVD) assumption for the RV and for VT of diesel vehicles, while leaving assumptions for non-diesel vehicles unchanged, the resulting rating sensitivity lies within the 10% and 25% standard sensitivities (applied to the entire pool) below.

---

1 These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible performance.
Rating Sensitivity to Increased Used Car Market Value Stress

<table>
<thead>
<tr>
<th>Original rating</th>
<th>Class A</th>
<th>Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease recovery rate and increase MVD by 10%</td>
<td>AAA+sf</td>
<td>A+sf</td>
</tr>
<tr>
<td>Decrease recovery rate and increase MVD by 25%</td>
<td>AAA+sf</td>
<td>A+sf</td>
</tr>
<tr>
<td>Decrease recovery rate and increase MVD by 50%</td>
<td>AAAsf</td>
<td>A-sf</td>
</tr>
</tbody>
</table>

Source: Fitch Ratings

Rating Sensitivity to Shifts in Multiple Factors

The table below summarises the rating sensitivity to stressing three factors simultaneously: increased default rate; reduced recovery rate; and reduced net sale proceeds. Three scenarios are evaluated to show the sensitivity of the rating to varying degrees of stress, i.e., mild, moderate, and severe changes to the expected level of defaults, recoveries, and net sale proceeds. The latter corresponds to the net proceeds upon the vehicle’s sale following VT or its return at maturity. It reflects, among other factors, the level of market value stress.

<table>
<thead>
<tr>
<th>Original rating</th>
<th>Class A</th>
<th>Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Default rate increased by 10%, recovery rate and net sale proceeds decrease by 10%</td>
<td>AAA+sf</td>
<td>A+sf</td>
</tr>
<tr>
<td>Default rate increased by 25%, recovery rate and net sale proceeds decrease by 25%</td>
<td>AAA+sf</td>
<td>A+sf</td>
</tr>
<tr>
<td>Default rate increased by 50%, recovery rate and net sale proceeds decrease by 50%</td>
<td>BB+sf</td>
<td>BB+sf</td>
</tr>
</tbody>
</table>

Source: Fitch Ratings

Counterparty Risk

The issuer’s primary counterparty exposure is to VWFS UK, the servicer, originator, and seller in the transaction. Fitch considers the main exposure to result from servicing and underwriting quality; payment interruption; commingling; and representations and warranties provided by the seller. There is also counterparty exposure to the swap provider and the account bank.

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 VWFS AG, which itself is a wholly owned subsidiary of VW AG. A servicer replacement event is triggered by, among other things:

- the servicer becoming insolvent;
- the servicer failing to make a payment or deposit to the issuer account within five business days of the due date; and
- the servicer failing to perform any of its material obligations or breaching any of the representations and warranties, and such failure not being remedied within 60 business days.

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 will receive collections on its own accounts and will forward the collections to the issuer monthly. In case of a servicer insolvency, collections held at the servicer’s accounts could fall within its insolvency estate. Consequently, the transaction would suffer a loss of the commingled funds.
Upon any of the following events, 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 (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 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 be made on the 11th business day before the start of the month, covering expected collections to be received from the first to and including the 15th calendar day of that month. The second advance will be made on the 11th business day prior to the 16th calendar day of the month, covering expected collections to be received from the 16th of the current month until the end of the current month.

Actual collections will also then be transferred to the issuer account bi-weekly. Following the payment date, advanced amounts will be adjusted to reflect expected collections for the following period.

The mechanism considers scheduled repayments of principal and interest, as well as expected prepayments. The latter are based on a 12-month average of actual prepayment as calculated by the servicer; the value will be determined and updated on an annual basis in November, and then be applicable until the next update.

Fitch deems the proposed mechanisms to adequately address commingling risk.

Upon a servicing 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 a 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 five 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 five months. The combination of these structural elements adequately reduces payment interruption risk, in our view.

Set-Off
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

HSBC Bank plc 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 30 and 33 calendar days from the downgrade. Replacement costs will be borne by the account bank, which will continue to provide services under the bank account agreement until an eligible replacement is appointed.

Swap Counterparty

At closing, the issuer entered into interest rate swap agreements, the mechanics of which 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.

The swap agreements of the amortising Series A 2013-3, Series A 2016-1 and Series B 2013-2 do not contain triggers referencing a Fitch rating for any of the relevant swap counterparties.

The swap counterparties for Series A 2013-3, Series A 2016-1 and Series B 2013-2 are Skandinaviska Enskilda Banken AB, Banco Santander S.A. and Credit Agricole Corporate and Investment Bank. As of closing, Banco Santander S.A. is rated below the minimum level to support ‘AAAsf’ notes, as per our counterparty rating criteria. We have conducted a materiality test assuming that all three amortising series are unhedged and determined that the rating on class A and class B is not affected.

Criteria Application, Model and Data Adequacy

Criteria Application

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.

Model

Fitch used its proprietary cash flow model to analyse the issuer’s ability to meet its payment obligations under different stress assumptions. The VT losses were calculated using the UK Voluntary Termination Model. A description of both models is available on www.fitchratings.com.

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 2018;
- 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);

- static 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 April 2019, 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 April 2019; 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.
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.

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