Ratings Assigned To Auto ABS Transaction Driver UK Master, Compartment 4 Series 2018-1

Primary Credit Analyst:
Rory O'Faherty, London + 44 20 7176 3724; rory.ofaherty@spglobal.com

Secondary Contact:
Christina D Scheibli, Frankfurt (49) 69-33-999-313; christina.scheibli@spglobal.com

OVERVIEW

• We have assigned our ratings to Driver UK Master Compartment 4's series 2018-1 class A and B notes.
• The collateral comprises auto loans that Volkswagen Financial Services (UK) originated for its customers in England, Scotland, and Wales.

LONDON (S&P Global Ratings) June 25, 2018—S&P Global Ratings today assigned its credit ratings to Driver UK Master S.A., Compartment 4's series 2018-1 class A and B notes. At closing, the issuer issued an unrated subordinated loan (see list below).

At closing, Driver UK Master used the rated notes' issuance proceeds, as well as an unrated subordinated loan, to purchase a portfolio of auto loans that Volkswagen Financial Services (UK) Ltd. (VWFS UK) originated for its customers in England, Scotland, and Wales. The proceeds were also used to fund the cash reserve.

Further issuance of class A and B notes, either by further amounts of existing series or issuing new series, up to the maximum issuance amount (£2 billion) will rank pari passu with the initially issued notes and will have the same levels of credit enhancement and liquidity support.
Credit enhancement for the rated class A and B notes arises from a combination of subordination, overcollateralization, and a cash reserve.

RATING RATIONALE

Operational Risk
The originator is a wholly owned subsidiary of Volkswagen Bank GmbH (A-//Negative/A-2) (which is, in turn, a subsidiary of Volkswagen AG). In our view, the Volkswagen group's track record of stable, strong-quality asset origination is among the best of all European asset-backed securities (ABS) issuers. Our preliminary ratings on the notes reflect our assessment of the company's origination policies. There is no back-up servicer. We have reviewed VWFS UK as the servicer in line with our operational risk criteria, based on the prime auto loan assets (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). We have concluded that operational risk does not constrain our ratings on the notes.

Economic Outlook
We forecast U.K. GDP growth of 1.3% in 2018 before rebounding to 1.5% and 1.6% in 2019 and 2020, respectively. We estimate an unemployment rate of 4.5% in 2018, increasing further to 4.6% in 2019 and 2020. Our consumer price index inflation forecast for 2018 is 2.3%, which will drop to 1.9% in 2019 and in 2020 (see "Ratings On The United Kingdom Affirmed At 'AA/A-1+'; Outlook Remains Negative," published on April 27, 2018). In our view, changes in GDP growth and the unemployment rate are key determinants of portfolio performance. Based on our forecast for modest economic growth and slightly rising unemployment, we expect that U.K. auto loans performance will moderately deteriorate over the next 12 to 24 months.

Credit Risk
We analyzed credit risk by applying our European auto ABS criteria (see "Methodology And Assumptions For European Auto ABS," published on Oct. 15, 2015). We have used performance data from VWFS UK’s loan portfolio and from recently reviewed related transactions (Driver UK Master S.A., Compartment 2 [Series 2018-1], Driver UK Master S.A., Compartment 3 [Series 2016-1], and Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2018-1) to analyze credit risk.

We have taken the transaction’s revolving nature into account, as well as its limited replenishment criteria. Under our view of the worst pool composition, our gross loss cumulative default base-case assumption for the securitized pool is 1.85%, and 5.00% for voluntary terminations (VT). We applied our base-case multiples of 4.60x and 3.10x for defaults and of 2.10x and 1.73x for VT, at the 'AAA' and 'A+' rating levels, respectively. Moreover, we sized stressed recoveries of 40% for all rating levels based on recovery data from VWFS UK.

About 0.05% of the pool (by percentage of outstanding balance) relates to vehicles equipped with EA 189 diesel engines affected by the NOx emissions
issue. At this stage, we consider that the stressed recovery rate assumptions cover the potential for recoveries to deteriorate due to any reduction in resale values.

The transaction is also exposed to residual values. Our loss assumption for residual values incorporates a higher market value decline (MVD) risk, considering the potential decline due to irregularities related to NOx emissions in the pool and the overall car market environment in the U.K.

We have also taken into account the credit risk from losses due to prepayments and purchase above par.

Revolving Structure
Our ratings on all of Driver UK Master, Compartment 4's issuances reflect our assessment of the transactions' documented payment structures. Series 2018's tranches have the same terms and will rank pari passu with any class A and B notes issued in the future.

Cash Flow Analysis
We have assessed the transaction's documented payment structure. The issuer can extend the transaction's revolving period several times. The revolving period is for 24 months, if not extended. Once the revolving period ends, the transaction amortizes sequentially until certain overcollateralization targets for the class A and B notes are reached. However, the amortization between the class A and B notes and the subordinated loan switches to pro rata amortization from sequential if certain conditions (for instance, the credit enhancement increase condition not being in effect) are fulfilled, or when class-specific target overcollateralization levels are reached. Our analysis indicates that the available credit enhancement for the class A and B notes is sufficient to withstand the credit and cash flow stresses that we apply at the respective rating levels.

Counterparty Risk
We have analyzed counterparty risk by applying our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). We consider that the transaction's documented replacement mechanisms adequately mitigate counterparty risk.

Legal Risk
The issuer is bankruptcy remote, in line with our legal criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). The legal opinion received at closing indicates that the sale of the assets would survive the insolvency of VWFS UK as the seller.

In our view, the advance payment mechanism fully mitigates the transaction's commingling risk exposure. We believe that the transaction may be exposed to setoff risk, as its documented eligibility criteria for the inclusion of receivables does not exclude loans that the originator granted to its employees. We have sized this risk and incorporated the resulting loss in our
cash flow modeling. We have also factored in our analysis potential losses that could arise in relation to any potential risks for vehicles affected by the emissions issue. We have sized and incorporated the resulting exposure as a loss in our cash flow modeling.

Credit Stability
We have analyzed the effect of a moderate stress on our credit assumptions and their ultimate effect on our ratings on the notes. We have run two scenarios and the results are in line with our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

Sovereign Risk
The application of our structured finance ratings above the sovereign criteria does not cap the ratings in this transaction (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016).

RELATED CRITERIA

• Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
• Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
• Criteria - Structured Finance - ABS: Methodology And Assumptions For European Auto ABS, Oct. 15, 2015
• Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
• Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
• Criteria - Structured Finance - ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
• General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
• Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
• Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
• Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
• General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
• Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH
• Ratings On The United Kingdom Affirmed At 'AA/A-1+'; Outlook Remains Negative, April 27, 2018
• EMEA March 2018—Trade And market Volatility Threaten To Overshadow Brexit, March 28, 2018
• German Diesel Ban Brings Bad Air For Carmakers And Auto ABS, Feb. 28, 2018
• Summary: Volkswagen AG, Dec. 6, 2017
• Hope Overcomes Fears As The Fundamentals Propel Europe Forward, Dec. 5, 2017
• 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
• European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
• How We Rate And Monitor EMEA Structured Finance Transactions, March 24, 2016
• Recent Volkswagen Announcement Has Potential To Affect Related ABS Transactions, Oct. 2, 2015
• S&P Comments On Possible Effect Of A Higher Court's Ruling On Certain German Auto Leasing Contracts, Sept. 2, 2013
• Scenario Analysis: Gross Default Rates And Excess Spread Hold The Answer, May 12, 2009

RATINGS LIST

Driver UK Master S.A., Compartment 4 (Series 2018-1)
Up to £2 Billion Asset-Backed Floating-Rate Notes Program

Ratings Assigned

<table>
<thead>
<tr>
<th>Class</th>
<th>Rating</th>
<th>Amount (mil. £)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 2018-1</td>
<td>AAA (sf)</td>
<td>456.5</td>
</tr>
<tr>
<td>B 2018-1</td>
<td>A+ (sf)</td>
<td>43.5</td>
</tr>
<tr>
<td>Sub. loan</td>
<td>NR</td>
<td>108.1</td>
</tr>
</tbody>
</table>

NR—Not rated.