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Ratings

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New Issue: Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2018-1

£1, 224 Million Floating-Rate Asset-Backed Notes (Including An Unrated Subordinated Loan)

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Ratings Detail

Ratings Assigned

Class	Rating*	Amount (mil. £)	Overcollateralization and subordination (%)	Cash reserve (%)	Available credit enhancement (%)§	Interest (%)†	Legal final maturity
A	AAA (sf)	918.700	26.5	1.2	27.7	One-month LIBOR plus 0.65%	February 2028
B	A+ (sf)	87.500	19.5	1.2	20.7	One-month LIBOR plus 1.20%	February 2028
Subordinated loan	NR	217.605	2.1	1.2	3.3	One-month LIBOR plus a margin	February 2028

*Our ratings address timely payment of interest and payment of principal no later than the legal final maturity date.
§Includes the class B notes' subordination (for the class A notes only), a subordinated loan, overcollateralization, and a cash reserve (see "Transaction Key Features").
†Subject to a floor of zero.
NR--Not rated.

Transaction Participants

Originator and servicer	Volkswagen Financial Services (UK) Ltd.
Seller	Volkswagen Financial Services (UK) Ltd.
Arranger	MUFG Securities EMEA PLC
Security trustee	Wilmington Trust SP Services (Frankfurt) GmbH
Corporate services provider	Circumference FS (Luxembourg) S.A.
Data protection trustee	Wilmington Trust SP Services (Frankfurt) GmbH
Bank account provider, collection account provider, paying agent, calculation agent, cash administrator, and interest determination agent	Elavon Financial Services DAC, U.K. Branch
Subordinated lender	Volkswagen International Luxembourg S.A.
Interest rate swap counterparty	Royal Bank of Canada, London Branch

Supporting Ratings

Institution/role	Rating
Elavon Financial Services DAC, U.K. Branch as transaction bank account provider*	AA-/Stable/A-1+
Royal Bank of Canada, London Branch as interest rate swap counterparty*	AA-/Negative/A-1+

*Based on the issuer credit ratings on the parent companies, Elavon Financial Services DAC and Royal Bank of Canada, respectively.

Transaction Key Features	
Closing date	March 26, 2018
Collateral	Auto loan receivables under loan contracts with borrowers resident in England, Wales, and Scotland.
Total receivables, discounted receivable balance (£)*	1,250,005,566.84
Country of origination	U.K.
Transaction structure	Two years revolving pool then amortizing; true sale
Redemption profile	Sequential after revolving period, switching to pro rata after additional overcollateralization builds up, subject to compliance with the transaction's performance tests.
Credit enhancement for the class A notes (as a percentage of asset volume)	27.7%, which includes: Subordination: 24.4%, overcollateralization: 2.1%, cash reserve: 1.2%, and excess spread (initial percentage per year): 0.0%
Credit enhancement for the class B notes (as a percentage of asset volume)	20.7%, which includes: Subordination: 17.4%, overcollateralization: 2.1%, cash reserve: 1.2%, and excess spread (initial percentage per year): 0.0%
Cash reserve description	An amount to cover liquidity shortfalls during the life of the transaction and redeem notes at the end of the transaction; amortizing at 1.2% of outstanding asset balance, subject to a floor of 1.0% of the initial discounted pool balance.
Commingling reserve	N.A.

*Based on the pool as of Feb. 28, 2018. N.A.--Not available.

Transaction Summary

S&P Global Ratings has assigned credit ratings to Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2018-1's (Private Driver UK 2018-1) class A and B notes. At closing, Private Driver UK 2018-1 also issued an unrated subordinated loan.

Private Driver UK 2018-1 securitizes a portfolio of U.K. auto loan receivables, which Volkswagen Financial Services (UK) Ltd. originated and granted to its private and small-commercial customer base. This is Volkswagen Financial Services (UK)'s eighth U.K. auto loan transaction. The issuer can purchase further eligible receivables during the two-year revolving period, as long as no early termination events occur.

Credit enhancement for the rated class A and B notes arises from a combination of subordination, overcollateralization, and a cash reserve. 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 assigned rating levels.

Notable Features

The transaction's documented payment structure and capital structure are very similar to its rated predecessor, DRIVER UK Multi-Compartment S.A., Compartment Driver UK six (Driver UK six; see "New Issue: DRIVER UK Multi-Compartment S.A., Compartment Driver UK six," published on Sept. 25, 2017). However, Private Driver UK 2018-1's revolving period has increased to 24 months, from six months for its predecessor. Additionally, the class A and B notes have 2.1% and 1.6%, more available credit support, respectively, than Driver UK six's class A and B notes. Both classes of notes also benefit from higher target overcollateralization levels during the revolving and amortizing stage, compared with Driver UK six.

Changes made to the structure in comparison to preliminary stage are limited to the interest compensation rate (increased to 1.9% from 1.2%), the interest compensation ledger initial amount (increased to £2.0 million from £1.5 million), the cap (increased to £4.0 million from £3.5 million), and the discount rate increment.

Table 1

Transaction Key Features: Credit Enhancement Summary (%)

	Private Driver UK 2018-1	Driver UK six	Driver UK four
	Initial	Initial	Initial
Class A enhancement			
Subordination*	24.4	22.6	21.7
O/C§	2.1	1.8	1.1
Reserve account	1.2	1.2	1.2
Total	27.7	25.6	24.0
Class B enhancement			
Subordination*	17.4	16.1	14.8
O/C§	2.1	1.8	1.1
Reserve account*	1.2	1.2	1.2
Total	20.7	19.1	17.1
Estimated annual excess spread†	0.0	0.0	0.0

*As a Percentage of the initial collateral balance. §As a percentage of the performing collateral balance. †Calculated using the closing WAC. O/C--Overcollateralization. WAC--Weighted-average coupon.

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 (VW). 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 ratings on the notes reflect our assessment of the company's origination policies. There was no back-up servicer at closing. We have reviewed Volkswagen Financial Services (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 1.0% in 2018 before rebounding to 1.3% and 1.5% in 2019 and 2020, respectively. We estimate an unemployment rate of 4.5% in 2018, increasing further to 4.7% and 4.8% in 2019 and 2020. Our consumer price index inflation forecast for 2018 is 2.4%, which will drop to 1.9% in 2019, before rising to 2.0% in 2020 (see "Hope Overcomes Fears As The Fundamentals Propel Europe Forward," published on Dec. 5, 2017, and "European Economic Snapshots For 1Q18 Published," published on Feb. 16, 2018). Rising inflation--which has not been matched by rises in nominal wages--will continue to constrain borrowers' disposable incomes, potentially affecting their ability to service their debts. We therefore believe that the strong U.K. auto securitization performance witnessed to date may begin to weaken. Our credit assumptions reflect this outlook.

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 Volkswagen Financial Services (UK)'s loan portfolio and from related transaction (Driver UK two, Driver UK three, and Driver UK four) 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 base-case assumption for the securitized pool is 1.85% for hostile terminations and 4.5% for voluntary terminations.

We applied our base-case multiples of 4.60x and 3.17x for defaults and of 2.10x and 1.73x for voluntary terminations, at the 'AAA' and 'A+' rating levels, respectively. Multiples were adjusted in comparison to those used for Driver UK six to account for a higher uncertainty associated to a longer revolving period. These stress assumptions account for the remaining uncertainty regarding VW's manipulation of diesel engines. Moreover, we sized stressed recoveries of 40% for all rating levels based on recovery data from Volkswagen Financial Services (UK).

The transaction is also exposed to residual values. Our loss assumption for residual values incorporates a higher market value decline 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.

About 1.76% of the pool (by volume) 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 and market value decline assumptions cover the potential for recoveries to deteriorate due to any reduction in resale values.

Cash flow analysis

We have assessed the transaction's documented payment structure. After the two-year replenishment period, the notes start to amortize sequentially and switch from sequential to pro rata amortization once the notes reach certain documented overcollateralization levels. We also assessed the transaction's purchase price mechanism, which leads to the purchase of assets at a discounted cash flow valuation. 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 assigned 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). The replacement mechanisms in the transaction documents mitigates these risks in line with our current counterparty criteria.

Legal risk

The issuer is bankruptcy remote, in line with our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). We received a legal opinion, which indicated that the sale of the assets would survive the insolvency of Volkswagen Financial Services (UK) as the seller.

In relation to seller related risks, 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 also factored into 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 our ratings in this transaction (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016).

Strengths, Concerns, And Mitigating Factors

Strengths

- Volkswagen Financial Services (UK) is a wholly owned subsidiary of Volkswagen Bank. It has over 16 years' origination and servicing experience. It is currently the Volkswagen group's second-largest retail financing subsidiary, after its German parent company.
- The pool is granular and geographically diversified in England, Scotland, and Wales, comprising 67,642 loans. The pool has low borrower concentration risk, with the top 20 borrowers accounting for about 0.35%.
- As of the pool cut-off date, Feb. 28, 2018, the pool did not contain any contracts with payments that are overdue.
- Under certain conditions related to deteriorating asset performance, the transaction would switch from pro rata to sequential amortization.
- The structure benefits from a fully funded liquidity reserve, initially sized at 1.2% of the initial asset balance and amortizing subject to a floor (minimum level). The liquidity reserve serves primarily as liquidity support to mitigate any temporary shortfalls. Ultimately, it is available to repay the notes at the end of the transaction's life.
- In order to mitigate negative carry, where the cost of borrowing exceeds the return obtained from it, during the revolving period, if the issuer is not able to reinvest its cash in eligible receivables (more than 15% of the performing collateral), the notes would have to start amortizing.

Concerns and mitigating factors

- The transaction's payment structure is not fully sequential. Once certain target overcollateralization levels have been reached (and as long as they are maintained), the issuer pays principal pro rata on the class A and B notes. We have accordingly stressed cash flows for each rating level, which included modeling the potential switch from pro-rata to sequential payment.
- During the revolving period, the pool's credit quality may shift, and the transaction's performance may deteriorate as a result of the substitution of amortizing assets. Additionally, the transaction features a relatively long two-year revolving period along with few replenishment conditions, limited to a cap on used vehicles (which cannot comprise more than 50%) and certain performance triggers (see "Credit enhancement increase condition"), which would stop the replenishment period if the transaction's performance were to deteriorate substantially. Furthermore, our

base-case loss and multiples assumptions take into account deteriorating credit quality due to changes in the portfolio composition.

- Of the pool, 43.45% comprises contracts related to diesel vehicles, and we estimate that 7.5% of the pool comprises non-EURO 6 compliant diesel vehicles. In our view, recent debates in Europe that diesel NO2 emissions are a threat to public health will add further pressure on the resale value of used diesel vehicles. We have considered this risks in our market value decline analysis.
- Unlike most other European auto ABS transactions, the structure does not have any excess spread. Volkswagen Financial Services (UK) matches the transaction's interest receipts and expenses through the discounting mechanism, and any remaining amounts are paid back to Volkswagen Financial Services (UK).
- The cash reserve amortizes, subject to a floor (minimum level). This reduces protection for the noteholders as the transaction nears maturity. We have incorporated the amortizing features in our cash flow model to account for its effect on available credit enhancement.
- There are balloon loans (personal contract plan [PCP] agreement loans), which do not fully amortize with the regular installments, and therefore have a single large payment at contract's end. As a result, the transaction is exposed to market value risk and borrower payment shock. The initial credit enhancement level has been adequately sized to cover the risk of back-loaded losses, and the potential losses on larger contract exposures at the end of the transaction. Moreover, we have applied additional stresses to address market value risk, the risk that the asset's value is lower than anticipated at the end of the contract term for balloon loans.
- The issuer is exposed to potential gross losses from voluntary termination, as permitted by the U.K. Consumer Credit Act. We have considered this when sizing the gross loss base-case assumptions.
- The issuer purchased the assets at a discounted cash flow valuation. Due to this revaluation, cash shortfalls could arise from prepayments, because when borrowers prepay, they only repay the loan's nominal value. To mitigate this loss, the transaction has an interest compensation reserve. The reserve works by taking from the collections, each month, an amount (a percentage to be determined, multiplied by the future discounted receivables balance).

Transaction Structure

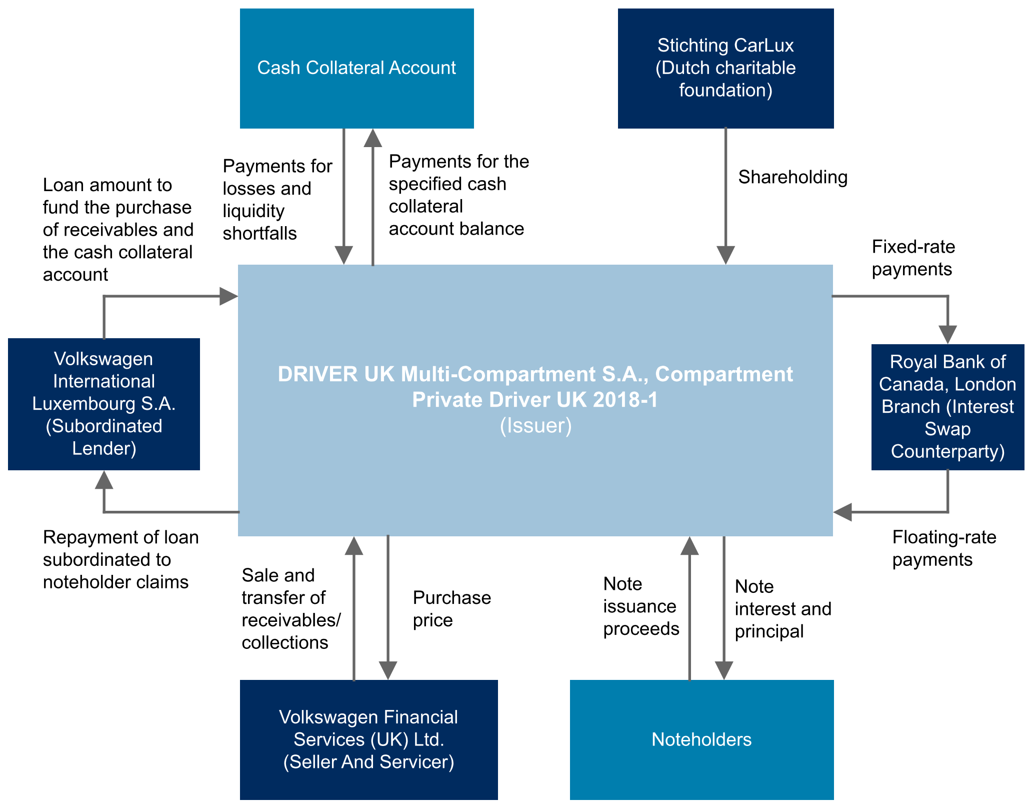
At closing, the issuer purchased a pool of auto loan receivables (see chart 1). The loan receivables are discounted at a fixed rate of interest, so that the effective interest available to the issuer is reduced, leaving no excess spread in the transaction. Therefore, interest receipts are equal to the sum of:

- The weighted-average interest due to the swap counterparty under the terms of the swaps on the class A and B notes;
- The interest due under the subordinated loan;
- The amount due to the interest compensation reserve; and
- Administrative expenses and a servicing fee.

Chart 1

DRIVER UK Multi-Compartment S.A., Compartment Private Driver UK 2018-1

Transaction Structure



Revolving period

During the revolving period, the issuer uses collections from the assets and also the proceeds, if any, from the new issuance of notes and subordinated loan to purchase new receivables from the seller. The transaction revolves for two years, as long as none of the early amortization events occur. The transaction's early amortization events are as follows:

- A servicer replacement event occurs;
- A foreclosure event occurs;
- On two consecutive payment dates, the amounts sitting in the issuer accumulation account exceed 15% of the nondefaulted asset balance;
- On any payment date that falls after three consecutive payment dates following initial issuance, the actual class a overcollateralization percentage, under the transaction documents, is lower than 26.5%;
- Volkswagen Financial Services (UK) is no longer an affiliate of Volkswagen Bank, or any of its successors;

- On any payment date the balance in the interest compensation ledger is zero; and
- A credit enhancement increase condition is in effect.

The transaction documents set out certain eligibility criteria for the initial pool and for the subsequent subpools added during the revolving phase. The main items are as follows:

- Borrowers are resident in England, Scotland, or Wales and are not affiliated with Volkswagen Financial Services (UK). Furthermore, defaulted or insolvent borrowers are excluded.
- Receivables are denominated and payable in pounds sterling.
- No receivable is overdue.
- Receivables come from valid financing contracts under the laws of England, Scotland, and Wales.
- Volkswagen Financial Services (UK) is the legal and beneficial owner of the receivables.
- Receivables were originated during the normal course of Volkswagen Financial Services (UK)'s activities and comply with the Consumer Credit Act.
- The maximum initial term of the receivables is 72 months, and maximum remaining term of the receivables is 70 months.
- Receivables from loans with the same borrower cannot be higher than £500,000.
- At least two installments have been paid on each receivable.
- The finance contract and the related vehicle details have been registered with HP Information Ltd.

In accordance with the transaction's eligibility criteria, after replenishment, the pool must comply with a concentration limit on used vehicles. We took this into consideration in our cash flow analysis when creating the worst potential pool at the end of the revolving period. Under the documentation, used vehicles cannot exceed more than 50% of the portfolio's outstanding discounted principal balance, after the addition of new purchased receivables.

Originator

Volkswagen Financial Services (UK) is a wholly owned subsidiary of Volkswagen Bank, a captive arm of the car manufacturer VW. Volkswagen Financial Services (UK) provides financial services to support all of the Volkswagen group automotive brands (e.g. Volkswagen, Audi, Bentley, SEAT, Skoda, and Porsche). The originator cooperates closely with approximately 800 Volkswagen group dealerships.

Underwriting policy

Volkswagen Financial Services (UK) checks the credit profile of the customer prior to it accepting an application. During the application process it utilizes an automated scoring system. Following this stage of the underwriting process, it then assesses information from the credit reference agencies and data pertaining to the customer profile is then assessed.

Priority of payments

The class A and B notes pay interest in arrears on a designated date each month, at a rate of LIBOR plus a respective margin. This coupon is floored at zero. The first interest payment date (IPD) is on April 25, 2018. The legal final maturity of the notes is in February 2028.

On each monthly IPD, the issuer applies to the priority of payments any asset collections, net swap receipts, and amounts from the cash reserve over the previous month, in the order outlined in table 2.

Table 2

Priority Of Payments (Simplified)	
1	Taxes.
2	Payments to the trustee.
3	Servicer fees.
4	Senior fees, including payments to the corporate services provider, and data protection trustee.
5	Payments to the swap counterparty (except termination payments if the swap counterparty is the defaulting party or downgraded below threshold).
6	Interest on the class A notes.
7	Interest on the class B notes.
8	Top-up cash reserve (only if drawn upon previously).
9	Class A notes' principal (sequential or pro rata).
10	Class B notes' principal (sequential or pro rata).
11	Payments to the swap counterparty not paid above.
12	Interest and principal on the subordinated loan.
13	All remaining amounts back to Volkswagen Financial Services (UK) through a final success fee.

During the revolving period, once the target overcollateralization levels for class A and B notes are reached, the issuer uses the excess proceeds to pay the subordinated loan.

During the amortization period, the issuer redeems the notes sequentially until they reach the target overcollateralization levels. Once the target overcollateralization levels have been reached, the transaction switches to pro-rata amortization from sequential. At any time the transaction can switch back to sequential amortization, if there is a credit enhancement increase condition, if the servicer becomes insolvent, or if the aggregate discounted asset balance falls below 10% of the initial discounted asset balance.

The credit enhancement increase condition are in effect if the cumulative net loss ratio exceeds (i) 0.6%, if the pool seasoning is less than or equal to 12 months, (ii) 1.5%, if the pool seasoning is between 12 months (exclusive) and 21 months (inclusive), (iii) 2.7%, if the pool seasoning is between 21 months (exclusive) and 30 months (inclusive), or (iv) 4.0%, if the pool seasoning is greater than 30 months.

Table 3 describes the initial overcollateralization levels and target overcollateralization levels, both during and after amortization, and once the credit enhancement increase condition is in effect. A target overcollateralization level of 100% implies a permanent switch to sequential amortization from pro-rata, which could happen at any time once a credit enhancement increase condition is in effect, or if the servicer becomes insolvent.

Table 3

Overcollateralization Levels

	Actual overcollateralization (%)	Target overcollateralization levels (%)		
Class	At closing	Revolving period	Amortization period	Credit enhancement increase condition in effect
A	26.5	28.5	32.5	100.0
B	19.5	21.5	25.5	100.0

Cash reserve

The issuer deposited 1.2% of the initial discounted asset balance as a general cash reserve at closing. Amounts deposited in the general cash reserve account are available to mitigate any liquidity shortfalls in the payment of senior costs and expenses, and interest on the class A and B notes. As soon as the aggregate discounted receivables balance has been reduced to zero or on the final maturity date, the issuer can also use the cash reserve to redeem the class A and B notes. The cash reserve amortizes at 1.2% of the outstanding discounted asset balance, subject to a floor, which is the lesser of (i) 1.0% of the initial discounted pool balance; and (ii) the class A and B notes' outstanding amount. The amounts that are released from the reserve are paid directly to the subordinated loan, provided that no credit enhancement increase condition is in effect.

Purchase at the discounted cash flow valuation

The special-purpose entity (SPE) purchases the assets at a discounted cash flow valuation. Due to this revaluation, cash shortfalls could arise from prepayments, because when borrowers prepay, they only repay the loan's nominal value.

In this case, the SPE suffers a loss, which is the difference between the nominal value and the outstanding discounted balance. The earlier the loan prepays, the higher the prepayment loss.

As the issuer purchased the receivables at a discounted cash flow value, prepayments will typically result in a prepayment loss for the SPE, as the prepayments will be at a nominal value. To mitigate this loss, the transaction has an interest compensation reserve. The reserve works by taking from the collections, each month, an amount (equal to a percentage to be determined, multiplied by the outstanding collateral balance). The issuer then uses this amount to credit an interest compensation ledger up to a maximum limit. When a prepayment loss is recorded, then an amount equal to that loss is released from the ledger into the priority of payments. If prepayment losses are greater than what is available in the interest compensation reserve, then a debit is recorded in the ledger, which is to be cleared on subsequent payment dates. After compensating for prepayment losses and the reserve being at target level, the seller directly receives any remaining excess. If the servicer becomes insolvent any remaining excess would remain in the transaction.

At closing, the issuer used a portion of the purchase price to fund the cash reserve.

The issuer has also entered into fixed-to-floating interest swap agreements with Royal Bank of Canada, London Branch to hedge the risk between the assets' fixed-rate interest and the notes' floating-rate interest.

Mitigation Of Seller Risks

Commingling risk

Borrower collections are paid into the servicer collection bank account, which was opened in the name of, and for the benefit of, Volkswagen Financial Services (UK) as the servicer. These collections are not heavily concentrated on any specific monthly day and the majority of collections are received via direct debit. Transfers from the servicer collection bank account provider into the issuer distribution account occur monthly on each payment date, if the monthly remittance condition under the transaction documents is satisfied.

Volkswagen Financial Services (UK) does not provide a declaration of trust for the issuer or security trustee's benefit connected with these collections sitting in the servicer collection bank account.

In order to mitigate potential commingling risk, if the monthly remittance condition is no longer satisfied, i.e., if the servicer becomes ineligible, in accordance with our current counterparty criteria, the servicer would advance an amount of collections to the issuer.

The servicer transfers, within 14 days after the monthly remittance condition is no longer satisfied, but no later than 11 business days of the preceding monthly period, two weeks' worth of expected collections in advance from its own funds. Therefore, the SPE always receives at least one month of expected collections in advance. Twice a month, the servicer nets collections advanced in the previous month against the collections that it has actually received for the relevant two-week period.

Given the biweekly account sweeps after the monthly remittance condition is no longer satisfied, and the servicer's well-established operational capacities in combination with the swift borrower notification requirement implemented in the transaction documents, we have assumed that the transaction's structure mitigates commingling risk.

Setoff risk

Volkswagen Financial Services (UK) is not a deposit taking institution, so there is no deposit setoff risk in the transaction. However, there is setoff risk from borrowers who are also the seller's employees and we have sized for this potential loss when running our cash flow stresses.

Collateral Description

As of Feb. 28, 2018, based on the pool, the collateral pool backing the notes comprises 67,642 loan contracts (see table 4). The discount rate for the pool is 5.1544%. The largest single borrower concentration is 0.02%, and the top 20 borrowers comprise about 0.35% of the pool, by discounted principal balance. The average outstanding loan balance is £18,479.73. There aren't any maintenance components in the contracts sold. Each borrower has paid at least two installments. This transaction contains:

- 93.66% PCP loans that have a larger final installment at the end of the contract. In the case of PCP loans, at contract maturity, the borrower can choose between: (i) retaining the vehicle and making the balloon payment; or (ii) returning the vehicle to the lender, discharging all liability; the issuer is therefore directly exposed to market value risk.

- 6.34% hire purchase (HP) agreements are loans that amortize in equal installments.

Table 4

Collateral Distribution Of The Pool

Pool characteristics	Private Driver UK 2018-1*	Driver UK six*
Originator	Volkswagen Financial Services (UK)	Volkswagen Financial Services (UK)
Country	U.K.	U.K.
Pool cut-off date	Feb. 28, 2018	Aug. 31, 2017
Closing date	March 26, 2018	Sept. 25, 2017
Aggregate discounted principal balance outstanding (£)	1,250,005,566.84	450,001,234.61
Discount rate (%)	5.1544	4.2390
Average remaining discounted loan principal balance (£)	18,479.73	18,395.18
Weighted-average life (months)	30	30
Weighted-average original term (months)	46.25	45.88
Weighted-average remaining term (months)	40.35	40.99
Weighted-average seasoning (months)	5.84	4.84
Percentage of pool discounted principal balance (%)		
Share of PCP	93.66	93.38
Share of HP	6.34	6.62
Balloon/residual value component	49.39	47.20
Share of new vehicles	67.97	69.85
Engine type		
Gasoline	56.55	52.80
Diesel	43.45	47.20
Other	-	-
EA 189 affected engines	1.76	2.75
Collection method - direct debit	99.89	99.84
Private obligor	97.04	97.02
Commercial obligor	2.96	2.98
Audi	51.49	49.94
Volkswagen	30.93	31.60
Skoda	8.79	9.54
Seat	5.64	5.52
Other	3.14	3.41

*The pool is based on an aggregate discounted principal balance. PCP--Personal contract plan. HP--Hire purchase.

The balloon payment is a payment obligation of the borrower, who can settle it:

- Keeping the vehicle and paying in cash;
- Selling the vehicle to the car dealer for a purchase price that equals the balloon payment; or
- Refinancing the balloon payment by entering into a new loan with Volkswagen Financial Services (UK).

Credit And Cash Flow Analysis

Our rating analysis includes an assessment of the credit risk inherent in the transaction. We analyze various stress scenarios and their effects on the transaction's cash flow by applying our European auto ABS criteria.

Credit Analysis

Managed portfolio

Volkswagen Financial Services (UK)'s managed portfolio shows a stable performance in delinquency. The balance of 90+ days delinquent contracts as a percentage of the end of month outstanding balance increased to 0.18% in December 2017 from 0.16% in December 2016.

Table 5

Volkswagen Financial Services (UK)'s Managed Portfolio

	Year ended Dec. 31							
	2017*	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
No. of total retail contracts outstanding at end of the period (excluding terminations; mil. £)	11,160	9,796	8,209	6,621	5,205	4,081	3,261	2,695
Delinquencies (%)§								
31-60 days	0.31	0.22	0.19	0.22	0.29	0.34	0.32	0.40
61-90 days	0.13	0.11	0.10	0.12	0.14	0.14	0.15	0.16
90-plus days	0.18	0.16	0.26	0.21	0.25	0.19	0.26	0.33
Total Delinquencies	0.62	0.48	0.55	0.54	0.68	0.67	0.73	0.89
Country index 90-plus days (if available)	0.13	0.12	0.17	0.10	0.17	0.08	0.11	0.17

*As of October 2017. §As a percentage of the month-end receivables balance.

Gross losses and gross loss multiples

We received from the originator quarterly static gross loss and net loss data from September 2002 to October 2017. Charts 2 to 5 show aggregated gross and net losses after loans were classified by the servicer as hostile terminated or voluntary terminated for the whole pool (HP and PCP loans for new and used vehicles).

Chart 2

Cumulative Gross Loss Curves: HT Total Pool

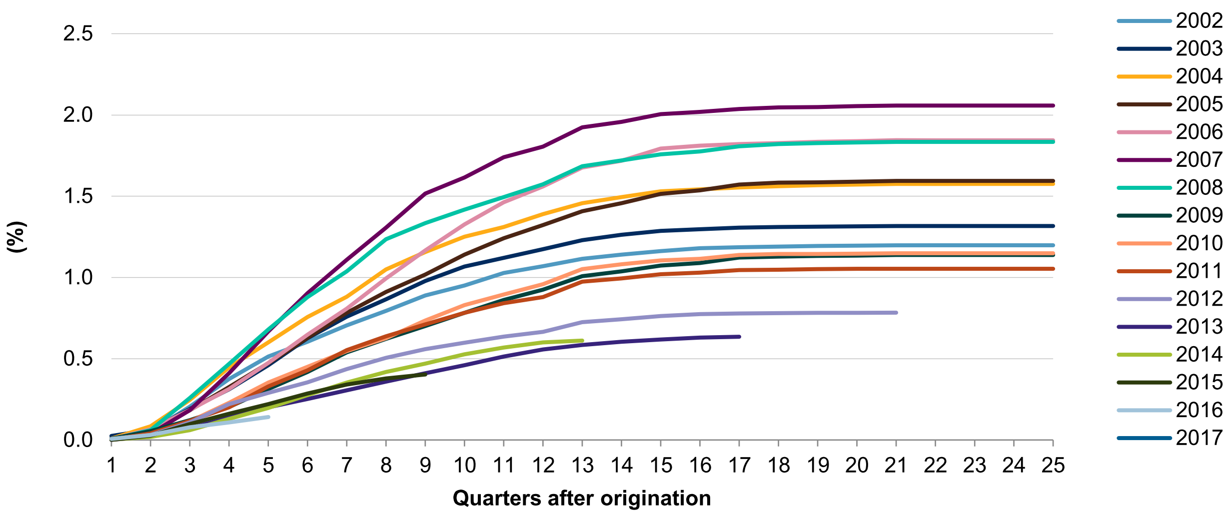


Chart 3

Cumulative Gross Loss Curves: VT Total Pool

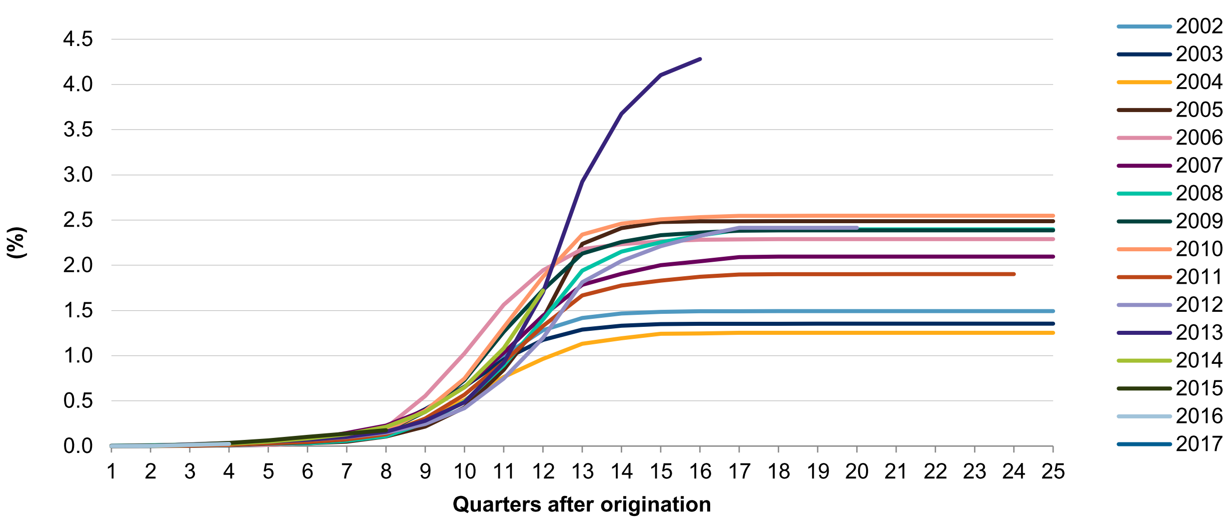


Chart 4

Cumulative Net Loss Curves: HT Total Pool

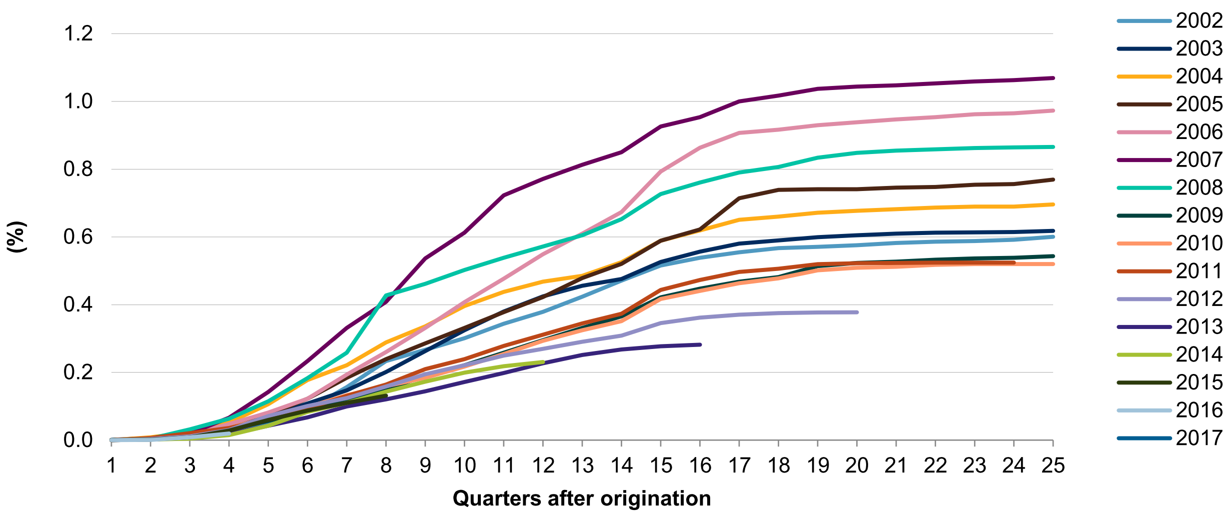
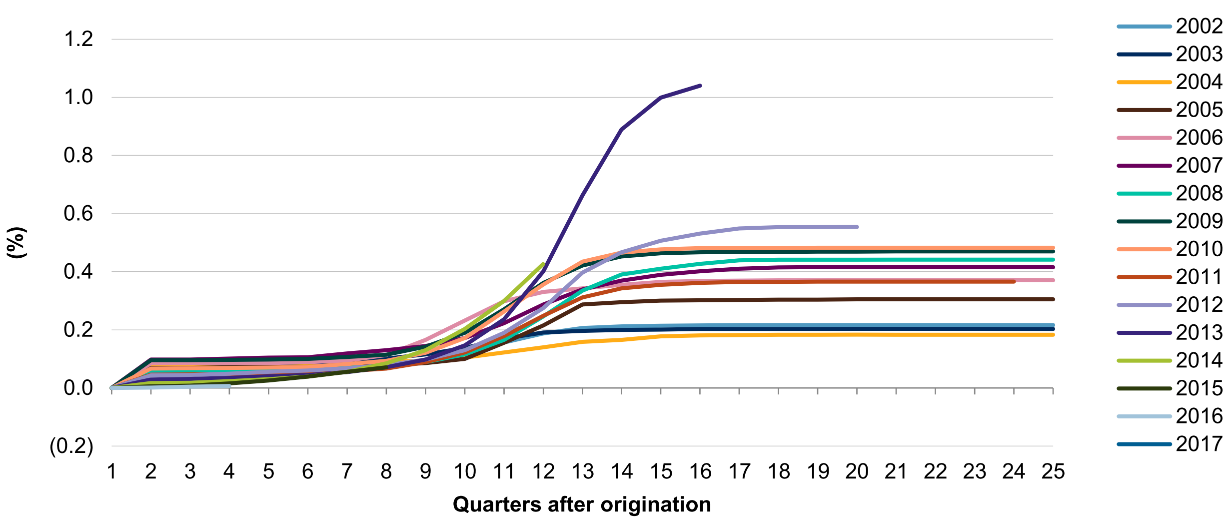


Chart 5

Cumulative Net Loss Curves: VT Total Pool



We have analyzed four different subpools depending on the type of vehicle (new or used), and the type of loan (HP or PCP).

We set our gross loss base-case assumptions for a total of eight subpools split between loan type (HP or PCP), vehicle type (new or used), and gross loss type (hostile terminated or voluntary terminated). When sizing our base-case gross loss assumptions we took into consideration our latest U.K. economic outlook and the performance of the outstanding

Driver UK transactions. To incorporate the risk of portfolio deterioration through adverse replenishment, we have constructed a worst-case pool based on the portfolio concentration limits dictated by the eligibility criteria and have calculated the weighted-average gross loss base case for the total pool based on this, rather than on the pool composition. We set our gross loss multiples taking into consideration the originator's experience and the quality of the data provided. Table 6 summarizes our credit assumptions.

Table 6

Cumulative Gross Loss Rate and Cumulative Recovery

Subpools			Base-case gross losses (%)		Stressed recoveries for HT and VT (%)	
	Closing pool (%)	Worst pool composition (%)	HT	VT	HT	VT
PCP new	66.86	50.00	1.30	4.00	40.00	40.00
PCP used	26.80	50.00	2.40	5.00	40.00	40.00
HP new	1.12	-	1.30	1.00	40.00	40.00
HP used	5.22	-	1.70	1.70	40.00	40.00
Weighted-average closing pool			1.58	4.08	40.00	40.00
Weighted-average worst pool composition			1.85	4.50	40.00	40.00

HP--Hire purchase agreements. PCP--Personal contract plan. HT--Hostile terminated. VT--Voluntary terminated.

The loss numbers in table 6 comprise both hostile and voluntary terminations. We analyzed both types of terminations separately. Under HP and conditional sale agreements (PCP), losses incurred through voluntary terminations are borne through the obligor's option, arising under the U.K. Consumer Credit Act, to hand the car back once the obligor has paid 50% of the total cost of credit. The risk of voluntary termination generally arises when obligors are in negative equity.

In relation to hostile terminations, borrowers' credit performance has slightly improved during the last couple of years; we consider that the U.K. auto securitization performance witnessed to date may begin to weaken due to the macroeconomic environment. Our credit assumptions reflect this outlook. We have maintained our assumptions for each subpool in comparison to Driver UK six.

On the other hand, the performance of the voluntary terminations subpool has deteriorated in recent years, in our view. Losses and the frequency of contracts exercising the right to voluntary terminate have increased over the past two years. In our opinion, this is mainly due to the used car market worsening performance. The rapid expansion of the new car market after the financial crisis, particularly through PCP lending, is translating into an increasing number of used vehicles now being returned, therefore putting pressure in the used car market. Historical information for voluntary terminations that the seller provided to us confirmed this trend, and shows deterioration for the younger cohorts. We have maintained the voluntary terminations assumptions for each subpool that we used in our analysis of Driver UK six.

We have adjusted our view of the worst pool composition due to a longer revolving period in comparison with Driver UK six. Under our view of the worst pool composition, our gross loss base-case assumption for the securitized pool is 1.85% for hostile terminations, and 4.50% for voluntary terminations.

We have assumed a gross loss multiple for hostile terminated receivables of 4.60x at a 'AAA' rating level and 3.17x at a 'A+' rating level. We have assumed a multiple of 2.1x for voluntary terminated receivables at a 'AAA' rating level and 1.73x at a 'A+' rating level. We stressed PCP residual value risk as an additional loss to the figures in table 6.

Table 7

Loss Multiples

Rating level	Hostile terminations-gross loss multiple	Voluntary terminations-gross loss multiple
AAA (sf)	4.60	2.10
A+ (sf)	3.17	1.73

Residual value analysis

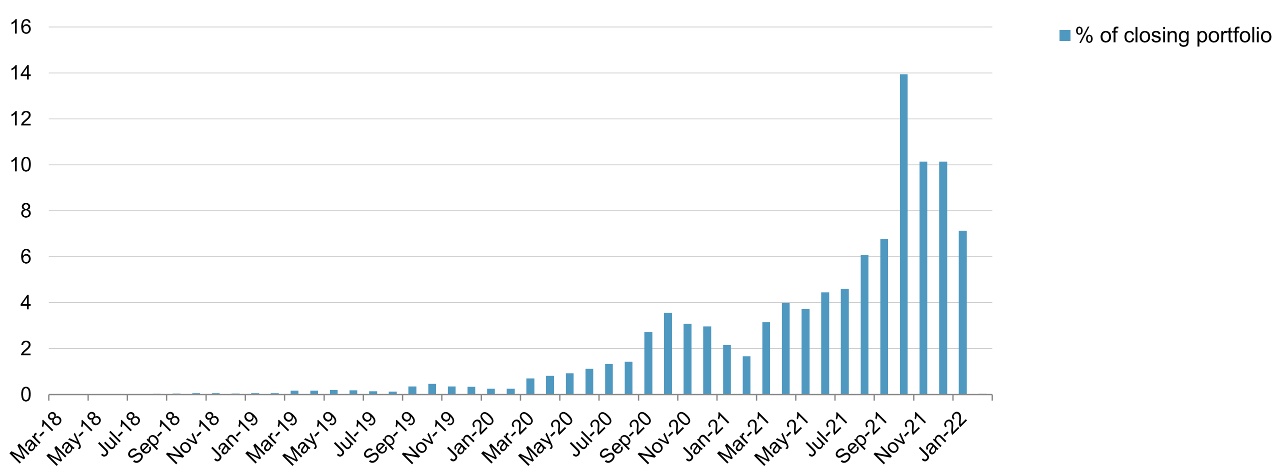
In addition to the hostile termination (credit losses) and voluntary termination losses applied as outlined in table 6 above, we applied separate residual value losses to the balloon instalments of the PCP loans that remain after considering prepayments and the other losses. If a car dealer does not meet its obligation under the dealer repurchase agreement, the transaction would be fully exposed to residual value risk.

We assumed an adjusted market value decline of 41.6% in our 'AAA' rating scenario and of 31.1% in our 'A+' rating scenario. These assumptions build mainly on our assessment of the country characteristics, a softening of diesel vehicles market value, fleet composition, and the originator residual value setting policy, in addition to our standard market value decline assumption. We also applied a risk frequency of 90%.

Therefore, we applied a residual value loss of 37.42% in the 'AAA' rating scenario and 25.36% in the 'A+' rating scenario on the residual value portion.

Chart 6

Securitized Portfolio
Contract Balloon Maturity Profile



Recovery timings and recovery rate haircuts

Recoveries comprise of a combination of vehicle sale proceeds and ancillary payments (invoices, guarantees, etc.) received from the borrowers. The originator has provided monthly static cumulative recoveries data from January 2005 to October 2017. In a similar manner to gross losses, we have assigned base-case recoveries to eight subpools split between loan, vehicle, and gross loss type as shown in table 6.

We have set our stressed assumptions with a recovery period of 12 months. Under our assumptions, amounts will be recovered in month 12.

No title over the equipment

The issuer does not have any rights over the vehicles itself, but only in connection with the sale proceeds of the assets. Accordingly, in case of seller insolvency, the issuer is reliant on any insolvency official taking appropriate steps to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency official does not have any financial incentive to take such steps as it does not benefit the bankruptcy estate's creditors.

This risk is mitigated by the inclusion, at a senior level in the priority of payments, of an insolvency administrator's incentive fee.

In our analysis, to account for this risk, we considered that 4.5% of recovery proceeds would have to be paid to the insolvency administrator. We consider this level is sufficient to incentivize the insolvency official.

Cash flow analysis

In our cash flow modeling, we did not consider the revolving period, and so we analyzed the transaction's cash flows only during the amortization stage.

Table 8

Cash Flow Assumptions

	Class A	Class B
Scenario	AAA (sf)	A+ (sf)
HT cumulative gross loss (%)	8.51	9.45
VT cumulative gross loss (%)	5.86	7.79
Recession start	Closing	Closing
HT and VT cumulative gross loss curve 1 (%) (evenly distributed across 30 months)	1/30 per period	1/30 per period
HT and VT cumulative gross loss curve 2 (%) (months 7.5/15/22.5/30)	20/20/30/30	20/20/30/30
Recoveries (%)(40% Recovery rate adjusted by purchase price as a percentage of par)	39.2	39.2
Recovery lag (months)	12	12
Residual loss (applied over the survivor balloon portion after prepayment and defaults) (%)	37.42	25.36
Residual realization lag (months)	0	0
Weighted-average coupon (%)	5.1544	5.1544
Weighted-average coupon after compression/weighted-average coupon compression (%)	5.1544	5.1544

Table 8

Cash Flow Assumptions (cont.)

	Class A	Class B
Servicing fee (%)	1	1
Fixed fees (£)	100,000	100,000
Other fees (insolvency administration incentive fee, as a percentage over recoveries [HTs, VTs, and RVs]	4.5	4.5
CPR high (%)	30	30
CPR low (%)	0.5	0.5
Interest up	Up from current level to 14% in 2% monthly increase	Up from current level to 14% in 2% monthly increase
Interest down	At the current level	At the current level
Interest flat	From current level to 0% in 2% monthly decrease	From current level to 0% in 2% monthly decrease
Commingling loss (%)	0	0
Set-off loss (%) (employee set off, other risks) applied on day 1 over closing balance	0.56	0.56
Balloon/amortizing share (%)	52.7/47.3	52.7/47.3

HT--Hostile termination. VT--Voluntary termination. RV--Residual value. CPR--Constant prepayment rate.

We applied stressed losses equally for a period of 30 months. We stressed the prepayment rates and ran interest rate scenarios at the current levels, down to 0% and up to 12%. The SPE purchases the assets at a discounted cash flow valuation. We have also considered losses coming from prepayments due to asset price revaluations.

We also tested a negative interest rate scenario on the interest rate swaps, as the floating leg of the swaps does not contain a floor. We considered the exposure to negative interest rates for the amounts held in the issuer accounts, mainly collections and the cash reserve.

We have assumed asset yield to be equal to the discount rate of 5.1544% set out in the transaction documents, and have not sized any further coupon compression.

The model incorporates the payment structure including the sequential/pro rata amortization feature of the notes and the cash reserve's amortizing nature.

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 'AAA' and 'A+' rating levels, respectively.

Our ratings address not only the availability of funds for the full payment of interest and principal, but also the timeliness of these payments in accordance with the terms of the rated securities.

Scenario Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses,
- Results of the effects of the stresses on ratings, and

- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European auto and consumer ABS transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate, given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the transition of a rating on the notes (see table 9).

Table 9

Scenario Stresses		
Rating variable	**Scenario 1 (relative stress to base case)**	**Scenario 2 (relative stress to base case)**
Gross loss rate	30.0	50.0
Recovery rate	(30.0)	(50.0)
Constant prepayment rate	(20.0)	(33.3)

We intend our base-case assumptions for each transaction to be best estimates of future performance for the asset pool. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables during the life of the transaction. The sensitivity of rated notes in each transaction will differ depending on these factors, in addition to structural features of the transaction including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we apply occur at closing, and apply gross losses based on our expectation of a cumulative default curve for the pool.

The second stage applies our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment.

In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes, given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, we intend the results of this modeling to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modelling. Tables 10 and 11 show the implied base-case stresses and scenario stress results.

Table 10

Scenario Stresses

Horizontal stress of 12 months

Rating variable	Base-case	Scenario 1	Scenario 2
Gross loss rate (HT)	1.85	2.41	2.78
Recovery rate (HT)	40	28.00	20.00
Gross loss rate (VT)	4.5	5.85	6.75
Recovery rate (VT)	40	28.00	20.00
Constant prepayment rate	10.00	8.00	6.70

HT--Hostile terminated. VT--Voluntary terminated.

Table 11

Scenario Stress Analysis: Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AAA (sf)	AAA
	B	A+ (sf)	A-
Scenario 2	A	AAA (sf)	AAA
	B	A+ (sf)	BBB-

Where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee can call an event of default. This could lead to multiple events, such as the swap terminating (with the issuer needing to make termination payments), and the post-enforcement priority of payments being applied. All of these events would have an effect on the transaction's cash flows. For the purposes of the analysis above, we make a simplified assumption that the trustee will not call an event of default.

Monitoring And Surveillance

As part of our ongoing surveillance of this transaction, we regularly assess:

- The performance of the underlying pool, including defaults, delinquencies, and prepayments;

- Progress on the implementation of the technical measures in the affected vehicles, including any change to the fuel economy figures, performance figures, or CO2 or noise emissions, and any effect on resale values;
- The supporting ratings in the transaction; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Related Criteria

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- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009
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- German Diesel Ban Brings Bad Air For Carmakers And Auto ABS, Feb. 28, 2018
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