DBRS Ratings Limited (DBRS) has finalised provisional ratings assigned to the Class A Notes and the Class B Notes (the Notes) issued by Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK five (the issuer). The issuer is a segregated compartment of a public company with limited liability (société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg, and established for the purpose of issuing asset-backed securities as permitted under Luxembourger law.

The transaction represents the issuance of notes backed by a pool of approximately GBP 438 million of receivables related to auto loan contracts (the receivables or collectively the portfolio) granted by Volkswagen Financial Services (UK) Limited (VWFS, the seller or the originator) to borrowers in the England, Wales and Scotland. The securitised portfolio comprises receivables related to both hire purchases (HPs) and personal contract purchases (PCPs) granted for the acquisition of either new or used motor vehicles. Particularly under PCPs, the receivables comprise residual value (RV) risk deriving from the option of borrowers to hand back the financed vehicle under specific circumstances as specified below in this paper.

The transaction benefits from a six-month revolving period, during which collections related to the amortisation of the portfolio will be applied towards the purchase of additional receivables (subject to eligibility criteria being satisfied) that the seller may offer. During the revolving period the notes will not amortise and the principal collections not used to purchase additional receivables will be accumulated on the issuer accounts; however, on the revolving period maturity date or upon occurrence of an early amortisation event, if earlier, the notes will amortise.

As typical in the transactions of the various Driver Programmes across Europe, amortisation proceeds on a mixed sequential and pro rata basis where the Class A Notes will initially be repaid in priority to the Class B Notes but amortisation may switch to a pro rata basis (with Class B and Class A repaid at the same time), provided that the transaction overcollateralisation targets are met and some performance triggers have not been breached.

The receivables are serviced by VWFS (the servicer).
Transaction Parties

Roles | Counterparty | Rating
--- | --- | ---
Issuer | Driver UK Multi-Compartment S.A., Acting For and on Behalf of its Compartment Driver UK five | N/A
Originator / seller / servicer | Volkswagen Financial Services (UK) Limited | Private Rating
Co-arranger | Volkswagen Financial Services AG | Private Rating
Co-arranger / Joint Lead Managers | BNP Paribas SA, London branch | AA (low) / Stable (*) // R-1 (middle) / Stable (*)
Account Bank / Cash Administrator / Paying Agent / Interest Determination Agent | Citibank N.A., London Branch | A (high) / Stable (*) // R-1 (middle) / Stable (*)
Subordinated Lender | Volkswagen International Luxemburg S.A. | N/A
Hedging Counterparty | Credit Agricole Corporate and Investment Bank | Private Rating
Data Protection Trustee | Wilmington Trust SP Services (Frankfurt) GmbH | N/A
Security trustee | Citigroup Global Markets Deutschland AG | N/A
Registrar | Citigroup Global Markets Deutschland AG | N/A
Corporate Services Provider | Circumference FS (Luxembourg) S.A., | N/A
Shareholder | Stichting CarLux | N/A
Joint Lead Managers | SMBC Nikko Capital Markets Limited | N/A
Manager | DZ BANK AG Deutsche Zentral-Genossenschaftsbank | A (high) / Stable // R-1 mid / Stable
Manager | Crédit Agricole Corporate and Investment Bank | Private Rating
Manager | MUFG Securities EMEA plc | N/A

Note: (I) Issuer Rating; (S) Senior Debt Rating; (C) Critical Obligations Rating; if not specified the rating is a Senior Debt Rating or an Issuer Rating. (*) Ratings assigned to the branch’s headquarters.

Relevant Dates

Term | Description
--- | ---
Issue Date | 27 March 2017
Portfolio Cut-Off Date | 28 February 2017
First Payment Date | 25 April 2017
Collection Periods | From the portfolio cut-off date to the end of March 2017 and each calendar month thereafter.
Payment Dates | 25th day of each month, or the first preceding business day after the 25th calendar day of the month
Revolving Period Maturity Date | 25 September 2017
Legal Final Maturity Date | 25 July 2025
Portfolio Summary (as at 28 February 2017)

| Aggregate Discounted Receivables Balance | GBP 438,146,480 |
| Net Discount Rate                      | 4.2%            |
| New / Used                             | 74.09% / 25.91% |
| HP / PCP                               | 6.38% / 93.62%  |

Asset Class: Auto ABS (with residual value)
Governing Jurisdiction: England and Wales, Scotland
Sovereign Entity: United Kingdom of Great Britain and Northern Ireland
Sovereign Rating: AAA

Rating Considerations

• The transaction represents the securitisation of automotive loan contracts granted for the purchase of new and used motor vehicles. All financing contracts are governed by the laws of England and Wales, or Scotland, and comprise HP and PCP products.

• With PCP contracts, borrowers have the option to return the financed vehicle to VWFS at maturity as a full and final settlement, providing direct residual value risk to the Issuer.

• Where loan contracts fall under the scope of the Consumer Credit Act 2006 (regardless of whether the contracts are HP or PCP), each borrower is allowed to unilaterally terminate their contract provided that they hand the vehicle back to VWFS in good or otherwise acceptable condition, and have repaid at least 50% of the total amount due.

• All underlying contracts are fixed rate whilst floating-rate notes have been issued. Interest rate risk arising from the mismatch is mitigated through interest rate swaps on the Class A and Class B notional.

• The transaction has a six-month revolving period, during which the Issuer is expected to purchase additional receivables that VWFS may offer, given that the offered receivables meet the eligibility criteria outlined in the transaction documents and some performance triggers are not breached.

• At the end of the revolving period, the Class A Notes will start their amortisation in priority to Class B Notes. Once the Class A overcollateralisation (OC) percentage reaches 30%, the Class B Notes begin and continue to amortise with the target to reach and maintain the Class B OC percentage at 22.4% and the Class A OC at 30%. Collections are thus allocated to the Class A and Class B principal on a pro rata basis unless specific performance triggers are breached.

• Upon breach of some performance triggers the amortisation switches back to strictly sequential and all excess is diverted toward repayment of the notes.

Strengths

• VWFS is a well-established and financially strong captive finance lender in the United Kingdom and an experienced servicer. DBRS conducted and maintains a private rating on VWFS and publically rates Volkswagen AG (VW), VWFS’s ultimate parent company, at BBB (high) with a Negative trend.

• The Cash Collateral Account includes a liquidity reserve (General Cash Collateral Account) that is made available to the priority of payments to cover senior expenses, swap payments, Class A and Class B interest. The liquidity reserve is set at 1.2% of the initial discounted receivables balance with a floor at 1% of the initial discounted receivables balance.

• Receivables are transferred at a discounted value calculated by applying the discount rate.

• Part of the portfolio yield is set aside and retained to be made available to the issuer to cover interest shortfalls resulting from early settlements of receivables during an immediately preceding monthly period.

• DBRS was provided with detailed quarterly vintage cumulative net loss, gross loss and recovery performance data grouped by New/Used, HP/PCP, and Voluntary Termination (VT)/Hostile Termination (HT). Based on this information it was possible for DBRS to estimate its expected probability of default (PD) and loss given default (LGD) assumptions. The static data showed stable and low credit loss performance trends.

• DBRS was also provided with PCP loan-by-loan realisation data that made it possible to estimate RV losses.
Challenges and Mitigating Factors

- Approximately 94% of the provisional pool are PCP contracts. The Issuer may be exposed to residual value risk if a borrower exercises their right to return the financed vehicle at contract maturity.

  Mitigants: DBRS's assumptions, in accordance with the respective methodology, have assumed a residual value decline and a conservative turn-in rate.

- VWFS is entitled to commingle collections with funds standing in its own accounts and transfer collections on a monthly basis. Collections may be commingled with VWFS’s estate upon an insolvency event.

  Mitigants: Following specified rating trigger downgrades related to VWFS's parent company, Volkswagen Financial Services AG, VWFS is obliged to post collateral related to expected collections into the monthly collateral account (an account held with the account bank).

- Since the Issuer is expected to purchase additional receivables during the revolving period, the pool composition at the end of the revolving period may differ in comparison to the issue date.

  Mitigants: Eligibility criteria outlined in the transaction documents provide limited concentration limits, but VWFS’s consistent origination was analysed and was a reliable support for the analysis.

Transaction Structure

Transaction Summary

<table>
<thead>
<tr>
<th>Currencies:</th>
<th>Issuer’s assets and liabilities are denominated in British Pounds (GBP).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant Jurisdictions:</td>
<td>Loan contracts are governed by the law of England and Wales or by the law of Scotland. The transaction documents are governed by the law of England and Wales and the issuer is incorporated under the law of the Principality of Luxembourg.</td>
</tr>
<tr>
<td>Interest Rate Hedging:</td>
<td>Issuer’s Pay Leg Issuer’s Receive Leg</td>
</tr>
<tr>
<td>Class A Notes</td>
<td>Class A Notes</td>
</tr>
<tr>
<td>0.93%</td>
<td>1-month GBP-Libor + 0.45%</td>
</tr>
<tr>
<td>Class B Notes</td>
<td>Class B Notes</td>
</tr>
<tr>
<td>1.30%</td>
<td>1-month GBP-Libor + 0.90%</td>
</tr>
<tr>
<td>Basis Risk Hedging:</td>
<td>N/A</td>
</tr>
<tr>
<td>Reserve (Cash Collateral Account)</td>
<td>Provides liquidity support to the structure.</td>
</tr>
<tr>
<td>Initial Amount</td>
<td>1.2% of the initial portfolio</td>
</tr>
<tr>
<td>Target Amount</td>
<td>GBP 5,300,000</td>
</tr>
<tr>
<td>Corresponding to 1.2% of the portfolio</td>
<td></td>
</tr>
<tr>
<td>Step-up</td>
<td>N/A</td>
</tr>
<tr>
<td>Amortisation</td>
<td>Yes</td>
</tr>
<tr>
<td>Maintained at 1.2% of the portfolio</td>
<td></td>
</tr>
<tr>
<td>Floor</td>
<td>GBP 4,380,000</td>
</tr>
<tr>
<td>Corresponding to 1% of the portfolio</td>
<td></td>
</tr>
</tbody>
</table>
Counterparty Assessment

**Account Bank**
Citibank N.A., London Branch (Citi) is the account bank, the cash administrator and the paying agent for the transaction and DBRS publicly rates Citibank N.A.'s long-term senior debt at A (high) with a Stable trend. DBRS concluded that Citi meets DBRS's criteria to act in such capacities. The transaction documents are expected to contain downgrade provisions with respect to Citi's role as account bank, consistent with DBRS criteria.

**Hedging Counterparty**
Crédit Agricole Corporate and Investment Bank (CA CIB) has been appointed as swap counterparty. DBRS privately rates CA CIB and concluded that it meets DBRS's minimum criteria to act in such capacity. The transaction documents are expected to contain downgrade provisions relating to the swap counterparties that are consistent with DBRS's criteria.

**Servicing of the Portfolio and Collections**
VWFS is the originator of the auto loan contracts and has been appointed to service the portfolio on behalf of the issuer. DBRS privately rates VWFS and has concluded that it meets DBRS's minimum criteria to act as a primary servicer at the rating assigned to the rated notes. VWFS receives an annualised servicing fee equal to 1% per annum, multiplied by the aggregate discounted principal balance as at the first day of the preceding Monthly Period.

VWFS as the servicer collects payments from borrowers and other proceeds related to the receivables (collections). Collections include all payments received from customers by VWFS in respect of the purchased receivables, including:
1. Auto loan instalments,
2. Insurance proceeds,
3. Excess mileage charges (if applicable),
4. Vehicle sale proceeds and
5. Other recoveries.
However, collections exclude, among other things, the following components:

1. The VAT component on payments received by VWFS,
2. Credit protection, asset value, or other insurance premiums payable by borrowers to relevant insurers via VWFS,
3. Any amounts payable by a borrower with regard to refurbishment, wear and tear, and other similar types of charges and recoveries (excluding excess mileage charges)
4. Any option to purchase fee, and
5. Cash flows from maintenance contracts.

VWFS receives payments from securitised borrowers into its collection accounts held and maintained with independent third-party banks in its own name. The transaction documentation allows VWFS to deposit monthly collections to the Issuer’s accounts (held and maintained with the account bank) on or about each payment date, so long as rating requirements regarding VWFS’s parent company, Volkswagen Financial Services AG, are met.

**Clean-Up Call Option**
The Seller has the option to repurchase all of the outstanding assigned receivables on any distribution date when the aggregate discounted principal amount outstanding of all receivables is less than 10% of the initial portfolio.

**Priority of Payments**
The issuer applies all available funds in accordance with a single priority of payments (Order of Priority).

Available funds include:

- Collections collected by VWFS;
- The liquidity reserve;
- Net swap receipts;
- After the end of the revolving period, any transfers from the accumulation account to the distribution account;
- The interest compensation order of priority amount minus the interest compensation amount.

The interest compensation amount is an element of the discount rate available to compensate for interest shortfalls suffered by the issuer as a result of early settlements of receivables during a relevant monthly period, and is calculated as a fixed percentage of the discounted receivables balance. The interest compensation order of priority amount is the aggregate amount for all contracts that have been subject to early settlement during an immediately preceding Monthly Period.

**Pre-Enforcement Interest Priority of Payments**

1. Senior issuer expenses;
2. Net swap payments, including any termination payment payable to the swap counterparty except when the swap counterparty is the defaulting party;
3. Class A interest;
4. Class B interest;
5. To restore the liquidity reserve up to its target amount of 1.2% of the aggregate discounted receivables balance;
6. On a pro rata and pari passu basis, (a) the amortisation amount to each amortising series of Class A Notes and (b) the accumulation amount into the accumulation account with respect to each revolving series of Class A Notes to align the outstanding of the notes to maintain the Class A overcollateralisation at its target level;
7. On a pro rata and pari passu basis, (a) the amortisation amount to each amortising series of Class B Notes and (b) the accumulation amount into the accumulation account with respect to each revolving series of Class B Notes to align the outstanding of the notes to maintain the Class A overcollateralisation at its target level;
8. Any other payment to the swap counterparty not payable under item (2) above;
9. Interest on the Subordinated Loan;
10. Principal on the Subordinated Loan until repaid;
11. All remaining excess to VWFS.
During the revolving period, amounts credited to the accumulation account may be used to purchase additional receivables, subject to eligibility criteria outlined in the transaction documents. The repayment of the notes is determined by the target overcollateralisation percentages for each class of Notes, which are:

<table>
<thead>
<tr>
<th>Target Overcollateralisation</th>
<th>Class A</th>
<th>Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revolving Period</td>
<td>26%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Amortisation (but prior to a Credit Enhancement Increase Condition)</td>
<td>30%</td>
<td>22.4%</td>
</tr>
<tr>
<td>Following a Credit Enhancement Increase Condition</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

A credit enhancement increase event is in occurrence if Cumulative Net Loss Ratio exceeds the following values:

- For any payment date before or during March 2018: 1.5%
- For any payment date from April 2018 (inclusive) and prior to or during December 2018: 2.7%
- For any payment date after December 2018: 4.5%

**Early Amortisation Event**

The transaction will begin to amortise if any of the following occur:

- The servicer is replaced;
- On two consecutive payment dates the accumulation account exceeds, in aggregate, 15% of the discounted receivables balance;
- On any payment date falling after three consecutive payment dates following the issue date, the Class A actual overcollateralisation percentage is lower than 22.4%;
- The seller fails under any of its obligations and failure remains unremedied;
- VWFS ceases to be an affiliate of Volkswagen Financial Services AG or any successor thereto;
- A Credit Enhancement Increase Condition is in effect;
- The balance on the Interest Compensation Ledger is equal to zero on any payment date;
- The occurrence of a foreclosure event.

Following a default or insolvency event of the issuer (Foreclosure Event), the issuer will switch to the following priority of payments.

- Senior issuer’s expenses;
- Net swap payments, including any termination payment payable to the swap counterparty except when the swap counterparty is the defaulting party;
- Class A interest;
- Class A principal until repaid in full;
- Class B interest;
- Class B principal until repaid in full; and
- Junior items.

As the priority of payments post-foreclosure occurs when the Issuer is insolvent, it is not usually relevant in any rating scenario.
Origination and Servicing

DBRS conducted an operational review of VWFS's auto finance operations in March 2016 in Milton Keynes, UK. DBRS considers VWFS's origination and servicing practices to be consistent with those observed among other auto finance companies.

VWFS, established in the UK in 1994, is a wholly owned subsidiary of Volkswagen Financial Services AG (the Group) which in turn is a subsidiary of Volkswagen AG (VW). VWFS provides financing for the purchase and lease of VW brands throughout the UK. VWFS moved to its headquarters in Milton Keynes in 1999 and subsequently into new headquarters in 2015. The company launched the UK branch of VW Bank GmbH in 2005 and achieved GBP 1 billion of new lending in 2006. Significant growth has continued since 2006 with VWFS becoming the fastest-growing finance company in the UK and reached over GBP 7 billion in total lending in 2015.

DBRS does not publicly rate VWFS or the Group although a private rating has been assigned to the Group.

Collateral Summary

The receivables assigned to the issuer by the seller comprise of claims against borrowers in respect of payments due under financing contracts for the provision of credit for the purchase of new and used motor vehicles. The loan contracts have been granted by VWFS to private and commercial borrowers in the United Kingdom, and arise under fixed interest rate agreements, with each instalment comprising interest and principal components. The initial receivables purchase price (and any additional receivables purchase price) paid by the issuer to VWFS is the net present value of the receivables discounted by a fixed discount rate.

VWFS offers two types of loans to both retail and corporate clients. HP agreements, which are typically equal instalment amortising loans where the borrower owns the vehicle once a symbolic “option to purchase” fee is paid upon maturity, and PCP agreements, which have an additional larger balloon instalment at the end of the contract. With PCP contracts, the borrower can either settle the contract with this balloon payment, thereby purchasing the vehicle, or return the vehicle to VWFS in full and final settlement of the contract agreement. Return of the vehicle is subject to the vehicle being in a condition acceptable to VWFS.

Both HP and PCP contracts may be regulated under the UK Consumer Credit Act. Under this provision, borrowers are entitled to exercise their option to return the financed vehicle and terminate their contract without further obligation (known as a voluntary termination, or VT), given that 50% of the total amount due has been repaid. Charges may be applied if the vehicle is not returned in a satisfactory state or the vehicle has completed a mileage greater than that outlined in the loan contract.

The issuer acquires full legal title over the purchased vehicles along with the assignment of receivables. The issuer is exposed to residual value risk for receivables related to PCP contracts, since the borrower may return the car at maturity.

During the initial six months (the revolving period), the Issuer is expected to purchase additional receivables through values credited to the accumulation account deriving from the amortisation of the securitised portfolio. Additional purchased receivables are subject to eligibility criteria outlined in the transaction documents. The revolving period may be terminated early if some performance triggers are breached.

Eligibility Criteria, Representations and warranties

Receivables assigned on the issue date meet certain criteria specified in the transaction documents including, amongst others:

1. All financing contracts are entered into exclusively with borrowers whose country of residence is or, in the case of corporate entities, have their registered office in England, Scotland or Wales;
2. None of the borrowers is an affiliate of VWFS;
3. No bankruptcy or insolvency proceedings are initiated against the borrower (according to VWFS's records);
4. No purchased receivable is overdue;
5. Related financing contracts are governed by English, Scottish or Welsh law (depending on where the borrower is resident or incorporated), and denominated in GBP;
6. The borrower does not maintain deposits on accounts with VWFS, and the enforceability of the purchased receivables are not impaired by any set-off rights.
In relation to the assigned receivables, VWFS represents and warrants to the issuer upon the closing date certain matters including, amongst others:

1. The status and enforceability of the purchased receivables is not impaired due to warranty claims or any other rights of the borrower;
2. Financing contracts constitute legal valid, binding and enforceable agreements;
3. Purchased receivables can be disposed of free from rights of third parties;
4. VWFS is the legal and beneficial owner, free from any security interest, of the purchased receivables;
5. Borrowers are contractually obliged to maintain a vehicle insurance policy;
6. Receivables have not been modified to change the payment schedule, term or interest rate of the finance contract;
7. No set-off, claim or counterclaim in respect of the assigned receivables;
8. The existence of the underlying financed vehicle.

The eligibility criteria envisage that the following concentration limits are met:

1. Financing contracts for used vehicles does not exceed 50% of the aggregate discounted receivables balance;
2. Financing contracts for non-VW group brand vehicles does not exceed 10% of the aggregate discounted receivables balance.

**Pool Characteristics**

DBRS has analysed the portfolio selected by VWFS as at 28 October 2017. The main characteristics of the portfolio are summarised below:

<table>
<thead>
<tr>
<th>Pool Characteristics</th>
<th>Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK five</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Principal Balance</td>
<td>GBP 444,011,916.02</td>
</tr>
<tr>
<td>Current Discounted Principal Receivables Balance</td>
<td>英镑 438,146,480.39</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>4.2%</td>
</tr>
<tr>
<td>PCP Contracts</td>
<td>GBP 410,184,685.56 (93.6%)</td>
</tr>
<tr>
<td>HP Contracts</td>
<td>GBP 27,961,794.83 (6.4%)</td>
</tr>
<tr>
<td>New Vehicle Financing</td>
<td>GBP 324,618,199.00 (74.1%)</td>
</tr>
<tr>
<td>Used Vehicle Financing</td>
<td>GBP 113,528,281.39 (25.9%)</td>
</tr>
<tr>
<td>Financing to Retail Customers</td>
<td>GBP 424,881,173.04 (97.0%)</td>
</tr>
<tr>
<td>Financing to Corporate Customers</td>
<td>GBP 13,265,307.35 (3.0%)</td>
</tr>
<tr>
<td>Total Number of Loans</td>
<td>24,238</td>
</tr>
<tr>
<td>Average Original Principal Balance</td>
<td>GBP 18,318.83</td>
</tr>
<tr>
<td>Average Current Discounted Principal Receivables Balance per Contract</td>
<td>GBP 18,076.84</td>
</tr>
<tr>
<td>WA Original Term (Months)</td>
<td>45.3</td>
</tr>
<tr>
<td>WA Remaining Term (Months)</td>
<td>40.5</td>
</tr>
<tr>
<td>WA Seasoning (Months)</td>
<td>4.8</td>
</tr>
<tr>
<td>WA Customer Interest Rate</td>
<td>6.33%</td>
</tr>
<tr>
<td>WA Balloon % of Current Discounted Principal Amount (excl. Standard)</td>
<td>48.0%</td>
</tr>
</tbody>
</table>
Rating Report | Driver UK Five

Pool Characteristics (% Discounted Receivables Balance):

<table>
<thead>
<tr>
<th>Vehicle Brand (top 3)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audi</td>
<td>49.36%</td>
</tr>
<tr>
<td>Volkswagen</td>
<td>32.35%</td>
</tr>
<tr>
<td>Skoda</td>
<td>8.99%</td>
</tr>
</tbody>
</table>

Dealer Geographic Mix (Top 3 Regions):

<table>
<thead>
<tr>
<th>Region</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>South East</td>
<td>21.71%</td>
</tr>
<tr>
<td>North West</td>
<td>12.29%</td>
</tr>
<tr>
<td>Scotland</td>
<td>10.86%</td>
</tr>
</tbody>
</table>

Top 5 Vehicle Models:

<table>
<thead>
<tr>
<th>Model</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A3</td>
<td>10.50%</td>
</tr>
<tr>
<td>Golf</td>
<td>9.69%</td>
</tr>
<tr>
<td>Polo</td>
<td>9.36%</td>
</tr>
<tr>
<td>A1</td>
<td>6.76%</td>
</tr>
<tr>
<td>Q5</td>
<td>5.94%</td>
</tr>
</tbody>
</table>

Top 5: 42.25%

Customer Concentration:

<table>
<thead>
<tr>
<th>Rank</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1</td>
<td>0.07%</td>
</tr>
<tr>
<td>Top 3</td>
<td>0.17%</td>
</tr>
<tr>
<td>Top 5</td>
<td>0.25%</td>
</tr>
<tr>
<td>Top 10</td>
<td>0.44%</td>
</tr>
<tr>
<td>Top 20</td>
<td>0.77%</td>
</tr>
</tbody>
</table>

Source: VWFS.

Rating Analysis

The ratings are based on a review by DBRS of the following analytical considerations:

- Transaction capital structure and form and sufficiency of available credit enhancement.
- Relevant credit enhancement in the form of subordination and a reserve fund.
- Credit enhancement levels are sufficient to support the expected credit and residual value net loss assumptions projected under various stress scenarios at AAA (sf) and A (high) (sf) standards for the Class A and Class B Notes, respectively.
- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms under which they have invested.
- VWFS's financial strength and its capabilities with respect to originsations, underwriting and servicing.
- The credit quality of the collateral and ability of the servicer to perform collection activities on the collateral.
- The operational risk review conducted on VWFS by DBRS to conclude that it is an acceptable servicer.
- DBRS conducted an operational risk review of VWFS’s premises in Milton Keynes and deems it to be an acceptable Servicer.
- The transaction parties’ financial strength with regard to their respective roles.
- The credit quality and industry diversification of the collateral and historical and projected performance of the seller’s portfolio.
- The sovereign rating of the United Kingdom, currently at AAA.
- The legal structure and presence of legal opinions addressing the assignment of assets to the Issuer and the consistency with DBRS’s Legal Criteria for European Structured Finance Transactions.

Portfolio Performance Data

DBRS received the following sets of data sourced by VWFS:

- Static quarterly origination and cumulative gross and net loss (CNL) data from September 2002 up to December 2016;
- Full and partial prepayment data from June 2008 up to December 2016;
- Voluntary termination return rates at maturity;
- Early settlement data; and
- Residual value realisation data.
**Vintage Default and Net Loss Data**
DBRS received quarterly vintage gross loss (default) and net loss data for the portfolio originated by VWFS from Q3 2002 to Q4 2016. Data was separately provided for New/Used, PCP/HP, and VT/HT subsets, as well as a total portfolio basis which is shown below:

![Exhibit 1: Gross Loss – Total Portfolio](image1)

![Exhibit 2: Net Loss – Total Portfolio](image2)

DBRS has not received separate recovery data on static basis but could assess the expected recovery rate and loss given default from comparison of the net and gross loss analysis.

**Arrears and Prepayment Data**
DBRS received delinquency data from June 2008 to December 2016. Data was provided for new and used vehicles, as well as by contract type, shown below. DBRS observed steady and low delinquency rates for both contract types since 2010, with PCP contracts performing marginally better than HP contracts.

![Exhibit 3: Delinquencies - PCP](image3)

![Exhibit 4: Delinquencies - HP](image4)
DBRS received vintage early settlement data for HP and PCP contracts. This information was split further into new and used vehicles:

**Exhibit 5: PCP Early Settlement**

<table>
<thead>
<tr>
<th>Year</th>
<th>PCP (New)</th>
<th>PCP (Used)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2003</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2004</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>2005</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>2006</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>2007</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2008</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>2009</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>2010</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2011</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2012</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2013</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

DBRS notes that early settlement rates for PCP have been relatively high and consistently over 50% since the beginning of 2011.

**Residual Value Realisation Data**

DBRS received loan-by-loan data related to the sale of vehicles handed back upon the maturity of PCP contracts from Q3 2004 to Q4 2016. Data also included vehicle brand, which allowed for a more detailed breakdown of residual value risk. From the vehicle realisation data, DBRS observed the following:

- Certain brands have consistently outperformed others over the past six or seven years until the end of 2014;
- During 2015 specific brands experienced shifts in their realisation value performance and the overall tendency was inverted with brands historically showing poor or negative equity surpassing the rest of the pool;
- The overall pool showed a slight but progressive worsening in vehicle realisation performance that dates back to 2014;
- Although the situation has not stabilised the current performance is still compatible with the current DBRS RV loss assumptions.

DBRS also used additional market information to assess the volatility in UK auto prices since 2007.

**Commingling Risk**

VWFS is entitled to transfer collections on a monthly basis, subject to rating requirements on Volkswagen Financial Services AG being met (the Monthly Remittance Condition). If these are broken, and for so long that they are broken, VWFS can still commingle collections with its own funds during each monthly period as long as the following procedures are adhered to no later than 14 calendar days following the downgrade event:

1. On the 11th business day prior to the relevant monthly period, determine the expected collections from the first day (inclusive) of the respected monthly period to the 15th calendar day (inclusive) of such monthly period. VWFS is obliged to transfer and hold this amount in the monthly collateral account until collections from the first calendar day (inclusive) of the respected monthly period to the 15th calendar day (inclusive) of such monthly period have been paid.

2. On the 11th business day prior to the 16th calendar day of the relevant monthly period, determine the expected collections from the 16th calendar day (inclusive) of the respected monthly period until the final calendar day (inclusive) of such monthly period. VWFS is obliged to transfer and hold this amount in the monthly collateral account until collections from the 16th calendar day (inclusive) of the respected monthly period to the final calendar day (inclusive) of such monthly period have been paid.

Furthermore, VWFS are obliged to transfer the following amounts into the distribution account:

1. On the fifth business day of each calendar month, the collections from the 16th calendar day (inclusive) of the previous monthly period to the final calendar day (inclusive) of such monthly period, and;

2. On the fifth business day following the 15th calendar day of each calendar month, the collections from the first day (inclusive) of the current monthly period to the 15th calendar day (inclusive) of such monthly period.

**Set-Off Risk**

In case of the servicer’s insolvency, the borrowers may validly claim set-off against the issuer in respect of amounts the seller may owe them.

Since VWFS is not a deposit-taking financial institution, set-off risk arising from deposits from borrowers is considered immaterial. However, in the case of insolvency of VWFS, borrowers may validly claim set-off against the issuer in respect of outstanding amounts owed to them by VWFS.
The servicer may receive some payments by borrowers destined to pay for certain services (such as insurance) or taxes; however, the servicer is not responsible for providing services and is only expected to transfer the payment to the relevant service provider. Set-off risk of such amounts is considered limited to such a short period of time to be immaterial.

**Receivable Interest Rate and Prepayment Risk**

The portfolio purchase price is calculated on a net-present value basis. Each assigned receivable is discounted by a fixed rate. The portfolio yield is thus fixed and there is no risk of compression due to early settlement or defaults.

Due to the discount rate mechanism, upon prepayment a principal loss may materialise if the loan contract actual interest rate is higher than the discount rate and thus the actual principal component is lower than the discounted value. This risk is mitigated by PCP balloon payment which is discounted as well and by the fact that prepayments tend to be beneficial to the transaction to measure that will reduce residual value losses.

**Cash Flow Analysis**

DBRS's cash flow model assumptions focused on the amount and timing of defaults and recoveries, prepayment speeds, interest rates and residual value loss. Based on a combination of these assumptions, a total of 18 cash flow scenarios were applied to test the performance of the rated notes.

**Interest Rate Risk, Basis Risk and Excess Spread**

The interest rate risk in the transaction arises from the mismatch between the fixed interest rate on the auto loan receivables and the one-month Libor floating rate applied to the issued notes and subordinated loan. In order to mitigate the risk, DBRS notes that the issuer is expected to enter into a swap agreement with an eligible counterparty in accordance with its Derivative Criteria for European Structured Finance Transactions methodology.

DBRS understands that the hedging agreements, parametrised to the Class A and Class B Notes outstanding, envisage that the issuer will pay a fixed interest rate in exchange for one-month GBP Libor plus the spread on the relevant Notes and floored at zero.

Interest rate compression is not applicable since the receivables are purchased and treated on a discounted value basis, so that all receivables pay an interest rate exactly equal to the discount rate.

**Interest Rate Stresses**

DBRS applied its standard interest rate stresses as detailed in its Unified Interest Rate Model Methodology for European Securitisations.

**Base Case Loss Assumptions**

DBRS observed broadly consistent and low loss rates from quarterly vintages originated from 2009 and considers them to be stronger than those originated between 2003 and 2008. The following assumptions were made as part of DBRS’s cash flow analysis:

<table>
<thead>
<tr>
<th>Expected Loss Rate</th>
<th>4.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Recovery Rate</td>
<td>70%</td>
</tr>
<tr>
<td>AAA (sf) Recovery Rate</td>
<td>50%</td>
</tr>
<tr>
<td>A (high) (sf) Recovery Rate</td>
<td>59%</td>
</tr>
</tbody>
</table>

**Residual Value Assumptions**

DBRS evaluated residual value realisation data provided by VWFS for vehicles under PCP contracts which have been turned in upon maturity. Furthermore, DBRS has assessed UK market performance data to define an RV market loss. The combination of the various components of RV loss allowed DBRS to determine the RV loss in the relevant rating scenarios:

<table>
<thead>
<tr>
<th>AAA (sf)</th>
<th>RV Loss</th>
<th>Turn-In Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45.2%</td>
<td>100%</td>
</tr>
<tr>
<td>A (high) (sf)</td>
<td>35.1%</td>
<td>90%</td>
</tr>
</tbody>
</table>

**Prepayment Speeds and Prepayment Stress**

DBRS evaluated scenarios whereby limited credit was given to early settlements at each rating level. Based on historical data provided by VWFS, DBRS assumed a base case early settlement rate of 52%, with a 90% and 65% haircut under AAA and A (high) scenarios, respectively.
Timing of Defaults

DBRS estimated the default timing patterns and created base, front- and back-loaded default curves. The weighted-average life of the collateral portfolio is expected to be about three years, and the front-loaded, base and back-loaded default distributions are listed below.

<table>
<thead>
<tr>
<th>Month</th>
<th>Mid Losses</th>
<th>Front Loaded Losses</th>
<th>Back Loaded Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-8</td>
<td>20%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>9-16</td>
<td>50%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>17-24</td>
<td>30%</td>
<td>20%</td>
<td>50%</td>
</tr>
</tbody>
</table>

A three-year loss scenario was also tested for sensitivity.

<table>
<thead>
<tr>
<th>Month</th>
<th>Mid Losses</th>
<th>Front Loaded Losses</th>
<th>Back Loaded Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-12</td>
<td>20%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>13-24</td>
<td>50%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>25-36</td>
<td>30%</td>
<td>20%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Risk Sensitivity

DBRS expects a lifetime base case PD and LGD for each rated pool based on a review of historical data. Adverse changes to asset performance may cause stresses to base case assumptions and therefore have a negative effect on credit ratings. The tables below illustrate the sensitivity of the rating to various changes in the base case default rates and loss severity assumptions relative to the base case assumptions used by DBRS in assigning the ratings.

### Class A

<table>
<thead>
<tr>
<th>Increase in RV Loss (%)</th>
<th>Increase in Default Rate and Loss Severity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>AAA</td>
</tr>
<tr>
<td>25</td>
<td>AA</td>
</tr>
<tr>
<td>50</td>
<td>AA (low)</td>
</tr>
</tbody>
</table>

### Class B

<table>
<thead>
<tr>
<th>Increase in RV Loss (%)</th>
<th>Increase in Default Rate and Loss Severity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
</tr>
<tr>
<td>0</td>
<td>A (high)</td>
</tr>
<tr>
<td>25</td>
<td>A</td>
</tr>
<tr>
<td>50</td>
<td>BBB (low)</td>
</tr>
</tbody>
</table>
Appendix

Origination and Underwriting

Origination and sourcing
In the UK, the VWFS business model and risk management practices closely follow the policies and procedures in place for retail originations in Germany.

As VWFS is the financing arm of the Group in UK, it is the chief provider of auto financing for VW and affiliate brands including Audi, Skoda, Seat, Porsche and Bentley.

In 2015, the company signed over 332,000 contracts, up from 298,000 the previous year. VW including affiliate brand sales in the UK for 2014 gives the company a market share of 20%. VW alone has maintained a market share between 8-9% share over the last few years, surpassed only by Ford (13%) and Vauxhall (10%). Audi has a 6.3% market share, Skoda 2.8% and Seat has 1.81%. The remainder of the group's market share for 2015 is provided by Bentley and Porsche. VWFS's penetration rate has increased steadily since the 20% reported in 2008 and now stands at approximately 46%.

Underwriting Process
All underwriting activities at VWFS are appropriately segregated from marketing and sales. VWFS adheres to standard identity verification practices including collection of identity cards, proof of address and utility bills. External credit data is retrieved from two nationally recognised bureaux (Experian and Call Credit) and incorporated into the automated credit scoring models. In 2011, VWFS was the first captive auto finance company in the UK with dual bureau data capability, and since April 2014, all applications have been searched using both bureaux.

Applications are analysed through VWFS's internal credit scoring system which assigns a 'band' to the loan denoting the risk associated with the borrower and loan. Bands 'A' and 'B' are considered the lowest risk while high-risk loans are classified as 'D' or 'Z' band. Dual bureau data is primarily used for high-risk bands. Automatic decisioning only exists for the low-risk bands and, as expected, the approval rate is considerably lower for 'D' bands at approximately 14% following manual review.

VWFS launched four new scorecards in 2011 based on the vehicle type (new and used), the applicant's age and dual bureau data. The scorecards follow a rules-based system including responsible lending rules to address regulatory guidelines. All rules are analysed monthly including the rules 'hit' ratios, subsequent underwriting action and performance. The rule parameters are maintained within risk management independent of underwriting.

The underwriting team at VWFS is divided into three groups based on customer type. The specialist lending unit (SLU) handles all corporate non-dealer applications sourced through VW Group Leasing or the VWFS sales team as well as all Porsche and Bentley financial services business. Retail applications which result in a customer's total exposure exceeding GBP 75,000 are also handled by the SLU team. Retail applications less than GBP 75,000 are handled by the business or private (individuals, self-employed borrowers) underwriting teams.

Approval is generally granted automatically through the scoring system particularly for lower-risk bands ‘A’ and ‘B’ where the overall acceptance rate is 99.67% and 97.42%, respectively. This is consistent with previous years. The underwriting acceptance rate, if transferred for manual review, is approximately 98.71% for ‘A’ band and 93.28% for ‘B’ while the manual underwriting acceptance rate for ‘C’ and ‘D’ bands are considerably lower at 75% and 9%, respectively.

Summary Strengths
• Global brands with good reputation and strong position within the UK market.
• Rising penetration rate over the last few years.
• Use of multiple rules-based credit scoring models incorporating dual credit bureau data and monthly analysis of rules and performance metrics.
• Strong fraud detection process including checks at underwriting and pre-contract activation along with use of a leading UK database, Hunter.
• Centralised and independent credit and risk management functions with underwriting teams split between retail (individuals and business) and corporates.
Underwriting
Servicing begins during the final stages of initial financing with the customer services department reviewing all borrower documents and credit terms including interest rates, loan maturity, insurance coverage requirements and prepayment terms. Over 99% of payments are made via direct debit and contracts have monthly payment frequencies; all new contracts must be paid by direct debit.

Servicing is centralised in Milton Keynes and the company places considerable focus on customer service evidenced through proactive assessment of customer satisfaction following contract execution and quarterly surveys. VWFS (UK) employs a customer contact council as well as a professional planning forum to ensure adherence to corporate strategies involving customer service.

The arrears management process is heavily automated and is driven by an SAP workflow system providing collection teams daily workload reports and performance monitoring statistics. VWFS (UK) complies with all regulatory guidelines including the debt collection procedures outlined by the Office of Fair Trading (OFT) and the Financial Conduct Authority’s ‘treating customers fairly’ regime. The company’s behavioural scoring model, which assigns a PD and LGD to each loan, is used to segregate arrears cases based on the risk profile. Greater attention is given to individual cases over GBP 35,000 which are separately identified in the workflow reports. VWFS (UK) continues to focus on specialised collections for vulnerable customers.

The company's collection efforts involve a combination of verbal and automated lettering campaigns during the first month of arrears with telephone contact initiated almost immediately after notification of a missed payment. VWFS (UK) does not currently employ dialler technology given the low arrears rate (less than 1% for loans 31-60 days delinquent) and the high self-cure rate. VWFS (UK) begins discussions concerning repossession of the vehicle either voluntarily by the borrower or through legal means once a loan is 61 days past due. External agents are used for enforcement activities and VWFS (UK) actively monitors agents' performance; approximately 50% of repossessed vehicles are returned through extra-judicial means.

The enforcement, repossession and sale process is expedient with repossession taking approximately 11 days and eventual sale around 30 days. VWFS (UK) avoids private sales to prevent complaints from borrowers in relation to selling the vehicle below its market value and most cars are sold through auction sites. The company uses six main auction centres which sell approximately 400 vehicles per month. Additional channels are also utilised to diversify the sales options and support sales values when deemed appropriate.

When a vehicle arrives at the nominated auction site, it is scanned upon entry to the site and entered into a stock management system. Vehicles are then sold in a series of auctions; some of these are specific to VWFS (UK) vehicles. If any liability remains outstanding following the sale of the vehicle, the customer is advised of the outstanding amount by letter and, if unable to clear the liability in full, an attempt is made to establish a payment plan. In cases where the customer is unable or unwilling to pay, an evaluation is made to determine whether legal action or full and final write-off is the appropriate course of action.

During 2013 VWFS, through the internal control process, identified operational issues where the provision of post-contractual documentation had not been fully met. The customers affected held products regulated by the Consumer Credit Act. VWFS subsequently determined that it is appropriate to compensate the customers affected by these breaches. For the year ended 31 December 2013, VWFS estimated the cost of providing remediation to the affected customers as GBP 25 million. VWFS notified the Financial Conduct Authority of its approach to how customers will be remediated. In addition, internal controls and procedures have been strengthened to prevent this issue re-occurring in the future.

Residual Value
VWFS (UK) follows an analytical approach to residual value forecasting that incorporates current and recent auction performance, long-term historical value tracking, model comparison and benchmarking, and specification and technology considerations. There is no singular industry guide or publication that is relied upon for establishing residual values. Residual value exposure is closely monitored on a monthly basis that includes a monthly revaluation of all assets in order to provide the earliest indication possible of potential exposures. The ongoing monitoring also includes comparing the contractual residual values against industry minimum, maximum, and average residual values as well the CAP Monitor forecast benchmark. This consistent residual monitoring has allowed VWFS UK to achieve disposal performance that consistently outperforms the BCA Sector Average.

A Residual Value Committee, including members from all business areas across VWFS (UK) as well as representatives from VW, Audi and Porsche, meets monthly. Standalone RV committees for Porsche and non-VW group vehicles meet biannually, and the majority of data and analysis discussed in the committees is provided by the asset risk management group.
Summary Strengths

- Majority of payments made via direct debit.
- Low default rate and stable recovery rates.
- Active early arrears management practices which benefit from automated workflows and behavioural scoring that segregates arrears cases based on risk and loan size.

Summary Weaknesses

- Increased residual value risk as VWFS focuses more attention on PCP product versus hire purchase.
  
  **Mitigants:** PCP provides more opportunities for customer retention and the company's RV calculation processes are sound. Depreciation on VW vehicles is traditionally better than its peers.

- No dialler technology for outbound calling activity.
  
  **Mitigants:** Established arrears management practices; current arrears and default rates have not reached the scale typically associated with implementation of automated diallers.

Opinion on Back-Up Servicer: No back-up servicer on the programme. DBRS believes that VWFS (UK)'s current financial condition mitigates the risk of a possible disruption in servicing following a potential servicer event of default including insolvency.

Methodologies Applied

The principal methodology applicable to assign ratings to this transaction is *Rating European Consumer and Commercial Asset-Backed Securitisations*.

Other methodologies referenced in this transaction are listed below.

- Legal Criteria for European Structured Finance Transactions
- Operational Risk Assessment for European Structured Finance Servicers
- Operational Risk Assessment for European Structured Finance Originators
- Unified Interest Rate Model for European Securitisations

The rating methodologies and criteria used in the analysis of this transaction can be found at [http://www.dbrs.com/about/methodologies](http://www.dbrs.com/about/methodologies). Alternatively, please contact info@dbrs.com.

Surveillance Methodology

The transaction is monitored by DBRS in accordance with its *Master European Structured Finance Surveillance Methodology*, which is available at [www.dbrs.com](http://www.dbrs.com) under Methodologies. Alternatively, please contact info@dbrs.com.