Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Inside This Report

Capital Structure

Class	Expected rating	Outlook	Amount (GBPm)	CE (%) [a]	Interest rate (%)	Legal final maturity
Class A	AAAsf	Stable	444.6	28.9	SONIA + 0.60	September 31
Class B	AA-sf	Stable	68.1	18.0	SONIA + 1.35	September 31
Subordinated loan	NRsf	n.a.	74.8	6.0	7.34	September 31
Total			**TBD**			

[a] Credit enhancement (CE) is provided by overcollateralisation (OC). There is also a cash reserve fund, sized at 1.45% of the outstanding notes.

Closing occurred on 25 March 2024. The transfer of the portfolio to the issuer occurred on the closing date. The ratings assigned above are based on the portfolio information as of 29 February 2024, provided by the originator.

Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other material should be reviewed prior to any purchase.

Driver UK Multi-Compartment S.A. – Compartment Driver UK eight is a six-month revolving securitisation of auto loan receivables originated by Volkswagen Financial Services (UK) Ltd (VWFS UK) in England, Scotland, Wales and Northern Ireland. The portfolio consists of personal contract purchase (PCP), hire purchase (HP) and lease purchase (LP) loans, financing predominantly VW Group brand vehicles.

Key Rating Drivers

Used-Car Price Exposure: Loans regulated by the Consumer Credit Act provide obligors with voluntary termination (VT) rights, allowing them to return the vehicle before maturity. PCP loans also provide the option of returning the vehicle at maturity instead of paying a balloon amount. The issuer is exposed to the risk of declines in used-car prices as proceeds from the sale of returned vehicles may be lower than the outstanding loan balance. Fitch Ratings assumed a total residual value (RV) and VT loss of 22.8% at 'AAAsf, and 17.1% at 'AA-sf'.

Prime Portfolio with Resilient Performance: Fitch assumed a weighted-average base case default rate of 1.4%. Delinquencies are slightly higher than the troughs in 2022 and before 2020, similar to levels in the rest of the UK. Fitch's default assumption is above recent performance to account for the expectation that the limited rise in arrears may lead to similar rises in defaults in the short to medium term. The base case default rate remains low, reflecting the high credit quality of the pool and overall good performance of VWFS UK's book over time.

However, we consider there to be sufficient buffers in the finances of the typical prime borrower in this portfolio to absorb heightened living costs and avoid a large increase in defaults. We applied a 'AAA' default multiple of 6.25x, accounting for the low absolute level of the base-case default. The recovery base case and 'AAA' recovery haircut are 65% and 45%, respectively.

Sensitivity to Pro Rata Period: The transaction has a pro rata amortisation of notes if certain overcollateralisation (OC) conditions are fulfilled and performance triggers are not breached. The length of the pro rata period and therefore the outflow of funds to junior positions on the waterfall is driven by lifetime losses, combined with the default and recovery timing. Lower losses with back-loaded timing may lead to a switch back to sequential amortisation and could be more detrimental for the notes than larger losses with a front-loaded timing.

Representations, Warranties and Enforcement Mechanisms Appendix

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Seller-Related Risks Addressed: Commingling risk is mitigated by a cash advance mechanism that comes into effect upon the seller losing eligibility in line with Fitch's counterparty criteria. Payment interruption risk is addressed by liquidity from a cash reserve fund, while Fitch views servicer continuity risk as adequately reduced by the high availability of replacement servicers in the UK market.

Highlights

Effect	Highlight
-	**Small Changes from Predecessor Deal:** The transaction is similar to Driver UK Multi-Compartment S.A. – Compartment Driver UK seven, rated by Fitch in October 2023. The OC of classes A and B at closing and the minimum class A OC during the revolving period will be will be about 20bp-30bp lower than in the previous deal, but the target OC during and after the revolving period is unchanged. The cash reserve will be equal to 1.45% of classes A and B, compared to 1.6% for the previous transaction. The changes above, together with the higher RV share expected at closing (see below), contribute to the expected rating of class B of one notch being below the rating of class B in the previous transaction.
-	**High Residual Value Share:** The pool has a starting RV share over the total discounted portfolio of 57.6%, compared to 56.3% at closing for the previous transaction. This figure is expected to increase further during the revolving period. Unlike in the predecessor deal, there will be no limit for the maximum balloon share of the loans added during the revolving period. The high RV share is a key driver of Fitch's stressed loss assumptions. The relatively short weighted-average life of the portfolio also has a compressing effect on lifetime excess spread.
Neutral	**Pool Sold at Premium:** The weighted-average interest rate of the portfolio is about 9.2%, whereas the discount rate used to compute the net present value of the receivables is lower at about 7.2%. This decreases the effective pool yield and, if a contract is purchased at a premium any sale proceeds following VT, prepayments or recoveries will be based on a lower net present value. However, the portion of the discount rate corresponding to the interest compensation rate may be used to compensate the issuer for these losses. In addition, further receivables transferred during the revolving period will be sold with a haircut on their purchase price, which may allow for some build-up of OC in the revolving period up to target levels.
-	**Loose Early Amortisation Triggers:** Fitch believes it is extremely unlikely the early amortisation triggers linked to net losses and 180+dpd delinquencies will be breached during the six-month revolving period, even under a high degree of stress. There is also a trigger linked to the class A OC percentage, set at 0.25pp below the level of the class A OC at closing. Fitch has assumed that OC will fall to this trigger threshold by the start of amortisation.

Source: Fitch Ratings

Key Transaction Parties

Role	Name	Fitch rating
Issuer	Driver UK Multi-Compartment S.A. – Compartment Driver UK eight	Not rated
Originator	Volkswagen Financial Services (UK) Limited	Not rated
Servicer	Volkswagen Financial Services (UK) Limited	Not rated
Transaction account bank	The Bank of New York Mellon, London Branch	AA/Stable/F1+
Swap provider	Royal Bank of Canada plc	AA(dcr)/Stable/F1+
Trustee	Intertrust Trustees GmbH	Not rated
Corporate services provider	Circumference FS (Luxembourg)	Not rated

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Key Rating Drivers (Negative/Positive/Neutral)

Rating impact	Key rating driver
Negative	Used car price exposure
Positive	Prime portfolio with resilient performance
Negative	Sensitivity to pro rata period
Positive	Seller-related risks addressed
Positive	Revolving period risks addressed

Applicable Criteria

Consumer ABS Rating Criteria (October 2023)

Consumer ABS Rating Criteria – Residual Value Addendum (October 2023)

Global Structured Finance Rating Criteria (January 2024)

Structured Finance and Covered Bonds Counterparty Rating Criteria (November 2023)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (December 2022)

Structured Finance and Covered Bonds Country Risk Rating Criteria (July 2023)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (November 2023)

Related Research

European Auto ABS Index – 1Q24 (February 2024)

Global Economic Outlook (March 2024)

EMEA Structured Finance Outlook (December 2023)

European Auto ABS Recoveries Worsen with Further Declines Expected (January 2024)

FCA Investigation Unlikely to Have Rating Impact on VW Driver UK Transactions (November 2023)

Pre-2021 Commission Probe is Unlikely to Affect UK Auto ABS Ratings (February 2024)

Transaction Comparisons

These transactions were selected for comparison due to their similarity, in terms of financed assets, to Driver UK Multi-Compartment S.A. – Compartment Driver UK eight. All selected transactions are securitisation of UK auto loans.

Transaction Comparison

	Driver UK Multi-Compartment - Compartment Driver UK eight	Driver UK Multi-Compartment - Compartment Driver UK seven	Driver UK Master Compartment 7	Bavarian Sky UK 5 Plc	Silver Arrow UK 2021-2
Closing	March 2024	October 2023	November 2023	April 2023	October 2021
Country of assets	UK	UK	UK	UK	UK
Seller	VWFS UK	VWFS UK	VWFS UK	BMW FS GB	MBFS UK
Class	**Class A**	**Class A**	**Class A / senior loan**	**Class A**	**Class A**
Rating	AAAsf	AAAsf	AAAsf	AAAsf	AAAsf
Amount (GBPm)	444.6	354.5	3,654.0	400.0	400.0
Credit enhancement (%)	28.9	29.1	29.1	28.5	24.9
Class	**Class B**	**Class B**	**Class B / Junior loan**	**Class B**	**Class B**
Rating	AA-sf	AAsf	A+sf	Asf	NRsf
Amount	68.1	54.0	556.7	78.0	129.8
Credit enhancement	18.0	18.3	18.3	14.3	0.4
Class	**Subordinated loan**	**Subordinated loan**	**Subordinated loan**	**Class C**	**Subordinated loan**
Rating	[NRsf]	NRsf	NRsf	NRsf	NRsf
Amount	74.8	61.5	635.1	71.4	2.0
Credit enhancement	6.0	6.0	6.0	n.a.	n.a.
Portfolio summary					
Revolving period length	6 months	6 months	12 months	12 months	Static
Discounted principal balance (GBPm)	625.0	500.0	5,155.2	549.4	529.8
Number of receivables	30,032	23,400	278,294	27,810	24,963
Average outstanding balance (GBP)	20,811	21,368	18,524	19,756	21,223
WA remaining term in months	38	40	34	32	31
WA seasoning in months	10	8	14	16	15
Collateral by balance (%)					
New vehicles	50.1	52.2	54.3	50.2	66.1
Used vehicles	49.9	47.8	45.7	49.8	33.9
Fitch assumptions (%)					
Default base case	1.4	1.4	1.4	1.5	1.6
Recovery base case	65.0	65.0	65.0	65.0	70.0
AAAsf RDR	8.9	8.9	9.2	9.5	9.1
AAAsf RRR	35.8	35.8	35.8	35.8	38.5
AAAsf RLR (instalments)	5.7	5.7	5.9	6.1	5.6
AAAsf RV and VT loss	22.8	22.5	24.4	24.2	22.0

Source: Fitch Ratings, transaction documents. Portfolio data for to Driver UK Multi-Compartment S.A. – Compartment Driver UK eight is in line with the final portfolio as at 29 February 2024.

Sector Risks: Additional Perspective

Key Sector Risks

Sector or asset outlook	Deteriorating
Macro or sector risks	Fitch forecasts economic growth of 0.2% for the UK in 2024. Indebted households face steep increases in interest rate payments in the next two years, with an estimated 1.6 million fixed-rate mortgages due to reset in 2024. As with unsecured debt, auto loan performance drivers will face moderate but manageable pressure in 2024. Auto ABS collateral entered this year in slightly worse shape than expected but still sufficiently robust in a historical context. Notwithstanding those increasing headwinds, we expect car financing to continue to benefit from its mostly creditworthy customer base and the importance the latter attaches to car ownership.
Relevant research	See Related Research.

Source: Fitch Ratings

Portfolio Stratification

The portfolio consists of fixed rate auto loans originated by VWFS UK and granted to private and commercial customers in the UK. The vast majority of the pool comprises PCP loans, which lead to RV exposure. The loan agreements are also predominantly regulated under the UK Consumer Credit Act, meaning most of the borrowers have VT rights.

There are three product types included within the portfolio.

1. PCP agreements: obligors pay equal monthly instalments to amortise the loan balance to a pre-defined balloon amount. The borrower has the option of either paying the final balloon amount at contract maturity to take ownership of the vehicle, or returning the vehicle in lieu of paying the balloon amount.
2. HP agreements: obligors pay equal monthly instalments to amortise the loan balance to zero by the contract maturity, at which point the title of the vehicle is transferred to the obligor.
3. LP agreements: this contract type combines elements of both PCP and HP loans. There is a final balloon payment, but the obligor does not have the option of returning the vehicle in lieu of paying it. They are contractually obliged to pay the balloon, at which point the title of the vehicle is transferred to them.

The table and charts below summarise the key characteristics of the securitised portfolio.

Transaction Portfolio as at 29 February 2024

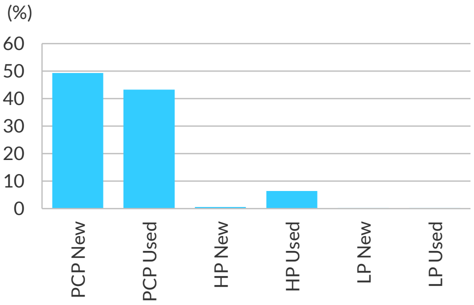
	Replenishment criteria	Portfolio
Number of loans		30,032
Total discounted loan balance (GBPm)		625.0
Average outstanding loan balance (GBP)		20,811
WA original term (months)		47.4
WA remaining term (months)		37.9
WA seasoning (months)		9.6
New (%)		50.1
Used (%)	≤60	49.9
PCP (%)		92.5
HP (%)		7.0
LP (%)		0.5
PCP used (%)	≤55	43.2
Non-VW Group vehicles (%)	≤10	7.7
WA effective interest rate (%)		9.2

Transaction Portfolio as at 29 February 2024

	Replenishment criteria	Portfolio
Residual value (%)[a]		57.6
Petrol (%)		71.6
Diesel (%)		17.4
Battery Electric (%)		7.6
Hybrid (%)		3.4
Top 1 borrower (%)	≤0.5	0.1
Top 10 borrowers (%)		0.4
Direct debit (%)		99.9

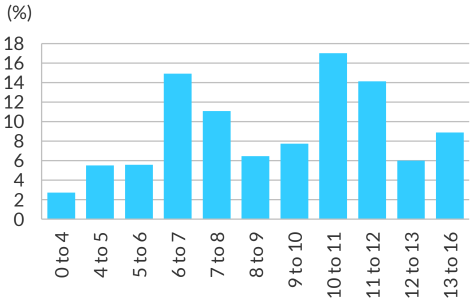
[a] Calculated as sum of contractual RVs over total discounted portfolio balance.
Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Sub-Portfolios



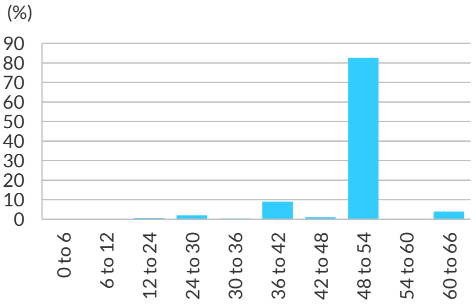
Source: Fitch Ratings, VWFS UK

Interest Rate (%)



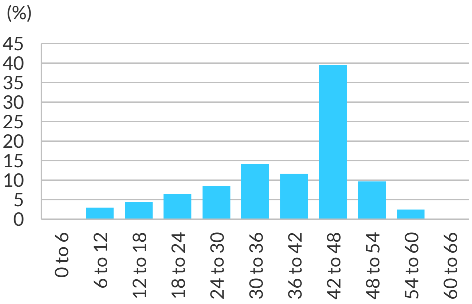
Source: Fitch Ratings, VWFS UK

Original Term (Months)



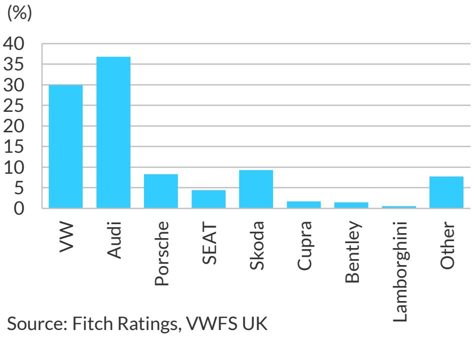
Source: Fitch Ratings, VWFS UK

Remaining Term (Months)



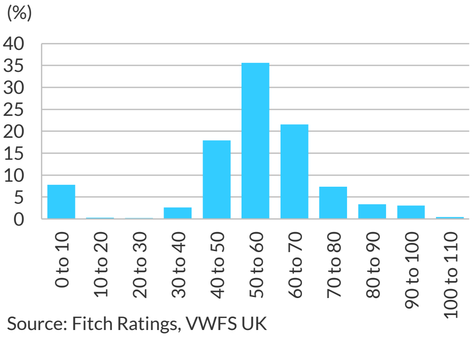
Source: Fitch Ratings, VWFS UK

Vehicle Brands



Source: Fitch Ratings, VWFS UK

RV (% of Financed Amount)



Source: Fitch Ratings, VWFS UK

Asset Analysis

Portfolio Credit Analysis

The issuer is exposed to the credit risk of the underlying obligors, and to the market value risk on vehicles returned by the borrowers either due to VT or in lieu of paying the RV amount at contract maturity. Fitch analysed the three types of exposure separately, applying its *Consumer ABS Rating Criteria* and *Consumer ABS Rating Criteria – Residual Value Addendum*.

Fitch derived its asset assumptions based on historical performance and portfolio data provided by the originator. We also took into account other considerations such as the origination and servicing practices of VWFS UK (see Appendix 1: Origination and Servicing) and our macroeconomic outlook for the UK.

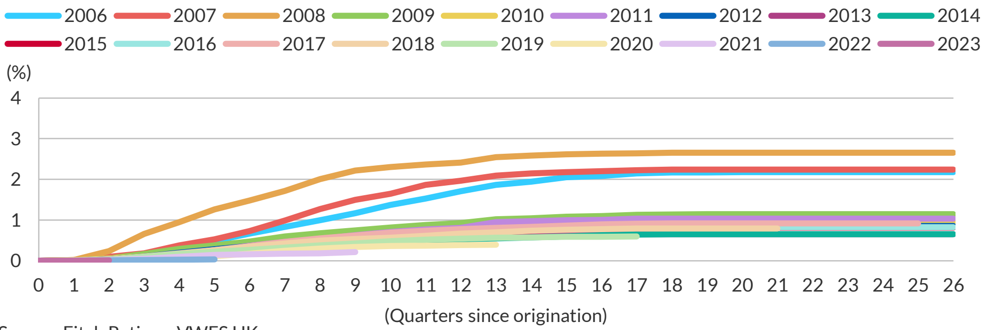
Default Risk

The 'Default Vintages' charts below show the cumulative default rates by annual origination vintage for VWFS UK's total book, split by new and used vehicles. Fitch set separate base cases for new and used vehicles, noting the differences in performance between the two sub-pools and the possibility of portfolio migration during the revolving period.

The dataset provided covers the period 4Q02 to 3Q23, meaning it captures the full economic cycle. Fitch focused primarily on vintages from 2006 onwards in its analysis. VWFS UK typically record defaults at 90 days of delinquency.

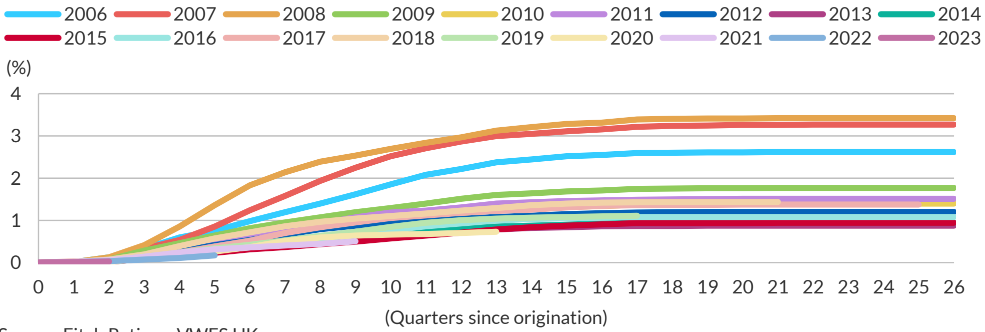
We also received the historical data split by product type. There are differences in the performances of different contract types, with LP loans showing materially higher default rates than PCP or HP loans. However, we opted not to set different assumptions for LP loans given the very low share of this sub-pool.

Default Vintages - New



Source: Fitch Ratings, VWFS UK

Default Vintages - Used



Source: Fitch Ratings, VWFS UK

Fitch has assumed base-case default rates of 1.1% and 1.75% for new and used vehicles, respectively.

The absolute level of the base case reflects the prime nature of the underlying borrowers and low historically observed defaults. Nevertheless, the assumptions are set above the level of recent vintages in relative terms to account for our expectation that performance will deteriorate as real incomes are reduced by higher living costs. In recent months, arrears have been increasing, in line with expectations, although still low in absolute terms. We believe a large absolute-terms increase in defaults is unlikely. Unemployment is expected to remain relatively low, and prime borrowers have more headroom in their finances to absorb higher expenses.

Fitch has also assumed a share of used vehicles to 50.0% by the end of the six-month revolving period, from 49.9% in the pool at closing. This share is higher than the 47.8% at closing for Driver UK Multi-Compartment S.A. – Compartment Driver UK seven and reflects the increasing proportion of loans financing used vehicles within VWFS UK's originations. The weighted-average total pool default base case is about 1.4% considering the stressed sub-pool weights.

Fitch applied a 'AAAsf' default multiple of 6.25x to the base case. The multiple primarily considers the low absolute level of the base case on the one hand, and the long available data history on the other.

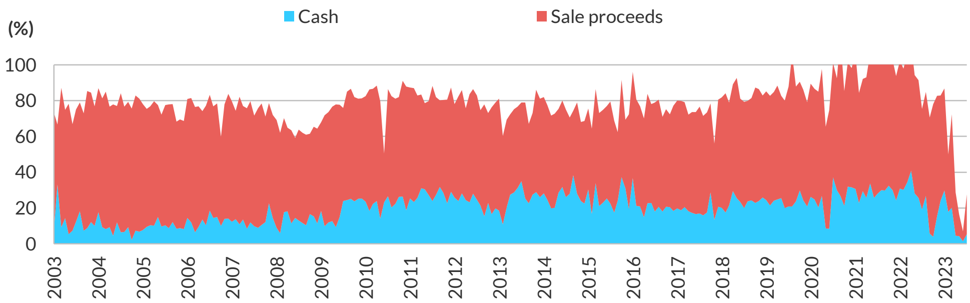
Recovery Rates

The chart below shows recoveries for the total book, split by those received from the sale of the vehicle and as cash amounts from the borrower. We considered both secured and unsecured recoveries in forming our base case assumption and recovery timing vector, although the vehicle sale proceeds make up the majority of total amounts recovered.

We set a base case of 65%, using both the total book data and performance information from prior Driver UK securitisations. Recoveries were particularly strong in 2021 and 2022, owing to the rapid increase in used car prices during the global semiconductor shortage. Some partial downward corrections in residual values started in 2023, similar to that seen in the rest of the European market (see Related Research), and Fitch expects pressures on recovery to continue in 2024. However, the chart below underestimates recoveries in 2023 because of a lag between defaults and the sale of vehicles.

The base case is therefore set closer to long-term averages, rather than being overly skewed towards spikes relating to the strongest years of the used car market.

Recoveries from Default: Total Pool



Source: Fitch Ratings, VWFS UK

The tables below summarise Fitch's default and recovery expectations and stress assumptions.

Base-Case Expectations

(%)	Stressed weight	Default rate	Recovery rate	Loss rate
New vehicles	50.0	1.1	65.0	0.4
Used vehicles	50.0	1.75	65.0	0.6
Total stressed pool	100.0	1.4	65.0	0.5

Source: Fitch Ratings

Stressed Assumptions

(%)	Rating default rate	Rating recovery rate	Rating loss rate
AAAsf	8.9	35.8	5.7
AA-sf	6.5	43.6	3.7
Base case	1.4	65.0	0.5

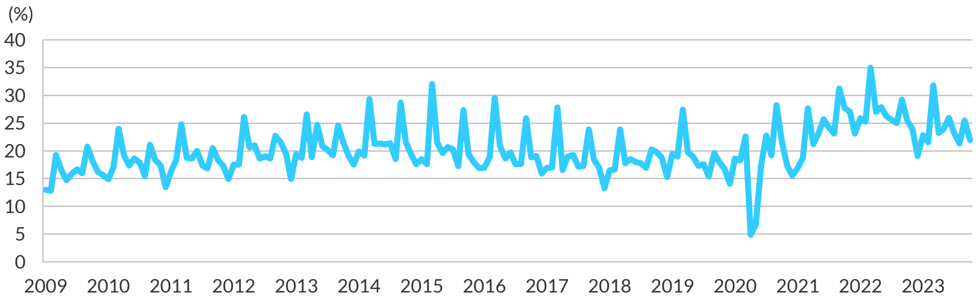
Source: Fitch Ratings

Prepayments

Fitch received historical dynamic data on prepayments since June 2008. The agency applied a 20% annual prepayments base case. This is in line with the long-term trend in VWFS UK's book. Prepayments dropped sharply in April 2020 following the imposition of lockdown restrictions, they quickly returned to pre-pandemic levels. There has been an uptick in prepayments since 2021, likely driven by rising used car prices improving the equity position of borrowers. However, we expect persistent rises in living costs and interest rates to dampen prepayments in the future.

To derive rating-specific prepayment rates, Fitch applied a linear interpolation between 20% at 'Bsf' and 0% at 'AA-sf', in line with the RV addendum criteria for loans exposed to VT risk. This is because in a high stress scenario, Fitch assumes borrowers are likely to use their VT rights instead of prepaying to terminate their agreement early, given that borrowers are likely to be in negative equity. Rating scenarios above 'AA-sf' are assumed to have 0% annual prepayments.

Annualised Prepayment Rate



Source: Fitch Ratings, VWFS UK

Key Asset Eligibility Criteria

Description
The purchase of the relevant receivables will not cause a breach of the concentration limits (see Portfolio Covenants below)
None of the obligors are an affiliate of VWFS
Obligors reside/are registered in England, Scotland, Wales or Northern Ireland
Obligors have no pending bankruptcy or insolvency preceding against them
Receivables are denominated in sterling
Receivables are non-delinquent
The financing contracts are governed by the laws of England and Wales, Northern Ireland or Scotland
The financing contracts are legal, valid, binding and enforceable
The status and enforceability of the receivable is not impaired due to warranty claims or any other rights of the obligor
The status and enforceability of the receivable is not impaired by set-off rights
The obligor does not maintain any deposits on accounts with VWFS
The financing agreement complies with the Consumer Credit Act
At least one payment has been made under the finance contract as of the cut-off date
The original term of the agreement does not exceed 72 months
No obligor accounts for more than 0.5% of the aggregate portfolio
The obligor is required to pay all insurance, repair/maintenance and taxes with respect to the related vehicle

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Portfolio Covenants

Description
Used vehicle share: must not exceed 60%
PCP-Used share: must not exceed 55%
Non-VW Group brands: must not exceed 10%

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Residual Value Risk

Borrowers with PCP agreements, which comprise about 92% of the portfolio, have the option to return their vehicle at contract maturity instead of paying the final RV amount. The issuer may incur RV losses if the sale proceeds from returned vehicles are less than the relevant contractual RV amounts. Fitch's analysis therefore considers the appropriateness of the originator's RV-setting, and incorporates rating-specific market value decline assumptions.

VWFS UK will repurchase any contracts where the obligor has opted to turn-in the vehicle. This means the issuer is only exposed to the market value risk if the seller is insolvent. Fitch has not given credit to this repurchase obligation in its analysis, as the seller is unrated and its ultimate parent is rated below the most junior instrument.

Base Case Sale Proceeds

Fitch set its base-case sale proceeds assumption at 100% of the contractual RV amount. There are three main considerations driving this.

- We believe VWFS's RV-setting policies are sufficiently conservative (see Residual Value Setting).
- RV turn-in rates are low, with less than 5% of monthly contract maturities typically resulting in a RV hand-back. In Fitch's view, this suggests that RVs have been set appropriately, as borrowers would have a strong incentive to turn in their vehicles if they were in negative equity at maturity.

- VWFS UK has not incurred any material losses even on vehicles that are returned, despite the negative selection bias in the historical data (i.e. the data only cover contracts where the borrower has opted to return the car, which suggests an increased likelihood of negative equity relative to contracts where the borrower has opted to pay the balloon amount).

RV Market Value Stress

Fitch applied an RV market value stress of 35% at 'AAAsf'. This is at the median level specified in our criteria.

A key consideration is the captive nature of the originator, which means there is an almost 100% concentration in VW Group brands (e.g. VW, Audi, Porsche, SEAT, Skoda). This increases the exposure of the pool to a potential default by the manufacturer, or to any quality or reputational issues affecting specific brands.

Nevertheless, the assumption gives credit to the large and liquid used car market in the UK, the well-distributed RV maturities and our expectation that parts and servicing will still be available for VW Group cars even following a default of the manufacturer.

Selling Costs and Administrator Fees

Fitch assumed average selling costs of GBP250 per vehicle to account for the expenses incurred to realise the sale proceeds (such as transportation and the storage of the vehicle).

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

Residual Value Turn-in Rates

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

Time to Sale

We applied our standard time to sale assumptions as outlined in our criteria, i.e. three months at 'AAAsf'.

Residual Value Share

Fitch expects that the RV share as a percentage of the outstanding portfolio balance will increase during the revolving period owing to the mechanical consequence of increased loan seasoning. There is also a risk that VWFS UK will set RVs for future originations higher than the current weighted-average in the portfolio. Fitch assumes the RV share within the PCP pool will increase to 64.4% by the end of the six-month revolving period, from 62.3% in the portfolio at closing.

Voluntary Termination Risk

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

We received loan-by-loan data for the final portfolio, which were used in Fitch's UK VT model to analyse the VT exposure and loss. The portfolio had a cut-off date of February 2024. For each contract, the model projects the outstanding principal balance of loan once 50% of the total amount payable has been paid, and compares it with the depreciated stressed car value at the same date. The VT exposure is adjusted to only be relevant to non-defaulted and non-prepaid borrowers, depending on the rating scenario.

Voluntary Termination Turn-In Rates

VWFS UK provided Fitch with VT performance data from 2002 onwards. It demonstrated termination volumes comparable to other UK transactions. We applied VT turn-in rates according to criteria. The VT 'AAAsf' turn-in rates were set at 50%.

Depreciation Rate

Fitch applied a weighted-average monthly depreciation of 1.8% to projected car values. The assumption was determined through an analysis of third-party used car price data provided by Autovista, for both the entire UK market and for the VW Group brands specifically. We also considered the share of new and used vehicles in the pool, assuming faster depreciation for new cars.

Voluntary Termination Market Value Haircut

Fitch assumed an add-on of 5% to the market value haircut applied for RVs across all rating scenarios. This is primarily to reflect the possible clustering of VTs during periods of macroeconomic stress, as the equity position of all borrowers simultaneously weakens. The 'AAA' VT market value haircut is therefore 40.0%.

Administrator Fee

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

Time to Sale

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

Integration of VT and RV Risk

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

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

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

Given the above, after considering defaults and prepayments in the respective ratings scenarios, Fitch has calculated an overall RV and VT loss of 22.8% at 'AAAsf' and 17.1% at 'AA-sf'. These figures factor the assumed increase in the share of PCP loans by the end of the revolving period.

Cash Flow Analysis

Credit Enhancement

The class A and B notes benefit from initial OC of 28.9% and 18.0%, respectively. It is possible OC will increase up to target thresholds during the revolving period as further receivables used to replenish the pool are expected to be sold with a haircut to their purchase price. However, in determining the level of OC to consider in its modelling of the amortisation phase, Fitch considered that loss and delinquency-based early amortisation triggers are weak, and are unlikely to be breached before the trigger linked to class A OC (see the Revolving Period section). This trigger is set at about 28.6%, 0.25pp below the initial class A OC.

Fitch therefore assumed that OC for the class A and B notes will decrease during the revolving period to 28.6% and 17.7%, respectively.

There is also an amortising cash reserve fund sized at 1.45% of the outstanding notes. However, this provides limited credit enhancement as it is topped up in a senior position in the waterfall and the majority of release amounts are paid out of the structure to VW.

Portfolio Amortisation

The originator provided the scheduled amortisation profile of the portfolio, split by the PCP, HP and LP sub-portfolios and by the instalment and RV portions of the receivables. Fitch then accounted for the impact of defaults and prepayments on the speed at which the portfolio amortises in its cash flow model. Interest income was generated on non-delinquent receivables. Available cash was distributed in line with the transaction's waterfall.

Default Timing

Defaults were allocated using front-, evenly and back-loaded default timing assumptions, which consider the weighted average life (WAL) of the portfolio net of base case prepayments, in line with Fitch's *Consumer ABS Rating Criteria*. The months in the table below refer to the month in which the borrower first becomes overdue. The default is assumed to follow three months later, in line with the typical policies of the servicer.

Default Timing – PCP Loans (22 Months Net WAL)

Months (%)	1-6	7-11	12-17	18-22	23-28	29-33	34-39
Front	40	25	20	10	5	0	0
Even	17	17	17	17	17	15	0
Back	10	12.5	12.5	15	22	15	13

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Default Timing – HP and LP Loans (18 Months Net WAL)

Months (%)	1-5	6-9	10-14	15-18	19-23	24-27	28-32
Front	40	25	20	10	5	0	0
Even	17	17	17	17	17	15	0
Back	10	12.5	12.5	15	22	15	13

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

The front-loaded and evenly-loaded default timing scenarios are the most stressful for class A and B, respectively, despite the fact that amortisation is non-sequential. As discussed in the Transaction Structure section, amortisation begins sequentially until the class A notes build OC up to a target threshold. The target OC is never reached under high rating stresses, meaning the timing of loss-based performance triggers does not affect the length of the pro rata period. This results in front-loaded defaults being most stressful, because in this scenario the performing receivables balance reduces more quickly, which has a compressing impact on excess spread.

Prepayments

Fitch tested the structure under a 0% prepayment assumption in high rating scenarios and modelled a linear distribution between 0% at 'AA-sf' and base case (20%) at 'Bsf' in line with its criteria for transactions exposed to VT risk. The agency did not differentiate between high and low prepayment scenarios.

Lower prepayments are more stressful for the transaction. Although the compression of excess spread is reduced in the absence of prepayments, this effect is dominated by the fact that prepayments result in lower RV exposure. Borrowers who prepay their loan must pay the full outstanding balance of their loan, meaning no market value risk arises.

Recovery Timing

The recovery timing was derived qualitatively based on the servicer's collection process and the servicer reports of other transactions rated by Fitch. The agency assumed that the majority of recoveries are received when vehicles are sold, assumed to occur within three months of a default.

Recovery Timing

Month after default	3	6	9	18	24
Recovery timing (%)	65	10	10	10	5

Source: Fitch Ratings

Portfolio Yield and Discount Rate

Fitch modelled a dynamic portfolio yield available to the issuer which evolves over time.

The weighted-average contractual yield of the portfolio at closing is 9.2%, but the receivables are sold to the issuer applying a fixed discount rate of about 7.2%. As of the closing date, the discount rate consists of the following components.

Discount Rate Calculation (%)

Weighted average swap rate	5.30
Servicing fee	1.00
Senior expenses	0.03
Interest compensation rate	0.90
Total	**7.23**

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

In determining the yield available to the issuer, Fitch considered the following factors.

- Unless a performance trigger is breached, the buffer release component of the discount rate is paid back to the seller, and so does not provide excess spread to the transaction.
- However, because the weighted-average swap rate tends upwards as the class A notes amortise (given their lower expected swap rates), and the buffer release is calculated as the differences between the fixed discount rate percentage and the sum of the other discount rate components, the buffer release rate decreases over time.
- The interest compensation rate is initially only available to cover for losses related to the early termination of loans sold to the issuer at a premium.
- However, if the weighted-average swap rate increases to such an extent that the buffer release rate becomes negative, a portion of the interest compensation rate may be used to offset the negative buffer release amounts, subject to certain conditions being satisfied. Moreover, if a performance trigger is breached, the interest compensation rate becomes fully available to the issuer in available funds.

In our modelling, we therefore initially deduct the interest compensation and buffer release rates from the modelled yield. As the instruments amortise, the WA swap rate increasing causes the buffer release to decrease, resulting in a gradual increase in the yield modelled until the class A and B notes are amortising pro rata with one another. If a performance trigger is breached, the full buffer release and interest compensation rates are added to the modelled yield.

Senior Fees

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

Interest Rate Stresses

We tested the ability of the structure to withstand rising, stable and decreasing interest rate scenarios. The applied interest rate stress assumptions were derived in accordance with Fitch's *Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria*.

Interest rate risk is mostly mitigated by the interest rate swap. Decreasing interest rates are marginally more stressful, because we assume the issuer earns a negative interest rate on its accounts in this scenario.

Rating Sensitivities

Rating Sensitivity to Increased Defaults and Reduced Recoveries

	Class A	Class B
Original rating	AAAsf	AA-sf
Increase defaults by 10%	AAAsf	AA-sf
Increase defaults by 25%	AAAsf	A+sf
Increase defaults by 50%	AAAsf	A+sf
Reduce recoveries by 10%	AAAsf	AA-sf
Reduce recoveries by 25%	AAAsf	A+sf
Reduce recoveries by 50%	AAAsf	A+sf
Increase defaults and reduce recoveries by 10% each	AAAsf	AA-sf
Increase defaults and reduce recoveries by 25% each	AAAsf	A+sf
Increase defaults and reduce recoveries by 50% each	AA+sf	Asf

Source: Fitch Ratings

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

No change or positive change
Negative change within same category
-1 category change
-2 category change
-3 or larger category change
See report for further details

Rating Sensitivity to Reduced Net Sale Proceeds

	Class A	Class B
Original rating	AAAsf	AA-sf
Reduce net sale proceeds by 10%	AA+sf	Asf
Reduce net sale proceeds by 25%	AA-sf	BBB+sf
Reduce net sale proceeds by 50%	BBB+sf	BB+sf

Source: Fitch Ratings

Rating Sensitivity to Multiple Factors

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

Source: Fitch Ratings

Rating Sensitivity to Positive Factors

	Class A	Class B
Original rating	AAAsf	A+sf
Reduce defaults and increase recoveries by 10% each	See below	AA-sf
Increase net sale proceeds by 10%	See below	AA+sf
Reduce defaults by 10% and increase recoveries and net sale proceeds by 10% each	See below	AA+sf

Source: Fitch Ratings

The class A notes are at their maximum achievable rating and cannot be upgraded.

Transaction Structure

The table below shows a simplified overview of the initial issuer balance sheet.

Expected Balance Sheet

Assets	Amount (GBPm)	Liabilities	Amount (GBPm)	Size (% of receivables)
Receivables	625.0	Class A	444.6	71.1
Cash reserve	7.4	Class B	68.1	10.9
		Subordinated loan	74.8	12.0
		PPD OC	37.6	6.0
		PPD cash reserve	7.4	1.2
Total	**632.4**		**632.4**	**101.2**

Notes: PPD - Purchase price discount. Liabilities total is based on the unrounded liabilities' amounts.
Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

The acquisition of the portfolio was financed through the issuance of the rated class A and B notes, the subordinated loan and a discount to the purchase price (which provides further OC).

In addition, there is a cash reserve fund sized at 1.45% of the outstanding class A and B notes. This was also financed through a purchase price discount. The reserve will amortise in line with the class A and B notes, subject to a floor of the lesser between 1% of the initial note balance and the outstanding balance of the class A and B notes.

The reserve primarily provides liquidity coverage for senior fees and interest on the notes. Its ability to provide credit enhancement is limited, because release amounts from the reserve as it amortises will be paid first to the subordinated lender and then to VWFS UK (unless a credit enhancement increase condition is in effect). However, the reserve can be released to amortise the notes at the earlier of the legal final maturity date and the date on which the portfolio balance decreases to zero, at which point it can provide CE.

The issuer purchased the portfolio at a net present value price, calculated using a single discount rate fixed at a value of about 7.2%. If the discount rate exceeds the weighted-average contractual interest rate of the pool, there will be some artificial excess spread provided by the discounting. However, a portion of the discount rate will usually be excluded from available funds. See the Portfolio Yield and Discount Rate section.

Revolving Period

The transaction features a six-month revolving period, during which time collections from the portfolio will be used to purchase further receivables rather than to amortise the notes.

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

a. A servicer replacement event.

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

c. The class A actual OC percentage falls below 28.61% on any payment date.

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

e. The seller fails to perform repurchase related obligations.

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

g. The credit enhancement increase condition (CEIC) is in effect.

h. A foreclosure event (issuer insolvency events).

i. An insolvency event in respect to VWFS UK.

j. The reserve is not replenished at its target.

Credit Enhancement Increase Conditions

Trigger variable	Condition	Trigger level (%)
Dynamic net loss ratio	Weighted average seasoning (WAS) of portfolio is ≤12 months	0.3
	WAS of portfolio is >12 and ≤22 months	0.75
	WAS of portfolio is >22 and ≤34 months	2.0
	WAS of portfolio is >34 months	n.a.
Cumulative net loss ratio	Months 1-5	0.8
	Months 6-11	1.8
	Month 12 onwards	4.0
180+ delinquency ratio	On any payment date until March 2025	1.3

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

In Fitch's view, the triggers linked to net losses and 180+ delinquencies are very unlikely to be breached during the revolving period. We believe the most effective performance trigger is the one linked to the class A OC, which is set 0.01pp below the level of OC at closing. We assume a migration of class A OC down to this trigger threshold during the revolving period.

Simplified Priority of Payments

Item	Description
1	Taxes
2	Amounts payable to the security trustee
3	Servicing fee
4	Other fees – e.g. to the account bank, corporate services provider, etc.
5	Payments to the swap counterparty
6	Class A interest
7	Class B interest
8	Replenishment of the reserve to its target amount
9	Class A principal up to the target amount (or purchase receivables during revolving period)
10	Class B principal up to the target amount (or purchase receivables during revolving period)
11	Payments to the swap counterparty other than those covered by (5)
12	Subordinated loan interest
13	Subordinated loan principal
14	Remaining amounts paid to VWFS UK

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

The transaction has a combined waterfall with hybrid pro rata amortisation. The class A and B notes have target OC levels as summarised below.

Current and Target OC Levels (%)

	OC at announcement	Target OC during revolving Period	Target OC during amortisation	Target OC after occurrence of CEIC
Class A	28.9	31.1	33.1	100.0
Class B	18.0	20.3	22.3	100.0

Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

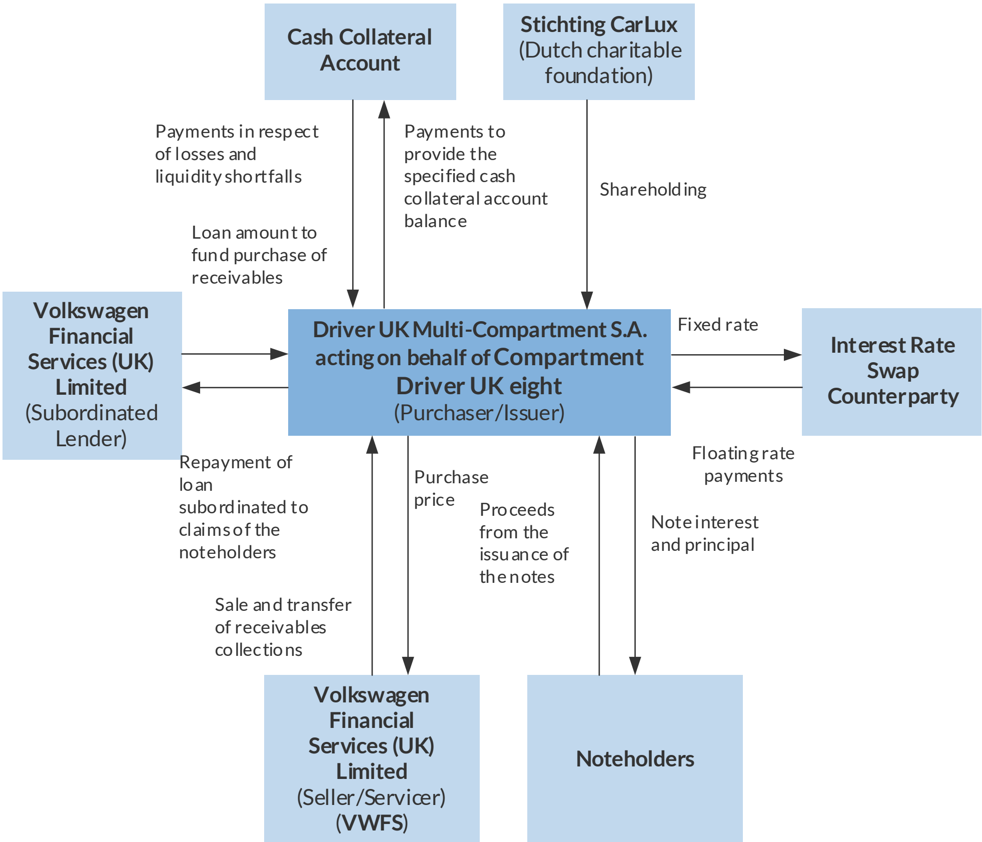
During the revolving period, further receivables transferred to the issuer to replenish the portfolio will be sold with a 3.402% haircut to the purchase price, allowing for a build-up of OC towards to the target OC thresholds applicable during the revolving period. Once these targets are satisfied, any excess cash is allowed to flow down the waterfall to make payments to the subordinated loan.

Following the end of the revolving period, both classes of notes will begin amortising sequentially until the class A notes have reached their target OC applicable during the amortisation period. At this point, the class A OC will be held constant at the target, with excess cash allocated to the class B notes until their target OC is reached. When both the class A and B notes are at target OC, they amortise pro rata with one another to hold these levels stable, with excess cash being used to amortise the subordinated loan.

If a CEIC occurs, or if the remaining balance of the portfolio is less than 10% of its maximum balance, the target OC will increase to 100% for all classes, meaning amortisation becomes irreversibly strictly sequential.

Fitch incorporated the CEICs and amortisation mechanics in its cash flow modelling. We observed that under high rating stresses, there is limited reliance on the loss triggers to end the pro rata period. This is because it is difficult for target OC thresholds to be satisfied when portfolio losses are high, preventing the initial switch to pro rata. In lower rating scenarios, pro rata periods are naturally much longer.

Structure Diagram



Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Interest Compensation Mechanism

Although the portfolio was sold at a premium on aggregate, some loans in the pool are expected to have a contractual interest rate which exceeds the discount rate, meaning they will be purchased at a discount.

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

The portion of the discount rate corresponding to the interest compensation rate may be used to compensate the issuer for such losses.

Upon the occurrence of a credit enhancement increase condition, the full balance of the interest compensation ledger (which will be funded at GBP4 million at closing), as well as any future receipts related to the interest compensation rate component of the discount rate, will form part of available funds and provide further protection to the rated notes.

Interest Rate Swap

At closing, the issuer entered into swap agreements to hedge against the fixed-floating interest rate mismatch. The issuer pays a fixed rate, and receives SONIA plus the margin on the class A and B notes. The swap notional is the outstanding balance of the class A and B notes.

Clean-Up Call

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

Rating Confirmations

Fitch is not a transaction party and has no obligation to provide rating confirmations. We will continue to exercise our discretion in choosing to issue a rating confirmation or otherwise. Where relevant to our ratings, we prefer to issue public commentary on the rating impact of the change. Fitch's approach to and concerns regarding rating confirmation are highlighted in Rating Confirmations in Structured Finance and Covered Bonds.

Disclaimer

Fitch relies in its credit analysis on legal and/or tax opinions provided by transaction counsel for the avoidance of doubt. Fitch has always made clear that it does not provide legal and/or tax advice or confirm that the legal and/or tax opinions, or any other transaction documents, or any transaction structures, are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions. dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Impact of Banking Act 2009 and Related Secondary Legislation

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

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

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

Counterparty Risk

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

Counterparty Risk Exposures

Counterparty type	Counterparty name	Rating	Minimum ratings and remedial actions under documents	Relevant mitigants/ analytical adjustments
Transaction account bank	Bank of New York Mellon, London Branch	Deposit rating: AA+ / Stable / F1+	Minimum IDR (or deposit ratings as applicable) of A or F1; replacement or guarantee within 60 calendar days of downgrade below both minimum ratings.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Interest rate swap provider	Royal Bank of Canada plc	DCR: AA(dcr) IDR: AA-/Stable/F1+	Minimum IDR (or Derivative Counterparty Rating, as applicable) of A or F1. On the loss of A and F1, post the mark-to-market portion of the collateral within 14 calendar days, and within 60 calendar days either post the volatility cushion and liquidity adjustment portions of the collateral, replace the counterparty with an eligible institution or obtain a guarantee. On the loss of BBB-and F3, post the mark-to-market, volatility cushion and liquidity adjustment portions of the collateral within 14 calendar days, and either replace the counterparty with an eligible institution or obtain a guarantee within 60 days.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Servicer	Volkswagen Financial Services (UK) Ltd.	Not rated. Volkswagen AG as ultimate parent is rated A- / Stable.	On the loss of BBB or F2, post collateral within 14 calendar days to cover expected future collections.	No adjustment. Minimum rating and remedial actions are sufficient to mitigate commingling risk.

IDR: Issuer Default Rating
Source: Fitch Ratings, Driver UK Multi-Compartment S.A. – Compartment Driver UK eight

Servicing

VWFS UK acts as the servicer for the transaction. The servicer is not rated by Fitch, but it is a wholly owned subsidiary of VW Finance Europe B.V., in turn wholly owned by VWFS AG. The latter is itself a wholly owned subsidiary of VW AG. A servicer replacement event is triggered by, among other events, the following.

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

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

Commingling Risk

VWFS UK receives collections and holds the funds in its own accounts, before being transferred to the issuer. In line with Fitch's counterparty criteria, Fitch considers commingling risk as a secondary risk driver for the transaction. There are mitigants in place, which Fitch believes adequately reduce any commingling risk that could arise from a default of the servicer.

Funds are transferred on a monthly basis. However, a collateral-posting mechanism comes into effect if the monthly remittance condition is deemed not to be satisfied. Following a breach of the monthly remittance condition, VWFS UK may continue to commingle collections with their own funds until provided they comply with the following mechanism within 14 calendar days of the breach.

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

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

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

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

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

On any of the following events, the monthly remittance condition is deemed not to be satisfied.

- VW AG is no longer rated at least 'BBB' or 'F2' by Fitch;
- In the chain of holdings between VW AG and VWFS UK either (i) the profit and loss agreement or the letter of comfort between VW AG and the parent of the servicer ceases to be in effect, or (ii) any company in such chain is not a branded "Volkswagen".
- VW AG directly or indirectly holds less than 75% of the shares of the servicer.

Fitch deems the proposed mechanism to adequately address commingling risk.

Payment Interruption Risk

Fitch considers payment interruption risk (PIR) as a primary credit risk for the transaction. However, a reserve fund is in place to mitigate this risk.

The liquidity reserve is available to cover for senior fees and class A and B interest. The transaction has a combined waterfall and the reserve is replenished senior to all principal items, meaning it is very unlikely that the reserve would be depleted by poor asset performance.

We assessed the level of coverage for senior expenses and class A and B interest provided by the reserve, and deemed it adequate to cover for 2.6 months of payments. This is slightly shorter than the typical PIR period of three months Fitch usually assumes, but the agency is not concerned about with such a short period. This is owing to a number of factors, including the standard nature of the assets and the availability of potential replacement servicers in the UK auto market. In addition, the collateral-posting mechanism described above in relation to commingling may also contribute to cover payments on the notes in the event of a payment interruption event.

In Fitch's view, payment interruption risk is therefore adequately mitigated.

Set-Off Risk

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

Account Bank

The Bank of New York Mellon, London Branch, acts as account bank for the issuer.

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

The replacement must be implemented within 60 calendar days from the downgrade. Fitch deems the issuer's exposure to the account bank to be a primary credit risk. The documented rating thresholds and remedial actions are in line with those outlined in our counterparty criteria.

Swap Counterparty

At closing, the issuer entered into interest rate swap agreements with Royal Bank of Canada, for the class A and B notes. The mechanics of the swaps are described in more detail in the Interest Rate Swap section. The swaps will be in place for the entire lifetime of the rated notes, as per the documentation.

We classify the exposure to the swap provider as a primary credit risk. The documented rating requirements for the swap providers and remedial actions are in line with those outlined in our counterparty criteria.

Under the transaction documentation, the swap counterparties of the revolving series need to be rated at least 'A' or 'F1' to be eligible. Otherwise they are contractually obliged to post collateral while being rated at least 'BBB-' or 'F3' or procure an eligible guarantee.

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of Applicable Criteria.

Fitch applies the *Consumer ABS Rating Criteria* and the *Consumer ABS Rating Criteria – Residual Value Addendum* as its sector-specific criteria under the overarching framework provided by the *Global Structured Finance Rating Criteria*, the master criteria for the sector. The *Structured Finance and Covered Bonds Country Risk Rating Criteria* outline Fitch's approach to assigning and maintaining structured finance and covered bond ratings, where the relevant sovereign's Local-Currency Issuer Default Rating is below 'AAA'. The remaining criteria listed under Applicable Criteria are cross-sector criteria that outline aspects of Fitch's approach to counterparty risk and interest rate change vulnerability relevant for the ratings.

Models

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

Consumer ABS Asset Model

UK Voluntary Termination Model

Multi-Asset Cash Flow Model

Data Adequacy

Fitch relied on the following key data sources provided by VWFS UK in its analysis.

- Origination volumes since 2002 for the sub-portfolios of new/used vehicles and HP/PCP/LP contracts.
- Dynamic, monthly delinquency data from June 2007 for the combinations of sub-portfolios of new/used vehicles and HP/PCP/LP contracts.
- Static, quarterly gross and net loss vintages since 2002 for all combinations of the sub-portfolios of product type (PCP/HP/LP), vehicle type (new/used) and termination type (default, VT, RV early settlement).
- Recovery data since 2002, split by all combinations of contract type (PCP/HP/LP), vehicle type (new/used) and termination type (default, VT, RV, early settlement). The data are split by cash and sale recoveries, and by amounts received before and after 18 months from default.
- Dynamic, monthly profit and loss data on VT terminations since July 2002 and RV sale proceeds since September 2004.
- Loan-by-loan data of the final pool with cut-off date February 2024.
- Scheduled amortisation profiles for the final pool.
- Dynamic, monthly prepayment data from June 2008 for the originator's overall loan book.

Use of Third-Party Due Diligence Pursuant to SEC Rule 17g-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

Surveillance

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

Fitch will receive monthly investor reports detailing the performance of the portfolio. The monthly reports will provide the basis for the agency's surveillance of the performance of the transaction against base-case expectations and the performance of the industry as a whole. Where appropriate, the agency may ask to monitor further data from VWFS UK.

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

Appendix 1: Origination and Servicing

Originator Overview

VWFS UK is wholly owned by VW Finance Europe B.V. which, in turn, is a wholly owned subsidiary of VWFS AG, which has its headquarters in Braunschweig, Germany. It offers finance products in the UK, supporting the automotive brands within the VW Group, including Volkswagen, Volkswagen commercial vehicles, Audi, Porsche, Lamborghini, Bentley, Cupra, SEAT and Skoda.

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

Origination volumes grew rapidly from 2010 to 2017, supported by increasing finance penetration in the UK and the popularity of PCP agreements. New business growth flattened in 2018 and 2019, mirroring broader trends in the UK car market, before falling rapidly in 2020 due to the Covid-19 pandemic. Volumes have since recovered, driven by increased used car financing and further supported by rising car prices leading to higher average financed amounts.

Underwriting

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

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

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

VWFS UK' current affordability rule is due to be tightened in light of cost of living pressures to account for potential increases in customer's expenditure. VWFS UK also plan to upgrade their affordability strategy in 2023 by incorporating Current Account Turnover data to assess whether the applicant's discretionary income is sufficient to support the loan requested.

Residual Value Setting

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

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

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

Servicing and Collections

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

A number of forbearance options are available to borrowers being impacted by cost of living pressures. If customers are able to confirm that their financial situation is going to improve within a suitable timeframe, they may be offered a flexible payment plan, which reduces payments, or 'breathing space' which is a 30/60 day hold to allow customers to seek financial advice from a debt free charity. These are in addition to their usual end of contract options.

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

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

Appendix 2: ESG Relevance Score

FitchRatings

Driver UK Multi-Compartment S.A. - Compartment Driver UK eight

SF ESG Navigator
ABS - Auto

Credit-Relevant ESG Derivation

Driver UK Multi-Compartment S.A. - Compartment Driver UK eight has 6 ESG potential rating drivers

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

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	4	issues	2
	4	issues	1

Environmental (E) Relevance Scores

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

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

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

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE - DEFINITIONS

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

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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