

Rating Object	Rating Information	
Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2016-1 Closing Date: 27.06.2016 Exchange: Luxembourg Stock Exchange Issuer: Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2016-1 Issuer Type: Luxembourg Special Purpose Vehicle Co-Arrangers: Volkswagen Financial Services AG, Lloyds Bank plc Asset Class : Auto Loan Receivables	Assigned Ratings: Class A: AAA_{SF} Class B: A+_{SF}	Type: Initial Rating, New Issue Report
	Rating Date: 17.06.2016 Publication Date: 27.06.2016 Rating Renewal: -	
	Rating Methodologies:	CRA "Auto ABS Securitizations"

Class	Rating	Amount (GBP)	Credit Enhancement	Fixed Interest Rate	Final Maturity	ISIN
A	AAA _{SF}	576,000,000	24.40%	1.2909%	25.03.2025	XS1400629520
B	A+ _{SF}	62,300,000	16.09%	1.8528%	25.03.2025	XS1400629959
Sub. Loan	NR	105,704,084	2.00%	-	25.03.2025	N/A
OC	-	6,000,000	-	-	-	-

Transaction Summary

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The Driver UK Multi-Compartment S.A., Compartment Private Driver UK 2016-1 transaction ("PDUK") is a securitisation of a pool of auto financing contracts originated in the United Kingdom. Volkswagen Financial Services UK Ltd. ("VWFS"), acting as Seller and Servicer of these receivables, is a wholly owned subsidiary of Volkswagen Financial Services AG ("VWFSAG"). VWFSAG is a captive and 100% subsidiary of Volkswagen AG ("VWAG").

The initially securitised asset pool is a portfolio consisting of 43,189 contracts originated by VWFS to retail and corporate customers. The transaction features a 11 months revolving period and is secured by new and used vehicle financing contracts. The portfolio has a weighted average remaining term of approximately 39 months and a total volume of initially GBP 750,004,084.

Creditreform Rating AG ("Creditreform Rating" or "CRA") has assigned ratings to PDUK Class A and Class B Notes. In addition to the issuance of the rated Class A and Class B Notes, a Subordinated Loan will be granted to fund the purchase of financing contracts. The combination of the Subordinated Loan, overcollateralization (OC) and Cash Collateral Account (CCA) will provide credit enhancement to the rated Class A and Class B Notes.

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Key Rating Findings

- + Stable economic environment and strong macroeconomic factors should support VWFS's ABS strategy and future portfolio performance
- + Low counterparty risk exposure due to fixed rate notes
- + Established origination, servicing & recovery procedures
- Potentially negative impact of VW AG diesel emission manipulations on future portfolio performance
- Issuer is exposed to residual value risk from personal contract purchase (PCP) contracts
- Extended 11 months revolving period may increase adverse risk characteristics of the pool

Transaction Structure

Transaction Parties

Table 1: Transaction Parties

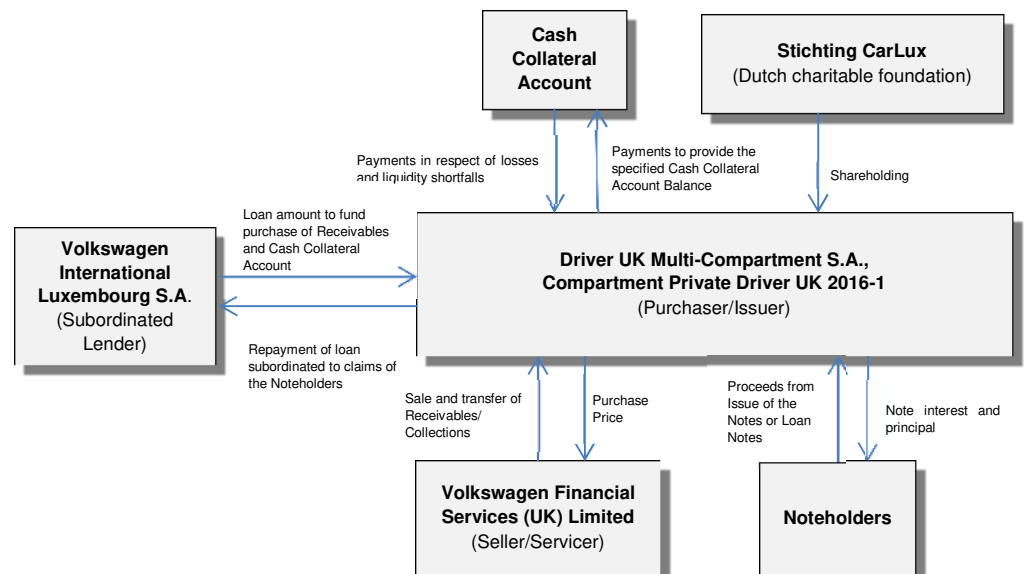
Role	Name
Issuer	Driver UK Multi-Compartment S.A, Compartment Private Driver UK 2016-1, Luxembourg
Seller / Servicer	Volkswagen Financial Services (UK) Limited, Milton Keynes
Co-Arrangers	Volkswagen Financial Services AG, Braunschweig Lloyds Bank plc, London
Lead Manager	Lloyds Bank plc, London
Manager	Volkswagen Bank GmbH, UK Branch, Milton Keynes
Subordinated Lender	Volkswagen International Luxembourg S.A., Luxembourg
Account Bank	The Bank of New York Mellon, London Branch, London
Corporate Service Provider	Wilmington Trust SP Services (Luxembourg) GmbH, Luxembourg

Issuer

The structure of the transaction is shown below (Figure 1). The Issuer, Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Private Driver UK 2016-1, is a special purpose vehicle (SPV) incorporated under the laws of Luxembourg. The public limited liability company (*société anonyme*) is registered with the Luxembourg Trade and Companies Register and has explicitly stated in its Articles of Incorporation to be governed by the Luxembourg Securitisation Law. The Issuer is a securitisation company with the sole purpose of entering into securitisation transactions through separate compartments.

Risks related to the Issuer are limited, by the compartment structure being ring-fenced and with limited recourse to other creditors of the Issuer, including non-petition provisions. We regard to the structure of the Issuer as being bankruptcy-remote. CRA conducted its rating assuming no adverse future change in Luxembourg securitisation law. A legal opinion addressing the issuer structure was provided.

Figure 1: Transaction Structure | Source: VWFS



The Issuer has entered into a receivables purchase agreement, agreeing on the initial and revolving purchase of receivables pursuant to the ordinary course of the seller's business, where the related financing contracts are governed under the laws of England and Wales or Scotland. Apart from legal specifics (pending perfection of assignment, trustees for different jurisdictions) PDUK will acquire all right, title and interest arising from such receivables. Legal opinions addressing the legality, validity and enforceability of such receivables were provided.

Seller and Servicer

VWFS challenged by saturated markets and current VW AG diesel emissions manipulation, EUR 18bn provisions cut into FY2015 profits

VWFS is a wholly owned subsidiary of VWFSAG and acts as Seller and Servicer of the financing contracts. VWAG is the parent company of VWFSAG, holding 100% of its shares and thus a controlling interest. VWAG's financial division, as represented by VWFSAG, is a core business of the group with a significant contribution to group total earnings. In our view, the strong integration of VWFSAG within the VW group places an upper bound on its rating. We assigned to VWFSAG an internal credit assessment equivalent to the internal credit assessment of VWAG.

VWAG is currently facing legal and financial uncertainties resulting from the use of particular software in type EA 189 EU5 diesel engines. On September 18th, the US Environmental Protection Agency (EPA) published a Notice of Violation alleging Volkswagen of having used certain software in diesel engines to circumvent emission standards under the Clean Air Act. According to a public announcement by VWAG, around 11 million vehicles worldwide might be affected. The VW group stated in a subsequent press release that about 1.2 million vehicles were set for a recall in UK. On December 16th, Volkswagen announced that the general technical measures had been approved by the German Federal Motor Transport Authority (*Kraftfahrtbundesamt*, KBA). These measures apply to all EU-28 markets. The UK Competition and Markets Authority has not opened a formal investigation yet.

As of December 2015, VWAG increased its sales revenues by 5.4% to EUR 213.3bn and reported a EUR -4.069bn operating profit (FY 2015), down EUR 16.8bn year-on-year. Provisions in the passenger car area amounting to EUR 18bn were a major cause for this decline. The impact of diesel-related issues also triggered lower expectations in FY2016 earnings targets.

At the end of January 2016, VWAG began the implementation of the technical measures for affected EA 189 engines in Europe. On February 18th Volkswagen announced the successful completion of required software modifications in over 50% of the first wave in Germany. On April 28th, Volkswagen started the recall of the first wave of Golf models in Europe. At the beginning of June 2016, the Federal Motor Transport Authority (KBA) authorized the modification of further vehicles of the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and Audi brands. The KBA has thus so far approved more than 2.5 million Group vehicles for the modification. For all model versions released to date, the KBA has confirmed that after the software update there is no change to the fuel consumption levels, performance figures or noise emissions of the affected models.

VWAG is in exchange of information with authorities to coordinate remedial actions. VWAG is currently exposed to various investigations as well as lawsuits in which authorities, investors and individuals could assert claims against VWAG or its subsidiaries. The long-term implications of the manipulation of diesel emissions might include reputational damage, reduced sales, and negative financial impacts due to fines, costs of recall campaigns and higher financing costs. Creditreform Rating will closely monitor all future developments and implications for the transaction (also see "Counterparty Risk" below).

Revolving Period

The transaction features an initial revolving period of 11 months. During this period, and according to the order of priority, the remaining distributions less taxes, fees, costs and interest for Class A and Class B notes will be used for the purchase of new receivables instead of amortisation. Since the additional receivables are bought with a purchase price discount, the overcollateralization of notes will increase until the target OC percentages are reached. The occurrence of an early amortisation event (also see "Order of Priority and Triggers") may end the revolving period prematurely.

True Sale

The securitised financing contracts are governed by the jurisdictions of England and Wales or Scotland. Since the assignment of receivables from VWFS to the Issuer will take place in equity only, no notice of the assignment and sale need be given to obligors at closing. In order to mitigate the risk that a Scottish receivables transfer could be considered not valid, VWFS will declare a Scottish Trust in favour of the Issuer.

We obtained legal opinion that the relevant financing contracts constitute legal valid, binding and enforceable agreements.

Eligibility Criteria

The criteria are presented in reduced form (see Table 2). VWFS as seller warrants that, as of the purchase date:

Table 2: Eligibility Criteria

Eligibility Criteria	
1	Receivables have been selected randomly and not with the intention to prejudice the noteholders
2	Concentration limits: used cars max. 50%, non-VW group brand vehicles max. 10%
3	No VWFS-obligors
4	Financing contracts held out to obligors registered or residing in England and Wales or Scotland only
5	No defaulted receivables
6	Currency is GBP
7	No overdue receivables
8	Financing contracts governed under the laws of England and Wales or Scotland
9	Contracts are legal valid, binding and enforceable
10	Enforceability of the purchased receivables is not impaired
11	No set-off rights with VWFS bank deposits
12	CCA compliant contracts
13	Contracts from ordinary course of business
14	Obligor has at least paid two instalments
15	Instalments are substantially equal through time
16	Max. contract term of 72 months
17	Balloon payments allowed
18	Compliance with data protection
19	Obligor obligation to pay insurance, repair, maintenance, taxes
20	No total damaged or stolen cars
21	Single obligor concentration limit: GBP 500,000
22	Car and contract are registered by VWFS
23	No Porsche PCP contracts

Capital Structure

The discounted receivables balance is calculated using a discount rate equal to 4.4275% per annum. The discount rate is used to cover senior expenses and the servicing fee. At the onset of the transaction, it is calculated as follows (Table 3):

Table 3: Discount Rate Composition

Parameters	
Servicing fee (%)	1.0000
Senior expenses (%)	0.0300
Weighted fixed interest payments	1.6975
Interest Compensation Rate (%)	1.7000
Discount Rate (%)	4.4275

The total balance sheet of the Issuer is shown in Table 4 and is composed as follows:

Table 4: Private Driver UK 2016-1 Balance Sheet

Assets	Amount (GBP)	Liabilities	Amount (GBP)	Size (%)
Receivables	750,004,084	Class A	576,000,000	76.80
Cash reserve (CCA)	9,000,000	Class B	62,300,000	8.31
		Sub Loan	105,704,084	14.09
		PPD OC	6,000,000	0.80
		Cash Reserve (CCA)	9,000,000	1.20
Total	759,004,084		759,004,084	101.20

The Class A notes represent 76.80% and Class B notes 8.31% of the discounted receivables balance. Credit enhancement to the notes is provided by a Subordinated Loan (14.09%) and a purchase price discount (2.00%) calculated as the sum of a purchase price discount for overcollateralization (0.80%), and a cash reserve funded at initially 1.20% of the receivables balance and floored at a minimum of 1.00% of the maximum discounted receivables balance.

Interest Shortfalls

Interest shortfalls are losses resulting from a difference of the obligor's balance and the securitised balance when an obligor prepays his contract under the UK Consumer Credit Act legislation. The difference is a result of different discount rates applied when a contract is securitised (obligor's contract- and transaction-rate).

To cover these losses, a dedicated interest compensation ledger will be funded by the Seller with initially 1.5m GBP or 0.20% of the initial discounted receivables balance. Although it will be held on the cash collateral account, it will not form part of the general cash collateral amount.

The interest compensation amount¹ will be used to compensate actual interest shortfalls due to early settlements. Any remainder is then credited to the interest compensation ledger. If the ledger exceeds the initial amount of 1.5m GBP, any surplus shall be released to the Seller. Once an amount equal to the initial amount of the interest compensation ledger has been paid to the Seller, the interest compensation ledger will be replenished up to 3m GBP (0.40% of the discounted receivables balance) before further releasing any surplus to the Seller.

CRA estimates that an average portfolio contract with a contract rate of 6.31%, purchased at a discount rate of 4.4275% and with a remaining term of 39 months, will have an average spread (securitised balance divided by obligors balance) of approximately 1.78% over its life. In our view, the buffer jointly provided by the interest compensation rate (1.70%) and the dedicated ledger reserve (0.20%) is sufficient to cover losses arising from interest shortfalls.

¹ (Interest compensation rate / 12) * (Future discounted receivables balance)

FX and Interest Rate Risk

The transaction has no direct exposure to interest rate risks, as asset and liability interest rates are fixed. The account agreement allows for charges to any of the Issuer's accounts or balances if the corresponding reference value is negative or zero. Any charges will be subject to the applicable order of priority.

However, indirect interest rate risks remain, i.e. when VWFS changes its average contract rate within the revolving period. A widening spread between transaction- and contract rate would result in potentially higher interest shortfalls.

The transaction is not exposed to FX-risk because assets and liabilities were calculated in the same currency (GBP).

Order of Priority and Triggers

Monthly payments to transaction parties are calculated from the available distribution amount and will be distributed according to the order of priority. The monthly amount available for distribution and the order of priority are shown below (Table 5, Table 6):

Table 5: Private Driver UK Distributions

Available Distribution Amount	
1	+ Interest accrued on the accumulation account and the distribution account
2	+ Collections received or collected by the Servicer
3	+ Payments from CCA
4	+ Accumulation account (upon end of revolving period)
5	+ Interest compensation to Issuer
6	- Interest compensation ledger release to VWFS
7	+ Interest compensation ledger release (upon insolvency of VWFS)

Table 6: Priority of Payments

Order of Priority	
1	Taxes, senior expenses and fees
2	Interest payments on the class A note (accrued and unpaid)
3	Interest payments on the class B note (accrued and unpaid)
4	Payment to the cash collateral account
5	Payment to the Class A amortisation amount or to the Class A accumulation amount (revolving period)
6	Payment to the Class B amortisation amount or to the Class B accumulation amount (revolving period)
7	Accrued and unpaid interest on the subordinated loan
8	Principal payment of the outstanding balance of the subordinated loan
9	Payment of a final success fee

Interest payments of Class A notes rank senior to interest payments of Class B notes. The targeted note balances are calculated with respect to a target level of overcollateralization. The overcollateralization (OC) level can be defined as the relative excess of the aggregate discounted receivables balance over the nominal amount of the Class A or Class B notes.

Principal payments of Class A note are granted sequential priority over those of Class B until the Class A target OC level has been reached ("sequential amortisation"). After this event, Class A and B notes will be redeemed on a pro-rata basis, maintaining the Class A target OC level while redeeming Class B notes until the Class B target OC level has been reached. Table 7 shows the transaction's target OC levels.

Transaction benefits from OC and uses performance triggers to switch between sequential and pro-rata amortisation

Table 7: Target Overcollateralization Levels

Overcollateralization Levels	Class A	Class B
Initial OC level (%)	23.2	14.9
Target OC, during revolving period (%)	26.0	16.5
Target OC, after revolving period (%)	30.0	19.5
Target OC, upon CEIC is in effect (%)	100.0	100.0

The structure will switch to sequential amortisation when the asset balance has amortised to 10% of the initial balance or pursuant to an early amortisation event (Table 8).

Table 8: Early Amortisation Events

Early Amortisation Event	
1	Servicer replacement
2	No more receivables to purchase (accumulation balance > 15% of discounted receivables balance, on two consecutive payment dates)
3	Class A OC level drops below 23.2% (with grace period of first 3 months)
4	VWFS ceases to be a group member of VWAG
5	VWFS does not fulfil repurchase obligations
6	CEIC is in effect
7	Balance of the Interest compensation ledger is zero on any payment date
8	Occurrence of foreclosure event

In the event that the portfolio suffers net losses above specific threshold levels, this may result in an early amortisation of the notes (a "credit enhancement increase condition," CEIC). Table 9 shows all conditions for a CEIC relating to the cumulative net losses within realised a specific time horizon of the transaction.

Table 9: Credit Enhancement Increase Conditions (CEIC)

Date	Cumulative Net Loss Ratio exceeds (%)
before Sept. 2017	1.20
between Oct. 2017 and June 2018	2.30
at any date	3.50

Cash Collateral Account

The Cash Collateral Account (CCA) includes several positions. A cash reserve initially funded and amounting to 1.20% of the discounted receivables balance (the "General Cash Collateral Amount") is available to cover senior costs and note interest payments. Prior to the occurrence of a foreclosure event, the cash collateral account will be refunded on each payment date from the available distribution amount remaining after items 1-3 of the order of priority.

The CCA reduces to a floor amount of 1.00% of the maximum aggregated discounted receivables balance as of the end of the monthly period and is providing liquidity for fees, expenses and interest for approximately half a year.

Provided that either the final maturity date has been reached or the aggregate discounted receivables balance has been reduced to zero, any remaining General Cash Collateral Amount can be used to redeem the notes. Otherwise and before final maturity, any excess cash standing to the credit of the CCA will be distributed to make principal and interest payments of the Subordinated Loan or released as a final success fee to VWFS.

Operational Risk

Economic Outlook and UK Auto Loan Business

Our economic outlook for UK is positive. We expect a further moderate growth in GDP in the medium term for the UK economy. We forecast an increase in GDP growth to 2.0% for 2016 following a further increase to 2.2% for 2017. Growth in 2015 was mainly driven by a robust private consumption resulting from a moderate increase in wages. Showing a GDP growth to 2.3% in 2015, the UK economy outperformed the average European GDP growth (1.6%) for the fifth time in a row. The labour market as an important driver for UK's economy should support our economic outlook. The unemployment rate, which slightly decreased to 5.1%, and the low inflation rate support our positive outlook.

In 2015 we observed a stimulation of lending in the sector, the net consumer loan volume expanding up to 7.7% year over year. Taking into account an increased consumer inclination to buy new cars in Q1 2016, we see macroeconomic support for VWFS business and their ABS strategy. Following a strong performance in 2014 (an increase in finance cars by 11% mainly driven by consumer new and used car finance business), 2015 marked another record year with slower but robust growth. Our outlook for the UK car financing market remains positive based on our macroeconomic expectations.

Origination and Underwriting

VWFS is the originator of the purchased receivables. UK operations are represented by VWFS. VWFS will enter into a receivables purchase agreement with PDUK to sell receivables. VWFS provides financing solutions for new and used Volkswagen, Porsche, Audi, Seat, Skoda and VW Commercial Vehicles ("VW LCV") to commercial and non-commercial customers. VWFS co-operates closely with the group dealership network as well as manufacturing departments to scale VWAG's business. Co-operations are established by dealer agreements.

Managing its portfolio, VWFS has to ensure high consistency and quality of underwriting procedures in its financing operations and business entities. Being one of the largest servicers in the European auto loan and auto financing business, VWFSAG as parent company relies on established processes and IT systems to support its operations. VWFS has implemented internal scorecards including credit scores sourced from external credit bureaus to assess customer credit profiles. For low risk customers, applications are processed and approved automatically without involvement of VWFS staff. For customers with a higher credit risk profile, qualified credit officers evaluate a credit decision. Certain limits for credit engagements are established, as well as special guidelines for applications with a large aggregate amount.

VWFS has integrated a separate fraud detection team in its operations unit. Employees are required to complete annual computer based training. Therefore, VWFS is ensuring ongoing internal training to improve professional qualifications.

Creditreform Rating analysts conducted an on-site review and due diligence in VWFS's facilities in Milton Keynes (UK) in March 2016. CRA got a fair picture of servicing and underwriting capacities, as well as of debt management, collection procedures and risk management.

In our view, a long track record of financing originations as well as proven and established procedures in servicing and debt management enable VWFS to fulfil its obligations as Servicer as defined in the PDUK transaction documents. However, currently no backup servicer agreement is in place which might have negative effects on the issuer's capacity of a timely payment of its obligations in case insolvency of VWFS.

Contract Types

The transaction securitises two types of financing agreements within the jurisdictions of England, Wales and Scotland.

Personal Contract Purchase (PCP) contracts are typically entered into with retail clients. In general, after a small initial lump sum payment the balance is partly amortised with equal monthly instal-

Established and proven origination and underwriting procedures, IT systems and operation units

ments. At the end of the contract term, the obligor may choose to purchase the vehicle by paying a final balloon. PCPs are exposed to residual value (RV) risk when the obligor returns the vehicle instead, and the final balloon payment (subject to vehicle condition and agreed mileage) must be funded by the vehicle sale proceeds.

Hire Purchase (HP) contracts are typical retail products. In contrast to PCPs, the obligor pays a larger initial deposit. With equal monthly instalments the balance is typically amortised completely or with a smaller final balloon.

Under the UK Consumer Credit Act, a regulated financing contract may be terminated voluntarily. If (among other conditions) one half of the total amount which would have been payable is paid, the obligor returns the vehicle. Regulated contracts are therefore exposed voluntary termination (VT) risk, when the vehicle sale proceeds must cover the remaining payments.

Servicing and Collections

VWFS services the financing contracts over time and is responsible for collections and repossession of financed vehicles. The first instalment is due when the vehicle is handed over to the obligor. In UK, costumers are generally required to pay by direct debit. VWFS employs a debt management team to handle delinquent contracts with the aim to minimise losses and assert all claims against defaulted customers. The debt management team uses reminder letters and phone contact to collect overdue outstanding payments. Standardised collection and debt management procedures were implemented to reduce court orders and legal enforcement measures. VWFS's debt management employees are authorised to grant reasonable payment extensions, if a commercial obligor has failed to pay two instalments. However, VWFS will have the right to repossess the vehicle without prior termination of the financing contract. If the debt management process has ended without receiving any notice from the obligor, an application for a court order is made by VWFS.

The debt management works closely with the collection centre to ensure the timely repossession of vehicles from terminated financing contracts. The main tasks of the collection centre are negotiating on agreements on payment extensions, the processing of corporate and consumer insolvencies, the use of payment guarantees and processing of irrecoverable debt and write-offs. If obligors do not return the vehicles voluntarily, VWFS mandates external repossession servicers. For enforcement purposes, VWFS will refer to the resources of the entire VW group to enforce interests and claims.

Residual Value Management

The uncertainty of a vehicle's residual value represents a major risk for creditors of a financing contract, primarily when obligors opt to terminate their contracts voluntarily in the mid or end of the term. Therefore, it is a strategic goal of VWFS to keep the vehicles in equity to the obligor and balance that goal with attractive financing conditions as a support for marketing.

VWFS has set-up a Residual Value Committee consisting of stakeholders from across the business which is meeting regularly in order to monitor and adjust strategies. CRA is conducting independent analyses relying on third party data to monitor the development of current and future residual values as well as potential strategic changes.

Counterparty Risk

Volkswagen Manipulation of Diesel Emissions and Type Approval Irregularities

On September 18th 2015, the US Environmental Protection Agency (EPA) issued a Notice of Violation to Volkswagen Group of America Inc. alleging that VW had been using software to circumvent emission standards under the Clean Air Act. Subsequently, VWAG announced that irregularities concerning particular software used in type EA 189 EU5 diesel engines affected approximately 11 million vehicles worldwide and approximately 8.5 million vehicles in Europe (VWAG press release, October 15th 2015). VWAG recorded provisions of EUR 6.7bn in its Q3/2015 interim report. As of

VW diesel emission manipulations may threaten future financial position; pose risk to future portfolio performance

today, it is not possible to quantify all current and future commercial and financial implications of manipulated diesel emissions.

In January 2016, VWAG started the implementation of the technical measures for EA 189 engines affected by the NOx issue, starting with Amarok vehicles. On February 18th Volkswagen published that has already successfully completed the modification of over 50% of the first wave in Germany.

In some jurisdictions, obligors can exercise rights and assert claims only against the relevant vehicle seller, normally a group dealership, and not directly against VWFS. Standard contracts cannot be terminated or instalments are withheld or reduced by the obligor as long as the vehicle seller fulfils its obligation to fix the financed vehicles.

Creditreform Rating notes that a securitisation of such financing contracts may be interpreted as a breach of eligibility criteria by a court. The Seller represents and warrants that, as of the cut-off date, the purchased contracts are "legally valid and binding agreements" which are "free of defences" and that their "status and enforceability is not impaired due to warranty claims or any other rights" of the obligor (see "Eligibility Criteria"). According to transaction counsel, it is likely that a court with relevant jurisdiction would determine that there was misrepresentation as of the cut-off date if the underlying finance agreements are terminated or obligors validly refuse to pay further instalments. In this case, VWFS would have to cure or remedy such breach or repurchase the receivable at the fair value such receivable had prior to becoming aware of the misrepresentation.

According to information provided by VWFS, about 10.21% of the outstanding discounted principal balance in the PDUK portfolio is affected by EA189 software irregularities. VWFS did not provide information on concentrations of affected EA 189 engines or type approval irregularities with respect to the distribution by brand and model in the portfolio. In our view, an increased risk of a deterioration of the portfolio's credit quality may exist if the Seller is obliged to buy back affected vehicles as a remedy following a breach of eligibility criteria and if the credit risk of obligors is systematically (not randomly) distributed to specific brands or models.

As of the current date, quantitative estimates and a more detailed assessment of the risks involved were not possible due to the limited basis of information. As a consequence, CRA decided to maintain a conservative margin in its base case assumptions. Furthermore, we take into account potential market impact on residual values from the manipulation of diesel emissions by stressing the recovery rate haircuts. We closely monitor VWAG's financial position and any impact of future developments on the structure and the duties of VWAG and its subsidiaries within the PDUK transactions. We will update our ratings subject to new information that will be available in the future.

Commingling Risk

The transaction is structured to include a mechanism to protect against counterparty exposure resulting from VWFS acting as a Seller and Servicer. As long as VWFS is the Servicer for PDUK, the Servicing Agreement grants a right to VWFS to commingle funds such as monthly collections or proceeds from the realisation of vehicles with its own funds during each monthly period and to use these funds at its own risk and for its own benefit until the next relevant payment date. In the case of a default of VWFS, such funds may be lost in the Servicer's insolvency estate, resulting in a (potentially non-recoverable) loss of monthly collections, including prepayments, to Investors. To mitigate this risk, VWFS will fund a CCA of 1.20% initially of the discounted receivables balance, which may be used to cover senior cost and interest. In addition, the structure obliges the Servicer to advance expected collections fortnightly if minimum ratings of VWFS were no longer satisfied (Monthly Remittance Condition).

Set-Off

According to the eligibility criteria, the purchased receivables must exclude those contracts where the obligor maintains a deposit with VWFS. Also, VWFS currently acts only as an intermediary for insurance products and not as counterparty. Therefore, we consider set-off risks to be limited. However, VWFS offers maintenance and service plans where set off-risks may arise in case of an VWFS insolvency.

Tax Risk

CRA received legal opinion from transaction counsel clarifying that the Issuer has no exposure to Value added Tax (VAT) risk, no exposure to withholding tax risk and only limited exposure to income tax risk. The financing contracts are governed by the laws of England and Wales or Scotland. Regarding VAT, the purchase of the receivables is payable exclusive of any VAT portion. If any future VAT liability with respect to the purchase of the receivables becomes due, the Seller is deemed to bear for any of such sums. While assessing the ratings of the Class A and the Class B notes, we assumed no change in Luxembourg Securitization law over the lifetime of the transaction.

Account Bank

VWFS has entered into a service agreement with the Issuer to perform tasks according to its usual business practices, such as the service and administration of the receivables. To fulfil its duties, VWFS will transfer the collected funds to the Account Bank on behalf of the Issuer. Therefore, the Issuer has established at least four accounts as defined in the Account Agreement in accordance with the terms and conditions of the transaction structure. The Issuer is exposed to the default risk of Bank of New York Mellon (BNY), appointed to be the Account Bank. However, default risks are mitigated by certain downgrade provisions linked to the rating of the Account Bank. Should BNY be downgraded, the Account Bank is required to transfer the balance of the account to another bank with sufficient ratings on its own cost. To assess the risk relating to the Account Bank, Creditreform Rating has undertaken an internal credit assessment of BNY.

Credit and Portfolio Risk

Creditreform Rating's credit and portfolio analyses were based on data provided by VWFS, which included gross and net loss vintage performance curves, recovery data for different product types, PCP performance and voluntary termination data going back to 2002, as well as delinquency data going back to 2007 and data on prepayments from 2008 onwards. VWFS provided stratification tables based on the preliminary pool ("red pool") and the final pool ("black pool") which allow a further assessment of the portfolio composition. The quality and quantity of data available for our analysis was considered to be sufficient.

Receivables Pool Characteristics

Portfolio Composition

The initial portfolio consists of loans originated by VWFS and entered into between obligors and VWFS. It includes different vehicle brands (i.e. Audi, Volkswagen, Skoda). The financing agreements are extended to retail (97%) and corporate (3%) customers. Approximately 93% of the financing agreements have been signed as PCPs (Table 10).

Table 10: Portfolio Characteristics

Portfolio Characteristics	
Outstanding Discounted Receivables Balance (GBP)	750,004,084
Number of financing contracts	43,189
Type of financing agreement:	
<i>Hire Purchase, HP (%)</i>	7.08
<i>Personal Contract Purchase, PCP (%)</i>	92.92
Average nominal balance / contract (GBP)	17,366
WA seasoning (months)	6
WA remaining term (months)	39
Type of Costumer	
<i>Retail (%)</i>	96.74

Corporate (%)	3.26
Type of Car	
New (%)	74.61
Used (%)	25.39
Type EA 189 engine vehicles (%)	10.21

The following graphs show the maturity profile of the portfolio at the cut-off date as well as the distribution of vehicles by brand (see below):

Figure 2: Contract Maturity Profile | Source: VWFS, CRA

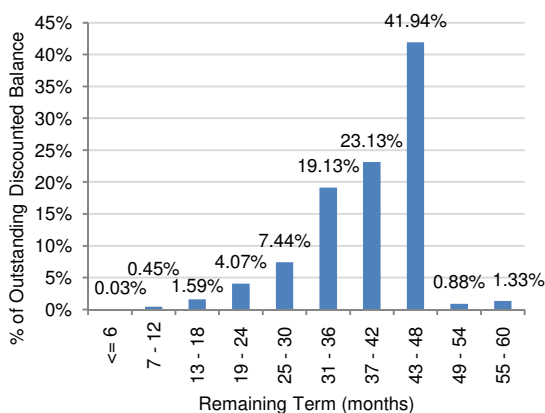
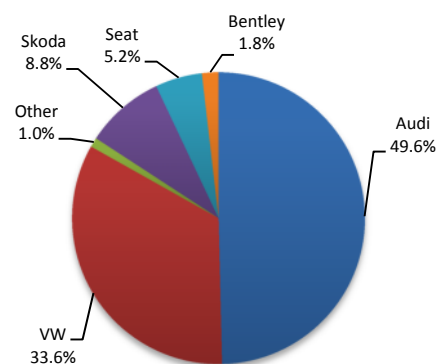


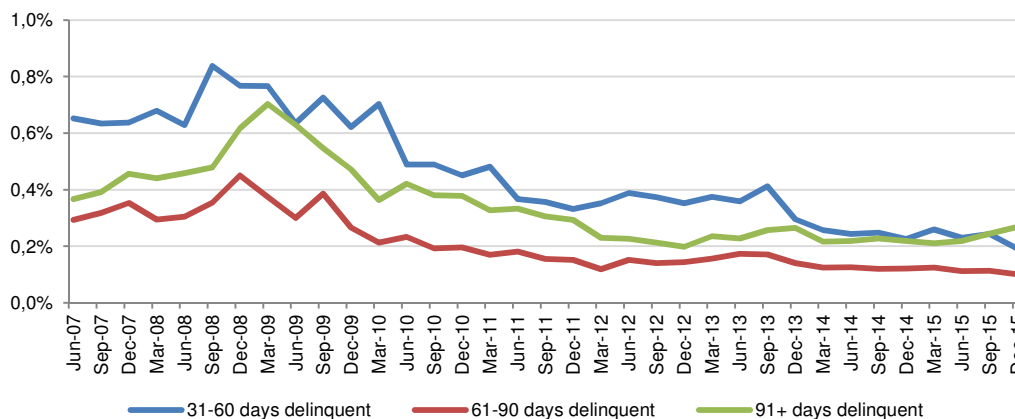
Figure 3: Brand Distribution | Source: VWFS, CRA



Historical Performance

VWFS provided delinquency performance data on retail and corporate customers going back to 2007 which covered the performance of HP and PCP financing agreements. Historically, delinquencies for the entire portfolio have shown a decreasing trend (see Figure 4).

Figure 4: Delinquencies by Delinquency Bucket | Source: VWFS, CRA



The financing agreements extended to customers typically grant a right to VWFS to terminate a contract when the obligor is due more than two monthly instalments. As described in "Origination and Underwriting" above, VWFS normally reaches payment arrangements to remedy any outstanding liabilities with a client before terminating a lease contract.

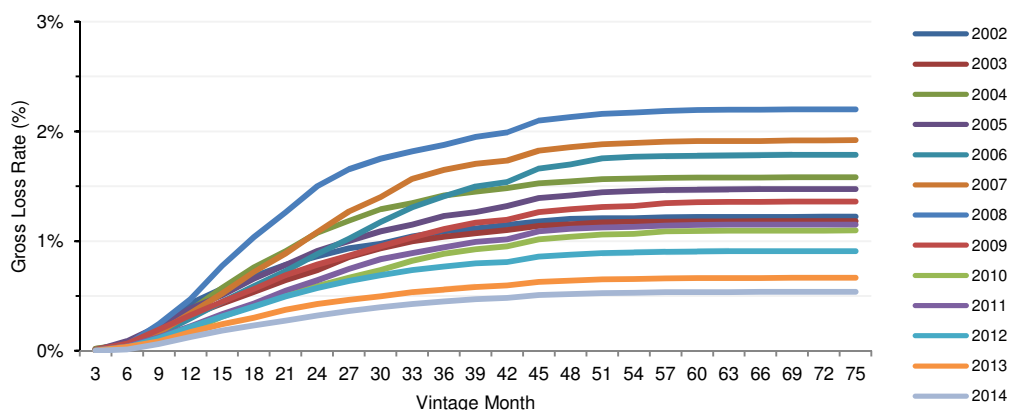
Credit Risk

Defaults

Creditreform Rating fixed its gross-loss base case at 1.30%

VWL provided detailed total book vintage data on gross and net losses for different contract types and used conditions. Creditreform Rating used this information to analyse the historical gross loss performance of different vintages (see Figure 5):

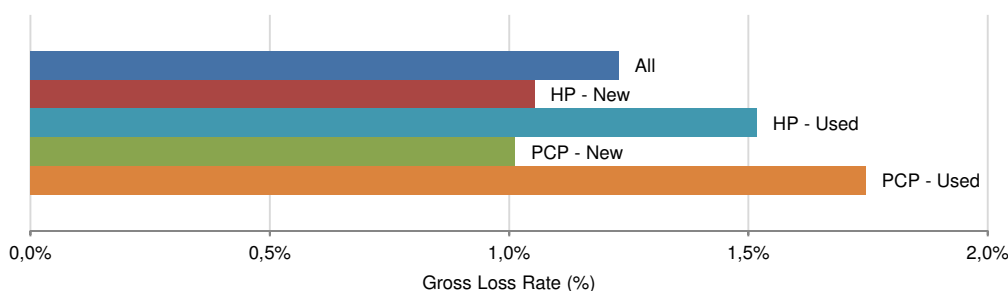
Figure 5: Gross Loss Rates of VWFS Total Lease Book by Year, extrapolated | Source: VWFS, CRA



Historical and projected losses show a trend towards lower loss rates in younger vintages. This effect may, in part, be explained by improved servicing and collection performance of the Servicer. Moreover, we take into account the development of the overall economy in UK, characterized by constant economic growth, declining unemployment and increased consumer inclination to buy cars, the main driver of portfolio performance in the current loan securitisation. Our economic outlook for UK remains positive and we expect a stable economic development and favourable macro-economic indicators (see “Economic outlook” above).

Depending on the contract type and the used condition, gross loss rates differ after 75 months, as shown in Figure 6:

Figure 6: Average Gross Loss Rates after 75 Months | Source: VWFS, CRA



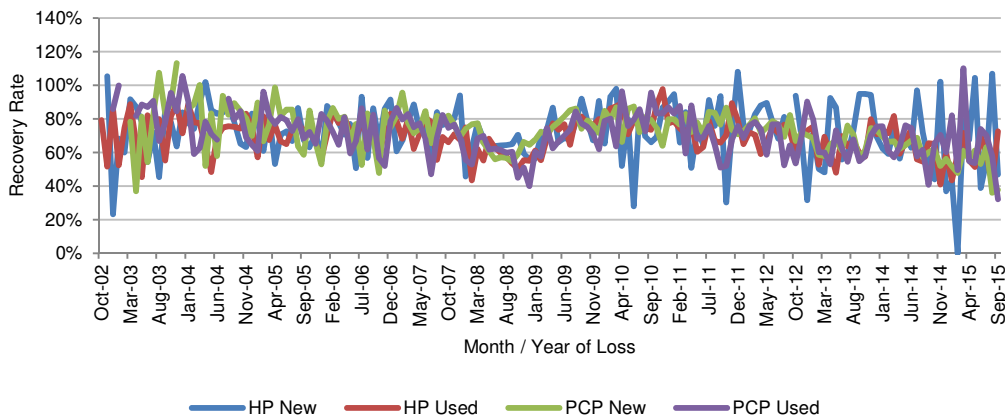
In general, used vehicle financing agreements have a higher probability of default than financings of new vehicles. In deriving our base case loss rate assumption, younger vintages were considered a better indicator of future performance. Based on improved historical performance and a stable economic outlook, Creditreform Rating has set a base case gross loss expectation of 1.3% for its rating analyses, taking into account the typical maturity profile of loan products and adjusting for the specific composition of contract types and maturity profile of PDUK with a 74.61% share of new vehicles.

Creditreform Rating set the recovery base case at 71.0%

Recoveries

VWFS provided historical data on the recovery performance of PCP and HP contracts, separately listed for used and new vehicles. This information was deemed sufficient to gauge the recovery performance of the Servicer (see Figure 7):

Figure 7: Historical recovery performance of contract types | Source: VWFS, CRA

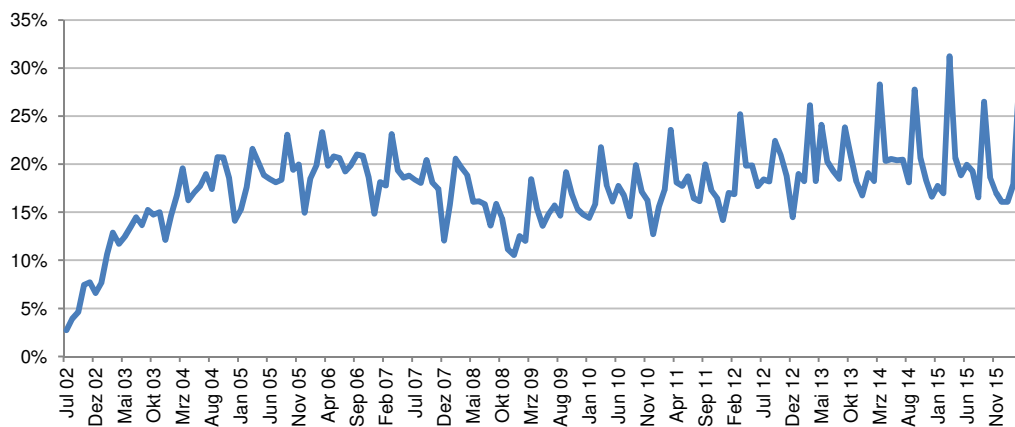


Despite a relatively stable performance (between 60-70%), the data reveal a fair amount of variation over time. As a cross-check, Creditreform Rating also used vintage loss curve data to compare gross defaults to recorded net losses and assuming a granular and homogeneous distribution of contract values in order to calculate implied recovery rates at different points in time. Creditreform Rating has set the recovery base case at 71.0%.

Prepayments

Creditreform Rating used historical prepayment performance data on VWFS's total HP and PCP portfolio, dating back to 2002. Under the UK Consumer Credit Act, obligors in a regulated financing agreement have the right to make partial prepayments at any time before the final payment. Prepayments have historically ranged between 10% and 30% annualised CPR, averaging about 17.5% CPR annualised (see Figure 8):

Figure 8: Historical Prepayments, VWFS Total Lease Book, HP and PCP (annualised CPR) | Source: VWFS, CRA



It is Creditreform Rating's view that higher prepayments contribute positively to the structural stability of the transaction. From a rating perspective, lower prepayment assumptions represent a more conservative approach because the structure has to sustain the higher WAL of the notes resulting from an overall lower cash inflow.

Following the analysis of empirical data available, stressed prepayment assumptions were set at 8.84% (AAA_{sf}) and 10.19% (A_{sf}) for each rating scenario, respectively.

Residual Value Risk

PCP loans offer to borrowers the option to settle the contract with a balloon payment at maturity if they choose to keep the vehicle, or return the vehicle in lieu of making the final balloon payment. The Issuer is exposed to the risk of not recovering the full amount to settle a contract if the market value of the vehicle has declined below the contractual residual value, i.e. the final balloon payment. With a total PCP share of initially 92.92%, residual value (RV) risk is a major risk factor in the current transaction (see also "Residual Value Setting" above).

To size RV risk, Creditreform received historical data on the performance of PCP contracts from VWFS's lease book dating back to 2002. The data was deemed sufficient for the assessment of RV risks and analysed with respect to (1) PCP turn-in rates and (2) PCP recovery performance.

Historically, monthly turn-ins of PCP contracts have been limited; Creditreform therefore set the assumed turn-in rates at approximately 100% (AAA_{sf}) and 83% (A_{sf}) in either rating scenario. Base-case PCP recoveries were analysed on a monthly aggregate basis and sized at 69.8% (AAA_{sf}) and 75.3% (A_{sf}) of the contractual RV. To address further potential declines in market value due to the EA189 issue currently faced by VWAG, an additional 5% haircut was applied, resulting in expected PCP recoveries of 66.3% (AAA_{sf}) and 71.6% (A_{sf}), respectively.

The exposure to RV risk was further stressed by assuming an increase in the total share of PCP contracts during the revolving period due to replacements of the revolving portfolio, up to 94.07% from an initial share of 92.92%. The resulting PCP average exposure of 49.27% translated into an assumed total RV risk of 15.48% (AAA_{sf}) and 11.08% (A_{sf}).

Voluntary Termination Risk

At any time before the last payment falls due, an obligor may, with a financing agreement being regulated under the UK Consumer Credit Act, opt to return the vehicle after paying 50% of the total amount payable to VWFS. The transaction is therefore exposed to the risk of voluntary terminations by obligors, in which case, and similar to RV risk, the Issuer will have to repossess the vehicle and use the proceeds from the vehicle sale to cover the remaining balance of the contract. VT losses may result when the sale proceeds are not sufficient to cover the remaining amounts.

To assess VT risk, Creditreform used monthly VT performance data by contract type and status of the vehicle (new or used) dating back to 2002, provided by VWFS. Creditreform used this data to assess historical VT turn-in rates and expected recoveries for voluntary terminations, adjusting for the overall portfolio composition with respect to the different contract types.

Similar to RV risk and general recovery performance, stressed VT loss severities were derived by applying a 5% haircut to account for further potential declines in vehicle market values. The scenario-specific VT risk was calculated from a simulation of VT losses and resulting VT loss distributions. The total VT risk was sized at 2.53% (AAA_{sf}) and 1.92% (A_{sf}), respectively.

Cashflow Analysis

Creditreform Rating analysed the transaction cash flows in its proprietary cash flow model, which was tailored to reflect the structure of Private Driver UK 2016-1. The purpose of the cash flow analysis is to test the transactions' ability of paying interest and ultimate payment of principal by final maturity using stressed base case assumptions in each specific rating scenario. Creditreform Rating also tested the sensitivity of the transaction's performance with respect to increases in the default rate base case, decreases in the recovery rates, prepayments and residual value losses.

A run-out schedule of the portfolio was implemented into the cash flow model taking into consideration the timing of defaults, residual value and voluntary termination losses, as well as the level of prepayments.

Rating Scenarios

Taking our loss assumptions as a starting point, CRA stressed its base case assumptions in higher rating scenarios in order to account for unexpected economic deterioration and worsening portfolio performance. Separate stress factors were applied to default and recovery rates to arrive at scenario-specific stressed loss expectations, which were then fed into the cash flow model.

CRA base case stresses:

AAA _{sf} :	x5.21 default multiple 60.35% recovery haircut
AA _{sf} :	x4.13 default multiple 50.45% recovery haircut

Default Rates

Following our "Rating of Auto ABS Securitisations" methodology and depending on the specific rating scenarios (AAA_{sf} and A_{sf}), the stress multiples for default rates were set at x5.21 and x4.13, respectively. This leads to the rating-specific stressed gross losses of 6.78% for AAA_{sf} and 5.37% for A_{sf}.

Recovery Rates

The base case recovery expectation of 71.0% was subjected to a rating haircut in each rating scenario. The recovery rate haircuts were set to 60.35% in the AAA_{sf} scenario and 50.45% in the A_{sf} scenario, respectively. The haircuts take into account transaction-specific features such as observed volatility, potential market value risks caused by the manipulation of EA189 diesel emissions, and established recovery procedures. As a result, the stressed recovery rates were set to 28.31% in an AAA_{sf} scenario and 35.38% in an A_{sf} scenario. The scenario-specific expected losses were calculated by applying our rating multipliers and haircuts to the base case (Table 11).

Table 11: Stressed Loss Assumptions

Rating Scenario	AAA _{sf}	A _{sf}
Base Case Gross Loss (%)	1.30	1.30
Default Multiple	5.21	4.13
Rating Gross Loss (%)	6.78	5.37
Base Case Recovery Rate (%)	71.0	71.0
Recovery Haircut (%)	60.35	50.45
Rating Recovery Rate (%)	28.31	35.38
Expected Net Loss (%)	4.86	3.47
RV Loss (%)	15.48	11.08
VT Loss (%)	2.53	1.92

Sensitivity Analysis

In order to gauge the effect of variations in default and recovery rates on rating indications, Creditreform Rating conducted a sensitivity analysis including independent and combined stresses of the default and recovery base case assumptions. The resulting rating indications for Class A and Class B notes are shown below.

Table 12 and Table 13 show the results for the Class A and Class B note, respectively. With respect to the structure's credit enhancement levels of 24.6% and 16.1% for the Class A notes and Class B notes, we observe relatively stable ratings in our sensitivity analysis. Creditreform Rating also tested scenarios with back-, even-, and front-loaded default timings.

Table 12: Class A Sensitivities: Defaults and Recoveries

Recovery / Default	Base Case	-25%	-50%
Base Case	AAA_{sf}	AAA _{sf}	AAA _{sf}
+25%	AAA _{sf}	AAA _{sf}	AAA _{sf}
+50%	AAA _{sf}	AA+ _{sf}	AA+ _{sf}

Table 13: Class B Sensitivities: Defaults and Recoveries

Recovery / Default	Base Case	-25%	-50%
Base Case	A+_{sf}	A+ _{sf}	A+ _{sf}
+25%	A+ _{sf}	A _{sf}	A _{sf}
+50%	A _{sf}	A- _{sf}	A- _{sf}

As highlighted in Table 14, CRA assessed the effect of fluctuating prepayment rates. Overall, we observed a relatively stable performance and reduced sensitivity of the Class A notes and a slightly more sensitive effect of changing prepayment rate assumptions with respect to the Class B notes:

Table 14: Class A and Class B Sensitivities: Prepayments

Prepayment Rate	Class A Notes	Class B Notes
Base Case	AAA_{sf}	A+_{sf}
-25%	AAA _{sf}	A+ _{sf}
-50%	AAA _{sf}	A _{sf}
Zero	AA+ _{sf}	A- _{sf}

CRA also evaluated sensitivity with respect to changing RV and VT loss assumptions. To this end, the scenario-specific losses for Class A and Class B notes were stressed by +25% and +50%. Stressed RV and VT loss assumptions may reflect the effect of a worsening recovery performance and increased market value stress and/or future changes in VWFS RV setting strategy.

Table 15: Class A and Class B Sensitivities: RV and VT Risk

RV and VT Risk	Class A Notes	Class B Notes
Base Case	AAA_{sf}	A+_{sf}
+25%	AA+ _{sf}	A- _{sf}
+50%	AA _{sf}	BBB+ _{sf}

Appendix

Regulatory Requirements

Creditreform Rating AG was mandated on February 26th 2016 by VWFS to conduct ratings for Class A and Class B notes each issued by Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Private Diver UK 2016-1.

The rating was conducted on the basis of Creditreform Rating's "Rating Auto ABS Securitizations" methodology.

Important sources of information in the context of the ratings were, in addition to the submitted documents, a due diligence meeting in Milton Keynes (UK) on March, 21th 2016. The submitted documents and information from VWFS were sufficient to meet the requirements of Creditreform Rating AG's rating methodology.

A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

This rating was carried out by analysts Dr. Stephan Rompf (S.Rompf@creditreform-rating.de), Philip Michaelis (P.Michaelis@creditreform-rating.de) and Jan Löckenhoff (J.Loekenhoff@creditreform-rating.de), all located in Neuss/Germany.

Closing of the transaction occurs on June 27th 2016. The ratings are based on the portfolio information as of June 10th 2016, provided by the originator.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRAG) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRAG has used following substantially material sources:

1. Transaction documentation
2. Collateral performance data
3. Audited financial statements
4. Website of the participants

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. Furthermore CRAG considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The “Basic data” information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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Creditreform Rating AG

Creditreform Structured Finance

Driver UK Multi-Compartment S.A.,
Compartment Private Driver UK 2016-1

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