Rated entity:

Class A 2016-1 Floating Rate Asset Backed Notes [with ISIN: XS1419840043] and Class B 2016-1 Floating Rate Asset Backed Notes [with ISIN: XS1419839896] issued by Driver UK Master S.A., acting for and on behalf of its Compartment 3

Rating:

Class A 2016-1 Floating Rate Asset Backed Notes: AAA_{sf}

Class B 2016-1 Floating Rate Asset Backed Notes: $A+_{sf}$

Rating outlook / watch:

Outlook stable

Rating summary:

Creditreform Rating has confirmed the ratings of the Class A and B notes of Driver UK Master S.A., acting for and on behalf of its Compartment 3 (DUKM3), as follows:

GBP 401,000,000 Class A 2016-1 Floating Rate Asset Backed Notes: AAA_{sf}/ stable

GBP 55,000,000 Class B 2016-1 Floating Rate Asset Backed Notes: $A+_{sf}$/ stable

The transaction is a securitisation of auto financing contracts in UK, originated by Volkswagen Financial Services (UK) Limited (VWFS). DUKM3 is secured by new and used vehicle financing contracts. The revolving period will expire in November 2020. The structure allows for term-takeout, tap-issuance and extension of the revolving period. A combination of Subordinated Loan and overcollateralisation provides credit enhancement to the rated Class A and Class B notes.

As of May 2020, the outstanding discounted balance amounts to GBP 603.98m with a share of 0.27% of the outstanding discounted balance being delinquent two months or more. The cumulative net loss ratio is 0.76% of the initial discounted receivables balance of all live contracts plus those ended in the 24 month period. Currently, the Class A and B Notes represent 66.39% and 9.11% of the outstanding discounted receivables balance, respectively. Credit enhancement to the notes is provided by a Subordinated Loan (15.40%), overcollateralisation (9.10%), and a cash reserve amounting to 0.91% of the outstanding discounted receivables balance. Since the last renewal in May 2019 the overcollateralisation level of the Class A Notes decreased from 34.60% to 33.61%, while the credit enhancement level of the Class B Notes decreased from 25.63% to 24.50%.

To size the credit risk, the voluntary termination risk and the residual value risk of the portfolio and to derive base case assumptions about loss rates and expected recovery performance, Creditreform Rating used data provided by VWFS as well as internal databases. Following the updated analysis of historical data, CRA set the base case gross loss rate at 0.67% and the base case recovery rate at 76.52%.

Depending on the specific rating scenarios (AAA_{sf} and $A+_{sf}$), the stress multiples for default rates were set at x7.05 and x4.82, respectively. Moreover, CRA set the recovery haircuts at 71.66% and 57.41%, respectively, taking into account transaction-specific features such as observed volatility and established recovery procedures, as well as potential market value risks. This resulted in expected net losses of 3.71% and 2.18% in the relevant AAA_{sf} and $A+_{sf}$ rating scenarios. The total VT risk was sized at 4.38% and 3.36%, respectively.

With a total PCP share of currently 84.57%, residual value risk is a major risk factor in the current transaction. Historically, monthly turn-ins of PCP contracts have been limited; Creditreform therefore set the assumed turn-in rates at approximately 100% (AAA_{sf}) and 83.33% ($A+_{sf}$) in the relevant rating scenarios, respectively. Base-case PCP recoveries were analysed on a monthly aggregate basis and sized at 66.50% (AAA_{sf}) and 73.21% ($A+_{sf}$) of the contractual RV. Considering lower recovery rates of returned Porsches, we reduced the base-case recoveries for the share of Porsche PCP contracts (65.41%) by 20%, reflecting their overall weaker PCP recovery performance. To address a further potential decline in market values, an additional 5% haircut was applied, resulting in stressed PCP recoveries of 50.54% (AAA_{sf}) and 55.64% ($A+_{sf}$) for Porsche and 63.17% (AAA_{sf}) and 69.55% ($A+_{sf}$) for the remainder of the portfolio.

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, increasing the share up to 85.33%. Taking into account a PCP balloon share of 74.28%[1], the resulting PCP exposure of 63.38% translated into a total RV risk assumption of 25.69% (AAA_{sf}) and 19.23% ($A+_{sf}$), respectively.

[1] The figure is based on the March month-end data.

Stressed prepayment assumptions were set at 9.12% (AAA_{sf}) and 10.52% ($A+_{sf}$) for each rating scenario, respectively. These scenario-specific assumptions were tested in CRA's proprietary cash flow model, which was tailored to reflect the structure of DUKM3 and to assess the Issuer's ability to service its debt in a full and timely manner.

Primary key rating driver:

+ Proven origination, servicing & recovery procedures

+ Downgrade collateral and replacement provisions mitigate counterparty risk exposure w.r.t. the Swap Counterparty and Account Bank

- Concentrated geographical (Northern Ireland), contractual (Personal Contract Purchase) and vehicle type (Porsche) portfolio composition

- Revolving period may adversely affect portfolio quality

- Increased macroeconomic uncertainty ("Brexit" and coronavirus crisis) and potential market decline may have adverse effect on VWFS's ABS strategy and future portfolio performance

Rating sensitivities:

Best-case scenario: In this scenario, we stressed (ceteris paribus) the base case default rate by an amount of -25% and the base case recovery rate by an amount of +25%, resulting in a rating of AAA_{sf} and $AA-_{sf}$ for the Class A and B Notes, respectively.

Worst-case scenario: In this scenario, a severe 100% stress is applied to the base case default rate in combination with a 50% stress on the base case recovery rate and the VT and RV losses, respectively, resulting in a rating of A_{sf} and $BBB-_{sf}$ for the Class A and B Notes, respectively. In our view, this rating would represent a scenario with higher default correlation and market decline in a stressed pandemic scenario.

ESG-criteria:

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing the rating object. Overall, ESG factors have a less significant impact on the current ratings of the Class A and B notes. Nevertheless, CRA identifies macroeconomic factors (particularly with regard to potential changes in consumer behaviour) to have a high significant impact. Increased macroeconomic uncertainty ("Brexit" and the coronavirus crisis) and potential market decline may have adverse effect on VWFS's ABS strategy and future portfolio performance. Governance is relevant to the ratings with respect to counterparty risk, but downgrade collateral and replacement provisions mitigate counterparty risk exposure with respect to the Swap Counterparties and Account Bank. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Rating Date / disclosure to rated entity / maximum validity:

June 9, 2020 / June 9, 2020 / July 25, 2027

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

Initial rating date:

May 19, 2016

Lead-analyst – position / Person approving (PAC):

Philip Michaelis (Lead) – Senior Analyst

Stephan Giebler (PAC) – Senior Analyst

Name & address of legal entity:

Creditreform Rating AG, Hellersbergstraße 11, 41460 Neuss, Germany

Status of solicitation:

The rating is a solicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: Yes

With Access to Internal Documents: Yes

With Access to Management: Yes

Rating methodology / Version / Date of application / Link:

Rating Criteria and Definitions, Version 1.3, January 2018

Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018

Rating Methodology Auto ABS Securitizations, Version 1.4, July 2018

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Regulatory requirements:

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 (CRA) 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, CRA 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, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuing documents

4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA 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.