Creditreform Structured Finance

Driver UK Master S.A., Compartment 3

Creditreform Rating

Rating Object		Rating Information		
Driver UK Master S.A., Compartment 3		Assigned Ratings/ Outlook: Class A: **AAA$_{sf}$ / stable** Class B: **A+$_{sf}$ / stable**		Type: Follow-Up Rating, Renewal Report
Closing Date:	September 27, 2021	Rating Date:	September 22, 2021	
Legal Final Maturity:	September 25, 2029	End of Monitoring:	September 25, 2029	
Exchange:	Luxembourg Stock Exchange	Rating Methodologies:	CRA "Auto ABS Securitizations" (v1.4) CRA "Technical Documentation Portfolio Loss Distributions" (v1.4) CRA "Rating Criteria and Definitions" (v1.3)	
Issuer:	Driver UK Master S.A., Compartment 3			
Issuer Type:	Luxembourg Special Purpose Vehicle			
Arranger:	Crédit Agricole CIB			
Asset Class :	Auto Loan Receivables			

Class	Rating / Outlook	Amount (GBP)[1]	CE[2]	Index	Margin[3]	Final Maturity	ISIN
A	AAA$_{sf}$ / stable	401,000,000.00	34.25%	Sonia	+ 0.40%	September 25, 2029	XS1419840043
B	A+$_{sf}$ / stable	55,000,000.00	25.23%	Sonia	+ 1.00%	September 25, 2029	XS1419839896
Sub. Loan	NR	71,218,372.37	13.55%	Sonia	+ 2.00%	September 25, 2029	N/A
OC	-	82,669,053.57	-	-	-	-	-

[1]Current volume outstanding [2] Current Credit Enhancement for Class A Notes consisting of (1) Class B subordination, (2) subordinated loan and (3) overcollateralisation and for Class B Notes consisting of (1) subordinated loan and (2) overcollateralisation, see "Capital Structure" below. [3]The coupon is floored to zero.

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Transaction Summary

The Driver UK Master S.A., Compartment 3 transaction ("DUKM C3") is a securitisation of a pool of auto financing contracts originated in U.K. by Volkswagen Financial Services UK Ltd. ("VWFS"), acting as Seller and Servicer of these receivables, and itself a wholly owned subsidiary of Volkswagen Financial Services AG ("VWFS AG"). VWFS AG is a captive and 100% subsidiary of Volkswagen AG ("VWAG").

The securitised asset pool is a portfolio consisting of 25,744 contracts originated by VWFS to retail and corporate customers. The transaction features a 12-month revolving period and is secured by new and used vehicle financing contracts. The portfolio has a weighted average remaining term of approximately 23.99 months and a total volume of GBP 609,887,425.94.

Following a transaction renewal in September 2021, Creditreform Rating AG ("Creditreform Rating" or "CRA") has assigned ratings to DUKM C3 Class A and Class B Notes. In addition to the issuance of the rated Class A and Class B Notes, a Subordinated Loan is granted to fund the purchase of financing contracts. The combination of the Subordinated Loan and purchase price discount overcollateralisation will provide credit enhancement to the rated Class A and Class B Notes. Additionally, the Cash Collateral Account ("CCA") includes a cash reserve, which is available to cover senior costs and note interest payments. The CCA will also be available to redeem Notes on the final maturity date or on the date on which the aggregated discounted receivables balance has been reduced to zero, as long as no enforcement event has occurred.

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Key Rating Findings

+ Proven origination, servicing & recovery procedures
+ Downgrade collateral and replacement provisions mitigate counterparty risk exposure w.r.t. the Swap Counterparty and Account Bank
- Potentially indirect negative impact of VWAG NOx emission allegations on future portfolio performance
- Concentrated geographical (Northern Ireland and South East England), contractual (Personal Contract Purchase) and vehicle type (Porsche) portfolio composition
- Extended 12-month revolving period may adversely affect portfolio quality
- Macroeconomic uncertainty ("Brexit" and the COVID-19 pandemic) and potential market decline may have adverse effect on VWFS's ABS strategy and future portfolio performance

Transaction Structure

Transaction Parties

Table 1: Transaction Parties

Role	Name
Issuer	Driver UK Master S.A, Compartment 3, Luxembourg
Seller / Servicer	Volkswagen Financial Services (UK) Limited, Milton Keynes
Arrangers	Crédit Agricole Corporate and Investment Bank, Paris
Lead Manager	Crédit Agricole Corporate and Investment Bank, Paris
Subordinated Lender	Volkswagen Financial Services (UK) Limited, Milton Keynes
Security Trustee, Data Protection Trustee	Wilmington Trust SP Services (Frankfurt) GmbH, Frankfurt
Paying Agent, Interest Determination Agent, Cash Administrator, Account Bank	The Bank of New York Mellon, London Branch, London
Swap Counterparty	Crédit Agricole Corporate and Investment Bank, Paris
Corporate Service Provider	Circumference FS, Luxembourg
Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch, Brussels

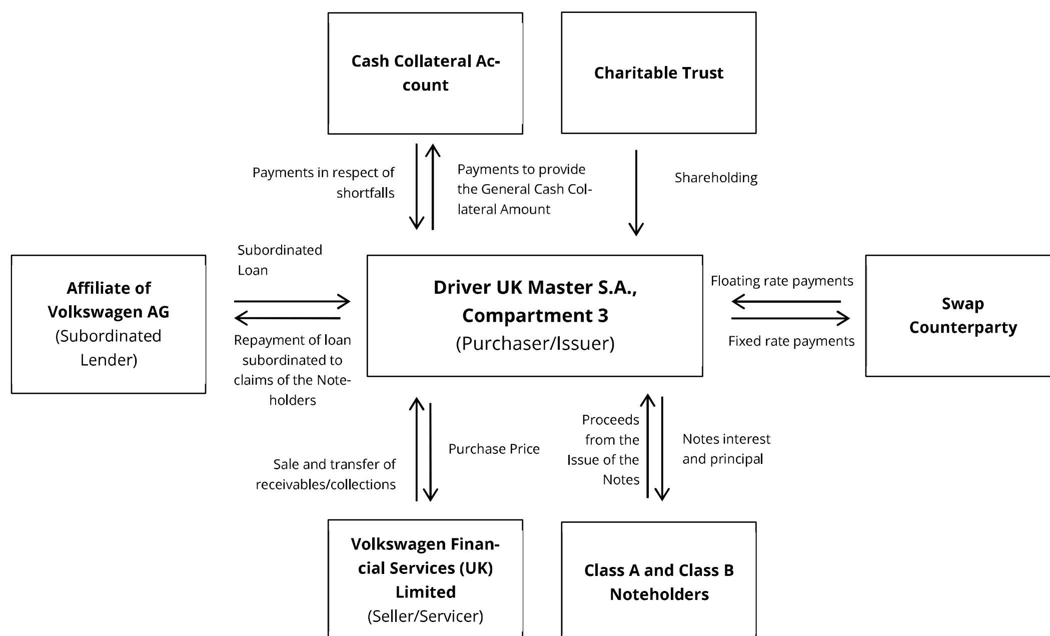
Issuer

The structure of the transaction is shown below (Figure 1). The Issuer, Driver UK Master S.A., acting for and on behalf of its Compartment 3, is a special purpose vehicle ("SPV") incorporated under the laws of Luxembourg. The company 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, the compartment structure being ring-fenced and with limited recourse to other creditors of the Issuer, including non-petition provisions. We regard 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.

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, Northern Ireland, Scotland or Wales. Apart from legal specifics (pending perfection of assignment, trustees for different jurisdictions) DUKM C3 will acquire all right, title and interest arising from such receivables. Legal opinions addressing the legality, validity and enforceability of such receivables were provided.

Figure 1: Transaction Structure I Source: VWFS



Term-Takeout

Term-Takeouts and Tap-Issuance can only be carried out if ratings will remain unaffected

Within the transaction, the Issuer acts as an intermediate warehousing vehicle. The Issuer may on any payment date sell any or all purchased receivables to any member of Volkswagen Group or to an affiliated securitisation vehicle (transferee).

The additional receivables purchase price will include applicable levels of overcollateralization ("OC") in accordance with the purchaser's capital structure, which may affect the level of overcollateralisation within the DUKM C3 structure following a term-takeout.

Regardless of the mandatory random selection character of such takeouts, they may affect the quality of the portfolio (lower granularity, adverse diversification through eligibility criteria of transferee, increase of delinquent receivables). Therefore, prior to term-takeouts, rating agencies have to confirm that the assigned ratings of Class A and Class B Notes will remain unaffected by such action.

The proceeds from a term-takeout bypass the order of priority and will be directed to the distribution account, where the outstanding Class A and Class B Notes will be amortised.

Tap-Issuance

During the revolving period, and notwithstanding the purchase of replenishment receivables, the Issuer may from time to time offer to noteholders an increase of the issue amount of existing note series and/or conduct an issuance of further note series in order to purchase additional receivables. Here, noteholders of existing series have the right, but not the obligation, to increase their respective issue amounts. However, a tap-issuance shall only be realised if the ratings of Class A and Class B Notes will remain unaffected by such action.

Upon occurrence of a tap-issuance, new and existing noteholders share a new portfolio with potentially different characteristics. The larger pool may have higher granularity and the relative share of delinquent and defaulted receivables may decrease, because eligibility criteria exclude those receivables from purchase. However, the effects on portfolio diversification depend on the characteristics of the portfolio that will be purchased. As a general rule, tap-issuance receivables will be selected randomly and not with the intention to prejudice the noteholders, which reduces potential adverse effects on diversification. Moreover, while the receivables will be purchased at a 2.801%[1] discount, this will dilute (decrease) the built-up overcollateralisation for Class A and Class B Notes, which have been accumulated by the revolving period replenishment and/or note amortisation.

Revolving Period

The transaction features an initial revolving period of 12 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 overcollateralisation of notes will increase until the target OC percentages are reached. In contrast to a tap-issuance, the purchase of additional receivables during the revolving period does not depend on rating agency confirmation. Potentially negative effects of a changing portfolio structure have to be taken into account. At the same time, the occurrence of an early amortisation event (also see "Order of Priority and Triggers") may end the revolving period prematurely.

The revolving period can be extended for existing notes series and includes the extension of the final maturity date, and if relevant, may cause an amendment of the interest rate. If current note-holders refuse to extend the revolving period, this may result in the existence of both amortising and non-amortising series of notes. The amortising notes will benefit from an amortisation factor, setting the current pro-rata share of the series and enabling a quick redemption.

Seller and Servicer

VWFS challenged by saturated markets and VWAG NOx issue.

VWFS is a wholly owned subsidiary of VWFS AG and acts as Seller and Servicer of the lease financing contracts. VWAG is the parent company of VWFS AG, holding 100% of its shares and thus a controlling interest. VWAG´s non-bank-related financial division, as represented by VWFS

[1] "Further Receivables Overcollateralisation Percentage"

AG, is a core business of the group with a significant contribution to group total earnings. CRA undertook an unsolicited rating 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 18, 2015, 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. On December 16, 2015, Volkswagen announced that the presented technical measures have generally been approved by the German Federal Motor Transport Authority (KBA) with the consequence that the measures also apply to the EU-28 markets.

In its FY2020 report, VWAG recorded provisions of EUR 19.9bn, which fell by EUR 1.5bn, partly due to utilization of provisions in connection with the diesel issue, and identified six potential material consequences for its result of operations, financial position and net assets:

- Criminal and administrative proceedings all over the world (excluding USA/Canada)
- Product-related lawsuits worldwide (excluding USA/Canada)
- Lawsuits filed by investors worldwide (excluding USA/Canada)
- Proceedings in the USA/Canada
- Special audit
- Risk assessment regarding the diesel issue

In its HY2021 report, VW AG reported sales revenues of EUR 129.7bn (+34.9% YoY) and an operating profit of EUR 11.36bn up from an operating loss of EUR 1.49bn the prior year. Additionally, the Automotive Division's net cash flow soared to EUR 10.2bn from EUR -4.81bn. For FY2021 VW AG expects the sales revenues to increase significantly than last year, assuming successful lasting containment of the pandemic. The operating return on sales is expected to be in the range of 6% to 7.5%, as the industry recovers gradually from the COVID-19 pandemic shock.

VWAG is in exchange of information with authorities to coordinate remedial actions of the diesel issue. Although VWAG could conclude several settlement agreements in the United States and has reached several agreements with numerous authorities in other countries, VWAG is still exposed to various investigations as well as lawsuits in which authorities, investors and individuals have asserted claims against VWAG. The long-term implications of the manipulation of diesel emissions might include reputational damage, sale contractions, 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 "Volkswagen Manipulation of Diesel Emissions" below).

True Sale

The securitised financing contracts were ruled by the jurisdictions of England, Wales, Scotland and Northern Ireland. 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 Scottish receivables transfer could be considered not valid, VWFS will declare a Scottish Trust in favour to 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

Parameters	
1	Receivables have been selected randomly and not with the intention to prejudice the noteholders
2	Concentration limits: used cars max. 60%, non-VW group brand passenger cars + light commercial vehicles max. 25%
3	No obligor is an affiliate of VWFS
4	Porsche-PCP and all Lease Purchase contracts for corporate or retail only from England, Northern Ireland, Scotland or Wales
5	Non-PCP-Porsche and Hire Purchase for corporate or retail only from Northern Ireland
6	No defaulted receivables
7	Currency is GBP
8	No overdue receivables
9	Receivables from England, Wales, Northern Ireland or Scotland
10	Contracts are legal valid, binding and enforceable
11	Enforceability of the purchased receivables is not impaired
12	No set-off rights or obligor's deposits on accounts with VWFS
13	CCA compliant contracts
14	Contracts from ordinary course of business
15	Obligor has at least paid one instalment
16	Instalments are substantially equal through time
17	Max. contract term of 72 months
18	Balloon payments allowed
19	Compliance with data protection
20	Obligor obligation to pay insurance, repair, maintenance, taxes
21	No total damaged or stolen cars
22	Single obligor concentration limit: 0.5% of the aggregate discounted receivables balance
23	Receivables will mature no earlier than 6 months, no later than 71 months after cut-off date
24	Car and contract are registered by VWFS
25	Receivables do not relate to credit-impaired obligors or guarantors who
25.1	have been declared insolvent, or
25.2	had a court grant their creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination, or
25.3	have undergone a debt-restructuring process with regard to their non-performing exposures within three years prior to the date of transfer of the Purchased Receivable to the Issuer, or
25.4	were, at the time of origination, where applicable, on a public credit registry of persons with adverse credit history or, where there is no such public credit registry, another credit registry that is available to VWFS, or

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25.5	have a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for comparable receivables held by VWFS which are not securitised.

Capital Structure

The discounted receivables balance is calculated using a discount rate equal to 6.3718% per annum. The discount rate is used to cover senior expenses and the servicing fee as well as the weighted average swap rate based on the notional amounts outstanding at each date. At the onset of the transaction, it is calculated as follows (Table 3):

Table 3: Discount Rate Composition

Parameters	
Weighted average swap rate (%)	1.0479
Interest Compensation Rate (%)	1.5000
Servicing fee (%)	1.0000
Senior expenses (%)	0.0300
Subtotal (%)	3.5779
Buffer release rate (%)	2.7939
Discount Rate (%)	**6.3718**

A buffer release amount, calculated as the product of the buffer release rate and the future discounted receivables balance, is paid to the Seller as long as no Credit Enhancement Increase Condition ("CEIC") is in effect. When CEIC is satisfied, the structure will additionally benefit from the buffer release rate. The total balance sheet of the Issuer is shown in Table 4 and is composed as follows:

Table 4: DUKM C3 Balance Sheet

Assets	Amount (GBP)	Liabilities	Amount (GBP)	Size (%)
Receivables	609,887,425.94	Class A	401,000,000.00	65.75
Cash Reserve (CCA)	5,472,000.00	Class B	55,000,000.00	9.02
		Sub Loan	71,218,372.37	11.68
		PPD OC	82,669,053.57	13.55
		Cash Reserve (CCA)	5,472,000.00	0.90
Total	615,359,425.94	**Total**	615,359,425.94	100.90

All Notes are currently revolving. As of September 2021, the Class A Notes benefit from a current CE of 34.25%, calculated as the sum of Class B subordination, the Subordinated Loan and PPD OC. The Class B Notes benefit from a total CE of 25.23%, respectively. Additionally, a cash reserve of 0.90% is available to cover senior costs and note interest payments and, prior to an enforcement event, is available to redeem notes on the final maturity date or on the date on which the aggregated discounted receivables balance has been reduced to zero.

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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 was funded by the Seller with currently GBP 3.0m. Although it will be held on the cash collateral account, it will not form part of the general cash collateral amount.

The interest compensation amount[2] will be used to compensate the actual interest shortfalls due to early settlements. Any remainder is then credited to the interest compensation ledger. If the ledger exceeds the amount of GBP 3.0m, any surplus shall be paid to the Seller.

An average contract with an average contract rate of 6.54%, purchased at a discount rate of 6.3718% and which has an average remaining term of 23.99 months, will have a maximum spread, calculated as securitised balance divided by obligors balance, of 0.17% over its life. Comparing this to the contractual interest compensation rate of 1.50% available to cover interest shortfalls, the interest compensation mechanism is, in our view, sufficient to cover losses arising from interest shortfalls.

FX and Interest Rate Risk

To hedge the interest rate risk arising from a mismatch between fixed lease payments and floating-rate interest payments on Class A and Class B Notes, the Issuer will enter into two swap agreements to receive floating (Sonia + 0.40% for Class A Notes and Sonia + 1.00% for Class B Notes floored at zero) while paying the fixed leg of each swap. The fixed rates have been calculated to include the Class A or Class B margins; payments under the swaps are linked to the outstanding balance of the respective notes.

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.

Indirect interest rate risks arise if 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 on the same currency (GBP).

Order of Priority and Triggers

Monthly payments to transaction parties are calculated on the available distribution amount and will be distributed according to the priority of payments.

The monthly amount available for distribution and the order of priority are shown below (Table 5, Table 6):

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[2] (interest compensation rate / 12) * (future discounted receivables balance)

Table 5: Available Distribution Amount

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	+ Net swap receipts
5	+ Transfers from Accumulation Account to Distribution Account (upon end of revolving period or occurrence of Early Amortisation Event)
6	- Buffer release amount to VWFS (provided that no Credit Enhancement Increase Event occurred in respect of VWFS)
7	+ Amounts standing to the credit of Accumulation Account after the preceding payment date
8	+ Unused amounts in another currency for non-incurred payments under items 1 and 2 of the order of priority
9	+ Interest compensation order of priority amount
10	- Interest compensation amount

Table 6: Priority of Payments

Order of Priority	
1	Taxes, senior expenses and fees, and Retained Profit Amount[3]
2	Net swap payments, first, for Class A Notes, second, for Class B Notes (except termination payments for defaulting swap counterparty)
3	Interest payments on Class A Notes (accrued and unpaid)
4	Interest payments on Class B Notes (accrued and unpaid)
5	Payment to the cash collateral account
6	Payment to the Class A amortisation amount for amortising series or to the Class A accumulation amount for revolving series
7	Payment to the Class B amortisation amount for amortising series or to the Class B accumulation amount for revolving series
8	Payments to the swap counterparties under the swap agreement (to the extent not paid under item 2 above)
9	Accrued and unpaid interest on the subordinated loan
10	Principal payment of the outstanding balance of the subordinated loan
11	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 overcollateralisation. The overcollateralisation 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 Notes are granted sequential priority over those of Class B Notes until the Class A target OC level has been reached ("sequential amortisation"). After this event,

[3] Retained Profit Amount is a profit for the Issuer of GBP 10 payable on each payment date. It is credited to Retained Profit Ledger on the Cash Collateral Account and debited for any dividend payments to the Issuer's shareholder.

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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.

Table 7: Target Overcollateralisation Levels

Target Overcollateralisation	Class A	Class B
OC level (%) as of September 2021	34.25	25.23
Target OC, during revolving period (%)	34.25	25.00
Target OC, after revolving period (%)	38.25	29.00
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 maximum discounted receivables balance or pursuant to an early amortisation event (Table 8).

Table 8: Early Amortisation Event

Early Amortisation Event	
1	Servicer Replacement Event
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 31.25% (with grace period of first 6 months)
4	VWFS ceases to be an affiliate of VWFS AG or any successor
5	VWFS does not fulfil repurchase obligations
6	The Issuer fails to enter into a replacement swap agreement after the termination of a swap agreement
7	CEIC is in effect
8	Occurrence of a Foreclosure Event

Portfolio deterioration through losses can trigger an early amortisation event (a "credit enhancement increase condition," CEIC). Table 9 and Table 10 show the conditions for a CEIC, which depend on two loss ratios. The ratios depend on specific seasonings of the portfolio and are more restrictive in earlier seasonings. When the ratios exceed the corresponding limits for three consecutive payment dates, CEIC will be in effect.

Table 9: CEIC upon Dynamic Net Loss Ratio

Weighted Average Seasoning in months	Dynamic Net Loss Ratio exceeds[4] (%)
0 <= x <= 11	0.25
11 < x <= 21	0.75
21 < x <= 30	2.00
> 30	n.a.

[4] For three consecutive payment dates

Table 10: CEIC upon 12-month Average Dynamic Net Loss Ratio

Period	12-month Average Dynamic Net Loss Ratio exceeds (%)
During the revolving period	0.60
After the end of the revolving period	1.20

Furthermore, CEIC will be also in effect if a Servicer Replacement Event occurs, an Insolvency Event occurs with respect to VWFS, or the Cash Collateral Account does not contain either the Specified General Cash Collateral Account Balance on three consecutive Payment Dates or the Minimum Cash Collateral Account Balance at any Determination Date.

Cash Collateral Account

The Cash Collateral Account includes several positions. A cash reserve, funded and amounting to 0.90% 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 1-4 of the priority of payments. On each payment date, the CCA balance should equal to the greater of:

- 1.20% of the aggregate outstanding nominal amount of the Notes as at the end of the Monthly Period, and
- the lesser of (a) 0.6% of the maximum aggregated discounted receivables balance (since the start of the DUKM C3 program), and (b) the aggregate outstanding principal of the Notes as of the monthly period

Prior to an enforcement event and 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.

Due to the COVID-19 pandemic, VWFS has offered obligors payment deferrals until July 31, 2021, following the guidance of FCA. Among the various options of payment deferrals[5], the payment holiday (or further payment holiday) with term extension may lead to a reducing residual value of purchased receivables, and as a result increase the residual value risk of the Issuer. Therefore, VWFS has deposited a Collateral RV Buffer Amount for each purchased receivable that was subjected to the payment holiday (or further payment holiday) with term extension. The deposits were put on the Collateral RV Ledger of Cash Collateral Account and will be used to pay the principal of Class A and Class B Notes, as well as the interests and principal of Subordinated Loan. The balance of Collateral RV Ledger was GBP 75,000 as of August 2021.

[5] For further information, please visit https://www.bourse.lu/issuer/DriverUKMaster/68144

Operational Risk

Economic Outlook and UK Car Market

Following moderate real GDP growth in UK over the last few years, averaging 1.7% between 2015 and 2019, the COVID-19 pandemic drove total output down by 9.9% in 2020, representing the largest decline in the G7. Domestic demand contributed negatively, amid strong falls in household consumption (-10.9%) and business investment (-10.2%). Exports and imports contracted by 15.8% and 17.8% respectively. The UK unemployment rate rose from 3.8% in Q4-2019 to 5.3% Q4-2020. The UK's headline deficit (Maastricht Treaty aggregate) soared from 2.8% in the financial year (FY) 2019/20 to 14.5% in FY 2020/21 (ONS), and the public debt ratio (Maastricht) leapt from 84.4% of GDP to 106.0% of GDP in FY 2020/21.

As in other European countries, UK economic activity was curbed by anti-crisis measures at the beginning of the year, but rebounded sharply in Q2-2021 as restrictions were eased. We expect GDP growth to continue against the backdrop of vaccination progress, with domestic demand being the major driver. Nevertheless, possible further virus mutations continue to pose risks. Overall, real economic output expects to expand by 7.1% this year. While Brexit-related frictions with regard to UK-EU trade appear to have receded somewhat, they still pose some headwinds for trade and investment at present.

On March 19, 2021, Creditreform Rating has confirmed the outlook on the United Kingdom as "negative" and affirmed the unsolicited long-term sovereign rating of "AA" for the United Kingdom. The long-term rating indicates a continued very high creditworthiness, and overall mirrors a very strong underlying macro institutional setting, underperforming fiscal metrics and generally robust external finances.

Meanwhile, in the UK, new registrations grew by a solid 39% y-o-y to 909k in 1H2021, out of which the electric car market, both battery electric vehicle (BEV) and plug-in hybrid electric vehicle (PHEV) models registered triple-digit growth rates year-on-year in 1H2021. Pent up demand and increased consumer confidence were buoyed by the robust vaccination rollout and periods of relatively low infection rates. Consequently, the phased plan of easing COVID-19 restrictions saw dealerships reopen in May for the first time this year. Moreover, the UK's plan of imposing a ban on the sale of new petrol and diesel cars by 2030, and hybrids by 2035 has further supported the momentum of EVs in the nation.

Although the environmentally conscious efforts towards e-mobility are a step in the right direction, we believe the outlook for the remainder of the year will likely remain marred by uncertainties and obstacles. For starters, there remains low visibility regarding the easing of the ongoing chip shortage that could drag through 2021 and probably beyond. As a result, the corresponding impact on production and car sales might continue to be felt in 2H2021, as indicated by declining monthly data prints for July, when UK car production plunged by 38% y-o-y.

Post Brexit, the UK is likely to face several challenges that could deter it from meeting its 2030 deadline and hurt the pace of EV adoption. For the UK to continue selling to the 27-member bloc without tariffs, it must meet the stringent rule of origin guideline i.e from 2027, 70% of input in value terms must come from Britain or inside the EU.

Moreover, given that the UK exited the EU with fairly less clarity regarding its financial systems, parallel to the EU, it is now in the process of launching a review of its own securitisation regulations with risk retention and SME funding in focus. The UK has already begun a review into making its special purpose vehicle (SPV) regime more tax-efficient.

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That said, continued availability of payment holidays and furlough schemes contributed to low levels of defaults and stable asset delinquency levels, which boded well for the auto ABS market.

Origination and Underwriting

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

VWFS is the originator of the purchased receivables. UK operations are represented by VWFS. VWFS will enter into a receivables purchase agreement with DUKM C3 to sell receivables, using the Driver UK Master structure for the transfer of assets. 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, VWFS AG as parent company relies on established processes and IT systems to support its operations. VWFS has implemented internal score-cards 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 2019. In addition, VWFS provided a digital due diligence presentation in March 2021. 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 DUKM C3 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 three types of financing agreements within the jurisdiction of England, Wales, Scotland and Northern Ireland.

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 instalments. 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 the balloon (subject to vehicle condition and agreed mileage) must be funded by the vehicle sale proceeds.

Hire Purchase ("HP") contracts are also 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.

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Lease Purchase ("LP") contracts are typically products held out to corporate or retail customers, requiring the payment of an initial amount before amortising the remaining balance. However, some of the equal instalments can be delayed until the end of the term. The resulting balloon is therefore mandatory for the obligor and not exposed to RV risk.

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.

The Issuer enters into a redelivery repurchase agreement with VWFS to sell the vehicles back to VWFS whenever the obligor terminates a regulated financing contract voluntary due to the UK Consumer Credit Act or the obligor of a PCP agreement opts to make full and final settlement of a PCP agreement by redelivery of the vehicle to the Seller.

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.

As a consequence of the COVID-19 pandemic, more obligors will get or have already gotten into economic difficulties. Late payments or missed payments could reduce the amount of collections and therefore increase the risk of non-timely payments under the Notes. VWFS changed its customary operating practices to expand the scope of its customary forbearance activities. This includes easing the arrangements to pay, granting one-off payments, extension of the period in which VWFS will not actively pursue arrears, extension of the period that the financing contract is placed into arrears, and postponing the date of the repossession of the vehicle. Moreover, VWFS will offer its obligors of a PCP contract an informal extension to the original contract term. If the extension for a contract in the portfolio of DUKM C3 is accepted, VWFS will repurchase the contract and transfer the determined repurchase price to the Issuer.

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 NOx Emissions Allegations

VW NOx issue may threaten future financial position; pose indirect risk to future portfolio performance

On September 18, 2015, the US Environmental Protection Agency 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 15, 2015).

A number of legal proceedings were subsequently iniciated in several countries. VWAG could end many proceedings by entering settlement agreements and agreements on the implementation of technical measures with numerous authorities. However, several other proceedings in relation to the diesel issue are still ongoing, including class actions in some jurisdictions.

On June 13, 2018, the Braunschweig public prosecutor issued a fine notice of EUR 1bn against VWAG due to violations of supervisory duties in the context of the diesel issue. The fine consists of the maximum penalty legally provided for of EUR 5m and the penalty for economic benefits due to the offence of EUR 995m. On November 1, 2018, German consumer group vzbz has filed a class action lawsuit against VWAG on diesel test emission manipulation. On February 22, 2019, the German Federal Supreme Court has published an indicative court order confirming the opinion of the claimant that software circumventing emission standards should be assumed to be a material defect. On February 28, 2020, VWAG and VZBZ reached a out-of-court settlement on compensation for the claimants. On April 6, 2020, in an English group litigation a British court stated that VWAG used a prohibited defeat device to subvert air pollution tests. This decision could lead to compensatory damages for 91,000 claimants in England and Wales. In August 2020, the Court of Appeal rejected VW's appeal against the British Court's ruling, therefore deeming the decision of the British Court as final. Questions regarding liability on part of VW were not addressed in the High Court's ruling and will be dealt with at a later stage of proceedings. The main trial proceedings are to begin in January 2023.

As of today, it is not possible to quantify all current and future commercial and financial implications of NOx related issues. According to transaction legal counsel, HP and PCP customers in the UK may endeavour to pursue claims for damages from VWFS for any loss they claim they suffered as a consequence of a defect i.e. if the product was not of satisfactory quality at the point of delivery. A customer may claim such cases should be treated as a repudiatory breach entitling him to terminate the contract in addition to claiming damages. A customer who

is a consumer may also claim to have non-contractual rights to damages or a discount against VWFS if the information provided about the vehicle's emissions could be regarded as misleading or false.

The Seller represents and warrants that, as of the cut-off date, the purchased financing contracts are "legally valid, binding and enforceable" and that their "status and enforceability is not impaired due to warranty claims or any other rights" of the lessee (see "Eligibility Criteria"). According to transaction documentation, if claims were ultimately determined in a claimants' favour at trial, absent remediation, VWFS would be required to repurchase any relevant affected receivables from the Issuer on the basis that the status and enforceability of such affected purchased receivables was impaired due to warranty claims or any other rights of the obligor or that the status and enforceability of the affected receivables was impaired by set-off rights.

According to information provided by VWFS, about 0.01% of the outstanding discounted principal balance in the DUKM C3 portfolio is affected by EA189 software irregularities. VWFS did not provide information on concentrations of affected EA 189 engines with respect to the distribution by brand and model in the portfolio. In our view, a buyback of this relatively minor share as a remedy measure following a breach of eligibility criteria would not significantly affect the portfolio composition or observed credit quality.

Overall, 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 NOx issue 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 transaction. 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 DUKM C3, 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, for investors. To mitigate this risk, VWFS will fund a CCA of 0.90% initially of the discounted receivables balance, which may be used to cover senior cost and interests. In addition, the structure obliges the Servicer to advance expected collections if target minimum ratings of VWAG or VWFS AG 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 a VWFS insolvency.

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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, Scotland and Northern Ireland. 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 Securitisation law over the lifetime of the transaction.

Account Bank and Swap Counterparty

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. The Issuer has established accounts as defined in the Account Agreement and in accordance with the transaction structure. The Issuer is exposed to the default risk of Bank of New York Mellon ("BNYM"), appointed to be the Account Bank. However, default risks are mitigated by certain downgrade provisions linked to the rating of the Account Bank. Should BNYM 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 unsolicited bank rating of BNYM. The current rating of BNYM as of July 6, 2021 is A/Watch UNW.

The Issuer will enter into two separate swap agreements with Crédit Agricole Corporate and Investment Bank ("CA CIB") to mitigate exposure to interest rate changes over time and hedge the interest rate risk arising from receiving fixed rate payments under the lease receivables and paying a floating rate on the Class A and Class B Notes. Under the terms of the swap agreements, the Issuer expects to receive floating rate payments based on sonia plus spread in return of a fixed rate paid to the Swap Counterparty.

The Issuer is exposed to the risk of CA CIB failing on any monthly payment, in which case the available distribution amount (including the cash reserve) may be insufficient to make required payments on the Notes. Depending on the future development of interest rates, the Issuer may also be obliged to transfer net payments to the Swap Counterparty. As the monthly net swap payments rank senior to any liabilities on the Notes, the available distribution amount may be insufficient to cover all required payments on the Notes. The transaction is also exposed to the risk of Swap Counterparty insolvency. In this case, substantial swap termination payments may arise depending on the future development of interest rates and the future market value of the swap.

To mitigate Swap Counterparty exposure, the structure foresees certain downgrade provisions linked to the rating of the Swap Counterparty, which require certain actions should its ratings fall below a minimum rating threshold. These actions may include the collateralisation of the referenced amounts by the Swap Counterparty, a transfer of obligations to a replacement Swap Counterparty, or the procurement of a guarantee. To assess the risk relating to the Swap Counterparty, Creditreform Rating has undertaken an unsolicited bank rating of Crédit Agricole S.A., the parent company of CA CIB. The current rating of Crédit Agricole S.A. as of July 6, 2021 is A/Watch UNW.

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 final pool after tap-up, which allow a credit risk assessment of the portfolio. The quality and quantity of data available for our analysis was considered to be sufficient.

Receivables Pool Characteristics

Portfolio Composition

The portfolio consists of loans originated by VWFS and entered into between obligors and VWFS. It includes different vehicle brands. The financing agreements are extended to retail and corporate customers. A particular feature of the portfolio securitised in the current transaction is a specific concentration of Porsche brand vehicles, which constitute about 64.66% of the receivables balance. Approximately 99.45% of the Porsche financing agreements have been signed as PCPs, about 0.44% as LP contracts and about 0.11% as HP contracts. In addition, the pool includes a significant concentration with respect to the geographical distribution of HP contracts (which constitute a minor 3.41% of the pool), almost 100% of which have been sourced from customers in Northern Ireland.

Table 11: Portfolio Characteristics

Portfolio Characteristics	
Outstanding Discounted Receivables Balance (GBP)	609,887,425.94
Number of financing contracts	25,744
Number of obligors	25,130
Average discounted balance / contract (GBP)	23,690.47
Type of financing agreement:	
*Hire Purchase, HP (%)**	3.41
*Personal Contract Purchase, PCP (%)**	82.46
*Lease Purchase, LP (%)**	14.12
WA seasoning (months)	21.56
WA remaining term (months)	23.99
Type of Customer	
*Retail (%)**	85.80
*Corporate (%)**	14.20
Type of Car	
*New (%)**	53.02
*Used (%)**	46.98
Type of Motor	

*Petrol (%)**	69.99
*Diesel (%)**	30.01
*Others (%)**	0.00
Type EA 189 engine vehicles (%)*	0.01

* Percentage of the Outstanding Discounted Balance

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 I Source: VWFS, CRA

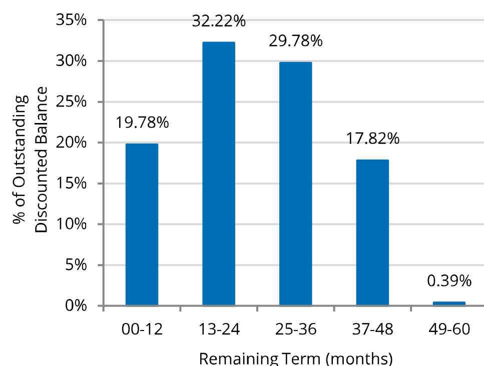
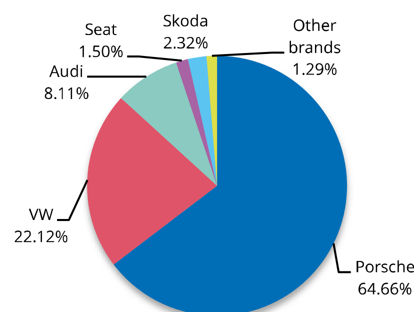


Figure 3: Brand Distribution I Source: VWFS, CRA



Historical Performance

VWFS provided delinquency performance data on retail and corporate customers going back to 2007, which covered the performance of HP, PCP and LP financing agreements. Historically, delinquencies for the entire portfolio have shown an overall decreasing trend, but especially delinquencies between 31 and 60 days are increasing since mid-2016. However, due to the COVID-19 pandemic, the delinquencies have increased dramatically from March 2020 to May 2020 (see Figure 4).

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. Nevertheless, because of the COVID-19 pandemic, VWFS has offered obligors payment deferral following the FCA guidance. As long as the payment holiday agreement is made between obligors and VWFS, the contract status will change from delinquent to performing. Therefore, the total delinquency ratio has reduced after the peak in spring 2020. Furthermore, the data suggests little to no impact of the second wave of the COVID-19 on delinquencies. Payment holidays coupled with a successful vaccination campaign and subsequent loosening of the COVID-19 related restrictions seems to have offset the negative impact of the second wave. However, the impact of the end of payment deferral scheme is yet unknown, we will keep monitoring the performance data.

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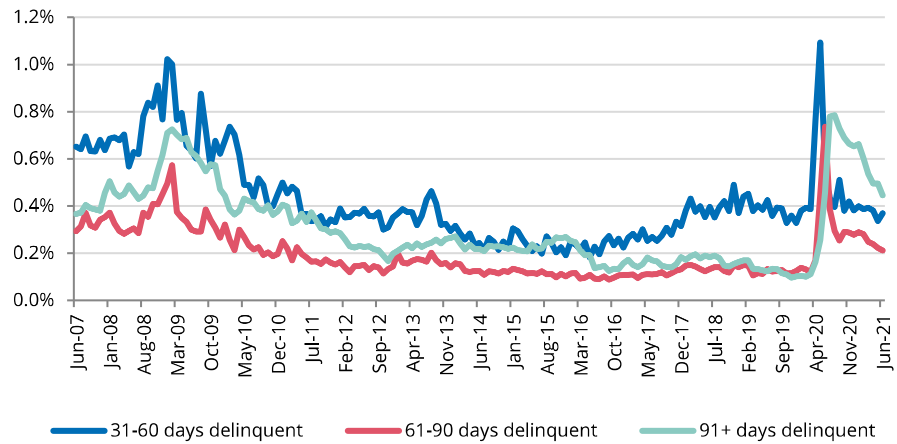
Figure 4: Delinquencies by Delinquency Period | Source: VWFS, CRA



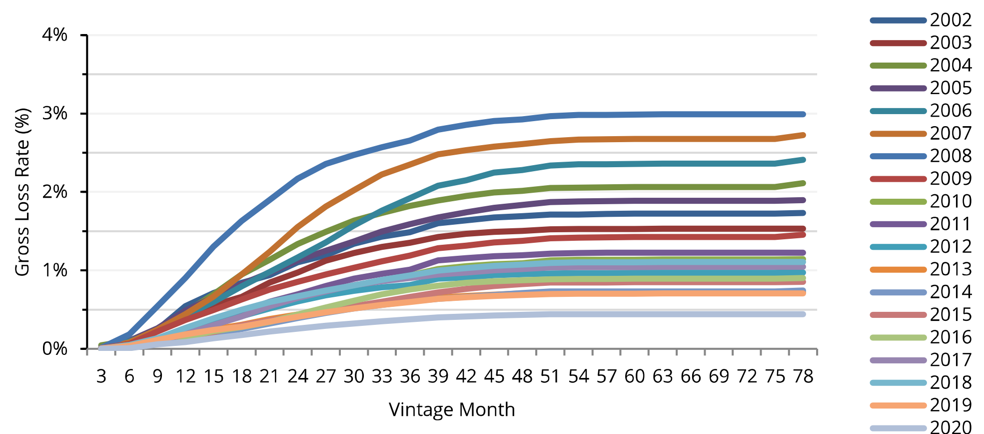
Credit Risk

Defaults

Creditreform Rating set its gross loss base case at 0.73%

VWFS 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):

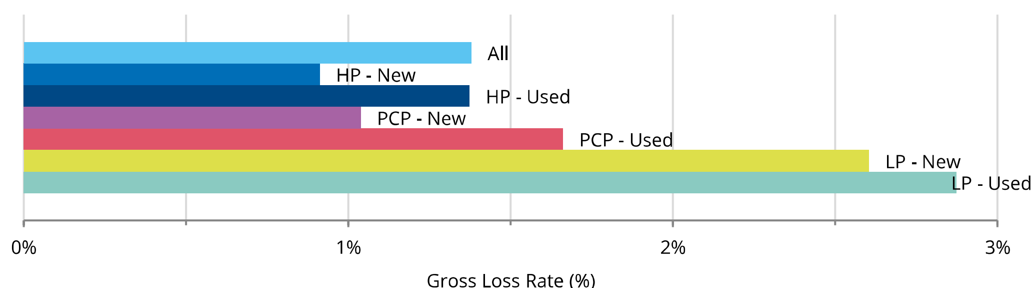
Figure 5: Gross Loss Rates of VWFS Total Lease Book by Year, extrapolated I Source: VWFS, CRA



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 consider the long-term development of the overall economy in UK, characterised by modest economic growth, strong labour market and subdued consumer inclination to buy cars, the main driver of portfolio performance in the current loan securitisation. Although our short-term economic outlook for UK is currently negative, due to the stress on the UK's competitiveness (against the backdrop of non-tariff trade barriers and the uncertainty over the services trades with EU), we expect a limited downside risk of the portfolio on account of the well-diversified obligors and the various payment solutions offered by the Servicer to the obligors who are affected by the pandemic (see "Economic outlook" above).

Depending on the contract type and the used condition, average unweighted 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. Furthermore, LP agreements show significantly higher gross loss rates compared to HP and PCP contracts. With respect to comparable UK transactions including only HP and PCP, this leads to a higher base case assumption in the present case.

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 long–term economic outlook, Creditreform Rating has set a base case gross loss expectation of 0.73% 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 Driver UK Master S.A., Compartment 3.

Recoveries

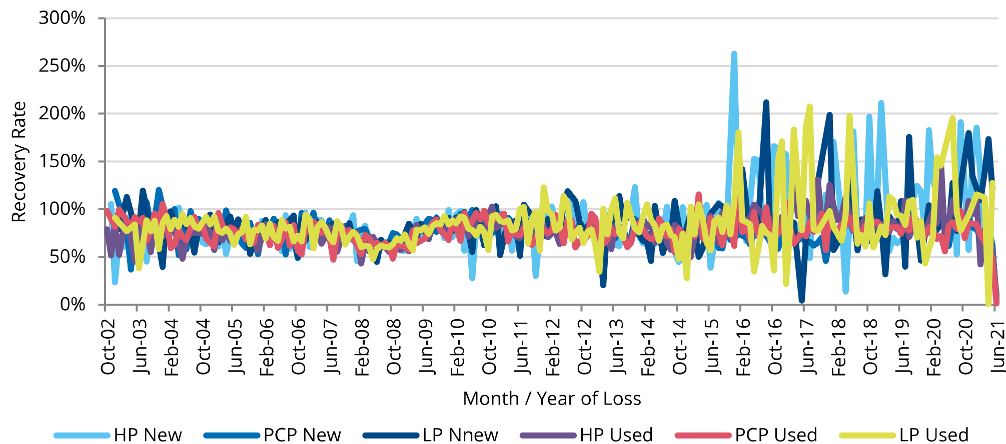
Creditreform Rating set the recovery base case at 78.50%

VWFS provided historical data on the recovery performance of PCP, HP and LP contracts, each separately listed for used and new vehicles. The recovery data has included the VAT adjustment[6] of contracts that are terminated early, leading to a slightly better recovery performance than last year. This historical data was deemed sufficient to gauge the recovery performance of the Servicer (Figure 7).

Despite a relatively stable performance (between 60%-90%) in the early time, the data reveal an increasing variation since the second half of 2015. 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 78.50%.

[6] Under Regulation 38 of the Value Added Tax Regulations 1995, when financial contracts are terminated early before all the monies are collected, the element of outstanding debt relating to VAT that has already been paid to the tax authority can be reclaimed. Since this year, the collection of VAT claim are transferred from the Servicer to the Issuer, leading to higher recovery rates.

Figure 7: Historical recovery performance of contract type I Source: VWFS, CRA



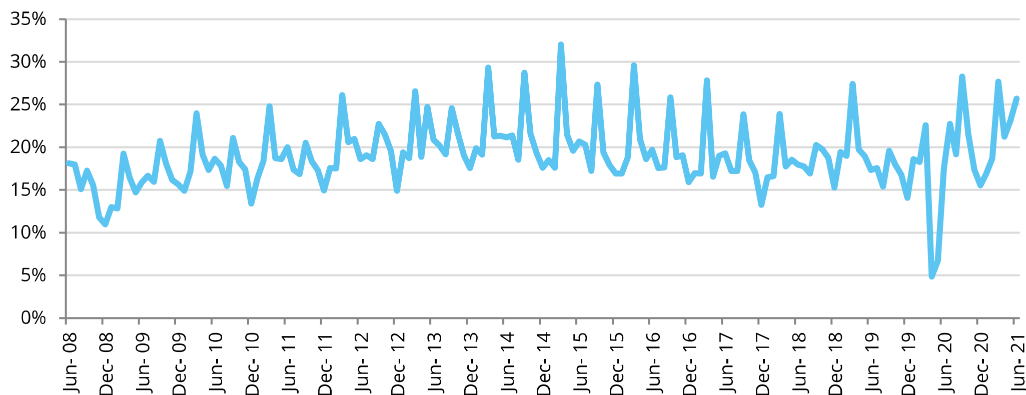
Prepayments

Creditreform Rating used historical prepayment performance data on VWFS´s total HP, LP and PCP portfolio, dating back to 2008. 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 close to 30% annualised CPR, averaging about 19.03% CPR annualised (see Figure 8).

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 9.07% (AAAsf) and 10.50% (A+sf) for each rating scenario, respectively.

Figure 8: Historical prepayments, total lease book, HP, PCP, LP (annualised CPR) I Source: VWFS, CRA



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Residual Value Risk

PCP loans offer 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 82.81%[7], residual value 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% (AAAsf) 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 64.62% (AAAsf) and 71.54% (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 (64.80%[5]) 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 49.11% (AAAsf) and 54.37% (A+sf) for Porsche and 61.39% (AAAsf) and 67.96% (A+sf) for the remainder of the portfolio.

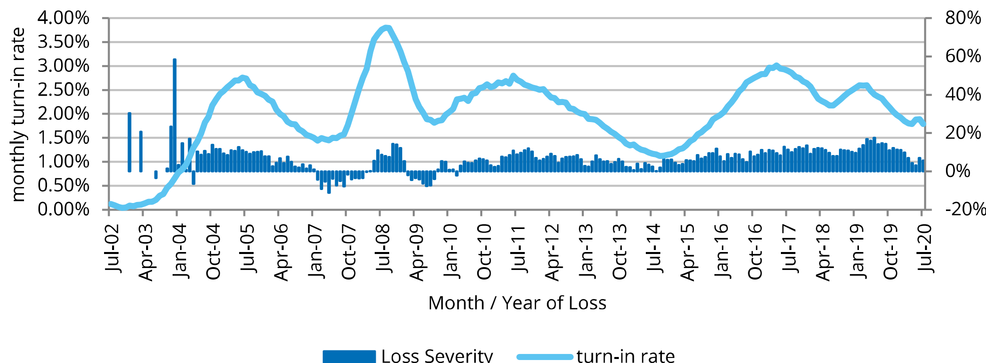
The exposure to RV risk was further stressed by assuming an increase in the total share of PCP contracts during the revolving period due to replacements of the revolving portfolio, increasing the share up to 85.88%. The resulting PCP exposure of 63.22% translated into a total RV risk assumption of 26.35% (AAAsf) and 19.74% (A+sf), respectively.

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.

[7] The figure is based on the June month-end data.

Figure 9: Voluntary termination turn-ins and loss severity | Source: VWFS, CRA



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. The new VT performance data includes the VAT claim[8], resulting a higher recovery rate of contracts with voluntary termination. 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. The VT turn-ins is very volatile in the past 20 years and has reached a peak during 2008 financial crisis. Since 2015, monthly VT turn-ins have been increasing to reach an all-time high in 2016. In particular, based on aggregate VT data provided by VWFS, turn-ins of PCP contracts have increased significantly, being accompanied by higher net loss rates.

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 which took into account the increased volatility observed in the data. The total VT risk was sized at 3.35% (AAAsf) and 2.50% (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 DUKM C3. The purpose of the cash flow analysis is to test the transaction´s ability of paying interests 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, decreases in the recovery rates, and prepayment scenarios.

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 terminations, the amount of prepayments.

Rating Scenarios

CRA base case stresses:

AAA$_{sf}$: x6.92 default multiple
70.66% recovery haircut

A+$_{sf}$: x4.75 default multiple
56.61% recovery haircut

Taking our loss assumptions as a starting point, Creditreform Rating then stressed its base case assumptions in various rating scenarios in order to account for unexpected economic deterioration and worsening portfolio performance. Separate stress factors were applied to default

[8] See Footnote 3

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and recovery rates to arrive at scenario-specific stressed loss expectations, which were then fed into the cash flow model.

Default Rates

Following our "Rating of Auto ABS Securitisations" methodology and depending on the specific rating scenarios (AAAsf and A+sf), the stress multiples for default rates were set at x6.92 and x4.75, respectively. This leads to the rating-specific stressed gross losses of 5.02% for AAAsf and 3.44% for A+sf.

Recovery Rates

The base case recovery assumption 78.48% was subjected to a rating haircut in each rating scenario. The recovery rate haircuts were set to 70.66% in the AAAsf scenario and 56.61% in the A+sf scenario, respectively. The haircuts take into account transaction-specific features such as observed volatility, potential market value risks caused the EA189 NOx issue, and established recovery procedures. As a result, the stressed recovery rates were set to 23.02% in an AAAsf scenario and 34.05% in an A+sf scenario. The scenario-specific expected net losses were calculated by applying our rating multiplies and haircuts to the base case.

Voluntary Termination and Residual Value Risks

Besides the default risk, we consider the voluntary termination and residual value risk as important factors that determine the ratings of the Notes. Although voluntary termination and residual value risk can be mitigated by the redelivery repurchase agreement between VWFS and the Issuer, the implement depends on the condition that VWFS as the Servicer is not insolvent and the Servicer Replacement Event is not triggered. In our cash flow model, we consider the stressed condition and assume the Servicer Replacement Event occurs, so that the redelivery repurchase agreement is not in effect. Table 12 summarises our assumptions of expected net loss, voluntary termination risk, residual value risk and prepayment rates.

Table 12: Stressed Assumptions

Rating Scenario	**AAAsf**	**A+sf**
Base Case Gross Loss (%)	0.73	0.73
Default Multiple	6.92	4.75
Rating Loss Rate (%)	5.02	3.44
Base Case Recovery Rate (%)	78.48	78.48
Recovery Haircut (%)	70.66	56.61
Rating Recovery Rate (%)	23.02	34.05
Expected Net Loss (%)	**3.86**	**2.27**
Voluntary Termination Risk (%)	**3.35**	**2.50**
Residual Value Risk (%)	**26.35**	**19.74**
Total risk (%)	**33.56**	**24.51**
Prepayments (%)	9.07	10.50

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. Table 13 and Table 14 show the resulting rating indications for the Class A and Class B Notes, respectively. For instance, the AAAsf rating on top left of Table 13 indicates the Class A Notes rating for the scenario with base case assumptions. If the default rate is set to increase by 50% and the recovery rate to reduce by 50%, our analysis will suggest the rating remains stable for Class A Notes.

Table 13: Class A Notes Sensitivities

Recovery / Default	Base Case	-10%	-25%	-50%
Base Case	AAA_{sf}	AAA_{sf}	AAA_{sf}	AAA_{sf}
+10%	AAA_{sf}	AAA_{sf}	AAA_{sf}	AAA_{sf}
+25%	AAA_{sf}	AAA_{sf}	AAA_{sf}	AAA_{sf}
+50%	AAA_{sf}	AAA_{sf}	AAA_{sf}	AAA_{sf}

Table 14: Class B Notes Sensitivities

Recovery / Default	Base Case	-10%	-25%	-50%
Base Case	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$
+10%	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$
+25%	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$
+50%	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$	$A+_{sf}$

In addition, Table 15 shows the resulting rating indications for the Class A and Class B Notes with VT and RV risk sensitivities. If the VT and RV losses are set to increase by 25%, our analysis will suggest one notch down for Class A Notes, and two notches down for Class B Notes.

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

VT and RV Risk	Class A	Class B
Base Case	AAA_{sf}	$A+_{sf}$
+10%	AAA_{sf}	$A+_{sf}$
+25%	$AA+_{sf}$	$A-_{sf}$
+50%	$A+_{sf}$	BBB_{sf}

In addition, we define our best-case scenario and worst-case scenario as following:

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 AAAsf for Class A Notes and A+sf for Class B Notes.

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, resulting in a rating of Asf for Class A Notes and BBB-sf for Class B Notes. In our view, this rating

would represent a scenario with higher default correlation and market decline in a stressed pandemic scenario.

Creditreform Rating tested scenarios with back-, even-, and front-loaded default timings. As highlighted in Table 16, Creditreform Rating also assessed the effect of changing the prepayment rate to 0%. Overall, we observed reduced sensitivities of the Class A and Class B Notes.

Table 16: Class A and Class B Notes Prepayment Sensitivities

Prepayment rate	Class A	Class B
Base Case	AAA_{sf}	$A+_{sf}$
Zero	AAA_{sf}	$A+_{sf}$

ESG Criteria

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing the rating object. Overall, ESG factors have a mild 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 on the stability of the ratings. Macroeconomic uncertainty ("Brexit" and the COVID-19 pandemic) 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 Counterparty and Account Bank. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

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Appendix

Rating History

Event	Rating Date	Publication Date	Result
Initial Rating	19.05.2016	25.05.2016	Class A AAA$_{sf}$ /stable Class B AA-$_{sf}$ / stable
Rating Renewal	23.05.2017	26.05.2017	Class A AAA$_{sf}$ /stable Class B A+$_{sf}$ / stable
Rating Renewal	23.05.2018	25.05.2018	Class A AAA$_{sf}$ /stable Class B A+$_{sf}$ / stable
Monitoring[9]	26.07.2018	02.08.2018	Class A AAAsf (watch) Class B A+sf (watch)
Monitoring	17.08.2018	21.08.2018	Class A AAA$_{sf}$ /stable Class B A+$_{sf}$ / stable
Rating Renewal	22.05.2019	28.05.2019	Class A AAA$_{sf}$ /stable Class B A+$_{sf}$ / stable
Rating Renewal	20.11.2020	25.11.2020	Class A AAA$_{sf}$ /stable Class B A+$_{sf}$ / stable
Rating Renewal	22.09.2021	27.09.2021	Class A AAA$_{sf}$ /stable Class B A+$_{sf}$ / stable

Regulatory Requirements

Creditreform Rating AG was contracted on 26 February 2016 by VWFS to conduct ratings for Class A and Class B Notes issued by Driver UK Master S.A., acting for and on behalf of its Compartment 3. The rating was conducted on the basis of Creditreform Rating AG's Rating Methodology "Auto ABS Securitizations, Version 1.4, July 2018" in conjunction with Creditreform Rating AG's "Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018" and Creditreform Rating's basic document "Rating Criteria and Definitions, Version 1.3, January 2018".

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 18, 2019. In addition, VWFS provided a digital due diligence presentation on March 31, 2021. 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:

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

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

This rating was carried out by analysts Stephan Giebler (Lead), Sijia Aulenbacher and Ritank Gupta, and the function of Person Approving Credit Ratings (PAC) was performed by Philipp J. Beckmann, all located in Neuss/Germany.

[9] Monitoring due to a change in methodology

The black pool cut-off date is August 31, 2021. Closing occurs on September 27, 2021. The ratings are based on the black pool portfolio information as of September 13, 2021, as provided by the originator.

The Issuer or all relevant parties have examined the rating report prior to publication and were provided with at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

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 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.

For a related third party key figure calculations have been conducted as ancillary services.

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 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 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.

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://cerep.esma.europa.eu/cerep-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.

Disclaimer

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HRB 10522, Amtsgericht Neuss

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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:

Following the renewal on 27 September 2021, Creditreform Rating has confirmed the ratings of the Class A and Class B Notes of Driver UK Master S.A., acting for and on behalf of its Compartment 3 (DUKM C3), 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). DUKM C3 is secured by new and used vehicle financing contracts. The revolving period will expire in September 2022. 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 September 2021, the securitised asset pool amounts to GBP 609.89m with 25,744 financial contracts. The Class A and B Notes represent 65.75% and 9.02% of the outstanding discounted receivables balance, respectively. Credit enhancement to the Notes is provided by a Subordinated Loan (11.68%), overcollateralisation (13.55%), and a cash reserve amounting to 0.90% of the outstanding discounted receivables balance. Since the last renewal in November 2020 the overcollateralisation level of the Class A Notes increased from 33.61% to 34.25%, while the credit enhancement level of the Class B Notes increased from 24.50% to 25.23%.

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 0.73% and the base case recovery rate at 78.48%.

Depending on the specific rating scenarios (AAA_{sf} and $A+_{sf}$), the stress multiples for default rates were set at x6.92 and x4.75, respectively. Moreover, CRA set the recovery haircuts at 70.66% and 56.61%, 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 3.86% and 2.27% in the relevant AAA_{sf} and $A+_{sf}$ rating scenarios. The total VT risk was sized at 3.35% and 2.50%, respectively.

With a total PCP share of 82.81%[1], 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 64.62% (AAA_{sf}) and 71.54% ($A+_{sf}$) of the contractual RV. Considering lower recovery rates of returned Porsches, we reduced the base-case recoveries for the share of Porsche PCP contracts (64.80%[1]) 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 49.11% (AAA_{sf}) and 54.37% ($A+_{sf}$) for Porsche and 61.39% (AAA_{sf}) and 67.96% ($A+_{sf}$) 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 85.88%. Taking into account the PCP balloon share of 73.61%[1], the resulting PCP exposure of 63.22% translated into a total RV risk assumption of 26.35% (AAA_{sf}) and 19.74% ($A+_{sf}$), respectively.

Stressed prepayment assumptions were set at 9.07% (AAA_{sf}) and 10.50% ($A+_{sf}$) 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 DUKM C3 and to assess the Issuer's ability to service its debt in a full and timely manner.

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

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

\- Potentially indirect negative impact of VWAG NOx emission allegations on future portfolio performance

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

\- Extended 12-month revolving period may adversely affect portfolio quality

\- Macroeconomic uncertainty ("Brexit" and the COVID-19 pandemic) 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 $A+_{sf}$ 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 mild impact on the current ratings of the Class A and Class B Notes. Nevertheless, CRA identifies macroeconomic factors (particularly with regard to potential changes in consumer behaviour) to have a high significant impact on the stability of the ratings. Macroeconomic uncertainty ("Brexit" and the COVID-19 pandemic) 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 Counterparty 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:

September 22, 2021 / September 22, 2021 / September 25, 2029

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 / rating:

May 19, 2016

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

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

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

Stephan Giebler (Lead) – Senior Analyst

Philipp J. Beckmann (PAC) – Senior Analyst

Name & address of legal entity:

Creditreform Rating AG, Europadamm 2-6, 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

Endorsement:

Creditreform Rating did not endorse the rating according Article 4 (3), CRA-Regulation.

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 the quality and extent of information available on the rated entity as satisfactory. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.