

**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<sub>sf</sub>

Class B 2016-1 Floating Rate Asset Backed Notes: A+<sub>sf</sub>

**Rating outlook / watch:**

Outlook stable

**Rating summary:**

Following the renewal on 25 November 2020, 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<sub>sf</sub>/ stable

GBP 55,000,000 Class B 2016-1 Floating Rate Asset Backed Notes: A+<sub>sf</sub>/ 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 2021. 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 November 2020, the securitised asset pool amounts to GBP 603.97m with 25,470 financial contracts. 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 (13.96%), overcollateralisation (10.54%), 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 0.72% and the base case recovery rate at 76.90%.

Depending on the specific rating scenarios (AAA<sub>sf</sub> and A+<sub>sf</sub>), the stress multiples for default rates were set at x6.90 and x4.78, respectively. Moreover, CRA set the recovery haircuts at 70.70% and 56.64%, 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 3.83% and 2.28% in the relevant AAA<sub>sf</sub> and A+<sub>sf</sub> rating scenarios. The total VT risk was sized at 3.21% and 2.35%, respectively.

With a total PCP share of 84.64%<sup>1</sup>, 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<sub>sf</sub>) and 83.33% (A+<sub>sf</sub>) in the relevant rating scenarios, respectively. Base-case PCP recoveries were analysed on a monthly aggregate basis and sized at 66.53% (AAA<sub>sf</sub>) and 73.18% (A+<sub>sf</sub>) of the contractual RV. Considering lower recovery rates of returned Porsches, we reduced the base-case recoveries for the share of Porsche PCP contracts (65.89%<sup>1</sup>) 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 50.56% (AAA<sub>sf</sub>) and 55.62% (A+<sub>sf</sub>) for Porsche and 63.20% (AAA<sub>sf</sub>) and 69.52% (A+<sub>sf</sub>) 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 87.38%. Taking into account the PCP balloon share of 75.09%<sup>1</sup>, the resulting PCP exposure of 65.61% translated into a total RV risk assumption of 26.55% (AAA<sub>sf</sub>) and 19.91% (A+<sub>sf</sub>), respectively.

Stressed prepayment assumptions were set at 9.12% (AAA<sub>sf</sub>) and 10.52% (A+<sub>sf</sub>) 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.

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<sup>1</sup> The figure is based on the August 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), contractual (Personal Contract Purchase) and vehicle type (Porsche) portfolio composition
- Extended 10-month revolving period may adversely affect portfolio quality
- Increased 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<sub>sf</sub> and A+<sub>sf</sub> 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-<sub>sf</sub> and BB+<sub>sf</sub> 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. Increased 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:**

November 20, 2020 / November 20, 2020 / September 25, 2028

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<sub>sf</sub>

Class B 2016-1 Floating Rate Asset Backed Notes: A+<sub>sf</sub>

**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.