Scratchpad

04 Aug 2025

Asset Transfer and Funding

The foundation of the transaction is the transfer of income-generating assets from the originator (VWFS) to the Issuer (SPV). This is primarily achieved through the Receivables Purchase Agreement, with funding for this purchase coming from the note issuance and a subordinated loan.

Receivables Purchase Agreement (RPA)

This agreement governs the true sale of the motor vehicle financing receivables from VWFS to the Issuer .

- **Function**: It legally isolates the receivables from VWFS, protecting noteholders from the seller's credit risk. VWFS provides extensive warranties on the quality of these assets .
- **Interaction**: If a receivable breaches a warranty, VWFS is obligated to repurchase it, ensuring the quality of the underlying asset pool remains consistent . This agreement provides the assets over which the **Deed of Charge** grants security. During the revolving period, collections can be used to purchase additional receivables under the terms of this agreement .

Subordinated Loan Agreement

VWFS provides a **£59.7M subordinated loan** to the Issuer, which acts as a form of credit enhancement and helps fund the initial purchase of receivables .

- **Function**: This loan absorbs initial losses in the portfolio before the Class A and B noteholders are affected.
- **Interaction**: Repayments of interest and principal on this loan are deeply subordinated within the **Trust Agreement's** payment waterfall. It is only paid after all senior expenses and payments to noteholders are made, directly linking its performance to the overall health of the asset pool .

Security and Governance Framework

Once the assets are in the SPV, a robust governance and security structure is established to protect creditors. The Trust Agreement is the master document, while the Deed of Charge creates the legal security.

Trust Agreement

This is the cornerstone document of the entire transaction, defining the roles, responsibilities, and relationships between all parties .

- **Function**: Its most critical feature is establishing the pre- and post-enforcement **Order of Priority** (payment waterfall) . This waterfall dictates the sequential flow of all cash collected from the receivables on every payment date.
- **Interaction**: It integrates every other agreement by defining where their associated payments (e.g., Servicer fees, Swap payments, Note interest/principal, Subordinated Loan payments) rank in seniority. All cash managed under the **Account Agreement** is distributed according to this waterfall .

Deed of Charge and Assignment

This agreement creates the security interest for the benefit of the transaction's creditors, including noteholders and the swap counterparty.

- **Function**: The Issuer grants a fixed charge over the purchased receivables and a floating charge over all its other assets to the **Security Trustee** (Intertrust Trustees GmbH) .
- **Interaction**: The Security Trustee holds this security on behalf of all secured creditors. In an event of default, the Security Trustee is the only party empowered to enforce this security . Upon enforcement, proceeds are distributed according to the post-enforcement waterfall specified in the **Trust Agreement** .

Risk Management and Operational Mechanics

Several ancillary agreements are in place to manage specific risks such as interest rate fluctuations, operational cash management, early vehicle returns, and data privacy.

Interest Rate Swap Agreements

Two swaps are in place with Royal Bank of Canada to hedge the interest rate mismatch between the predominantly fixed-rate receivables and the floating-rate (SONIA-based) notes .

- **Function**: The Issuer pays a fixed rate to the swap counterparty and receives a floating rate, which is then used to pay interest on the notes. This converts the Issuer's cash flows to match its liabilities, neutralizing interest rate risk .
- **Interaction**: Payments due to the swap counterparty are given a senior ranking within the **Trust Agreement's** payment waterfall, ensuring the hedge remains in place .

Redelivery Repurchase Agreement

This agreement manages the scenario where customers return their vehicles early under certain financing contracts (e.g., Personal Contract Plan).

- **Function**: It creates an obligation for VWFS to repurchase the receivable associated with a returned vehicle from the Issuer at a pre-defined price .
- **Interaction**: This prevents the Issuer from being exposed to the market value risk of used vehicles. The repurchase price paid by VWFS is treated as collections and flows into the **Account Agreement** to be distributed via the **Trust Agreement** waterfall .

Data Protection Trust Agreement

This agreement ensures compliance with GDPR and other data protection rules when handling the personal data of the vehicle finance customers.

- **Function**: It appoints a Data Protection Trustee to hold obligor data securely . It defines strict protocols for data processing, security measures, and disclosure, ensuring personal data is handled lawfully throughout the life of the transaction .
- **Interaction**: It operates in parallel to the main financial agreements, ensuring legal compliance. A breach could lead to regulatory fines, the payment of which would be governed by the expense category in the **Trust Agreement's** waterfall.

Agreement	Primary Function	Interaction with Other Agreements		:---	:---	:---		**Trust Agreement**	Central governing document; establishes payment waterfall .	Dictates the priority of all cash flows from every other agreement (RPA, Swaps, Loan, etc.) .		**Receivables Purchase Agreement**	Transfers receivables from VWFS to the Issuer .	

Conclusion: An Interlocking System

The framework of the Driver UK 9 transaction is a tightly integrated system where each agreement has a distinct but interconnected role. No single agreement can be understood in isolation. The structure is designed to flow in a logical sequence: assets are purchased (RPA), security is created (Deed of Charge), and risks are hedged (Swaps). All resulting cash flows are collected (Account Agreement) and meticulously distributed according to a single, master set of rules (Trust Agreement), ensuring a clear, predictable, and legally robust structure for investors and all other stakeholders.

Transaction Overview

This transaction, named **Driver UK nine**, is an asset-backed securitization (ABS) where **Volkswagen Financial Services (UK) Limited ("VWFS")** sells a portfolio of UK-based motor vehicle financing receivables to a special purpose entity, **Driver UK Multi-Compartment S.A., acting for and on behalf of its Compartment Driver UK nine** (the "Issuer") .

The Issuer finances this purchase by issuing two classes of notes to investors: **£358.8 million of Class A Notes** and **£51.5 million of Class B Notes** . The payments of principal and interest on these notes are backed by the cash flows generated from the auto loan receivables. The structure is designed to be self-liquidating and includes several layers of credit protection for investors.

Party	Role		:---	:---		**Issuer / Purchaser**	Driver UK Multi-Compartment S.A. (acting for Compartment Driver UK nine)		**Seller / Servicer / Subordinated Lender**	Volkswagen Financial Services (UK) Limited ("VWFS")		**Security Trustee**	Intertrust Trustees GmbH		**Account / Paying A Cash Administr

Legal Structure

The transaction is structured to legally isolate the securitized assets from the credit risk of the originator, VWFS.

> **Key Insight:** The structure is built around the concept of a "true sale" to a bankruptcy-remote Special Purpose Entity (SPE). This ensures that if VWFS were to become insolvent, its creditors could not claim the receivables portfolio that has been sold to the Issuer. The security is held by an independent Security Trustee for the benefit of all creditors, primarily the Noteholders.

- **Special Purpose Entity (SPE):** The Issuer is a Luxembourg-based public limited liability company, established specifically for securitization transactions. Its activities are restricted to acquiring the receivables and issuing the notes, minimizing operational risk and preventing it from incurring other unrelated liabilities . Its shares are held by Stichting CarLux, a Dutch foundation, ensuring it is not part of the VW Group .
- **Asset Sale:** VWFS sells the receivables to the Issuer under a Receivables Purchase Agreement. This is intended to be a true sale, transferring full ownership .
- **Security Trust:** The Security Trustee, Intertrust Trustees GmbH, holds the security over the assets for the benefit of the Noteholders and other secured creditors (like the Swap Counterparty) . This includes an assignment of the Issuer's rights under the various transaction agreements. In case of default (an "Enforcement Event"), the Security Trustee is empowered to take control of the assets and enforce the security .
- **Servicing:** VWFS continues to administer and collect payments on the receivables as the Servicer, ensuring continuity for the underlying borrowers .

Credit Structure and Enhancements

The transaction incorporates multiple layers of credit enhancement to protect Noteholders from losses in the underlying receivables pool.

- **Subordination:** The two classes of notes create a senior/subordinated structure. The Class B Notes absorb losses before the Class A Notes. This means interest and principal on Class A Notes are paid before principal on Class B Notes .
- **Overcollateralization:** The principal balance of the purchased receivables is greater than the principal amount of the notes issued. The initial overcollateralization amounts to **£30,008,345.04**, providing a buffer against defaults .
- **Subordinated Loan:** VWFS provides a subordinated loan of **£59,701,131.50** to the Issuer. This loan is junior to both classes of notes and serves as an additional layer of credit enhancement .

- **Cash Collateral Account:** A cash reserve account funded at closing with **£5,949,350** (equal to 1.45% of the initial note balance) . This account can be drawn upon to cover shortfalls in interest or principal payments on the notes if collections are insufficient .
- **Interest Rate Swap:** The underlying auto loans pay a fixed interest rate, while the notes pay a floating rate tied to SONIA. To mitigate this interest rate mismatch, the Issuer has entered into an interest rate swap with Royal Bank of Canada. The Issuer pays a fixed rate to the swap counterparty and receives a floating rate, which is then used to pay interest on the notes .

Priority of Payments (Pre-Enforcement Waterfall)

On each monthly Payment Date, the "Available Distribution Amount" (collections from receivables plus other income) is applied in a strict order of priority. This waterfall ensures senior obligations are paid first.

1. **Taxes** payable by the Issuer.
2. **Senior Fees & Expenses:** Payments due to the Security Trustee and any receiver/manager.
3. **Servicer Fee** to VWFS.
4. **Other Admin Expenses:** Fees for the Corporate Services Provider, Agents, Account Bank, Rating Agencies, etc.
5. **Swap Payments:** Net payments due to the Swap Counterparty.
6. **Class A Note Interest:** Interest and any prior interest shortfalls on Class A Notes.
7. **Class B Note Interest:** Interest and any prior interest shortfalls on Class B Notes.
8. **Cash Collateral Account:** To replenish the account up to its specified balance.
9. **Class A Principal:** Principal repayment on Class A Notes.
10. **Class B Principal:** Principal repayment on Class B Notes.
11. **Other Swap Payments:** Any other termination payments due to the Swap Counterparty.
12. **Subordinated Loan Interest:** Interest due to VWFS on the subordinated loan.
13. **Subordinated Loan Principal:** Principal repayment on the subordinated loan.
14. **Final Success Fee:** Any remaining excess cash is paid to VWFS .

    Following an **Enforcement Event** (e.g., a major default), the waterfall switches to a "post-enforcement" priority where the primary goal is to repay note principal as quickly as possible. In this scenario, Class A Note principal (item 7 in the foreclosure waterfall) is paid in full before any payments of interest or principal are made to the Class B Noteholders (items 8 and 9) .

Risks and Mitigants

The prospectus identifies several key risks to investors, which are largely addressed by the transaction's structure.

Risk	Description	Mitigants		:---	:---	:---		**Credit Risk**	Risk of obligors defaulting on their auto loan payments due to financial hardship (e.g., unemployment, rising cost of living) .	**Subordination**, **overcollateralization**, **Subordinated Loan**, and the **Cash Collateral Account** provide a multi-layered buffer to absorb default losses . VWFS's established credit underwriting policies also serve as a first line of defense .		**Market & Liquidity Risk**	The secondary market for asset-backed securities can be illiquid, affecting the notes' market value. A mismatch between fixed-rate assets and floating-

													rate (SONIA) liabilities also poses a risk .

Transaction & Capital Structure Overview

This securitization is a **£410.3 million** offering by Driver UK Multi-Compartment S.A., backed by a portfolio of UK auto finance receivables originated by Volkswagen Financial Services (UK) Limited ("VWFS") . The capital structure is comprised of senior Class A notes and subordinated Class B notes, which are further protected by a subordinated loan, overcollateralization, and a cash collateral account. This creates a robust tiered structure designed to absorb potential losses from the underlying asset pool.

> The core of the analysis rests on the principle of subordination. Cashflows from the asset pool are directed through a strict payment waterfall, ensuring that senior obligations are met before any cash is allocated to junior tranches. This means losses are absorbed from the bottom-up, starting with the subordinated loan and working up through the note classes .

Analysis for the Class A Investor: Emphasis on Security

As an investor in the **Class A notes**, which are rated **AAA(sf) by S&P and KBRA, and AAAsf by Fitch** , the primary concern is the strength of the credit enhancement protecting against losses.

- **Subordination:** The Class A notes benefit from significant subordination. **24.4%** of the total capital structure (**£117.1M** from the Class B notes, subordinated loan, and cash collateral) must be eroded by losses before the Class A tranche is impacted .
- **Payment Priority:** In the pre-enforcement payment waterfall, Class A notes receive interest and principal payments ahead of Class B notes and the subordinated loan holder . An interest shortfall on any tranche other than Class A does not constitute a foreclosure event, further insulating the senior notes .
- **Stress Test Focus:** A stress test for the Class A investor would model an extreme economic downturn—far exceeding historical loss levels—to determine the breakeven point. Given the high level of subordination and strong historical performance of the VWFS portfolio, the Class A notes can withstand severe stress scenarios, justifying their AAA rating.

Analysis for the Class B Investor: Balancing Risk and Reward

An investor in the **Class B notes**, rated **A+(sf) by S&P and AA-(sf) by Fitch/KBRA**, accepts a higher risk profile for a higher yield (**Compounded Daily SONIA + 1.25%** versus +0.60% for Class A) §43-§ .

- **Risk Position:** The Class B notes sit between the senior Class A notes and the subordinated loan. While they benefit from the **14.2%** subordination provided by the loan and cash collateral, they will absorb losses after this initial buffer is depleted and before the Class A notes are affected .
- **Stress Test Focus:** The key stress test for a Class B investor involves modeling increases in default rates and loss severities to understand the probability of impairment. The analysis should compare stress scenarios against the **14.2%** credit enhancement. Given the historical net loss performance of the VWFS portfolio, which has remained low , the enhancement provides a substantial cushion. The investment thesis relies on future losses not deviating from historical trends by a factor large enough to burn through the junior capital.

Characteristic	Value	Implication for Investors		:---	:---	:---		Aggregate Discounted Balance	£500.0M	A large, diversified pool of receivables.		Number of Contracts	22,799	Low concentratio risk; default of a single obligor has minimal impact.

Stress Testing Key Variables

To properly test the transaction's resilience, an investor should model the following scenarios based on the prospectus data.

1. **Credit Default Stress:**
   The VWFS portfolio has historically shown very low delinquency rates, with 91+ days past due remaining well below **1%** for most periods . A stress test would involve applying multiples to these historical loss rates.
   - *Base Case:* Assume losses consistent with historical averages.
   - *Moderate Stress (Class B Test):* Assume cumulative net losses increase 3-5x over historical peaks. The **14.2%** buffer for Class B should be sufficient to withstand this.
   - *Severe Stress (Class A Test):* Assume a catastrophic scenario with losses exceeding **15-20%** of the pool, which would begin to test the Class A subordination. This is well beyond any historical precedent for the originator.
2. **Prepayment Rate Sensitivity:**
   Prepayment rates affect the weighted average life (WAL) of the notes and thus the investor's yield and return of capital. The prospectus provides a sensitivity analysis.
   - *Impact:* Higher prepayment rates (CPR) shorten the WAL of both note classes. At **0% CPR**, the Class A WAL is **2.57 years** and Class B is **2.80 years**. At **40% CPR**, these shorten to **1.64 years** and **1.78 years**, respectively .
   - *Investor Consideration:* Investors must ensure their funding and return expectations align with this potential variability. A faster-than-expected return of principal may lower the overall yield.
3. **Residual Value (RV) Risk:**
   With **85.8%** of the pool being PCP contracts, the transaction is exposed to the risk of lower-than-expected used vehicle prices when borrowers return vehicles at the end of their contracts.
   - *Stress Scenario:* A significant downturn in the UK used car market (e.g., a **20-30%** drop in market values) would increase losses from returned vehicles. This risk is a primary concern for the Class B investor, as the subordinated loan could be quickly eroded in a sharp market decline.

Conclusion and Recommendations

- **For the Class A Investor:** This represents a highly secure, low-risk investment suitable for investors with a low appetite for credit risk. The multi-layered credit enhancement structure provides robust protection against even severe stress scenarios. The primary risk is not credit loss but rather prepayment variability affecting the investment's duration.
- **For the Class B Investor:** This is an attractive investment for those seeking a higher yield who are comfortable with taking a subordinated credit risk position. The investment's success is tied to the continued stable performance of the VWFS auto loan portfolio. The **14.2%** credit enhancement provides a strong buffer against moderate economic stress, but investors must be compensated for the risk of higher defaults or a sharp decline in used vehicle residual values, which could lead to principal impairment.

This analysis supports a favorable credit assessment of the Driver UK Multi-Compartment S.A., Compartment Driver UK nine transaction. The deal is a securitization of **£410.3 million** in notes backed by a granular pool of UK auto loan receivables originated by Volkswagen Financial Services (UK) Limited (VWFS) .

The structure is comprised of two tranches of notes: **£358.8 million in Class A notes** and **£51.5 million in Class B notes** . The high credit quality of the senior notes is achieved through multiple layers of credit enhancement, including subordination, overcollateralization, a cash collateral account, and a robust payment priority waterfall. These features provide significant protection against potential losses in the underlying asset pool, justifying the strong ratings assigned by S&P, KBRA, and Fitch .

The underlying collateral consists of a **£500.0 million** pool of 22,799 financing contracts, primarily composed of Personal Contract Purchase (PCP) and Hire Purchase (HP) agreements . The pool exhibits strong credit characteristics that limit default risk:

- **Seasoning:** The portfolio has a weighted average original term of `47.43 months` and a weighted average remaining term of **38.57 months**, indicating the borrowers have a history of successful payments .
- **Interest Rate:** The weighted average contract rate is **9.32%**, providing a healthy yield to cover note coupons and transaction fees .
- **Performance:** Historically, the VWFS portfolio has shown low levels of delinquencies. For example, receivables over 90 days past due have consistently remained below `1.0%` for most of the reported periods, demonstrating strong underwriting and servicing quality .
- **No Defaults at Closing:** Critically, none of the receivables in the initial pool were past due at the time of closing .

  The modeling assumptions for the transaction are conservative, based on a "no losses or delinquencies" scenario to calculate the scheduled amortization, with rating agencies applying their own stress scenarios on top of this baseline .

The transaction's credit enhancement is robust, totaling **£74.04 million**, or **15.48%** of the portfolio's nominal value, significantly exceeding the minimum required retention of `5.00%` . This protection is structured in several layers to absorb potential credit losses.

Enhancement Layer	Amount (GBP)	Description
Subordination	£51,500,000	The Class B Notes are fully subordinated to the Class A Notes. Losses will impact the Class B Notes first.
Overcollateralization	£30,008,345	The value of the receivables pool exceeds the notes issued, creating an immediate equity cushion.
Cash Collateral Account	£5,949,350	A reserve fund established at closing to cover shortfalls in senior fees, swap payments, and note interest.
Subordinated Loan	£59,701,132	A loan that ranks below the Class A and Class B notes, providing an additional layer of loss absorption.

The flow of funds is governed by a strict payment waterfall defined in the Trust Agreement, ensuring that senior obligations are paid first. This sequence is critical to the credit analysis, as it dictates the order in which cash is allocated to cover fees, interest, and principal. The table below outlines the pre-enforcement priority of payments, which directs cash flow from collections on each payment date.

Priority	Recipient	Purpose	Citation		:---	:---	:---	:---		1st	Tax Authorities	Issuer's taxes			2nd	Security Trustee	Fees and expenses			3r

Upon an Enforcement Event, the priority of payments shifts to a more protective waterfall for senior noteholders. In this scenario, principal payments to Class A noteholders are prioritized immediately after their interest payments, ensuring a rapid pay-down of the senior-most tranche before any principal is returned to Class B noteholders. This structural feature is a key consideration for the `AAA(sf)` rating on the Class A notes.

Priority	Recipient	Purpose	Citation		:--	:--	:--	:--		1st - 5th	Various Parties	Senior expenses, fees, and swap payments (similar to pre-enforcement)			6th	Class A Noteholders	Accrued interest and interest shortfalls	

Operational risk is mitigated by the experience of **VWFS as the servicer** and by structural triggers tied to counterparty ratings. The transaction documents specify clear **Servicer Replacement Events**, such as failure to make payments, material breach of covenants, or insolvency . This ensures that a poorly performing servicer can be replaced to protect the interests of noteholders.

Furthermore, the transaction includes strict rating requirements for key counterparties like the Account Bank and Swap Counterparty. A downgrade below specified levels (e.g., `"A-1"` from S&P or `"F1"` from Fitch for the Account Bank) triggers remedial actions, such as posting collateral or finding a replacement counterparty, thereby minimizing counterparty risk exposure .

Transaction Blueprint: Deconstructing the Driver UK nine Securitization

This analysis provides a detailed overview of the Driver UK nine securitization, a transaction designed to convert illiquid motor vehicle financing receivables originated by Volkswagen Financial Services (UK) Limited ("VWFS") into marketable, asset-backed securities. VWFS sells a portfolio of these receivables to a bankruptcy-remote Special Purpose Vehicle (SPV), Driver UK Multi-Compartment S.A., acting for its "Compartment Driver UK nine" .

The SPV finances this purchase by issuing two classes of notes (Class A and Class B) to investors and by taking a Subordinated Loan from VWFS . The entire structure is governed by a series of interconnected legal agreements that define the roles of each party, the flow of funds, security arrangements, and performance triggers, effectively isolating the credit risk of the receivables from VWFS and transferring it to the noteholders.

Party	Role	Key Responsibilities	Document Citation		:--	:--	:--	:--		**Driver UK Multi-Compartment S.A.**	Issuer	A Luxembourg-based SPV. Acquires receivables, issues Notes, and enters into all related transaction documents for its "Compartment Driver UK nine" to ensure assets and liabilities are ring-fenced.			**Volkswagen Financial Services (UK) Ltd.**	Sell Ser Sub Len

The Legal and Operational Framework

The transaction's integrity relies on a specialized legal structure designed for asset isolation and defined operational roles.

Compartmentalization
The Issuer, Driver UK Multi-Compartment S.A., is structured under Luxembourg's Securitisation Law, which allows for the creation of legally segregated "Compartments" . "Compartment Driver UK nine" is the specific entity for this deal, meaning its assets (the purchased receivables) are exclusively available to satisfy its creditors (e.g., the

Noteholders). This ring-fences the assets from any other activities or compartments of the parent company and, crucially, from the bankruptcy risk of VWFS .

Asset Transfer and The Revolving Period

The process begins with VWFS selling its receivables to the Issuer under the **Receivables Purchase Agreement** . The transaction includes an initial sale on the Closing Date and allows for subsequent purchases of "Additional Receivables" during a defined "Revolving Period" . During this period, cash collections from the existing receivables pool can be used to buy new receivables from VWFS, maintaining the asset pool's balance rather than paying down the notes. This continues until the Revolving Period ends, at which point the structure enters an amortization phase where collections are used to repay note principal.

The Payment Waterfall: A Strict Hierarchy of Cash Flows

The core of the transaction's economic structure is the **Order of Priority**, or payment "waterfall," detailed in the Trust Agreement. On each monthly Payment Date, the Cash Administrator applies all available funds (the "Available Distribution Amount") in a strict, sequential order. This ensures that senior obligations are paid before junior ones, dictating the risk and return profile for each creditor.

> The waterfall structure is the primary mechanism for creating credit tranching. Senior Class A Noteholders have first claim on cash flows after operational expenses and swap payments, making their notes the safest. The final residual cash, if any, flows to VWFS as a "final success fee," absorbing the first losses and providing an incentive for portfolio quality.

The pre-enforcement priority of payments is as follows :

1. **Taxes** payable by the Issuer.
2. **Security Trustee** fees and expenses.
3. **Servicer Fee** to VWFS.
4. **Administrative Expenses:** Fees for agents, directors, rating agencies, etc.
5. **Swap Payments:** Net payments due to the Swap Counterparty (RBC).
6. **Class A Note Interest:** Interest and any interest shortfalls due to Class A Noteholders.
7. **Class B Note Interest:** Interest and any interest shortfalls due to Class B Noteholders.
8. **Cash Collateral Account:** Funding up to the specified required balance.
9. **Class A Note Principal:** Principal payments (during amortization).
10. **Class B Note Principal:** Principal payments (during amortization).
11. **Other Swap Payments:** Any other amounts due to the Swap Counterparty.
12. **Subordinated Loan Interest:** Interest due to VWFS on the Subordinated Loan.
13. **Subordinated Loan Principal:** Principal repayment to VWFS on the Subordinated Loan.
14. **Final Success Fee:** Any remaining excess cash is paid to VWFS.

Protecting Investors: The Security Package

A robust security package, held and enforced by the **Security Trustee**, protects the interests of all creditors, especially the Noteholders . The **Trust Agreement** and the **Deed of Charge and Assignment** are the primary documents creating this security .

The Issuer grants a first fixed security interest (a charge) over all its assets to the Security Trustee. This includes:

- All rights, title, and interest in the **Purchased Receivables** .
- All rights under the various **Transaction Documents**.
- All funds held in the **transaction bank accounts** .

This structure ensures that if the Issuer defaults, the Security Trustee can take control of the assets and liquidate them for the benefit of the creditors, following the established Order of Priority .

Core Mechanisms and Definitions

The transaction's daily operation is governed by precise definitions and automated mechanisms.

Interest Rate Calculation
The Class A and Class B notes pay a floating rate of interest. The **Interest Determination Agent** (Citibank) is responsible for calculating this rate on each **Interest Determination Date** . The rate is based on **Compounded Daily SONIA** (Sterling Overnight Index Average), a standard benchmark for sterling-denominated floating-rate instruments . This mechanism transparently links the notes' yield to prevailing market interest rates.

Performance Monitoring
The health of the underlying asset pool is continuously monitored using key metrics defined in the **Incorporated Terms Memorandum**. These definitions trigger specific actions if the portfolio's quality deteriorates.

- **Delinquent Receivable:** A receivable where a payment is overdue by more than 30 but less than 91 days .
- **Defaulted Receivable:** A receivable that has been written off, "hostile terminated," or where a returned vehicle from a PCP contract has not been sold within 91 days .

High levels of delinquency or default can trigger a **Credit Enhancement Increase Condition**, which would halt the Revolving Period and redirect all cash flow to pay down the notes, protecting investors from further losses .

The Supreme Court Ruling and FCA Response

In a pivotal decision, the UK Supreme Court addressed the legality of commission arrangements in motor finance . While the court determined that car dealers do not owe a fiduciary duty to customers—thereby shielding lenders from liability for bribery or assisting a breach of duty—it established a critical precedent under the Consumer Credit Act (CCA) .

The court found that a credit agreement could be deemed "unfair" if the commission paid to the dealer was not adequately disclosed, especially when it was significant relative to the total cost of credit . The adequacy of disclosure remains a key factor in assessing fairness .

> Following this ruling, the FCA announced its intention to consult on an industry-wide compensation scheme to provide redress to affected consumers without the need for claims management companies . This shifts the issue from individual court cases to a systemic, regulator-mandated liability for the industry.

Primary Risks for Transaction Underwriters

The FCA's intervention introduces several layers of risk to a securitization underwriter. The primary risk is not direct liability, but the second-order effects on the transaction's originator and the underlying asset pool.

- **Originator Solvency Risk:** The seller and servicer, **Volkswagen Financial Services (UK) Limited (VWFS)**, faces direct liability under the FCA scheme . A significant financial impact could weaken its credit profile, potentially triggering a servicer replacement event or impacting its ability to fulfill obligations like repurchasing certain receivables .
- **Cash Flow Disruption:** Customers seeking compensation may be more likely to default on payments or pursue early termination of their contracts. The transaction is exposed to residual value risk from voluntary terminations, where sale proceeds of a returned vehicle may be lower than the outstanding loan balance .
- **Commingling Risk:** As servicer, VWFS collects payments from borrowers and holds them before passing them to the issuer. While the transaction has mitigants for this, a sudden insolvency event at VWFS could temporarily trap cash flows .

Mitigant	Description	Protection Provided	Citation		:---	:---	:---	:---		**Subordination**	Class A notes have priority over Class B notes and the Subordinated Loan. Losses are allocated to the most junior tranches first.	Class A notes are protected by **29.43%** of initial credit enhancement; Class B notes are protected by **19.13%**.			**Ove (OC)**

Conclusion: Structurally Sound Investment

While the FCA's compensation scheme represents a significant headwind for the UK motor finance sector, the Driver UK securitization is well-structured to protect investors in the rated notes. The multi-layered credit enhancement mechanisms create a robust defense against potential losses stemming from the originator or the underlying asset pool.

The risk of the compensation scheme is primarily borne by VWFS as the subordinated lender and equity holder in the transaction . The combination of subordination, overcollateralization, and dedicated reserves is sufficient to absorb losses well in excess of the base-case scenarios modeled by rating agencies, which already account for stresses like voluntary terminations . For an underwriter of the Class A or even Class B notes, the risk is significantly mitigated by the transaction's structure, which redirects cash flows to protect senior investors at the first sign of distress.

Transaction Description

Executive Summary

This memorandum provides an overview of Driver UK Multi-Compartment S.A. – Compartment Driver UK nine, a securitization of **£500 million** in UK auto loan receivables originated by Volkswagen Financial Services (UK) Limited (VWFS UK) . The transaction involves the issuance of two classes of floating-rate notes and a subordinated loan to finance the purchase of the receivables portfolio.

The issuance consists of **£358.8 million** in Class A Notes and **£51.5 million** in Class B Notes, which are supported by a subordinated loan of **£59.7 million** . The notes have received strong investment-grade ratings from multiple agencies, including `AAA (sf)` for the Class A notes and `A+ (sf)` / `AA-sf` for the Class B notes, reflecting the transaction's robust credit enhancement and structural protections . The transaction features a six-month revolving period, allowing for the purchase of additional eligible receivables post-closing .

Priority of Payments

The transaction utilizes a combined waterfall structure to distribute available funds on each payment date. Collections are applied according to a strict order of priority, ensuring that senior obligations are met before subordinated claims. This structure is designed to protect senior noteholders by prioritizing their interest and principal payments.

The simplified priority of payments is as follows :

1. **Taxes and Trustee Fees**: Payments to tax authorities and the security trustee.
2. **Senior Fees**: Servicing fees and other administrative costs (e.g., account bank, corporate services).
3. **Swap Counterparty Payments**: Net payments due to the swap counterparty (Royal Bank of Canada).
4. **Class A Note Interest**: Payment of accrued interest on the Class A Notes.

5. **Class B Note Interest**: Payment of accrued interest on the Class B Notes.
6. **Cash Reserve Replenishment**: Funding the Cash Collateral Account up to its required balance.
7. **Class A Note Principal**: Amortization of Class A Notes (or purchase of receivables during the revolving period).
8. **Class B Note Principal**: Amortization of Class B Notes (or purchase of receivables during the revolving period).
9. **Other Swap Payments**: Any other payments due to the swap counterparty.
10. **Subordinated Loan Interest**: Payment of interest on the subordinated loan.
11. **Subordinated Loan Principal**: Repayment of principal on the subordinated loan.
12. **Final Success Fee**: Distribution of any remaining excess funds to VWFS UK.

Upon a Credit Enhancement Increase Condition, the amortization becomes strictly sequential, with all principal directed to the Class A notes until fully redeemed, followed by the Class B notes .

Transaction Merits

Collateral Quality: High-Quality and Diversified Auto Loan Portfolio

The underlying collateral pool is comprised of **22,799** auto loan contracts with a discounted balance of **£500 million** . The portfolio exhibits strong credit characteristics and diversification.

> The portfolio is dominated by Personal Contract Purchase (PCP) agreements, which account for **92.4%** of the pool, followed by Hire Purchase (HP) at **7.0%** and Lease Purchase (LP) at **0.6%** . This composition is consistent with prior Driver UK transactions .

Key portfolio characteristics include:

- **Borrower Profile**: Primarily retail customers, making up **99.0%** of the pool .
- **Vehicle Type**: A balanced mix of new (**49.4%**) and used (**50.6%**) vehicles .
- **Seasoning**: The portfolio has a weighted-average seasoning of **9.0 months**, indicating a period of established payment history .
- **Interest Rate**: A healthy weighted-average effective interest rate of **9.3%** provides a solid yield basis for the transaction .
- **Brand Concentration**: The portfolio is concentrated in high-quality Volkswagen Group brands, primarily **Audi (33.7%)** and **Volkswagen (29.8%)** .
- **Geographic Diversification**: The pool is well-distributed across the UK, with the largest regional concentrations in Scotland (**15.8%**), the South-East (**14.6%**), and the North-West (**12.4%**) .

Structural Features: Robust Investor Protections

The transaction incorporates several structural features designed to protect noteholders. A six-month revolving period allows the issuer to purchase additional receivables, maintaining the portfolio size, provided no early amortization event occurs .

Early amortization is triggered by specific events, including :

- Breach of performance triggers, such as the cumulative net loss ratio exceeding predefined thresholds.
- The Class A overcollateralization percentage falling below **28.0%**.
- The occurrence of a Servicer Replacement Event or an Insolvency Event with respect to VWFS UK.

Following the revolving period, amortization is sequential until target overcollateralization levels are met, after which it switches to a pro-rata basis. However, if a Credit Enhancement Increase Condition (CEIC) is triggered—for instance, by elevated delinquency or loss ratios—amortization becomes irreversibly sequential, accelerating principal repayment to the senior notes .

Credit Enhancement: Multi-Layered Loss Protection

The notes are supported by a robust, multi-layered credit enhancement structure consisting of overcollateralization, subordination, a cash reserve, and excess spread.

Enhancement Layer	Class A Notes	Class B Notes
Initial Overcollateralization	28.24%	17.94%
Total Initial Hard CE	29.43%	19.13%
Target OC (Amortization)	33.1%	22.3%

- **Overcollateralization (OC)**: The initial OC is provided by the subordinated loan and a purchase price discount on the receivables . Target OC levels are designed to build during the life of the transaction.
- **Subordination**: The Class A notes benefit from the subordination of the Class B notes and the subordinated loan. The Class B notes benefit from the subordination of the loan.
- **Cash Reserve**: A cash collateral account was funded at closing at **1.45%** of the initial note balance (**£5.9 million**) .
- **Excess Spread**: The structure generates a modest annual excess spread of approximately **0.3%** , which is available to cover losses.

Liquidity Support: Mitigating Payment Interruption Risk

The transaction is equipped with a **£5.9 million** cash reserve, sized at **1.45%** of the initial note balance, to mitigate payment interruption risk . This reserve is available to cover shortfalls in senior fees and interest payments on both the Class A and Class B notes .

The reserve fund amortizes in line with the notes, subject to a floor . Replenishment of the reserve is senior in the payment waterfall, making it highly unlikely to be depleted by poor asset performance . Fitch Ratings has assessed that the reserve provides adequate coverage for **2.7 months** of payments, which is sufficient given the standard nature of the assets and the high availability of replacement servicers in the UK market .

Experienced Originator and Servicer: VWFS UK's Established Platform

Volkswagen Financial Services (VWFS) is a highly experienced originator and servicer in the auto finance sector, with a global securitization history dating back to **1996** and a UK-specific track record since **2002** . VWFS (UK) maintains established and prudent underwriting guidelines and servicing procedures.

Applications are assessed using a bespoke scoring model, with approximately **72%** of retail applications approved automatically based on credit scores exceeding a predefined threshold . The company's experienced compliance and legal department manages regulatory risks, ensuring adherence to applicable laws, including the FCA's Consumer Duty requirements . This institutional experience provides comfort regarding asset quality and servicing continuity.

Hedging Arrangements: Mitigating Interest Rate Risk

To mitigate the risk arising from the mismatch between the fixed-rate receivables and the floating-rate notes (linked to Compounded Daily SONIA), the issuer has entered into two separate interest rate swap agreements with Royal Bank of Canada .

Under these swaps, the issuer makes fixed-rate payments and receives floating-rate payments, effectively converting its interest rate exposure.

- **Class A Swap**: The issuer pays a fixed rate of **4.284%** and receives SONIA plus a spread of **0.60%** on a notional amount of **£358.8 million** .
- **Class B Swap**: The issuer pays a fixed rate of **4.909%** and receives SONIA plus a spread of **1.25%** on a notional amount of **£51.5 million** .

These hedging arrangements effectively shield the transaction from adverse movements in interest rates.

Pool AUP and Underwriting: Disciplined Origination Standards

VWFS (UK) employs a disciplined underwriting process to ensure asset quality. All applications are assessed against a bespoke scoring model and internal policy rules, leveraging data from external credit reference agencies . The process includes electronic identity verification for approximately **90%** of applicants .

The Receivables Purchase Agreement includes eligibility criteria that ensure the quality of the securitized assets. These criteria include restrictions on obligor concentrations (no single obligor to exceed **0.5%** of the pool balance) and covenants on portfolio composition, such as limiting the share of used vehicles to **60%** and non-VW Group brands to **10%** .

Demonstrated Strong Performance of Past Transactions

VWFS UK's Driver platform has a long history of successful securitizations with stable and predictable performance. A comparison with the two prior transactions, Driver UK 7 and Driver UK 8, shows a consistent structural approach, collateral profile, and credit enhancement levels .

Historical loss data for VWFS UK's originations further supports this track record. Cumulative gross loss curves for prior vintages of PCP, HP, and LP contracts have generally remained low and stable, performing in line with or better than rating agency base case expectations . This history provides strong evidence of the originator's ability to underwrite and service high-quality assets.

Risks and Mitigating Factors

Representation and Warranty Repurchase Risk

The Seller, VWFS UK, provides extensive representations and warranties regarding the quality and characteristics of the purchased receivables . Should a breach of these warranties occur that materially and adversely affects the issuer or noteholders, the transaction documents provide a clear remedy.

> **Mitigant**: The Seller is obligated to cure the breach within a **60-day** period. If the breach cannot be cured, the Seller must repurchase the non-conforming receivable at a price equal to its outstanding settlement amount . This repurchase obligation ensures that the portfolio's quality is maintained and protects investors from losses arising from ineligible assets.

Risk of Notes Being Unsold

This offering is being underwritten on a "best efforts" basis, meaning the underwriters are not obligated to purchase any notes that are not sold to investors. The risk of an unsuccessful placement is therefore borne by the issuer.

> **Mitigant**: This risk is considered low due to several factors. The transaction has received strong investment-grade ratings from three major rating agencies (`AAA/A+` to `AA-` levels) . Furthermore, the Driver UK securitization platform is well-established and recognized in the market, suggesting strong investor demand.

Investment Risk Assumed by Investors

Investors in the notes assume the credit risk of the underlying portfolio of auto loans. The performance of the notes is dependent on the collections from these receivables, which can be affected by broader macroeconomic conditions, such as unemployment rates and economic downturns, which may increase delinquencies and defaults.

> **Mitigant**: This risk is mitigated by the transaction's structural features, including robust credit enhancement levels (overcollateralization, subordination, cash reserve), liquidity support, and the experienced underwriting and servicing capabilities of VWFS UK. These features are designed to absorb a significant level of credit losses before impacting payments on the rated notes.

Servicer Risk

The transaction relies on VWFS UK to act as servicer for the loan portfolio. A disruption in servicing activities, due to operational failure or insolvency of the servicer, could interrupt cash collections and distributions.

> **Mitigant**: The transaction includes several mitigants for servicer risk. The servicing agreement defines specific Servicer Replacement Events, such as failure to make payments or insolvency, which would trigger a search for a replacement . The termination is not effective until a successor is appointed, ensuring servicing continuity. Fitch notes there is a high availability of qualified replacement servicers in the UK market . Additionally, commingling risk is addressed by a requirement for VWFS UK to post collateral if its rating falls below specified levels .

Developments in the UK Motor Finance Market

The UK motor finance industry is currently under review by the Financial Conduct Authority (FCA) regarding historical discretionary commission arrangements (DCAs), which were banned in January 2021 . Following a recent Supreme Court judgment clarifying what may constitute an "unfair relationship" under the Consumer Credit Act, the FCA is consulting on a potential industry-wide redress scheme . The total cost of this scheme to the industry is estimated to be between **£9 billion and £18 billion** .

> **Mitigant**: The direct risk to this specific transaction is minimal. VWFS (UK) has indicated that only **0.1%** of the assets in the initial collateral pool were originated prior to the January 2021 ban on DCAs . This significantly insulates the portfolio from direct claims related to the FCA's review. While the broader regulatory action could have systemic impacts on the UK auto finance market, the direct exposure of the Driver UK 9 collateral is negligible.

Originator and Servicer: Volkswagen Financial Services (UK) Ltd.

Volkswagen Financial Services (UK) Limited (VWFS UK) serves as the originator, seller, and servicer for this transaction . Established in **1994** , it is a wholly-owned subsidiary of Volkswagen Financial Services AG and operates as the second-largest retail financing subsidiary within the VW Group, after its German parent . Based in Milton Keynes, VWFS UK employs over **900** people and provides financing solutions exclusively for VW Group brands, including Volkswagen, Audi, Porsche, SEAT, and Skoda, through a network of approximately **800** dealerships .

VWFS UK has a long and established track record, with origination volumes growing rapidly from **2010 to 2017**, driven by the popularity of Personal Contract Purchase (PCP) agreements . The company utilizes a robust, automated scoring system for its underwriting process and manages collections in-house, offering forbearance options like flexible payment plans to customers facing financial hardship . Rating agencies have reviewed VWFS UK's servicing capabilities and are satisfied with its ability to perform its functions for the transaction, noting the general availability of replacement servicers in the UK market as an additional safeguard .

Key Transaction Risks and Structural Protections

The rating agencies have identified several key risks inherent in the transaction structure and the underlying collateral pool. These risks are substantially mitigated by a range of structural features, including credit enhancement mechanisms, liquidity provisions, and performance triggers designed to protect noteholders. The primary concerns revolve around potential losses from residual values on PCP contracts, commingling of funds, and credit quality drift during the revolving period.

Risk	Mitigant / Structural Protection	Source Agency		:--	:--	:--		**Residual Value (RV) Risk**	Credit enhancement is sized to withstand stresses on RV losses from returned vehicles on PCP contracts . KBRA's cash flow modeling assumes higher turn-in rates in scenarios with	S&P, KBRA		**Commingling Risk**	A servicer advance mechanism is in place, requiring VWFS UK to advance funds if its parent's credit rating falls below investment grade . S&P notes this risk is fully mitigated	S&P, KBRA		**Rev Perio Credi Drift*

									declining used car prices .				by this mechanism .			

Conclusion: Comprehensive Protections Support High Ratings

The analysis by Fitch, S&P, and KBRA confirms that VWFS UK is an experienced and financially sound originator and servicer. The transaction is structured with multiple, overlapping layers of protection that address identified risks. While concerns such as RV exposure on PCP contracts and the lack of traditional excess spread exist, they are effectively mitigated by hard credit enhancement (subordination and overcollateralization), liquidity reserves, performance triggers, and structural features like the interest rate swap and commingling advance mechanism. These comprehensive protections provide substantial comfort that the structure can withstand stressed scenarios, justifying the high credit ratings assigned to the notes.