S&P Global Ratings

Research

New Issue: Koromo UK 1 PLC

Primary Credit Analyst:
James Gayer, London (44) 20-7176-0451; james.gayer@spglobal.com

Secondary Contacts:
Philip Bane, Dublin + 353 1 568 0623; philip.bane@spglobal.com
Doug Paterson, London + 44 20 7176 5521; doug.paterson@spglobal.com

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New Issue: Koromo UK 1 PLC

Ratings Detail

Ratings							
Class	**Rating***	**Amount (£)**	**Subordination (%)**	**Cash reserve (%)**	**Available credit enhancement (%)§**	**Interest†**	**Legal final maturity**
A	AAA (sf)	500,000,000	24.0	1.1	25.1	Compounded daily SONIA + 0.6%	October 2034
B	NR	157,895,000	0.00	N/A	0.0	5.00% Fixed rate	October 2034

Note: *Our rating addresses the timely payment of interest and ultimate payment of principal. §Available credit enhancement is expressed as a percentage of the discounted principal pool balance and consists of subordination and an amortizing liquidity reserve that is ultimately available to mitigate potential principal shortfalls. †Interest on the rated notes is subject to a floor of zero. NR--Not rated. N/A--Not applicable. SONIA--Sterling Overnight Index Average.

Transaction Summary

- S&P Global Ratings assigned its 'AAA (sf)' credit rating to Koromo UK 1 PLC's asset-backed floating-rate class A notes. At closing, Koromo UK 1 also issued unrated class B notes. Our rating addresses the timely payment of interest and ultimate payment of principal on the class A notes.
- The underlying collateral comprises U.K. auto loan receivables originated by Toyota Financial Services (UK) PLC (TFSUK). The receivables arise under personal contract purchase (PCP) and hire purchase (HP) agreements for the purchase of new and used vehicles by retail customers.
- This is TFSUK's first public securitization, having operated a private securitization platform since 2015.
- The transaction features a six-month revolving period after which the class A notes will start to amortize. It will use a combined interest and principal priority of payments.
- At closing, a liquidity reserve was funded through a subordinated loan. The amortizing reserve was sized at 1.4% of the class A notes and is available to cure any shortfalls on the senior fees, interest on the class A notes, senior payments to the swap counterparty, and ultimately to repay the class A notes, if needed.
- A combination of overcollateralization, subordination, and an amortizing cash reserve provides credit enhancement to the rated notes.
- A fixed-to-floating interest rate swap agreement with a suitable counterparty, in line with our counterparty criteria, mitigates the risk of potential interest rate mismatches between the fixed-rate assets and floating-rate class A notes.
- Our structured finance sovereign risk criteria and operational risk criteria do not constrain the ratings.
- The issuer is an English special-purpose entity (SPE), which we consider to be bankruptcy remote. The legal opinion provided assurance that the sale of the assets would survive the seller's insolvency, and tax opinions addressed the issuer's tax liabilities under the current tax legislation.

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The credit story

Strengths	Concerns and mitigating factors
The notes amortize strictly sequentially, which increases the credit enhancement available to the senior notes over time.	This is TFSUK's first public securitization. As one of the largest auto finance providers in the U.K., it is an experienced and established originator and servicer within the market. Additionally, it has operated a securitization platform since 2015.
The portfolio is highly granular and well-diversified across the U.K. (excluding Northern Ireland). As of the end of August 2024 (the pool cutoff date), the largest single obligor represented about 0.01%, and the top 20 obligors comprised 0.21% of the pool's discounted principal balance.	The transaction started a six-month revolving period from closing, during which collections can be used to purchase new receivables on each monthly payment date. All receivables will be subject to eligibility criteria and following the additional purchases the portfolio must comply with documented concentration limits. These concentration limits include caps on exposure to residual value (RV), used vehicles, and commercial obligors. We considered these concentration limits when determining the worst-case pool. Several early amortization events also apply to mitigate portfolio credit deterioration during the revolving period.
None of the receivables at closing were delinquent or defaulted.	On the August cutoff date, by outstanding balance, 95.0% of the contracts were PCP agreements, which contain an optional final balloon installment. These final installments represent 63.29% of the pool balance. This is capped at 65.0% during the revolving period. If borrowers choose to return their financed vehicles instead of making the final balloon payments at contract maturity, the transaction would be exposed to RV risk. In our 'AAA' stress scenario we assume that up to 90% of PCP customers will return their vehicles at maturity and that TFSUK would be unable to exercise its right to repurchase the associated receivables.
The structure benefits from an amortizing cash reserve, which was fully funded at closing by the seller and represents 1.4% of the class A notes' aggregate principal outstanding balance (1.1% of the portfolio principal discounted balance) with a floor of 0.7% of the class A notes' closing balance. The reserve provides liquidity support for the rated notes but can ultimately be used to repay the class A notes.	Commingling risk arises because collections from the assets are retained in TFSUK's collection account before monthly transfer to the issuer. Should Toyota Motor Corp. cease to fully own TFSUK or be rated at least 'BBB', TFSUK may either (i) move to depositing these collections into the issuer's account within two business days, or (ii) fund a commingling reserve in the issuer's account. Under the first option, commingling risk is not fully mitigated so we have modelled a loss in our cash flow analysis (see "Commingling risk").
	No back-up servicer was appointed at closing. In our view, this risk is mitigated by the appointment of CSC Capital Markets UK Ltd. as back-up facilitator and the U.K.'s well-developed servicing market. In addition, the transaction has an amortizing liquidity reserve available to cover timely interest on the rated notes in case of a servicer disruption.
	The issuer is exposed to potential gross losses from voluntary termination, as permitted by the U.K. Consumer Credit Act. We considered this when sizing the gross loss base-case assumptions.
	The issuer does not have any rights to the vehicles; it only has rights connected with the sale proceeds of the vehicles. Accordingly, in case of the seller's insolvency, the issuer relies on any insolvency official to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency official will not have any financial incentive to take these steps because it will not benefit the bankruptcy estate's creditors. The inclusion of an insolvency administrator's incentive fee at a senior level in the priority of payments mitigates this risk, in our view. In our analysis, to account for this risk, we considered that 5% of recovery proceeds will have to be paid to the insolvency administrator.

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Asset Description

As of the end of August 2024 cutoff date, the collateral pool comprised 28,943 loans, with a total current discounted principal balance of £657.895 million.

The portfolio comprises U.K. auto loan receivables arising under PCP and HP agreements for the purchase of new and used vehicles.

The pool was audited by an external accountancy firm, and the scope and results are within our permitted range.

Table 1

Collateral key features

Pool characteristics	Koromo UK 1 PLC	Cardiff Auto Receivables Securitisation 2024-1 PLC	Driver UK Master, Compartment 6
Originator	Toyota Financial Services U.K.	Black Horse Ltd.	VW Financial Services UK Ltd.
Country	U.K.	U.K.	U.K.
Pool cutoff date	August 2024	July 2024	May 2024
Principal outstanding of the pool (mil. £)*	657.895	1,250	3,524
Average remaining loan principal balance (£)	17,738	16,142	18,547
Weighted-average life (months)	27	24	25
Weighted-average original term (months)	43.82	48.9	47.6
Weighted-average seasoning (months)	11.20	17.2	16
Weighted-average remaining term (months)	32.62	31.7	31.6
Weighted-average yield (%)	5.72	9.43	8.31
Top 3 geographic concentration			
First (%)	South East (17.14)	South East (22.5)	South East (15.3)
Second (%)	East (12.41)	North West (13.0)	Scotland (13.4)
Third (%)	North West (12.20)	London (12.7)	North West (12.1)
Top 3 manufacturer concentration			
First (%)	Toyota (78.34)	Land Rover (41.8)	Audi (36.0)
Second (%)	Lexus (11.76)	Jaguar (9.9)	VW (30.3)
Third (%)	Other (9.88)	Mercedes-Benz (6.8)	Porsche (11.6)
Loan type (%)			
Hire purchase	5.18	24.7	7.1
Personal contract plan	94.81	75.3	91.7
GFV payment portion (%)	63.29	51.6	61.9
Vehicle type (%)			
New	63.18	34.8	57.7
Used	36.82	65.2	42.3

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Table 1

Collateral key features (cont.)

Pool characteristics	Koromo UK 1 PLC	Cardiff Auto Receivables Securitisation 2024-1 PLC	Driver UK Master, Compartment 6
Customer type (%)			
Private	98.55	100	100
Commercial	1.45	0	0
Engine type (%)			
Petrol	18.28	37.2	67.8
Diesel	3.92	46.2	18
Others (plug-ins, hybrids, etc.)	77.79	16.6	14.2
Largest borrower (%)	0.01	0.02	0.02
Top 20 borrowers (%)	0.21	0.18	0.2

*Calculations are according to S&P Global Ratings' methodology and based on the outstanding discounted principal balance. LTV--Loan-to-value. N.A.--Not available. GFV--guaranteed future value.

Eligibility criteria

The transaction documents set out the eligibility criteria for receivables in the pool. Simplified, these state that:

- The obligor is resident in England, Wales, or Scotland and is not insolvent.
- Each receivable is fixed rate, denominated in British pound sterling, and at least one installment has already been paid.
- The loan term does not exceed 60 months.
- The receivable is not delinquent, defaulted, or a PCP receivable with its balloon payment due and subject to repurchase by TFSUK.
- The receivable was originated after Feb. 1, 2021.
- The receivable is sold and assigned by TFSUK to the issuer which will have good title clear of any security interests.

Concentration limits

The transaction documents set out the concentration limits that must be met following sale of new receivables during the revolving period. Receivables are discounted at the higher of 7.0% and the loan APR.

Table 2

Collateral characteristics

	Closing pool (%)	Limit (%)
Commercial obligors	1.5	10.0
Used vehicles	36.8	65.0
Non-Toyota or Lexus manufacturer	9.9	30.0
PCP RV exposure	63.3	65.0

RV--Residual value.

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Early amortization events

The revolving period will cease should an early amortization event occur. These include:

- Cumulative net loss ratio exceeds 2.0%;
- The three-month average delinquency ratio exceeds 1.5%;
- Discounted receivables plus available collections is less than aggregate class A and B notes' balance;
- A servicer termination event occurs;
- The reserve fund is less than the required amount; or
- Available collections exceed 10% of the aggregate discounted receivable balance for two consecutive payment dates.

Product types

The portfolio comprises two main types of auto loan contracts:

- HP contracts, which generally amortize with equal installments over the contract's life and have a term between 12 and 60 months.
- PCP agreements, which comprise equal monthly payments before a larger final optional payment set generally 10% below the financed vehicle's expected RV. The obligor may elect to make this payment or return the vehicle and TFSUK may elect to buy back the agreement. The term range is 24 to 49 months.

Originator/seller

TFSUK is the U.K. captive financing company of the Toyota Motor Corporation. It has been originating and servicing auto loans in the U.K. since 2003 and is regulated by the Financial Conduct Authority (FCA). It lends almost entirely through its dealer network and currently has over 370,000 retail contracts outstanding with value exceeding £5.1 billion. In the financial year ended March 2024 it originated £2.7 billion of loans.

Its main objective is to provide financing to commercial and private Toyota and Lexus brand customers in the U.K. and support the sale of Toyota and Lexus vehicles.

TFSUK offers the set national price for Toyota and Lexus new vehicle campaigns and uses a portfolio risk-based pricing model for used vehicles.

Applications are completed at the dealer's premises, which are then assessed according to TFSUK's internal scorecard. The credit scorecard was developed in house in conjunction with Equifax and is due for its latest update in the last quarter of this year. The scorecard considers external credit checks.

Based on our findings from the business review, we believe the company is proactive in controlling risk including enhanced affordability calculations in the wake of the cost of living stresses of recent years.

TFSUK is one of many finance providers in the U.K. that has been impacted by the FCA's review into Discretionary Commission Arrangements (DCA) in the motor finance sector. The FCA review continues and there remains significant uncertainty as to the ultimate findings and the cost, if any, that may be borne by TFSUK. The use of DCAs was prohibited in January 2021, and therefore the transaction is not exposed to them.

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Servicing

At sale to the issuer, all monthly payments are made by direct debit. The number of days delinquent determines the type and frequency of customer contact.

While PCP agreements results in RV risk, the vehicles have no associated maintenance or servicing agreements. Vehicles returned at maturity are refurbished in line with agreed standards and sold to the Toyota and Lexus network via electronic auction. The percentage of PCP vehicles returned at maturity is currently below 1%.

We believe that the company's origination, underwriting, servicing, and risk management policies and procedures are in line with market standards and are adequate to support the ratings assigned. Our operational risk criteria focus on key transaction parties (KTPs) and the potential effect of a disruption in the KTP's services on the issuer's cash flows, as well as the ease with which the KTP could be replaced if needed. Based on our view of the servicer's capabilities and the characteristics of the underlying receivables, we believe that the severity risk and portability risk following a disruption to the servicer are both low. Consequently, our operational risk criteria do not constrain the maximum potential rating assignable to the transaction.

The transaction does not have a named back-up servicer, but the servicer may be replaced following certain termination events, which include the servicer's insolvency. CSC Capital Markets UK Ltd. was appointed as back-up facilitator to assist with identifying a replacement servicer and cash manager if required. We rely on the general availability of servicing in the U.K. market to mitigate the risk of servicing disruption and have modelled a replacement servicing fee in our cash flow analysis, in line with market standards. Furthermore, the liquidity reserve provides coverage to ensure timely payment of note interest to mitigate servicer disruption risk.

Credit Analysis And Assumptions

Our analysis includes an assessment of the credit risk inherent in the transaction under various stress scenarios. We based our credit analysis on our global auto ABS criteria. We received historical quarterly performance data from January 2014 to March 2024.

Macroeconomic And Sector Outlook

Table 3

Macroeconomic outlook

	Actual	Forecast			
	2023	**2024f**	**2025f**	**2026f**	**2027f**
Real GDP (y/y growth, %)	0.1	0.6	1.2	1.7	1.7
Unemployment rate (annual average, %)	4.0	4.4	4.6	4.4	4.4
CPI (%)	7.3	2.8	2.4	2.1	2.0

Sources: National statistics offices, OECD, Eurostat, Bank of England, European Central Bank, S&P Global Ratings. CPI--Consumer price index. f--Forecast.

Falling inflation, monetary policy easing, and improving terms of trade should help the U.K. economy rebalance over

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the next two years and return to potential growth, absent any other shocks. Indeed, the year started off strong for the U.K. economy. Consumers are expected to return to shops as their purchasing power recovers and companies will continue ramping up investments, backed by falling input and borrowing costs.

However, the labor market is easing, no longer just through falling job vacancies but also through job losses. This is keeping demand in check. Although this should help further control inflation, especially in the services sector, where it has remained high this year, it may make it harder for the Bank of England to achieve a soft landing.

Gross Defaults Base Cases

Worst case pool composition

To incorporate the risk of portfolio deterioration through adverse replenishment during the revolving period, we have constructed a worst-case pool based on the portfolio concentration limits dictated by the eligibility criteria and calculated the weighted-average gross loss base case for the total pool based on this, rather than on the final pool composition. Absent any limit on the concentration of PCP loans in the portfolio, we consider on a worst-case basis a complete migration of the pool to PCP loans.

Table 4

Cumulative gross loss and recovery assumptions (%)

Segment	Closing pool (%)	Worst-case pool	Base-case gross losses		Base-case recovery assumption
			HTs	VTs	
New vehicle PCP contracts	62.48	48	1.25	2.2	60
Used vehicle PCP contracts	32.33	52	1.5	2	60
Total	94.81	100	1.38	2.1	60

PCP--Personal contract purchase. HTs--Hostile terminations. VT--Voluntary terminations.

Hostile and voluntary terminations

Charts 1-4 show gross losses after loans were classified by the servicer as hostile terminations (HTs) or voluntary terminations (VTs) for the each of the four subpools.

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Chart 1

Cumulative gross losses (HT) – PCP new

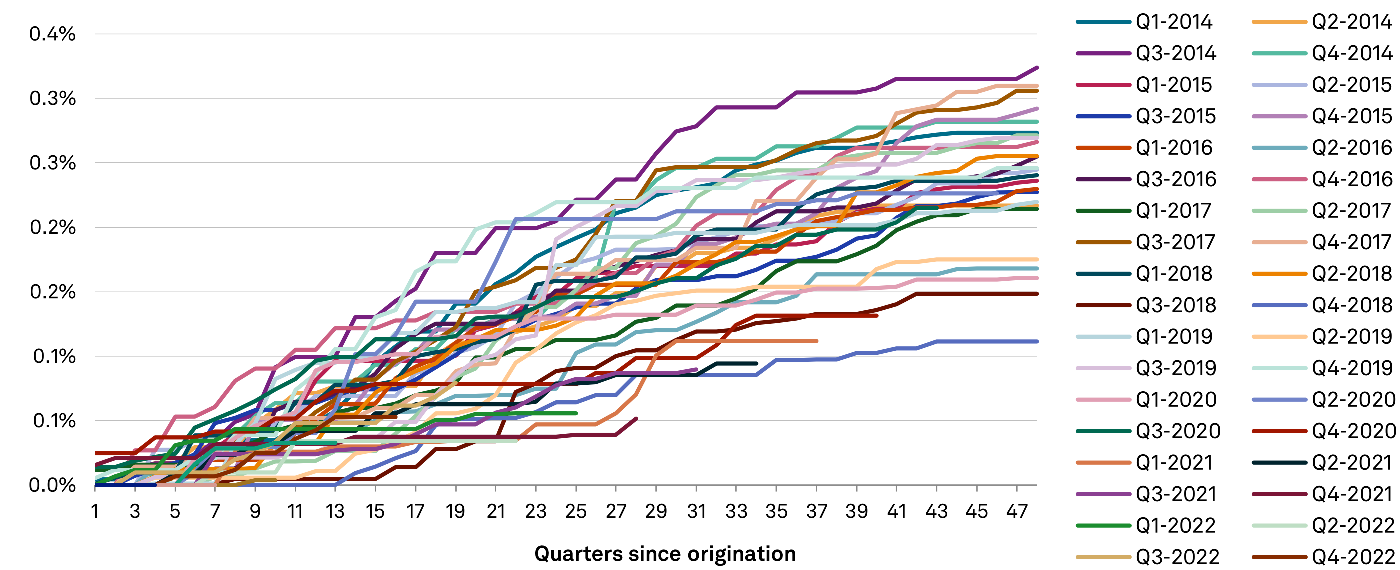

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Chart 2

Cumulative gross losses (HT) - PCP used

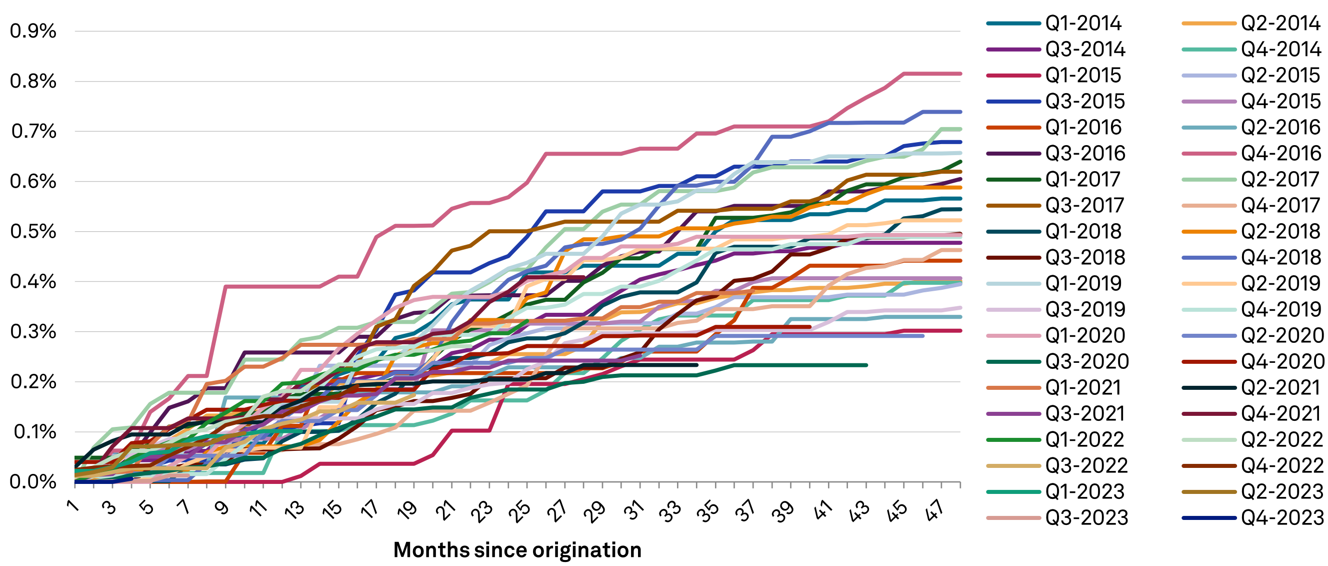

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Chart 3

Cumulative gross losses (VT) - PCP new

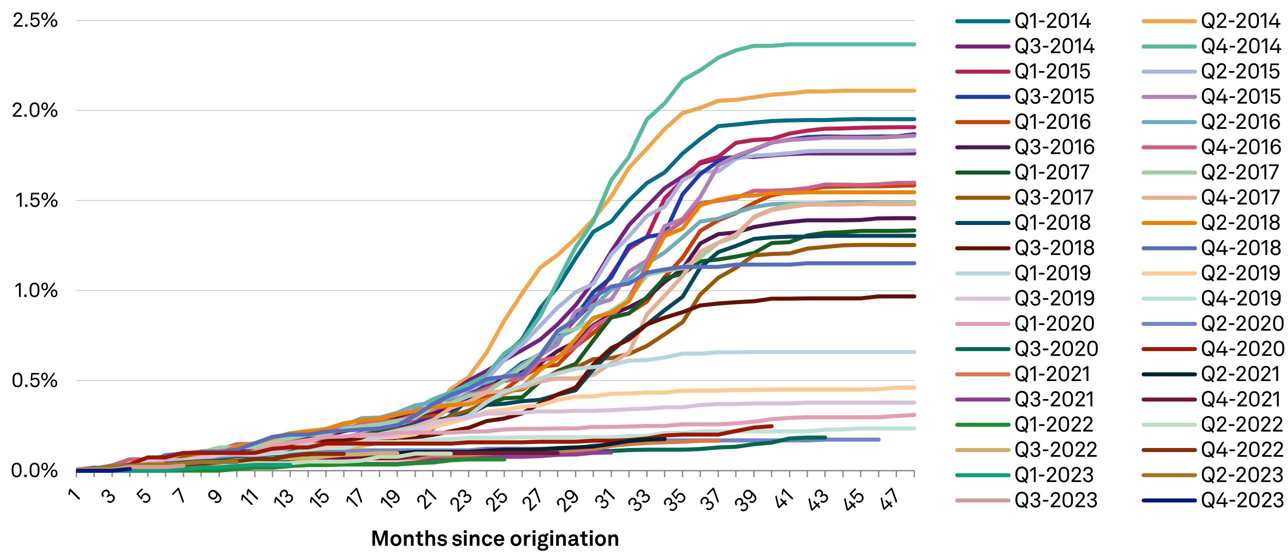

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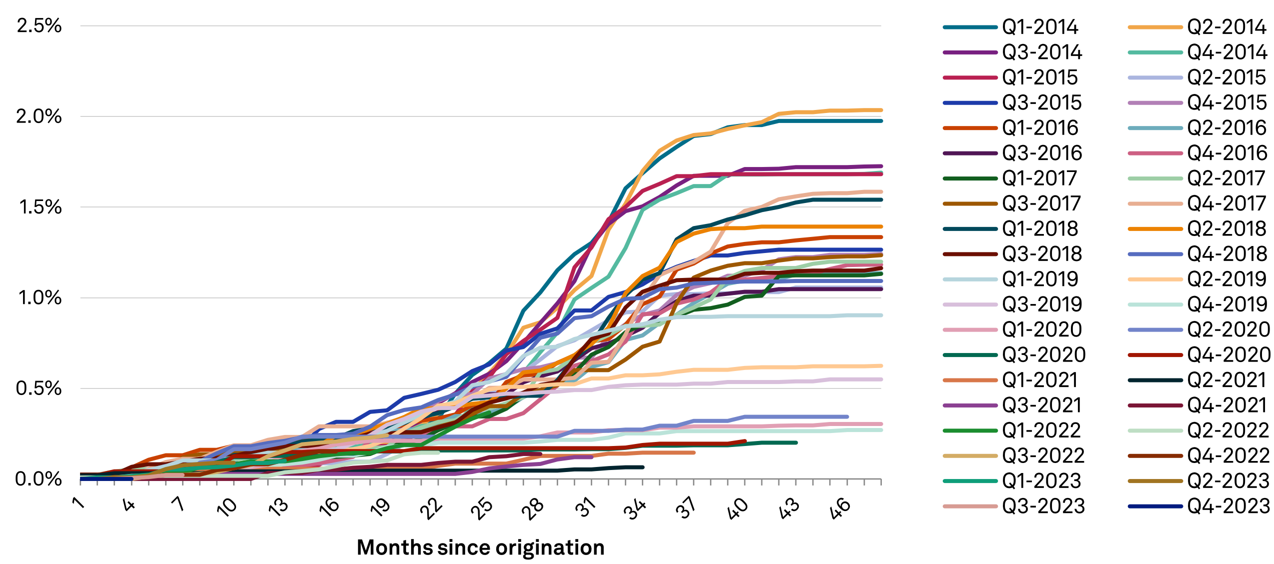
Chart 4

Cumulative gross losses (VT) - PCP used



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We set our gross loss base-case assumptions for a total of four subpools split by loan type (PCP is the only loan type

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considered in the worst-case pool), vehicle type (new or used), and gross loss type (HT or VT). When sizing our base-case gross loss assumptions we considered our latest U.K. economic outlook and levels set on comparable transactions.

We analyzed both HT and VT gross loss types separately. Losses incurred through VT are borne through the obligor's option, arising under the U.K. Consumer Credit Act, to return the car once the obligor has paid 50% of the total cost of credit. The risk of VT generally arises when obligors are in negative equity.

We have set the gross loss multiples at the higher end of rating specific ranges (5.0x for HT and 3.0x for VT) due to the six-month revolving period, the low base cases assigned and as this is the first public transaction originated by TFSUK.

Recoveries and recovery timing

Recoveries combine vehicle sale proceeds and ancillary payments (invoices, guarantees, etc.) received from the borrowers.

Under our global auto ABS criteria, we establish a recovery rate base-case assumption and increasingly stressful recovery rate haircuts at higher ratings (tiered recoveries). We also establish recovery rate assumptions (base-case recovery rate and recovery rate haircuts) based primarily on analysis of historical recovery rates for the issuer and the market, the volatility of past performance, as well as credit, operational, or other factors that might affect the timing, amount, and sustainability of recovery rates. We apply the same stressed recovery assumptions for both HTs and VTs.

In assigning a recovery rate base-case assumption of 60% and a 'AAA' haircut of 32.5%, we considered the observed historical performance, overall recovery process, collateral features such as loan-to-value (LTV) ratios, concentration of electric vehicles etc. For HTs, we assume that recovery proceeds are available to the transaction 12 months after the obligor defaults. For VTs, we assume no recovery delay.

Table 5

Credit assumptions summary

Rating level	Cumulative HT base-case (%)	Stress multiple	Stressed cumulative HTs (%)	Cumulative VT base case (%)	Stress multiple	Stressed cumulative VTs (%)	Recovery rate base-case (%)	Recovery rate haircut (%)	Stressed recovery rate (%)
AAA	1.38	5	6.9	2.1	3	6.3	60	32.5	40.5

HTs--Hostile termination. VT--Voluntary termination.

RV analysis

In addition to the HT and VT losses applied as outlined in table 5, we applied separate RV losses to the balloon installments of the PCP loans that remain after considering prepayments and the other losses. If TFSUK does not meet its obligation under the redelivery repurchase agreement, the transaction would be fully exposed to RV risk.

When setting the guaranteed future value (GFV) in the contract compared to its RV forecast, TFSUK applies a buffer to mitigate deterioration in secondhand vehicle prices. The buffer is typically 10% but can be higher on electric vehicles.

TFSUK's RV committee reassesses its RVs quarterly using its own RV model with additional factors considered where appropriate including CAP Gold/Black Book forecasts/valuations, competitor performance for benchmarking, future volumes, and market trends and movements.

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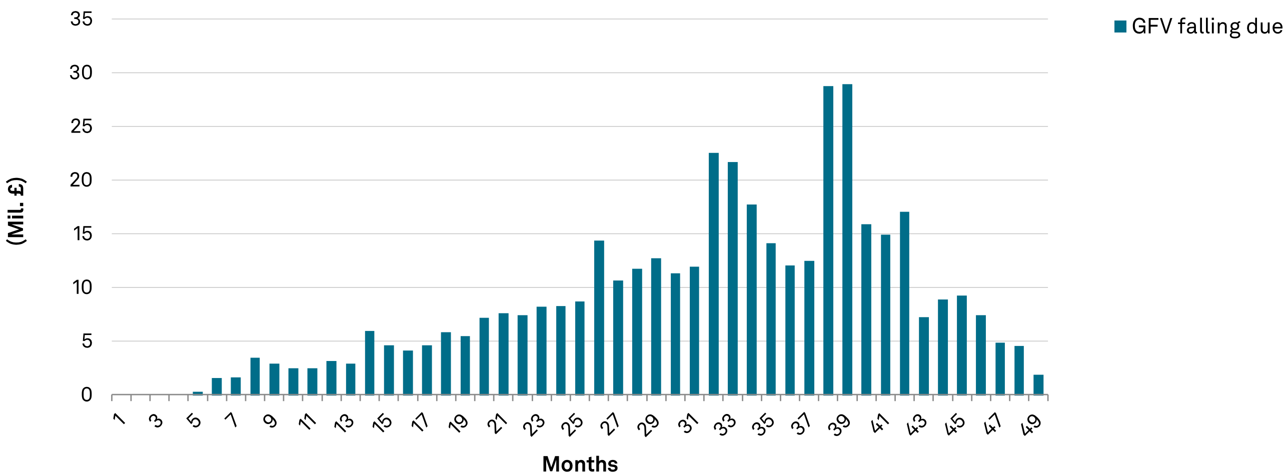
We assumed a base RV haircut of 34% in our 'AAA' rating scenario and adjusted it for excess concentrations of loans with RVs maturing in each period along with a lack of concentration limits on electric vehicles. We also incorporated necessary adjustments to reflect our assessment of the country characteristics and the originator RV setting policy. We assumed a return rate of 90% in our 'AAA' rating scenario. Accordingly, we determined our 'AAA' RV losses at 35.4%.

Chart 5

Scheduled GFV payments (before replenishment)



GFV--Guaranteed future value.

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Table 6

AAA' comparison

Rating level	Koromo UK 1 PLC	Cardiff Auto Receivables Securitisation 2024-1 PLC	Driver UK Master S.A., Compartment 6
Stressed HT gross loss (%)	6.9	8.19	8.05
Stressed VT gross loss (%)	6.3	7.25	8.14
Stressed recovery rate (%)	40.5	36.11	40.5
Stressed combined cumulative net loss (%)	7.85	9.86	9.63
Residual value loss (%)	35.4	36.4	35.2

HT--Hostile termination. VT--Voluntary termination.

No title over the vehicles

The issuer does not have any rights over the vehicles itself, but only in connection with the sale proceeds of the assets. Accordingly, if the seller becomes insolvent, the issuer relies on any insolvency official taking appropriate steps to sell the assets. Because the sale proceeds have been assigned to the issuer, the insolvency official does not have any financial incentive to take such steps as it does not benefit the bankruptcy estate's creditors.

This risk is mitigated by the inclusion, at a senior level in the priority of payments, of an insolvency administrator's incentive fee.

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In our analysis, to account for this risk, we considered that 5% of recovery proceeds would have to be paid to the insolvency administrator. We consider this level is sufficient to incentivize the insolvency official.

Environmental, Social, And Governance

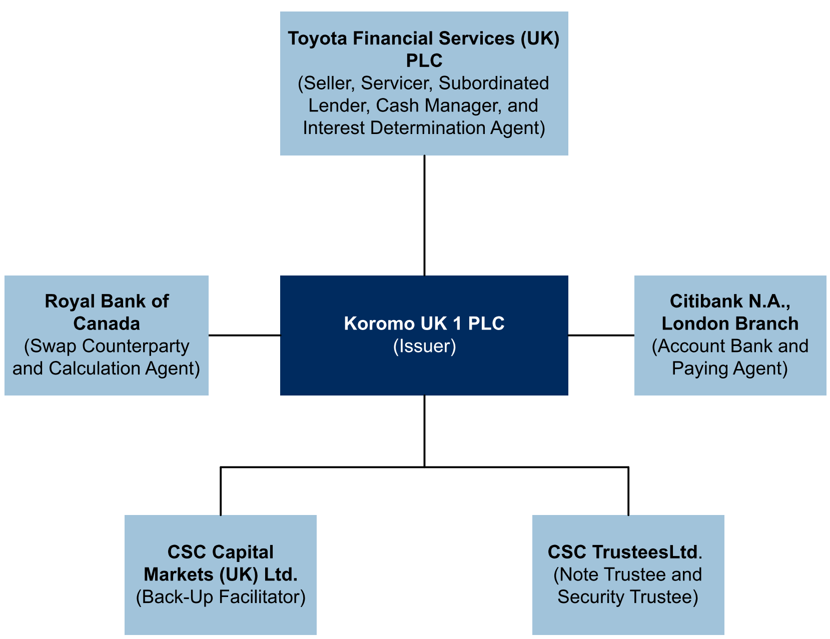
Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (ESG) credit factors. For the auto ABS sector, we view the exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," published on March 31, 2021).

Transaction Structure

Koromo UK 1 purchased a pool of auto loan receivables with an aggregate discounted value of £657 million from the seller (see chart below). During the revolving period additional sales can take place using the available collections. The issuer and the seller will calculate the loans' purchase price as the net present value of the future payments under the loans, using for each loan a discount rate equal to the higher of 7.0% and the contractual interest rate payable on that loan.

Chart 6

Transaction structure



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The issuer is an English SPE, which we consider to be bankruptcy remote. The legal opinion provided assurance that the sale of the assets would survive the seller's insolvency, and tax opinions addressed the issuer's tax liabilities under

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the current tax legislation.

Cash Flow Mechanics

The transaction features a combined interest and principal waterfall. Interest on the notes is payable monthly in arrears in accordance with the priority of payments.

The notes and subordinated loan are denominated in British pounds sterling. The class A notes pay interest at a floating rate, while the class B notes pays a fixed interest rate. The legal final maturity date is in October 2034.

If the security trustee delivers an enforcement notice to the issuer following an event of default, all funds from the enforced security are distributed according to post-enforcement priority of payments. We reviewed the issuer events of defaults and concluded they are remote in our ratings scenarios. As a result, our analysis solely focuses on the pre-enforcement priority of payments.

Priorities of payment

On any monthly interest payment date, Koromo UK 1 will apply to the single waterfall its monthly available receipts:

- Collections (including vehicle sale proceeds, recoveries, and settlement amounts which captures the payment of the redelivery repurchase price by TFSUK for maturing PCP contracts);
- Interest accrued on bank accounts and reserve accounts;
- Payments received under the swap agreement;
- The reserve fund balance; and
- During the revolving period any excess collections on the replenishment ledger.

Table 7

Priority of payments	
1	Senior expenses
2	Payments to the swap counterparty
3	Interest on the class A notes (after payment of any interest shortfall on the class A notes)
4	Reserve replenishment
5a	During the revolving period, purchase of new receivables
5b	Following the end of the revolving period, the payment of class A principal
6	Interest on the class B notes (after payment of any interest shortfall on the class B notes)
7	Following the end of the revolving period, the payment of class B principal
8	Swap subordinated amounts
9	Payment of interest on the subordinated loan
10	Following the end of the revolving period, payment of principal on the subordinated loan
11	Deferred purchase price

Reserve fund

At closing, the seller provided to the issuer a subordinated loan which was used to fund the reserve. The required reserve is equal to 1.4% of the class A notes and will fall as the class A notes amortize, subject to a floor of 0.7% of the

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initial class A notes. The reserve can be used to pay senior fees, swap payments, and class A notes' interest. It may only be used to pay the class A principal if by doing so the class A notes would fully redeem.

Swap/hedging

The receivables are fixed rate, while the class A notes are floating rate. To hedge interest rate risk, the issuer entered a balance guaranteed interest rate swap at closing. The issuer will pay a fixed rate and receive a floating interest rate based on compounded daily SONIA (i.e., the same index that the class A notes pay). The swap documentation is expected to be in line with our counterparty criteria to support 'AAA' ratings.

Clean-up call

TFSUK can exercise a clean-up call as soon as the aggregate outstanding receivables balance is equal to, or lower than, 10% of the aggregate outstanding receivables balance as of the initial cutoff date, or once the class A notes have redeemed. If TFSUK exercises this option, it will fully redeem the notes (including accrued interest).

Events of default

Each of the following will be an event of default under the notes and might lead, among others, to an acceleration of the notes by the trustee:

- The issuer fails to pay interest due on the most senior class of notes (five business-day cure period);
- The issuer fails to pay the principal amount of a class of notes in full on its final legal maturity date;
- The issuer fails to perform or comply with its covenants (30-day cure period);
- The security granted under the transaction documents is terminated or becomes void or ineffective; or
- The issuer becomes insolvent.

We consider these events as rating remote, and as such, we do not model the accelerated priority of payments in our analysis.

Mitigation Of Seller Risks

Commingling risk

Payments under the auto loans are paid by direct debit into a collection account in TFSUK's name and are only transferred to the issuer on each monthly payment date. A declaration of trust applies in favor of the issuer over TFSUK's collection account. If Toyota Motor Corp. ceases to entirely own TFSUK or be rated at least 'BBB', TFSUK has 60 days to enact one of two options.

Option 1: The servicer will transfer to the issuer account all collections received within two business days of receipt, without posting any reserve. Considering no accumulation will take place on the servicer's account, and that we deem the lessees' notification period to be one week, we size for 25% of monthly collections in period one to be lost under this option.

Option 2: The servicer will post an amortizing commingling reserve equal to the expected collections for the current period and the one following, plus a prepayment adjustment. The reserve will amortize according to the credit

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enhancement buildup. We believe this sufficiently mitigates commingling risk.

Setoff risk

TFSUK is not a deposit taking institution, nor is insurance packaged with the receivables.

The eligibility criteria do not exclude loans granted to employees from the securitized portfolio. We have therefore considered the potential employee setoff risk as a loss (0.10%) in our analysis.

Cash Flow Assumptions

Table 8

Cash flow assumptions	
Stressed HT gross loss (%)	6.9
Stressed VT gross loss (%)	6.3
Recession start	At start of amortization
Length of recession	Weighted-average life (27 months)
Cumulative gross loss curve	Evenly distributed and back-loaded over weighted-average life
Recovery lag	12 months
Delinquency	Two-thirds of credit losses recovered six months later*
Residual loss (applied over the survivor balloon portion after prepayment and defaults; %)	35.4
RV assumption (% of pool)	65.0
Stressed servicing fees (%)	1.0
Fixed fees (£)	150,000
Issuer's bank replacement cost (£)	100,000
Prepayments (high/low) (%)	30.0/0.5
Interest rate	Up, down, up/down, down/up
Initial WAC (%)	5.72 (from closing)
Commingling stress	Loss, 0.25 months of interest and principal payments in first period.
Setoff stress	0.10% loss

*Calculations are according to S&P Global Ratings' methodology. WAL--Weighted average life. HT—Hostile termination. VT--Voluntary termination. RV--Residual value. WAC--Weighted average coupon.

We have tested the class A notes' ability to pay timely interest and ultimate principal under the above stress assumption through our proprietary cash flow model. Our analysis indicates that the available credit enhancement for the class A notes is sufficient to withstand the credit and cash flow stresses that we apply at the 'AAA' rating level.

Our ratings address both the availability of funds for the full payment of interest and principal, and the timeliness of these payments in accordance with the terms of the rated securities. Based on the assumptions discussed above, the low prepayment proved to be more stressful, mostly because it results in a higher portion of the balloon loans being subject to RV stress.

Chart 7 shows the collateral and the note amortization profile under our most stressful 'AAA' scenario.

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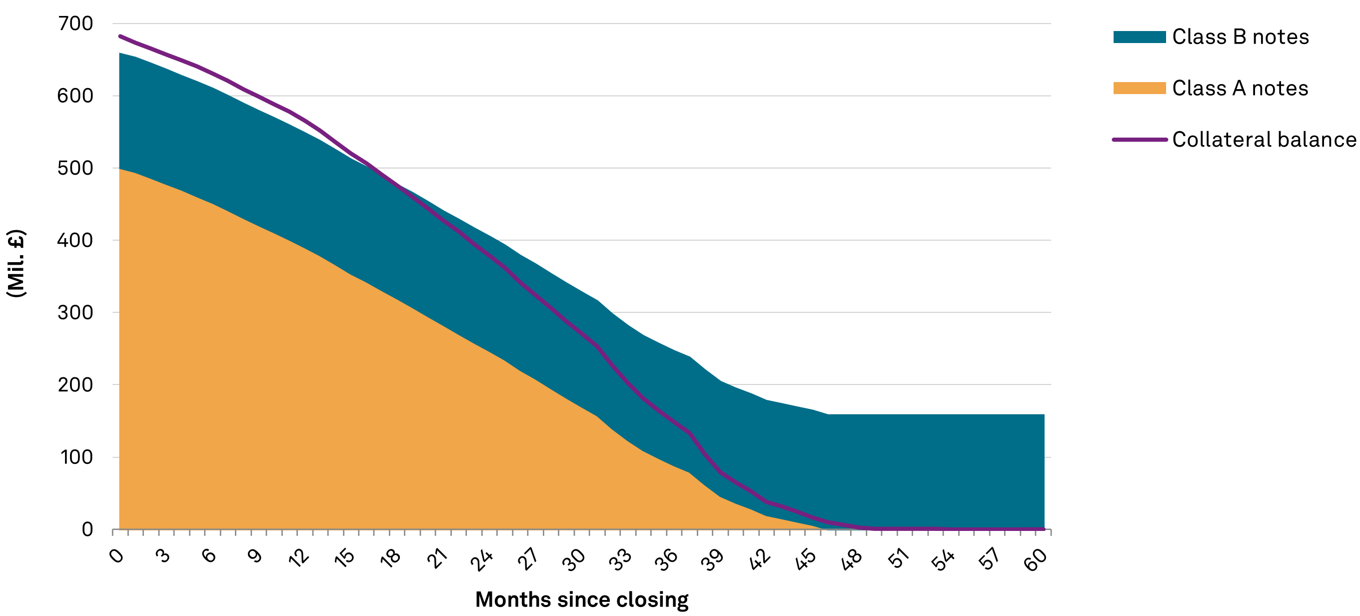
Chart 7

Collateral and note balances
In the 'AAA' most stressful scenario



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Counterparty Risk

The remedies for the issuer's account bank provider and swap provider adequately mitigate the transaction's exposure to counterparty risk in line with our criteria.

Table 9

Supporting ratings

Institution/role	Ratings	Replacement trigger	Collateral posting trigger
Citibank N.A., London Branch as the transaction accounts provider*	A+/Stable/A-1	A	N/A
Citibank N.A.	A+/Stable/A-1	A	N/A
Royal Bank of Canada as interest rate swap counterparty	AA-/ A-1	A+	N/A
Toyota Motor Corporation	A+/Stable/A-1+	N/A	BBB (triggers commingling mitigation actions)

*Based on the rating on the parent company, Citibank N.A. N/A--Not applicable.

The swap contains several combinations of replacement triggers and collateral posting frameworks, each of which is consistent with our counterparty criteria to support 'AAA' ratings. At closing, we determined that the collateral framework is considered strong, which requires the counterparty to post collateral if its rating is lowered below 'A-',

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and if it is lowered below 'BBB+', it will need to replace itself. If the swap counterparty defaults, termination payments will become subordinated to payments to noteholders, and the issuer will have the right to terminate the swap if the swap counterparty fails to replace itself within the remedy period.

The swap collateral account is initially established with Citibank N.A., London Branch.

Sovereign Risk

Our long-term unsolicited credit rating on the U.K. is 'AA'. Therefore, our ratings in this transaction are not constrained by our structured finance sovereign risk criteria.

Forward-Looking View

We consider the transaction's resilience to additional stresses to some key variables, in particular defaults and recoveries, to determine our forward-looking view.

In our view, borrowers' ability to repay their auto loans will be highly correlated to macroeconomic conditions, particularly the unemployment rate and, to a lesser extent, consumer price inflation and interest rates. Our 2024 forecast for unemployment rates in the U.K. is 4.4% and our forecast for inflation is 2.8%.

Furthermore, a decline in secondhand car values typically affects the level of realized recoveries as well as increases the RV risk the transaction is exposed to, which arises if the liquidation proceeds from the sale of the vehicles are lower than the securitized values. The transaction is also exposed to RV risk connected with the borrowers' VT right. Although used car prices will decline moderately in the U.K. in 2024, we do not expect them to fall significantly. RVs have recently remained relatively stable.

Given our current macroeconomic forecast and forward-looking view of the U.K.'s auto market, our sensitivity scenarios consider, all else being equal, the hypothetical effect on our credit ratings of:

An increased gross default base case of up to 30%;

An increase in gross defaults from voluntary terminations of up to 30%;

A maximum haircut of 30% to the recovery rate base case; and

A 30% increase in RV losses.

We therefore ran eight scenarios with increased gross defaults and/or reduced expected recoveries, and/or increased stressed RV losses, as shown in the tables below.

Table 10

Scenario stresses

	Recovery rate base case and RV loss(%)		
Gross HT and VT default rate base case (%)	0	Recovery rate: -10.0; market value decline +5.0	Recovery rate: -30.0; market value decline: +15.0

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Table 10

Scenario stresses (cont.)			
	Recovery rate base case and RV loss(%)		
0	Base case	Scenario 3	Scenario 4
10	Scenario 1	Scenario 5	Scenario 7
30	Scenario 2	Scenario 6	Scenario 8

Table 11

Scenarios

Class	Base Case	1	2	3	4	5	6	7	8
Gross default rate HT (%)	1.38	1.52	1.79	1.38	1.38	1.52	1.79	1.52	1.79
Gross default rate VT (%)	2.1	2.31	2.73	2.1	2.1	2.31	2.73	2.31	2.73
Recovery rate (%)	60	60	60	54	42	54	54	42	42
'AAA' RV loss (%)	35.40	35.40	35.40	37.20	40.70	37.20	37.20	40.70	40.70
Senior instruments	AAA	AAA	AA+	AAA	AAA	AAA	AA+	AA+	AA+

NR--Not rated.

The results of the above sensitivity analysis indicate a deterioration of no more than two notches on the notes, which is in line with the credit stability considerations in our rating definitions.

The transaction also embeds some other strengths that may offset a sudden increase in defaults. It has a short weighted-average life and delivers fast build-up of additional credit enhancement as it amortizes. Furthermore, our base case scenario incorporates some cushion compared with observed defaults. The underlying receivables pay a fixed rate of interest, limiting the impact of increasing interest rates on the transaction's performance in the near term.

Monitoring And Surveillance

We assess at least quarterly the underlying portfolio's performance, including defaults and delinquencies.

Additionally, we also assess at least annually:

- The supporting ratings in the transaction;
- The servicer's operations and its ability to maintain minimum servicing standards; and
- Whether the then-available credit enhancement for the class A notes is sufficient to withstand losses that are commensurate with the current rating assigned.

Appendix

Transaction participants	
Issuer	Koromo UK 1 PLC
Originator, seller, servicer, cash manager, interest determination agent, and subordinated loan provider	Toyota Financial Services (UK) PLC
Note trustee, and security trustee	CSC Trustees Limited
Issuer corporate service provider and back-up facilitator	CSC Capital Markets UK Limited

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Transaction participants (cont.)	
Swap provider and calculation agent	Royal Bank of Canada
Issuer's bank account provider, paying agent, and registrar	Citibank N.A., London Branch
Co-arranger	MUFG Securities EMEA plc
Co-arranger	BofA Securities

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- European Auto ABS Index Report Q2 2024, Aug. 12, 2024
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