

Volkswagen Financial Services AG

Primary Credit Analyst:

Heiko Verhaag, CFA, FRM, Frankfurt + 49 693 399 9215; heiko.verhaag@spglobal.com

Secondary Contact:

Harm Semder, Frankfurt + 49 693 399 9158; harm.semder@spglobal.com

Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria

Related Research

Volkswagen Financial Services AG

Major Rating Factors

Issuer Credit Rating

BBB+/Negative/A-2

Strengths:	Weaknesses:
<ul style="list-style-type: none">• Expected support from the parent, Volkswagen AG, under all foreseeable circumstances, if needed.• Broad geographic diversification across the globe.• A sound financial risk profile with stable earnings.	<ul style="list-style-type: none">• Business concentration on car financing and related services.• Dependence on Volkswagen's franchise and credit profile.• A confidence-sensitive wholesale funding profile.

Outlook

S&P Global Ratings' negative outlook on Germany-based captive finance company Volkswagen Financial Services AG (VW FS) mirrors that on VW FS' parent, carmaker Volkswagen AG (VW; BBB+/Negative/A-2).

Any potential rating action on VW in the next 12-24 months would result in a similar action on VW FS. While remote, we could also lower our ratings on VW FS if we saw a weakening commitment from VW to support its subsidiaries, which could lead us to reassess our view of VW FS as a core entity of the VW group. We consider this scenario very unlikely, but it could happen if VW relinquished its majority ownership of VW FS or if the captive finance operations ceased to be pivotal to the VW group's worldwide strategy.

Rationale

The ratings on VW FS are based on our view of the company's established business position as a fully owned captive finance subsidiary that we reflect in our assessment of VW FS as a core group entity of VW, one of the world's largest auto manufacturers. Our assessment implies that we expect VW FS would receive support from VW under any foreseeable circumstances.

VW FS has a very important strategic position within the Volkswagen Group by promoting the sale of the group's products through financial services and generating income through related services. It conducts almost all of the group's financial and mobility activities not subject to European banking regulation; while VW Bank conducts activities

that fall under European Central Bank supervision. VW FS' activities include international banking and European nonregulated businesses. Its product offering includes car financing, leasing, dealer financing, insurance, and other services. While not yet material from a profitability standpoint, other mobility services include car sharing as well as parking, refueling, and charging services, which underline VW FS' ambitions as a mobility services provider beyond the typical captive finance activities. The company's value to its parent is underlined by its size, with total assets of €112.4 billion as of June 30, 2020, of which 88% related to customer loans and receivables, and lease assets.

In our view, VW FS' main strength is its strong integration into Volkswagen Group's value chain and its broad geographic diversification across the globe, which makes it integral to the group's future strategy in our view. This setup ensures comparably stable income generation, which, however, depends on the group's sales volume and reputation. As such, VW FS' creditworthiness is closely tied to that of its parent, making its default risk as largely indistinguishable from that of VW.

We expect the COVID-19-induced downturn and lower new car sales to have resulted in somewhat lower operating profit for VW FS in 2020. However, we still expect strong profitability, reflective of its resilient income streams. We also note an increasing share of its lending portfolio is attributed to used cars, where sales volumes are less volatile.

We anticipate that VW FS' asset quality will remain sound, despite some deterioration over 2020 and a related increase in nonperforming loans. For 2021, we expect a manageable increase of credit costs that will not impair VW FS' capital base. Moreover, we view as positive VW FS' profit-and-loss transfer agreement with VW, which essentially transfers VW FS' result under German generally accepted accounting principles (HGB) to VW. While this is not comparable with a full guarantee, it underlines the Volkswagen Group's commitment to VW FS since it absorbs losses as they arise.

VW FS' funding profile is prudently managed and diversified across instruments and investors. However, the degree of wholesale funding and its dependence on continuously attracting sufficient wholesale funds at reasonable pricing constitute a structural weakness in our view. The 30% share of short-term wholesale funding, and the low share of liquid assets in relation to this short-term funding, underline VW FS' sensitivity to investor confidence and the capital market environment. In addition to ongoing funding support, we would expect other Volkswagen Group entities to provide funding and liquidity support if needed in an environment where market access for VW FS is not assured.

Table 1

Volkswagen Financial Services AG--Key Figures					
--Year ended Dec. 31--					
(Mil. €)	2020*	2019	2018	2017	2016
Adjusted assets	112,322.0	112,353.0	80,398.0	68,894.0	129,998.0
Customer loans (gross)	74,996.0	80,371.0	60,301.0	51,606.0	103,630.0
Adjusted common equity	11,142.0	11,205.0	7,277.0	6,227.4	15,747.8
Operating revenues	1,838.0	3,625.0	2,672.0	2,814.0	4,361.0
Noninterest expenses	1,008.0	2,006.0	1,620.0	1,670.0	2,012.0
Core earnings	381.0	933.0	549.3	569.6	1,141.0

*Data as of June 30.

Table 2

Volkswagen Financial Services AG--Business Position					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Total revenues from business line (currency in millions)	1,838.0	4,215.0	2,679.0	3,198.0	4,361.0
Insurance activities/total revenues from business line	3.8	3.7	5.5	3.7	1.8
Other revenues/total revenues from business line	96.2	96.3	94.5	96.3	98.2
Return on average common equity	6.4	8.9	7.0	7.4	7.2

*Data as of June 30.

Table 3

Volkswagen Financial Services AG--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Tier 1 capital ratio	N/A	N/A	N/A	N/A	11.7
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	N/A	N/A	13.7
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	N/A	N/A	14.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	69.8	74.2	64.8	66.1	85.9
Fee income/operating revenues	1.6	3.4	8.2	4.5	0.3
Market-sensitive income/operating revenues	3.4	(3.9)	(3.2)	(1.1)	(1.5)
Cost to income ratio	54.8	55.3	60.6	59.3	46.1
Preprovision operating income/average assets	1.5	1.7	1.4	1.1	1.9
Core earnings/average managed assets	0.7	1.0	0.7	0.6	0.9

*Data as of June 30. N/A--Not applicable.

Table 4

Volkswagen Financial Services AG--Risk Position					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Growth in customer loans	(13.4)	33.3	16.8	(50.2)	8.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	N/A	N/A	(3.3)
Total managed assets/adjusted common equity (x)	10.1	10.0	11.1	11.1	8.3
New loan loss provisions/average customer loans	0.7	0.4	0.4	0.6	0.7
Net charge-offs/average customer loans	N.M.	0.1	0.1	0.3	0.1
Gross nonperforming assets/customer loans + other real estate owned	N/A	1.2	1.6	2.0	2.4
Loan loss reserves/gross nonperforming assets	N/A	122.2	137.0	176.7	121.6

*Data as of June 30. N/A--Not applicable.

Table 5

Volkswagen Financial Services AG--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	0.0	0.0	0.1	0.1	33.6

Table 5

Volkswagen Financial Services AG--Funding And Liquidity (cont.)					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Customer loans (net)/customer deposits	N.M.	N.M.	78,682.7	72,179.7	278.2
Long-term funding ratio	73.4	73.0	75.5	75.1	79.0
Stable funding ratio	74.7	72.9	74.9	74.1	80.4
Short-term wholesale funding/funding base	29.9	30.3	27.3	28.1	24.2
Broad liquid assets/short-term wholesale funding (x)	0.2	0.1	0.1	0.1	0.3
Net broad liquid assets/short-term customer deposits	N.M.	(244.8)	(189.3)	(260.0)	(46.1)
Short-term wholesale funding/total wholesale funding	29.9	30.3	27.3	28.2	36.5
Narrow liquid assets/3-month wholesale funding (x)	0.7	0.5	0.5	0.5	0.7

*Data as of June 30. N.M.--Not meaningful.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Volkswagen Finans Sverige AB, Dec. 14, 2020
- Volkswagen AG, Dec. 2, 2020
- Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Research Update: Automaker Volkswagen Outlook Revised To Negative On Weaker Revenue Prospects Due To COVID-19; Affirmed At 'BBB+/A-2', March 27, 2020

Ratings Detail (As Of February 5, 2021)*

Volkswagen Financial Services AG

Issuer Credit Rating

BBB+/Negative/A-2

Ratings Detail (As Of February 5, 2021)*(cont.)

Issuer Credit Ratings History

26-Mar-2020	BBB+/Negative/A-2
06-Nov-2017	BBB+/Stable/A-2
01-Dec-2015	BBB+/Negative/A-2

Sovereign Rating

Germany	AAA/Stable/A-1+
---------	-----------------

Related Entities**Banco Volkswagen S.A.**

Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Stable/--

Scania AB (publ.)

Issuer Credit Rating	BBB/Negative/A-2
<i>Nordic Regional Scale</i>	--/--/K-2
<i>South Africa National Scale</i>	zaAAA/--/zaA-1+

TRATON SE

Issuer Credit Rating	BBB/Negative/--
----------------------	-----------------

Volkswagen AG

Issuer Credit Rating	BBB+/Negative/A-2
----------------------	-------------------

Volkswagen Bank GmbH

Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Subordinated	BBB+
Senior Unsecured	A-
Short-Term Debt	A-2

Volkswagen Finans Sverige AB

Issuer Credit Rating	
<i>Nordic Regional Scale</i>	--/--/K-1

Volkswagen International Belgium S.A.

Issuer Credit Rating	BBB+/Negative/A-2
Commercial Paper	
<i>Local Currency</i>	A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.