

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

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Volkswagen Financial Services AG

Credit Highlights

Issuer Credit Rating

BBB+/Stable/A-2

Overview

Key strengths	Key risks
Expected support from the parent, Volkswagen AG (VW), under all foreseeable circumstances, if needed.	Dependence on VW's franchise and credit profile.
Broad geographical diversification across the globe.	Business concentration on car financing and related services.
Sound financial risk profile with stable earnings.	Confidence-sensitive wholesale funding profile.

Germany-based Volkswagen Financial Services AG (VW FS) will maintain its established franchise as a fully owned captive finance subsidiary of VW. The ratings on VW FS are based on S&P Global Ratings' view of the company's integral role to the group's strategy, which we reflect in its core group status to VW (BBB+/Stable/A-2), 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 VW Group by promoting the sale of the group's products through financial services and generating income through related services. We do not expect this role to change in the foreseeable future, but rather be strengthened by its important task to promote the sale of electric vehicles.

VW FS conducts almost all the group's financial and mobility activities not subject to European banking regulation; while Volkswagen Bank GmbH (BBB+/Stable/A-2) conducts activities that fall under European Central Bank (ECB) supervision. VW FS' activities include international banking and European non-ECB regulated businesses. Its product offering includes car financing, leasing, dealer financing, insurance, and other services. Although not yet material from a profitability standpoint, other mobility services include car sharing as well as parking, refueling, and charging, which underline VW FS' ambitions as a mobility services provider beyond the typical captive finance activities.

The company's relevance to its parent is underlined by its size, with total assets of €124.5 billion at June 30, 2021, of which 90% relate to customer loans and receivables and leased assets.

The company's strong geographical diversification should ensure relatively stable income, while 2021 results will be extraordinarily strong. In our view, VW FS' main strength is its strong integration into VW Group's value chain and its broad geographical diversification across the globe. This setup ensures comparably stable income through the cycle, but 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 largely indistinguishable from that of VW. VW FS' financial performance has strongly benefited from temporarily increased demand for used cars and the related increase in used car prices, which in turn has boosted residual values. We expect this temporary spike in used car demand, triggered by lower new car supply amid semiconductor shortages, will likely normalize over 2022. However, the war in Ukraine and related sanctions on Russia pose a threat to the economic recovery. VW FS has operations in Russia through local operating entities. Of these, OOO Volkswagen Bank RUS (not rated) is the most relevant, with equity of Russian ruble 16.25 billion (€140 million) as of 2019. Overall, we expect the financial implications of the conflict will be manageable, considering VW FS' strong geographical diversification and the modest relevance of Russian activities.

S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine.

Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. Potential effects could include dislocated commodities markets--notably for oil and gas--supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly. See our macroeconomic and credit updates here: [Russia-Ukraine Macro, Market, & Credit Risks](#). Note that the timing of publication for rating decisions on European issuers is subject to European regulatory requirements.

VW FS' asset quality is benefiting from economic recovery and stronger-than-expected residual values. We anticipate that VW FS will maintain its sound asset quality in 2022, after an expected normalization over 2021. Cost of Risk (provision for credit risk/average loans and receivables) declined more than 50% to 32 basis points (bps) over first-half 2021 from 75 bps over 2020, gradually returning to pre-pandemic levels. We expect elevated collateral values will continue to support VW FS's asset quality over 2022. In an unlikely scenario where materially rising credit costs lead to a net loss, we view as positive VW FS' profit-and-loss transfer agreement with VW, which essentially transfers VW FS' results under German generally accepted accounting principles (HGB) to VW. Although this is not comparable with a full and timely guarantee, it underlines VW Group's commitment to VW FS since it absorbs losses if they arise.

VW FS' continuing challenge is to attract sufficient wholesale funds to support expected growth at reasonable costs. 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 VW Group entities to provide funding and liquidity support if needed in an environment where market access is not assured for VW FS.

Outlook

Our stable outlook on VW FS mirrors that on its parent, carmaker VW.

Any potential rating action on VW in the next 12-24 months would result in a similar action on VW FS. Although remote, we could also lower our ratings on VW FS if we see 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 materially reduces its ownership of VW FS or if the captive finance operations are no longer pivotal to the VW group's worldwide strategy.

Rated Subsidiaries

Our Nordic Regional Scale rating on VW FS' subsidiary Volkswagen Finans Sverige AB is 'K-1'. This reflects our view of its core group status to VW FS and that the entity will receive support, if needed, under any foreseeable circumstances.

Rated Debt

We rate VW FS' senior unsecured debt obligations and debt issued by the following subsidiaries at 'BBB+/A-2': Volkswagen Financial Services N.V, Volkswagen Financial Services Australia Pty Ltd., Volkswagen Financial Services Japan Ltd. and Volkswagen Leasing GmbH.

Table 1

Volkswagen Financial Services AG--Key Figures					
--Fiscal year end Dec. 31--					
	2020	2019	2018	2017	2016
(Mil. €)					
Adjusted assets	117,753.0	112,353.0	80,398.0	68,894.0	129,998.0
Customer loans (gross)	79,854.0	80,371.0	60,301.0	51,606.0	103,630.0
Adjusted common equity	11,930.0	11,205.0	7,277.0	6,227.4	15,747.8
Operating revenues	3,708.0	3,564.0	2,672.0	2,814.0	4,361.0
Noninterest expenses	2,071.0	2,006.0	1,620.0	1,670.0	2,012.0
Core earnings	806.0	890.0	549.3	569.6	1,141.0

Table 2

Volkswagen Financial Services AG--Business Position					
--Fiscal year end Dec. 31--					
	2020	2019	2018	2017	2016
(%)					
Total revenues from business line (mil. €)	3,708	3,564	2,672	2,814	4,361
Insurance activities/total revenues from business line	4.2	4.3	5.5	4.2	1.8
Other revenues/total revenues from business line	95.8	95.7	94.5	96.3	98.2
Return on average common equity	6.5	8.9	7.0	7.4	7.2

Table 3

Volkswagen Financial Services AG--Capital And Earnings					
--Fiscal year end 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	73.2	75.5	64.8	66.1	85.9
Fee income/operating revenues	2.4	3.5	8.2	4.5	0.3
Market-sensitive income/operating revenues	(7.8)	(4.0)	(3.2)	(1.1)	(1.5)
Cost to income ratio	55.9	56.3	60.6	59.3	46.1
Preprovision operating income/average assets	1.4	1.6	1.4	1.1	1.9

Table 3

Volkswagen Financial Services AG--Capital And Earnings (cont.)					
	--Fiscal year end Dec. 31--				
	2020	2019	2018	2017	2016
Core earnings/average managed assets	0.7	0.9	0.7	0.6	0.9
N/A--Not applicable.					

Table 4

Volkswagen Financial Services AG--Risk Position						
	--Fiscal year end Dec. 31--					
	2020	2019	2018	2017	2016	
(%)						
Growth in customer loans		(0.6)	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	N/A	(3.3)
Total managed assets/adjusted common equity (x)	9.9	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	0.2	0.1	0.1	0.3	0.1	
Gross nonperforming assets/customer loans + other real estate owned	1.5	1.2	1.6	2.0	2.4	
Loan loss reserves/gross nonperforming assets	102.6	122.2	137.0	176.7	121.6	
N/A--Not applicable.						

Table 5

Volkswagen Financial Services AG--Funding And Liquidity					
	--Fiscal year end Dec. 31--				
	2020	2019	2018	2017	2016
(%)					
Core deposits/funding base	0.0	0.0	0.1	0.1	33.6
Customer loans (net)/customer deposits	N.M.	N.M.	78,682.7	72,179.7	278.2
Long-term funding ratio	74.0	73.0	75.5	75.1	79.0
Stable funding ratio	74.6	72.9	74.9	74.1	80.4
Short-term wholesale funding/funding base	29.3	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	(260.4)	(244.8)	(189.3)	(260.0)	(46.1)
Short-term wholesale funding/total wholesale funding	29.3	30.3	27.3	28.2	36.5
Narrow liquid assets/3-month wholesale funding (x)	0.5	0.5	0.5	0.5	0.7
N.M.--Not meaningful.					

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Volkswagen AG, Feb. 2, 2022
- Volkswagen AG Outlook Revised To Stable From Negative On Stronger-Than-Expected Free Cash Flow Generation, Apr 28, 2021
- VW Bank GmbH 'A-/A-2' Ratings Affirmed And Outlook Still Negative After Parent Volkswagen's Outlook Revision To Stable, April 28, 2021
- Volkswagen Finans Sverige AB, Dec. 14, 2020

Ratings Detail (As Of March 3, 2022)*

Volkswagen Financial Services AG

Issuer Credit Rating BBB+/Stable/A-2

Issuer Credit Ratings History

28-Apr-2021 BBB+/Stable/A-2
 26-Mar-2020 BBB+/Negative/A-2
 06-Nov-2017 BBB+/Stable/A-2

Sovereign Rating

Germany AAA/Stable/A-1+

Related Entities

Banco Volkswagen S.A.

Issuer Credit Rating
Brazil National Scale brAAA/Stable/--

Navistar Financial, S.A. de C.V. SOFOM, E.R.

Issuer Credit Rating
CaVal (Mexico) National Scale mxAA+/Stable/mxA-1+

Scania AB (publ.)

Issuer Credit Rating
Nordic Regional Scale BBB/Stable/A-2
South Africa National Scale --/--/K-2
 zaAAA/--/zaA-1+

TRATON SE

Issuer Credit Rating BBB/Stable/--

Volkswagen AG

Issuer Credit Rating BBB+/Stable/A-2

Ratings Detail (As Of March 3, 2022)*(cont.)

Volkswagen Bank GmbH

Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Subordinated	BBB
Senior Unsecured	BBB+
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+/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2

Volkswagen Leasing, S.A. de C.V

Senior Secured	
<i>CaVal (Mexico) National Scale</i>	mxAAA

*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

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