

Research Update:

VW Bank GmbH 'A-/A-2' Ratings Affirmed Following Parent Volkswagen's Outlook Revision To Negative On COVID-19 Effects

March 26, 2020

Overview

- On March 26, 2020, we revised the outlook on Volkswagen AG (VW AG) to negative from stable and affirmed our 'BBB+' ratings.
- At the same time, we are affirming the 'A-/A-2' ratings on VW Bank GmbH. VW Bank is directly and 100%-owned by VW AG. The affirmation reflects our ongoing assessment of VW Bank as having one-notch higher creditworthiness and being an insulated group subsidiary.
- Our negative outlook on VW Bank mirrors the negative trends pertaining to economic and industry risk in our banking industry country risk assessment (BICRA) for Germany, as well as the negative outlook on VW AG and additional COVID-19-related pressures on VW Bank's risk exposures and risk-adjusted profitability.

PRIMARY CREDIT ANALYST

Harm Semder
Frankfurt
(49) 69-33-999-158
harm.semder
@spglobal.com

SECONDARY CONTACT

Heiko Verhaag, CFA, FRM
Frankfurt
(49) 69-33-999-215
heiko.verhaag
@spglobal.com

Rating Action

On March 26, 2020, S&P Global Ratings affirmed the long- and short-term issuer credit ratings on Volkswagen Bank GmbH (VW Bank) at 'A-/A-2'. The outlook remains negative.

Rationale

Our ratings affirmation follows our outlook revision to negative on German Volkswagen AG (VW AG), reflecting rapidly declining auto demand globally, and risk of extended production shutdowns beyond two weeks (see VW AG RU published xxx). We believe that the fortunes of VW Bank are related to the Volkswagen group. VW Bank hosts almost all European banking activities for VW Group that are under the authority of the European Central Bank (ECB), and its core strategic business position and franchise reflects its position as a fully-owned subsidiary of Volkswagen AG. Currently, VW Bank has one-notch higher creditworthiness and is an insulated group subsidiary, but we believe that a widening of the rating gap to its parent is less likely considering the reputational and organisational interconnectedness.

We also believe that VW Bank's risk exposures and risk-adjusted profitability are pressured further by the rapid spread of COVID-19 and the sudden halt of the global economy, which has led us to revise our GDP forecast for the eurozone to between minus 0.5% and minus 1.0% in 2020. We expect that this will also affect the German economy and likely lead to rising loan loss provisions for German banks over 2020.

At the same time, we believe that VW Bank is entering the recession from a position of strength given its superior capitalization and solid revenue generation compared to most European peers. This also mitigates its dependence on the parent's constrained automotive sales capability. We forecast, for example, that the bank's risk adjusted capital (RAC), our main capital indicator, will remain resilient at about 20% in the coming years, which is very high compared to international bank peers. We forecast that VW Bank's financial results will deteriorate in the difficult 2020 environment, but we do not expect this decrease to be structural or to impair the bank's strong capitalization. We base this on our view of VW Bank's sound risk management, highly collateralized position in auto loans, and expected sweeping counterbalancing regulatory and government actions to support the German economy and other European economies in which VW Bank operates.

We also see as pivotal that VW Bank continues to benefit from its access to granular and stable customer deposits. We view VW Bank as much less dependent than its captive finance peers on confidence-sensitive wholesale funding markets--this differentiates it from its captive finance peers. We also observe the stability in VW Banks' deposit funding since COVID-19 started to spread, which so far mitigates our general observation that direct-banking-generated customer deposits are typically more price sensitive and less stable than those of large retail banking networks, such as the German savings banks or the cooperative sector. We also note VW Bank's sound regulatory standing, and our funding and liquidity ratios; we understand that VW Bank has no major expensive wholesale funding needs in 2020, and would also benefit from widespread central bank support.

Outlook

The negative outlook on VW Bank reflects the possibility of a downgrade over the next two years, mirroring our negative trends for economic and industry risk in our BICRA on Germany. It also reflects our negative outlook on VW AG, and additional pressures from COVID-19 on VW Bank's risk exposures and risk-adjusted profitability. Moreover, VW Bank has yet not fully finalized its strategic reorganization within the Volkswagen AG (VW) group, under which it has much larger core businesses. VW Bank now manages VW's European banking activities, which could entail greater economic risks outside German markets. Nevertheless, we currently consider the rating on VW to be a floor for our rating on VW Bank, as long as the bank remains a core subsidiary.

Downside scenario

We could lower our 'A-' issue credit rating on VW Bank, as well as the issue ratings on the bank's senior preferred debt, senior subordinated debt, and regulatory capital instruments if VW Bank's anchor were to deteriorate to 'bbb+' from 'a-', if we were to downgrade Volkswagen AG, or we saw idiosyncratic risk from COVID-19 pressures that stood to weaken VW Bank's stand-alone creditworthiness.

Upside scenario

We could revise our outlook to stable over the next 24 months if we saw stable economic and industry risk trends for the German banking industry, if our ratings on Volkswagen AG stabilized, and if we saw successful regulatory and government action to stabilize borrowers and the domestic economy against COVID-19 effects over the coming months. At the same time, any rating upside would involve VW Bank demonstrating the strength of its restructured European business model and maintaining superior capitalization to buffer risks.

Ratings Score Snapshot

Issuer Credit Rating: A-/Negative

- SACP: a-
- Anchor: a-

Business Position: Weak (-2)

Capital and Earnings: Very Strong (+2)

- Risk Position: Adequate (0)
- Funding and: Average (0)
- Liquidity: Adequate

Support 0

- ALAC Support 0

Additional Factors 0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Automaker Volkswagen Outlook Revised To Negative On Weaker Revenue Prospects Due To COVID-19; Affirmed At 'BBB+/A-2', March 26, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020
- Outlooks On Various German Banks Revised To Negative On Rising Banking Sector Risks; Ratings Affirmed, Sept. 18, 2019
- Volkswagen Bank GmbH, Dec. 12, 2019

Ratings List

Ratings Affirmed

Volkswagen Bank GmbH

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

Volkswagen Bank GmbH

Senior Subordinated	BBB+
---------------------	------

Commercial Paper	A-2
------------------	-----

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2020 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.