

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

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 of 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 responsibility for developing the group's growing mobility services.

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. The financed portfolio not only includes new cars from VW-brands but also an increasing number of foreign brands and used cars. 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 strong earnings contribution with a net IFRS result of €2.2 billion in 2021 and its size, with total assets of €127.6 billion at June 30, 2022, of which 90% relate to customer loans and receivables and leased assets.

The company's strong geographical diversification should ensure relatively stable income, while 2022 results will again 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 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 is still benefitting from the 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 now normalize over 2023. The direct implication from the war in Ukraine, through its Russian subsidiary OOO Volkswagen Bank RUS (not rated), are marginal but current economic uncertainty and inflationary environment pose a threat for consumer sentiment and car demand in 2023.

VW FS' asset quality should prove relatively resilient. VW FS navigated the pandemic years 2020 and 2021 with costs of risk of 75 bps and 15 bps, respectively. Given the range of economic uncertainties in its relevant markets over 2022, it built material provisions in the first half, amounting to 1.1% of average customer loans. Nevertheless, we expect elevated collateral values will continue to support VW FS's asset quality and financial performance over 2022. Despite the increased cost of risk, VW FS' strong operating performance can easily absorb these costs such that it will again post extraordinarily strong net income over 2022.

In an unlikely scenario where materially rising credit costs and lower revenues lead to a net loss, we take a positive view of 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 because 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 prices constitute structural weaknesses, in our view. The 28% 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. The funding profile also exposes VW FS to the increased financing rates in capital markets. 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 for VW FS is not assured.

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., Volkswagen Leasing GmbH, and Volkswagen Financial Services Polska SP. Z O.O.

Table 1

Volkswagen Financial Services AG--Key Figures					
	--Year ended Dec. 31--				
(Mil. €)	H1 2022	2021	2020	2019	2018
Adjusted assets	127,483.0	124,477.0	117,753.0	112,353.0	80,398.0
Customer loans (gross)	82,604.0	81,586.0	79,854.0	80,371.0	60,301.0
Adjusted common equity	15,288.0	13,522.0	11,930.0	11,205.0	7,277.0
Operating revenues	3,477.0	5,427.0	3,708.0	3,564.0	2,672.0
Noninterest expenses	1,275.0	2,300.0	2,071.0	2,006.0	1,620.0
Core earnings	1,335.0	2,227.0	806.0	890.0	549.3

H1--First half.

Table 2

Volkswagen Financial Services AG--Business Position					
	--Year ended Dec. 31--				
(%)	H1 2022	2021	2020	2019	2018
Total revenues from business line (currency in millions)	3,477.0	5,427.0	3,708.0	3,564.0	2,672.0
Insurance activities/total revenues from business line	2.2	2.9	4.2	4.3	5.5
Other revenues/total revenues from business line	97.8	97.1	95.8	95.7	94.5
Return on average common equity	17.5	16.4	6.5	8.9	7.0

H1--First half.

Table 3

Volkswagen Financial Services AG--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	H1 2022	2021	2020	2019	2018
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	74.2	73.5	73.2	75.5	64.8
Fee income/operating revenues	(0.2)	3.5	2.4	3.5	8.2
Market-sensitive income/operating revenues	17.2	3.2	(7.8)	(4.0)	(3.2)
Cost to income ratio	36.7	42.4	55.9	56.3	60.6

Table 3

Volkswagen Financial Services AG--Capital And Earnings (cont.)					
	--Year ended Dec. 31--				
(%)	H1 2022	2021	2020	2019	2018
Preprovision operating income/average assets	3.5	2.6	1.4	1.6	1.4
Core earnings/average managed assets	2.1	1.8	0.7	0.9	0.7

Table 4

Volkswagen Financial Services AG--Risk Position					
	--Year ended Dec. 31--				
(%)	H1 2022	2021	2020	2019	2018
Growth in customer loans	2.5	2.2	(0.6)	33.3	16.8
Total managed assets/adjusted common equity (x)	8.4	9.2	9.9	10.0	11.1
New loan loss provisions/average customer loans	1.1	0.2	0.7	0.4	0.4
Net charge-offs/average customer loans	N.M.	0.1	0.2	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.4	1.4	1.5	1.2	1.6
Loan loss reserves/gross nonperforming assets	N/A	110.5	102.6	122.2	137.0

H1--First half. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Volkswagen Financial Services AG--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	H1 2022	2021	2020	2019	2018
Core deposits/funding base	0.0	0.0	0.0	0.0	0.1
Customer loans (net)/customer deposits	N.M.	N.M.	N.M.	N.M.	78,682.7
Long-term funding ratio	75.5	75.9	74.0	73.0	75.5
Stable funding ratio	74.8	76.6	74.6	72.9	74.9
Short-term wholesale funding/funding base	28.3	27.4	29.3	30.3	27.3
Broad liquid assets/short-term wholesale funding (x)	0.1	0.2	0.2	0.1	0.1
Broad liquid assets/total assets	3.3	4.9	4.0	3.0	3.2
Broad liquid assets/customer deposits	N.M.	N.M.	N.M.	N.M.	3,396.3
Net broad liquid assets/short-term customer deposits	N.M.	(201.8)	(260.4)	(244.8)	(189.3)
Short-term wholesale funding/total wholesale funding	28.3	27.4	29.3	30.3	27.3
Narrow liquid assets/3-month wholesale funding (x)	0.4	0.7	0.5	0.5	0.5

H1--First half. 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, March 2, 2022
- 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

- Research Update: Volkswagen AG 'BBB+/A-2' Ratings Affirmed On Balance Sheet's Strength Against Operating Headwinds; Outlook Stable, Oct. 12, 2022
- Geopolitical Risks Add Headwinds For German Banks, Despite Robust Capitalization, July 19, 2022
- Volkswagen AG, Feb. 2, 2022
- Banking Industry Country Risk Assessment: Germany, Oct. 5, 2021
- Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress, June 24, 2021

Ratings Detail (As Of November 23, 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	brAAA/Stable/--
<i>Brazil National Scale</i>	

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

Issuer Credit Rating	mxAA+/Stable/mxA-1+
<i>CaVal (Mexico) National Scale</i>	
Senior Unsecured	mxAA+
<i>CaVal (Mexico) National Scale</i>	
Short-Term Debt	mxA-1+
<i>CaVal (Mexico) National Scale</i>	

Scania AB (publ.)

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

Ratings Detail (As Of November 23, 2022)*(cont.)

TRATON SE

Issuer Credit Rating	BBB/Stable/--
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Volkswagen AG

Issuer Credit Rating	BBB+/Stable/A-2
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Volkswagen Bank GmbH

Issuer Credit Rating	BBB+/Stable/A-2
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Commercial Paper	
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Local Currency	A-2
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Senior Subordinated	BBB
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Senior Unsecured	BBB+
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Short-Term Debt	A-2
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Volkswagen Finans Sverige AB

Issuer Credit Rating	
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Nordic Regional Scale	--/--/K-1
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Volkswagen International Belgium S.A.

Issuer Credit Rating	BBB+/Stable/A-2
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Commercial Paper	
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Local Currency	A-2
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Volkswagen Leasing S.A. de C.V.

Senior Secured	
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CaVal (Mexico) National Scale	mxAAA
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*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.

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