

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms A3 long-term issuer and senior unsecured debt ratings of VW Financial Services AG and its guaranteed subsidiaries, outlook stable

01 Jul 2024

Frankfurt am Main, July 01, 2024 -- Moody's Ratings (Moody's) has today taken several rating actions on Volkswagen Financial Services AG (VW FS AG) and its guaranteed subsidiaries due to the reorganization [1] of the captive finance activities of Volkswagen Aktiengesellschaft (Volkswagen, issuer rating A3 stable).

The rating actions include:

- VW FS AG: Affirmation of the A3 long-term issuer and senior unsecured debt ratings, of the P-2 domestic-currency commercial paper rating under its to be retired €7.5 billion program and assignment of a P-2 domestic-currency commercial paper rating to its new €2.5 billion commercial paper program. The issuer outlook remains stable. Further, withdrawal of VW FS AG's domestic (P)A3 senior unsecured MTN program rating.
- As part of the reorganization, Volkswagen Financial Services Europe AG (VW FS Europe, issuer rating A3 stable) has become the principal debtor in respect of all obligations arising from or in connection with the notes issued by VW FS AG and its debts will be transferred accordingly.
- VW FS AG will, following the reorganization of Volkswagen's captive finance operations, be renamed to Volkswagen Financial Services Overseas AG.
- Volkswagen Financial Services Australia Pty Ltd: Affirmation of the A3 backed domestic-currency senior unsecured debt rating, of its backed domestic-currency (P)A3 senior unsecured MTN program rating, as well as of its backed domestic other short-term program rating of (P)P-2. The issuer outlook remains stable. Further, withdrawal of the backed foreign-currency (P)A3 senior unsecured medium-term note program rating and the backed foreign-currency P-2 commercial paper rating.

- Volkswagen Financial Services Japan Ltd.: Affirmation of the A3 backed domestic-currency senior unsecured debt rating and of its backed P-2 domestic-currency commercial paper rating. The issuer outlook remains stable. Finally, withdrawal of its backed foreign-currency (P)A3 senior unsecured MTN program rating as well as its backed foreign-currency (P)P-2 other short-term program rating.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

---ORGANISATIONAL CHANGES WITHIN VOLKSWAGEN'S FINANCIAL SERVICES OPERATIONS

Effective 1 July 2024, Volkswagen reorganised its financial services operations to streamline its regulatory and organisational structure. As part of the reorganisation, the current VW FS AG will primarily focus on the non-European and non-UK bank and non-bank activities in Asia-Pacific and Latin America and deconsolidate or transfer most of its holdings to VW FS Europe, the newly formed EU parent financial holding company of Volkswagen's captive finance operations.

As a result of the deconsolidation and various asset, liability and share transfers, VW FS AG's balance sheet size will shrink to approximately €31 billion as of 1 July 2024, from €146.3 billion reported as of 31 December 2023.

Finally, under the new setup, VW FS AG will continue to benefit from a direct domination and profit and loss transfer agreement with Volkswagen.

--- UNCHANGED STANDALONE ASSESSMENT AND LONG-TERM RATINGS

VW FS AG remains rated under our Finance Companies Methodology. Under this methodology, we take into account both the standalone credit profile of VW FS AG and the implicit and explicit support commitment from its sole owner, Volkswagen.

VW FS AG's unchanged standalone assessment of ba2 reflects its exposure to more volatile economies in Latin America, such as Brazil or Mexico as well as its concentration to the Chinese market. The ba2 standalone assessment further reflects the entity's anticipated capitalisation under the new setup, its moderate exposure to residual value risks owing to its high share of retail and dealer lending arrangements, and its very high dependence on confidence-sensitive capital market funding for the refinancing of its lending and leasing operations.

The funding profile is highly dependent on confidence-sensitive funding sources such as asset-backed securities and wholesale funding. Each entity within VW FS AG typically uses the local market for refinancing and VW FS AG operates as the lender of last resort for the local entities in case of market disruptions. This leads to a more volatile funding mix depending on local market conditions, yet refinancing risk is somewhat mitigated by the a largely matched asset and liability profile as well as

access to committed bilateral credit lines from the parent or larger international banking groups.

We believe that the reorganisation has not altered Volkswagen's willingness to fully back its captive finance subsidiaries if needed, including the now much smaller VW FS AG. This assessment continues to lead to five notches of rating uplift from the ba2 standalone assessment to the A3 senior unsecured debt and long-term issuer ratings - in line with the parent's issuer rating - and takes into account both the strategic importance of VW FS AG for the distribution of Volkswagen vehicles and the formal commitment of Volkswagen through a long-term control and profit-and-loss transfer agreement.

RATIONALE FOR THE STABLE OUTLOOKS

The stable issuer outlooks reflect the stable outlook on the parent Volkswagen and incorporate our assessment of the existing long-term control and profit and loss transfer agreement between VW FS AG and its parent, as well as the captive's importance to the carmaker's sales success and the resulting strong economic and business ties.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

VW FS AG's ratings could be upgraded following an upgrade of Volkswagen's rating.

VW FS AG's ratings could be downgraded if Volkswagen's ratings were downgraded. Although unlikely at present, a downgrade of VW FS AG's ratings could also be triggered if Volkswagen were to loosen its ties with its financial services subsidiary. This loosening could lead to a lowering of our support assumption for VW FS AG and a downgrade of the company's ratings to a level below the parent's issuer ratings.

VW FS AG's ba2 standalone assessment could be downgraded following an unexpected erosion of the company's capital base or if the company's asset quality declines significantly, particularly if associated with a meaningful deterioration of macroeconomic conditions in the countries of operation leading to tighter disposable income or higher unemployment. The standalone assessment could also be downgraded if there is an extended mismatch of VW FS AG's confidence-sensitive wholesale funding with that of the company's lease and lending assets.

VW FS AG'S ba2 standalone assessment could be upgraded if it displays a solid asset quality through the cycle, improves its capitalisation or reduces its dependence on more confidence-sensitive market funding.

However, a change in VW FS AG's standalone assessment will, in the absence of changes to Volkswagen's ratings and/or support probability, not lead to changes in the captive's ratings.

LIST OF AFFECTED RATINGS

..Issuer: Volkswagen Financial Services AG

Outlook Actions:

....Outlook, Remains Stable

Assignments:

... Commercial Paper (Local Currency), Assigned P-2

Affirmations:

... LT Issuer Rating (Foreign Currency), Affirmed A3

... LT Issuer Rating (Local Currency), Affirmed A3

... Commercial Paper (Local Currency), Affirmed P-2

... Senior Unsecured (Local Currency), Affirmed A3

Withdrawals:

... Senior Unsecured Medium-Term Note Program (Local Currency), Withdrawn , previously rated (P)A3

..Issuer: Volkswagen Finan. Services Australia Pty Ltd

Outlook Actions:

....Outlook, Remains Stable

Affirmations:

... Backed Other Short Term (Local Currency), Affirmed (P)P-2

... Backed Senior Unsecured Medium-Term Note Program (Local Currency), Affirmed (P)A3

... Backed Senior Unsecured (Local Currency), Affirmed A3

Withdrawals:

... Backed Commercial Paper (Foreign Currency), Withdrawn , previously rated P-2

... Backed Senior Unsecured Medium-Term Note Program (Foreign Currency), Withdrawn , previously rated (P)A3

..Issuer: Volkswagen Financial Services Japan Ltd.

Outlook Actions:

...Outlook, Remains Stable

Affirmations:

... Backed Commercial Paper (Local Currency), Affirmed P-2

... Backed Senior Unsecured (Local Currency), Affirmed A3

Withdrawals:

... Backed Other Short Term (Foreign Currency), Withdrawn , previously rated (P)P-2

... Backed Senior Unsecured Medium-Term Note Program (Foreign Currency), Withdrawn , previously rated (P)A3

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Finance Companies Methodology published in November 2019 and available at <https://ratings.moodys.com/rmc-documents/65543>, and Captive Finance Subsidiaries of Nonfinancial Corporations published in August 2019 and available at <https://ratings.moodys.com/rmc-documents/63561>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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REFERENCES/CITATIONS

[1] Company announcement 18 June 2024: <https://www.luxse.com/pdf-viewer/104236808>

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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