

Volkswagen Financial Services AG

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Volkswagen Financial Services AG

Credit Highlights

Issuer Credit Rating

BBB+/Stable/A-2

Overview

Key strengths	Key risks
Likely support from the parent, Volkswagen AG (VW), under all foreseeable circumstances if necessary.	Dependence on VW's franchise and credit profile.
Broad geographical diversification globally.	Business concentration on car financing and related services.
Sound financial risk profile with stable earnings.	Investor 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 group because it promotes the sale of VW's products by providing financial services and generating income through related services. We do not expect this role will change in the foreseeable future but rather be supported by the important role of promoting the sale of electric vehicles, a clear focus for the group.

VW FS currently conducts almost all the group's financial and mobility activities that are not subject to European banking regulations. While Volkswagen Bank GmbH (VW Bank, BBB+/Stable/A-2) conducts activities that fall under the European Central Bank's (ECB's) supervision, VW FS's activities include international banking and European non-ECB regulated businesses. Its product offering comprises 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, parking, refueling, and charging, which underline VW FS's ambition to expand its offering beyond typical captive finance activities and strengthen its role as a mobility services provider. VW FS's relevance to its parent is underlined by its strong earnings contribution. VW FS had a net IFRS result of €1.8 billion in 2022 and total assets of €138.2 billion as at June 30, 2023, 91% of which related to customer loans, receivables, and leased assets.

VW's reorganization plan will not dilute VW FS's strategic importance. VW's plan to combine most of its European captive finance activities, including VW Bank and Volkswagen Leasing GmbH, under a new ECB-regulated entity by mid-2024 will likely not change the strategic role of captive activities within the group. The new organizational structure will enable VW to use VW Bank's deposit franchise to fund its anticipated strong growth in the financial services business in Europe and its mobility strategy. After the reorganization, VW FS will consolidate non-European business activities outside of the ECB-regulated perimeter. We assume that the enlarged European captive entity will be able to meet the ECB's capital requirement on a consolidated basis. It will manage the additional capital

requirement either on its own, for example through earnings retention, or through capital injections from VW, on the basis of capital shifts within the financial division of the group. We also assume that VW FS will build a large enough capital buffer to cover the likely increase in residual value risk resulting from the more concerted move toward leasing. We understand that the dialog with the Single Resolution Board on the resolution strategy and the potential minimum requirement for own funds and eligible liabilities (MREL) is still ongoing. We also understand that existing domination and profit-and-loss transfer agreements will be transferred between VW Bank GmbH and VW FS Europe AG since VW Bank GmbH will become a subsidiary of VW Financial Services AG.

VW FS's strong geographical diversification should ensure relatively stable income. In our view, VW FS's main strength is its high integration into VW's value chain and its broad geographical diversification globally. This ensures a comparably stable income through the cycle, even though the income depends on VW's sales volume and reputation, as well as residual values. As such, VW FS's creditworthiness is closely tied to that of its parent, making its default risk largely indistinguishable from that of VW, despite its annuity-like interest income. We expect VW FS's financial performance will continue normalizing over 2023-2024, with an expected net income of about €1 billion after extraordinarily strong results in 2021 and 2022 that were triggered by high used car prices, which benefited residual values.

VW FS's asset quality should prove relatively resilient. VW FS managed to keep the cost of risk at 42 basis points (bps) in the first half of 2023, after 83 bps in 2022 because of increased economic uncertainties. We expect VW FS's asset quality will remain solid, with cost of risk of about 50 bps. In the unlikely scenario of a net loss because of materially rising credit costs and lower revenues, we take a positive view of VW FS's domination and profit-and-loss transfer agreement with VW. The agreement essentially transfers VW FS's results under German generally accepted accounting principles (HGB) to VW. Although this is not comparable with a full and timely guarantee, it underlines VW's commitment to VW FS because VW would absorb VW FS's losses if necessary.

VW FS's continuing challenge consists of attracting sufficient wholesale funds to support growth at reasonable costs. VW FS's funding profile is prudently managed and diversified across instruments and investors. However, the degree of wholesale funding and its dependence on sufficient wholesale funds at reasonable prices constitute structural weaknesses, in our view. The 29% share of short-term wholesale funding--composed of liabilities to banks, commercial paper, and bond maturities within one year--and the low share of liquid assets in relation to this short-term funding underline VW FS's sensitivity to investor confidence. The funding profile also exposes VW FS to the increased financing rates in capital markets following rate hikes. In addition to ongoing funding support, we expect other VW entities will provide funding and liquidity support if necessary.

Outlook

Our stable outlook on VW FS mirrors that on its parent VW. We will assess any effects from the reorganization of captive finance activities when more details become available. Any potential rating action on VW over the next 12-24 months would result in a similar rating action on VW FS.

Downside scenario

Although unlikely, we could 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 VW. This could happen if VW materially reduces its ownership of VW FS or if the captive finance operations are no longer crucial for the group's global strategy.

Upside scenario

We would upgrade VW FS if we were to upgrade VW.

Rated Subsidiaries

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

Rated Debt

We rate VW FS's 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 2023	2022	2021	2020	2019
Adjusted assets	138,105	133,236	124,477	117,753	112,353
Customer loans (gross)	89,501	88,276	81,586	79,854	80,371
Adjusted common equity	17,324	16,821	13,522	11,930	11,205
Operating revenues	2,293	6,181	5,427	3,708	3,564
Noninterest expenses	1,310	2,476	2,300	2,071	2,006
Core earnings	526	1,819	2,227	806	890

H1--First half.

Table 2

Volkswagen Financial Services AG--Business position					
	--Year ended Dec. 31--				
(%)	H1 2023	2022	2021	2020	2019
Total revenues from business line (currency in millions)	2,293.0	6,181.0	5,427.0	3,708.0	3,564.0
Insurance activities/total revenues from business line	3.5	2.3	2.9	4.2	4.3
Other revenues/total revenues from business line	96.5	97.7	97.1	95.8	95.7
Return on average common equity	5.9	11.3	16.4	6.5	8.9

H1--First half.

Table 3

Volkswagen Financial Services AG--Capital and earnings					
	--Year ended Dec. 31--				
(%)	H1 2023	2022	2021	2020	2019
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	88.1	76.2	73.5	73.2	75.5
Fee income/operating revenues	1.0	2.9	3.5	2.4	3.5
Market-sensitive income/operating revenues	-4.6	7.8	3.2	-7.8	-4.0
Cost to income ratio	57.1	40.1	42.4	55.9	56.3
Preprovision operating income/average assets	1.4	2.9	2.6	1.4	1.6
Core earnings/average managed assets	0.8	1.4	1.8	0.7	0.9

H1--First half.

Table 4

Volkswagen Financial Services AG--Risk position							
	--Year ended Dec. 31--						
(%)	H1 2023	2022	2021	2020	2019	2018	
Growth in customer loans		2.8	8.2	2.2	-0.6	33.3	16.8
Total managed assets/adjusted common equity (x)		8.0	7.9	9.2	9.9	10.0	11.1
New loan loss provisions/average customer loans		0.4	0.8	0.2	0.7	0.4	0.4
Net charge-offs/average customer loans		N.M.	0.2	0.1	0.2	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned		1.3	1.3	1.4	1.5	1.2	1.6
Loan loss reserves/gross nonperforming assets		N/A	119.1	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 2023	2022	2021	2020	2019
Core deposits/funding base	0.0	0.0	0.0	0.0	0.0
Long-term funding ratio	74.8	74.8	75.9	74.0	73.0
Stable funding ratio	73.2	73.2	76.6	74.6	72.9
Short-term wholesale funding/funding base	29.3	29.3	27.4	29.3	30.3
Broad liquid assets/short-term wholesale funding (x)	0.1	0.1	0.2	0.2	0.1

Table 5

Volkswagen Financial Services AG--Funding and liquidity (cont.)					
--Year ended Dec. 31--					
(%)	H1 2023	2022	2021	2020	2019
Broad liquid assets/total assets	2.9	3.1	4.9	4.0	3.0
Net broad liquid assets/short-term customer deposits	N.M.	-215.5	-201.8	-260.4	-244.8
Short-term wholesale funding/total wholesale funding	29.3	29.3	27.4	29.3	30.3
Narrow liquid assets/3-month wholesale funding (x)	0.4	0.4	0.7	0.5	0.5

H1--First half. N.M.--Not meaningful.

Related Criteria

- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Volkswagen 'BBB+/A-2' Ratings Off UCO; Affirmed Following Implementation Of New Captive Finance Criteria; Outlook Stable, Nov. 1, 2023
- Tear Sheet: Volkswagen AG, Aug. 9, 2023
- The Reorganization Of Volkswagen AG's Captive Finance Activities Will Not Dilute Their Intrinsic Strength, March 2, 2023
- Volkswagen AG, Feb. 21, 2023
- Banking Industry Country Risk Assessment: Germany, June 6, 2023

Ratings Detail (As Of November 7, 2023)*

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+

Ratings Detail (As Of November 7, 2023)*(cont.)

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+

Senior Unsecured

CaVal (Mexico) National Scale

mxAA+

Short-Term Debt

CaVal (Mexico) National Scale

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/A-2

Volkswagen AG

Issuer Credit Rating

BBB+/Stable/A-2

Volkswagen Bank GmbH

Issuer Credit Rating

BBB+/Stable/A-2

Commercial Paper

Local Currency

A-2

Senior Subordinated

BBB

Senior Unsecured

BBB+

Short-Term Debt

A-2

Volkswagen Financial Services Polska SP. Z O.O.

Senior Unsecured

A-2

Volkswagen Finans Sverige AB

Issuer Credit Rating

Nordic Regional Scale

--/--/K-1

Volkswagen International Belgium S.A.

Issuer Credit Rating

BBB+/Stable/A-2

Volkswagen Leasing S.A. de C.V.

Senior Secured

CaVal (Mexico) National Scale

mxAAA

Short-Term Debt

CaVal (Mexico) National Scale

mxA-1+

*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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