

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns first-time A3 long-term issuer ratings to Volkswagen Financial Services (Europe) AG, outlook stable

01 Jul 2024

Frankfurt am Main, July 01, 2024 -- Moody's Ratings (Moody's) has today assigned first-time A3 long-term issuer ratings to Volkswagen Financial Services (Europe) AG (VW FS Europe), the newly formed EU parent financial holding company of Volkswagen Aktiengesellschaft's (Volkswagen; long-term issuer rating A3 stable) captive finance operations. We further assigned a P-2 domestic-currency commercial paper rating to VW FS Europe's new €7.5 billion commercial paper program. We also assigned a stable issuer outlook to VW FS Europe.

Following the reorganization [1], VW FS Europe will be renamed to Volkswagen Financial Services AG.

At the same time, we have affirmed Volkswagen Financial Services N.V.'s (VW FS NV) A3 backed senior unsecured debt ratings, as well as its backed domestic-currency P-2 commercial paper rating. We have further assigned a backed domestic-currency P-2 commercial paper rating to VW FS NV as well as affirmed and assigned a backed domestic-currency P-2 commercial paper rating at or to SkoFIN s.r.o., respectively. The issuer outlook of VW FS NV remains stable.

At the same time, we have withdrawn VW FS NV's to be retired backed domestic (P)A3 senior unsecured MTN program rating.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 has reorganised its financial services operations to streamline its regulatory and organisational structure, with its European and UK banking and leasing operations, which also include insurance and mobility services,

now consolidated under the umbrella of VW FS Europe. This new EU parent financial holding company holds total assets of approximately €180 billion and was formed by the transfer of ownership of VW Bank GmbH (VW Bank, long-term issuer ratings A1 stable) to VW FS Europe. As of 1 July 2024, all shares of VW Leasing GmbH (backed senior unsecured debt rating A1 stable) have also been taken up by VW Bank. In addition, a newly formed subholding under VW FS Europe, Volkswagen Finance Europe B.V., will consolidate most of the carmaker's captive finance operations in the UK, Scandinavia as well as Central and Eastern Europe (CEE), in addition to the existing guaranteed refinancing vehicles Volkswagen Financial Services N.V. and SkoFIN s.r.o., both of which have been moved under VW FS Europe.

Under the new setup, VW FS Europe will benefit from a direct domination and profit and loss transfer agreement with Volkswagen and will become subject to ECB supervision as the superordinate EU parent financial holding company, which is responsible for compliance with the provisions of the CRR for the financial holding group.

---ASSIGNMENT OF LONG-TERM RATINGS

In light of the holding company's strong focus on leasing and other non-banking activities such as mobility services and insurance, in addition to the banking and leasing businesses conducted under VW Bank, we apply the Finance Companies Methodology to VW FS Europe's ratings. Under this methodology, we take into account both the standalone credit profile of VW FS Europe and the implicit and explicit support commitment from its sole owner, Volkswagen.

VW FS Europe's standalone assessment of ba1 reflects its elevated exposure to residual value risks - particularly in Germany and in the UK, which is mitigated by its anticipated solid capitalisation under the new setup and its geographically diversified funding profile, displaying access to a wide range of funding sources. It also includes a one-notch negative qualitative adjustment for Opacity & Complexity, reflecting execution risks under the new construct as well as the entity's limited financial track record.

Its funding profile benefits from VW Bank's strong, diversified and granular deposit franchise which has proven to be a reliable and sufficiently flexible funding source, despite strong competition. This partly mitigates VW FS Europe's dependence on more confidence-sensitive funding sources such as asset-backed securities and medium-term wholesale funding.

In our view, the reorganisation has not altered Volkswagen's willingness to fully back its captive finance subsidiaries if needed. This assessment leads to four notches of rating uplift from the ba1 standalone assessment to the A3 long-term issuer ratings - in line with the parent's issuer rating - and takes into account both the strategic importance of VW FS Europe for the distribution of Volkswagen vehicles and the formal commitment of Volkswagen through a long-term control and profit-and-loss

transfer agreement.

The assigned ratings also incorporate VW FS Europe's environmental, social and governance (ESG) considerations under our ESG framework. We view VW FS Europe's exposure to governance risks as low, reflected in a governance issuer profile score (IPS) of G-2, supported by the firm's overall solid credit fundamentals, an experienced management team from within the financial services activities of Volkswagen and despite execution risks in relation to the ongoing reorganization as well as limited financial history in the company's new set-up. As a result, its credit impact score is CIS-2, indicating that ESG factors have no impact on the rating.

AFFIRMATION OF VW FS NV'S AND SKOFIN'S RATINGS

The affirmation of VW FS NV's and SkoFIN's ratings reflects the entities' legal transfer to VW FS Europe. Following this transfer, VW FS Europe will become the guarantor of these entities' issued long- and short-term debt and related programs, effectively allowing us to align the entities' backed long- and short-term ratings with those of VW FS Europe.

RATIONALE FOR THE STABLE ISSUER OUTLOOKS

The stable issuer outlooks for VW FS Europe and VW FS NV 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 Europe 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 Europe's and its guaranteed subsidiaries' ratings could be upgraded following an upgrade of Volkswagen's rating.

VW FS Europe's and its guaranteed subsidiaries' ratings could be downgraded if Volkswagen's ratings were downgraded. A downgrade of VW FS Europe's and its guaranteed subsidiaries' 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 Europe and a downgrade of the associated ratings to a level below the parent's issuer ratings.

VW FS Europe's ba1 standalone assessment could be downgraded following an unexpected erosion of the company's capital base or if its asset quality declines significantly, particularly if associated with residual value losses on lease assets leading to meaningfully higher lease asset depreciation. The standalone assessment could also be downgraded if there is a higher-than-expected increase in the volume of confidence-sensitive wholesale funding or an extended mismatch with the company's lease and lending assets.

In turn, the ba1 standalone assessment could be upgraded if VW FS Europe manages to sustain asset risks and keep contained loan loss charges or residual value impairments through the cycle, if it improves its capitalisation to levels well above our current expectations, or if it meaningfully lowers its dependence on confidence-sensitive wholesale funding. The standalone assessment could also be upgraded if the reorganization gets implemented as planned and within the entity's financial targets.

However, a change in VW FS Europe's standalone assessment without a change in our assessment of Volkswagen's willingness and ability to support VW FS Europe would not affect the captive's ratings.

LIST OF AFFECTED RATINGS

..Issuer: Volkswagen Financial Services (Europe) AG

Outlook Actions:

....Outlook, Assigned Stable

Assignments:

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

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

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

..Issuer: SkoFIN s.r.o.

Outlook: NOO

Assignments:

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

Affirmations:

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

..Issuer: Volkswagen Financial Services N.V.

Outlook Actions:

....Outlook, Remains Stable

Assignments:

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

Affirmations:

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

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

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

Withdrawals:

... Backed Senior Unsecured Medium-Term Note Program (Local 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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

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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