

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Volkswagen Bank GmbH's A1 long-term deposit and issuer ratings and changes outlook to negative from stable

11 Oct 2024

Frankfurt am Main, October 11, 2024 -- Moody's Ratings (Moody's) has today affirmed the A1 long-term deposit and issuer ratings of Volkswagen Bank GmbH (VW Bank) and changed the outlook to negative from stable. Concurrently, we affirmed the bank's A3 junior senior unsecured debt rating, its Aa3/P-1 long- and short-term Counterparty Risk Ratings (CRRs), its P-1 short-term deposit and commercial paper ratings and its (P)P-1 other short term ratings. The bank's (P)A1 senior unsecured medium term note (MTN), (P)A3 junior senior unsecured MTN as well as its (P)Baa1 subordinate MTN program ratings have also been affirmed. Finally, we affirmed VW Bank's Aa3(cr)/P-1(cr) long- and short-term Counterparty Risk (CR) Assessment as well as its baa3 Baseline Credit Assessment (BCA) and a3 Adjusted BCA.

For Volkswagen Leasing GmbH (VW Leasing), which is consolidated under VW Bank, we affirmed the A1 backed senior unsecured debt and changed the outlook to negative from stable, as well as the A3 backed junior senior unsecured debt ratings.

The rating actions follow the affirmation of Volkswagen Aktiengesellschaft's (Volkswagen; the ultimate parent company of VW Bank) A3 issuer rating and an outlook change to negative from stable. For further details, please refer to the following press release: "Moody's Ratings changes Volkswagen's outlook to negative" (<https://ratings.moodys.com/ratings-news/430424>).

RATINGS RATIONALE

-- RATIONALE FOR THE BCA AFFIRMATION

The baa3 BCA reflects the entity's heightened asset risk and higher dependence on more confidence-sensitive market funding following this year's reorganisation. In particular, the baa3 BCA reflects additional direct residual value risks resulting from the fully consolidated subsidiary VW Leasing.

--RATIONALE FOR THE LONG-TERM RATINGS AFFIRMATION AND CHANGE IN

OUTLOOK TO NEGATIVE

The affirmation of VW Bank's long-term deposit and issuer ratings and VW Leasing's backed senior unsecured debt ratings with a negative outlook as well as of VW Bank's a3 Adjusted BCA follows the affirmation of Volkswagen's A3 long-term issuer rating and change in outlook to negative on 11 October 2024 and reflects our assessment of the very strong contractual and economic rationale for Volkswagen to support its financial services entities.

VW Bank is fully owned by Volkswagen Financial Services AG (VW FS, long-term issuer rating A3 negative), which, in turn, is fully owned by Volkswagen. Its automobile financing and other financing services are an integral part of the car manufacturer's business model and of strategic importance for the distribution of Volkswagen's vehicles. Further, a formal commitment through a control and profit-and-loss transfer agreement is in place, further supported by a hard letter of comfort from VW FS for the benefit of VW Bank.

The strength of the contractual and strategic links between VW FS and VW Bank results in an alignment of VW Bank's a3 Adjusted BCA with its parent's A3 long-term issuer rating, the latter being itself aligned with Volkswagen's A3 long-term issuer rating. VW Leasing similarly benefits from a direct profit and loss transfer agreement as well as a hard letter of comfort with VW Bank, effectively aligning its ratings and outlooks with that of VW Bank, where applicable.

--RATIONALE FOR THE NEGATIVE OUTLOOK

Owing to the intrinsic interlinkages of VW Bank and VW Leasing with its automotive parent through VW FS, its ratings are highly dependent on the creditworthiness of Volkswagen. Therefore, the negative outlook on the long-term deposit, issuer and senior unsecured debt ratings, where applicable, reflects the negative outlook on Volkswagen.

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

VW Bank's and VW Leasing's ratings could be upgraded in case of an upgrade of Volkswagen, or in case significant volumes of minimum requirements for own funds and eligible liabilities (MREL)-eligible bonds get issued, such that it reduces the loss severity of their various respective rating classes.

VW Bank's BCA could be upgraded if it manages to sustain asset risks and keep contained loan loss charges or residual value impairments through the cycle, or if the bank improves its capitalisation to levels above our current expectations.

VW Bank's and VW Leasing's ratings could be downgraded in case of a downgrade of Volkswagen, or in case the liability structure shifts towards non-bail-able liabilities,

such that it increases the loss severity of respective rating classes. A downgrade could also be triggered if Volkswagen were to loosen its ties with its bank subsidiary, leading to a lowering of our support assumption for VW Bank and a downgrade of the bank's Adjusted BCA to a level below the parent's issuer rating.

The bank's BCA could be downgraded if VW Bank's asset quality or capital metrics deteriorate to levels below our current expectations or if the bank becomes meaningfully more reliant on market funding in conjunction with a significantly lower liquidity buffer.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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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