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# Volkswagen Bank GmbH

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# Volkswagen Bank GmbH

| SACP | a- |
|---|---|

| | | |
|---|---|---|
| Anchor | a- | |
| Business Position | Weak | -2 |
| Capital and Earnings | Very Strong | +2 |
| Risk Position | Adequate | 0 |
| Funding | Average | 0 |
| Liquidity | Adequate | |

\+

| Support | 0 |
|---|---|
| ALAC Support | 0 |
| GRE Support | 0 |
| Group Support | 0 |
| Sovereign Support | 0 |

\+

| Additional Factors | 0 |
|---|---|

| Issuer Credit Rating |
|---|
| A-/Negative/A-2 |

## Major Rating Factors

| Strengths: | Weaknesses: |
|---|---|
| • Regulated bank status, hosting Volkswagen's European banking activities.<br>• Very strong capitalization and solid revenue generation ability.<br>• A stable retail deposit base. | • Dependence on the parent's sales capability.<br>• Concentration in financing related to volatile car sales.<br>• Limited geographic diversification. |

## Outlook: Negative

S&P Global Ratings' negative outlook on Germany-based Volkswagen Bank GmbH (VW Bank) incorporates a one-in-three possibility, within the next two years, that VW Bank's much enlarged core businesses, which host the European banking activities of global car manufacturer Volkswagen AG (VW; BBB+/Stable/A-2), could attract a higher share of greater economic risks outside German markets. If the bank's average economic risk exposures increase more than we currently anticipate, we would likely lower our long-term rating on VW Bank by one notch. We currently consider the rating on the parent to be a floor for our rating on VW Bank, as long as the bank remains a core subsidiary.

We could revise the outlook to stable if we anticipated that VW Bank's European banking activities and related economic risk would remain commensurate with the current rating, and the bank would maintain very strong capitalization to buffer risks.

## Rationale

Effective Sept. 1, 2017, the VW group's captive finance subsidiary Volkswagen Financial Services AG (VW FS) transferred its 100% ownership of VW Bank to VW. This is part of a strategic reorganization within VW group to consolidate, more efficiently manage, simplify, and better insulate VW's European banking activities that are under the authority of the European Central Bank (ECB).

The reorganization has materially increased VW Bank's European banking business, as represented by a total asset increase, initially, of 40% year-on-year to €79 billion as of year-end 2017. We estimate that total assets could then decrease by up to one-third until 2020, despite VW Bank's accelerated growth campaign. This is mainly because we currently expect its U.K. banking operations (about €18 billion in Dec. 2017) to be transferred to Volkswagen Financial Services AG (VW FS) following the U.K.'s exit from the EU.

The starting point for our ratings on VW Bank is its 'a-' anchor, which we base on our view of economic risks in countries where it mainly operates, combined with the intermediate industry risk we see for German banks. We took into account our base-case expectation that the share of very low economic risk exposures in Germany will increase materially over the next years, due to the strict legal reorganization at VW Bank to host VW's ECB-regulated EU banking businesses. We continue to assess VW Bank's business position as weak despite its increased regional diversity in European business. This is because we factor in its narrow operations from its core role as VW's captive finance company and its dependence on the fortunes of VW and the automotive cycles.

Given VW's commitment to high capital ratios in its EU banking business, we continue to expect that VW Bank will sustain a very strong capital and earnings position. We project that the bank's risk-adjusted capital (RAC) ratio will remain in the range of 21%-23% (before diversification) in the coming years. We view VW Bank's risk position as a neutral rating factor because we think that the bank's domestic and European auto loans and dealer financings are adequately captured in our RAC ratio, the auto loans are highly collateralized, and the bank's loss experience is in line with that of its peers. We believe that VW Bank maintains an average funding profile and adequate liquidity position that strongly benefit from the bank's substantial access to granular and stable customer deposits. This makes VW Bank less dependent than its captive finance peers on confidence-sensitive wholesale funding markets.

Our 'A-' long-term rating on VW Bank is on a par with its stand-alone creditworthiness. The rating is currently one notch higher than our 'BBB+' long-term rating on its parent VW, because we continue to assess VW Bank as insulated, in line with our group rating methodology. This assessment mainly reflects ring-fencing from its regulatory status as a bank and its independent funding prospects from the group. Although we generally view the bank's default risk as indistinguishable from that of its parent, we believe VW Bank's recent reorganization has strengthened the presence of regulatory restrictions regarding liquidity, capital, and funding that could prevent the subsidiary from supporting the group. As such, we believe that it would be able to stand on its own, operationally, in times of stress.

### Anchor: 'a-' reflects blended German economic risk

The 'a-' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of economic and industry risks in countries where VW Bank operates.

Germany's banking sector is in BICRA group '2' (on a 1-10 scale, with 1 representing the lowest risk). Our anchor for a commercial bank operating mainly in Germany is 'a-', based on an economic risk score of '1' (very low risk) and an industry risk score of '3' (intermediate risk). We view the economic risk trend in the German banking industry as stable and the industry risk trend as stable.

Our economic risk assessment reflects Germany's highly diversified and competitive economy, and we continue to expect that Germany's robust export-led economy will stay robust amid a broader European recovery over our forecast horizon until 2020. We believe that the impact of the U.K.'s decision to leave the EU (Brexit) is manageable and has only a limited negative effect for the German economy.

We believe that a nationwide credit-driven housing bubble is less likely in light of limited credit growth and historically favorable affordability ratios, which suggest house price undervaluation in Germany until through our forecast horizon to the end of 2020. We forecast that house price inflation will soften below 2% in 2019 and 2020 in line with expected GDP growth. This follows our estimate of about 4.6% in 2017 and 2018 amid favorable economic conditions, including robust economic fundamentals, strong national and international demand, tight housing supply in Germany's economic centers, a buoyant labor market, high net immigration, and low interest rates.

We continue to regard industry risk for German banks as intermediate, in line with that for many European banking industries. Banks benefit from Germany's extensive funding market, banks' domestic funding surpluses, and a material strengthening of banking regulation and supervision, given ongoing EU-wide regulatory harmonization and convergence under Basel III. Returns in the German banking industry have compared well with that in many European banking industries in recent years' due to continued low credit losses. However, we believe that low interest rates and high competition remain a drag on profitability, which is partly compensated banks' progress in measures to improve cost efficiency and fee generation.

We assess economic risk for VW Bank by analyzing the expected development of its weighted exposure at default from loans to nonbanks in each country where it operates. This includes our current base-case expectation that its U.K.-based banking operations will become non-ECB supervised business. We expect that about 40%-45% of VW Bank's lending will be in European countries with weaker economic risk conditions than Germany within the next few years. Our weighted economic risk score of '2' (low risk) for VW Bank is lower than that for a purely domestic institution. However, combined with our intermediate industry risk score of '3' for Germany, this does not lead to a lower anchor than for a pure domestic institution.

**Table 1**

**Volkswagen Bank GmbH Key Figures**

| | --Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. €)** | **2018*** | **2017** | **2016** | **2015** | **2014** |
| Adjusted assets | 84,235 | 78,699 | 56,295 | 49,163 | 42,901 |
| Customer loans (gross) | 75,427 | 71,424 | 47,684 | 42,709 | 38,857 |

**Table 1**

| Volkswagen Bank GmbH Key Figures (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Year-ended Dec. 31-- | | | | |
| **(Mil. €)** | **2018*** | **2017** | **2016** | **2015** | **2014** |
| Adjusted common equity | 11,368 | 11,232 | 7,077 | 4,966 | 4,798 |
| Operating revenues | 1,472 | 2,228 | 1,721 | 1,606 | 1,397 |
| Noninterest expenses | 802 | 1,363 | 1,015 | 960 | 816 |
| Core earnings | 407 | 671 | 482 | 418 | 310 |

*Data as of June 30.

### Business position: Weak, given the bank's role as a monoline European auto finance provider

We continue to regard VW Bank's business position as weak, due to the bank's focus on one activity--car financing--and its business model as a captive finance company. This approach is in line with our assessment of peer captive finance subsidiaries of European automotive groups. We note, however, the enlarged business opportunities stemming from VW Bank's increased European business diversity, its sharpened focus and efficiency measures from its reorganization as the VW group's EU bank, and a groupwide growth strategy bolstered by VW's commitment to good capitalization.

Because VW centralizes all European banking activities relevant to the ECB's authority under VW Bank, the bank's assets initially increased by 40% year on year to about €79 billion as of Dec. 31, 2017, mainly thanks to transfers from VW FS. Subsequently, however, total assets could decrease by up to one-third until 2020, despite the bank's accelerated growth campaign, mainly because U.K.-based banking operations would no longer be under the ECB's supervision after Brexit.

VW Bank's strategy remains fully aligned with that of its parent, by providing banking services and supporting vehicle sales across Europe, and promoting customer loyalty. This makes VW Bank reliant on the fortunes of its parent in terms of unit sales and brand recognition. That said, the emissions issue at VW revealed in September 2015 has so far had no meaningful impact on its business development. We believe that VW Bank's new financings will pick up over the next two years, owing to its larger European coverage and aligned growth campaign with VW. The inherently volatile nature of the automotive business constrains our assessment of VW Bank's business position. In our view, the bank's business focus as a captive finance company exposes it to Germany and a few other European countries. Consequently, we consider that the business model doesn't provide any major geographic diversification benefit. VW Bank's client base is diverse--consisting of individuals, corporations, and group dealers--but they all follow the same business cycle.

VW Bank's direct banking activities in Germany, with core customer deposits of €34 billion as of midyear 2018, in our view provide stability to the bank's business model, notably in terms of funding. Although we generally consider direct bank customer deposits to be more price sensitive and therefore less stable than those of large retail banks, VW Bank's deposit and customer base have, in our view, proven robust despite pricing adjustments. VW Bank provides retail customers with the entire product offering of a direct bank, and business customers with account and payment transaction services. It arranges mortgage loans and other long-term financing, as well as investments in funds and stock markets, in cooperation with partners. In our opinion, these complementary services provide no significant near-term diversification benefit, and we expect the bank will remain reliant on interest income, which generates about 90% of operating revenues.

We consider VW Bank's corporate strategy to be prudent, well executed, and focused on its core business, where it has demonstrated expertise. VW Bank's role is to support VW group's sales, create revenues, and raise funds for the VW group through customer deposits. We expect the bank will maintain its prudent underwriting criteria and conservative risk management, especially because of its presence in the ailing economies of southern Europe. The stability of its business model is apparent through its average five-year return on equity (ROE) of 7.3% (7.2% on June 30, 2018).

Upon the reorganization of VW FS and VW Bank on Sept. 1, 2017, VW FS' existing profit and loss transfer agreements, guarantees, and letters of comfort remained in place with respect to its maintained subsidiaries, and VW FS' profit and loss transfer agreement with VW Bank was transferred to VW.

**Table 2**

**Volkswagen Bank GmbH Business Position**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2018*** | **2017** | **2016** | **2015** | **2014** |
| Total revenues from business line (mil. €) | 1,472.0 | 2,312.0 | 1,721.0 | 1,606.0 | 1,397.0 |
| Commercial banking/total revenues from business line | 40.8 | 24.3 | 9.9 | 8.0 | 8.7 |
| Retail banking/total revenues from business line | 35.7 | 51.7 | 65.6 | 69.3 | 77.5 |
| Commercial & retail banking/total revenues from business line | 76.5 | 76.0 | 75.5 | 77.3 | 86.2 |
| Insurance activities/total revenues from business line | 0.4 | 9.0 | 13.9 | 13.9 | 14.5 |
| Other revenues/total revenues from business line | 23.1 | 15.1 | 10.6 | 8.8 | (0.6) |
| Return on average common equity | 7.2 | 7.1 | 7.9 | 8.5 | 6.5 |

*Data as of June 30.

### Capital and earnings: Solid capitalization, supported by strong earnings capacity

We believe VW Bank will maintain very strong capital and earnings, reflecting its good earnings generation and VW's commitment to maintain high capital ratios at its EU banking business. As a result, we project that the bank's RAC ratio will stay at 21%-23% (before diversification) in the coming years, compared with 21.4% as of Dec. 31, 2017, in anticipation of its ongoing reorganization.

We believe that, despite challenging conditions in some of VW Bank's markets and potential headwinds due to VW's emission issue, the bank's 2018-2020 pretax profit would allow steady growth of its capital base. We anticipate that increased volume growth and steady, high fees will provide a sufficient earnings buffer to compensate for conservative loan loss reserving needs of around €200 million--in a worst-case scenario--in 2018, after a €150 million gain from loan loss reversals in 2017. We project the three-year average earnings buffer will be strong at about 115 basis points, indicating that VW Bank has adequate earnings to cover normalized losses. We expect that the bank's cost efficiency will improve due to economies of scale and strict cost control, and anticipate that its cost-to-income ratio will average 55% through to year-end 2020 versus 61% at year-end 2017.

The quality of VW Bank's total adjusted capital is high because it has no hybrid capital issues and its earnings buffer compares favorably with many domestic and international peers'. We anticipate that the bank will maintain its currently conservative capital management and that its asset mix and growth are unlikely to change materially in the short to medium term, apart from potential Brexit-related asset transfers. Furthermore, we expect that VW will remain committed to maintaining sound capitalization at VW Bank and to supporting the bank's business growth through capital injections, if necessary.

**Table 3**

**Volkswagen Bank GmbH Capital And Earnings**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2018*** | **2017** | **2016** | **2015** | **2014** |
| Tier 1 capital ratio | 14.8 | 15.6 | 14.3 | 11.1 | 13.2 |
| S&P Global Ratings' RAC ratio before diversification | N/A | 21.4 | 20.7 | 17.5 | 18.4 |
| S&P Global Ratings' RAC ratio after diversification | N/A | 21.2 | 20.6 | 19.2 | 21.5 |
| Net interest income/operating revenues | 76.5 | 98.2 | 86.3 | 87.5 | 93.6 |
| Fee income/operating revenues | 0.4 | (1.7) | (1.7) | 2.4 | 3.2 |
| Market-sensitive income/operating revenues | 8.6 | (2.2) | (0.5) | 0.6 | (0.1) |
| Noninterest expenses/operating revenues | 54.5 | 61.2 | 59.0 | 59.8 | 58.4 |
| Preprovision operating income/average assets | 1.6 | 1.3 | 1.3 | 1.4 | 1.4 |
| Core earnings/average managed assets | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 |

*Data as of June 30.

**Table 4**

**Volkswagen Bank GmbH RACF [Risk-Adjusted Capital Framework] Data**

| **(€ 000s)** | **Exposure*** | **Basel III RWA** | **Average Basel III RW (%)** | **S&P Global RWA** | **Average S&P Global RW (%)** |
|---|---|---|---|---|---|
| **Credit risk** | | | | | |
| Government and central banks | 5,077,437 | 2,976,263 | 59 | 178,282 | 4 |
| Of which regional governments and local authorities | 116,004 | 19,400 | 17 | 6,810 | 6 |
| Institutions and CCPs | 2,044,345 | 428,763 | 21 | 545,044 | 27 |
| Corporate | 18,868,395 | 16,870,450 | 89 | 14,658,932 | 78 |
| Retail | 38,584,282 | 28,245,150 | 73 | 21,089,429 | 55 |
| Of which mortgage | 0 | 0 | 0 | 0 | 0 |
| Securitization§ | 2,468,758 | 4,204,550 | 170 | 493,752 | 20 |
| Other assets† | 5,348,450 | 5,801,400 | 108 | 6,620,072 | 124 |
| Total credit risk | 72,391,667 | 58,526,575 | 81 | 43,585,511 | 60 |
| **Credit valuation adjustment** | | | | | |
| Total credit valuation adjustment | -- | 0 | -- | 0 | -- |
| **Market risk** | | | | | |
| Equity in the banking book | 0 | 0 | 0 | 0 | 0 |
| Trading book market risk | -- | 2,878,688 | -- | 4,318,031 | -- |
| Total market risk | -- | 2,878,688 | -- | 4,318,031 | -- |
| **Operational risk** | | | | | |
| Total operational risk | -- | 4,240,150 | -- | 4,581,875 | -- |

**Table 4**

| Volkswagen Bank GmbH RACF [Risk-Adjusted Capital Framework] Data (cont.) | | | | |
|---|---|---|---|---|
| (€ 000s) | Basel III RWA | | S&P Global RWA | % of S&P Global RWA |
| **Diversification adjustments** | | | | |
| RWA before diversification | 65,645,413 | | 52,485,417 | 100 |
| Total Diversification/Concentration Adjustments | -- | | 592,760 | 1 |
| RWA after diversification | 65,645,413 | | 53,078,177 | 101 |
| (€ 000s) | Tier 1 capital | Tier 1 ratio (%) | Total adjusted capital | S&P Global RAC ratio (%) |
| **Capital ratio** | | | | |
| Capital ratio before adjustments | 10,233,000 | 15.6 | 11,232,000 | 21.4 |
| Capital ratio after adjustments‡ | 10,233,000 | 15.6 | 11,232,000 | 21.2 |

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global.

## Risk Position: Sound asset quality and prudent risk management balance concentration in the auto sector

We assess VW Bank's risk position as a neutral rating factor, since we adequately capture VW Bank's domestic and European auto loans and dealer financings in our RAC ratio, VW Bank's auto loans are highly collateralized, and its loss experience is in line with that of its peers. VW Bank's historically limited exposure with residual-value risk from leasing operations in Italy, France, and Portugal, will be transferred to VW FS over the next few years.

Retail auto loan exposures (€30 billion as of midyear 2018) are granular, highly collateralized, and located principally in European countries with low risk. Although dealer and corporate exposures (€13 billion as of midyear 2018) inherently feature single-name concentration, the 20-largest exposures represent a low proportion of the bank's total adjusted capital.

VW Bank's exposure--excluding leasing in Spain, Italy, Greece, and Portugal, where we expect delinquency rates will remain higher than in the domestic market--equals less than 10% of total earning assets as of midyear 2018. We anticipate that VW Bank will continue to support VW's sales in these four countries. VW Bank demonstrates prudential risk management, however, by adding an additional risk buffer to cover unexpected losses in these countries.

We recognize that VW Bank has limited interest-rate and residual–value risk because its leasing business is mainly at VW FS. VW Bank is not exposed to foreign currency risk because loans in foreign currencies are either covered by funding in the respective currency or hedged. Generally, we consider that the risks the bank assumes show low complexity. VW Bank's asset quality is adequate and in line with that of peer captive financing subsidiaries, with nonperforming loans (NPLs) equaling 2.0% of total loans in 2017, after 2.6% in 2016. A potential weakening of asset quality would, in our view, result from a dealer finance portfolio (21% of the total receivables at year-end 2017) similar to VW FS'. If VW's car sales were to weaken and dealers were left with increasing stocks, this could strain the dealers' financial positions and lead to weaker asset quality in VW Bank's corporate portfolio. We think that VW Bank's cost of risk could rise to about 30 basis points between 2018 and 2020, compared with a reported 25 basis points gain in 2017, owing to recoveries. In general, we also believe that the bank's reserving policy is more conservative than that of its captive peers, as illustrated by VW Bank's full coverage of its NPL portfolio with provisions and the availability of a non-specified additional risk buffer.

**Table 5**

**Volkswagen Bank GmbH Risk Position**

| | | --Year-ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2018*** | **2017** | **2016** | **2015** | **2014** |
| Growth in customer loans | 11.2 | 49.8 | 11.6 | 9.9 | 10.0 |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A | 1.1 | 0.5 | (8.9) | (14.1) |
| Total managed assets/adjusted common equity (x) | 7.4 | 7.0 | 8.0 | 9.9 | 9.0 |
| New loan loss provisions/average customer loans | 0.3 | (0.3) | 0.1 | 0.2 | 0.3 |
| Net charge-offs/average customer loans | N.M. | 0.0 | 0.1 | 0.1 | 0.1 |
| Gross nonperforming assets/customer loans + other real estate owned | N/A | 2.0 | 2.6 | 2.8 | 2.8 |
| Loan loss reserves/gross nonperforming assets | N/A | 77.2 | 91.9 | 101.1 | 103.6 |

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

## Funding and liquidity: An adequate funding profile, owing to granular customer deposits

We consider VW Bank's funding and liquidity position to be a neutral rating factor. VW Bank's access to a large deposit base, which accounted for about 61% of its funding at midyear 2018, clearly differentiates it from its captive finance peer group. VW Bank's granular retail deposits make it less sensitive to volatile and often more expensive wholesale funding sources, as demonstrated by the bank's stable funding ratio (about 100% mid-year 2018), which we believe will gradually improve in step with new regulatory requirements. We note that VW Bank's customer deposits are protected under the Deposit Protection Fund of the Association of German Banks. In our view, customer deposits provide VW Bank with two advantages:

The ability to expand the customer base by adding clients not related to the VW group, although we think the group's strong reputation and franchise attract deposits to the bank; and

Lower dependence on wholesale funding than competitors.

We generally consider direct bank customer deposits to be more price sensitive and less stable than those of large retail banking networks, such as the German savings banks or the cooperative sector. However, we expect VW Bank's deposit and customer bases will remain robust, despite reductions to interest rates paid to customers, as illustrated by the stability seen over the past few years. The bank's loan-to-deposit ratio was about 18% at midyear 2018, and funding gaps are covered by wholesale funds.

This exposes VW Bank to some refinancing risk, but the bank has access to ample uncommitted lines, provided by several banks, and assets eligible for repurchase-agreement refinancing at the ECB. In our view, these supplementary liquidity buffers add to VW Bank's liquidity ratio of 0.8x (broad liquid assets to short-term wholesale funding) as of midyear 2018, which continues to evolve due to ongoing reorganization. Furthermore, we expect VW Bank will have access to funding from its parent in the event of financial distress.

**Table 6**

| Volkswagen Bank GmbH Funding And Liquidity | | | | | |
|---|---|---|---|---|---|
| | | --Year-ended Dec. 31-- | | | |
| **(%)** | **2018*** | **2017** | **2016** | **2015** | **2014** |
| Core deposits/funding base | 61.3 | 63.9 | 80.1 | 72.0 | 73.3 |
| Customer loans (net)/customer deposits | 173.7 | 171.3 | 122.7 | 136.2 | 140.6 |
| Long-term funding ratio | 90.8 | 90.8 | 96.4 | 92.0 | 94.3 |
| Stable funding ratio | 94.0 | 92.4 | 104.0 | 97.5 | 97.2 |
| Short-term wholesale funding/funding base | 10.8 | 10.9 | 4.1 | 9.0 | 6.5 |
| Broad liquid assets/short-term wholesale funding (x) | 0.8 | 0.6 | 2.9 | 1.2 | 1.1 |
| Net broad liquid assets/short-term customer deposits | (5.1) | (7.4) | 10.8 | 2.4 | 1.1 |
| Short-term wholesale funding/total wholesale funding | 27.8 | 30.1 | 20.6 | 32.1 | 24.4 |
| Narrow liquid assets/3-month wholesale funding (x) | 1.8 | 1.3 | 13.5 | 7.2 | 4.0 |

*Data as of June 30.

### Support: Insulated subsidiary status enables higher rating than VW group credit profile

We consider VW Bank to hold a core group position in VW's business model. VW Bank remains a significant earnings contributor to its parent, and its captive finance operations are integral to the group's strategy.

However, the rating on VW Bank is one notch higher than our rating on VW because we assess the bank as an insulated subsidiary. This reflects VW Bank's regulatory status as a bank, its independent funding prospects from the group, and the bank's SACP, which is stronger than the VW group's credit profile. Although we generally view the bank's default risk as indistinguishable from that of its parent, the presence of any regulatory restrictions regarding liquidity, capital, or funding could prevent it from supporting the group. As such, we believe that it would be able to stand on its own, operationally, in times of stress.

### Additional rating factors: None

No additional factors affect the rating.

## Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Anchor Matrix

| Industry Risk | Economic Risk | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1 | a | a | a- | bbb+ | bbb+ | bbb | - | - | - | - |
| 2 | a | a- | a- | bbb+ | bbb | bbb | bbb- | - | - | - |
| **3** | **a-** | a- | bbb+ | bbb+ | bbb | bbb- | bbb- | bb+ | - | - |
| 4 | bbb+ | bbb+ | bbb+ | bbb | bbb | bbb- | bb+ | bb | bb | - |
| 5 | bbb+ | bbb | bbb | bbb | bbb- | bbb- | bb+ | bb | bb- | b+ |
| 6 | bbb | bbb | bbb- | bbb- | bbb- | bb+ | bb | bb | bb- | b+ |
| 7 | - | bbb- | bbb- | bb+ | bb+ | bb | bb | bb- | b+ | b+ |
| 8 | - | - | bb+ | bb | bb | bb | bb- | bb- | b+ | b |
| 9 | - | - | - | bb | bb- | bb- | b+ | b+ | b+ | b |
| 10 | - | - | - | - | b+ | b+ | b+ | b | b | b- |

### Ratings Detail (As Of December 10, 2018)

| | |
|---|---|
| **Volkswagen Bank GmbH** | |
| Issuer Credit Rating | A-/Negative/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |
| Senior Subordinated | BBB+ |
| Senior Unsecured | A- |
| Short-Term Debt | A-2 |
| **Issuer Credit Ratings History** | |
| 12-Oct-2015 | A-/Negative/A-2 |
| 24-Sep-2015 | A/Watch Neg/A-1 |
| 22-Sep-2014 | A/Stable/A-1 |
| **Sovereign Rating** | |
| Germany | AAA/Stable/A-1+ |
| **Related Entities** | |
| **Banco Volkswagen S.A.** | |
| Issuer Credit Rating | |
| *Brazil National Scale* | brAAA/Stable/-- |
| **Scania AB (publ.)** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| *Nordic Regional Scale* | --/--/K-1 |
| *South Africa National Scale* | zaAAA/--/zaA-1+ |
| **Volkswagen AG** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| **Volkswagen Financial Services AG** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |

| Ratings Detail (As Of December 10, 2018) (cont.) | |
|---|---|
| **Volkswagen Finans Sverige AB** | |
| Issuer Credit Rating | |
| *Nordic Regional Scale* | --/--/K-1 |
| **Volkswagen International Belgium S.A.** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |

*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.