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Key rating assessment factors

## ACRA affirms AAA(RU) to LLC VW Bank RUS, outlook Stable, and affirms AAA(RU) to bond issues

The credit rating assigned to [LLC VW Bank RUS](#) (hereinafter, the Bank) is based on the very high likelihood of extraordinary support from the parent group, the Volkswagen group (the Group), which boasts high creditworthiness. The Bank's standalone creditworthiness assessment (SCA) is relatively high in view of its strong capital adequacy, strong risk profile, adequate liquidity and funding position, and satisfactory business profile.

The Bank ranked 114<sup>th</sup> in terms of assets and 70<sup>th</sup> in terms of equity among Russian banks as of January 1, 2019. The Bank's shareholders include Volkswagen Financial Services AG (99%) and Volkswagen Bank GmbH (1%).

The Bank's main business line includes retail car loans for cars made by the Volkswagen group and sold through authorized dealers. The Bank has no branch network.

**Very high likelihood of extraordinary support from the key shareholder.** ACRA is of the opinion that if necessary, the Group will provide the Bank with short-term and long-term funding and capital injections through Volkswagen Financial Services AG (the Supporting Organization). ACRA assesses the country risk of the Supporting Organization's jurisdiction (Germany) against the country risk of Russia as strong. The Supporting Organization's creditworthiness is determined by ACRA as moderately strong.

The degree of integration between the Bank and its key shareholder is assessed as very strong in view of the following:

- Importance of the Russian market for the Group;
- Possible reputational risks in the case of the Bank's bankruptcy;
- High operational integration between the Bank and the Group's companies;
- The Supporting Organization's propensity to support the Bank with liquidity and capital injections.

In view of the above, ACRA added 5 notches to the Bank's SCA.

**Satisfactory business profile.** The business profile assessment is mainly determined by the Bank's low market positions and weak diversification of operating income (HHI stands at 0.78) on the back of a strong strategy and corporate governance assessment. The ownership profile of the Bank is transparent.

The Bank's strategy is aimed at maintaining the Russian sales of cars made by the Volkswagen group. Currently, the Bank grants loans mostly to individuals. The Group's auto products cover all price segments, which enhances the diversification of credit risks and supports the profitability of the Bank.

**The Bank's substantial loss absorption buffer** is supported by its stably high capital adequacy ratio (N1.2 was 37.4% as of January 01, 2019), which allows the Bank to withstand an increase in credit risk of over 500 bps.

The Bank's returns are stably high, as the average capital generation ratio (ACGR) was 229 bps in 2014 to 2018. The Bank's operating effectiveness is assessed as high; in 2016–2018, the average NIM was 9.0% and CTI was 43.0%. The Group's current dividend strategy does not provide for dividend payments.

**The Bank's strong risk profile assessment** stems from its high quality loan portfolio and quality risk management system (modern risk management methods are applied, reviewed, and updated regularly), highly skilled personnel, and deep integration of the risk function into the Group's structure. The Bank's loan portfolio includes retail car loans (87.4% of the portfolio) and loans granted to Russian companies within the Volkswagen group (12.6% of the portfolio). According to ACRA, the share of non-performing and potentially non-performing loans is 4.7% (of which 2.75% are NPL90+). The Bank's loan portfolio is characterized by the low concentration of the top 10 borrower groups (12.7% of the portfolio as of December 1, 2018), which is typical for banks focused on car loans.

The increase in the volume of loans issued by the Bank is comparable with banks of similar profile due to market trends and does not pose increased risks for the Bank. ACRA expects the scale of car loans to remain at current levels in 2019. The Bank holds no investments in securities. The Bank's counterparties in the interbank market are highly reputable banks and its operating risk is at an acceptable level.

**The Bank's strong liquidity position** is primarily due to the high volume of liquid and highly liquid assets, as well as the limited amount of liabilities expected to be repaid within the next three months. In the base case scenario, the STLSI is positive, and in the stress scenario, liquidity surplus amounts to 4.5% of liabilities. The Bank's long-term position is also assessed as strong (LTLSI – 106%).

**Satisfactory funding profile.** The Bank's funding base hinges on bond proceeds, interbank market loans, and funds of the Volkswagen group's client companies. The concentration on the largest clients' funds is moderate and funding source diversification is acceptable.

## Key assumptions

- Maintaining the current business model within the 12 to 18-month horizon;
- Maintaining ownership structure;
- N1.2 higher than 20% within the 12 to 18-month horizon;
- Maintaining problem loans at low levels.

## Potential outlook or rating change factors

**The Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A negative rating action may be prompted by:

- A decline in the Bank's loan portfolio quality;
- A loss of shareholding or operating control on the part of the Group;
- A deterioration of the financial status of the Supporting Organization.

## Rating components

**SCA:** a+.

**Adjustments:** none.

**Support:** 5 notches up to SCA.

## Issue ratings

[Certified exchange-traded interest-bearing unregistered bond, 001P-02 series \(RU000A0ZZGE7\)](#), maturity date – August 17, 2021, issue volume – RUB 5 bln, **AAA(RU)**.

[Certified exchange-traded interest-bearing unregistered bond, 001P-03 series \(RU000A1003L1\)](#), maturity date – February 15, 2022, issue volume – RUB 10 bln, **AAA(RU)**.

**Rationale.** The above issues represent senior unsecured debt of LLC VW Bank RUS. According to ACRA methodology, the credit rating of the issues is equivalent to that of [LLC VW Bank RUS – AAA\(RU\)](#).

## Regulatory disclosure

The credit rating of LLC VW Bank RUS and bonds issued by LLC VW Bank RUS (ISIN RU000A0ZZGE7, RU000A1003L1) have been assigned under the national scale for the Russian Federation and is based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups under the National Scale for the Russian Federation](#), the [Methodology for Analyzing Relationships between Rated Entities and Supporting](#)

[Organizations outside the Russian Federation](#), and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign credit ratings to the above issues.

The credit ratings of LLC VW Bank RUS, bond issue RU000A0ZZGE7, and bond issue RU000A1003L1 were published by ACRA for the first time on March 2, 2018, August 14, 2018, and February 12, 2019, respectively. The credit rating and outlook of LLC VW Bank RUS and the credit ratings of bonds issued by LLC VW Bank RUS (ISIN RU000A0ZZGE7, RU000A1003L1) are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on the data provided by LLC VW Bank RUS, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using the consolidated IFRS statements of LLC VW Bank RUS and the financial statements of LLC VW Bank RUS drawn up in compliance with Bank of Russia Ordinance № 4927-U of October 8, 2018. The credit rating is solicited, and LLC VW Bank RUS participated in its assignment.

No material discrepancies between the provided information and the data officially disclosed by LLC VW Bank RUS in its financial statements have been discovered.

ACRA provided no additional services to LLC VW Bank RUS. No conflicts of interest were discovered in the course of credit rating assignment.

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