

**Rating Action: Moody's affirms Volvofinans Bank AB's A3 deposit ratings; changes outlook to negative**

---

03 Jun 2020

Stockholm, June 03, 2020 -- Moody's Investors Service, ("Moody's") today affirmed Volvofinans Bank AB's long- and short-term, foreign and local currency A3/P-2 deposit ratings. The baseline credit assessment (BCA) and the adjusted BCA were affirmed at baa2. The subordinated debt rating was affirmed at Baa3. Furthermore, the long-term and short-term, foreign and local currency counterparty risk ratings (CRR) of A2/P-1, and the long-and short-term counterparty risk assessments (CRA) of A2(cr)/P-1(cr) were affirmed. The outlook on the long-term deposit rating was changed to negative from stable.

The affirmation of Volvofinans Bank AB's (Volvofinans) long-term deposit rating of A3 incorporates (1) the affirmation of the bank's baa2 BCA, reflecting Moody's expectation of a moderate deterioration in asset risk and subsequent dampening of profitability, driven by the challenging operating environment, balanced against the protection afforded to the bank by its recourse agreements with Volvo dealers and Volvofinans' very strong capitalisation; and (2) the results from Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the sizable volumes of liabilities that would cushion depositors in case of failure, leading to two notches of uplift.

The negative outlook on Volvofinans' long-term deposit ratings reflects the higher likelihood downside risks affecting automotive manufacturing sector crystallising, which could trigger incremental deterioration in the bank's asset risk and profitability beyond Moody's current expectations. Accordingly, the negative outlook also takes into account the linkages with the car maker, Volvo Car AB (Ba1, Negative), whose negative outlook reflects the severe impact that the coronavirus will have on Volvo Car's operating performance and credit metrics into 2021.

The full list of the affected ratings and rating inputs can be found at the end of this press release.

#### RATINGS RATIONALE

The affirmation of Volvofinans' BCA at baa2 reflects Moody's view that the expected moderate deterioration in the bank's asset risk and profitability, will most likely be mitigated by its very strong capitalisation, as well as the additional protection the bank has against loan losses from the recourse agreements it has with Swedish Volvo dealers.

Due to the coronavirus, demand for new vehicles has fallen sharply as companies delay investments and households remain hesitant in their decisions to purchase cars. While Swedish authorities have chosen to keep Sweden open during the spread of the pandemic, Moody's forecasts a contraction in GDP by 3.8% during 2020 and increased unemployment. Profitability will therefore dampen over the next 12 to 18 months as business volumes decline but remain firmly in positive territory. For Volvofinans, the fall in revenues on new car financing will continue to be partly mitigated by the performance of its stock of loans and continued activity in the used car market.

This deterioration in the operating environment will also lead to moderate increases in Volvofinans' problem loans, however, the recourse agreements with the Swedish Volvo Dealers on 76% of its loans and leases will help contain loan loss provisions.

Continued internal capital generation and low loan loss provisions means that the bank's strong capitalisation will remain a material credit strength. This will be enhanced by the absence of a 2020 dividend payment, which will provide additional buffer against potential losses or increases in risk weights.

Volvofinans has reduced its reliance on wholesale markets for the funding of its operations, which will help contain funding costs in the current environment with heightened uncertainty, with the bank's loans to deposit ratio declining to 179% in 2019 from 205% as of year-end 2018.

#### OUTLOOK

The negative outlook on Volvofinans' long-term deposit ratings reflects the mounting downside risks in the auto sector, where future demand for vehicles could be weaker than our current estimates, thereby leading to a deterioration in the bank's asset risk and profitability beyond Moody's current expectations. Moody's forecasts a 20% decline in unit shipments for the global automotive sector during 2020, with a steep year-over-year contraction in the second and third quarters followed by a modest rebound in the fourth quarter. The rating agency expects 2021 industry unit sales to rebound and grow by approximately 11%. A weaker than anticipated demand for vehicles would increase the liquidity strain on Volvo dealers, which could result in difficulties honouring recourse agreements, especially if this is combined with higher than anticipated number of borrowers struggling to meet their repayments.

Although Moody's considers that Volvofinans benefits from a degree of strategic, operational and financial independence that makes its credit profile less correlated to its auto manufacturing parent than typically observed with other captive auto banks (partly because of its 50/50 joint ownership by Volvo and the Volvo Dealers and the dealers' operations with other auto manufactures), the Volvo brand is an integral part of Volvofinans Bank's business model. Therefore, the rating agency believes it would be affected by a deterioration in Volvo Cars' credit profile.

## ESG

The widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The automotive sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand. Moody's further regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

## RATIONALE FOR THE BANK'S LONG-TERM RATINGS

Volvofinans long-term deposit and subordinated debt ratings reflect the bank's BCA and Adjusted BCA of baa2 and the application of Moody's Advanced Loss Given Failure (LGF) analysis to its liabilities, reflecting the volumes of loss absorbing obligations protecting creditors and depositors in case of failure. The A3 deposit rating reflects the adjusted BCA and two additional notches due to the large volumes of obligations protecting depositors in case of failure. The Baa3 rating on Volvofinans subordinated debt reflects the BCA of baa2 and a negative notch due to the higher expected loss on this type of instrument.

Volvofinans's long-term CRRs incorporate three notches of LGF uplift above the bank's Adjusted BCA of baa2. Volvofinans long-term CR Assessment incorporates three notches of LGF uplift above the bank's Adjusted BCA of baa2.

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

An upgrade of Volvofinans ratings and assessments is unlikely given the negative outlook currently assigned to the bank's long-term ratings. Volvofinans' deposit ratings could return to stable outlook if the auto industry sector shows clear signals of recovery, allowing the bank to avoid more severe downside scenarios while manufacturer and dealers maintain stable credit profiles.

A downgrade of the BCA and the long-term deposit rating could follow (i) a significant deterioration in profitability and asset quality following the crystallisation of downside risks in the auto sector, (ii) a lack of access to wholesale funding or, (iii) a substantial reduction in the volume of deposits relative to the bank's tangible banking assets, resulting in higher loss severity for deposits in the event of the bank's failure. Furthermore, a downgrade of Volvo Car's ratings following a further deterioration in the auto sector could trigger a downgrade of the bank.

## LIST OF AFFECTED RATINGS

..Issuer: Volvofinans Bank AB

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed baa2

.... Baseline Credit Assessment, Affirmed baa2

.... Long-term Counterparty Risk Assessment, Affirmed A2(cr)

... Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

... Long-term Counterparty Risk Rating, Affirmed A2

... Short-term Counterparty Risk Rating, Affirmed P-1

... Short-term Bank Deposits, Affirmed P-2

...Long-term Bank Deposits, Affirmed A3, Outlook Changed to Negative from Stable

...Subordinate, Affirmed Baa3

Outlook Actions:

...Outlook, Changed to Negative from Stable

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1147865](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## 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 at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website [www.moodys.com](http://www.moodys.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569) .

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

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal

entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for additional regulatory disclosures for each credit rating.

Niclas Boheman  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service (Nordics) AB  
Norrandsgatan 20  
Stockholm 111 43  
Sweden  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Sean Marion  
MD - Financial Institutions  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service (Nordics) AB  
Norrandsgatan 20  
Stockholm 111 43  
Sweden  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454



© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND**

**EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance —

Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.