

# Volkswagen Financial Services AG

## Key Rating Drivers

**Parent Support Drives Ratings:** Volkswagen Financial Services AG (VWFS) and Volkswagen Bank GmbH's (VW Bank) ratings are driven by a very high probability of support from their ultimate shareholder, Volkswagen AG (VW; A-/Stable), the leading global car manufacturer. This is reflected in VWFS's and VW Bank's Shareholder Support Ratings (SSR).

Fitch Ratings does not assign VWFS or VW Bank a Viability Rating because their franchises are highly correlated with that of its ultimate parent and there is a high level of financial, operational and management integration with VW, reflected by, among other things, control and profit-and-loss transfer agreements between VW, VWFS and VW Bank.

**Key Subsidiaries:** Fitch views VWFS and VW Bank as key subsidiaries of VW because of their role in supporting VW's strategic objectives, the huge reputational impact a default of VWFS or VW Bank would have on VW, high level of integration and the extensive record of ordinary and extraordinary support provided by VW to its Financial Services division in the past.

VWFS and VW Bank are fully owned by, and have similar branding to, VW, and VW's financial services unit has a long and successful record of supporting group sales as the key platform of VW's mobility solutions offering. A control and profit and loss transfer agreement is in place, and we believe VW will provide capital support to its subsidiaries if required.

**Focus on European Operations:** VWFS is a newly established intermediate holding company and fully-owned by VW. VWFS consolidates VW Bank and its subsidiary Volkswagen Leasing GmbH as well as other Europe-focused financial services entities, and the group is supervised by the European Central Bank (ECB). VW Bank, which has a material customer deposit base, is likely to become the central funding source for the expected business growth within VWFS, in particular for the European leasing business.

**Good Asset Quality; Weakening Likely:** VW Bank is the largest part of VWFS, with Fitch estimating that it accounts for about 70% of VWFS's total assets. VW Bank's asset quality improved in 2023 despite the operating environment challenges. The bank's focus on mobility finance leaves it vulnerable to recessionary pressure in core markets. Fitch expects VW Bank's impaired loans ratio will deteriorate slightly in 2024, given economic uncertainty and inflation potentially pressuring car demand.

**Good Profitability:** VWFS's profitability benefits from VW Bank's sound profitability, reflected in a four-year average operating profit/risk-weighted asset of above 1.5%. Higher interest expenses and reduced net car sales result could weigh slightly on VW Bank's profitability, but we expect profitability will remain sound, supported by higher financing and leasing income and potential cost savings.

**Expected Adequate Capitalisation:** Fitch expects VWFS will meet ECB's capital requirements, which will be set at a consolidated level and at its main operating entity, VW Bank. The latter is well-capitalised, with a common equity Tier 1 capital ratio of 17.5% and a very sound leverage ratio at 12.7% at end-2023.

**Diversified Funding Profile:** Fitch expects VWFS to source most of its required funding via VW Bank, which has an established deposit franchise. Deposits predominantly consist of granular retail deposits, covered by the German private sector deposit scheme. The group's funding mix is broad, including wholesale funding and asset-backed-securities. Fitch expects that access to funding from VW would be available in case of need.

## Ratings

### Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1

Shareholder Support Rating	a-
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### Sovereign Risk (Germany)

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

## Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)

## Related Research

[Fitch Rates Volkswagen Financial Services Europe AG and Volkswagen Bank GmbH 'A-'; Outlook Stable \(July 2024\)](#)

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Any negative rating action on VW would be mirrored in VWFS's and VW Bank's ratings and Outlooks.

A weakening of VW's propensity to support VWFS or VW Bank, for instance, due to VWFS or VW Bank becoming less central to VW's overall mobility services strategy, could lead to Fitch notching VWFS's and VW Bank's Long-Term IDRs from VW's Long-Term IDR, which would result in a downgrade. In particular, consistently below-sector-average penetration rates, or a transfer of business activities to other financial services entities beyond the current reorganisation, could indicate reduced relevance of VWFS or VW Bank for VW.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

As VWFS's and VW Bank's ratings are equalised with VW's, any positive rating action on VW would likely be mirrored in their ratings and Outlooks.

## Other Debt and Issuer Ratings

Rating Level	VWFS	VW Bank
Senior unsecured	A-(EXP)/F1	
Senior preferred		A(EXP)/F1
Senior non-preferred		A-(EXP)
Deposits		A/F1

Source: Fitch Ratings

VWFS's senior unsecured debt ratings (including expected ratings) are aligned with its IDRs.

The ratings (including expected ratings) of Volkswagen Financial Services N.V.'s, SkoFIN s.r.o's and VW Financial Services Polska Sp. Z. o. o's commercial paper programme and of Volkswagen Financial Services N.V.'s debt issuance programme are aligned with VWFS's IDRs, based on VWFS's expected guarantee of the programme.

VW Bank's long-term senior preferred debt rating and deposit rating are one notch above its IDR, reflecting the expected protection accruing to preferred creditors from senior non-preferred and junior debt buffers as we expect the bank to meet its resolution buffer requirements with senior non-preferred and more junior debt only. For the same reason, VW Bank's senior non-preferred debt rating is in line with its Long-Term IDR. The ratings reflect Fitch's expectation that there is a high likelihood that VW Bank will become the entry point within the VWFS resolution perimeter, and consequently become the sole issuer of minimum requirement for own funds and eligible liabilities (MREL) eligible senior non-preferred debt.

## Business Profile

### *High Dependence on VW AG*

VWFS was established in July 2024 as a holding company for VW's European financing activities. Its main operating entity is VW Bank, which itself consolidates Volkswagen Leasing GmbH. VWFS also holds VW Finance B.V. and other individual holdings including insurance companies. VWFS runs a stable and scalable business model as a European car financing specialist, which benefits from geographic diversification across a number of markets. VW Bank is headquartered in Germany and has branches in eighth European countries. VW Bank is a 100% owned captive by VWFS, and its core role is to promote and support the sale of VW products and support VW car dealers.

VW Bank's strong deposit franchise is a key pillar of VWFS's expected business growth, as it is dedicated to funding VWFS's financial services business activities in Europe, and therefore underpin VW's mobility strategy.

VWFS's business model relies heavily on VW sales for the generation of new business, which exposes its business to the cyclical nature of the automotive industry, despite the financial & banking services segment having fairly stable performance, as payments continue in this sector even when car sales decrease.

VWFS was originally established as Volkswagen Financial Services Europe AG, and was renamed to Volkswagen Financial Services AG on 1 July 2024. At the same time, the legal entity formerly named Volkswagen Financial Services AG was renamed Volkswagen Financial Services Overseas AG (A-/Stable).

## Risk Profile

### *Adequate Risk Profile*

VWFS risk-management framework is underpinned by the group's centralised risk controls and benefits from its decades-long expertise in car financing, which includes tested and highly effective proprietary scoring, underwriting, and monitoring processes.

VW expects significant portfolio growth as customers' preference for leasing over cash purchases is likely to persist, and as VW aims to develop its mobility business further. The company expects to increase total assets of the financial services arm to EUR350 billion by 2030, from EUR268 billion at end-2023.

## Financial Profile

### Asset Quality

VW Bank's asset quality has improved in recent years, after the impaired loan (Stage 3) ratio peaked at over 2.5% during the pandemic. VW Bank's impaired loan ratio of 1.8% at end-2023 slightly exceeded the German banking sector's average impaired loan ratio, but compared well with that of other consumer finance peers, particularly as a large part of the loan portfolio is outside Germany.

VW Bank's impaired loan coverage ratio is adequate, averaging about 80% in recent years, as loans and lease contracts are collateralised by vehicles, and the company has a proven residual value-management policy. Single name concentrations are low due to the large share of retail business (about 65% of VW Bank's total exposure at end-2023).

VW Bank itself typically does not take on residual value risk (RV), with the exception of its business in France (10% of its total credit exposure at end-2023). RV exposure has benefitted from the supply chain shortages, with used car values showing an above-average resilience since the start of the pandemic. VWFS expects residual values to continue to normalise in the medium-term and will continue its conservative approach towards residual value risk remaining.

### Earnings and Profitability

VW Bank's profitability is sound and compares favourably with the broader German banking sector as it benefits from strong lending margins. However, VW Bank's profitability is closely linked to, and dependent on, VW's franchise. Revenue diversification is limited and focused on car financing, and the contribution from fee and commission income stemming from banking services represents only a minor portion of the income mix.

Profitability was stable in 2023 despite a decline in net interest income, as funding costs increased. Increased leasing and other income compensated for this decline, including through the sale of used cars, as residual values increased significantly in 2022 and 2023. Compared with the German market, VW Bank's efficiency is good, reflected in a cost-to-income ratio of about 50% in 2023, which is well below the sector average.

### Capitalisation and Leverage

Under the existing control and profit transfer agreement, VWFS generally upstreams its entire annual profit to its parent VW. The same applies to VW Bank; however, it has some scope to retain profits needed for investments and growth by creating reserves according to section 340f HGB.

Fitch expects ECB to set capital requirements at VWFS and at VW Bank, and we also expect both entities will maintain a buffer above future requirements. We believe that VW Bank's CET1 ratio will gradually decline over the medium term, as a result of an expected loan growth.

### Funding and Liquidity

Customer deposits are a key pillar of VWFS's funding mix, and are sourced from VW Bank. The significant growth in customer deposits (2023: of EUR12 billion) allowed the bank to repay TLTRO funding from the ECB early as it had become more costly as a result of higher interest rates.

Deposits are predominantly gathered through VW Bank's direct banking arm. Fitch considers online deposits to be less stable and more price sensitive than core retail deposits, but VW Bank's deposit base has been reasonably stable over recent years, and newly acquired deposits typically remain with the bank for a long time as the bank offers a lucrative pricing.

We expect VW Bank to increase its customer deposit base further as funding will be required to refinance the group's growing leasing business. Given VW Bank's strong pre-impairment operating profit and ability to pay above-average deposit spreads, we believe that the bank can attract the required funding in the large German deposit market. In addition, deposits are largely covered by the private sector deposit scheme.

VWFS sources another significant portion of its funding from global asset-backed securities markets. The bank also has good access to senior unsecured capital markets, providing VW Bank with sufficient funding flexibility.

## Financials

### Financial Statements<sup>a</sup>

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
<b>Summary income statement</b>					
Net interest and dividend income	1,281	1,169	1,453	1,512	1,525
Net fees and commissions	70	64	104	116	105
Other operating income	535	488	112	142	234
Total operating income	1,886	1,721	1,669	1,770	1,864
Operating costs	864	789	784	841	790
Pre-impairment operating profit	1,021	932	885	929	1,074
Loan and other impairment charges	158	144	133	-178	265
Operating profit	863	788	752	1,107	809
Other non-operating items (net)	0	0	–	–	-1
Tax	162	148	290	328	160
Net income	701	640	462	779	648
Other comprehensive income	125	114	-231	-7	-4
Fitch comprehensive income	826	754	231	772	644
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	56,239	51,332	49,001	46,883	52,366
– Of which impaired	988	902	1,131	1,146	1,383
Loan loss allowances	951	868	815	809	1,117
Net loans	55,288	50,464	48,186	46,074	51,249
Interbank	298	272	233	340	348
Derivatives	64	58	51	10	48
Other securities and earning assets	4,745	4,331	4,379	4,993	4,092
Total earning assets	60,395	55,125	52,849	51,417	55,737
Cash and due from banks	13,119	11,974	3,543	11,022	7,056
Other assets	5,454	4,978	4,833	4,814	4,149
Total assets	78,968	72,077	61,225	67,253	66,942
<b>Liabilities</b>					
Customer deposits	50,640	46,221	32,351	34,342	35,404
Interbank and other short-term funding	–	–	314	–	11
Other long-term funding	13,854	12,645	15,001	18,920	18,484
Trading liabilities and derivatives	57	52	15	52	24
Total funding and derivatives	64,551	58,918	47,681	53,314	53,923
Other liabilities	2,318	2,116	2,635	3,078	2,751
Preference shares and hybrid capital	–	–	–	–	–
Total equity	12,099	11,043	10,909	10,861	10,268
Total liabilities and equity	78,968	72,077	61,225	67,253	66,942
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

<sup>a</sup> Financials presented above refer to VW Bank, as VWFS's operational inception was only in July 2024.  
Source: Fitch Ratings, Fitch Solutions, VWFS

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
<b>Ratios (%; annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	1.4	1.5	2.2	1.6
Net interest income/average earning assets	2.2	2.8	2.8	2.7
Non-interest expense/gross revenue	46.7	47.4	48.3	43.2
Net income/average equity	5.8	4.2	7.3	6.4
<b>Asset quality</b>				
Impaired loans ratio	1.8	2.3	2.4	2.6
Growth in gross loans	4.8	4.5	-10.5	-7.1
Loan loss allowances/impaired loans	96.2	72.1	70.6	80.8
Loan impairment charges/average gross loans	0.3	0.3	-0.4	0.5
<b>Capitalisation</b>				
Common equity Tier 1 ratio	17.5	16.9	19.0	18.1
Tangible common equity/tangible assets	15.3	17.8	16.1	15.3
Net impaired loans/common equity Tier 1	0.4	3.7	3.6	2.9
<b>Funding and liquidity</b>				
Gross loans/customer deposits	111.1	151.5	136.5	147.9
Customer deposits/total non-equity funding	78.5	67.9	64.5	65.7

Source: Fitch Ratings, Fitch Solutions, VWFS

## Support Assessment

Shareholder Support	
Shareholder IDR	A-
Total Adjustments (notches)	0
Shareholder Support Rating	a-
Shareholder ability to support	
Shareholder Rating	A-/ Stable
Shareholder regulation	1 Notch
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	1 Notch

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

VWFS's Long-Term IDR is driven by a very high probability of support from VW, and is aligned with VW's Long-Term IDR. In assessing support, Fitch accounts for VWFS's core subsidiary status and central role in supporting VW's strategic objectives globally, and VW's 100% ownership, as well as the huge reputational impact for VW, should the subsidiary default. It also takes into account the high level of financial, operational and management integration, and highly correlated franchises. VWFS and its subsidiaries have a long and successful record of supporting group's global sales, as the key platform for VW's mobility solutions offering.

Environmental, Social and Governance Considerations

FitchRatings Volkswagen Financial Services AG

Banks  
Ratings Navigator

Credit-Relevant ESG Derivation

Volkswagen Financial Services AG has 9 ESG potential rating drivers <ul style="list-style-type: none"> <li>➔ Volkswagen Financial Services AG</li> <li>➔ Volkswagen Financial Services AG</li> <li>➔ Volkswagen Financial Services AG has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.</li> <li>➔ Volkswagen Financial Services AG has exposure to impact of labor negotiations, including board/employee compensation and composition but this has very low impact on the rating.</li> <li>➔ Volkswagen Financial Services AG has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.</li> <li>➔ Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	9	issues	3	
	not a rating driver	2	issues	2	
		3	issues	1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance	
GHG Emissions & Air Quality	3	n.a.	n.a.	5	
Energy Management	2	n.a.	n.a.	4	
Water & Wastewater Management	2	n.a.	n.a.	3	
Waste & Hazardous Materials Management; Ecological Impacts	3	n.a.	n.a.	2	
Exposure to Environmental Impacts	1	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1	

**How to Read This Page**  
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

**The Credit-Relevant ESG Derivation table's** far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5 and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance	
Human Rights, Community Relations, Access & Affordability	1	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5	
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4	
Labor Relations & Practices	3	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3	
Employee Wellbeing	1	n.a.	n.a.	2	
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1	

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance	
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5	
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4	
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3	
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	
				1	

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

As support-driven issuers have strong linkages to their support providers, the ESG Credit-Relevance Score assigned to the 'supported' subsidiaries often mirrors those of their corporate and FI parents. This reflects our opinion that many of the ESG elements at the parent level are credit relevant for the subsidiary.

Therefore, VWFS scores are mostly aligned with those of VW. VWFS's differs from VW with scores for 'GHG Emissions' at '3' and 'Governance Structure' at '3', reflecting its indirect focus on the automotive industry and clear governance structure, respectively.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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