

Research Update:

# VW's Captive Finance Entities Affirmed At 'BBB+/A-2' After Reorganization; New Entity Rated; Outlook Stable

July 1, 2024

## Overview

- On July 1, 2024, Volkswagen AG (VW) completed the reorganization of its captive finance entities, which maintain a strategic position within the wider VW Group.
- In our view, although the reorganization strengthens the overall market position of Volkswagen Bank GmbH (VW Bank), its funding profile now depends more heavily on access to wholesale markets.
- We therefore affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings on VW Bank, and on Volkswagen Financial Services Overseas AG (VWFS Overseas; formerly known as Volkswagen Financial Services AG). At the same time, we assigned our 'BBB+/A-2' long- and short-term issuer credit ratings to a new entity that will be known as Volkswagen Financial Services AG (VWFS Europe; formerly Volkswagen Financial Services Europe AG).
- The stable outlook on VWFS Europe and VWFS Overseas reflects the stable outlook on VW, which is their direct parent. Our stable outlook on VW Bank indicates that we expect it to remain key to VW's value proposition, to smoothly integrate Volkswagen Leasing GmbH (VW Leasing), and to maintain its sound financial profile.

## Rating Action

On July 1, 2024, S&P Global Ratings affirmed its 'BBB+/A-2' long- and short-term issuer credit ratings on Volkswagen Bank GmbH, and on Volkswagen Financial Services Overseas AG (VWFS Overseas; formerly known as Volkswagen Financial Services AG). At the same time, we assigned a 'BBB+/A-2' long- and short-term issuer credit rating to the newly established holding company for VW's European captive finance entities, Volkswagen Financial Services AG (VWFS Europe; formerly Volkswagen Financial Services Europe AG). The outlook on all the long-term ratings is stable.

### PRIMARY CREDIT ANALYST

**Harm Semder**  
Frankfurt  
+ 49 693 399 9158  
harm.semder@spglobal.com

### SECONDARY CONTACT

**Benjamin Heinrich, CFA, FRM**  
Frankfurt  
+ 49 693 399 9167  
benjamin.heinrich@spglobal.com

### RESEARCH ASSISTANT

**Alexander Maichel**  
Frankfurt

### ADDITIONAL CONTACT

**Financial Institutions EMEA**  
Financial\_Institutions\_EMEA\_Mailbox@spglobal.com

## Rationale

**VW has reorganized its financial services entities to streamline its regulated and nonregulated captive finance operations, and the entities related to its core strategic integrations.**

In Europe, a new nonoperating holding company, VWFS Europe, will host its European captive finance business. The largest of its core subsidiaries, under the new organizational structure, is VW Bank, which is regulated by the European Central Bank (ECB). VW Bank, in turn, now owns core subsidiary VW Leasing.

**The non-European financial services businesses remains in VWFS Overseas, formerly known as Volkswagen Financial Services AG.**

S&P Global Ratings understands that all existing profit-and-loss transfer agreements and guarantees affecting the various entities in VW's financial services business are being grandfathered in and will be legally adjusted to be part of the new organizational setup. Ultimately, they will be directed toward VW, as the most-senior parent company.

**VW has several captive finance subsidiaries: Germany-based VWFS Europe and its core subsidiary VW Bank, as well as VWFS Overseas.**

Our ratings on these are based on our view that VW, one of the world's largest auto manufacturers, would support its captive finance entities under any foreseeable circumstances, if needed. We consider VW Bank and its financial services affiliates integral to the group's strategy--the ability to provide financial services and generate income through related services helps to promote the sale of VW's products, supports VW dealers, and strengthens customer relationships. This very important strategic role is unlikely to alter, in our view; it is more likely to be reinforced by the need to promote sales of electric vehicles, which are a clear focus for the auto maker.

**The reorganization enables VW to harness VW Bank's large deposit franchise.** VW anticipates that its mobility strategy for the coming years will push strong growth in its financial services business due to changing customer preferences. New business growth in leasing is expected to be above average. VW Leasing today became a 100% subsidiary of VW Bank. Pro forma this change, VW Bank assets at year-end 2023 would have almost doubled to an estimated €130 billion. VW Bank plans to fund its expected strong growth in leasing business by increasing its customer deposits accordingly. In our opinion, VW Bank's reorganization further strengthens its business position as Europe's leading captive finance bank, and it remains an insulated VW group entity. Despite the greater volatility of the leasing business, we anticipate that VW Bank will maintain its very strong capitalization, as indicated by its S&P Global Ratings risk-adjusted capitalization (RAC) ratio remaining above 15%. That said, the acquisition of VW Leasing has temporarily weakened VW Bank's funding profile by making it more dependent on wholesale markets. Over the next few years, we will monitor VW Bank's plans to substantially grow its deposit business. Growth in line with management's expectations could prompt us to revise upward our stand-alone funding assessment for VW Bank.

**We predict that the new structure will improve regulatory supervision and oversight.** The new European part of the group structure will be supervised by the ECB and subject to regulatory capital requirements on a consolidated basis at both the VWFS Europe and VW Bank level. We expect both entities to maintain strong capital cushions that are sufficient to meet these requirements, and to manage any increase to the requirements that may be caused by capital shifts within the group's financial division. For example, the specific entity may take steps to

retain more capital, such as increasing earnings retention, or VW may provide a capital injection. We understand that VW Bank and the Single Resolution Board are in ongoing discussions regarding the banking group's resolution strategy and the potential minimum requirement for its own funds and eligible liabilities (MREL).

## Outlook

### VW Bank

Our stable outlook on VW Bank indicates that we expect it to remain key to VW's value proposition. In addition, we expect VW Bank to smoothly integrate VW Leasing and to maintain a sound financial and funding profile, supported by very strong capitalization, over the next two years.

**Downside scenario:** We view a downgrade of VW Bank as remote, as long as VW maintains its credit strength. We would only consider downgrading VW Bank if its strategic relevance to the group had weakened so that we no longer considered it to be a core part of VWFS Europe and we also revised down its stand-alone credit profile (SACP). Because we classify the bank as an insulated entity, we would not downgrade it solely because we had taken a similar rating action on the parent.

**Upside scenario:** We would consider an upgrade of VW Bank if VW's credit profile improved, increasing its capacity to provide extraordinary support to VWFS Europe--and, therefore, to VW Bank. Although we consider such a scenario unlikely, we could also upgrade the bank if more efficient operations significantly strengthened its risk-adjusted profitability and it was able to increase the proportion of stable relationship deposits in its overall funding profile.

### VWFS Europe and VWFS Overseas

Our outlooks on these entities mirror the stable outlook on their parent VW. If we took a rating action on VW within the next 12-24 months, we would take a similar rating action on VWFS Europe and on VWFS Overseas.

**Downside scenario:** Although unlikely, we could lower our ratings on these entities if we considered that VW's commitment to supporting its subsidiaries had weakened. For example, we might take this view if VW materially reduced its ownership of either subsidiary, or if we no longer considered the captive finance operations crucial to the VW group's global strategy.

**Upside scenario:** We would raise our ratings on VWFS Europe and on VWFS Overseas if we took a similar rating action on VW.

## Ratings Score Snapshot

	To	From
VW Bank GmbH--Issuer credit rating	BBB+/Stable/A-2	BBB+/Stable/A-2
SACP	bbb+	bbb+
Anchor	bbb+	bbb+

	To	From
Business position	Moderate (-1)	Constrained (-2)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Moderate and adequate (-1)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

## Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Volkswagen AG, Feb. 20, 2024
- Volkswagen Bank GmbH, Nov. 7, 2023
- Volkswagen Financial Services AG, Nov. 7, 2023
- Bulletin: The Reorganization Of Volkswagen AG's Captive Finance Activities Will Not Dilute Their Intrinsic Strength, March 2, 2023

## Ratings List

\*\*\*\*\* Volkswagen AG \*\*\*\*\*

### New Rating

#### Volkswagen Financial Services AG

Issuer Credit Rating	BBB+/Stable/A-2
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### Ratings Affirmed

#### Volkswagen Finans Sverige AB

Issuer Credit Rating	
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Nordic Regional Scale	--/--/K-1
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#### Volkswagen Financial Services Overseas AG

Issuer Credit Rating	BBB+/Stable/A-2
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Senior Unsecured	BBB+
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Commercial Paper	A-2
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#### Skofin s.r.o.

Commercial Paper	A-2
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#### Volkswagen Bank GmbH

Issuer Credit Rating	BBB+/Stable/A-2
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Senior Subordinated	BBB
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Commercial Paper	A-2
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#### Volkswagen Financial Services Australia Pty Ltd.

Senior Unsecured	BBB+
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Commercial Paper	A-2
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#### Volkswagen Financial Services Japan Ltd.

Senior Unsecured	BBB+
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Commercial Paper	A-2
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#### Volkswagen Financial Services N.V.

Senior Unsecured	BBB+
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Commercial Paper	A-2
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#### Volkswagen Financial Services Polska SP. Z O.O.

Senior Unsecured	BBB+
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#### Volkswagen Finans Sverige AB

Commercial Paper	A-2
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#### Volkswagen Leasing GmbH

Senior Unsecured	BBB+
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Commercial Paper	A-2
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