

RATING ACTION COMMENTARY

Fitch Rates Volkswagen Financial Services Europe AG and Volkswagen Bank GmbH 'A-'; Outlook Stable

Mon 01 Jul, 2024 - 9:14 AM ET

Fitch Ratings - Frankfurt am Main - 01 Jul 2024: Fitch Ratings has assigned Volkswagen Financial Services Europe AG (VWFS) and Volkswagen Bank GmbH (VW Bank) Long-Term Issuer Default Ratings (IDRs) of 'A-' with Stable Outlooks and Short-Term IDRs of 'F1'. A full list of rating actions is below.

KEY RATING DRIVERS

Parent Support-Drives Ratings: VWFS's and VW Bank's 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) of 'a-'. The Stable Outlooks on VWFS's and VW Bank's Long-Term IDRs are aligned with that on VW's Long-Term IDR.

Fitch 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 Subsidiary, Highly Integrated: Fitch views VWFS and VW Bank as key subsidiaries of VW because of their central 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 will be in place, and we believe VW is able to and will provide capital support to its subsidiaries if required, without impairing its own credit profile.

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.

VWFS will be renamed Volkswagen Financial Services AG in July 2024. At the same time, the current Volkswagen Financial Services AG will be renamed Volkswagen Financial Services Overseas AG.

Good Asset Quality; Weakening Likely: VW Bank is the largest part of VWFS, with Fitch estimating that it is about 70% of VWFS's total assets. VW Bank's asset quality improved in 2023 despite headwinds from the operating environment (impaired loans ratio of 1.8% at end-2023). The bank's focus on mobility finance leaves it vulnerable to recessionary pressure in core markets. Fitch expects VW Bank's impaired loans ratio to deteriorate modestly in 2024, given economic uncertainty and inflation potentially pressurising car demand.

Good Profitability: VWFS's profitability benefits from VW Bank's sound profitability, reflected in a four-year average operating profit/risk-weighted assets of above 1.5%. In 2024, higher interest expenses and a reduced net car sales result could weigh on VW Bank's profitability, but we expect profitability to 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, due to the high risk-weight density from the use of the standardised approach to assess its credit risk.

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.

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: KEY RATING DRIVERS

We align VWFS's expected senior unsecured debt ratings with its IDRs.

The expected ratings of SkoFIN s.r.o's and VW Financial Services Polska Sp. Z. o. o's commercial paper programme are aligned with VWFS's Short-Term IDR, based on VWFS's expected guarantee of the programme.

The expected ratings for Volkswagen Financial Services N.V.'s debt issuance and commercial paper programme are aligned with VWFS's IDRs based on VWFS's expected guarantee of these programme.

Final ratings are contingent upon the receipt of final documents conforming to the information already received.

Fitch believes 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 eligible senior non-preferred debt.

VW Bank's expected 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 expected senior non-preferred debt rating is in line with its Long-Term IDR.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

VWFS, of SkoFIN s.r.o, VW Financial Services Polska Sp. Z. o. o. and Volkswagen Financial Services N.V.

The debt ratings are sensitive to changes to VWFS's IDRs.

VW Bank

The ratings of VW Bank's senior debt and deposits are sensitive to changes to its IDRs. We could downgrade the long-term senior non-preferred and senior preferred debt and deposit ratings by one notch on changes in the group's resolution strategy resulting in weaker protection than we currently expect for this debt.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

VWFS's and VW Bank's IDRs are driven by VW's IDR.

ESG CONSIDERATIONS

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..>

RATING ACTIONS



ENTITY / DEBT ↕	RATING ↕		
Volkswagen Financial Services Europe AG	LT IDR	A- Rating Outlook Stable	New Rating
	ST IDR	F1	New Rating
	Shareholder Support	a-	New Rating
senior unsecured	LT	A-(EXP)	Expected Rating
senior unsecured	ST	F1(EXP)	Expected Rating
SkoFIN s.r.o.			
senior unsecured	ST	F1(EXP)	Expected Rating
VW Financial Services Polska Sp. z o. o.			
senior unsecured	LT	A-(EXP)	Expected Rating
senior unsecured	ST	F1(EXP)	Expected Rating

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Markus Glabach

Director

Primary Rating Analyst

+49 69 768076 195

markus.glabach@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Ilya Makunin

Director

Secondary Rating Analyst

+49 69 768076 169

ilya.makunin@fitchratings.com

Olivia Perney

Managing Director

Committee Chairperson

+33 1 44 29 91 74

olivia.perney@fitchratings.com

MEDIA CONTACTS**Peter Fitzpatrick**

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)

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ENDORSEMENT STATUS

SkoFIN s.r.o.

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Volkswagen Bank GmbH

-

Volkswagen Financial Services N.V.

-

VW Financial Services Polska Sp. z o. o.

-

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