

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms VW Bank's A1 long-term deposit and issuer ratings, outlook stable**

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01 Jul 2024

#### **Baseline Credit Assessment (BCA) downgraded to baa3 from baa2**

Frankfurt am Main, July 01, 2024 -- Moody's Ratings (Moody's) has today affirmed the A1 long-term deposit and issuer ratings of Volkswagen Bank GmbH (VW Bank). The rating outlook for these long-term ratings remains stable. Concurrently, we affirmed the bank's A3 junior senior unsecured debt rating, its Aa3/P-1 long- and short-term Counterparty Risk Ratings (CRRs), as well as its P-1 short-term deposit and commercial paper ratings. We also assigned a P-1 short-term domestic-currency commercial paper rating to VW Bank's new €7.5 billion program.

Further, we downgraded VW Bank's Baseline Credit Assessment (BCA) to baa3 from baa2 and affirmed its a3 Adjusted BCA as well as its Aa3(cr)/P-1(cr) long- and short-term Counterparty Risk (CR) Assessment.

At the same time, we have withdrawn the bank's (P)A1 senior unsecured MTN program rating, its (P)A3 junior senior unsecured MTN program rating, the bank's (P)Baa1 subordinated MTN program rating and its (P)P-1 other short-term rating under the to be retired €10 billion debt issuance program of VW Bank.

For Volkswagen Leasing GmbH (VW Leasing), which is now consolidated under VW Bank, we have upgraded its long-term backed senior unsecured debt rating to A1 from A3 and assigned a stable outlook, and upgraded its short-term backed commercial paper rating to P-1 from P-2. We have also upgraded VW Leasing's backed senior unsecured MTN program rating to (P)A1 from (P)A3 and its other short-term rating to (P)P-1 from (P)P-2, both of which we have subsequently withdrawn since VW Leasing will no longer issue any debt under these programs. We further affirmed the A3 rating of one VW Leasing bond (ISIN: XS1642590480) maturing on 20 January 2025.

The rating actions were triggered by the reorganisation of Volkswagen Aktiengesellschaft's (Volkswagen, long-term issuer rating A3 stable) financial services

operations, effective 1 July 2024 [1].

A full list of affected ratings can be found at the end of this press release.

## RATINGS RATIONALE

### ANNOUNCED ORGANISATIONAL CHANGES WITHIN VOLKSWAGEN'S FINANCIAL SERVICES OPERATIONS

Effective 1 July 2024, Volkswagen has reorganised its financial services operations. Its European banking and leasing operations, including VW Bank and VW Leasing (which became a subsidiary of VW Bank) and its insurance and mobility services are now consolidated under the umbrella of Volkswagen Financial Services Europe AG (VW FS Europe, long-term issuer rating A3 stable). This new EU parent financial holding company holds total assets of approximately €180 billion.

VW Bank will remain directly supervised by the European Central Bank (ECB), while VW FS Europe will become subject to ECB supervision as the superordinate EU parent financial holding company, which is responsible for compliance with the provisions of the EU's Capital Requirements Regulation (CRR) for the financial holding group.

### DOWNGRADE OF VW BANK'S BCA

The one-notch downgrade of VW Bank's BCA to baa3 reflects the entity's heightened asset risk and higher dependence on more confidence-sensitive market funding following the reorganisation. In particular, the downgrade reflects additional direct residual value risks resulting from the consolidation of VW Leasing.

The baa3 BCA further reflects the bank's generally sound asset quality, its expected solid regulatory capital levels and a continued satisfactory profitability. The broad range of the bank's proven and diversified funding channels, including its stable and granular deposit funding franchise, displays good access to capital markets even in volatile market environments, mitigating risks from its now higher dependence on wholesale capital market funding, including asset-backed securities (ABS) as well as unsecured debt.

### AFFIRMATION OF VW BANK'S ADJUSTED BCA

The affirmation of VW Bank's a3 Adjusted BCA takes into account both the strategic importance of VW Bank for the distribution of Volkswagen vehicles and the formal commitment of Volkswagen towards VW FS Europe through a control and profit-and-loss transfer agreement as well as a similar agreement for VW Bank, further supported by a hard letter of comfort from VW FS Europe for the benefit of VW Bank. The strength of these support agreements effectively leads to an alignment of the bank's Adjusted BCA with the long-term issuer rating of its ultimate parent VW FS Europe. VW Leasing will also benefit from a direct profit and loss transfer agreement

as well as a hard letter of comfort with VW Bank.

## AFFIRMATION OF VW BANK'S RATINGS AND UPGRADE OF VW LEASING'S BACKED RATINGS

The affirmation of the A1 long-term deposit and issuer ratings for VW Bank as well as the upgrade of VW Leasing's long-term backed senior unsecured debt ratings by two notches reflects the affirmation of VW Bank's a3 Adjusted BCA as well as our view that the proposed organisational changes, in particular the inclusion of VW Leasing into VW Bank's resolution perimeter, will support the notching uplift assigned to the various debt classes under our Advanced Loss Given Failure (LGF) analysis.

The future resolution perimeter and the respective Minimum Requirement for Own Funds and Eligible Liabilities (MREL) level is not yet fully determined by the resolution authorities and will only become final as and when the authorities have carried out the first regular Public Interest Assessment (PIA) for the new structure, which is expected to be completed during 2025.

Overall, the joint impact of the reorganisation and of the assumed funding profile shift of the enlarged banking group results in a very low loss-given-failure for junior depositors and senior unsecured debt at VW Bank as well as backed senior unsecured debt holders of VW Leasing, leading to two notches of rating uplift from the bank's a3 Adjusted BCA. The short-term ratings continue to reflect normal mapping from the bank's respective long-term ratings.

For the bank's junior senior unsecured debt, including VW Leasing's reclassified backed junior senior unsecured bond affected by statutory subordination (ISIN: XS1642590480), our Advanced LGF analysis results in a moderate loss-given-failure for this debt class and no rating uplift from the a3 Adjusted BCA. It also results in an unchanged extremely low loss-given-failure and three notches of uplift for VW Bank's CR Assessment and CRRs.

Following the take-up of all shares of VW Leasing by VW Bank, VW Leasing's reclassified backed junior senior unsecured bond (ISIN: XS1642590480) has become subject to statutory subordination that applies in Germany for issuances prior to 21 July 2018, in our view. As such, this bond has been reclassified from backed senior unsecured to backed junior senior unsecured debt. All bonds issued by VW Leasing benefit from an irrevocable and unconditional guarantee by VW FS Europe.

Finally, we do not incorporate rating uplift resulting from government support for VW Bank because we do not consider it relevant for domestic financial system stability.

## RATIONALE FOR THE STABLE OUTLOOK

The stable outlooks on VW Bank's long-term deposit and issuer ratings as well as VW Leasing's long-term backed senior unsecured debt ratings reflect our assumption of a largely stable liability structure over the next 12 months. The stable outlooks further

reflect the stable outlook on the ultimate parent Volkswagen.

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

VW Bank's and VW Leasing's ratings could be upgraded in case of an upgrade of Volkswagen, or in case significant volumes of MREL-eligible bonds get issued, such that it reduces the loss severity of their various respective rating classes.

VW Bank's BCA could be upgraded if it manages to sustain asset risks and keep contained loan loss charges or residual value impairments through the cycle, or if the bank improves its capitalisation to levels above our current expectations.

VW Bank's and VW Leasing's ratings could be downgraded in case of a downgrade of Volkswagen, or in case the liability structure shifts towards non-bail-able liabilities, such that it increases the loss severity of respective rating classes. A downgrade could also be triggered if Volkswagen were to loosen its ties with its bank subsidiary, leading to a lowering of our support assumption for VW Bank and a downgrade of the bank's Adjusted BCA to a level below the parent's issuer rating.

The bank's BCA could be downgraded if VW Bank's asset quality or capital metrics deteriorate to levels below our current expectations or if the bank becomes meaningfully more reliant on market funding in conjunction with a significantly lower liquidity buffer.

## LIST OF AFFECTED RATINGS

..Issuer: Volkswagen Bank GmbH

Outlook Actions:

...Outlook, Remains Stable

Assignments:

.... Commercial Paper (Local Currency), Assigned P-1

Downgrades:

.... Baseline Credit Assessment, Downgraded to baa3 from baa2

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed a3

.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)

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

.... LT Counterparty Risk Rating (Foreign Currency), Affirmed Aa3  
.... LT Counterparty Risk Rating (Local Currency), Affirmed Aa3  
.... ST Counterparty Risk Rating (Foreign Currency), Affirmed P-1  
.... ST Counterparty Risk Rating (Local Currency), Affirmed P-1  
.... LT Issuer Rating (Foreign Currency), Affirmed A1 STA  
.... LT Issuer Rating (Local Currency), Affirmed A1 STA  
.... ST Bank Deposits (Foreign Currency), Affirmed P-1  
.... ST Bank Deposits (Local Currency), Affirmed P-1  
.... Junior Senior Unsecured (Local Currency), Affirmed A3  
.... Commercial Paper (Local Currency), Affirmed P-1  
.... LT Bank Deposits (Foreign Currency), Affirmed A1 STA  
.... LT Bank Deposits (Local Currency), Affirmed A1 STA

Withdrawals:

.... Junior Senior Unsecured Medium-Term Note Program (Local Currency),  
Withdrawn , previously rated (P)A3  
.... Other Short Term (Local Currency), Withdrawn , previously rated (P)P-1  
.... Subordinate Medium-Term Note Program (Local Currency), Withdrawn , previously  
rated (P)Baa1  
.... Senior Unsecured Medium-Term Note Program (Local Currency), Withdrawn ,  
previously rated (P)A1

..Issuer: Volkswagen Leasing GmbH

Outlook Actions:

....Outlook, Remains Stable

Upgrades:

.... Backed Commercial Paper (Local Currency), Upgraded to P-1 from P-2  
.... Backed Senior Unsecured Medium-Term Note Program (Local Currency),

Upgraded to (P)A1 from (P)A3

... Backed Other Short Term (Local Currency), Upgraded to (P)P-1 from (P)P-2

... Backed Senior Unsecured (Local Currency), Upgraded to A1 STA from A3

Affirmations:

Â...Backed Junior Senior Unsecured (Local Currency), Affirmed A3 (ISIN XS1642590480, reclassified from Backed Senior Unsecured)

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>.

Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions>.

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#### REFERENCES/CITATIONS

[1] Company announcement 18 June 2024: <https://www.luxse.com/pdf-viewer/104236829>

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