

Volkswagen Financial Services AG

Key Rating Drivers

Support-Driven Ratings: Volkswagen Financial Services AG's (VWFS) ratings are driven by an extremely high probability of support from its ultimate shareholder, Volkswagen AG (VW; A-/Stable), the leading global car manufacturer. This is reflected in VWFS's Shareholder Support Rating of 'a-'. The Stable Outlook on VWFS's Long-Term Issuer Default Rating (IDR) is equalised with that on VW's Long-Term IDR.

Fitch Ratings does not assign VWFS a standalone credit profile score because its franchise is highly correlated with that of its parent, and there is a high level of financial, operational and management integration with the parent, reflected by, among other things, the current control and profit-and-loss transfer agreement between VWFS and VW.

Core Subsidiary, Highly Integrated: Fitch views VWFS as a core subsidiary of VW because of its central role in supporting VW's strategic objectives, the huge reputational impact a default of VWFS would have on VW, in our view, the high levels of integration, and the extensive record of ordinary and extraordinary support provided by VW in the past.

Smaller Size Due to Reorganisation: To optimise funding access for its European financial services division, VW plans to transfer ownership of VW Bank GmbH (not rated) to a new ECB-supervised intermediate holding company, which will also become the direct or indirect owner of other Europe-focused financial services entities (including the sizeable Volkswagen Leasing GmbH, which is owned by VWFS).

VWFS will reduce in size and be renamed Volkswagen Financial Services Overseas AG (VWFS Overseas) as a result of this reorganisation, to become the main intermediate holding company of VW's financial services activities outside Europe and North America, with material credit exposures in China and Brazil among other markets.

Support Unaffected by Planned Reorganisation: VWFS's current control and profit-and-loss transfer agreement will remain. In Fitch's view the reorganisation, which is planned to be mostly implemented by mid-2024, will not lead to a material reduction in VWFS's importance for VW, as reflected in the Stable Outlook on VWFS's Long-Term IDR. After the reorganisation, VWFS Overseas will be materially smaller and its average penetration rate will drop, but in our view it will remain central in supporting VW sales in a number of important growth markets.

Parental Support Allows High Leverage: VWFS's leverage ratio, defined as gross debt/tangible equity, is higher than that of comparable independent finance companies, at 6.3x at end-1H23 (end-2022: 6.3x). However, VWFS's leverage profile is supported by its sound earnings profile and the control and profit-and-loss agreement with VW. We believe VW is able to and will provide capital support to VWFS, if required, without materially impairing its own credit profile.

Well-Managed RV Risk: VWFS has a good record of managing residual value (RV) risks, reflected in positive net used car sales results, which have been particularly strong recently due to high used car prices. We expect used car prices to reduce in 2024, but do not expect VWFS to report RV-related losses, reflecting generally prudent RV risk-setting.

VWFS is exposed to moderate interest rate risk (controlled by a value-at-risk model), but its appetite for foreign exchange (FX) risk is low, with all FX cash flows hedged with currency forwards, or cross-currency interest rate swaps.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1
Shareholder Support Rating	a-

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

[Non-Bank Financial Institutions Rating Criteria \(January 2024\)](#)

Related Research

[Fitch Publishes Volkswagen Financial Services AG's 'A-' IDR; Outlook Stable \(January 2024\)](#)

[EMEA NBFI Refinancing Risk Report: 2024 \(February 2024\)](#)

[EMEA Developed Markets Finance and Leasing Outlook 2024 \(December 2023\)](#)

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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 likely be mirrored in VWFS's ratings and Outlook.

A weakening of VW's propensity to support VWFS, for instance, due to VWFS becoming less central to VW's overall mobility services strategy, could lead to Fitch notching VWFS's Long-Term IDR 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 plan could indicate reduced relevance of VWFS for VW.

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

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

Shareholder 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

Subsidiary role and relevance	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 the extremely 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 of VWFS, 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. VW has previously provided extensive ordinary and extraordinary support, and VWFS has a long and successful record of supporting group's global sales, as the key platform for VW's mobility solutions offering.

Fitch believes VWFS Overseas's penetration rate will reduce after the reorganisation in 1H24, as the entity's leasing business will deconsolidate and the entity will become materially smaller. However, in our view, VWFS Overseas will remain central in supporting business growth in a number of VW's core growth markets. We therefore believe it will not lead to a material reduction in VWFS Overseas' importance for VW, as reflected in the Stable Outlook on VWFS's Long-Term IDR.

Key Qualitative Factors

Used Car Sales Market to Normalise

Fitch expects auto finance and leasing companies' profitability, which was helped by large net gains from used car sales in recent years, to return to pre-pandemic levels in 2024. Used car prices remain high, but are falling as the supply of new vehicles has improved substantially, and demand has been pressured by higher interest rates and falling consumer expenditure. We expect RV gains to shrink as VWFS will start selling cars acquired at high prices at the outbreak of the pandemic, but the rating case assumes no material RV losses, given VWFS's disciplined RV settings.

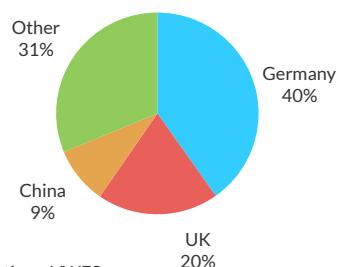
High Integration with Parent

VWFS is VW's integrated financial services arm, and is fully owned by, and branded similarly to, VW. With EUR138 billion of assets at end-1H23, VWFS is one of the largest automotive financial services companies globally, accounting for 24% of VW's total group assets. VWFS's activities include auto finance and leasing, dealer financing, insurance and services, with products offered mostly through VW's dealer network globally. Typical for OEM's financial services companies, VWFS's business model heavily relies on group sales, exposing it to the volatility of the automotive industry. This is mitigated by incrementally more stable financial services revenue stream, company's broad geographical and product diversification and scalable business model.

VWFS has a long and successful record of supporting group sales as the key platform of VW's mobility solutions offering. VWFS's penetration rate (VWFS contracts/VW car sales) – excluding China where penetration rates are materially lower for all car manufacturers – was 46% at end-2022 (end-1H23: 46%), which is broadly in line with peers and emphasises VWFS's importance for VW.

Finance Assets by Country

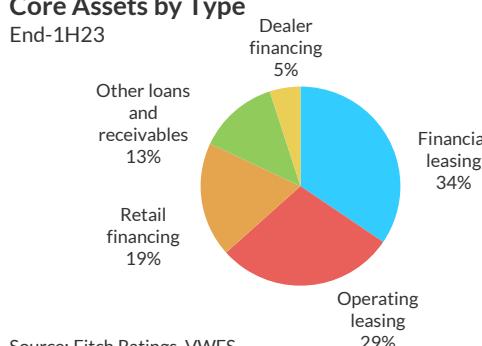
End-1H23



Source: Fitch Ratings, VWFS

Core Assets by Type

End-1H23

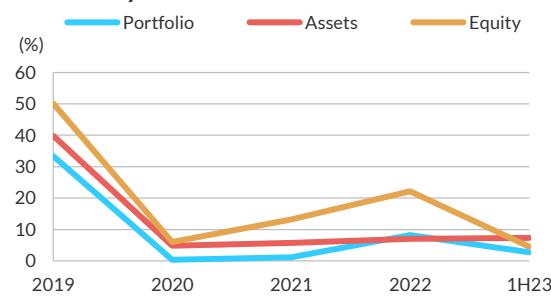


Source: Fitch Ratings, VWFS

Adequate Risk Profile

VWFS's underwriting, scoring and risk control frameworks are in line with that of its peers. We expect risk policy to remain adequate after the restructuring. VWFS expects a significant portfolio growth, driven by growing demand for its financial and mobility services.

Growth Dynamic



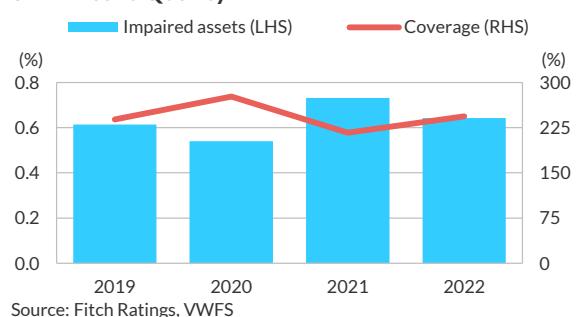
Source: Fitch Ratings, VWFS

Financial Profile

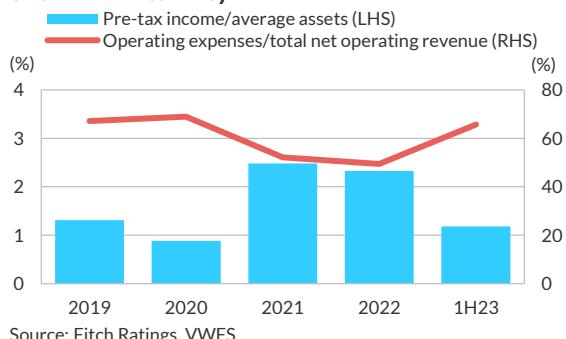
Robust Asset Quality

At end-1H23, 65% of VWFS's EUR138 billion assets related to customer loans and receivables, with another 26% related to operating leases, exposing VWFS to direct RV risk. Credit risk is well-managed, supported by the secured nature of company's exposures, as well as the sound risk framework and granular portfolio. VWFS's impaired receivables ratio (stage 3 and purchased or originated credit-impaired /gross loans and finance leases) has been consistently low (around 0.6% at end-2022) and average impairment charges to gross loans and finance leases was 0.5% in 2019-2022.

Solid Asset Quality



Sound Profitability



Sound Profitability to Moderate

VWFS's profitability is sound, reflected in a pre-tax income/average assets ratio averaging 1.8% in 2019-2022. In 2024, higher interest expenses and a reduced net car sales result will weigh on VWFS's profitability. We also believe operating expenses, which averaged 59% of total net operating revenue in 2019-2022, could increase driven by costs related to re-organisation, putting pressure on profitability.

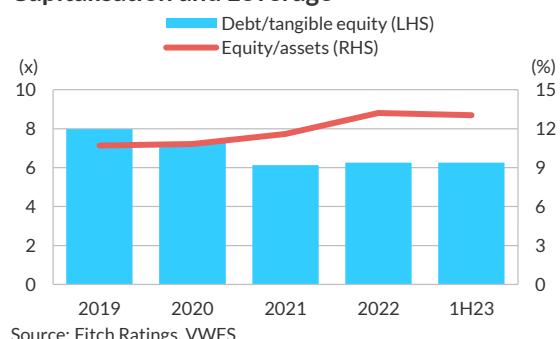
We believe macroeconomic volatility and uncertainty around RVs could lead to increased impairment and depreciation expenses, but we expect profitability to remain sound, supported by higher financing and leasing income and the implementation of VWFS's cost-saving programme.

Leverage Higher than Peers'

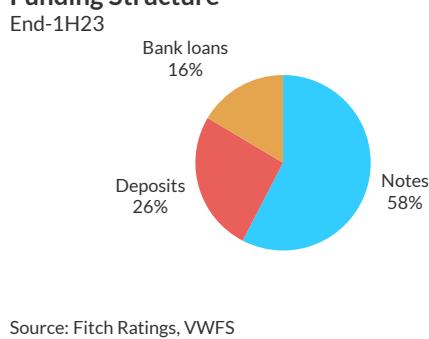
VWFS's leverage (gross debt/tangible equity) was 6.3x at end-1H23 (end-2022: 6.3x), with asset growth supported by solid net profits in 2021 and 2022, and only modest dividend distributions. Leverage was still high relative to peer independent finance companies; however, it is supported by VWFS's sound earnings profile and the control and profit-and-loss agreement with VW.

We expect leverage will remain high in 1H24. However, the potential transfer of Volkswagen Leasing GmbH and other Europe-focused financial services entities, as part of the reorganisation, could lead to a decrease in leverage. In our view, the growth in costlier electric vehicles could drive higher fleet investment on a unit-cost basis, which combined with electric vehicles' RV concerns could put pressure on leverage and quality of capital.

Capitalisation and Leverage



Funding Structure



Solid Funding Profile

VWFS sources a significant proportion of its funding from global asset-backed securities (ABS) markets (25% of total debt). The remaining funding (bank loans, customer deposits and notes) was mostly unsecured, providing the company with sufficient funding flexibility. Around 23% of VWFS's liabilities at end-2022 were from related parties.

VWFS's short-term debt to total debt ratio is high, at 40% at end-2022, reflecting large refinancing needs amid ongoing re-organisation and still high interest rates. However, we believe VWFS's solid capital market access should mitigate refinancing challenges, with the company also benefitting from a EUR2.5 billion committed liquidity facility from the parent.

Post re-organisation VWFS aims for an around an equal distribution of its funding between ABS, loans and bonds, which should provide diversified funding access. At the same time, customer deposits will no longer be raised under VW Overseas, with VW Bank consolidated under the newly created holding company.

Environmental, Social and Governance Considerations

FitchRatings

Volkswagen Financial Services AG

NBFI
Ratings Navigator

Credit-Relevant ESG Derivation

Volkswagen Financial Services AG has 9 ESG potential rating drivers	key driver	0	issues	ESG Relevance to Credit Rating	5	
	driver	0	issues		4	
	potential driver	9	issues		3	
		2	issues		2	
	not a rating driver	3	issues		1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance	How to Read This Page
GHG Emissions & Air Quality	3	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc.	Sector Risk Operating Environment	5	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.
Energy Management	2	Investments in or ownership of assets with below-average energy/fuel efficiency which could impact future valuation of these assets	Risk Profile	4	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 issue 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.
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 profile & management; catastrophe risk; credit concentrations	Business Profile; Asset Quality	1	

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance	How to Read This Page
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5	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.
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above	Sector Risk Operating Environment; Risk Profile; Asset Quality	4	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 issue 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.
Labor Relations & Practices	3	Impact of labor negotiations, including board/employee compensation and composition	Business Profile; Management & Strategy; Earnings & Profitability; Capitalisation & Leverage; Funding, Liquidity & Coverage	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 activities	Business Profile; Earnings & Profitability	1	

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance	CREDIT-RELEVANT ESG SCALE
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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.
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	Management & Strategy	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.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile	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.
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy	2	Irrelevant to the entity rating but relevant to the sector.
				1	Irrelevant to the entity rating and irrelevant to the sector.

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>.

Financials

Income Statement

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm)	6 months - interim (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Audited - report not seen	Audited - report not seen	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Revenues						
Interest income on loans	1,615	1,486	2,471	2,095	1,995	2,094
Finance lease income	n.a.	n.a.	2,001	1,830	1,852	n.a.
Gross operating lease & rental income	13,134	12,087	19,030	17,559	15,154	14,294
Depreciation of lease & rental assets	10,235	9,419	16,626	16,180	14,911	12,378
Net operating lease & rental income	2,899	2,668	2,404	1,379	243	1,916
Net fees and commissions	135	124	411	393	542	346
Net gains/(losses) on trading, FX and derivatives	-85	-78	777	267	-61	-118
Other operating income	861	792	1,430	1,949	2,049	1,852
Total gross operating revenues	5,424	4,992	9,494	7,913	6,620	6,090
Total interest expense	2,320	2,135	2,167	1,314	1,354	1,352
Total net operating revenues	3,104	2,857	7,327	6,599	5,266	4,738
Expenses						
Depreciation and amortisation of own assets	38	35	84	69	74	70
Personnel expenses	628	578	1,133	1,029	926	902
Other operating expenses	1,373	1,264	2,404	2,343	2,632	2,208
Total operating expenses	2,040	1,877	3,621	3,441	3,632	3,180
Pre-impairment/provision operating profit	1,065	980	3,706	3,158	1,634	1,558
Impairment charges (reversals) on loans & finance leases	203	187	703	122	610	294
Pre-tax income	865	796	3,003	3,005	1,024	1,264
Income tax expense	293	270	1,184	778	228	374
Net income (incl. non-controlling interests)	572	526	1,819	2,227	796	890
Exchange rate	USD1 = EURO0.9203		USD1 = EURO0.9376	USD1 = EURO0.8842	USD1 = EURO0.8220	USD1 = EURO0.8902

Source: Fitch Ratings, Fitch Solutions, Volkswagen Financial Services AG

Balance Sheet

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm)	6 months - interim (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
Assets						
Loans & leases						
Gross customer loans and other receivables	50,097	46,104	47,040	40,685	39,871	40,419
Finance lease receivables	47,155	43,397	41,235	40,901	40,803	39,951
Gross loans & finance leases	97,252	89,501	88,275	81,586	80,674	80,370
Memo: impaired loans, leases and receivables included above	n.a.	n.a.	567	596	435	493
Less: loss allowances for loans, leases and receivables	n.a.	n.a.	1,382	1,289	1,202	1,175
Net loans and finance leases	97,252	89,501	86,893	80,297	79,472	79,195
Gross operating leases & rental assets	42,439	39,057	44,869	40,571	33,365	29,425
Accumulated depreciation on operating leases & rental assets	2,952	2,717	9,942	8,505	6,855	6,649
Net operating leases & rental assets	39,487	36,340	34,927	32,066	26,510	22,776
Investments in securities	1,044	961	894	994	772	896
Derivative assets	1,646	1,515	1,332	586	837	736
Other interest earning assets	4,266	3,926	3,406	5,066	3,830	2,477
Total interest earning assets	104,208	95,903	92,525	86,943	84,911	83,304
Investments in associated companies	695	640	722	787	743	737
Investments in property	75	69	71	76	80	17
Other assets						
Cash & equivalents	2	2	2	33	47	106
Restricted cash	n.a.	n.a.	688	865	777	810
Property, plant and equipment	404	372	320	361	378	413
Goodwill	n.a.	n.a.	6	33	33	35
Other intangibles	120	110	99	80	59	56
Deferred tax assets	1,275	1,173	1,143	1,641	1,752	1,513
Assets from discontinued operations	186	171	1,165	327	1,092	1,058
Other assets	3,732	3,435	1,673	1,378	1,452	1,619
Total assets	150,184	138,215	133,341	124,590	117,834	112,444
Liabilities & equity						
Unsecured short-term debt	n.a.	n.a.	43,281	39,891	38,530	38,811
Short-term borrowings (maturing within 12 months)	n.a.	n.a.	43,281	39,891	38,530	38,811
Secured long-term debt (incl. finance lease liabilities)	n.a.	n.a.	26,348	27,803	25,633	24,102
Unsecured long-term debt	n.a.	n.a.	34,919	34,029	32,707	28,242
Long-term borrowings (maturing after 12 months)	n.a.	n.a.	61,267	61,832	58,340	52,344
Subordinated debt	3,216	2,960	2,909	3,039	4,170	6,943
Total borrowings	121,684	111,986	107,457	104,762	101,040	98,098
Derivative liabilities	2,958	2,722	2,424	532	464	427
Deferred tax liabilities	1,011	930	903	708	572	655
Liabilities from discontinued operations	100	92	478	n.a.	n.a.	n.a.
Other liabilities	4,851	4,464	4,454	4,155	3,004	1,236
Total liabilities	130,603	120,194	115,716	110,157	105,080	100,416
Total equity	19,582	18,021	17,625	14,433	12,754	12,028
Total liabilities and equity	150,184	138,215	133,341	124,590	117,834	112,444
Exchange rate	USD1 = EURO0.9203		USD1 = EURO0.9376	USD1 = EURO0.8842	USD1 = EURO0.8220	USD1 = EURO0.8902

Source: Fitch Ratings, Fitch Solutions, Volkswagen Financial Services AG

Summary Analytics

	30 Jun 23 6 months - interim	31 Dec 22 Year end	31 Dec 21 Year end	31 Dec 20 Year end	31 Dec 19 Year end
Asset quality ratios (%)					
Impaired loans & finance leases/gross loans & finance leases	n.a.	0.6	0.7	0.5	0.6
Loss allowances/impaired loans & finance leases	n.a.	243.7	216.3	276.3	238.3
Net charge-offs/avg. gross loans & finance leases	n.a.	0.2	0.1	0.2	0.1
Growth of gross loans & finance leases YoY	2.8	8.2	1.1	0.4	33.3
Loss allowances/gross loans & finance leases	n.a.	1.6	1.6	1.5	1.5
Impairment charges on loans & finance leases/avg. gross loans & finance leases	0.4	0.8	0.2	0.8	0.4
Earnings and profitability ratios (%)					
Pre-tax income/average assets	1.2	2.3	2.5	0.9	1.3
Pre-tax income/average equity (9.0	18.7	22.1	8.3	12.6
Operating expenses/total net operating revenue	65.7	49.4	52.1	69.0	67.1
Depreciation expense/total revenue	65.4	63.7	67.2	69.3	67.0
Impairment charges/pre-impairment op. profit	19.1	19.0	3.9	37.3	18.9
Capitalisation and leverage ratios (%)					
Debt/tangible equity (x)	6.3	6.3	6.1	7.3	8.0
Tangible equity/tangible assets	0.1	0.1	0.1	0.1	0.1
(Net income - dividends - share repurchases)/beginning equity	6.0	9.8	17.5	6.6	11.1
Debt/equity (x)	6.2	6.1	7.3	7.9	8.2
Equity/total assets	13.0	13.2	11.6	10.8	10.7
Funding, liquidity and coverage ratios (%)					
Unsecured debt/total debt	n.a.	75.5	73.5	74.6	75.4
Short-term debt/total debt	n.a.	40.3	38.1	38.1	39.6
Dividends/net income	n.a.	22.0	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Volkswagen Financial Services AG

SOLICITATION & PARTICIPATION STATUS

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