

CREDIT OPINION

24 April 2025

Update



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RATINGS

Volkswagen Financial Services Overseas AG

| | |
|------------------|-----------------------------|
| Domicile | Braunschweig, Germany |
| Long Term Rating | Baa1 |
| Type | LT Issuer Rating - Fgn Curr |
| Outlook | Stable |

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Volkswagen Financial Services Overseas AG

Update following rating downgrade

Summary

[Volkswagen Financial Services Overseas AG's](#) (VW FS Overseas AG's) Baa1 long-term issuer ratings carry a stable outlook and are aligned with the ratings and outlook of its parent [Volkswagen Aktiengesellschaft](#) (Volkswagen, Baa1 stable¹). This alignment is based on the captive's strategic significance to its carmaking parent, our expectation that Volkswagen would support VW FS Overseas AG if required, as well as the domination and profit and loss transfer agreement in place between the two companies. VW FS Overseas AG's credit profile, therefore, reflects its ba2 standalone assessment and the uplift derived from affiliate support from Volkswagen.

VW FS Overseas AG's ba2 standalone assessment incorporates the company's narrow focus on enhancing its parent's vehicle sales in Asia-Pacific and Latin America, which drives strong portfolio growth and results in asset-class concentration risk; its adequate financial profile, characterised by solid profitability and sufficient capitalisation; and its funding mix, which relies significantly on secured (asset-backed) and wholesale market funding.

Credit strengths

- » Implicit and explicit support from the parent protects creditors
- » Low historical losses on the loan portfolio indicate sound underwriting standards
- » Solid profitability and good leverage ratio will likely be maintained under the new setup

Credit challenges

- » The continued reshaping of the automobile industry towards low-emission, alternative-fuel vehicles could eventually hurt VW FS Overseas AG's sound asset quality and profitability in the current volatile economic and geopolitical environment.
- » Elevated credit risks due to VW FS Overseas AG's regional focus on the more volatile Asia-Pacific and Latin America regions
- » Very high reliance on confidence-sensitive wholesale funding carries refinancing risks

Outlook

- » The strategic importance of VW FS Overseas AG for the distribution of Volkswagen vehicles and the formal commitment of Volkswagen through a long-term control and profit-and-loss transfer agreement effectively leads to an alignment of the issuer's long-term ratings and outlook with that of Volkswagen. The stable outlook on Volkswagen reflects its solid positioning in the Baa1 rating category.

Factors that could lead to an upgrade

- » The ratings of VW FS Overseas AG and its guaranteed subsidiaries could be upgraded following an upgrade of Volkswagen's rating.
- » VW FS Overseas AG's ba2 standalone assessment could be upgraded if it displays a solid asset quality through the cycle, improves its capitalisation or reduces its dependence on more confidence-sensitive market funding.
- » However, a change in VW FS Overseas AG's standalone assessment will, in the absence of changes to Volkswagen's ratings and/or support probability, not lead to changes in the captive's rating.

Factors that could lead to a downgrade

- » The ratings of VW FS Overseas AG and its guaranteed subsidiaries could be downgraded if Volkswagen's ratings were to be downgraded.
- » A downgrade of VW FS Overseas AG and its guaranteed subsidiaries could also be triggered if Volkswagen were to loosen its ties with its financial services subsidiaries. This loosening could lead to a lowering of our support assumption for VW FS Overseas AG and a downgrade of the associated ratings to a level below the parent's issuer ratings.
- » VW FS Overseas AG's ba2 standalone assessment could be downgraded following an unexpected erosion of the company's capital base or if the company's asset quality declines significantly, particularly if associated with a meaningful deterioration of macroeconomic conditions in the countries of operation leading to tighter disposable income or higher unemployment.
- » The standalone assessment could also be downgraded if there is an extended mismatch of VW FS Overseas AG's confidence-sensitive wholesale funding with that of the company's lease and lending assets.
- » However, a change in VW FS Overseas AG's standalone assessment will, in the absence of changes to Volkswagen's ratings and/or support probability, not lead to changes in the captive's rating.

Profile

As part of the reorganisation of Volkswagen's captive finance operations, Volkswagen Financial Services Overseas AG (previously named Volkswagen Financial Services AG) has spun off and transferred its European subsidiaries and participations and further assets and liabilities to [Volkswagen Financial Services AG](#) (VW FS AG, previously named Volkswagen Financial Services Europe AG, Baa1 stable²).

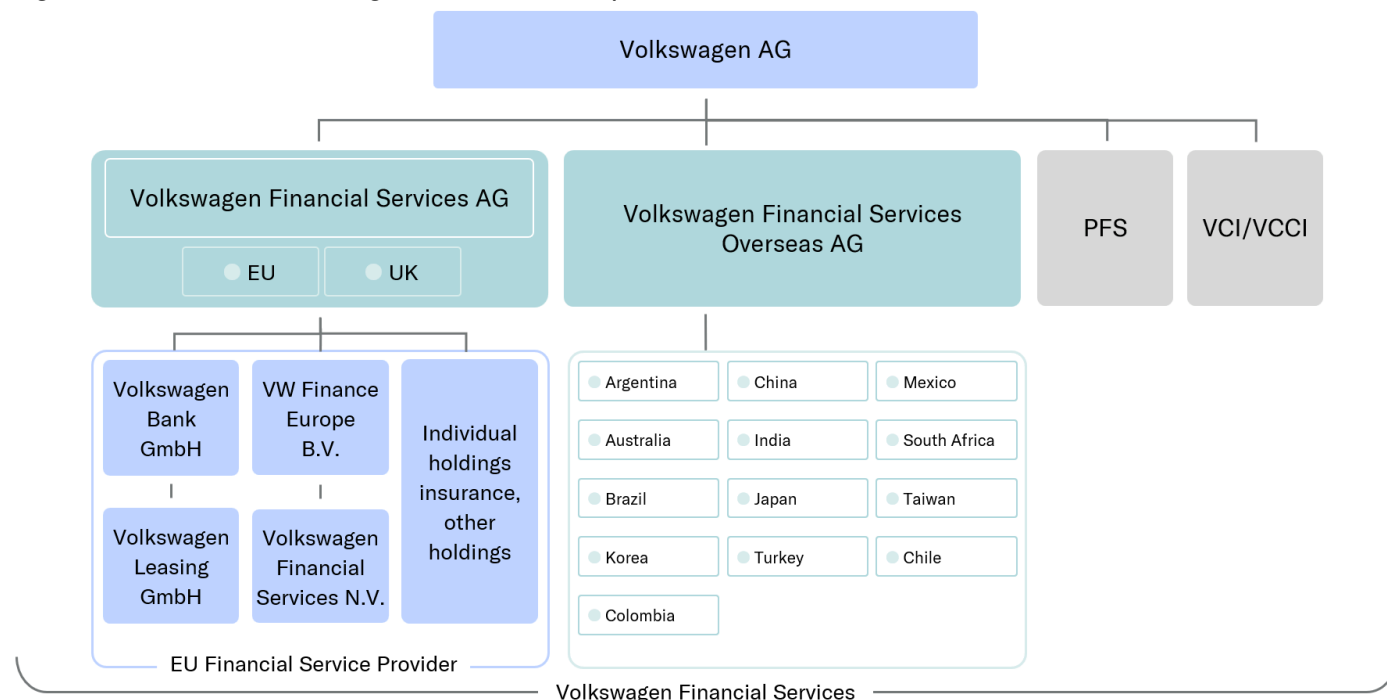
VW FS Overseas AG primarily focuses on bank and non-bank financial services activities in Asia-Pacific and Latin America. In the recent reorganisation, it has transferred most of its holdings to VW FS AG, the EU parent financial holding company for Volkswagen's captive finance operations in the European Union and the UK. Volkswagen's captive finance activities in North America are performed by VW Credit Inc. and VW Credit Canada Inc.

As a result of the deconsolidation and various asset, liability and share transfers, VW FS Overseas AG's balance sheet size has decreased to €31.4 billion as of 31 December 2024, from €146.3 billion the year before.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Exhibit 1

Organisational structure of Volkswagen's financial services operations



Abbreviations: PFS = Porsche Financial Services GmbH; VCI = VW Credit Inc.; VCCI = VW Credit Canada Inc.

Sources: Moody's Ratings and company filings

Detailed credit considerations

Parental support from Volkswagen affords greater protection to creditors

VW FS Overseas AG has strategic importance to Volkswagen as it controls most of the group's banking and non-banking financial services operations in Asia-Pacific and Latin America. The importance is demonstrated by a control and profit and loss transfer agreement with Volkswagen. According to the agreement, Volkswagen is obliged to absorb any net losses of VW FS Overseas AG and to provide security to its creditors (in accordance with section 303 of German AktG). Although the agreement does not constitute a full guarantee of VW FS Overseas AG's obligations by Volkswagen, the carmaker has a strong economic incentive to support its captive because of its important role as financing provider supporting group sales, warranting full uplift to the carmaker's ratings.

As such, VW FS Overseas AG's default probability and expected loss are closely linked with those of its parent Volkswagen. We continue to believe that there is a strong willingness of the parent to provide support due to the reasons mentioned above and, thus, the senior unsecured rating of VW FS Overseas AG is aligned with the Baa1 issuer rating of Volkswagen.

Asset quality remains exposed to car market cyclicality

We assign a weighted average Asset Risk score of Baa3 to VW FS Overseas AG. The Baa3 weighted average Asset Risk score reflects our view of the captive's exposure to potential asset quality deterioration and higher loan losses, driven by slowing and more volatile economic growth in its regions of operation. In particular, [China](#) (A1 negative) is a key sales market for Volkswagen; and its economic health is also important for other markets in the region and globally.

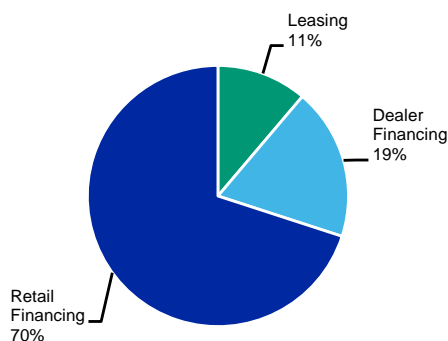
VW FS Overseas AG's asset quality performance is influenced by its significant concentrations to the car financing business, including dealers' inventories of Volkswagen group vehicles, and retail loan collateral and lease residual exposures. VW FS Overseas AG's risk profile is, therefore, affected by trends in new and used car values and macroeconomic conditions in the markets in which the carmaker and its captive operate. Moreover, the future sales performance of cars in general appears significantly less certain and predictable as a result of shifting consumer preferences, higher inflation tightening disposable incomes and the effects of carbon transition and related regulation on the captive's stock of financed and leased vehicles.

Since VW FS Overseas AG primarily provides financing solutions, with leasing serving only as a supplementary business segment as of today, credit risks are considered the primary driver of the captive's asset quality. However, residual value risks can also materialize indirectly. For instance, at the car dealer level, these risks could translate into additional credit risks for VW FS Overseas AG. That said, because of the importance of the dealer network to the broader group's value chain, Volkswagen has supported car dealers in the past and will likely continue to provide support in case of need, thereby alleviating potential asset quality strain.

Volkswagen's strategic objectives underscore the crucial role that its overseas captive finance arm plays. We expect lending volumes at VW FS Overseas AG to steadily increase over time in order to support Volkswagen's strategic objectives. However, we anticipate problem loan ratios to rise from the current levels as the above-mentioned risk factors are likely to affect VW FS Overseas AG's portfolio volume and quality.

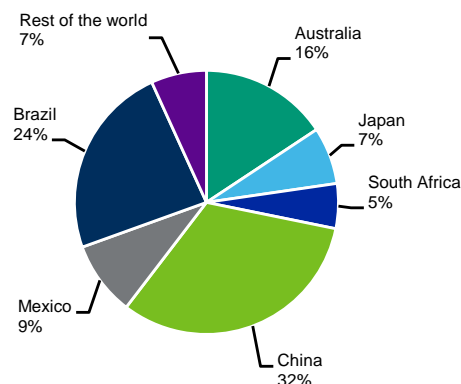
Exhibit 3 illustrates that China, Brazil, and Australia were the most important regions for VW FS Overseas AG as of year-end 2023, based on historical data and our estimates. Given Volkswagen's strategic focus, we anticipate the current overseas markets, in particular China, to grow in relative importance.

Exhibit 2
VW FS Overseas AG's estimated business volume split Q1 2024E
 Based on pro-forma Moody's Ratings' estimates



Based on data after reorganisation for year-end 2023.
 Sources: Moody's Ratings estimates and company filings

Exhibit 3
VW FS Overseas AG's estimated portfolio split by country
 Emerging markets and China are likely to outgrow mature economies



Based on data after reorganisation.
 Sources: Moody's Ratings estimates and company filings

Solid capital ratio expected

We assign a Capital score of Baa2 to VW FS Overseas AG, capturing our expectation that the captive will display a tangible common equity/tangible managed assets (TCE/TMA) ratio of around 14% going forward.

The targeted level of the TCE/TMA ratio will help accommodate future expansion plans and is broadly in line with most global peers, indicating a competitive capital position for the captive. Possible risks to its capitalisation might stem from the asset risks previously outlined, notably due to VW FS Overseas AG's focus on riskier overseas markets. However, the profit and loss agreement with Volkswagen serves as a mitigating factor for its overall sound capitalisation.

Forecasted profitability to remain solid despite challenges

We assign a Baa3 Profitability score to VW FS Overseas AG, indicative of our forecast that the captive's net income to average managed assets ratio will approximately settle within a range of 1.0%-1.5% in 2024 and potentially beyond.

In alignment with Volkswagen's expansion plans for the target growth regions in Asia-Pacific and Latin America, we anticipate greater earnings momentum to build for VW FS Overseas AG as and when macroeconomic conditions stabilise, aided by Volkswagen's new model release strategy.

However, the transition towards alternative fuel or battery electric vehicles, given their uncertain future prospects, may add volatility to the captive's earnings. Furthermore, household disposable incomes continue to be suppressed by rising inflation and persistently higher interest rates, which is likely to increase earnings volatility driven by cyclical variances in consumer financial health and the demand for new or used vehicles.

Very high reliance on wholesale and secured funding

We assign a weighted average Cash Flow and Liquidity Score of Ba2 to VW FS Overseas AG. The assigned score captures the company's almost exclusive reliance on secured and wholesale funding, which renders it vulnerable to market disruptions and illiquidity in the absence of a deposit-generating franchise.

This very high reliance on market funding is mitigated by a good match of funding tenors with those of the financed lending assets. It is VW FS Overseas AG's strategy to achieve a matching maturity of assets and liabilities of around 80%. Together with its fairly diversified local funding franchises with well established funding channels in all key regions and currencies of operations, this supports the availability of secured (asset-backed) and unsecured funding for VW FS Overseas AG.

We anticipate that secured funding sources will play an increasingly crucial role in VW FS Overseas AG's funding mix moving forward. In the event that the local operating entities encounter funding challenges, the company has the capacity to leverage its own funding sources for support. In addition to a multi-billion and multi-currency debt issuance and commercial paper program, these potential funding sources encompass a multi-billion Euro committed standby liquidity facility from the parent company, highlighting the importance of VW FS Overseas AG's operations and well-being to the execution of Volkswagen's strategy.

Operating environment

We assign a Ba2 weighted Operating Environment score to VW FS Overseas AG, based on the industry and macro-level risks at its financing operations across the Asia-Pacific and Latin America regions as well as our expectation of future diversification of the portfolio towards markets with a weaker assessment of macro-level risks, such as China and Brazil.

The operating environment score acts as a cap on VW FS Overseas AG's overall Ba2 adjusted financial profile because the score is the lower than the standalone financial profile of Ba1.

Macro-level and industry risk indicators for key markets

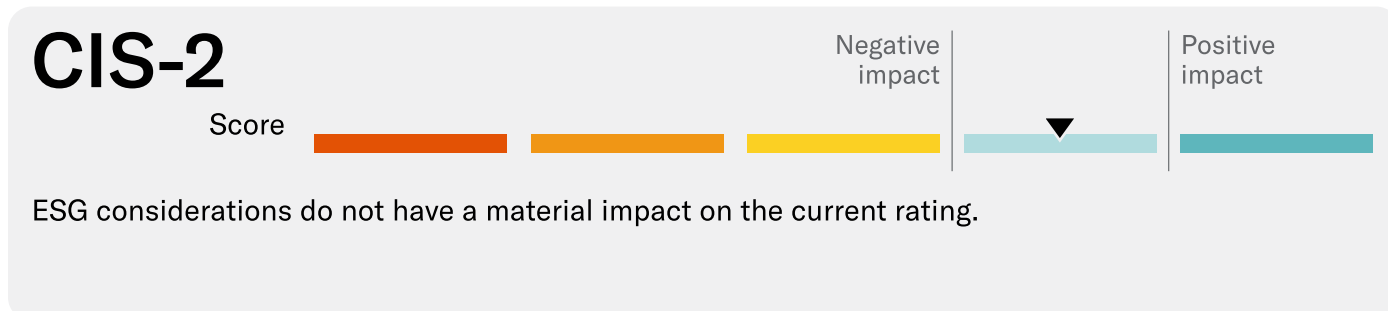
While headquartered in Germany, VW FS Overseas AG's operations primarily span the lending markets of China, Brazil, Australia, Mexico and Japan. As such, the macro level indicators relevant to these markets vary widely, from Aa1 for Australia to Baa2 for Mexico.

To account for the various levels of risk, we assign a Ba industry risk score for VW FS Overseas AG's lending operations in China, Mexico, and Brazil. This score reflects our anticipation that the combination of unseasoned and rapidly expanding loan books, along with high political and regulatory risks, will cumulatively create a challenging operating environment for VW FS Overseas AG. Although we view Australia in a more positive light, it only constitutes a minor and likely declining proportion within the captive's geographical mix.

ESG considerations

Volkswagen Financial Services Overseas AG's ESG credit impact score is CIS-2

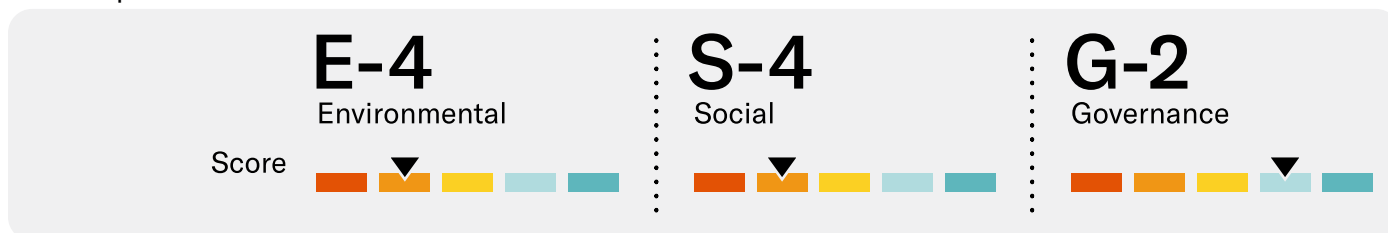
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

VW Financial Services Overseas AG's (VW FS Overseas) ESG Credit Impact Score is **CIS-2** and reflects the mitigating rating impact of support from its automotive parent. VW FS Overseas is exposed to material environmental and social risks, reflecting the high risk exposure of its automotive parent Volkswagen AG and the bank's role as facilitator of sales. The company's governance risks are low.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

VW FS Overseas faces high environmental risks, primarily related to carbon transition. As a facilitator of sales for its automotive parent, the company's exposure to carbon transition risk is consistent with that of Volkswagen AG and the global auto manufacturing sector because of stricter environmental regulation and the trend towards low and zero emission vehicles. In response, VW FS Overseas supports Volkswagen AG's electric mobility strategy targeting to provide financing solutions for 80% of Volkswagen AG's electric vehicles in the medium term. VW FS Overseas' exposure to other environmental risks is low.

Social

VW FS Overseas faces high social risks from societal trends. VW FS Overseas' key product is auto lending, the demand for which is subject to societal trends like higher adoption of mass transportation and heightened environmental awareness and is highly correlated to the ability of its parent to meet consumers' demand. In line with other retail consumer-focused finance companies, VW FS Overseas is also exposed to fines and reputational damage due to product mis-selling or other types of misconduct. High cyber and personal data risks are also key considerations as more applications are submitted online.

Governance

VW FS Overseas' governance risks are low. VW FS Overseas has well-developed risk management and governance practices in place, in line with industry practices. Its score for board structure, policies and procedures is aligned with that of its parent, given VW FS Overseas' strategic importance to its parent and brand sharing.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

Based on the application of Moody's Methodology of Captive Finance Subsidiaries of Nonfinancial Corporations, the ratings of VW FS Overseas AG are aligned with its ultimate parent, Volkswagen. This is based on the captive's strategic significance to its parent, our expectation that Volkswagen would support VW FS Overseas AG if required, as well as the explicit support agreement.

Government support considerations

The probability of government support is considered to be 'Low' for VW FS Overseas AG, which does not result in any rating uplift from government support. This assumption reflects the company's relatively small size compared with the German banking system, its insignificant share in the domestic deposit market and its limited degree of systemic interconnectedness.

Rating methodology and scorecard factors

The methodologies we use in rating for VW FS Overseas AG are the [Finance Companies Methodology](#), published in July 2024, and the [Captive Finance Subsidiaries of Nonfinancial Corporations Methodology](#), published in August 2024.

Exhibit 6

Rating Factors

| Volkswagen Financial Services Overseas AG | | | | | | |
|---|-----------------------|-------------------------|---------------|-------------------|---|--------------------------------|
| Financial Profile | Factor Weights | Historic Ratio | Initial Score | Assigned Score | Key driver #1 | Key driver #2 |
| Profitability | | | | | | |
| Net Income / Average Managed Assets (%) | 10% | - | - | Baa3 | Expected trend | |
| Capital Adequacy and Leverage | | | | | | |
| Tangible Common Equity / Tangible Managed Assets (%) | 25% | - | - | Baa2 | Expected trend | |
| Asset Quality | | | | | | |
| Problem Loans / Gross Loans (%) | 10% | - | - | Ba3 | Pro-forma adjustments | Expected trend |
| Net Charge-Offs / Average Gross Loans (%) | 10% | - | - | A3 | Differences in accounting and reporting | Expected trend |
| Weighted Average Asset Risk Score | | | - | Baa3 | | |
| Cash Flow and Liquidity | | | | | | |
| Debt Maturities Coverage (%) | 10% | - | - | Ba2 | Pro-forma adjustments | Near-to-medium term maturities |
| FFO / Total Debt (%) | 15% | - | - | B2 | Pro-forma adjustments | Expected trend |
| Secured Debt / Gross Tangible Assets (%) | 20% | - | - | Baa2 | Expected trend | Other adjustments |
| Weighted Average Cash Flow and Liquidity Score | | | - | Ba2 | | |
| Financial Profile Score | 45% | | Baa2 | Ba1 | | |
| Operating Environment | | | | | | |
| Home Country | Factor Weights | Sub-factor Score | Score | | | |
| Macro Level Indicator | 0% | | Aa2 | | | |
| Economic Strength | 25% | aa2 | | | | |
| Institutions and Governance Strength | 50% | aa1 | | | | |
| Susceptibility to Event Risk | 25% | baa | | | | |
| Industry Risk | 100% | | Baa | | | |
| Home Country Operating Environment Score | | | Baa2 | | | |
| Operating Environment Score | | | 55% | Ba2 | Comment | |
| ADJUSTED FINANCIAL PROFILE | | | | | | |
| Adjusted Financial Profile Score | | | | Ba2 | | |
| Financial Profile Weight | 45% | | | | | |
| Operating Environment Weight | 55% | | | | | |
| Business Profile and Financial Policy | | | | Adjustment | Comment | |
| Business Diversification, Concentration and Franchise Positioning | | | | 0 | | |
| Opacity and Complexity | | | | 0 | | |
| Corporate Behavior / Risk Management | | | | 0 | | |
| Liquidity Management | | | | 0 | | |
| Total Business Profile and Financial Policy | | | | Ba2 | | |
| Adjustments | | | | | | |
| Sovereign or parent constraint | | | | Aaa | Comment | |
| Standalone Assessment Scorecard-indicated Range | | | | ba1 - ba3 | | |
| Assigned Standalone Assessment | | | | ba2 | | |

Source: Moody's Ratings

Exhibit 7

Rating Factors JDA

| Instrument Class | Assigned Standalone Assessment | Affiliate Support Notching | Government Support Notching | Individual Debt Class Notching | Assigned Rating |
|------------------|--------------------------------|----------------------------|-----------------------------|--------------------------------|-----------------|
| Issuer Rating | ba2 | 4 | - | - | Baa1 |

Source: Moody's Ratings

Ratings

Exhibit 8

| Category | Moody's Rating |
|---|----------------|
| VOLKSWAGEN FINANCIAL SERVICES OVERSEAS AG | |
| Outlook | Stable |
| Issuer Rating | Baa1 |
| Senior Unsecured MTN | (P)Baa1 |
| Commercial Paper | P-2 |
| Other Short Term | (P)P-2 |
| PARENT: VOLKSWAGEN AKTIENGESELLSCHAFT | |
| Outlook | Stable |
| Issuer Rating | Baa1 |
| Sr Unsec Bank Credit Facility -Dom Curr | Baa1 |
| Senior Unsecured MTN -Dom Curr | (P)Baa1 |
| Commercial Paper -Dom Curr | P-2 |
| VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD. | |
| Outlook | Stable |
| Bkd Senior Unsecured -Dom Curr | Baa1 |
| Bkd Commercial Paper -Dom Curr | P-2 |
| Bkd Other Short Term | (P)P-2 |
| VOLKSWAGEN FINANCE OVERSEAS B.V. | |
| Bkd Commercial Paper | P-2 |
| VOLKSWAGEN FINAN. SERVICES AUSTRALIA PTY LTD | |
| Outlook | Stable |
| Bkd Senior Unsecured -Dom Curr | Baa1 |
| Bkd Other Short Term -Dom Curr | (P)P-2 |

Source: Moody's Ratings

Endnotes

- 1 The rating shown here is Volkswagen's long-term issuer rating and outlook.
- 2 The rating shown here is VW FS AG's long-term issuer rating and outlook.

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