

Volkswagen Financial Services Overseas AG

Update

Key Rating Drivers

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

Fitch Ratings does not assign VWFSO 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 VWFSO and VW.

Highly Integrated Key Subsidiary: Fitch views VWFSO as a key subsidiary of VW because of its central role in supporting VW's strategic objectives, the huge reputational impact a default of VWFSO would have on VW, 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: Following the reorganisation in July 2024, the ownership over several financial service legal entities, including sizeable Volkswagen Leasing GmbH, was transferred to Volkswagen Financial Services AG (VWFS; A-/Stable) from VWFSO. The latter reduced in size and was renamed, 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.

Well-Managed RV Risk: VWFSO's assets mostly relate to loans and leases, supporting VW sales in mostly non-European markets, exposing the company to direct and indirect residual value (RV) risk. VWFSO has a good record of managing 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 the medium term, but do not expect VWFSO to report RV-related losses, reflecting generally prudent RV risk-setting.

Robust Asset Quality: VWFSO's impaired receivables ratio (Stage 3 and purchased or originated credit-impaired/gross loans and finance leases) has been consistently low (around 1% over 2021-2023), with high loss reserve coverage at around 2x at end-2023. VWFSO's sizeable exposure to more volatile operating environments means we expect its asset quality to be moderately weaker under its new structure.

Acceptable Profitability: VWFSO's profitability is acceptable, although lower than that of its finance and leasing company peers, reflected in a pre-tax income/average assets ratio averaging 1.7% over 2021-2023. In 2024, still-high interest expenses, inflation and additional operating expenses related to reorganisation, as well as uncertainty around RVs, could weigh on profitability.

Capital Support Benefits Leverage Profile: VWFSO's capitalisation and leverage ratio profile benefits from ordinary support received from VW, both in the form of capital increases and profit transfers as part of a control and profit-and-loss agreement. VW increased VWFS's capital by around EUR3.8 billion in 2H23 to support the reorganisation in 2024.

Changing Funding Profile: We expect VWFSO to fund itself equally with ABS, bank loans, bonds and commercial paper and to retain its access to a committed liquidity facility from VW.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1

Shareholder Support Rating	a-
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Sovereign Risk (Germany)

Long-Term	AAA
Foreign-Currency IDR	
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 \(January 2024\)](#)

[Bank Rating Criteria \(March 2024\)](#)

Related Research

[EMEA Developed Markets Finance and Leasing Outlook 2025 \(November 2024\)](#)

[What Investors Want to Know: Global Captive Finance Companies \(October 2024\)](#)

[Fitch Rates Volkswagen Financial Services Overseas EUR5bn Debt Issuance Programme Final 'A-' \(September 2024\)](#)

[Fitch Affirms Volkswagen Financial Services AG at 'A-'; Outlook Stable \(July 2024\)](#)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Negative rating action on VW would likely be mirrored in VWFSO's ratings and Outlook.

A weakening of VW's propensity to support VWFSO, for instance, due to VWFSO becoming less central to VW's overall mobility services strategy, could lead to Fitch notching VWFSO's Long-Term IDR from VW's Long-Term IDR, which would result in a downgrade. In particular, penetration rates being consistently below the sector average, or a transfer of business activities to other financial services entities beyond the current reorganisation plan, could indicate VWFSO's reduced relevance for VW.

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

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

Recent Developments

Organisational Structure Change Following Reorganisation

VW has transferred its ownership of VW Bank GmbH to VWFS to optimise funding access for its European financial services division. VWFS is a new ECB-supervised intermediate holding company, which has also become the owner of other Europe-focused financial services entities, including the sizeable Volkswagen Leasing GmbH, which used to be owned by VWFSO. VWFSO significantly reduced in size and has become VW's main intermediate financial services holding company for its non-European and non-North America businesses.

Support Unaffected by Reorganisation

Fitch does not believe VWFSO's strategic importance has been affected by the reorganisation, despite the entity shrinking significantly. VWFSO will remain central in supporting VW's sales in a number of important growth markets. The current control and profit-and-loss transfer agreement remains in place. We believe VW is able to, and will, provide capital support to VWFSO, if required, without impairing its own credit profile.

Market and Regulatory Pressures Containable for Support

Macroeconomic uncertainty in developed economies and China, which is pressuring the revenues and operating margins of most European-based carmakers, including VW, is containable with regards to VW's ability to support its financial services entities, including VWFSO.

We believe that the fines recently issued by the UK Financial Conduct Authority to VWFS's local financial services entity for failing to treat customers in financial difficulty (GBP5.4 million), as well as the associated redress costs (GBP21.5 million), should not have a material drag on the rating. In our view, VW would be able to provide support to its financial services entities should they require it as a result of regulatory actions.

Potential Risks from Recent UK Court Ruling

In Fitch's view, UK motor finance and leasing companies, including VWFS's UK entity, face considerable uncertainty and potentially significant implications due to the October 2024 Court of Appeal ruling in favour of customers regarding commissions that lenders pay to car dealerships for arranging financing contracts. We believe, the ruling materially increases the likelihood of a redress scheme to compensate customers, which could have large financial implications. We also believe the ruling is also likely to prompt stricter regulatory scrutiny and necessitate changes in business practices to ensure compliance with disclosure requirements.

According to VWFS, it continued lending, disclosing commissions relevant to agreements ensuring transparency in the view of the court ruling. The size of the potential remediation costs for VWFS will ultimately depend on the size and the nature of its motor finance portfolio in the UK, the commission arrangement, and the degree of disclosure. We expect VWFS would be in position to cover all potential fines and redress costs, and would be able to access parental support, should it become necessary.

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

VWFSO'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 VWFSO's core subsidiary status and central role in supporting VW's strategic objectives globally outside of Europe and North America, and VW's 100% ownership of VWFSO, as well as the huge reputational impact for VW should the subsidiary default.

It also considers the high level of financial, operational and management integration, and highly correlated franchises. VW has previously provided extensive ordinary and extraordinary support, and VWFSO has a long and successful record of supporting group's global sales, as the key platform for VW's mobility solutions offering.

In our view, VWFSO 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 VWFSO's importance for VW, as reflected in the Stable Outlook on VWFSO's Long-Term IDR.

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Volkswagen Financial Services Overseas AG has 9 ESG potential rating drivers

- Volkswagen Financial Services Overseas AG has exposure to regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc. but this has very low impact on the rating.
- Volkswagen Financial Services Overseas AG
- Volkswagen Financial Services Overseas AG has exposure to fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above but this has very low impact on the rating.
- Volkswagen Financial Services Overseas AG has exposure to impact of labor negotiations, including board/employee compensation and composition but this has very low impact on the rating.
- Volkswagen Financial Services Overseas AG has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

Driver Category	Count	Issues
key driver	0	issues
driver	0	issues
potential driver	9	issues
not a rating driver	2	issues
	3	issues

ESG Relevance Score	Color
5	Red
4	Orange
3	Yellow
2	Light Green
1	Dark Green

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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
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
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

How to Read This Page

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.

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 issues 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.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
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
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

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

Score	Color	Description
5	Red	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.
4	Orange	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.
3	Yellow	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.
2	Light Green	Irrelevant to the entity rating but relevant to the sector.
1	Dark Green	Irrelevant to the entity rating and irrelevant to the sector.

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, VWFSO scores are mostly aligned with those of VW. VWFSO's differ 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>.

Income Statement

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited	Audited	Audited	Audited	Audited
Revenues					
Interest income on loans	1,402	1,305	2,571	2,299	2,095
Finance lease income	n.a.	n.a.	128	127	1,830
Net operating lease & rental income	242	225	245	50	1,379
Net fees and commissions	45	42	74	57	393
Net gains/(losses) on trading, FX and derivatives	2	2	6	-8	267
Other operating income	21	20	251	132	1,949
Total gross operating revenues	1,713	1,594	3,275	2,657	7,913
Total interest expense	940	875	1,652	1,110	1,314
Total net operating revenues	773	719	1,623	1,547	6,599
Expenses					
Depreciation and amortisation of own assets	21	20	40	33	69
Personnel expenses	80	74	147	138	1,029
Other operating expenses	463	431	597	396	2,343
Total operating expenses	564	525	784	567	3,441
Pre-impairment/provision operating profit	208	194	839	980	3,158
Impairment charges/(reversals) on loans & finance leases	39	36	-76	481	122
Operating profit	170	158	915	499	3,036
Other non-core/non-operating income/(expenses)	464	432	622	1,538	n.a.
Pre-tax income	634	590	1,537	2,037	3,005
Income tax expense	96	89	363	190	778
Net income	538	501	1,174	1,847	2,227
Exchange rate		USD1 = EUR0.9307	USD1 = EUR0.9130	USD1 = EUR0.9373	USD1 = EUR0.8919

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

Balance Sheet

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim (USDm)	6 months - interim (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
Assets					
Loans & leases					
Gross customer loans and other receivables	26,990	25,119	28,062	47,002	40,685
Finance lease receivables	1,191	1,108	1,102	41,235	40,901
Gross loans & finance leases	28,181	26,227	29,164	88,237	81,586
Memo: impaired loans, leases and receivables included above	n.a.	n.a.	594	567	596
Less: loss allowances for loans, leases and receivables	n.a.	n.a.	1,169	1,381	1,289
Net loans & finance leases	28,181	26,227	27,995	86,856	80,297
Gross operating leases & rental assets	2,666	2,481	2,833	44,869	40,571
Accumulated depreciation on operating leases & rental assets	128	119	486	9,942	8,505
Net operating leases & rental assets	2,538	2,362	2,347	34,927	32,066
Other earning assets					
Investments in securities	106	99	99	894	994
Derivative assets	119	111	58	1,332	586
Other interest earning assets	1,313	1,222	953	3,406	5,066
Total interest earning assets	29,720	27,659	29,105	92,488	86,943
Investments in associated companies	121	113	99	722	787
Investment in property (net)	1	1	1	71	76
Other assets					
Cash & equivalents	3	3	2	2	33
Restricted cash	n.a.	n.a.	84	688	865
Property, plant and equipment	54	50	44	320	361
Goodwill	n.a.	n.a.	171	6	33
Other intangibles	268	249	102	99	80
Deferred tax assets	636	592	612	1,226	1,641
Assets from discontinued operations	124,569	115,932	113,071	1,165	327
Other assets	985	917	702	1,653	1,378
Total assets	158,895	147,878	146,340	133,367	124,590
Liabilities & equity					
Debt & deposits					
Short-term borrowings (maturing within 12 months)	n.a.	0	17,242	43,272	39,891
Secured LT debt (incl. finance lease liabilities)	n.a.	0	2,992	26,348	27,803
Unsecured LT debt	28,854	26,853	7,460	34,919	34,029
Long-term borrowings (maturing after 12 months)	28,854	26,853	10,452	61,267	61,832
Subordinated debt	135	126	146	2,909	3,039
Total borrowings	28,989	26,979	27,840	107,448	104,762
Derivative liabilities	35	33	104	2,424	532
Deferred tax liabilities	77	72	91	980	708
Liabilities from discontinued operations	103,634	96,449	94,703	478	n.a.
Other liabilities	1,251	1,164	711	4,430	4,155
Total liabilities	133,987	124,697	123,449	115,760	110,157
Total equity	24,908	23,181	22,891	17,607	14,433
Total liabilities and equity	158,895	147,878	146,340	133,367	124,590
Exchange rate		USD1 = EUR0.9307	USD1 = EUR0.9130	USD1 = EUR0.9373	USD1 = EUR0.8919

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

Summary Analytics

	30 Jun 24 6 months - interim	31 Dec 23 Year end	31 Dec 22 Year end	31 Dec 21 Year end
Asset quality ratios (%)				
Impaired loans & finance leases/gross loans & finance leases	n.a.	2.0	0.6	0.7
Loss allowances/impaired loans & finance leases	n.a.	196.8	243.6	216.3
Net charge-offs/average gross loans & finance leases	n.a.	0.2	0.2	0.1
Growth of gross loans & finance leases YoY	n.a.	n.a.	8.2	1.1
Loss allowances/gross loans & finance leases	n.a.	4.0	1.6	1.6
Impairment charges on loans & finance leases/average gross loans & finance leases	0.3	-0.1	0.6	0.2
Earnings and profitability ratios (%)				
Pre-tax income/average assets	0.8	1.1	1.6	2.5
Pre-tax income/average equity	5.2	7.9	12.7	21.7
Operating expenses/total net revenue	73.0	48.3	36.7	52.1
Depreciation expense/total revenue	21.6	18.5	16.2	67.2
Pre-tax operating income/total revenue	9.9	27.9	18.8	38.4
Impairment charges/pre-impairment operating profit	18.6	-9.1	49.1	3.9
Capitalisation and leverage ratios (%)				
Total funding/tangible equity (x)	1.2	1.2	6.1	7.3
Tangible equity/tangible assets	15.5	15.5	13.1	11.5
(Net income - dividends - share repurchases)/beginning equity	4.4	6.7	10.0	17.5
Debt/equity (x)	1.2	1.2	6.1	7.3
Equity/total assets	15.7	15.6	13.2	11.6
Funding, liquidity and coverage ratios (%)				
Unsecured funding/total funding	n.a.	89.3	75.5	73.5
Short-term funding/total funding	n.a.	61.9	40.3	38.1
Dividends/net income	n.a.	n.a.	21.7	n.a.

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

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