

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Volkswagen Bank GmbH's long-term deposit and issuer ratings with a negative outlook and downgrades other ratings

18 Mar 2025

Frankfurt am Main, March 18, 2025 -- Moody's Ratings (Moody's) has today affirmed the long-term deposit and issuer ratings of Volkswagen Bank GmbH (VW Bank) at A1; the outlook on these ratings remains negative. We also affirmed the bank's senior unsecured medium term note (MTN) program ratings at (P)A1. For Volkswagen Leasing GmbH (VW Leasing), which is consolidated under VW Bank, we affirmed the backed senior unsecured debt rating at A1; the outlook on these ratings remains negative.

Concurrently, we downgraded VW Bank's junior senior unsecured debt rating to Baa1 from A3, its junior senior unsecured MTN program ratings to P(Baa1) from P(A3), its subordinate MTN program ratings to (P)Baa2 from (P)Baa1 and its long-term Counterparty Risk Ratings (CRRs) to A1 from Aa3. Further, we downgraded its Adjusted Baseline Credit Assessment (BCA) to baa1 from a3 and its long-term Counterparty Risk (CR) Assessment to A1(cr) from Aa3(cr).

The rating action follows the downgrade of the issuer rating of Volkswagen Aktiengesellschaft (Volkswagen) to Baa1 from A3. For further details on the downgrade of Volkswagen, please refer to the following press release "Moody's Ratings downgrades Volkswagen's ratings to Baa1, outlook stable" (<https://ratings.moodys.com/ratings-news/439319>).

RATINGS RATIONALE

RATIONALE FOR THE DOWNGRADE OF THE ADJUSTED BCA

VW Bank is fully owned by Volkswagen Financial Services AG (VW FS AG, Baa1 stable), which, in turn, is fully owned by Volkswagen. Its automobile financing and other financing services are an integral part of the car manufacturer's business model and of strategic importance for the distribution of Volkswagen's vehicles. Further, a formal commitment through a control and profit-and-loss transfer agreement is in

place, further supported by a hard letter of comfort from VW FS AG for the benefit of VW Bank.

Due to the very strong contractual and economic rationale for Volkswagen to support its financial services entities, VW Bank's Adjusted BCA is aligned with the long-term issuer rating of Volkswagen. It was therefore downgraded to baa1 from a3.

--RATIONALE FOR THE LONG-TERM RATINGS AFFIRMATIONS AND DOWNGRADES

The downgrade of VW Bank's long-term CRR, junior senior unsecured, senior unsecured MTN and subordinate MTN ratings as well as its long-term CR Assessment is driven by the downgrade of VW Bank's Adjusted BCA to baa1 from a3 and unchanged results from our Advanced Loss Given Failure (LGF) analysis for these instrument classes.

The affirmation of the long-term deposit and issuer ratings and of the senior unsecured MTN program ratings of VW Bank as well as the affirmation of VW Leasing's backed senior unsecured debt rating reflects our assessment that the entities' future liability structure based on the expected resolution perimeter and resulting lower loss given failure offsets the rating pressure from the increased probability of default as expressed through the downgrade of the Adjusted BCA.

The expected resolution perimeter, in combination with our assumption of to-be-issued volumes of Minimum Requirement for Own Funds and Eligible Liabilities (MREL) by VW Bank, currently indicates an extremely 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.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook on VW Bank's long-term deposit and issuer ratings and VW Leasing's senior unsecured debt rating reflects the remaining uncertainty regarding the future resolution perimeter and the respective issuance of MREL-eligible liabilities, which are not yet fully determined by the resolution authorities, will only become final as and when the authorities have carried out the first regular Public Interest Assessment (PIA) for the new structure, and the potential to revert the current outcome of our Advanced LGF analysis at the seniority level of deposits, issuer and senior unsecured debt.

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

VW Bank's ratings could be upgraded in case of an upgrade of Volkswagen. Ratings of instrument classes ranking below senior unsecured debt could also be upgraded if VW Bank issues material volumes of these instrument classes, such that it reduces the loss severity of the respective rating class.

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 liabilities not subject to bail-in, 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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>.

Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Jonathan Stalman
Asst Vice President - Analyst

Alexander Hendricks, CFA
Associate Managing Director

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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