

Rating Action: Moody's changes outlook on Volkswagen Financial Services AG and Volkswagen Bank GmbH to stable

Global Credit Research - 21 Mar 2018

Moody's also affirms A3 long-term debt ratings for both entities and A1/P-1 deposit ratings for VW Bank

Frankfurt am Main, March 21, 2018 -- Moody's Investors Service has changed the outlook to stable from negative on the long-term senior unsecured debt and issuer ratings of Volkswagen Financial Services AG (VW FS AG) and on the long-term senior unsecured debt, issuer and deposit ratings of Volkswagen Bank GmbH (VW Bank), including all related subsidiaries where applicable. The rating agency further affirmed the A3 senior unsecured debt and issuer ratings of VW FS AG and VW Bank, as well as those of their guaranteed subsidiaries. Simultaneously, Moody's affirmed the A1/P-1 deposit ratings of VW Bank.

All other ratings and rating inputs were unaffected by today's rating action. For a list of all affected ratings, please refer to the end of this press release.

The rating actions follow the outlook change to stable from negative and the subsequent affirmation of Volkswagen Aktiengesellschaft's (Volkswagen; the parent company of both financial institutions) A3 issuer rating. For further details, please refer to the following press release "Moody's changes VW's outlook to stable and affirms A3 rating", published 20 March 2018 (https://www.moody's.com/research/--PR_380154).

RATINGS RATIONALE

AFFIRMATION OF THE LONG-TERM SENIOR UNSECURED DEBT, ISSUER AND DEPOSIT RATINGS

The affirmation of VW FS AG's and VW Bank's A3 long-term debt and issuer ratings as well as VW Bank's A1/P-1 deposit ratings follows the affirmation of Volkswagen's long-term issuer rating on 20 March 2018.

The financial services arm of Volkswagen is an integral part of the car manufacturer's business model: VW FS AG's core strategic role for Volkswagen is reflected in a domination and profit-and-loss transfer agreement with Volkswagen for that entity. Since 1 September 2017, Volkswagen acquired full ownership of VW Bank from VW FS AG. VW Bank therefore benefits from a direct control, and profit and loss transfer agreement with Volkswagen.

The strength of the contractual and strategic links between Volkswagen and its two finance subsidiaries leads to an alignment of VW FS AG's A3 senior unsecured debt and issuer ratings and an alignment of VW Bank's Adjusted Baseline Credit Assessment (BCA) with the parent's A3 long-term issuer rating. This assessment is based on the strategic importance of VW FS AG and VW Bank for the distribution of Volkswagen vehicles and the formal commitment of Volkswagen through a long-term control and profit-and-loss transfer agreement. The rating agency therefore expects that Volkswagen will fully back VW FS AG, in case of need, reflected in an assessment of parental support as "affiliate backed", the highest degree of affiliate support.

RATIONALE FOR THE STABLE OUTLOOK

Owing to the alignment of VW Bank's Adjusted BCA and VW FS AG's senior unsecured and issuer ratings with Volkswagen's long-term issuer rating, the stable rating outlook for long-term debt issued by VW Bank, VW FS AG and its guaranteed subsidiaries as well as the stable outlook on VW Bank's long-term deposit ratings follows the stable outlook on the long-term issuer rating of Volkswagen.

The stable outlook further takes account of the successful resumption of senior unsecured debt issuance in late 2017, and the resulting greater role of senior unsecured debt in VW Bank's liability structure. This is supportive of the current two-notch rating uplift for VW Bank's deposit ratings resulting from our Advanced Loss Given Failure (LGF) analysis.

WHAT COULD MOVE THE RATINGS UP/DOWN

Due to the intrinsic interlinkages of VW FS AG and VW Bank with their automotive parent, their ratings are highly dependent on the creditworthiness of Volkswagen.

VW FS AG's ratings could be upgraded if Volkswagen's ratings are upgraded. Owing to the strong interlinkages between VW FS AG's and Volkswagen's ratings, we do not expect a downgrade of VW FS AG's standalone credit profile to translate into a downgrade of its ratings. However, a downgrade of Volkswagen would result in a similar action on the financial subsidiary's ratings.

Consequently, an upgrade of VW Bank's ratings would require an upgrade of Volkswagen's rating, which would likely result in an upgrade of the bank's a3 Adjusted BCA. Upward momentum on VW Bank's ratings could further develop if the bank's volume of senior unsecured and subordinated debt instruments increases significantly compared with the bank's tangible banking assets, which could result in additional notches of rating uplift resulting from our Advanced LGF analysis.

Downward strain could be exerted on VW Bank's ratings as a result of (1) a downgrade of Volkswagen, leading to a lowering of the bank's a3 Adjusted BCA; or (2) an unexpected and significant decrease in its bail-in-able debt buffers, also leading to fewer notches of rating uplift as a result of our Advanced LGF analysis.

Although considered highly unlikely at present, a downgrade of VW FS AG's and VW Bank's ratings could also be triggered if Volkswagen would loosen the ties towards its financial services subsidiaries. This could lead to a lowering of our parental support assumptions for both entities.

LIST OF AFFECTED RATINGS

Issuer: Volkswagen Financial Services AG

..Affirmations:

...Long-term Issuer Ratings, affirmed A3, outlook changed to Stable from Negative

...Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Stable from Negative

...Senior Unsecured Medium-Term Note Program, affirmed (P)A3

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Volkswagen Bank GmbH

..Affirmations:

...Long-term Bank Deposits, affirmed A1, outlook changed to Stable from Negative

...Short-term Bank Deposits, affirmed P-1

...Long-term Issuer Ratings, affirmed A3, outlook changed to Stable from Negative

...Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Stable from Negative

...Senior Unsecured Medium-Term Note Program, affirmed (P)A3

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Volkswagen Financial Services Australia Ltd

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Stable from Negative

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A3

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Volkswagen Financial Services Japan Ltd.

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Stable from Negative

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A3

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Volkswagen Financial Services N.V.

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Stable from Negative

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A3

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: Volkswagen Leasing GmbH.

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed A3, outlook changed to Stable from Negative

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A3

..Outlook Action:

...Outlook changed to Stable from Negative

PRINCIPAL METHODOLOGIES

The principal methodology used in rating Volkswagen Financial Services AG, Volkswagen Financial Services Australia Ltd, Volkswagen Financial Services Japan Ltd., Volkswagen Financial Services N.V. and Volkswagen Leasing GmbH. was Finance Companies published in December 2016. The principal methodology used in rating Volkswagen Bank GmbH was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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