Moody's
INVESTORS SERVICE

Rating Action: Moody's places Volkswagen Financial Services AG's A3 issuer and senior unsecured debt ratings on review for downgrade

27 Mar 2020

Frankfurt am Main, March 27, 2020 -- Moody's Investors Service (Moody's) has today placed on review for downgrade the A3 senior unsecured debt and issuer ratings of Volkswagen Financial Services AG (VW FS AG), including all related subsidiaries where applicable.

The rating actions follow the placing on review for downgrade of Volkswagen Aktiengesellschaft's (Volkswagen; the parent company of VW FS AG) A3 issuer rating. For further details, please refer to the following press release "Moody's places ratings of 7 European Automotive manufacturers on review for downgrade one issuer for direction uncertain; downgrades one issuer" (https://www.moodys.com/research/---PR_420407), published 25 March 2020.

VW FS AG's and its various subsidiaries' P-2 short-term ratings were not affected by today's rating action. For a full list of all affected ratings, please refer to the end of this press release.

RATINGS RATIONAL

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The auto sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment, leaving it vulnerable to shifts in market sentiment in these unprecedented operating conditions. Moody's further regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

Because VW FS AG is an integral part of the car manufacturer's business model, the rating agency believes it would be similarly affected by the aforementioned risk factors. VW FS AG benefits from a direct control and profit and loss transfer agreement with Volkswagen and close strategic links with its car manufacturing parent.

Moody's considers these links when assessing VW FS AG's financial strength after assumed parental support. Therefore, the rating agency aligns VW FS AG's senior unsecured debt and issuer ratings with the parent's long-term issuer rating. Owing to this alignment, the review direction of VW FS AG's ratings follows the placing on review for downgrade of the long-term issuer rating of Volkswagen.

During the review, Moody's will consider the severity of implications from the coronavirus outbreak on its parent's creditworthiness. For more details, please refer to the press release linked above.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Owing to the intrinsic interlinkages of VW FS AG with its automotive parent, its ratings are highly dependent on the creditworthiness of Volkswagen. A downgrade of Volkswagen would, therefore, result in a similar action on VW FS AG's ratings. At the same time, Moody's does not expect a change of VW FS AG's standalone credit profile to translate into a similar rating action on its long-term ratings.

Although considered highly unlikely given the review for downgrade, an upgrade of VW FS AG's ratings could likely be caused by an upgrade of Volkswagen's rating. The latter would require a stabilization of the current market situation leading to a meaningful recovery in the parent's key credit metrics to above pre-outbreak levels.

LIST OF AFFECTED RATINGS

Issuer: Volkswagen Financial Services AG

..Placed on Review for Downgrade:

....Long-term Issuer Rating, currently A3
Senior Unsecured Regular Bond/Debenture, currently A3
Senior Unsecured Medium-Term Note Program, currently (P)A3
Outlook Action:
Outlook changed to Rating under Review from Stable
Issuer: Volkswagen Financial Services Australia Ltd
Placed on Review for Downgrade:
Backed Senior Unsecured Regular Bond/Debenture, currently A3
Backed Senior Unsecured Medium-Term Note Program, currently (P)A3
Outlook Action:
Outlook changed to Rating under Review from Stable
Issuer: Volkswagen Financial Services Japan Ltd.
Placed on Review for Downgrade:
Backed Senior Unsecured Regular Bond/Debenture, currently A3
Backed Senior Unsecured Medium-Term Note Program, currently (P)A3
Outlook Action:
Outlook changed To Rating Under Review From Stable
Issuer: Volkswagen Financial Services N.V.
Placed on Review for Downgrade:
Backed Senior Unsecured Regular Bond/Debenture, currently A3
Backed Senior Unsecured Medium-Term Note Program, currently (P)A3
Outlook Action:
Outlook changed To Rating Under Review From Stable
Issuer: Volkswagen Leasing GmbH
Placed on Review for Downgrade:
Backed Senior Unsecured Regular Bond/Debenture, currently A3
Backed Senior Unsecured Medium-Term Note Program, currently (P)A3
Outlook Action:
Outlook changed To Rating Under Review From Stable
The methodologies used in these ratings were Finance Companies Methodology published in November 2019, and Captive Finance Subsidiaries of Nonfinancial Corporations published in August 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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