Rating Action: Moody’s places Volkswagen Bank GmbH's long-term debt and deposit 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 A1 long-term issuer and deposit ratings of Volkswagen Bank GmbH (VW Bank), as well as the bank's A3 junior senior unsecured debt ratings and its (P)A1 senior unsecured debt program rating.

The rating actions follow the placing on review for downgrade of Volkswagen Aktiengesellschaft's (Volkswagen; the parent company of VW Bank) 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.

The bank’s P-1 short-term ratings, its P-1(cr) Counterparty Risk (CR) Assessment as well as its baa2 Baseline Credit Assessment (BCA) 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 RATIONALE

--RATIONALE FOR THE REVIEW

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 Bank 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 Bank 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 Bank's financial strength after assumed parental support at the level of its Adjusted BCA and, therefore, the rating agency aligns VW Bank's Adjusted BCA with the parent's long-term issuer rating. Owing to this alignment, the review direction of VW Bank'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.

--RATIONALE FOR THE BANK'S LONG-TERM RATINGS

VW Bank's deposit and issuer ratings reflect the bank's Adjusted BCA as well as the application of Moody's Advanced Loss Given Failure (LGF) analysis to its liabilities. Because VW Bank's Adjusted BCA is aligned and, therefore, closely interlinked with the parent's current issuer rating, the outcome of the review is largely dependent on any potential rating action Moody's may decide to take on Volkswagen.

Moody's will further evaluate the potential for a higher rating uplift under its Advanced LGF analysis following the increase in the volume of the bank's junior senior unsecured debt instruments relative to VW Bank's tangible banking assets.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Owing to the intrinsic interlinkages of VW Bank 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 Bank's ratings.
At the same time, Moody’s does not expect a possible upgrade or downgrade of VW Bank's BCA to result in a change in VW Bank's ratings because this would likely be offset by a corresponding reduction or increase in rating uplift from affiliate support, ultimately aligning the bank's Adjusted BCA with its parent's issuer rating.

Although considered highly unlikely given the review for downgrade, an upgrade of VW Bank's ratings could follow 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.

VW Bank's ratings could also be upgraded if the rating agency were to assess that the increased issuance in instruments that are designated to absorb losses at failure was likely to be sustained. This could result in additional notches of rating uplift for VW Bank's various debt classes from Moody's Advanced LGF analysis.

LIST OF AFFECTED RATINGS
Issuer: Volkswagen Bank GmbH
..Placed on Review for Downgrade:
....Long-term Counterparty Risk Ratings, currently Aa3
....Long-term Counterparty Risk Assessment, currently Aa3(cr)
....Long-term Bank Deposits, currently A1, outlook changed to Ratings under Review from Stable
....Long-term Issuer Ratings, currently A1, outlook changed to Ratings under Review from Stable
....Senior Unsecured Medium-Term Note Program, currently (P)A1
....Junior Senior Unsecured Regular Bond/Debenture, currently A3
....Junior Senior Unsecured Medium-Term Note Program, currently (P)A3
....Subordinate Regular Bond/Debenture, currently Baa1
....Subordinate Medium-Term Note Program, currently (P)Baa1
....Adjusted Baseline Credit Assessment, currently a3
..Outlook Action:
....Outlook changed to Rating under Review from Stable

PRINCIPAL METHODOLOGY
The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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