This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

NETHERLANDS
Europe/M.East/Africa

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LeasePlan Corporation N.V.

LeasePlan's A3/P-1/C ratings are supported by the company's important car leasing franchise in the Netherlands as well as other European markets, well-diversified client portfolio, and good financial fundamentals. LeasePlan has a leading position in the global car leasing market, with about one million cars either financed or under management at mid-year 2005. Geographic diversification provides additional strength. These strengths are balanced by the transition risk in the company's funding profile as this changes over the next five years, coupled with its dependence upon wholesale sources of funding.

Ownership Issues

OWNERSHIP BY A CONSORTIUM LED BY VW GROUP (50%)

Under the current ownership structure, VW Bank (A2/C+ stable outlook, P-1) owns 50% of the company, and two financial investors each hold 25%: the Saudi Investment house Olayan and the Abu Dhabi government's Mubadala Development Company (both unrated).

Leaseplan was formerly owned by ABN AMRO which agreed to sell its 100% stake in LeasePlan to the current owners in a sale announced in April 2004.

LeasePlan is not a consolidated subsidiary of VW Bank — a 100% owned subsidiary of VW Financial Services (A3/stable outlook/P-2) — but instead is carried as an investment under the equity method by its parent. The acquisition of LeasePlan will benefit the VW Group to the extent that the parent will diversify its car leasing business away from the models it manufactures itself. LeasePlan has held a universal banking licence since 1993.

Olayan and Mubadala are financial investors. Olayan is an Athens-based company that invests the wealth of the Olayan family of Saudi Arabia. The company is a long-term investor and many of its largest holdings are in financial institutions. Mubadala is owned by the government authorities of Abu Dhabi.

LeasePlan continues to be subject to the regulation of Dutch Central Bank (DNB).

OPERATIONAL AUTONOMY

LeasePlan operates autonomously (as it has in the past) and the CFO of VW has said publicly that the company will maintain its operational and financial independence. In our view the ratings of LeasePlan cannot be viewed without some reference to the position of VW Group however they do not necessarily need to be closely linked given VW's stated position that Leaseplan is a financial investment and maintains its autonomy.

ABN AMRO WILL CONTINUE TO PROVIDE FUNDING SUPPORT FOR LEASEPLAN UNTIL JUNE 2009.

At present the short term rating currently benefits from the on-going funding agreement with ABN Amro: the ability of LeasePlan to establish alternative funding sources going forward will be crucial to the maintenance of the Prime-1 short term rating.

Under the terms of the Framework Credit Agreement between ABN AMRO and LeasePlan, the former will provide up to €5 billion of funding support to LeasePlan until December 2007, with the amount reducing from December 2007 until the Agreement's final maturity date of June 2009.

As of 31 December 2004, ABN AMRO provided around €2.8 billion of the company's €9 billion financing (unchanged as of 30 June 2005). Moody's views this funding arrangement as a crucial factor in LeasePlan's maintenance of its credit profile during the transition phase, given its dependence on wholesale funding.

DISPOSAL AND AQUISITION ACTIVITY DURING 2005

On April 29th 2005 Leaseplan sold its QEK global solutions operations in Australia, the UK and the US. The Born-based activities in the Netherlands were not included in this transaction.

In late May 2005, agreement was reached to acquire VW's multi-brand fleet management activities (Europcar Fleet Services) in Italy, Spain and Portugal and this transaction was finalised on 29 September 2005. We believe that this acquisition is helpful in strengthening Leaseplan's franchise in these countries and note that integration of EFS is proceeding apace.

Franchise and Management Strategy

LEASEPLAN IS THE BIGGEST CAR FLEET LEASING COMPANY IN ITS HOME MARKET AND ONE OF THE LARGEST IN EUROPE

LeasePlan has around 22% of the car fleet leasing market in the Netherlands, making it nearly twice as big as the second-placed firm, ING Car Lease. The top ten companies control about two-thirds of the market. In Belgium its share is about 20% (a fleet market about half the size of that in the Netherlands and a little more concentrated). In April 2004, the Dutch company Athlon Holding (issuer rating Baa3) bought from LeasePlan the 50% of Unilease that it did not already own. This strengthened Althon's position, but the deal was not large enough to transform the structure of the market.

LEASEPLAN BENEFITS FROM SCALE AND GEOGRAPHIC DIVERSITY

LeasePlan has a leading position in the global car leasing market, with over 1.1 million cars either financed or under management at end June 2005. LeasePlan strengthened its position through the acquisition of Europcar Fleet Services in Italy, Spain and Portugal, which was completed in September 2005. The company used to engage in equipment leasing, but this has been phased out.

Scale of operations is important in the fleet leasing business, since it drives internal cost efficiencies and influences the ability to demand rebates and bonuses from suppliers. The information received from large-scale operations also enables more accurate prediction of maintenance and usage levels of leased vehicles.

LEASEPLAN'S CLIENT PORTFOLIO IS WELL DIVERSIFIED BY GEOGRAPHY AND BRAND

LeasePlan's portfolio is characterised by good diversification both in terms of brand and geography. In 2004, Dutch operations accounted for 28% of the operating result (before value adjustments). Revenues from the rest of Europe accounted for 66%, and the rest of the world for the remaining 6%.

In terms of brand, Ford represented the largest concentration (15%) of the total worldwide fleet followed by Renault (13%), VW (11%), Peugot (8%), Opel (7%), Audi (6%), and Toyota (4%).

LEASEPLAN HAS GOOD LEVELS OF NON-INTEREST INCOME

Moody's views strong and diverse sources of non-interest income as a key area of strength for a fleet leasing company such as LeasePlan. However, interest margins have been squeezed in Europe, and we expect that this pressure will continue as the market consolidates and competition intensifies. Over the last 5 years total income arising from interest has been pretty consistent at around 33% and indeed overall composition of operating income has remain stable.

AN INCREASED SHARE OF CLOSED CALCULATION CONTRACTS HAS REDUCED THE RISK PROFILE TO A SMALL EXTEND; CREDITWORTHINESS HAS NOT SUFFERED

Most of LeasePlan's leases are operational leases rather than financial leases. Operational leases are split into two types: "open calculation" and "closed calculation". Under an open calculation lease, all the different pricing components of the contract are broken down for the client, and any negative deviation is borne by LeasePlan, while any positive deviation is credited to the client. Under a closed calculation lease, a single price is quoted to the customer, who does not see a breakdown, and any deviation from budget is credited (or debited) to LeasePlan.

While historically the company specialised in open calculation contracts, since the 1990s, LeasePlan has been offering both forms. About 60% of the current contracts are open. While the shift towards closed calculation contracts means that there is a reduced risk of residual value risk, in our opinion, this change has not increased the company's overall risk profile, as LeasePlan has not seen a big increase in residual value losses in recent years. While there were losses on terminated contracts in the UK in 2002, the overall result has been positive.

Financial Fundamentals

PROFITABILITY IS CONSISTENT BUT HIGH COST BASE IS A CHALLENGE

LeasePlan's recurring profitability has been consistent. The margin on interest-earning assets, nearly all of which stem from the lease portfolio, has remained at or around 2.7% and pre-provision return on assets has similarly remained constant at around 2.3% to 2.5%. However, the cost-to-income ratio remains high, at slightly above 65% in 2004. While this is similar to some Dutch retail banks, LeasePlan does not have the expense of a retail branch network (and by the same token does not benefit from cheap retail funding). As we anticipate that the company's cost of funds will increase over the medium term due to the change in its funding mix, we view reducing the cost base as an important step for LeasePlan to maintain its historic profitability. While the 2004 figure represents an improvement on previous years, the downward movement was driven by the higher incomes rather than lower cost.

ASSET QUALITY REMAINS SOLID

LeasePlan's asset quality remains solid. In 2004, credit losses arising from lease contracts remained subdued, accounting for 4.8% of pre-provision income (3.8% in 2003).

ASSET REVALUATION HAS BEEN LIMITED

Residual value risk (asset revaluation risk) is among the largest risks faced by LeasePlan. This arises from the possibility that the company overestimates the residual value of a vehicle and is unable to recover from the client the difference between its estimate and actual market values. This can occur if the market prices of used cars fall due to changes in local taxation or economic conditions. Historically, the company has generated profits on terminated contracts. As of year-end 2004, the provision for residual value risks stood at €8 million, down from €13 million at the end of 2003.

During the year 2003, LeasePlan changed its methodology regarding provisioning for credit losses to ensure full alignment with IFRS. The new debtor provisioning policy is a combination of an asset (portfolio) based approach and a receivable (ageing) approach at the local level and the possibility of a central adjustment for global risks and management expectations.

FUNDING: DIVERSIFICATION AND LENGTHENING OF THE MATURITY PROFILE ARE STRATEGIC OBJECTIVES UNDER NEW OWNERSHIP

Since its shares have been transferred to its new owners, LeasePlan has sought to establish itself as a fully independent player in the financial markets and has achieved some success in doing so.

Specifically it has been seeking to replace existing bank facilities with public bond issues and private placements. Between December 2004 and October 2005 the group issued €4.4 billion under its updated EU prospectus directive compliant €7.5 billion EMTN programme. The group also placed 71 private bonds with investors in the first 10 months of 2005. These loans totalled €2.3 billion and were denominated in eight different currencies, including EUR, USD, GBP, CHF, JPY, SEK, CZK and SKK. In early May 2005, LeasePlan repaid half of its syndicated loan €1.375 billion which we see as further evidence of its increasing ability to access wholesale funding in international debt capital markets. LeasePlan is now issuing structured notes and Schuldscheine private placements, further diversifying the liability structure of the bank.

The successful international bond issuance, together with the large undrawn ABN AMRO facilities and standby facilities from other banks, means that Leaseplan's liquidity profile is currently strong.

Under ABN AMRO ownership, nearly half of all funds (apart from capital) came from the parent in the form of direct facilities. Under the transition funding arrangement discussed above, ABN AMRO will continue to provide €5 billion in funding up until December 2007, after which point the financial support will amortise until June 2009. In anticipation of the eventual phasing out of the ABN AMRO funding support, LeasePlan is working actively to diversify and lengthen the maturity profile of its liabilities. Of note is that the outstanding amount of short-term debt (commercial paper and short-term CDs) has dropped from over €1.9 billion as of 30 June 2003 to around €1.0 billion as of 30 June 2005.

LeasePlan has in place a US$3 billion euro commercial paper programme, as well as a €2 billion Belgian CD programme.

We would reiterate that at present the short term rating benefits from the on-going funding agreement with ABN Amro: the ability of LeasePlan to establish alternative diversified, stable funding sources going forward will be crucial to the maintenance of the Prime 1 short term rating.

CAPITAL LEVELS ARE SOUND; LEASEPLAN HAS A TARGET TIER 1 OF 8%

LeasePlan has stated that its target Tier 1 ratio is 8%. At the end of 2004, its Tier 1 ratio stood at 10.4% due to limited growth in risk-weighted assets, coupled with sustained profitability. Tier 1 capital comprises shareholders' equity and reserves — it does not contain any "hybrid capital". Prospectively, LeasePlan's internal capital generation is likely to be lower because in 2004, LeasePlan started paying cash dividends, a trend we expect will continue under its new ownership. As a result, internal capital generation, which has historically has been running at around 30%, will be marginally effected.

Related Research

Banking System Outlook:

Netherlands, September 2005 (94365)

Banking Statistical Supplement:

Netherlands, August 2005 (94028)

Analysis:

Athlon Holding N.V, July 2005 (93492)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites

LeasePlan

www.leaseplan.com

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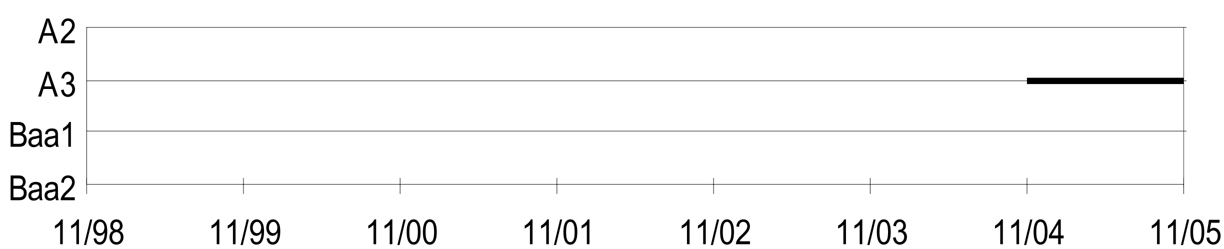
Rating History

Senior Unsecured



LeasePlan Corporation N.V. (Consolidated)

	12/31/2004	12/31/2003	12/31/2002	12/31/2001	12/31/2000
Summary Balance Sheet (EUR million)					
Cash	0	0	0	0	0
Due from banks	669	271	375	300	193
Securities	0	0	0	0	0
Leased assets & other loans to customers	10,481	9,757	9,604	9,576	8,724
Loan loss reserves (LLR)	--	--	--	--	--
Short term rental	94	74	50	48	48
Fixed assets	157	155	160	155	128
Other assets	592	584	610	536	381
Total assets	11,994	10,840	10,799	10,615	9,474
Total assets (USD million) [1]	16,360	13,607	10,702	9,403	8,920
Demand deposits	147	163	110	28	17
Savings deposits [2]	478	149	134	156	163
Due to banks	6,774	5,843	6,264	5,723	5,359
of which: due to parent & Group companies	--	--	--	--	--
Market funds	1,816	1,973	1,765	2,514	1,951
Insurance liabilities	0	0	0	0	0
Other liabilities	1,389	1,390	1,339	1,171	1,077
Total liabilities	10,603	9,518	9,612	9,592	8,566
Subordinated debt	241	241	241	241	241
Shareholders' equity	1,095	1,026	891	727	586
Total capital funds	1,391	1,322	1187	1023	907
Total liabilities & capital funds	11,994	10,840	10,799	10,615	9,474
Derivatives - notional amount	4,707	5,618	10,761	14,467	--
Derivatives - replacement value	2	21	41	30	--
Contingent liabilities	248	239	224	241	115
Risk weighted assets (RWA)	11,048	10,185	10,140	10,024	9
Number of employees	7,243	7,237	6,985	7,258	6,452
Summary Income Statement					
+Leasing and interest revenues	594	607	655	660	576
-Leasing and depreciation & Interest expenses	308	336	390	417	364
=Net leasing and interest income	286	271	265	243	212
+Trading income	0	0	0	0	0
+Fee & commission income	176	175	184	177	153
Other incom from leasing activities	295	285	266	269	209
+Other operating income	105	82	78	75	61
=Operating income	862	813	793	764	635
-Personnel expenses	340	328	322	324	254
-Other operating expenses	192	188	184	165	144
= Operating funds flow	331	297	286	276	238
(Total depreciation including depreciation on leased assets)	38	38	36	32	29
- Depreciation on non-leased assets only	38	38	36	32	29
(Total operating expenses)	569	554	543	521	426
=Preprovision income (PPI)	293	258	250	243	209
-Loan loss provisions	14	10	18	22	53
+Other non operating adjustments [3]	0	0	0	5	5
+Extraordinary profit / loss	0	0	0	0	0
=Pretax income	279	248	232	227	161
-Taxes	70	55	52	61	38
=Net income	209	193	180	166	123
-Minority interests	0	0	0	0	-2
=Net income (group share)	209	193	180	166	120
Growth Rates (%)					
Leased assets & other loans to customers	7.42	1.59	0.29	9.77	13.12
Total assets	10.65	0.39	1.73	12.05	10.22
Customer deposits (demand and savings)	99.64	28.38	32.70	2.29	-28.57
Net leasing and interest income	5.55	2.33	9.01	14.72	6.84
Fee and commission income	0.81	-4.90	3.84	15.35	32.23
Operating expenses	2.60	2.09	4.23	22.34	16.19
Preprovision income	13.50	3.29	2.76	16.42	34.13
Net Income	8.51	7.03	8.51	35.40	33.63

LeasePlan Corporation N.V. (Consolidated)

	12/31/2004	12/31/2003	12/31/2002	12/31/2001	12/31/2000
Income Statement in % Average Risk Weighted Assets					
Net leasing and interest income	2.59	2.66	2.62	2.43	2.34
Trading income	0.00	0.00	0.00	0.00	0.00
Fee and commission income	1.59	1.71	1.81	1.76	1,690.16
Insurance income	2.67	2.80	2.63	2.68	2,304.61
Operating income	7.80	7.98	7.82	7.62	7,001.74
Operating expenses	5.15	5.44	5.36	5.20	4,696.53
Preprovision income	2.65	2.54	2.47	2.43	2,305.22
Loan loss provisions	0.13	0.10	0.17	0.22	586.38
Extraordinary profit / loss	0.00	0.00	0.00	0.00	0.00
Net income	1.89	1.89	1.78	1.66	1,352.71
Liquidity and Funding					
Avg. liquid assets % avg. total assets	4.12	2.98	3.15	2.45	2.96
Avg. leased assets & other loans % avg. assets	88.63	89.47	89.57	91.10	90.96
Avg. customer deposits % avg. total funding	5.25	3.29	2.49	2.21	2.91
Avg. interbank funds % avg. total funding	70.78	71.71	69.80	67.60	63.24
Avg. funds from parent & Group companies % avg. total funding	--	--	--	--	--
Avg. funds from parent & Group companies % avg. interbank funds	--	--	--	--	--
Avg. market funds (excl. interbank) % avg. total funding	21.26	22.14	24.91	27.24	30.59
Avg. sub debt % total funding	2.70	2.85	2.80	2.94	3.26
Avg. liquid assets % avg. customer deposits	100.41	116.10	157.95	135.88	124.27
Avg. leased assets & other loans % avg. customer deposits	2,160.62	3,481.57	4,491.92	5,042.91	3,817.79
Avg. market funds reliance [4]	14.98	17.32	20.18	22.91	--
Avg. RWA % avg. total assets	92.99	93.93	94.16	49.94	--
Breakdown of Operating Income in %					
Net leasing and interest income % operating income	33.23	33.39	33.44	31.83	33.40
Trading income % operating income	0.00	0.00	0.00	0.00	0.00
Fee & commission income % operating income	20.42	21.48	23.15	23.13	24.14
Insurance income % operating income	34.19	35.10	33.57	35.17	32.91
Other operating income % operating income	12.16	10.03	9.85	9.88	9.54
Profitability					
Yield on avg. earning assets (%)	5.78	6.14	6.63	7.18	6.90
Cost of interest bearing liabilities (%)	3.45	3.98	4.54	5.09	4.93
Net leasing and interest margin (%)	2.88	2.79	2.72	2.76	2.62
Recurring earning power (PPI % avg. assets)	2.57	2.39	2.34	2.42	2.31
Risk-weighted recurring earning power (PPI % avg. RWA)	2.76	2.54	2.48	4.85	--
Return on average assets (%)	1.83	1.78	1.68	1.65	1.36
Return on avg. RWA (%)	1.97	1.90	1.79	3.31	--
Return on equity (period end) (%)	19.11	18.80	20.23	22.84	20.52
Net leasing and interest income coverage of loan loss provisions	20.23	27.28	15.00	11.09	3.99
Loan loss provisions % preprovision income	4.83	3.85	7.07	9.01	25.44
Internal capital growth (%)	20.40	21.64	24.77	28.37	23.97
Dividend payout ratio (%)	0.00	0.00	0.00	0.00	0.00
Efficiency					
Cost/income ratio (operating expenses % operating income)	65.99	68.22	68.47	68.16	67.08
Operating expenses % average assets	4.98	5.12	5.07	5.19	4.71
Operating income / employee (Euro thousand)	118.99	112.29	113.54	105.30	98.40
Operating expenses / employee (Euro thousand)	78.52	76.60	77.74	71.78	66.00
PPI / employee (Euro thousand)	40.47	35.69	35.80	33.53	32.40
Total assets / employee (Euro million)	1.66	1.50	1.55	1.46	1.47
Asset Quality and Risk Measurement					
Problem leases and loans % leased assets & other loans to customers	--	--	--	--	--
LLR % problem loans	--	--	--	--	--
LLR % leased assets & other loans to customers	--	--	--	--	--
Loan loss provisions % leased assets & other loans to customers	0.14	0.10	0.18	0.23	0.61
Problem loans % (shareholders' equity + LLR)	--	--	--	--	--
Replacement value % shareholder's equity	0.18	2.05	4.60	4.12	--
Capital Adequacy (Period End)					
Tier 1 ratio (%)	10.40	10.60	9.30	7.80	7.30
Total capital ratio (%)	12.60	13.00	11.70	10.20	10.00
Shareholders' equity % total assets	9.13	9.46	8.25	6.85	6.18
Equity participations % shareholders' equity	0.01	0.03	0.05	0.05	0.05

[1] USD figure uses historical exchange rate against the Euro.
[2] Full disclosure may not be available for all years. The amount is then included in "demand deposits".
[3] This may include value adjustments of securities.
[4] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)]

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