Moody's
INVESTORS SERVICE

Credit Opinion: LeasePlan Corporation N.V.

Global Credit Research - 01 Apr 2014

Almere, Netherlands

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bank Deposits -Dom Curr	Baa2/P-2
Bank Financial Strength	C-
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	Baa2
Senior Unsecured	Baa2
Bkd Commercial Paper	P-2
Other Short Term	(P)P-2
LeasePlan Finance N.V. (DUBLIN BRANCH)	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa2
Bkd Commercial Paper	P-2
Bkd Other Short Term -Dom Curr	(P)P-2
LeasePlan Australia Limited	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa2
Bkd Commercial Paper	P-2
Bkd Other Short Term -Dom Curr	(P)P-2

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Key Indicators

LeasePlan Corporation N.V. (Consolidated Financials)[1]

	[2]**6-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (EUR million)	**20,098.3**	**19,484.1**	**18,874.8**	**17,469.3**	**17,126.2**	[3]**4.1**
Total Assets (USD million)	**26,124.7**	**25,687.6**	**24,502.2**	**23,435.8**	**24,571.7**	[3]**1.5**
Tangible Common Equity (EUR million)	**2,307.2**	**2,260.7**	**2,013.9**	**1,809.0**	**1,567.5**	[3]**10.1**
Tangible Common Equity (USD million)	**2,999.1**	**2,980.5**	**2,614.3**	**2,426.9**	**2,249.0**	[3]**7.5**
Net Interest Margin (%)	**2.1**	**2.0**	**2.1**	**1.8**	**1.7**	[4]**1.9**
PPI / Average RWA (%)	**3.2**	**2.3**	**2.3**	**2.4**	**2.0**	[5]**2.4**
Net Income / Average RWA (%)	**2.4**	**1.7**	**1.7**	**1.6**	**1.2**	[5]**1.7**
(Market Funds - Liquid Assets) / Total Assets (%)	**38.6**	**41.8**	**48.5**	**53.8**	**67.6**	[4]**50.1**
Core Deposits / Average Gross Loans (%)	**--**	**26.3**	**20.0**	**13.3**	**1.5**	[4]**15.3**
Tier 1 Ratio (%)	**16.1**	**15.7**	**14.9**	**14.6**	**12.8**	[5]**14.8**
Tangible Common Equity / RWA (%)	**16.3**	**15.9**	**14.4**	**14.1**	**12.3**	[5]**14.6**
Cost / Income Ratio (%)	**62.9**	**69.4**	**70.1**	**69.1**	**69.3**	[4]**68.2**

Problem Loans / Gross Loans (%)	**--**	**0.5**	**0.5**	**0.6**	**0.7**	[4]**0.6**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**--**	**3.2**	**3.4**	**4.0**	**5.9**	[4]**4.1**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

We assign a global local currency deposit rating of Baa2/Prime-2 to LeasePlan Corporation N.V. (LeasePlan), with a stable outlook. The rating derives from the company's baseline credit assessment (BCA) of baa2, and does not incorporate any probability of systemic or parental support. Volkswagen Aktiengesellschaft (VW AG; A3/Prime-2 positive) and Fleet Investments B.V. (unrated) each own 50% of Global Mobility Holding, a holding company that owns 100% of LeasePlan's shares.

We assign a standalone bank financial strength rating (BFSR) of C- (stable) to LeasePlan, which is equivalent to a BCA of baa2. The BSFR reflects the company's strong franchise in fleet management, which benefits from a stronger geographical and customer diversification, as well as more resilient profitability relative to other auto finance companies. The BFSR also reflects the company's effective management of considerable residual value risk, which is inherent to LeasePlan's business. Conversely, the company's reliance on wholesale funding is a rating constraint, despite diversified funding sources and an adequate liquidity profile. Nevertheless, LeasePlan is operationally and managerially independent from its owners, a positive for its standalone credit assessment.

Rating Drivers

- Fleet management business provides the company with relatively more resilient earnings than those of other auto financing companies

- Proven track record of reducing residual value risk and strong capital buffers substantially mitigate risk of material losses occurring on terminated contracts

- Strong asset quality metrics reflect diversified credit risk exposures

- Structural reliance on wholesale funding remains a credit weakness, albeit mitigated by its matched funding profile, existing standby liquidity facilities and increased funding diversity

Rating Outlook

LeasePlan's standalone BFSR and long-term deposit and debt ratings carry a stable outlook.

What Could Change the Rating - Up

Upward pressure on the standalone BFSR could arise from a combination of (1) continued improvement of the company's risk profile, particularly through reducing its exposure to residual value; (2) reduction in the reliance on wholesale funding, notably by shifting further towards more stable funding sources; and (3) sustained strong profitability, owing to commanding market positions and negotiation power with suppliers/car manufacturers.

A raising of the standalone BFSR would result in an upgrade of the long-term ratings.

What Could Change the Rating - Down

Downward pressure on the standalone BFSR could arise from (1) the failure of risk mitigation techniques, recurring earnings or capital resources to adequately cover higher residual value risk; (2) evidence of deterioration of the bank's liquidity and funding profile, resulting from an increased reliance on wholesale funding or worse-than-expected liquidity gaps; and (3) structural deterioration in its profitability or the diversity of income streams.

A lowering of the standalone BFSR would result in a downgrade of the long-term ratings.

DETAILED RATING CONSIDERATIONS

FLEET MANAGEMENT BUSINESS PROVIDES THE COMPANY WITH RELATIVELY MORE RESILIENT EARNINGS THAN THOSE OF OTHER AUTO FINANCING COMPANIES

LeasePlan's global franchise is a key credit strength, reflecting the company's leading position in fleet management, with 1.4 million cars under management. LeasePlan has a dominant position in several key markets, providing geographical diversification to its business. As of end-2012, the company (1) had a leading position in the Netherlands, Germany, Belgium, Norway, Spain, Sweden and Portugal; (2) was one of the top three car leasing companies in the UK, Australia and Denmark; and (3) was one of the top five players in the US, France and Italy. Despite the subdued operating environment in many European economies, LeasePlan continues to report strong profitability, reflecting the lower-than-average sensitivity of its business profile to economic cycles.

Overall, LeasePlan's profitability is strong and has been resilient in recent years, as evidenced by the reported net profit that has consistently remained above EUR200 million since 2010. For 2013, the company reported an exceptionally high net profit of EUR326 million, which reflects the sizeable improvement of revenues on vehicles sold at contract termination, after a return to positive territory in 2012 with EUR28 mn (and negative results in 2009-11), owing to (1) the measures initiated in 2009 to reduce residual value risk; and (2) the improvement in second-hand car market prices. The currently more favourable interest-rate environment, which lowers the cost of funding, has also contributed to the strong net interest margin and net profit.

We expect that LeasePlan will continue to report resilient earnings which is supportive of its current BCA. Despite its monoline business model, LeasePlan's positioning as a fleet management company enables it to provide additional services, such as repair and maintenance or car insurance. Therefore, the company's revenue mix is more diversified than that of auto finance companies, and net interest income accounts for only a third of total revenues. Furthermore, as a leading global fleet manager with 1.4 million vehicles, LeasePlan has the capacity to generate large rebates and bonuses from its suppliers or service providers.

PROVEN TRACK RECORD OF REDUCING RESIDUAL VALUE RISK AND STRONG CAPITAL BUFFERS SUBSTANTIALLY MITIGATE RISK OF MATERIAL LOSSES OCCURRING ON TERMINATED CONTRACTS

Residual value risk (asset revaluation risk) is among the most important risks facing LeasePlan. It arises from the uncertainty, when underwriting lease contracts, surrounding the future market value of cars at the contract termination date. If market prices of used vehicles fall below their book value on the day they are written off LeasePlan's balance sheet (i.e., sold on the second-hand car market), owing to changes in local taxation, economic conditions or market structure, negative sales results occur.

Since 2009, when the second-hand car market suffered a significant drop in prices, LeasePlan has significantly strengthened its management and procedures on residual values given depressed market prices for used cars; for each new lease contract, LeasePlan sets the net book value at termination (i.e., the residual value), accounting for (1) the current second-hand car market prices and (2) its ability to mitigate the residual value risk with numerous risk mitigation techniques. These risk mitigation techniques include the informal maturity extension of existing contracts, charging unfair wear and tear, invoicing mileage deviation from contracts, recalculating residual values in case of usage outside contract parameters, and selling the vehicles in other countries with more favourable second-hand car market prices.

The measures that LeasePlan initiated in 2009 are now fully effective as the lease portfolio has now completely rolled over, and have contributed to restoring revenues on vehicles sold at contract termination since 2012. These measures, coupled with the steady improvement in the company's capital position, place LeasePlan in a structurally better position to face further deterioration in second-hand car market prices (the company had a reported Basel 2.5 core Tier 1 capital of 16.9% as of end-2013). However, LeasePlan's nominal residual value exposure remains high and above 250% of its core Tier 1 capital, a ratio comparable to that of other leasing companies with BCAs of baa2.

STRONG ASSET QUALITY METRICS REFLECT DIVERSIFIED CREDIT RISK EXPOSURES

LeasePlan's asset quality remains strong as the company has so far subdued credit losses arising from lease contracts. The company has historically registered (1) a very low level of problem loans, because of its focus on large international corporate clients with traditionally lower default rates; and (2) a modest loss given default of around 25% through the cycle, owing to the value of cars.

In terms of concentration, LeasePlan's top 20 group exposures are sizeable, relative to both its Tier 1 capital and pre-provision income. However, the customer concentration (concentration to lessees) remains limited because of the company's diversified franchise by geography, industry and customers. In addition, the largest part of LeasePlan's credit exposure is to large corporates, with less exposure to SMEs, which we regard as individually more risky.

However, LeasePlan's corporate customer base is susceptible to economic downturns, particularly given the current challenging European operating environment.

STRUCTURAL RELIANCE ON WHOLESALE FUNDING REMAINS A CREDIT WEAKNESS, ALBEIT MITIGATED BY ITS MATCHED FUNDING PROFILE, EXISTING STANDBY LIQUIDITY FACILITIES AND INCREASED FUNDING DIVERSITY

LeasePlan's reliance on wholesale funding is a rating constraint because of the inherent confidence-sensitive nature and the potential for unexpected changes in availability and cost of market-based funding.

However, since the 2008-09 global financial crisis, the company has successfully diversified its funding through the collection of online deposits that account for around a quarter of total funding or EUR4.2 billion as of end-2013. While we view Internet deposits as inherently less "sticky" (stable) than "traditional" retail deposits, given their sensitivity to price and reputational risks, the stability of LeasePlan's deposit base benefits from its inclusion in the Dutch Deposit Guarantee scheme (which guarantees individual deposits of up to EUR100,000). Furthermore, the company's largely matched funded balance sheet is a positive element for its overall liquidity profile. The increasing proportion of funding derived from customers' savings has not materially altered this matched funding profile, because more than half of this funding is term savings, mainly with remaining maturities of more than one year (estimates as of end-2013).

LeasePlan's ability to withstand a funding market disruption (based on our own scenario analysis) relies on the availability of two committed undrawn liquidity lines of EUR1.25 billion each, which are critical elements of the issuer's contingency funding plan. The company would be able to maintain a positive liquidity position over 12 months on unchanged business on the assumption that it could tap the aforementioned liquidity lines ; however, we believe that LeasePlan would need to undergo a reduction in business in order to withstand a longer period of stress of up to 24 months, which is Moody's standard assumption for other similarly rated auto finance and leasing companies. LeasePlan's outstanding business franchise relies on long-standing relationships with large international corporates and would likely be materially impaired if the company faced pressure to curtail its business production.

NOTE ON DATA

Unless noted otherwise, data in this report is sourced from company reports and our Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled "Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies" and "Frequently Asked Questions: Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies", both published on 19 July 2012.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign to LeasePlan a long-term global local currency deposit rating of Baa2, in line with the company's BCA. The rating reflects our assessment (as per Moody's joint default analysis methodology) that LeasePlan would be unlikely to receive systemic support in the event of distress, given its low domestic retail savings market share and our view that a failure by LeasePlan would not pose a systemic risk to the Dutch banking sector.

Moreover, the rating does not incorporate any support from the main shareholder, Volkswagen AG. LeasePlan is a strategically important trading partner to the Volkswagen group because of the very large number of vehicles it purchases from the latter every year to renew its leased fleet. This strategic importance is evident in (1) the current shareholding structure, whereby Volkswagen AG owns 50% of LeasePlan; and (2) the existence of an undrawn committed facility from its shareholder. However, LeasePlan's business is run independently and, sometimes, in competition with other subsidiaries of the Volkswagen Group (including Volkswagen Financial Service). The company's business also relies on its ability to provide vehicles from various brands, limiting further integration into the Volkswagen group, in our view.

As a result, we do not believe the Volkswagen group is likely to provide additional support, beyond its current capital stake and committed undrawn liquidity line.

We assign a Prime-2 short-term rating to LeasePlan.

Foreign Currency Deposit Rating

LeasePlan's foreign currency deposit ratings are Baa2/Prime-2, with a stable outlook.

Foreign Currency Debt Rating

LeasePlan's foreign currency debt ratings are Baa2/Prime-2, with a stable outlook.

Rating Factors

LeasePlan Corporation N.V.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**C-**	**Neutral**
Market share and sustainability			**x**				
Geographical diversification		**x**					
Earnings stability			**x**				
Earnings Diversification [2]					**x**		
Factor: Risk Positioning						**D+**	**Improving**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management		**x**					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information		x					
Credit Risk Concentration					**x**		
- Borrower Concentration					x		
- Industry Concentration		x					
Liquidity Management					**x**		
Market Risk Appetite	**x**						
Factor: Operating Environment						**B**	**Weakening**
Economic Stability			**x**				
Integrity and Corruption		**x**					
Legal System	**x**						
Financial Factors (50%)						**C-**	
Factor: Profitability						**C**	**Neutral**
PPI % Average RWA (Basel II)			2.32%				
Net Income % Average RWA (Basel II)			1.67%				
Factor: Liquidity						**E**	**Improving**
(Market Funds - Liquid Assets) % Total Assets					48.03%		
Liquidity Management					x		
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel II)	15.07%						
Tangible Common Equity % RWA (Basel II)	14.83%						
Factor: Efficiency						**D**	**Neutral**
Cost / Income Ratio				69.54%			

Factor: Asset Quality						**A**	**Neutral**
Problem Loans % Gross Loans	0.52%						
Problem Loans % (Equity + LLR)	3.54%						
Lowest Combined Financial Factor Score (15%)						**E**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**C-**	
Aggregate BCA Score						**baa1/baa2**	
Assigned BFSR						**C-**	
Assigned BCA						**baa2**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.