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## Research Update:

# Dutch Bank LeasePlan 'BBB+/A-2' Ratings Affirmed On Improved Business Stability, Off CreditWatch; Outlook Stable


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## Overview

- We believe that the stability and resilience of LeasePlan's business model has improved over the past five years.
- We now assess LeasePlan's stand-alone credit profile (SACP) at 'bbb' and continue to believe that it is a "moderately strategic" subsidiary of Volkswagen AG (VW).
- We have consequently affirmed our long- and short-term ratings on LeasePlan at 'BBB+/A-2' and removed them from CreditWatch negative.
- The stable outlook reflects our expectations that the bank will remain an important investment for VW and that it can maintain its strong capitalization and prevent any deterioration in asset quality.

## Rating Action

On Dec. 18, 2014, Standard & Poor's Ratings Services affirmed the long- and short-term counterparty credit ratings on Dutch bank LeasePlan Corporation N.V. at 'BBB+/A-2', and removed them from CreditWatch with negative implications, where they were placed on Sept. 29, 2014. The outlook is stable.

## Rationale

The ratings affirmation reflects our view that LeasePlan has improved the stability and resilience of its business model by lowering its overall risk profile and confidence sensitivity. Since 2009, the bank has strengthened its capitalization, taken measures to better manage residual value risk, and reduced its reliance on wholesale funding.

Specifically, in our view, LeasePlan's narrow focus on the leasing business in the highly cyclical automotive sector is substantially mitigated by:

- The bank's leading global position in commercial auto fleet leasing;
- Adequately diversified and sustainable sources of revenues;
- Demonstrated ability to build capital through retained earnings;
- Improved management of residual value risk; and
- A less confidence-sensitive funding profile.

We have consequently revised our assessment of LeasePlan's SACP to 'bbb' from 'bbb-'. We have notably revised upward our business position score to "moderate" from "weak," as our criteria define these terms.

We expect that LeasePlan will remain a leading global fleet and vehicle management company. With a fleet size of 1.4 million vehicles, LeasePlan has strong positions in most of the 32 countries where it operates. We expect the bank will maintain its leadership thanks to profitable growth of its fleet, either organically or through small acquisitions.

We view LeasePlan's revenue streams as adequately diversified by geography and sources. LeasePlan's diversification of revenues per country is much more granular than for its rated auto finance and leasing company peers. The bank's non-interest income represents around two-thirds of revenue and adds a counter-cyclical element to LeasePlan's revenue profile. Plus, we believe that LeasePlan's non-captive business model, good brand awareness, and long-standing relationships with customers and partners support revenue stability.

We believe LeasePlan's above-average profitability allows for steady organic capital build. We thus expect LeasePlan's capitalization to remain strong, with our ratio of risk-adjusted capital (RAC) growing toward 12.5%-13.0% by 2016. We calculate the bank's five-year average core earnings-to-average adjusted assets ratio to be around 1.3%, compared with about 1.1% on average for the auto captives we rate. We expect this ratio to remain between 1.5%-2.0% in the coming two years, notably boosted by strong net gains on vehicles sales.

We note that LeasePlan has reduced its sensitivity to residual value fluctuations since 2009. The bank has taken measures aiming at mitigating this risk by, among others, charging for early terminations, end-of-contract damages, and mileage variations. Nevertheless, we continue to believe that asset risk is one of the key risks in LeasePlan's business model. In our view, fluctuations in second-hand car prices could have a material impact on LeasePlan's profitability from time to time.

In our view, the bank has reduced the confidence sensitivity of its business model by increasing its recourse to securitization, deposits, and private placements. Deposits now comprise 32% of the bank's funding base and appear resilient, in our view. We note that LeasePlan now has a better funding profile than most auto finance companies we rate, but that it remains a relative rating weakness when compared with banking industry peers.

We continue to view the bank's credit risk exposure as low risk and well diversified by countries and sectors, with low single-name concentration. We note that the bank remains exposed to the potential lower business activity of its corporate clients in the current weak European economy.

Our long-term rating on LeasePlan benefits from a one notch of support from VW. We consider the bank to be a "moderately strategic" subsidiary of the group. This reflects our view that LeasePlan is not an integral part of VW's long-term strategy and that there are few linkages between the business activities of LeasePlan and those of VW that induce a long-term commitment of

VW's management toward LeasePlan.

## Outlook

The stable outlook reflects our expectations that LeasePlan will remain an important investment for VW and that the bank will be able to maintain its strong capitalization and prevent any deterioration in asset quality.

Under our base-case scenario, we expect LeasePlan to remain within the VW group, and we believe that VW would provide extraordinary support to LeasePlan in case of stress, although we don't believe such support will be needed in the foreseeable future. We also expect LeasePlan to maintain a RAC ratio above 10% and to continue to conservatively manage its exposure to residual value risk.

We could lower the ratings on LeasePlan if we no longer considered the bank to be a "moderately strategic" subsidiary of VW. This could happen if we considered LeasePlan's importance to the VW group to be reduced, or if VW started to question LeasePlan's presence within the group. We might also lower the ratings if LeasePlan's SACP were to deteriorate. This could result from our RAC ratio for LeasePlan falling below 10% due to deterioration in the economic environment of some European countries or more aggressive capital management, notably if the bank entered into relevant acquisitions.

A positive rating action would only be possible if we saw a material improvement in LeasePlan's capital and funding profile, which we currently see as unlikely.

## Ratings Score Snapshot

| | To | From |
|---|---|---|
| Issuer Credit Rating | BBB+/Stable/A-2 | BBB+/Watch Neg/A-2 |
| | | |
| SACP | bbb | bbb- |
| Anchor | bbb+ | bbb+ |
| | | |
| Business Position | Moderate -1 | Weak -2 |
| Capital and Earnings | Strong +1 | Strong +1 |
| Risk Position | Adequate 0 | Adequate 0 |
| Funding | Below Average -1 | Below Average -1 |
| Liquidity | Adequate | Adequate |
| | | |
| Support | +1 | +1 |
| GRE Support | 0 | 0 |
| Group Support | +1 | +1 |
| Sovereign Support | 0 | 0 |

| | | |
|---|---|---|
| Additional Factors | None | None |

## Related Criteria And Research

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Sept. 18, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

| | To | From |
|---|---|---|
| LeasePlan Corporation N.V. | | |
| Counterparty Credit Rating | BBB+/Stable/A-2 | BBB+/Watch Neg/A-2 |
| Senior Unsecured | BBB+ | BBB+/Watch Neg |
| Commercial Paper | A-2 | A-2/Watch Neg |
| LeasePlan Australia Ltd. | | |
| Senior Unsecured | BBB+ | BBB+/Watch Neg |
| Commercial Paper | A-2 | A-2/Watch Neg |
| LeasePlan Finance N.V. (Dublin Branch) | | |
| Commercial Paper | A-2 | A-2/Watch Neg |
| LeasePlan New Zealand Ltd. | | |
| Commercial Paper | A-2 | A-2/Watch Neg |

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