MOODY'S
INVESTORS SERVICE

Credit Opinion: LeasePlan Corporation N.V.

Global Credit Research - 24 Sep 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]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (EUR million)	**19,129.4**	**19,487.9**	**18,874.8**	**17,469.3**	**17,126.2**	[3]**2.8**
Total Assets (USD million)	**26,359.2**	**25,692.7**	**24,502.2**	**23,435.8**	**24,571.7**	[3]**1.8**
Tangible Common Equity (EUR million)	**2,413.4**	**2,252.3**	**2,013.9**	**1,809.0**	**1,567.5**	[3]**11.4**
Tangible Common Equity (USD million)	**3,325.5**	**2,969.4**	**2,614.3**	**2,426.9**	**2,249.0**	[3]**10.3**
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 (%)	**2.3**	**1.7**	**1.7**	**1.6**	**1.2**	[5]**1.7**
(Market Funds - Liquid Assets) / Total Assets (%)	**37.5**	**41.7**	**48.5**	**53.8**	**67.6**	[4]**49.8**
Core Deposits / Average Gross Loans (%)	**27.7**	**26.3**	**20.0**	**13.3**	**1.5**	[4]**17.8**
Tier 1 Ratio (%)	**16.9**	**15.6**	**14.9**	**14.6**	**12.8**	[5]**15.0**
Tangible Common Equity / RWA (%)	**17.4**	**15.9**	**14.4**	**14.1**	**12.3**	[5]**14.8**
Cost / Income Ratio (%)	**63.5**	**69.4**	**70.1**	**69.1**	**69.3**	[4]**68.3**

Problem Loans / Gross Loans (%)	**0.6**	**0.5**	**0.5**	**0.6**	**0.7**	[4]**0.6**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**3.3**	**3.2**	**3.4**	**4.0**	**5.9**	[4]**4.0**

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.

An improvement in 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-2013, the company (1) had a leading position in the Netherlands, Germany, Belgium, Spain, Norway, Portugal, Sweden, Finland, Switzerland, Poland, and the Czech Republic ; (2) was one of the top three car leasing companies in the UK, Italy, Australia, Austria and Denmark; and (3) was one of the top five players in the US and France. Despite the subdued operating environment in many European economies, LeasePlan continues to report strong profitability, reflecting a moderate 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 regular progression of the reported net profit since 2009. For the first half of 2014, the company reported an unusually high net profit of EUR 202 million, which reflects the sizeable improvement of revenues on vehicles sold at contract termination (a 97% increase versus H1 2013), owing to (1) the measures initiated in 2009 to reduce residual value risk; and (2) the continuous improvement in second-hand car market prices. The currently more favourable funding environment has also contributed to the strong net interest margin and net profit. We view the current profitability levels as particularly strong and not necessarily fully sustainable over the long-term, because the recent improvements are at least partly due to the current strength of the second-hand car market, a cyclical market.

Nonetheless, 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 and car insurance. Therefore, the company's revenue mix is more diversified than that of auto finance companies, and net interest income accounts for less than a third of total revenues. Furthermore, as a leading global fleet manager, 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 vehicles at the contract termination date. If market prices of used vehicles fall below their book value on the day they are disposed from LeasePlan's balance sheet (i.e., sold on the second-hand car market), owing to changes in local taxation, economic conditions or market structure, a negative value adjustment is to be recorded.

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 clients with "wear and tear" charges, invoicing mileage deviation from contracts, recalculating residual values in case of usage outside contract parameters, and selling the vehicles in countries where second-hand car market prices are more favourable.

The measures 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, result in LeasePlan being in a structurally better position to face some deterioration in second-hand car market prices (the company had a reported Basel 3 (CRD IV) common equity Tier 1 capital ratio of 17.9% as of end-June 2014). However, LeasePlan's nominal residual value exposure remains high and above 250% of its common equity 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. LeasePlan did not record any impairment on leased assets in 2013 and H1 2014.

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.

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-June 2014. 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). The increasing proportion of funding derived from customers' savings has not materially altered Leaseplan's 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 year-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.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

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						C-	Neutral
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	Neutral
Economic Stability			x				
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						C	
Factor: Profitability						B	Improving
PPI % Average RWA (Basel II)		2.59%					
Net Income % Average RWA (Basel II)		1.92%					
Factor: Liquidity						D-	Neutral
(Market Funds - Liquid Assets) % Total Assets					42.58%		
Liquidity Management				x			

Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel II)	15.80%						
Tangible Common Equity % RWA (Basel II)	15.92%						
Factor: Efficiency						**D**	**Improving**
Cost / Income Ratio				67.68%			
Factor: Asset Quality						**A**	**Neutral**
Problem Loans % Gross Loans	0.52%						
Problem Loans % (Equity + LLR)	3.30%						
Lowest Combined Financial Factor Score (15%)						**D-**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**C**	
Aggregate BCA Score						**a3**	
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.

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