MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms LeasePlan Corporation's long-term ratings; outlook stable

Global Credit Research - 27 Mar 2014

Paris, March 27, 2014 -- Moody's Investors Service has today affirmed LeasePlan Corporation N.V.'s (LeasePlan) long-term senior unsecured, deposit and issuer ratings at Baa2, following the concurrent affirmation of LeasePlan's standalone bank financial strength rating (BFSR) at C-/baa2. The outlook on the firm's long-term ratings and BFSR remains stable. The firm's Prime-2 short-term debt and short-term deposit ratings are unaffected by today's action.

The affirmation of LeasePlan's standalone BFSR reflects Moody's view that the firm's risk and business profiles are consistent with a baa2 standalone BCA.

In particular, the affirmation reflects Moody's view that the firm's risk profile is supported by (1) a strong franchise in fleet management, which provides relatively stable and diversified earnings for a specialized monoline institution; and (2) the effective management of considerable residual value risk. However, at the same time Moody's considers that the firm's wholesale funding reliance is a rating constraint, despite more diversified funding sources and an adequate liquidity profile.

The ratings on long-term debt issued by LeasePlan Australia Limited and LeasePlan Finance N.V. (Dublin Branch), and benefiting from the guarantee of LeasePlan, have also been affirmed at Baa2 with stable outlook.

A list of all affected ratings is available at the end of this press release.

RATINGS RATIONALE

--- FLEET MANAGEMENT BUSINESS PROVIDES THE FIRM WITH RELATIVELY MORE RESILIENT EARNINGS THAN TRADITIONAL AUTO FINANCING COMPANIES

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. In its press release for 2013 results, the firm reported an exceptionally high net profit of EUR326 million, which reflects the massive improvement of revenues on vehicles sold at contract termination, as a result of (1) the measures initiated in 2009 to reduce residual value risk; but also (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.

Moody's expects LeasePlan to continue to report resilient earnings going forward, thereby supporting its standalone BCA. Despite its monoline business model, LeasePlan's positioning as a fleet management company rather than as a pure car leasing company enables the company to provide additional services -- such as repair and maintenance or car insurance -- in addition to financing vehicles. Therefore, the firm's revenue mix is more diversified than for pure auto finance companies and net interest income accounts for only a third of total revenues. Besides, as a leading global fleet manager with 1.4 million vehicles, LeasePlan also has the capacity to generate large rebates and bonuses from its suppliers or service providers.

--- INHERENTLY HIGH EXPOSURE TO RESIDUAL VALUE, DESPITE SUCCESSFUL IMPLEMENTATION OF RISK MITIGATION TOOLS

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.

The measures initiated since 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 firm's capital position, place LeasePlan in a structurally better position to face further deterioration in second-hand car market prices (the firm has a reported Basel 2.5 Core Tier 1 capital of 16.9% at end-2013). That said, the firm's nominal residual value exposure remains high, and is estimated at above 250% of its core Tier 1 capital, a ratio comparable to other leasing companies globally, with BCAs of baa2.

Residual value risk appears to be better contained, thereby supporting the firm's standalone risk profile. However, Moody's regards this risk as still considerable, because second-hand car market prices remain volatile and are influenced by numerous exogenous factors (e.g. legislation, tax, prices of new vehicles), in addition to demand.

--- 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, Moody's acknowledges the largely matched funding profile and the funding diversification achieved since the 2008-09 global financial crisis through the collection of online deposits that account for around a quarter of total funding or EUR4.2 billion at end-2013, as reported by the bank in its press release for 2013 results. While Moody's views internet deposits as inherently less "sticky" (stable) than "traditional" retail deposits -- as a result of their sensitivity to price and reputational risks -- the stability of LeasePlan's deposit base should benefit from their inclusion under the Dutch Deposit Guarantee scheme (guarantees individual deposits up to EUR100,000). In addition Moody's considers that the average duration of the deposit base supports the largely matched funding structure of LeasePlan, whereby at end-2013, more than half of retail savings were term deposits according to the rating agency's estimates.

Under Moody's scenario for stressing funding and liquidity, the firm's resistance 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 (source: FY 2012 annual report). The firm would be able to maintain a positive liquidity position over 12 months on unchanged business; however, Moody's estimates that a reduction in business activity would be required 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. In Moody's view, LeasePlan's outstanding business franchise relies on long-standing relationships with large international corporates and would likely be materially impaired if the firm were constrained to curtail its business production.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on the standalone BCA could arise from a combination of a continued (1) improvement of the institution's risk profile, notably 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, notably as a result of 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.

Downward pressure on the standalone BCA could be exerted by any of the following (1) risk mitigation techniques, recurring earnings or capital resources that would not adequately cover higher residual value risk; (2) evidence of deterioration of the bank's liquidity and funding profile, notably through 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.

LIST OF AFFECTED RATINGS

The following ratings have been affirmed with stable outlook

- LeasePlan Corporation N.V.'s bank financial strength rating, at C-/baa2

- LeasePlan Corporation N.V.'s long-term bank deposit rating, at Baa2

- LeasePlan Corporation N.V.'s issuer rating, at Baa2

- LeasePlan Corporation N.V.'s senior unsecured rating, at Baa2

- LeasePlan Australia Limited's backed senior unsecured rating, at Baa2

- LeasePlan Finance N.V. (Dublin Branch)'s backed senior unsecured rating, at Baa2

The following ratings have been affirmed

- LeasePlan Corporation N.V.'s senior unsecured MTN provisional rating, at (P)Baa2

- LeasePlan Australia Limited's backed senior unsecured MTN provisional rating, at (P)Baa2

- LeasePlan Finance N.V. (Dublin Branch)'s backed senior unsecured MTN provisional rating, at (P)Baa2

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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