MOODY'S
INVESTORS SERVICE

Credit Opinion: LeasePlan Corporation N.V.

Global Credit Research - 08 Jul 2015

Almere, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits -Dom Curr	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
Senior Unsecured	A3
Bkd Commercial Paper	P-2
Other Short Term	(P)P-2
LeasePlan Finance N.V. (DUBLIN BRANCH)	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A3
Bkd Commercial Paper	P-2
Bkd Other Short Term -Dom Curr	(P)P-2
LeasePlan Australia Limited	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A3
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]12-14	[3]12-13	[3]12-12	[3]12-11	[3]12-10	Avg.
Total Assets (EUR million)	19,655.7	19,129.4	19,484.1	18,874.8	17,469.3	[4]3.0
Total Assets (USD million)	23,784.5	26,359.2	25,687.6	24,502.2	23,435.8	[4]0.4
Tangible Common Equity (EUR million)	2,687.2	2,433.2	2,257.9	2,013.9	1,809.0	[4]10.4
Tangible Common Equity (USD million)	3,251.7	3,352.8	2,976.8	2,614.3	2,426.9	[4]7.6
Problem Loans / Gross Loans (%)	0.6	0.6	0.5	0.5	0.6	[5]0.5
Tangible Common Equity / Risk Weighted Assets (%)	20.7	17.6	15.9	14.4	14.1	[6]20.7
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.3	3.5	3.4	3.6	4.3	[5]3.6
Net Interest Margin (%)	2.3	2.1	2.0	2.1	1.8	[5]2.1
PPI / Average RWA (%)	4.0	3.2	2.3	2.3	2.4	[6]4.0
Net Income / Tangible Assets (%)	1.9	1.7	1.3	1.2	1.2	[5]1.5
Cost / Income Ratio (%)	61.4	63.5	69.4	70.1	69.1	[5]66.7
Market Funds / Tangible Banking Assets (%)	50.1	51.3	54.5	60.6	63.9	[5]56.1
Liquid Banking Assets / Tangible Banking Assets (%)	11.2	12.8	11.4	10.3	9.1	[5]11.0

Gross Loans / Total Deposits (%)	**360.5**	**350.9**	**373.3**	**499.4**	**751.6**	[5]**467.1**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

LeasePlan Corporation NV's (LeasePlan) baseline credit assessment (BCA) of baa2 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 current BCA 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.

LeasePlan's A3 long-term debt and deposit ratings result from (1) the bank's standalone BCA of baa2; (2) the application of Moody's Advanced LGF analysis, resulting in a two-notch uplift from the baa2 BCA; and (3) a low probability of government support, with no associated uplift to the ratings. The outlook on the long-term debt and deposit ratings is stable. Concurrently, the short-term debt and deposit ratings were affirmed at Prime-2.

The long-term ratings do not incorporate any probability of systemic or parental support. Volkswagen Aktiengesellschaft (VW AG; A2/Prime-1 stable) and Fleet Investments B.V. (unrated) each own 50% of Global Mobility Holding, a holding company that owns 100% of LeasePlan's shares.

We assigned a Counterparty Risk Assessment (CR Assessment) of A2(cr)/Prime-1(cr) to LeasePlan.

LEASEPLAN'S BCA IS SUPPORTED BY ITS STRONG + MACRO PROFILE

LeasePlan's operating environment is heavily influenced by European countries and its Macro Profile is in line with the EU average Macro Profile at Strong +.

In general, Dutch banks benefit from operating in a wealthy and developed country with a very high degree of economic, institutional and government financial strength as well as very low susceptibility to event risk. The main risks to the banking sector stem from households, which have high leverage due to substantial amount of mortgage debt that exceeds 100% of GDP although they also have substantial level of savings that is locked in their pension.

The Dutch banking system is highly reliant on wholesale funding, which we consider a credit weakness. Compared to other European countries, it has a relatively low stock of bank deposits because of the incentives offered to Dutch households to invest large portions of their savings in pension funds.

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

- Large volume of senior unsecured long-term debt resulting in debt and deposit ratings benefiting from a very low given-failure rate translating into a two-notch uplift from the BCA

- Low probability of government support resulting in no uplift from BCA for debt and deposits

RATING OUTLOOK

The deposit and senior unsecured debt ratings currently have a stable outlook.

WHAT COULD CHANGE THE RATING - UP

Upward pressure on the BCA 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 change in the liability structure leading to higher subordination benefiting to deposits and senior debt could also have a positive impact on their ratings.

An improvement in the BCA would result in an upgrade of the long-term ratings.

WHAT COULD CHANGE THE RATING - DOWN

Downward pressure on the BCA 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 BCA 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 in 32 countries. LeasePlan has a dominant position in several key markets, providing geographical diversification to its business. As of June 2014, the company (1) had a leading position in the Netherlands, Belgium, Spain, Norway, Portugal, Sweden, Finland, Poland, New Zealand 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, Germany, Switzerland 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. In 2014, the company reported an unusually high net profit of EUR 372 million, which reflects the sizeable improvement of revenues on vehicles sold at contract termination (a 60% increase versus 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. The residual value risk, which is not visible in the ratio of problem loans to gross loans used in the Asset Risk score, is reflected in our adjustment to this score to baa1.

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 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 17.2% as of year-end 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 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. The bank's Combined Liquidity score of b1 reflects this constraint on LeasePlan's BCA.

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 EUR 4.3 billion as of year-end 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, although mainly with remaining maturities of less than one year (estimates as of year-end 2014).

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.

Overall, our assigned BCA is baa2, one notch below the unadjusted Financial Profile of baa1. This is due to our adjustment of -1 for business diversification as for other similar monoline issuers.

NOTCHING CONSIDERATIONS

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

LeasePlan is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in keeping with our standard assumptions.

We believe that LeasePlan's deposits are likely to benefit from a very low loss-given-failure, due to the loss absorption provided by (i) the large amount of senior unsecured debt should deposits be treated preferentially in a resolution, and (ii) a small volume of deposits. This is supported by the combination of the modest deposit volume (we estimate junior deposits to make up less than 2% of the bank's tangible banking assets in failure) and the subordination of 3% of tangible banking assets (and about 21% in the event of deposits being preferred to senior debt). This results in a Preliminary Rating Assessment (PRA) two notches above the BCA.

We believe that LeasePlan's senior unsecured debt is also likely to face very low loss-given-failure. This is supported by the senior debt's own volume (about 23% of the group's tangible banking assets in failure, or 25% including junior deposits), and the amount of subordination given by residual equity (3%). This results in a Preliminary Rating Assessment (PRA) two notches above the BCA.

GOVERNMENT SUPPORT

The implementation of the BRRD has led us to reconsider the potential for government support to benefit the bank's creditors. We expect a low probability of government support for debt and deposits, resulting in no uplift to the a3 PRAs.

COUNTERPARTY RISK ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned at A2(cr)/Prime-1(cr).

The CR Assessment, prior to government support, is positioned three notches above the Adjusted BCA of baa2, based on the cushion against default provided to the senior obligations represented by the CR Assessment by subordinated instruments amounting to 28% of Tangible Banking Assets. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard 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.

Macro Factors

Weighted Macro Profile	Strong +

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.6%	aa2	←→	baa1	Non lending credit risk	Quality of assets
Capital						
TCE / RWA	20.7%	aa1	←→	aa1	Risk-weighted capitalisation	Nominal leverage
Profitability						
Net Income / Tangible Assets	1.6%	a1	←→	a1	Earnings quality	
Combined Solvency Score		aa2		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	50.1%	b3	←→	b3	Extent of market funding reliance	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	11.2%	ba1	←→	ba1	Access to committed facilities	Quality of liquid assets
Combined Liquidity Score		b1		b1		

Financial Profile	baa1

Qualitative Adjustments	Adjustment
Business Diversification	-1
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**-1**

Sovereign or Affiliate constraint	Aaa
Scorecard Calculated BCA range	**baa1 - baa3**
Assigned BCA	**baa2**
Affiliate Support notching	**0**
Adjusted BCA	**baa2**

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Deposits	2	0	a3	0	A3	

Senior unsecured bank debt	2	0	a3	0	A3	A3

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