

SECTOR IN-DEPTH

11 DECEMBER 2015

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RATINGS

BCA / LT deposit ratings

RCI Banque	baa3/ Baa1
Banque PSA Finance	ba2/ Baa3
Volkswagen FS AG	-/A1
Volkswagen Bank GmbH	baa2/ A1
LeasePlan Corp.	baa2/ A3 RURD

RURD = rating under review for downgrade

KEY METRICS:

	Deposits / Loans	Net income / total assets	Tier 1 ratio (1)
RCI	23%	1.5%	11.3%
BPF	13%	1.6%	15.1%
VW FS AG	28%	0.9%	11.8%
VW Bank	64%	1.0%	12.5%
LeasePlan	30%	2.4%	17.5%

Source: Banking Financial Metrics, Moody's calculations. (1) BPF at end-March 2015.

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Auto Finance - Europe

Auto Financing Banks' Expanded Deposit-taking Is Credit Positive

This report focuses on the progress and impact of the deposit collection strategies of the following four auto banks: [RCI Banque](#) (RCI; Baa1 stable, baa3),¹ the captive bank of [Renault S.A.](#) (Ba1 positive), [Banque PSA Finance](#) (BPF; Baa3 positive, ba2), the captive bank of [Peugeot S.A.](#) (Ba3 positive), [Volkswagen Financial Services AG](#) (VW FS AG, A1 negative)/ [Volkswagen Bank GmbH](#) (VW Bank, A1 developing, baa2)² and [LeasePlan Corporation N.V.](#) (A3 on review for downgrade, baa2 on review for downgrade).

This document is an update of our Credit Focus published on 28 February 2014.

Summary Opinion

- » Each of the four financial institutions active in auto-financing and fleet management attracts online retail deposits, which is positive for creditors. Retail deposits offer good diversification benefits that lessen banks' sensitivity to financial market fluctuations (relative to wholesale funds). Nonetheless, online deposits are also inherently more volatile than deposits raised in traditional retail networks, as recognized by the Basel Committee, which defines them as "less stable" in the calculation of its liquidity ratios.
- » The impact of deposit funding on the banks' profitability is mixed over the long-term. Deposits can be more expensive than wholesale funds when financial markets are not under stress. This has typically been the case in the last few years. Still, deposits are likely to be cheaper in times of financial market distress and offer the benefit of a more stable and less price-sensitive funding source.
- » French auto financing banks have launched direct banking operations away from their home markets in order to benefit from the greater depth of foreign savings markets. Both RCI and BPF were able to attract very significant amounts of savings in a short period of time. Individual customers are less sensitive to financial market volatility, but are typically attracted by enticing interest rates, depending on the characteristics of each savings market and on the perceived strength of an institution.

- » We believe that the four banks expect to have deposits reaching between a quarter and a third of their funding sources eventually. French auto-captives RCI and BPF started collecting deposits only in 2012 and 2013, respectively, explaining why they still fall slightly behind peers in terms of deposit funding. As such, of the four they are the most likely to pursue deposit growth outside their domestic markets. BPF's deposit collection will be made via its local joint-ventures with Santander Consumer Finance S.A. (Santander CF; A3 positive, baa2), including SOFIB S.A. in France.
- » All four auto banks started their direct banking operations in their domestic market, and each country has savings markets with very different characteristics. In this way, LeasePlan and VW Bank were able to attract substantial savings flows in the Netherlands and Germany respectively, but RCI and BPF faced a savings market in France that is expensive. Therefore, RCI and BPF have launched direct banking offers abroad, RCI meeting some notable success in the attractive German savings market, which offers more depth and cheaper funding. LeasePlan also started offering savings accounts in Germany in September 2015.

Success by auto-banks in attracting online retail deposits is credit positive

Deposit funding can bring diversification benefits and alleviate funding difficulties during financial market turmoil. We also believe that deposit funding may bring profitability benefits in the long-run.

Deposits are less sensitive to market disruptions than wholesale financing

We believe that individual customers are less sensitive to financial market volatility than wholesale investors. Individual customers are inherently less sensitive to the financial strength of an institution, on the basis of the protection offered by national deposit guarantee schemes, although they can be more sensitive to changes in interest rates. As a consequence, we consider online deposits collected by direct banking operations to be more stable and accessible than wholesale funds in periods of stress. An example of this is BPF which, despite the difficulties faced by its parent, was able to collect €955 million of deposits during the first year of its direct banking activity in 2013.

Nonetheless, online deposits are inherently more volatile than deposits raised in traditional retail networks. Online demand deposits are defined as "less stable" in the Liquidity Coverage Ratio (LCR) determined by the Basel Committee on Banking Supervision and have run-off rates applied to them that are twice that of "stable" deposits. Direct banking clients are often focused on "special offer" rates and can switch banks rapidly, depending on promotional rates at competitors. They may also be somewhat sensitive to reputation and brand name, which can cause withdrawals, although the existence of deposit guarantee schemes helps stabilise the funds up to the guaranteed amount. In order to diminish withdrawal risk and improve funding characteristics, banks tend to favour term deposits over sight accounts. LeasePlan has the highest proportion of such deposits in its deposit mix, at 52% of its total deposit base. Other banks discussed in this report have a more limited proportion of term deposits (see Exhibit 1).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 1

Direct banking operations at four auto banks - 30 June 2015

	RCI Banque	Banque PSA Finance	VW Bank/VW FS	LeasePlan
	2012	2013	1990	2010
Launch of direct banking operations				
Deposits (€ millions)	7,026	2,887 (1)	25,052/25,641	5027 (5)
Deposits % Loan book	23%	13%	64%/28%	31%
Objective	30% of group outstanding loans in 2016	15%-20% of funding in 2015	1/3rd of funding by 2018 (2)	-
Geographical presence of savings operations	France, Germany, Austria, United Kingdom	France, Belgium, Germany	Germany (3)	Netherlands, Germany (6)
Sight/Term deposits	73%/27%	95%/5%	~90%/10% (4)	48%/52%
Avg. maturity of term deposits	-	~2 years	1-2 years	~2 years

(1) Under IFRS 8.

(2) For VW FS AG.

(3) VW FS AG has other minor direct banking operations, notably in Italy, Spain, France, Russia, Poland, Mexico and Brazil.

(4) VW Bank, as at year-end 2014. 90% of customer deposits had a remaining maturity below three months.

(5) For LeasePlan, the denominator is the sum of "Receivables from clients", "excluding trade receivables", and "Property and equipment under operating lease and rental fleet".

(6) German operations launched in September 2015.

Online deposits offer good diversification benefits and enhance liquidity

We believe that the drivers behind deposit collection and wholesale funding are different. Hence, in our opinion collecting deposits offers significant diversification benefits in times of financial market stress. Recent launches of direct banking operations resulted from the experience of the financial market disruption that began in 2008. This disruption revealed that Volkswagen group had a competitive advantage in financing its car sales because its direct banking operations enabled it to collect deposits at a time when others attempted to raise funding in highly stressed financial markets and had to lock in costly financing for several years. While deposits from German savers also required a premium at this time, they quickly re-priced down when interest rates decreased. As such, deposits provide some insurance against market turmoil.

Deposit funding brings short-term costs for banks' profitability but long-term benefits

That said, deposits are currently a relatively expensive source of funding when compared to wholesale financing. Initial set-up costs have also weighed on the profitability of banks that have had to launch these operations lately. However, having deposit-taking facilities is likely to enable good access to funding at lower prices in times of financial market distress. These characteristics of deposits should help reduce earnings volatility in the long term.

Traditionally, auto financing banks have provided loans at fixed rates with an average maturity of 4-5 years and funded these assets on a largely "matched" basis, i.e. at fixed rates and similar maturities. The addition of a stock of deposits into the funding mix is likely to add to the interest rate mismatch, because deposits tend to be variable rate and shorter term. A period of rapid rise in interest rates would therefore negatively impact earnings, as the bank would have to progressively raise deposit rates on the full stock of deposits. Higher interest rates would meanwhile generally only affect new issuance of market funding, and be offset by higher rates on new assets.

Despite rapid progress, French auto financing banks are still lagging peers on deposit funding

French auto-captives RCI and BPF started collecting deposits only in 2012 and 2013 respectively, which explains why they still fall behind peers in terms of deposit funding. Nonetheless, progress in this field by French captives suggest they will quickly catch up with LeasePlan, which started collecting deposits in 2010, and VW FS AG, which has long had direct banking operations. Overall, the four banks share relatively similar targets for deposits to provide between a quarter and a third of funding eventually.

Current funding composition reflects timing of launch of direct banking operations

- » The four auto financing banks are currently at different stages in their deposit collection. The two French auto captives, RCI and BPF, had retail deposits reaching 23% and 13% of outstanding loans at end-June 2015, respectively. This reflects their more recent launch of direct banking operations in 2012 for RCI and 2013 for BPF. LeasePlan, which started its deposit operations in 2010,

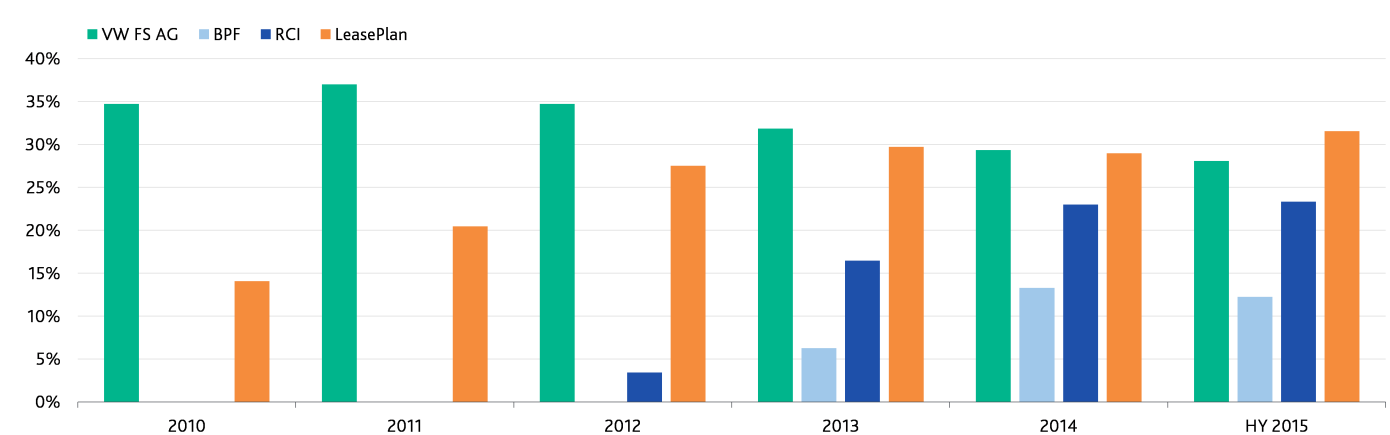
had deposits representing 32% of its leasing operations at end-June 2015, whereas VW FS AG, which has long had direct banking operations, currently finances 28% of its lending activities through deposits (Exhibit 2).

- » We expect banks to expand in foreign deposit markets in order to diversify retail deposit markets and achieve deposit funding targets. Hence RCI, which already has direct banking operations in Germany and Austria, launched operations in the United Kingdom in June 2015. LeasePlan also started collecting deposits in Germany in September 2015, while BPF opened direct banking operations in Belgium and Germany in September and October 2014.

Exhibit 2

Auto financing banks' deposit growth

Retail deposits as a % of lending book



Source: Banks' audited reports.

Auto banks target relatively similar levels of deposit funding

Although the direct banking operations at the four auto banks are at different stages, having 25%-33% of funding through deposits is a broadly shared long-term objective.

Auto banks will probably not raise deposit funding above these levels, preferring to maintain a balanced funding mix overall. Therefore, we expect auto banks to progressively raise their deposit base to reach these levels, with French banks being the most aggressive on offered rates in order to catch up with their peers. LeasePlan, which is broadly satisfied with current deposit levels, is unlikely to pursue aggressive deposit growth.

VW FS AG publicly targets a third of its funding to come from customer deposits, a target that compares with a share of deposits in its refinancing mix of 23% at end-June 2015. Of the four auto banks, it is the one with the most ambitious target in terms of deposit funding, but it is also one of the most advanced, thanks to the early start of its direct banking operations in 1995. LeasePlan had online deposits representing 29% of total funding at end-June 2015, a figure that is close to RCI's public objective of having 30% of outstanding loans by 2016. BPF is late in the process of collecting deposits and its latest public targets is to have online deposits at 15%-20% of refinancing needs by year-end 2015.

The French savings market lacks depth and is costly, whereas the German market is deep and attractive for foreign auto banks

The four auto banks have direct banking operations engaged in countries where the savings markets have very different characteristics. All four auto banks started their direct banking operations in their country of origin. RCI and BPF started collecting deposits in France, LeasePlan in the Netherlands and VW FS AG in Germany. However, although LeasePlan and VW FS AG could attract large savings flows at home, RCI and BPF are faced with a savings market in France that is expensive and lacks depth. Therefore, RCI and BPF have launched direct banking abroad and have had some notable success in the more attractive German savings market.

The French savings market is costly and suffers from the competition of regulated products

Launching deposit operations in France was only a first step for French auto captives, as the French savings market does not offer the same attraction as other European markets, such as Germany. In our view, France is an expensive market in which depositors are very sensitive to high promotional rates and less so to the perceived strength of the bank, or its brand name.

Particularly attractive promotional rates are needed to attract online depositors in France, because saving accounts compete with French regulated savings accounts (livret A, LDD) and life insurance savings products, which all benefit from tax-exemptions. This competition removes depth in the savings market and exerts upward pressure on prices. The regulated savings accounts are also readily available, which is particularly appreciated by French savers and makes term offers relatively unsuccessful. Lastly, term deposit accounts in France have the inconvenience that depositors can withdraw their funds at any time. Only interest paid by these accounts is guaranteed over the term, making the product inefficient for lengthening banks' funding duration.

In conclusion, the size and attractiveness of the French savings market is rather limited for French captives. Indeed, RCI and BPF do not aggressively pursue deposit volumes in France, but rather view the French savings market as an insurance policy against market shutdowns. RCI and BPF respectively disclosed deposits of €1.4 billion and €1.1 billion in France at end-June 2015. We expect that RCI will maintain its French deposit base at relatively similar levels in the foreseeable future, and will focus on more attractive foreign markets. Indeed RCI has stopped offering promotional rates for its sight account Zesto in France. BPF, via its French joint-venture SOFIB S.A., has not yet reached its deposit funding targets, with approximately 15% of deposit funding currently, and should continue to increase its French deposit base.

The German savings market offers more depth and cheaper funding

The German savings market is attractive to the auto banks because of its considerable depth and accessibility at affordable prices, offering funding that is viable for the business in the long-term. RCI's German deposits cost significantly less than its French deposits, even though the bank offers among the best rates in the German market. This explains why VW FS AG collected only minimal amounts of deposits outside of its home market and it is also the reason why RCI, BPF, and more recently LeasePlan launched deposit operations in Germany.

RCI has attracted a very significant amount of deposits (€5.1 billion) since the start of its German direct banking operations in February 2013. Renault's brand reputation was sufficiently strong to attract large money flows quickly and we note that BPF was also able to raise more than €1.4 billion of deposits in Germany in less than nine months, despite the recent press linked to the restructuring of Peugeot S.A. RCI's German saving accounts fall under the French deposit guarantee scheme, because RCI does not operate from a subsidiary in Germany, but from a branch. This is also true for BPF in Germany until year-end 2015. After this date, the German joint-venture with Santander CF will raise deposits that will be covered by the German deposit guarantee scheme.

The Netherlands, where LeasePlan collects online deposits, has a very competitive savings market, which does not offer the depth and price advantage of the German market. Therefore, we do not expect French banks to pursue direct banking activities in this country in the foreseeable future.

Exhibit 3

Saving account offers at four auto banks – 2 December 2015

Bank	Account	Country (1)	Account type	Promotional rate	Running rate	Ceiling (€)	EAR (2)	Term rate
LeasePlan Bank	Internetsparen	NL	Sight	-	1.10%	500,000	1.10%	-
LeasePlan Bank	Termijndeposito	NL	Term	-	-	2,000,000	1.40%	1.70% (5 y)
LeasePlan Bank	Tagesgeld	DE	Sight	-	1.05%	500,000	1.05%	-
LeasePlan Bank	Festgeld	DE	Term	-	-	2,000,000	1.40%	1.70% (5 y)
PSA Banque	Distingo	FR	Sight	3.60%/3m	1.40%	75,000 (3)	2.55%	-
PSA Banque	Distingo Fixe	FR	Term	-	-	100,000	2.20%	2.20% (2 y)
PSA Bank	Distingo	BE	Sight	0.25%(4)	0.90%	-	1.15%	-
PSA Bank	Distingo Plus	BE	Sight	1.20%(4)	0.10%	-	1.30%	-
PSA Direktbank	Tagesgeld	DE	Sight	-	0.90%	1,000,000	0.90%	-
PSA Direktbank	Festgeld	DE	Term	-	-	-	0.90%	1.00% (4 y)
RCI Banque	Zesto	FR	Sight	-	1.70%	10,000,000	1.70%	-
RCI Banque	Pepito	FR	Term	-	-	1,000,000	1.75%	2.50% (3 y)
Renault Bank Direkt	Tagesgeld	DE	Sight	1.10%/3m	1.00%	1,000,000	1.03%	-
Renault Bank Direkt	Festgeld	DE	Term	-	-	1,000,000	1.15%	1.70% (5 y)
Renault Bank Direkt	Tagesgeld	AT	Sight	-	1.00%	1,000,000	1.00%	-
Renault Bank Direkt	Festgeld	AT	Term	-	-	1,000,000	1.25%	1.40% (3 y)
RCI Bank	Freedom Saving Account	GB	Sight	-	1.65%	£1,000,000	1.65%	-
RCI Bank	Fixed Term Savings	GB	Term	-	-	£1,000,000	2.06%	2.70% (3y)
VW FS	Plus Konto TopZins	DE	Sight	1.25%/4m (5)	0.30%	-	0.62%	-
VW FS	Plus Sparbrief	DE	Term	-	-	-	0.80%	1.50% (10 y)

(1) NL: Netherlands; FR: France; DE: Germany ; BE : Belgium ; AT : Austria; GB: United Kingdom

(2) Equivalent Annual Rate for first year of opening the account.

(3) Ceiling for benefiting from the promotional rate.

(4) Fidelity premium received if money was left for 12 months in the account.

(5) Promotional rate for four months limited to €100,000.

Source: Direct banking web pages; Moody's calculations.

Appendix

Summary Financials – Auto Banks

End-June 2015 (or latest reported figures).	RCI Banque	Banque PSA Finance (1)	Banque PSA Finance	Volkswagen Bank GmbH	Volkswagen Financial Services AG	LeasePlan Corporation NV
Ratings						
Long-term Bank Deposit Rating (local currency) and Outlook	Baa1 Stable	Baa3 Positive	Baa3 Positive	A1 DEV(m)	A1 Negative (2)	A3, on review for downgrade
BCA	baa3	ba2	ba2	baa2	-	baa2
Financials (€ Millions)			IFRS 5			
Loan book	30,426	22,208	706	38,912	91,358	16,905
- of which: end-users	22,792	15,444	533	22,589	50,365	16,221 (3)
- of which: car dealers	7,634	6,764	173	9,946	14,130	-
Customer deposits	7,026	2,887	1,812	25,052	25,641	5,027
Shareholders' equity	3,313	3,098	2,372	4,923	13,497	2,898
Total assets	34,456	25,542	12,718	44,955	114,246	20,470
Net banking revenues (annualised)	1,348	534	57	1,440	5,422	1,518
Pre-provision income (annualised)	924	40	40	1,234	3,938	513
Net income (annualised)	492	398	256	446	1,058	491
Ratios						
Profitability and efficiency						
Net Interest Margin	3.0%	1.6%		2.8%	3.9%	2.4%
Pre-provision income % total assets	2.7%	0.2%	0.3%	2.7%	3.4%	2.5%
Net income % total assets	1.5%	1.6%	2.0%	1.0%	0.9%	2.4%
Cost-to-income ratio	31.5%	64.9%	64.9%	53.5%	50.6%	54.4%
Liquidity and funding						
Deposits % outstanding loans	23.1%	13.0%	256.7%	64.4%	28.1%	31.0%
Market Funds / Tangible Banking Assets	62.6%	28.9%		23.4%	48.2%	47.2%
Liquid Banking Assets / Tangible Banking Assets	6.32%	1.72%		8.95%	4.50%	9.77%
Capital and asset quality						
Loan loss provision / gross loans (annualised)	0.27%	0.24%	0.27%	0.16%	0.67%	0.13%
Problem loans % gross loans	2.63%	5.28%	5.92% (1)	2.95%	2.81%	0.58%
Tier 1 ratio (Basel III)	11.3%	15.1%	15.1%	12.5%	11.8%	17.5%

(1) Financials for BPF are reported under IFRS 8.

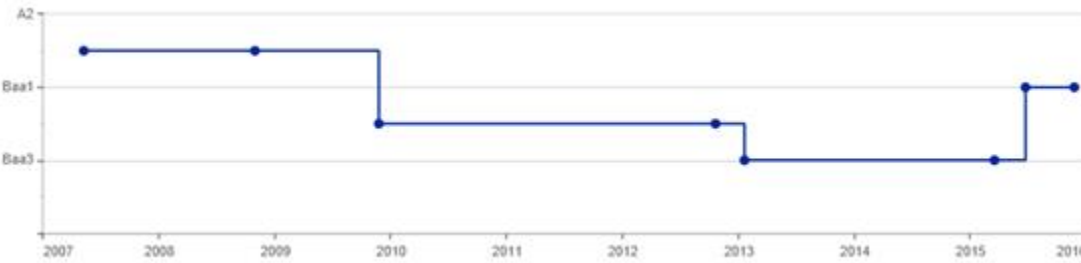
(2) Senior unsecured debt rating.

(3) Sum of "Receivables from clients", excluding "trade receivables", and "Property and equipment under operating lease and rental fleet".

Ratings History

RCI Banque

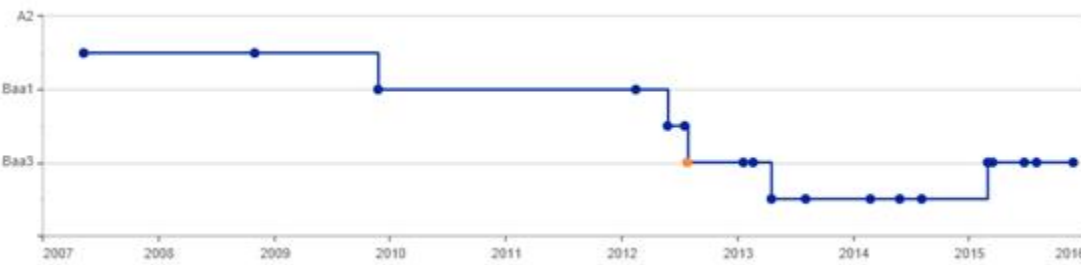
Long-Term Bank Deposits (Domestic)



Source: Moodys.com

Banque PSA Finance

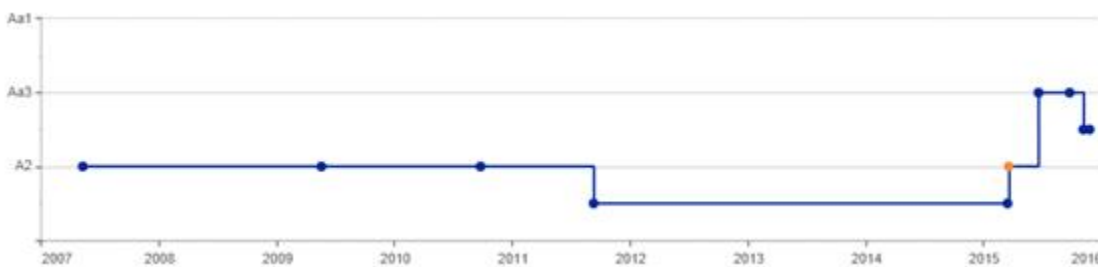
Long-Term Bank Deposits (Domestic)



Source: Moodys.com

Volkswagen Bank GmbH

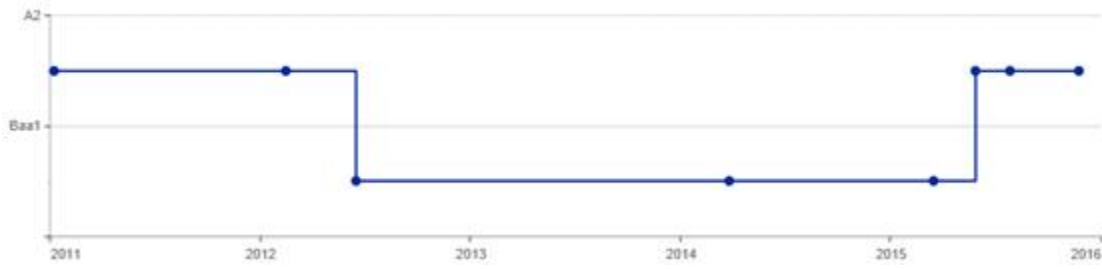
Long-Term Senior Unsecured (Domestic)



Source: Moodys.com

LeasePlan Corporation

Long-Term Bank Deposits (Domestic)



Source: Moodys.com

Moody's Related Research

Credit Opinions:

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Rating Methodology:

- » [Banks, March 2015](#)

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Endnotes

- 1 The ratings are the foreign deposit rating, its corresponding outlook and the baseline credit assessment.
- 2 VW FS AG is the entity responsible for granting loans to the customers of auto-manufacturer Volkswagen AG (A3 negative). It is the 100%-owner of VW Bank, which is responsible for collecting deposits in Germany, as well as granting loans in a limited number of jurisdictions in Europe. VW FS AG is more directly comparable to RCI and BPF than VW Bank in terms of deposit funding analysis.
- 3 The Basel Committee on Banking Supervision proposes to apply a 10% run-off rate for these online deposits (considered as "less stable") in the calculation of the Liquidity Coverage Ratio and a 90% available stable funding (ASF) in the calculation of the Net Stable Funding Ratio. For deposits considered as "stable", the run-off rate is 5%, or 3% if certain criteria are met, and the ASF is 95%.

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