

LeasePlan Corporation N.V.

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LeasePlan Corporation N.V.

Major Rating Factors

Strengths:

- Major worldwide franchise in operational car leasing and fleet management, with geographically diverse earnings streams.
- Good earnings and strong capitalization
- Strategically important status to, and expected support in case of need from Volkswagen Bank GmbH (VW Bank, A-/Stable/A-2).
- Regulated status as a bank.

Counterparty Credit Rating

BBB+/Stable/A-2

Weaknesses:

- Wholesale funding profile.
- Business concentration.
- High residual value risks, implying inherent earnings volatility.

Rationale

The ratings on Dutch bank LeasePlan Corporation N.V. primarily reflect our view of its leading worldwide franchise in operational car leasing and fleet management, good earnings, relatively strong capitalization, and the ongoing benefits derived from being a regulated bank. The ratings are constrained by our opinion of the bank's wholesale funding profile, its narrow business focus, and some earnings volatility stemming from structurally high residual value risks.

Standard & Poor's considers LeasePlan to be strategically important for VW Bank, which owns 50% of the bank because LeasePlan brings geographic and business diversity to VW Bank's captive business model and is a recurrent earnings contributor. According to our criteria, the LeasePlan ratings therefore benefit from one notch of uplift for extraordinary parental support. Fleet Investment B.V. (not rated), the investment vehicle of Mr. Friedrich von Metzler, a prominent German banker, owns the remaining 50%. We believe this participation to be primarily a financial investment. In addition, Fleet Investment has a put option vis à vis carmaker Volkswagen AG (VW, A-/Negative/A-2), VW Bank's ultimate parent.

LeasePlan is a non-captive entity, which in our view increases its business and earnings resilience. LeasePlan's strategy has remained autonomous from that of the whole VW group, notably with respect to fleet composition, and we expect this key defining factor to persist. Although of a relatively small size by international standards (with €17.8 billion in assets as of midyear 2010), the bank operates in 30 countries and holds a leading position in many of them. This provides LeasePlan with satisfactory earnings streams and with a stable, loyal client base constituting essentially large blue chips.

LeasePlan is reliant on wholesale funding, which we view as a rating weakness. Additionally, the large amount of debt maturing in 2012 could pose some refinancing risks in case of further dislocation in the capital markets. Positively, however, the bank has tapped the bond market without state guarantee three times since mid-2009, using public benchmark issues (€1.5 billion) and private placements (€0.35 million). Moreover, it holds liquidity reserves

that are ample and immediately available, in our view. A new deposit collection initiative was launched in early 2010, with €1 billion in deposits collected in the first six months. This could reduce the high reliance on wholesale funds over time, but both the stability of these deposits and the loyalty of the clientele are still to be demonstrated, in our view.

In our opinion, profitability should rebound in 2010 and 2011 after a modest performance in 2009, in the wake of high residual value losses totaling €96 million in 2009. Revenues and pretax profit in the first semester of 2010 were up 16% and 60%, respectively, compared with the similar period in 2009, helped by sustained leases outstanding, improved new business margins, resilient fees and insurance income, and materially improved results from terminated contracts. Thanks to upward-oriented prices on the used car market, on which LeasePlan sells the cars after lease contract expiry, as well as to the implementation of measures to reduce the intrinsic sensitivity of the bank's revenues to residual value swings, we expect the bank to generate a small profit out of terminated contracts in 2010, and a larger one in 2011 more in line with pre-crisis levels. We anticipate the ratio of core earnings to average adjusted assets to rebound above 1% in 2010 and 2011 from the low 0.7% in 2009. Nevertheless, we expect risk-adjusted profitability metrics in 2010 and 2011 to remain below pre-crisis average.

Interest-rate risks are limited because LeasePlan gives operating subsidiaries little leeway to maintain interest rate mismatches between their assets and liabilities. In the event of mismatches, the bank hedges its position with off-balance-sheet derivatives. Currency risk is minimal, thanks to the policy of local funding for non-euro-denominated assets.

Capitalization has improved over recent years because of full retention of earnings and lower asset growth. Our 10.2% risk-adjusted capital (RAC) ratio before adjustments at midyear 2010 (10.8% after) and 13.6% core tier 1 ratio indicate a strong capital position, in our view.

Outlook

The stable outlook reflects our view that recent improvements in LeasePlan's earnings and capitalization are sustainable and that the pressure on the bank's funding profile is gradually easing.

Any signs of weakening strategic interest from Volkswagen Bank, for example through a reduction in its ownership stake, could lead us to remove the notch of support currently factored into the ratings. Additionally, any renewed pressure on liquidity or difficulties in the rollover of maturing liabilities that peak in 2012 could trigger a negative rating action, as could a departure from the bank's conservative capital management.

Because LeasePlan's stand-alone credit profile is one notch below the current ratings, we believe upside potential for the ratings is currently limited, although there is potential for an improvement in the stand-alone credit profile. In the longer term, a positive rating action could occur if LeasePlan successfully and materially reduces its reliance on wholesale funding and maintains both a RAC ratio above 9% before diversification and a ratio of core earnings to average adjusted assets in line with its historical levels, namely more than 1.5%.

Table 1

LeasePlan Corporation N.V. Risk-Adjusted Capital Data						
(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)	
Credit risk						
Government and central banks	969	463	48	30		3
Institutions	1,869	513	27	397		21
Corporate	11,273	5,988	53	8,615		76
Retail	1,534	1,400	91	1,219		79
Of which mortgage	0	0	0	0		0
Securitization	0	0	0	0		0
Other assets	1,774	2,653	150	2,661		150
Total credit risk	17,419	11,016	63	12,922		74
Market risk						
Equity in the banking book¶	23	0	0	307		1,250
Trading book market risk	--	525	--	788		--
Total market risk	--	530	--	1,095		--
Insurance risk						
Total insurance risk	--	--	--	1,521		--
Operational risk						
Total operational risk	--	1,425	--	1,665		--
(Mil. €)		Basel II RWA		Standard & Poor's RWA		% of Standard & Poor's RWA
Diversification adjustments						
RWA before diversification		12,965		17,203		100
Total adjustments to RWA		--		(928)		(5)
RWA after diversification		12,971		16,275		95
(Mil. €)		Tier 1 capital	Tier 1 ratio (%)	Total Adjusted Capital		Standard & Poor's RAC ratio (%)
Capital ratio						
Capital ratio before adjustments		1,760	13.6	1,760		10.2
Capital ratio after adjustments§		1,760	13.6	1,760		10.8

*Exposure at default. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.
 §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight.
 RAC--Risk-adjusted capital. Sources: Company data as of June. 30, 2010, Standard & Poor's.

Table 2

LeasePlan Corporation N.V. Asset Quality, Funding, And Liquidity Ratios					
	--Year-ended Dec. 31--				
(%)	2010*	2009	2008	2007	2006
Net nonperforming assets/customer loans plus other real estate owned	(0.6)	(0.6)	(0.4)	(0.4)	(0.5)
Loan loss reserves/customer loans	0.6	0.6	0.4	0.4	0.5
New loan loss provisions/average customer loans	0.2	0.4	0.1	0.1	0.2

Table 2

LeasePlan Corporation N.V. Asset Quality, Funding, And Liquidity Ratios (cont.)					
Customer deposits/funding base	7.9	1.7	11.8	6.3	3.0
Total loans/customer deposits	1,389.4	6,624.1	912.5	1,804.4	3,583.8
Total loans/customer deposits plus long-term funds	144.8	178.1	185.3	165.4	161.1
Customer loans (net)/assets (adjusted)	81.8	84.4	85.1	89.2	86.5

*Data as of June 30.

Table 3

LeasePlan Corporation N.V. Profitability Ratios					
	--Year-ended Dec. 31--				
(%)	2010*	2009	2008	2007	2006
Net interest income/average earning assets	1.7	1.7	1.7	1.9	2.2
Net interest income/revenues	29.5	34.5	30.2	30.1	32.9
Fee income/revenues	20.8	23.4	25.3	19.9	20.4
Personnel expense/revenues	43.0	46.9	42.0	39.0	39.2
Noninterest expenses/revenues	70.4	74.8	69.7	65.9	66.9
New loan loss provisions/revenues	3.0	6.9	1.1	1.3	2.4
Net operating income before loan loss provisions/loan loss provisions	974.5	362.0	2,803.6	2,721.6	1,388.3
Net operating income after loan loss provisions/revenues	26.6	18.2	29.2	32.9	30.7
Pretax profit/revenues	26.6	25.6	28.7	34.6	30.8
Tax/pretax profit	25.8	19.8	20.4	22.1	25.9
Core earnings/revenues	19.7	14.6	23.3	25.6	22.8
Core earnings/average adjusted assets	1.0	0.7	1.2	1.5	1.4
Noninterest expenses/average adjusted assets	3.7	3.5	3.7	3.9	4.1
Core earnings/average risk-weighted assets	N.M.	N.M.	2.6	1.6	1.5
Core earnings/average adjusted common equity	11.1	8.0	15.6	20.2	18.7
Pretax profit/average common equity (%)	14.3	13.7	18.3	23.8	21.9

*Data as of June 30.

Table 4

LeasePlan Corporation N.V. Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2010*	2009	2008	2007	2006
Tier 1 capital ratio	13.6	12.8	9.8	8.3	8.7
Adjusted total equity/adjusted assets	9.1	8.7	7.4	7.2	6.8
Adjusted total equity/managed assets	9.1	8.6	7.3	7.1	6.7
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	11.7	10.9	9.0	8.4	8.3
Common dividend payout ratio	0.0	0.0	0.0	50.9	61.7

*Data as of June 30. N.M.--Not meaningful.

Table 5

LeasePlan Corporation N.V. Summary Balance Sheet					
	--Year-ended Dec. 31--				
(Mil. €)	2010*	2009	2008	2007	2006
Assets					
Cash and money market instruments	1,721	1,349	907	502	854
Securities	0	0	369	147	187
Trading securities (marked to market)	0	0	0	30	31
Nontrading securities	0	0	369	118	156
Customer loans (gross)	14,541	14,416	15,012	14,534	13,650
Loan loss reserves	91	91	57	63	70
Customer loans (net)	14,450	14,325	14,955	14,472	13,580
Earning assets	16,218	15,729	16,263	15,171	14,678
Equity interests/participations (nonfinancial)	25	22	24	26	18
Intangibles (nonservicing)	93	94	97	89	93
Fixed assets	82	86	96	88	93
Derivatives credit amount	442	275	232	73	56
Accrued receivables	N/A	N/A	0	185	284
All other assets	1,019	974	1,020	764	642
Total assets	17,831	17,126	17,699	16,345	15,805
Adjusted assets	17,670	16,967	17,564	16,227	15,694
Liabilities					
Total deposits	2,608	2,597	5,468	2,424	1,336
Noncore deposits	1,562	2,379	3,823	1,618	956
Core/customer deposits	1,047	218	1,645	806	381
Other borrowings	10,715	10,337	8,487	10,359	11,199
Other liabilities	2,734	2,574	2,360	2,159	1,899
Total liabilities	16,058	15,508	16,315	14,941	14,434
Total equity	1,774	1,618	1,384	1,404	1,371
Minority interest-equity	N/A	N/A	0	0	(1)
Common shareholders' equity (reported)	1,774	1,618	1,384	1,404	1,372
Share capital and surplus	578	578	578	578	578
Revaluation reserve	(80)	(110)	(145)	30	38
Retained profits	90	165	202	255	211
Total liabilities and equity	17,831	17,126	17,699	16,345	15,805

*Data as of June 30. N/A--Not applicable.

Table 6

LeasePlan Corporation N.V. Equity Reconciliation Table					
	--Year-ended Dec. 31--				
(Mil. €)	2010*	2009	2008	2007	2006
Common shareholders' equity (reported)	1,774	1,618	1,384	1,404	1,372
Plus minority interest (equity)	0	0	0	0	(1)
Minus dividends (not yet distributed)	0	0	0	0	(65)

Table 6

LeasePlan Corporation N.V. Equity Reconciliation Table (cont.)					
Minus revaluation reserves	80	110	145	(30)	(38)
Minus non servicing intangibles	(93)	(94)	(96)	(88)	(92)
Minus postretirement benefit adjustment	0	0	(5)	0	0
Adjusted common equity	1,760	1,635	1,428	1,286	1,176
Minus capital of insurance subsidiaries	(122)	(122)	(98)	(94)	(92)
Adjusted total equity	1,614	1,490	1,306	1,166	1,067

*Data as of June 30.

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 7

(Mil. €)	--Year-ended Dec. 31--				
	2010*	2009	2008	2007	2006
Net interest income	134.9	278.2	268.2	287.0	302.7
Interest income	444.1	939.2	949.6	894.3	749.6
Interest expense	309.2	661.0	681.4	607.3	446.9
Operating noninterest income	322.4	528.0	619.5	665.7	616.3
Fees and commissions	94.9	189.0	224.4	190.0	187.3
Net insurance income	84.9	182.3	112.0	108.0	101.0
Equity in earnings of unconsolidated subsidiaries	2.9	1.2	(0.1)	0.7	0.1
Other noninterest income	139.7	155.5	283.2	367.0	327.9
Operating revenues	457.4	806.1	887.7	952.7	919.0
Noninterest expenses	322.0	603.4	618.6	627.4	614.6
Personnel expenses	196.8	377.8	372.9	371.1	360.1
Other general and administrative expense	104.7	190.7	210.4	215.9	210.9
Net operating income before loss provisions	135.4	202.8	269.1	325.3	304.5
Credit loss provisions (net new)	13.9	56.0	9.6	12.0	21.9
Net operating income after loss provisions	121.5	146.8	259.5	313.4	282.6
Nonrecurring/special income	0.0	63.4	0.0	16.3	0.1
Nonrecurring/special expense	0.0	4.1	5.1	0.0	0.0
Pretax profit	121.5	206.0	254.4	329.7	282.6
Tax expense/credit	31.3	40.8	52.0	73.0	73.1
Net income (before minority interest)	90.2	165.2	202.5	256.7	209.5
Minority interest in consolidated subsidiaries	0.0	0.0	0.0	1.2	(1.3)
Net income before extraordinaries	90.2	165.2	202.5	255.4	210.8
Net income after extraordinaries	90.2	165.2	202.5	255.4	210.8

*Data as of June 30.

Table 8

LeasePlan Corporation N.V. Core Earnings Reconciliation Table					
(Mil. €)	--Year-ended Dec. 31--				
	2010*	2009	2008	2007	2006
Net income (before minority interest)	90.2	165.2	202.5	256.7	209.5

Table 8

LeasePlan Corporation N.V. Core Earnings Reconciliation Table (cont.)					
Minus nonrecurring/special income	(0.0)	(63.4)	0.0	(16.3)	(0.1)
Plus nonrecurring/special expense	0.0	4.1	5.1	0.0	0.0
Plus or minus tax impact of adjustments	0.0	11.7	(1.0)	3.6	0.0
Core earnings	90.2	117.7	206.5	244.0	209.5

*Data as of June 30.

Ratings Detail (As Of November 11, 2010)*	
LeasePlan Corporation N.V.	
Counterparty Credit Rating	BBB+/Stable/A-2
Commercial Paper	
<i>Foreign Currency</i>	A-2
Senior Unsecured (13 Issues)	BBB+
Short-Term Debt (2 Issues)	A-2
Subordinated (2 Issues)	BBB
Counterparty Credit Ratings History	
27-Oct-2010	BBB+/Stable/A-2
14-Sep-2009	BBB+/Negative/A-2
08-May-2009	A-/Watch Neg/A-2
17-Oct-2008	A-/Negative/A-2
30-Nov-2005	A/Stable/A-1
Sovereign Rating	
Netherlands (State of The)	AAA/Stable/A-1+
Related Entities	
Volkswagen AG	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
<i>Canadian National Scale Commercial Paper Rating</i>	A-1(Low)
Senior Unsecured (28 Issues)	A-
Short-Term Debt (4 Issues)	A-2
Volkswagen Bank GmbH	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Unsecured (6 Issues)	A-
Subordinated (4 Issues)	BBB+
Volkswagen Financial Services AG	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	A-2
<i>CaVal (Mexico) National Scale Rating</i>	mxA-1+
<i>CaVal (Mexico) National Scale Rating</i>	mxA-1+
Senior Unsecured (35 Issues)	A-
<i>CaVal (Mexico) National Scale Rating (3 Issues)</i>	mxAAA/Stable

Ratings Detail (As Of November 11, 2010)* (cont.)	
Short-Term Debt (4 Issues)	A-2
Volkswagen Finans Sverige AB	
Issuer Credit Rating	
<i>Nordic National Scale Rating</i>	--/--/K-1
Volkswagen Group Services S.A.	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Volkswagen Insurance Co. Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Negative/--
Volkswagen Leasing, S.A. de C.V	
Senior Secured	
<i>CaVal (Mexico) National Scale Rating</i> (1 Issue)	mxAAA/Stable

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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