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**Research Update:**

# LeasePlan Corporation N.V. Outlook Revised To Stable On Resilience Of Financial Profile; 'BBB+/A-2' Ratings Affirmed

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## Table Of Contents

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## Overview

- The financial profile of Dutch bank LeasePlan has proven more resilient to the economic and financial downturn than we previously anticipated.
- We expect the bank's earnings to rebound in 2010 and 2011 from the low point in 2009 and capitalization to remain strong.
- We are revising the outlook on LeasePlan to stable from negative and, at the same time, affirming the 'BBB+' long-term and 'A-2' short-term ratings on the company.
- The stable outlook reflects our view that the recent improvements in earnings and capitalization are sustainable and that the pressure on the bank's funding profile is gradually easing.

## Rating Action

On Oct. 27, 2010, Standard & Poor's Ratings Services revised its outlook on Dutch-based LeasePlan Corporation N.V. to stable from negative. At the same time, we affirmed the 'BBB+' long-term and 'A-2' short-term counterparty credit ratings on the bank.

The LeasePlan ratings continue to benefit from a one-notch uplift above its stand-alone credit profile, incorporating our view of its strategic importance to the 50%-owner Volkswagen Bank GmbH (A-/Stable/A-2).

## Rationale

The outlook revision reflects our opinion that LeasePlan's financial profile has proved more resilient to the economic and financial downturn than we previously expected.

Operating performance in the first half of 2010 exceeded our expectations and we expect this positive trend to continue. Revenues and pretax profit in the first half of 2010 were up 16% and 60%, respectively, compared with levels in the same period of 2009. Fueling these increases were sustained lease outstandings, improved new business margins, and resilient fees and insurance income. Materially improved results on the back of terminated lease contracts should also sustain the rebound in revenues, in our view. Improved used car prices in many Western European countries and LeasePlan's measures to reduce the sensitivity of its revenues to residual value swings have helped to bolster results. With the amount of credit losses in the lease portfolio gradually decreasing, we expect the ratio of core earnings to average adjusted assets to be in excess of 1% in 2010 and 2011, up from 0.7% in 2009.

The bank's capital position remains strong, in our view. As of the end of June 2010, its risk-adjusted capital (RAC) ratio was 9.1% before adjustments.

LeasePlan is mainly a wholesale-funded entity and this remains a rating weakness. In particular, the bank has a large amount of debt maturing in 2012. Positively, however, the bank has tapped the bond market without state guarantee three times since mid-2009, using public benchmark issues and private placements. 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, but both the stability of these deposits and the loyalty of the clientele are still to be demonstrated.

Although LeasePlan remains financially and operationally independent from Volkswagen Bank and carmaker Volkswagen AG (A-/Negative/A-2), we continue to factor in a one-notch uplift for the ratings on LeasePlan, reflecting the likelihood of extraordinary parental support in case of need. We expect the Volkswagen group, through Volkswagen Bank, to protect its investment in LeasePlan, especially as the Dutch bank adds business and geographic diversity to Volkswagen Bank's captive business model. LeasePlan is a noncaptive entity and is a leading worldwide provider of operational car leasing and fleet manager.

## Outlook

The stable outlook reflects our view that recent improvements in 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 roll-over 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 the current 9% and a ratio of core earnings to average adjusted assets in line with its historical levels, namely more than 1.5%.

## Related Criteria And Research

- Group Methodology, April 22, 2009.
- Bank Rating Analysis Methodology Profile, March 18, 2004.
- Rating Sovereign-Guaranteed Debt, April 6, 2009.

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

| | To | From |
|---|---|---|
| LeasePlan Corporation N.V. | | |
| Counterparty Credit Rating | BBB+/Stable/A-2 | BBB+/Negative/A-2 |
| Senior Unsecured (2 issues) | BBB+ | |
| Subordinated (1 issue) | BBB | |
| Commercial Paper (1 issue) | A-2 | |
| | | |
| LeasePlan Australia Ltd. | | |
| Commercial Paper (1 issue) | A-2 | |
| | | |
| LeasePlan Finance N.V. (Dublin Branch) | | |
| Senior Unsecured (2 issues) | BBB+ | |
| Senior Unsecured (5 issues) | BBB+ | |
| Subordinated (1 issue) | BBB | |
| Commercial Paper (1 issue) | A-2 | |
| | | |
| LeasePlan New Zealand Ltd. | | |
| Commercial Paper (1 issue) | A-2 | |

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