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Research Update:

Dutch Bank LeasePlan 'BBB+/A-2' Ratings Affirmed On Bank Criteria Change; Outlook Stable

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Overview

- Following a review under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have affirmed our 'BBB+/A-2' long- and short-term ratings on Dutch bank LeasePlan Corporation N.V. (LeasePlan). The outlook on the long-term rating is stable.
- Our ratings on LeasePlan factor in a 'bbb+' anchor for a bank domiciled in the Netherlands but with significant operations in countries with a higher risk profile, and reflect the bank's weak business position, strong capital and earnings, adequate risk position, below-average funding, and adequate liquidity.
- LeasePlan's ratings factor in two notches of support to reflect the bank's strategically important status to its 50% owner Volkswagen Bank GmbH.
- The stable outlook reflects our expectation that LeasePlan will be able to maintain its currently strong capital position and adequate liquidity buffers.

Rating Action

As announced previously on Dec. 8, 2011, Standard & Poor's Ratings Services affirmed its 'BBB+/A-2' long- and short-term counterparty credit ratings on Dutch bank LeasePlan Corporation N.V. (LeasePlan). The outlook on the long-term rating is stable.

Rationale

Our ratings on LeasePlan reflect its "weak" business position, "strong" capital and earnings, "adequate" risk position, "below average" funding, and "adequate" liquidity, as our criteria define these terms. We assess LeasePlan's stand-alone credit profile (SACP) at 'bbb-'.

Our bank criteria use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). Our anchor for a commercial bank operating only in the Netherlands is 'a-' and is based on an economic risk score of '2' and an industry risk score of '3'. However, the anchor for LeasePlan is 'bbb+' because it is a geographically diverse bank and we therefore use a blended approach for assessing economic risk. The blended economic risk is based on the geographic breakdown of LeasePlan's lease portfolio, and is, at 'bbb+', higher than the one used for a domestic-focused Dutch bank. This reflects

LeasePlan's exposure to countries with higher economic risk than the Netherlands, such as Spain, Portugal, Italy, the U.K., and Central and Eastern Europe.

We regard LeasePlan's business profile as "weak." Despite being a worldwide leader in the fleet leasing market and being present in 30 countries globally with dominant positions in most of them, we believe LeasePlan's narrow business focus and concentration risk in the cyclical automotive sector are ratings weaknesses. In addition, LeasePlan's portfolio lacks the granularity of more diversified banks, as it serves a comparatively lower number of clients. However, we note LeasePlan's client base is made up of essentially large blue-chips with typically good credit quality. LeasePlan benefits from the loyalty and stability of its counterparties, as its non-captive business model and geographic reach fit its clients' needs well. Corporate strategy is more prudent now that it was before 2008 and the onset of the crisis. We view positively LeasePlan's 2010 initiative to start collecting deposits. Over time, and if successful, it could reduce the bank's historic reliance on wholesale funding markets and therefore diminish the confidence sensitivity of the bank's business model.

Our assessment of capital and earnings as "strong" reflects our expectation that our risk-adjusted capital (RAC) ratio before adjustments will remain in the 11%-12% range over the next 12-18 months. This expectation is based on our view that LeasePlan's earnings will remain adequate and sufficient to increase its capital base gradually. Healthy asset margins and high and stable fees should provide a sufficient buffer to compensate for likely higher funding costs in 2012. We expect credit losses to remain very low. We believe, however, that an economic slowdown in Europe could impede new business generation and inflate residual value risks. Our capital projections also factor in a resumed dividend payout to shareholders in 2012.

Our assessment of LeasePlan's risk position as "adequate" balances a low asset risk profile with inherent single-name and concentration risk in the lease portfolio. The bank's focus on a blue-chip clientele implies typically low credit risk over the cycle, which the below 20 basis points (bps) cost of risk average over past 10 years demonstrates. Because of its focus on operational leasing, Leaseplan is also exposed to residual value risk, notably car price volatility in the second-hand market. We believe our RAC ratio adequately takes this risk into account. We note that LeasePlan has substantially reduced its sensitivity to residual value swings since 2009. Owing to its business focus, LeasePlan serves a limited number of clients compared with a universal bank. This creates inherent single-name risk, but we believe it is not disproportionate for a wholesale bank, as the 20 largest counterparties represent less than 15% of the lease portfolio, and less than 110% of total adjusted capital.

Funding is "below average," given LeasePlan's reliance on wholesale funding, and liquidity is "adequate." Although collection of deposits started in 2010, we expect their share to reach 20% of total funding, or moderately higher, in the next two years, compared with 15% on June 30, 2011. Liquidity is adequate, and LeasePlan enjoys relatively ample liquidity buffers compared with peers', essentially in the form of committed back-up lines from a variety of banks and its ultimate parent Volkswagen AG (VW AG; A-/Stable/A-2), and unencumbered assets eligible for repo refinancing at the European Central Bank. We estimate the bank could survive more than nine months in the case of complete closure of capital markets, while repaying its debt and notably the €3.2 billion government bonds maturing in the first half of 2012. Increasing retail deposits should help the bank to gradually reduce its refinancing risk.

LeasePlan's ICR is two notches higher than its SACP, reflecting LeasePlan's "strategically important" status to VW Bank. LeasePlan's ICR is capped at one notch below VW Bank's 'A-' group credit profile (GCP). Based on our criteria, we do not equalize the ratings on a "strategically important" subsidiary with the ratings on its parent, unless we consider stand-alone strength warrants it. LeasePlan continues to be a significant earnings contributor to its parent, and provides business and geographic diversity to VW Bank's captive business model. Fleet Investment B.V (not rated), the investment vehicle of Mr. Friedrich Von Metzler, a prominent German banker, owns the other 50%, but we view this as financial participation, therefore support is derived exclusively from VW Bank.

Outlook

The outlook is stable. It reflects our opinion that LeasePlan will be able to maintain its capital strength with a RAC ratio before adjustments comfortably above 10%, while maintaining liquidity buffers at current levels. This conservative liquidity management is, for us, crucial, as we expect the bank's wholesale-oriented funding profile to remain, and tensions on the funding markets to persist in 2012.

We do not anticipate any ownership change in the next 12 to 18 months and believe that extraordinary support from the owners, although not currently expected, would materialize as it did in 2008. This potential support could mitigate any moderate pressure on LeasePlan's SACP.

We might consider a negative rating action on LeasePlan if VW Bank's ICR came under pressure, signaling lower capacity to support LeasePlan in case of need, or if--contrary to our expectations--VW Bank decided to dispose of its 50% stake in LeasePlan. We might also lower the ratings if LeasePlan's liquidity position deteriorated substantially from current levels.

A positive rating action on VW AG and VW Bank could have positive implications for LeasePlan's ratings. This is the most likely scenario that would lead us to contemplate a positive rating action, from today's perspective, as we expect the business concentration and funding weaknesses to remain for the next two years.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Stable/A-2
SACP	bbb-
Anchor	bbb+
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Below average and adequate (-1)
Support	+2
GRE Support	0
Group Support	+2
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Ratings List

Ratings Affirmed

LeasePlan Corporation N.V.	
Counterparty Credit Rating	BBB+/Stable/A-2
LeasePlan Corporation N.V.	
Senior Unsecured	BBB+
Commercial Paper	A-2
LeasePlan Australia Ltd.	
Senior Unsecured	BBB+
Commercial Paper	A-2
LeasePlan Finance N.V. (Dublin Branch)	
Senior Unsecured	BBB+
Commercial Paper	A-2
LeasePlan New Zealand Ltd.	
Commercial Paper	A-2

Downgraded

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	To	From
LeasePlan Corporation N.V.		
Subordinated	BB+	BBB
LeasePlan Finance N.V. (Dublin Branch)		
Subordinated	BB+	BBB

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