

LeasePlan Corporation N.V.

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Table Of Contents

Major Rating Factors

Rationale

Outlook

Related Criteria And Research

LeasePlan Corporation N.V.

Major Rating Factors

Strengths:

- Leading worldwide franchise in operational car leasing and fleet management.
- Strong earnings and capitalization.
- Regulated status as a bank.
- Strategically important status to, and expected support in case of need from, Volkswagen Bank.

Counterparty Credit Rating

BBB+/Stable/A-2

Weaknesses:

- A predominantly wholesale funding profile and, subsequently, a confidence-sensitive business model.
- Concentrated business focus.
- High residual value risks, implying inherent earnings volatility.

Rationale

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

Standard & Poor's considers LeasePlan to be strategically important to Volkswagen Bank GmbH (VW Bank; A-/Stable/A-2), its 50% owner, because LeasePlan adds geographic and business diversity to VW Bank's captive business model and is a recurrent earnings contributor. Therefore, according to our criteria, LeasePlan's ratings 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, which is why we give more weight in terms of support to VW Bank. In addition, Fleet Investment B.V. has a put option vis-à-vis carmaker Volkswagen AG (VW; A-/Stable/A-2), VW Bank's ultimate parent.

LeasePlan leads the fleet leasing market in Europe and is one of the global leaders. We consider that the bank's narrow business focus is a rating constraint but we believe that LeasePlan enjoys a very strong franchise in this segment. Although a relatively small size by international standards (with €18.3 billion in assets as of midyear 2011), the bank operates in almost 30 countries and holds a leading position in many of them. This provides LeasePlan with satisfactory earnings streams and a stable, loyal client base, composed of mainly large blue-chip companies. LeasePlan is a non-captive entity, which in our view increases its business and earnings resilience. The bank'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.

From a financial profile perspective, we believe that LeasePlan's reliance on wholesale funding is its principal rating

weakness. The bank continues to maintain satisfactory liquidity buffers to redeem the large amount of government debt issued in 2008 and 2009, which is due in first-half 2012 (approximately €3.2 billion). However, any difficulties in accessing unsecured markets could strain LeasePlan's liquidity in the medium term, even if the bank can use private placements and asset-backed securities deals as funding channels. We positively note that the deposit collection initiative launched in early 2010 has been successful so far, with more than €1.8 billion of deposits collected in less than 18 months (equivalent to 15% of the funding base). The stability of these deposits and client loyalty have yet to be demonstrated through the cycle.

In our opinion, revenue should rebound in 2011, helped by sustained leases outstanding, improved new business margins, and resilient fees and insurance income. We expect the results from terminated contracts to slightly improve compared with 2010, specifically because of the implementation of measures at the peak of the 2008-2009 financial crisis that were introduced to reduce the intrinsic sensitivity of the bank's revenue to residual value swings. However, any renewed recessionary scenario could put pressure on second-hand car prices and therefore increase residual value risk because the bank sells the cars it leases only when their contracts expire.

Overall profitability benefits from low credit losses, less than an average of 15 basis points over the past five years, as a result of LeasePlan's high quality customer base. We anticipate the ratio of core earnings to average adjusted assets to rebound to around 1.3% in 2011 from 1.1% in 2010, and net profit to be above €210 million in 2011, compared with €199 million in 2010.

Interest-rate risks and currency risks are limited overall. Capitalization has improved over recent years because of full retention of earnings and lower asset growth. Our 11.8% risk-adjusted capital (RAC) ratio before adjustments in 2010 and 14.5% Tier 1 ratio at midyear 2011 indicate a strong capital position, in our view. The difference between the two ratios primarily reflects our more stringent risk charges on corporates and small- and medium-size enterprise exposures.

Outlook

The stable outlook reflects our view that recent improvements in LeasePlan's earnings, capitalization, and funding profile are sustainable. In our view, this puts the bank in an adequate position to face a likely economic slowdown in 2012 in most European countries as well as persisting tensions in funding markets. Additionally, we believe that ownership support could materialize if need be, however, this is currently not what we expect. Nonetheless, the potential ownership support mitigates potential downside to the ratings.

If we perceive pressures on liquidity, notably difficulties in rolling over debt that is maturing in first-half 2012, or if the bank is unable to maintain liquidity buffers at current levels (with a financial autonomy above nine months in the case that capital markets remain closed), we could consider a negative rating action. We would view an aggressive management of capital, even though currently unexpected, as a negative rating factor as well. Any signs of declining strategic interest from VW Bank, for example through a reduction in its ownership stake, could lead us to remove the notch of support currently factored into the ratings.

Because LeasePlan's stand-alone credit profile is one-notch below the current ratings, we believe upside potential for the ratings is currently limited. In the longer term, we could consider an upgrade if LeasePlan successfully and substantially reduces its reliance on wholesale funding.

Table 1

LeasePlan Corporation N.V. Risk-Adjusted Capital Framework 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	1,008	450	45	30	3
Institutions	1,954	488	25	352	18
Corporate	11,767	6,450	55	8,482	72
Retail	1,579	1,425	90	1,047	66
Of which mortgage	0	0	0	0	0
Securitization	0	0	0	0	0
Other assets	1,433	1,438	100	1,405	98
Total credit risk	17,741	10,250	58	11,316	64
Market risk					
Equity in the banking book§	36	0	0	445	1,250
Trading book market risk	--	538	--	806	--
Total market risk	--	538	--	1,251	--
Insurance risk					
Total insurance risk	--	--	--	1,458	--
Operational risk					
Total operational risk	--	1,588	--	1,853	--
(Mil. €)		Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification		12,820		15,877	100
Total Diversification/Concentration adjustments		--		-375	-2
RWA after diversification		12,820		15,502	98
(Mil. €)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio before adjustments		--	--	1,868	11.8
Capital ratio after adjustments†		1,869	14.6	1,868	12.1

*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. §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 Dec. 31, 2010, Standard & Poor's.

Table 2

LeasePlan Corporation N.V. Asset Quality, Funding, And Liquidity Ratios					
(%)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Gross nonperforming assets/customer loans + other real estate owned (%)	0.0	0.0	0.0	0.0	0.0
Net nonperforming assets/customer loans plus other real estate owned	(0.5)	(0.5)	(0.6)	(0.4)	(0.4)
Loan loss reserves/gross nonperforming assets (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Loan loss reserves/customer loans (%)	0.5	0.5	0.6	0.4	0.4
New loan loss provisions/average customer loans (%)	0.1	0.1	0.4	0.1	0.1

Table 2

LeasePlan Corporation N.V. Asset Quality, Funding, And Liquidity Ratios (cont.)					
Customer deposits/funding base	15.6	15.0	1.7	2.5	6.3
Total loans/customer deposits (%)	688.8	759.8	6,624.1	4,289.1	1,804.4
Total loans/customer deposits + long-term funds (%)	150.7	135.0	178.1	220.5	165.4
Customer loans (net)/adjusted assets (%)	80.0	83.5	84.1	85.0	89.0

*Data as of June 30, 2011. N.M.--Not meaningful.

Table 3

LeasePlan Corporation N.V. Profitability Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Net interest income/average earning assets (%)	2.0	1.9	1.7	1.7	1.9
Net interest income/operating revenues (%)	31.8	30.3	34.5	30.2	30.1
Fee income/operating revenues (%)	18.4	19.3	23.4	25.3	19.9
Market-sensitive income/operating revenues (%)	1.7	(0.5)	0.0	0.0	0.0
Personnel expenses/operating revenues (%)	40.7	41.7	46.9	42.0	39.0
Noninterest expenses/operating revenues (%)	67.0	70.5	74.9	69.7	65.9
New loan loss provisions/operating revenues (%)	1.6	2.0	6.9	1.1	1.3
Preprovision operating income/loan loss provisions (%)	2,080.8	1,475.3	361.9	2,803.6	2,721.6
Operating income after loss provisions/operating revenues (%)	31.4	27.5	18.2	29.2	32.9
Pretax profit/operating revenues (%)	34.7	27.9	25.5	28.7	34.6
Tax/pretax profit (%)	23.7	27.4	19.8	20.4	22.1
Core earnings/operating revenues (%)	23.9	19.9	14.6	23.3	25.6
Core earnings/average adjusted assets (%)	1.4	1.1	0.7	1.2	1.5
Noninterest expenses/average adjusted assets (%)	3.9	4.1	3.5	3.7	3.9
Core earnings/average adjusted common equity (%)	12.9	10.5	7.7	15.2	19.8
Pretax profit/average common equity (%)	17.7	15.4	13.7	18.3	23.8

*Data as of June 30, 2011.

Table 4

LeasePlan Corporation N.V. Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Tier 1 capital ratio (%)	14.5	14.6	12.8	9.8	8.3
Adjusted total equity/adjusted assets (%)	9.9	9.9	8.8	7.4	7.2
Adjusted total equity/managed assets (%)	9.9	9.8	8.7	7.4	7.1
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross) (%)	12.9	12.3	11.0	9.1	8.5

*Data as of June 30, 2011.

Table 5

LeasePlan Corporation N.V. Summary Balance Sheet					
(Mil. €)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Assets					
Cash and money market instruments	2,322.9	1,576.7	1,349.3	907.2	502.5
Securities	0.0	0.0	0.0	369.3	147.4
Trading securities (marked to market)	0.0	0.0	0.0	0.0	29.6
Nontrading securities	0.0	0.0	0.0	369.3	117.8
Mortgage-backed securities included above	0.0	0.0	0.0	0.0	0.0
Loans to banks (net)	0.0	0.0	0.0	0.0	0.0
Customer loans (gross)	14,644.3	14,582.3	14,415.5	15,011.9	14,534.5
Loan loss reserves	79.1	79.1	90.7	57.3	62.9
Customer loans (net)	14,565.2	14,503.2	14,324.8	14,954.7	14,471.6
Earning assets	16,906.8	16,097.8	15,729.2	16,263.0	15,170.9
Equity interests/participations (nonfinancial)	N/A	N/A	N/A	N/A	N/A
Investments in unconsolidated subsidiaries (financial companies)	36.0	35.8	22.4	23.9	25.9
Intangibles (nonservicing)	92.6	92.6	94.0	95.6	87.5
Interest-only strips	N/A	N/A	N/A	N/A	N/A
Fixed assets	80.2	81.9	86.3	95.8	88.3
Derivatives credit amount	166.2	329.0	275.2	231.9	72.9
Accrued receivables	N/A	N/A	N/A	0.0	185.0
All other assets	1,028.4	850.2	974.2	1,020.5	764.2
Total assets	18,291.5	17,469.3	17,126.2	17,698.8	16,345.3
Intangibles (nonservicing)	92.6	92.6	94.0	95.6	87.5
Minus insurance statutory funds	N/A	N/A	N/A	N/A	N/A
Adjusted assets	18,199.0	17,376.7	17,032.2	17,603.2	16,257.8
Liabilities					
Total deposits	3,370.2	4,120.5	2,597.1	4,172.5	2,423.7
Noncore deposits	1,244.2	2,201.3	2,379.4	3,822.5	1,618.1
Core/customer deposits	2,126.0	1,919.2	217.6	350.0	805.5
Acceptances	0.0	0.0	0.0	0.0	0.0
Repurchase agreements	N/A	N/A	N/A	N/A	N/A
Other borrowings	10,251.5	8,684.6	10,337.3	9,782.4	10,358.8
Other other borrowings	N/A	N/A	N/A	1,295.0	0.0
Other credit reserves	N/A	N/A	N/A	0.0	0.0
Other liabilities	2,581.9	2,727.8	2,573.5	2,359.6	2,159.0
Total liabilities	16,203.6	15,532.9	15,507.9	16,314.5	14,941.4
Total equity	2,088.0	1,936.4	1,618.3	1,384.1	1,403.9
Limited life preferred and quasi equity	0.0	0.0	0.0	0.0	0.0
Preferred stock and other capital	0.0	0.0	0.0	0.0	0.0
Mandatorily convertible securities	0.0	0.0	0.0	0.0	0.0
Enhanced trust preferred	0.0	0.0	0.0	0.0	0.0
Government-owned hybrids included in TAC without limit	N/A	N/A	N/A	N/A	N/A

Table 5

LeasePlan Corporation N.V. Summary Balance Sheet (cont.)					
Minority interest-equity	0.0	0.0	0.0	0.0	0.0
Common shareholders' equity	2,088.0	1,936.4	1,618.3	1,384.1	1,403.9
Share capital and surplus	578.0	578.0	578.0	578.0	578.0
Revaluation reserve	3.1	(24.7)	(110.3)	(145.0)	30.3
Retained profits	135.8	198.6	165.2	202.5	255.4
Other equity	N/A	N/A	N/A	N/A	N/A
Total liabilities and equity	18,291.5	17,469.3	17,126.2	17,698.6	16,345.3

*Data as of June 30, 2011. N/A--Not applicable. TAC--Total-adjusted capital.

Table 6

LeasePlan Corporation N.V. Equity Reconciliation Table					
	--Year-ended Dec. 31--				
(Mil. €)	2011*	2010	2009	2008	2007
Common shareholders' equity	2,088.0	1,936.4	1,618.3	1,384.1	1,403.9
Plus minority interest (equity)	0.0	0.0	0.0	0.0	0.0
Minus dividends (not yet distributed)	(65.0)	0.0	0.0	0.0	0.0
Minus revaluation reserves	(3.1)	24.7	110.3	145.0	(30.3)
Minus nonservicing intangibles	(92.6)	(92.6)	(94.0)	(95.6)	(87.5)
Minus tax loss carryforwards	0.0	0.0	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0	(5.4)	0.0
Adjusted common equity	1,927.3	1,868.5	1,634.6	1,428.1	1,286.1
Plus admissible preferred and hybrids	0.0	0.0	0.0	0.0	0.0
Total adjusted capital	1,927.3	1,868.5	1,634.6	1,428.1	1,286.1
Plus general reserves	0.0	0.0	0.0	0.0	0.0
Plus unrealized gains	0.0	0.0	0.0	0.0	0.0
Minus equity in unconsolidated subsidiaries	(36.0)	(35.8)	(22.4)	(23.9)	(25.9)
Minus capital of insurance subsidiaries	(117.0)	(117.0)	(121.7)	(97.9)	(94.0)
Minus adjustment for securitized assets	0.0	0.0	0.0	0.0	0.0
Adjusted total equity	1,774.3	1,715.8	1,490.5	1,306.3	1,166.2

*Data as of June 30, 2011.

Table 7

LeasePlan Corporation N.V. Profit And Loss					
	--Year-ended Dec. 31--				
(Mil. €)	2011*	2010	2009	2008	2007
Net interest income	163.2	299.1	278.1	268.2	287.0
Interest income	447.1	896.1	939.2	949.6	894.3
Interest expense	283.9	597.0	661.1	681.4	607.3
Operating noninterest income	350.3	689.2	528.0	619.5	665.7
Fees and commissions	94.6	190.8	189.0	224.4	190.0
Net brokerage commissions	0.0	0.0	0.0	0.0	0.0
Trading gains	0.0	0.0	0.0	0.0	0.0
Other market-sensitive income	8.7	(4.7)	0.0	0.0	0.0

Table 7

LeasePlan Corporation N.V. Profit And Loss (cont.)					
Net insurance income	83.0	175.9	182.3	112.0	108.0
Equity in earnings of unconsolidated subsidiaries	0.4	7.4	1.2	(0.1)	0.7
Other noninterest income	163.6	319.8	155.5	283.2	367.0
Operating revenues	513.6	988.4	806.0	887.7	952.7
Noninterest expenses	344.3	696.8	603.4	618.6	627.4
Personnel expenses	208.8	412.4	377.8	372.9	371.1
Other general and administrative expense	114.8	227.0	190.7	210.4	215.9
Preprovision operating income	169.3	291.6	202.7	269.1	325.3
Credit loss provisions (net new)	8.1	19.8	56.0	9.6	12.0
Operating income after loss provisions	148.1	271.8	146.7	259.5	313.4
Nonrecurring/special income	30.0	2.4	63.4	0.0	16.3
Nonrecurring/special expense	13.0	0.0	4.1	5.1	0.0
Amortization of intangibles	0.0	0.0	0.0	0.0	0.0
Impairment of intangibles	0.0	0.0	0.0	0.0	0.0
Pretax profit	178.1	274.2	205.9	254.4	329.7
Tax expense/credit	42.3	75.5	40.8	52.0	73.0
Net income (before minority interest)	135.8	198.6	165.1	202.5	256.7
Minority interest in consolidated subsidiaries	0.0	0.0	0.0	0.0	1.2
Net income before extraordinary	135.8	198.6	165.2	202.5	255.4
Net income after extraordinary	135.8	198.6	165.2	202.5	255.4

*Data as of June 30, 2011.

Table 8

LeasePlan Corporation N.V. Core Earnings Reconciliation Table					
(Mil. €)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Net income (before minority interest)	135.8	198.6	165.1	202.5	256.7
Minus nonrecurring/special income	(30.0)	(2.4)	(63.4)	0.0	(16.3)
Plus nonrecurring/special expense	13.0	0.0	4.1	5.1	0.0
Plus or minus tax impact of adjustments	4.0	0.7	11.7	(1.0)	3.6
Plus amortization/impairment of goodwill/intangibles	0.0	0.0	0.0	0.0	0.0
Minus preferred dividends	0.0	0.0	0.0	0.0	0.0
Core earnings	122.8	197.0	117.6	206.5	244.0

*Data as of June 30, 2011.

Related Criteria And Research

- Group Methodology, April 22, 2009
- Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings Detail (As Of October 25, 2011)

LeasePlan Corporation N.V.

Counterparty Credit Rating

BBB+/Stable/A-2

Ratings Detail (As Of October 25, 2011) (cont.)	
Commercial Paper	
<i>Foreign Currency</i>	A-2
Senior Unsecured (9 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
Sovereign Rating	
Netherlands (The) (State of) (Unsolicited Ratings)	AAA/Stable/A-1+
Related Entities	
Volkswagen Bank GmbH	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Unsecured (11 Issues)	A-
Subordinated (2 Issues)	BBB

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