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## LeasePlan Corporation N.V.

**Primary Credit Analyst:**

Regina Argenio, Milan (39) 02-72111-208; [regina\\_argenio@standardandpoors.com](mailto:regina_argenio@standardandpoors.com)

**Secondary Contact:**

Dhruv Roy, London (44) 20-7176-6709; [dhruv\\_roy@standardandpoors.com](mailto:dhruv_roy@standardandpoors.com)

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# LeasePlan Corporation N.V.

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

## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Strong earnings and capitalization.</li> <li>• Regulated status as a bank.</li> <li>• Strategically important status to, and expected support in case of need from, Volkswagen Bank.</li> </ul>	<ul style="list-style-type: none"> <li>• A predominantly wholesale funding profile.</li> <li>• Concentrated business focus.</li> <li>• High residual value risks, implying inherent earnings volatility.</li> </ul>

**Outlook: Stable**

The stable outlook reflects our expectations that potential pressure on LeasePlan's SACP or weakening parental support might offset the benefits of an upgrade of VW Bank and Volkswagen AG (A-/Positive/A-2).

Under our base-case scenario we expect that an upgrade of VW Bank and Volkswagen wouldn't automatically result in an upgrade of LeasePlan's ratings because:

- LeasePlan's RAC ratio might not remain above 10% owing to a deterioration in the economic environment of some European countries, including Southern Europe and The Netherlands; or
- We might consider limiting the uplift for parental support in the medium term because of LeasePlan's limited integration and potential lack of direct alignment with the VW group's long-term strategic priorities, and if we perceived that Volkswagen Bank and the larger Volkswagen group were starting to question the long-term presence of LeasePlan within the group.

We might lower LeasePlan's ratings if, everything else being equal, we considered its importance to the VW Group to be falling, leading us to consider its strategic importance to be only "moderate," as our criteria defines the term.

A positive rating action would only be possible if we perceived a substantial improvement in LeasePlan's capital and funding profile, which we currently see as unlikely.

**Rationale**

The starting point for assigning our rating on LeasePlan is its 'bbb+' anchor, which results from our calculation of the weighted average of its credit exposures. We consider that LeasePlan has a "weak" business position due to the concentrated nature of its business. The company's capital and earnings are "strong" in our opinion because we believe that our RAC ratio will remain above 10% in the next 18 months, thanks to continuous earnings retention. We view LeasePlan's risk position as "adequate," reflecting our opinion that a low asset risk profile is balanced with inherent single-name and concentration risk in the lease portfolio. We consider LeasePlan's funding to be "below average" given LeasePlan's reliance on wholesale funding and its liquidity "adequate," owing to its relatively ample liquidity buffers compared with peers'. Our rating also incorporates our view of LeasePlan's strategic importance to Volkswagen Group.

**Anchor:'bbb+' for company with geographically diversified portfolio**

Our bank criteria uses 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 LeasePlan is 'bbb+' and is based on a blended economic risk score of '3' and an industry risk score of '3' for banks operating in Netherlands. The anchor for LeasePlan reflects the geographically diversified profile of the bank. The blended economic risk is based on the geographic breakdown of LeasePlan's lease portfolio, and reflects our view of the weighted average economic risk in the countries in which LeasePlan operates, such as Netherlands, U.K., U.S., Germany, France, and Southern and Central Eastern Europe.

**Table 1**

<b>LeasePlan Corporation N.V. Key Figures</b>					
	<b>--Year-ended Dec. 31--</b>				
(Mil. €)	<b>2012*</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Adjusted assets	19,184.3	18,768.3	17,376.7	17,032.2	17,603.2
Customer loans (gross)	15,639.6	15,234.6	14,582.3	14,415.5	15,011.9
Adjusted common equity	2,191.5	2,052.3	1,841.5	1,634.6	1,428.1
Operating revenues	540.8	998.8	978.3	806.0	887.7
Noninterest expenses	364.2	728.9	696.8	603.4	618.6
Core earnings	123.7	199.3	189.6	117.6	206.5

\*Data as of June 30.

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

**Business position: A global fleet leasing company**

In our view, LeasePlan's leading position in the fleet leasing market and its presence in 30 countries globally, with dominant positions in most of them, is balanced by its narrow business focus. We therefore regard LeasePlan's business profile as "weak" as our criteria define these terms. We consider LeasePlan's business position to be vulnerable compared to peers due to the inherent concentration risks associated with leasing business in the cyclical automotive sector. Furthermore, in our opinion, LeasePlan's portfolio lacks the granularity of more diversified banks, as it serves comparatively fewer clients. At the same time, we recognize that LeasePlan benefits from the loyalty and stability of its counterparties, as its non-captive business model and geographic presence fit its clients' needs well. We also 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. Corporate strategy is more prudent now that it was before 2008 and the onset of the crisis.

**Table 2**

<b>LeasePlan Corporation N.V. Business Position</b>					
	<b>--Year-ended Dec. 31--</b>				
(%)	<b>2012*</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total revenues from business line (currency in millions)	540.8	1,030.7	990.3	869.4	887.7
Commercial banking/total revenues from business line	83.6	83.0	82.2	79.0	87.4
Insurance activities/total revenues from business line	16.4	16.8	17.8	21.0	12.6
Other revenues/total revenues from business line	0.0	0.2	N/A	N/A	N/A
Return on equity	11.1	11.0	11.2	11.0	14.5

\*Data as of June 30.

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

**Capital and earnings: Steady capital strengthening**

Our assessment of capital and earnings as "strong" reflects our expectation that our risk-adjusted capital (RAC) ratio before adjustments will remain in the range of 10-11% over the next 18 months from a pro forma level of 10.1% at end 2011. 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 sustain profitability in a volatile funding costs environment. We recognize the resilience of the bank's profitability to date. Nevertheless, there is

downside risk to these projections. In our opinion, a worsening of macroeconomic conditions in several European countries may adversely affect our projection for LeasePlan's RAC ratio. Its Standard & Poor's-adjusted RAC ratio was 11.4% at year-end 2010, but it declined to 10.1% at year-end 2011 on a pro forma basis when we took into consideration the effect of the deterioration of parameters (economic risk, the BICRA and the sovereign rating) of several of the countries in which LeasePlan operates (see table 5). We also acknowledge that new business volumes could decline in 2012 and residual value charges could increase if the macroeconomic environment further deteriorates in Europe. Our capital projections also factor in a resumed dividend payout to shareholders in 2012.

**Table 3**

LeasePlan Corporation N.V. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2012*	2011	2010	2009	2008
Tier 1 capital ratio	15.1	14.9	14.6	12.8	9.8
S&P RAC ratio before diversification	N.M.	10.6	11.4	9.8	N.M.
S&P RAC ratio after diversification	N.M.	10.8	11.6	10.2	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	33.2	36.4	30.6	34.5	30.2
Fee income/operating revenues	18.0	19.1	19.5	23.4	25.3
Market-sensitive income/operating revenues	0.9	(1.9)	(0.5)	0.0	0.0
Noninterest expenses/operating revenues	67.3	73.0	71.2	74.9	69.7
Preprovision operating income/average assets	1.9	1.5	1.6	1.2	1.6
Core earnings/average managed assets	1.3	1.1	1.1	0.7	1.2

\*Data as of June 30.

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

**Table 4**

LeasePlan Corporation N.V. Pro-Forma(1) RACF [Risk-Adjusted Capital Framework] Data					
(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
<b>Credit risk</b>					
Government and central banks	953	401	42	29	3
Institutions	2,157	600	28	612	28
Corporate	12,550	6,662	53	11,413	91
Retail	1,857	1,683	91	1,535	83
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	1,563	1,563	100	1,938	124
Total credit risk	19,079	10,909	57	15,526	81
<b>Market risk</b>					
Equity in the banking book†	38	0	0	472	1,250
Trading book market risk	--	627	--	941	--
Total market risk	--	627	--	1,413	--

**Table 4**

LeasePlan Corporation N.V. Pro-Forma(1) RACF [Risk-Adjusted Capital Framework] Data (cont.)					
<b>Insurance risk</b>					
Total insurance risk	--	--	--	1,438	--
<b>Operational risk</b>					
Total operational risk	--	1,536	--	1,929	--
(Mil. €)		<b>Basel II RWA</b>		<b>Standard &amp; Poor's RWA</b>	<b>% of Standard &amp; Poor's RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification		13,072		20,306	100
Total Diversification/Concentration Adjustments		--		-309	-2
RWA after diversification		13,072		19,997	98
(Mil. €)		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>Standard &amp; Poor's RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		2,074	15.9	2,052	10.1
Capital ratio after adjustments‡		2,074	14.9	2,052	10.3

(1) Pro forma, with criteria and parameters, such as BICRA Economic risk scores and sovereign ratings, in force as of 5 Nov 2012. \*Exposure at default. §Securitisation Exposure includes the securitisation 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, 2011, Standard & Poor's.

**Table 5**

LeasePlan Changes In Reported And Pro Forma Risk Adjusted Capital Ratio				
(Mil. €)				
	Pro forma Dec. 31, 2011*	Reported as of Dec. 31, 2011§	Pro forma Dec. 31, 2010#	Reported Dec. 31, 2010§
RAC ratio before diversification (%)	10.1	10.6	10.6	11.4
Total adjusted capital	2,052	2,052	1,842	1,842
Standard & Poor's total RWA before diversification	20,306	19,332	17,330	16,213
Economic risk score BICRA Netherlands	2	2	2	1
Economic risk score BICRA U.K.	4	4	4	3
Economic risk score BICRA France	3	2	2	1
Economic risk score BICRA Southern Europe	5.5	4.4	4.4	2.6

RAC--Risk-adjusted capital. RWA--Risk-weighted assets. Source: Standard & Poor's. \*Pro forma, with criteria and parameters, such as BICRA Economic risk scores and sovereign ratings, in force as of 5 Nov 2012. # Pro forma, with criteria and parameters, such as BICRA Economic risk scores and sovereign ratings, in force as of Dec. 31, 2011. §With criteria and parameters, such as BICRA Economic risk scores in force at the reporting date.

### Risk position: Low assets risk profile balanced by some single-name concentration

Our assessment of LeasePlan's risk position as "adequate" balances our view of 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 fluctuations 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 100% of total adjusted capital.

**Table 6**

<b>LeasePlan Corporation N.V. Risk Position</b>					
	<b>--Year-ended Dec. 31--</b>				
(%)	<b>2012*</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Growth in customer loans	5.3	4.5	1.2	(4.0)	3.3
Total diversification adjustment / S&P RWA before diversification	N.M.	(1.4)	(2.3)	(4.4)	N.M.
Total managed assets/adjusted common equity (x)	8.8	9.2	9.5	10.5	12.4
New loan loss provisions/average customer loans	0.1	0.1	0.1	0.4	0.1
Net charge-offs/average customer loans	N.M.	N.M.	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	0.8	0.8	0.9	0.9	0.6
Loan loss reserves/gross nonperforming assets	59.1	59.1	59.3	67.3	60.9

\*Data as of June 30.

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

### **Funding and liquidity: Wholesale funding profile with satisfactory liquidity buffer**

Funding is "below average," given LeasePlan's reliance on wholesale funding, and liquidity is "adequate." In our view LeasePlan's collection of deposits, which started in 2010 and reached about 22% of total funding at June 2012, is an important source of funding diversification. We expect retail funding to maintain its current level or moderately increase in the next year, but not to exceed 25% of the total. LeasePlan has reimbursed €1.2 billion and US\$ 2.5 billion of government guaranteed funding in 2012; the remaining outstanding amount of €1.5 billion and US\$ 500 million is maturing in 2014. The long-term funding ratio increased to 81.9% at June 2012 from 69.3% at end-2011 reflecting increased retail funding.

Liquidity is adequate, and LeasePlan benefits from 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-/Positive/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. Increasing retail deposits should help the bank to gradually reduce its refinancing risk.

**Table 7**

<b>LeasePlan Corporation N.V. Funding And Liquidity</b>					
	<b>--Year-ended Dec. 31--</b>				
(%)	<b>2012*</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Core deposits/funding base	28.6	21.2	15.0	1.7	2.5
Customer loans (net)/customer deposits	381.9	507.8	755.7	6,582.4	4,272.8

**Table 7**

<b>LeasePlan Corporation N.V. Funding And Liquidity (cont.)</b>					
Long term funding ratio	81.9	69.3	70.3	53.9	54.5
Broad liquid assets/short-term wholesale funding (x)	0.5	0.3	0.4	0.3	0.1
Net broad liquid assets/short-term customer deposits	(40.4)	(127.9)	(156.6)	(6,218.4)	N.M.
Narrow liquid assets/3-month wholesale funding (x)	1.2	0.7	0.7	0.7	0.3
Net short-term interbank funding/total wholesale funding	0.6	(8.7)	7.0	12.3	19.6
Short-term wholesale funding/total wholesale funding	29.2	44.7	39.9	52.4	51.0

\*Data as of June 30.

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

### **External support: Two notches of group support**

LeasePlan's ICR is two notches higher than its SACP, reflecting LeasePlan's "strategically important" status to its 50% owner Volkswagen Bank GmbH (VW Bank; A-/Positive/A-2). We consider LeasePlan to be a "strategically important" subsidiary of VW Bank, because it is a significant earnings contributor to its parent, and provides material business and geographic diversity to VW Bank's purely captive business model. Nevertheless we acknowledge the likelihood that extraordinary parental support from VW Bank, which we expect in the short term, may gradually diminish over time due to its limited integration with the group and potential lack of alignment with the group's long-term strategic priorities. This may lead us to reduce over time the support we currently incorporate into LeasePlan's ratings. 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.

### **Additional rating factors: None**

No additional factors affect this rating

## **Related Criteria And Research**

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- 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



**Anchor Matrix**

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
<b>3</b>	a-	a-	<b>bbb+</b>	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

**Ratings Detail (As Of November 6, 2012)****LeasePlan Corporation N.V.**

Counterparty Credit Rating	BBB+/Stable/A-2
Commercial Paper	
<i>Foreign Currency</i>	A-2
Senior Unsecured	A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BB+

**Counterparty Credit Ratings History**

17-Oct-2012	BBB+/Stable/A-2
28-Aug-2012	BBB+/Positive/A-2
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/Negative/A-1+
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**Related Entities****Volkswagen Bank GmbH**

Issuer Credit Rating	A-/Positive/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB

\*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.

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

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**McGRAW-HILL**