LeasePlan Corporation N.V.

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LeasePlan Corporation N.V.

SACP	bbb-	+	Support	+2	+	Additional Factors	0

Anchor	bbb+	
Business Position	Weak	-2
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Below Average	-1
Liquidity	Adequate	

GRE Support	0
Group Support	+2
Sovereign Support	0

Issuer Credit Rating
BBB+/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Strong earnings and capitalization. • Regulated status as a bank. • Likely support from Volkswagen AG if it were needed.	• A predominantly wholesale funding profile. • Concentrated business focus. • Exposure to residual value risks, implying inherent earnings volatility.

Outlook: Stable

The stable outlook on LeasePlan Corporation N.V. (LP), reflects our view that it will remain important for its parent company Volkswagen AG (VW AG; A-/Positive/A-2), and that the bank will be able to maintain its strong capitalization and prevent any deterioration of its asset quality.

Our base-case scenario assumes that LP will remain within the VW group, and that VW would provide extraordinary support to LP if it ran into financial difficulties. However, we don't believe LP will need such support in the foreseeable future. Moreover, we expect our risk-adjusted capital ratio for LP to remain moderately above 10% as a result of adequate earnings offsetting moderate growth. We also expect LP to continue to conservatively manage its exposure to residual value risk, reducing sensitivity to residual value fluctuations.

We could lower the ratings on LP if we come to consider that LP's importance to the VW group has reduced, and if VW AG starts to question LP's presence within the group. We might also lower the ratings if LP's capitalization deteriorates. This could result from our RAC ratio for LP falling below 10% due to deterioration in the economic environment of some European countries or more aggressive capital management, notably if the bank entered into relevant acquisitions.

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

Rationale

The starting point in assigning our issuer credit rating (ICR) on LP is its 'bbb+' anchor, which results from our calculation of the weighted average of its geographically diversified credit exposures. We consider that LP has a "weak" business position due to the concentrated nature of its business. The bank's capital and earnings are "strong" in our opinion because we believe that our RAC ratio will remain moderately above 10% by end 2014, thanks to continuous earnings retention offsetting moderate organic growth. We view LP's risk position as "adequate," reflecting our opinion that a low credit risk profile is balanced with inherent exposure to residual value risk in the lease portfolio. We consider LP's funding to be "below average" given LP'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 that VW Group would provide extraordinary support to LP's in case of need. LP benefits from two notches of potential uplift from its stand-alone credit profile (SACP) of 'bbb-', due to likely extraordinary support from its parent company.

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

The Dutch banking industry is dominated by three large players. Two of them are subject to restructuring after receiving state aid, although these restructures have largely been completed. A number of measures have been implemented following the financial crisis to strengthen the Dutch Central Bank's (DNB) governance and supervisory culture.

Table 1

LeasePlan Corporation N.V. Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2013***	**2012**	**2011**	**2010**	**2009**
Adjusted assets	19,993.4	19,379.2	18,768.3	17,376.7	17,032.2
Customer loans (gross)	15,441.9	15,592.7	15,234.6	14,582.3	14,415.5
Adjusted common equity	2,249.0	2,182.1	2,052.3	1,841.5	1,634.6
Operating revenues	606.5	1,089.2	998.8	978.3	806.0
Noninterest expenses	377.4	742.8	728.9	696.8	603.4
Core earnings	171.4	249.1	199.3	189.6	117.6

*Data as of June 30.

Business position: A global fleet leasing bank

In our view, LP's leading position in the fleet leasing market and its presence--and in most cases, dominant positions--in 31 countries globally, is balanced by its narrow business focus.

We therefore regard LP's business profile as "weak" as our criteria define these terms. We consider LP's business position to be vulnerable compared to peers due to the inherent concentration risks associated with leasing business in the highly cyclical automotive sector. At the same time, we recognize that LP benefits from the loyalty and stability of its counterparties and consolidated relationship with partners, providing business and revenues stability. Its non-captive business model and geographic presence fit its clients' needs well and its ability to create strong relationship with providers allow LP to sustain competitiveness. We also view positively LP's 2010 initiative to start collecting deposits, which is somewhat helping the bank reduce its reliance on wholesale funding markets. This diminishes the confidence sensitivity of the bank's business model.

Corporate strategy is more prudent now than it was before 2008 and the onset of the financial crisis, although we notice that LP has entered into some small acquisitions to expand its business over the last year. Since December 2012, LP has acquired the Italian fleet and vehicle leasing activities of Banco Bilbao Vizcaya Argentaria S.A.(BBVA) (about 20K units) and the Austrian fleet leasing of Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse A.G. (BAWAG) (about 6,500 units).

Table 2

LeasePlan Corporation N.V. Business Position					
		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Total revenues from business line (currency in millions)	610.5	1,089.2	1,030.7	990.3	869.4
Commercial banking/total revenues from business line	87.6	82.6	83.0	82.2	79.0
Commercial & retail banking/total revenues from business line	87.6	82.6	83.0	82.2	79.0
Insurance activities/total revenues from business line	12.4	16.5	16.8	17.8	21.0
Other revenues/total revenues from business line	0.0	0.9	0.2	N/A	N/A
Return on equity	14.1	10.6	11.0	11.2	N/A

Table 2

LeasePlan Corporation N.V. Business Position (cont.)

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

Capital and earnings: Steady capital strengthening

Our assessment of capital and earnings as "strong" reflects our expectation that LP's risk-adjusted capital (RAC) ratio before adjustments will moderately improve to 10.5%-11.0% by the end of 2014, from a pro forma level of 10.4% at the end of 2012. This expectation is based on our view that LP's earnings will remain adequate and sufficient to increase its capital base gradually, offsetting LP's organic growth. 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. Our capital projections also factor in a stable dividend payout to shareholders in 2013 and 2014, in line with that in 2012. We anticipate that LP's asset growth will remain in line with the past two years.

If macroeconomic conditions deteriorate in several European countries, this may adversely affect our projection for LP's RAC ratio. However, this is not our base-case scenario. Standard & Poor's-adjusted RAC ratio for LP was 11.4% at year-end 2010, but, despite significant earnings retention and moderate assets growth, it declined to 10.4% at year-end 2012 on a pro forma basis, when we took into account the economic deterioration of several countries in which LP operates (see table 5).

Table 3

LeasePlan Corporation N.V. Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Tier 1 capital ratio	16.1	15.7	14.9	14.6	12.8
S&P RAC ratio before diversification	N.M.	10.5	10.6	11.4	9.8
S&P RAC ratio after diversification	N.M.	11.1	10.8	11.6	10.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	31.5	33.1	36.4	30.6	34.5
Fee income/operating revenues	16.7	18.0	19.1	19.5	23.4
Market-sensitive income/operating revenues	3.1	(0.4)	(1.9)	(0.5)	0.0
Noninterest expenses/operating revenues	62.2	68.2	73.0	71.2	74.9
Preprovision operating income/average assets	2.3	1.8	1.5	1.6	N/A
Core earnings/average managed assets	1.7	1.3	1.1	1.1	N/A

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

Table 4

LeasePlan Corporation N.V. RACF [Risk-Adjusted Capital Framework] (1) 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	1,903	407	21	141	7
Institutions	1,500	488	33	480	32
Corporate	12,067	5,819	48	10,320	86
Retail	2,052	1,873	91	1,883	92

Table 4

LeasePlan Corporation N.V. RACF [Risk-Adjusted Capital Framework] (1) Data (cont.)					
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	2,125	2,099	99	3,005	141
Total credit risk	19,646	10,686	54	15,829	81
Market risk					
Equity in the banking book†	49	0	0	612	1,250
Trading book market risk	--	720	--	1,079	--
Total market risk	--	720	--	1,691	--
Insurance risk					
Total insurance risk	--	--	--	1,495	--
Operational risk					
Total operational risk	--	1,536	--	2,042	--
(Mil. €)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		14,177		21,058	100
Total Diversification/Concentration Adjustments		--		-1,145	-5
RWA after diversification		14,177		19,913	95
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,222	15.7	2,182	10.4
Capital ratio after adjustments‡		2,222	15.7	2,182	11.0

(1)Pro forma, with criteria and parameters, such as BICRA Economic risk scores and sovereign ratings, in force as of Sept. 27, 2013.*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, 2012, Standard & Poor's.

Table 5

LeasePlan Changes In Reported And Pro Forma Risk Adjusted Capital Ratio

(Mil. €)	Pro forma Dec. 31, 2012*	Reported as of Dec. 31, 2012§	Pro forma Dec. 31, 2011*	Reported Dec. 31, 2011§	Pro forma Dec. 31, 2010*	Reported Dec. 31, 2010§
RAC ratio before diversification (%)	10.4	10.5	9.7	10.6	9.5	11.4
Total adjusted capital	2,182	2,182	2,052	2,052	1,842	1,842
Standard & Poor's total RWA before diversification	21,058	20,804	21,100	19,332	19,345	16,212
Economic risk score BICRA Netherlands	3.0	3.0	3.0	2.0	3.0	1.0
Economic risk score BICRA U.K.	4.0	4.0	4.0	4.0	4.0	3.0
Economic risk score BICRA France	3.0	3.0	3.0	2.0	3.0	1.0

Table 5

LeasePlan Changes In Reported And Pro Forma Risk Adjusted Capital Ratio (cont.)						
Economic risk score BICRA Italy	6.0	5.0	6.0	3.0	6.0	2.0
Economic risk score BICRA Spain	7.0	7.0	7.0	5.0	7.0	3.0
Economic risk score BICRA Portugal	7.0	7.0	7.0	6.0	7.0	3.0

RAC--Risk-adjusted capital. RWA--Risk-weighted assets. Sources: Standard & Poor's. *Pro forma, with criteria and parameters, such as BICRA Economic risk scores and sovereign ratings, in force as of 9 sept 13. §With criteria and parameters, such as BICRA Economic risk scores in force at the reporting date.

Risk position: Low credit risk profile balanced by inherent exposure to residual value risk

Our assessment of LP's risk position as "adequate" balances our view of a low credit risk profile with inherent exposure to residual value risk. LP's credit risk is significantly lower than peers' as demonstrated by its average cost of risk remaining at below 20 basis points for the past six years. LP's low cost of risk reflects the bank's focus on blue-chip clientele, its diversified corporate portfolio, and its limited retail exposure.

Because of its focus on operational leasing, LP is exposed to residual value risk, notably car price volatility in the second-hand market. We note that LP has substantially reduced its sensitivity to residual value fluctuations since 2009, owing to effective measures aiming to mitigate residual value risk and containing repair, maintenance, and tyre replacement costs. We believe our RAC ratio adequately takes this risk into account.

Owing to its business focus, LP serves a limited number of clients compared with a universal bank or a captive finance. This creates inherent single-name risk. But we believe it is not disproportionate for a wholesale bank, as the 20 largest counterparties represent around 16% of the lease portfolio, and around 110% of total adjusted capital.

Table 6

LeasePlan Corporation N.V. Risk Position					
		--Year-ended Dec. 31--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	(1.9)	2.4	4.5	1.2	N.M.
Total diversification adjustment / S&P RWA before diversification	N.M.	(5.3)	(1.4)	(2.3)	(4.4)
Total managed assets/adjusted common equity (x)	8.9	8.9	9.2	9.5	10.5
New loan loss provisions/average customer loans	0.2	0.2	0.1	0.1	N/A
Gross nonperforming assets/customer loans + other real estate owned	1.0	1.0	0.8	0.9	0.9
Loan loss reserves/gross nonperforming assets	52.9	52.9	59.1	59.3	67.3

*Data as of June 30. RWA--Risk-weighted average. N.M.--Not meaningful. N/A--Not applicable.

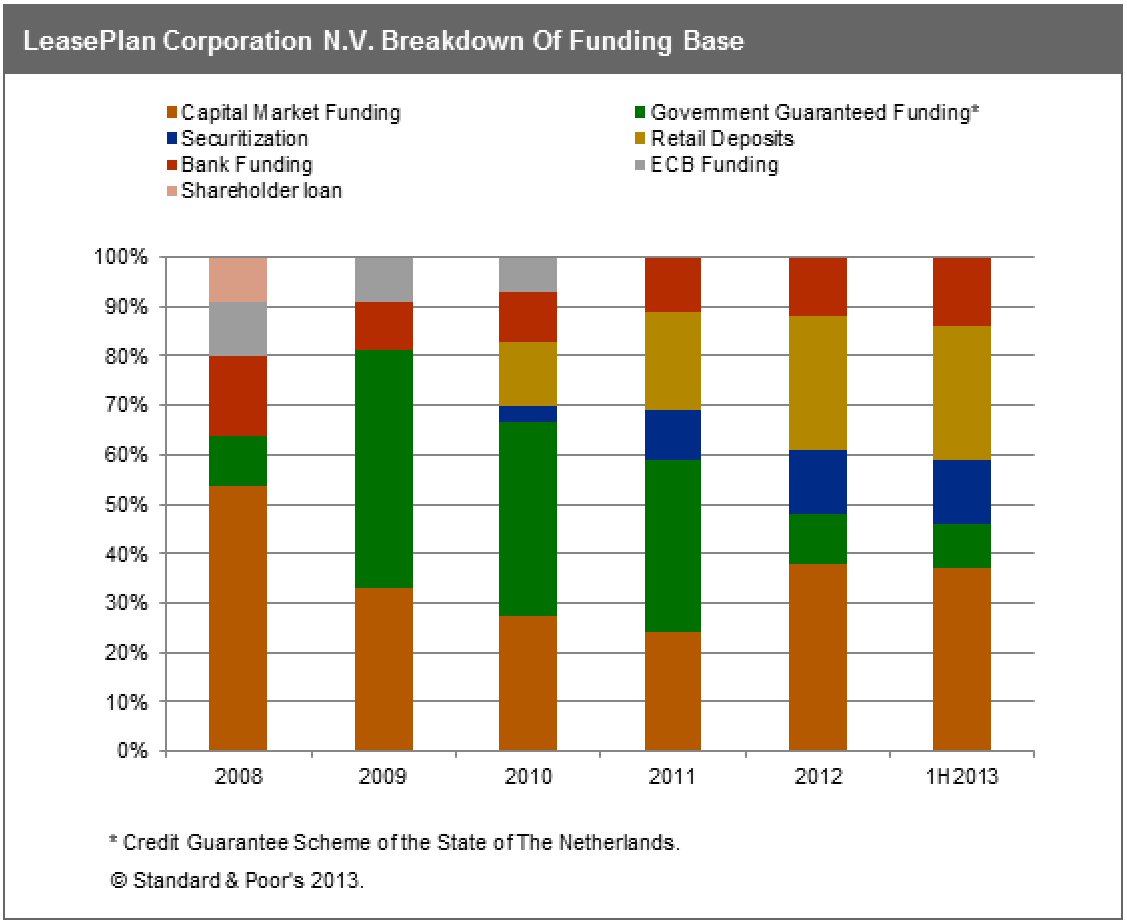
Funding and liquidity: Wholesale funding profile with satisfactory liquidity buffer

Funding is "below average," given LP's reliance on wholesale funding, and liquidity is "adequate." We see LP's wholesale funding profile as a rating weakness. The bank has gradually diversified its funding structure after the crisis, reducing its reliance on capital market funding, from 53% of its funding base in 2008 to 37% at the end of June 2013. It has gradually increased its recourse to securitization and retail deposits. In our view, LP's collection of deposits, which started in 2010 and reached about 27% of LP's funding base at June 2013, is an important source of funding diversification. The vast majority of deposits are from retail clients (about 91%) and after initially aggressive pricing, cost of retail deposits is in line with peers.

We expect retail funding to remain a stable source of funding and only moderately increase over the next two-three years, but not to exceed 25% of total balance sheet.

In October 2013, LP has bought back $500 million of government guaranteed funding maturing in June 2014; the remaining outstanding amount of €1 billion matures in May 2014. Our measure of LP's stable funding ratio improved to 74.8% at June 2013, from 64.0% at the end of 2010, reflecting increased retail funding and a higher liquidity cushion.

Chart 1



LP's liquidity is "adequate" in our view, and has gradually improved over the past three years. Liquidity at LP is mainly managed using a matched funding principle, with debt redemptions matching the run-off profile of its assets.

According to our calculations, LP's ratio of broad liquid assets to short-term wholesale funding increased to 0.6x at June 2013, from 0.2x at December 2010. This demonstrates to us that LP is now taking a more prudent approach to its liquidity management than it has in the past and reflects the increased liquid assets on its balance sheet, in order to comply with Basel III regulatory requirement. LP benefits from relatively ample liquidity buffers compared with its peers, amounting to about €5.4 billion at June 2013. This was essentially in the form of €2.7 billion of cash and other liquid assets, €1.25 billion of unused committed back-up lines from a variety of banks, and an unused €1.25 billion of irrevocable credit commitment from its parent VW AG, maturing in December 2015. LP has no funding from the European Central Bank (ECB), but we understand that if LP did need ECB funding, it could access it. At the end of June 2013 LP had no unencumbered eligible assets on its balance sheet, but the bank could use notes from securitization as collateral for ECB funding.

We estimate that the bank could survive for slightly more than nine months in the event that the capital markets closed, while repaying its debt. In addition, increasing retail deposits would likely help the bank to gradually reduce its refinancing risk.

Table 7

LeasePlan Corporation N.V. Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	2013*	2012	2011	2010	2009
Core deposits/funding base	27.9	28.5	21.2	15.0	1.7
Customer loans (net)/customer deposits	366.2	377.3	507.8	755.7	6,582.4
Long term funding ratio	73.7	77.1	69.3	70.3	53.9
Stable funding ratio	74.8	74.2	N/A	N/A	N/A
Short-term wholesale funding/funding base	30.4	26.5	35.2	33.9	51.5
Broad liquid assets/short-term wholesale funding (x)	0.6	0.5	N/A	N/A	N/A
Net broad liquid assets/short-term customer deposits	(50.7)	(56.0)	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	42.2	37.1	44.7	39.9	52.4
Narrow liquid assets/3-month wholesale funding (x)	2.4	1.3	N/A	N/A	N/A

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

External support: Two notches of group support

LP's ICR is two notches higher than its SACP of 'bbb-', reflecting our view of LP's importance to its 50% owner VW AG and our expectation that VW AG can provide extraordinary support to LP if needed. VW AG 50% stake was internally transferred to VW AG from Volskwagen Bank Gmbh in January 2013, in order to free up capital for the future growth of Volkswagen Financial Services AG (VW FS) and its subsidiary VW Bank. We believe LP remains important to VW AG within the wider spectrum of the whole VW group. LP is a successful investment for VW AG, contributing to parent profitability, and provides some business diversity to VW group. In addition, in December 2012, VW AG renewed a committed three-year backup line, which it provides directly to LP, ahead of schedule. Fleet Investment B.V, the investment vehicle of Mr. Friedrich Von Metzler, a prominent German banker, owns the other 50%. However, we view this as a financial participation, and therefore support is derived exclusively from VW AG.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

All articles listed below are available on RatingsDirect.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004

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-	-	-	-
3	a-	a-	**bbb+**	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 October 24, 2013)

LeasePlan Corporation N.V.	
Counterparty Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Foreign Currency	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
Sovereign Rating	
Netherlands (The) (State of) (Unsolicited Ratings)	AAA/Negative/A-1+
Related Entities	
Scania (publ.) AB	
Issuer Credit Rating	A-/Positive/A-2
Nordic Regional Scale	--/--/K-1
South Africa National Scale	zaAA+/--/zaA-1
Commercial Paper	
Nordic Regional Scale	K-1
Senior Unsecured	A-

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Ratings Detail (As Of October 24, 2013) (cont.)	
Volkswagen AG	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	A-2
Canada National Scale Commercial Paper	A-1(LOW)
Junior Subordinated	BBB
Preferred Stock	BBB
Senior Unsecured	A-
Short-Term Debt	A-2
Volkswagen Bank GmbH	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB+
Volkswagen Financial Services AG	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	A-2
CaVal (Mexico) National Scale	mxA-1+
CaVal (Mexico) National Scale	mxA-1+
Senior Secured *CaVal (Mexico) National Scale*	mxAAA
Senior Unsecured *CaVal (Mexico) National Scale*	mxAAA
Senior Unsecured	A-
Short-Term Debt	A-2
Volkswagen Finans Sverige AB	
Issuer Credit Rating	
Nordic Regional Scale	--/--/K-1
Volkswagen Group Services S.A.	
Issuer Credit Rating	A-/Positive/A-2
Commercial Paper	
Local Currency	A-2
Volkswagen Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A-/Positive/--
Issuer Credit Rating	
Local Currency	A-/Positive/--
Volkswagen Leasing, S.A. de C.V	
Senior Secured *CaVal (Mexico) National Scale*	mxAAA

*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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