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LeasePlan Corporation N.V.

Primary Credit Analyst:
Rayane Abbas, CFA, Paris +33 1 44 20 73 02; rayane.abbas@standardandpoors.com

Secondary Contact:
Dhruv Roy, London (44) 20-7176-6709; dhruv.roy@standardandpoors.com

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LeasePlan Corporation N.V.

SACP	bbb	+	Support	+1	+	Additional Factors	0

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

GRE Support	0
Group Support	+1
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.	• A predominantly wholesale funding profile. • Concentrated business focus. • Exposure to residual value risks.

Outlook: Stable

The stable outlook on LeasePlan Corporation N.V. reflects Standard & Poor's Ratings Services' expectations that LeasePlan will remain an important investment for German carmaker Volkswagen AG (VW) and that the bank will be able to maintain its strong capitalization and prevent any deterioration in asset quality.

Under our base-case scenario, we expect LeasePlan to remain within the VW group, and we believe that VW would provide extraordinary support to LeasePlan in case of stress, although we don't believe such support will be needed in the foreseeable future. We also expect LeasePlan to maintain a risk-adjusted capital (RAC) ratio above 10% and to continue to conservatively manage its exposure to residual value risk.

We could lower the ratings on LeasePlan if we no longer considered the bank to be a "moderately strategic" subsidiary of VW. This could happen if we considered LeasePlan's importance to the VW group to be reduced, or if VW started to question LeasePlan's presence within the group. We might also lower the ratings if LeasePlan's stand-alone credit profile (SACP) were to deteriorate. This could result from our RAC ratio for LeasePlan falling below 10% due to deterioration in the economic environments of some European countries or more aggressive capital management, notably if the bank entered into acquisitions.

A positive rating action would be possible if we saw a material improvement in LeasePlan's capital and funding profile, which we currently view as unlikely.

Rationale

The starting point in assigning our issuer credit rating (ICR) on LeasePlan is its 'bbb+' anchor, which results from our calculation of the weighted average of its geographically diversified credit exposures. We consider that LeasePlan has a "moderate" business position because the improved stability and resilience of its business model mitigates its narrow focus on the leasing business in the highly cyclical automotive sector, in our view. The bank's capital and earnings are "strong" in our opinion because we believe that our RAC ratio will grow toward 12.5%-13.0% by 2016, given the bank's above-average profitability that allows for steady organic capital building. Our view of LeasePlan's risk position as "adequate" balances the bank's inherent exposure to residual value risk with a low credit risk profile. We consider LeasePlan's funding to be "below average" given its continued reliance on wholesale funding and its liquidity "adequate," owing to satisfactory liquidity buffers. LeasePlan benefits from one notch of uplift from its SACP of 'bbb', given our view that VW would provide extraordinary support to LeasePlan's in case of need.

Anchor: 'bbb+' for a bank with a geographically diversified portfolio

The 'bbb+' anchor for LeasePlan reflects the bank's geographically diversified profile and its regulation in the Netherlands. We use our Banking Industry Country Risk (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR under our bank criteria. Our anchor for LeasePlan is based on a weighted economic risk score of '4' and an industry risk score of '3'.

Our economic risk score on LeasePlan is based on the geographic breakdown of its lease portfolio, and reflects our view of the weighted-average economic risks in the countries in which the bank operates, such as the Netherlands, the U.K., the U.S., Germany, France, and Southern and Central Eastern Europe.

Our assessment of industry risks for banks operating in the Netherlands incorporates strong domestic concentration and our view that the competitive environment is stable. Two of the three dominant players have undergone material restructurings, mainly imposed by the European Commission because they received state aid. We believe these restructurings have largely been completed.

Table 1

LeasePlan Corporation N.V. Key Figures					
		--Year-ended Dec. 31--			
(Mil. €)	**2014***	**2013**	**2012**	**2011**	**2010**
Adjusted assets	18,501.3	19,023.1	19,379.2	18,768.3	17,376.7
Customer loans (gross)	15,196.3	15,142.8	15,592.7	15,234.6	14,582.3
Adjusted common equity	2,541.7	2,320.6	2,182.1	2,052.3	1,841.5
Operating revenues	658.7	1,230.6	1,089.2	998.8	978.3
Noninterest expenses	381.3	773.2	742.8	728.9	696.8
Core earnings	206.7	329.9	249.1	199.3	189.6

*Data as of June 30.

Business position: A business model that is narrowly focused, but more resilient to downturns than peers

We believe that LeasePlan's narrow focus on the leasing business in the highly cyclical automotive sector is substantially mitigated by:

- The bank's leading global position in commercial auto fleet leasing;
- Adequately diversified and sustainable sources of revenues;
- Demonstrated ability to build capital through retained earnings;
- Improved management of residual value risk; and
- A less confidence-sensitive funding profile.

We therefore regard LeasePlan's business profile as "moderate," as our criteria define these terms.

We expect that LeasePlan will remain a leading global fleet and vehicle management company. With a fleet size of 1.4 million vehicles, LeasePlan has strong positions in most of the 32 countries where it operates. We expect the bank will maintain its leadership thanks to profitable growth of its fleet, either organically or through small acquisitions.

We view LeasePlan's revenue streams as adequately diversified by geography and sources. LeasePlan's diversification of revenues per country is much more granular than for its rated auto finance and leasing company peers we rate. The bank's noninterest income represents around two-thirds of total revenues and adds a counter-cyclical element to LeasePlan's revenue profile. Plus, we believe that LeasePlan's noncaptive business model, good brand awareness, and long-standing relationships with customers and partners support revenue stability.

We believe that LeasePlan has improved the stability and resilience of its business model by lowering its overall risk profile and confidence sensitivity. Since 2009, the bank has strengthened its capitalization, taken measures to better manage residual value risk, and reduced its reliance on wholesale funding.

Capital and earnings: Above-average profitability allows for steady organic capital building

We believe a high quality of capital and above-average profitability will allow LeasePlan to maintain strong capitalization.

Our assessment of capital and earnings as "strong" reflects our expectation that LeasePlan's RAC ratio before adjustments will grow toward 12.5%-13.0% by the end of 2016, from 11.3% at the end of 2013. This capitalization compares favorably with that of the Top 50 Western European banks, as well as the auto finance and leasing company peers that we rate.

We believe LeasePlan is conservatively managing its capital. The bank posted a high regulatory common equity Tier 1 ratio of 17.9% on June 30, 2014. Our total adjusted capital, the numerator of our RAC ratio, is of high quality for the bank, with no hybrid capital instruments. We don't expect LeasePlan to issue any hybrids in the coming two years.

In our view, LeasePlan's above-average profitability allows for steady organic capital building. We calculate the bank's five-year average core earnings-to-average adjusted assets ratio at approximately 1.3%, compared with about 1.1% on average for the auto captives we rate. We expect this ratio to remain between 1.5% and 2.0% in the coming two years, notably boosted by strong net gains on vehicle sales.

We expect LeasePlan's retained earnings to more than offset risk-weighted asset growth. We anticipate LeasePlan's asset growth will be moderate, while higher-than-historical net interest margin, stable management fees, and moderate growth in fees from insurance and services should sustain revenue generation. We expect LeasePlan's cost base to progressively grow in order to sustain commercial developments, while impairment should remain well controlled, and in line with historical patterns. In our capital projections, we also factor in a stable dividend payout to shareholders in 2015 and 2016.

Table 2

LeasePlan Corporation N.V. Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	**2014***	**2013**	**2012**	**2011**	**2010**
Tier 1 capital ratio	17.9	16.9	15.7	14.9	14.6
S&P RAC ratio before diversification	N.M.	11.3	10.5	10.6	11.4
S&P RAC ratio after diversification	N.M.	11.8	11.1	10.8	11.6
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	30.8	30.9	33.1	36.4	30.6
Fee income/operating revenues	15.3	16.2	18.0	19.1	19.5
Market-sensitive income/operating revenues	(1.1)	2.1	(0.4)	(1.9)	(0.5)
Noninterest expenses/operating revenues	57.9	62.8	68.2	73.0	71.2
Preprovision operating income/average assets	2.9	2.4	1.8	1.5	1.6
Core earnings/average managed assets	2.2	1.7	1.3	1.1	1.1

*Data as of June 30. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 3

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	1,761	350	20	152	9
Institutions	1,556	538	35	403	26
Corporate	12,236	5,875	48	10,574	86
Retail	2,092	1,913	91	1,923	92
Of which mortgage	0	0	0	0	0
Securitization	0	0	0	0	0
Other assets	1,437	2,013	140	1,966	137
Total credit risk	19,083	10,688	56	15,018	79
Market risk					
Equity in the banking book¶	55	0	0	690	1,250
Trading book market risk	--	744	--	1,116	--
Total market risk	--	744	--	1,806	--
Insurance risk					
Total insurance risk	--	--	--	1,525	--
Operational risk					
Total operational risk	--	1,513	--	2,234	--

Table 3

LeasePlan Corporation N.V. Risk-Adjusted Capital Framework Data (cont.)

(Mil. €)	Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments				
RWA before diversification	13,844		20,583	100
Total adjustments to RWA	--		(936)	(5)
RWA after diversification	13,844		19,648	95
(Mil. €)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	2,338	16.9	2,321	11.3
Capital ratio after adjustments§	2,338	16.9	2,321	11.8

*Exposure at default. Securitization 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, 2013, Standard & Poor's.

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

Our assessment of LeasePlan's risk position as "adequate" balances our view of inherent exposure to residual value risk with a low credit risk profile.

We consider that LeasePlan has reduced its sensitivity to residual value fluctuations since 2009. LeasePlan's focus on operational leasing means it retains ownership of the vehicle during the term of the lease contract. The bank is thus exposed to car price volatility in the second-hand market as it resells the cars retained. But LeasePlan has taken measures aiming at mitigating this risk by, among others, charging for early terminations, end-of-contract damages, and mileage variations. Nevertheless, we continue to believe that asset risk is one of the key risks in LeasePlan's business model. In our view, fluctuations in second-hand car prices could have a material impact on LeasePlan's profitability from time to time.

We view the bank's credit risk exposure as low risk. We acknowledge that LeasePlan's counterparty exposure is less granular than for a universal bank or auto captives, which mainly focus on retail finance. But with a cost of risk and nonperforming loans respectively of 15 basis points and 0.90%-1% of the loan book on average over the past five years, it is of much better credit quality. We note that LeasePlan's book focuses on blue-chip clientele and bears low single-name concentration, high sector diversification, and good credit quality, with about two-thirds of counterparties being investment grade. Still, the bank remains exposed to the potential lower business activity of its corporate clients in the current weak European economy, in our view.

Table 4

LeasePlan Corporation N.V. Risk Position

		--Year-ended Dec. 31--			
(%)	**2014***	**2013**	**2012**	**2011**	**2010**
Growth in customer loans	0.7	(2.9)	2.4	4.5	1.2

Table 4

LeasePlan Corporation N.V. Risk Position (cont.)					
Total diversification adjustment/S&P RWA before diversification	N.M.	(4.5)	(5.3)	(1.4)	(2.3)
Total managed assets/adjusted common equity (x)	7.3	8.2	8.9	9.2	9.5
New loan loss provisions/average customer loans	0.1	0.2	0.2	0.1	0.1
Net charge-offs/average customer loans	N.M.	0.1	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	0.9	0.9	1.0	0.8	0.9
Loan loss reserves/gross nonperforming assets	61.5	61.5	52.9	59.1	59.3

*Data as of June 30. RWA--Risk-weighted assets. N.M.--Not meaningful.

Funding and liquidity: Wholesale funding profile with satisfactory liquidity buffer

We consider LeasePlan's funding to be "below average" given its reliance on wholesale funding and its liquidity "adequate," owing to satisfactory liquidity buffers.

We see LeasePlan's wholesale funding profile as a rating weakness. We believe that LeasePlan has a better funding profile than most auto finance companies we rate, but that it remains a relative rating weakness when compared with banking industry peers. In our view, the bank has reduced the confidence sensitivity of its business model by increasing its recourse to securitization, deposits, and private placements. Deposits comprised 32% of the bank's funding base in June 2014 and appear resilient, in our view. The vast majority of deposits are from retail clients, including about half that are term deposits, with a cost now in line with peers. We note that in May 2014 the bank reimbursed the last tranche of the Dutch government guaranteed bonds it had issued in 2009.

We estimate that the bank could survive for slightly more than nine months in the event that capital markets closed, while repaying its debt. This aligns with the bank's liquidity policy that is based on a matched funding principle and aims at meeting its financial obligations during a period of stress for at least nine months. In our view, LeasePlan's ratio of broad liquid assets to short-term wholesale funding remains significantly lower than what we observe for banking industry peers. But at 46% in June 2014, it is higher than the 23% auto finance peers' average and reflects the bank's proportionally much higher on-balance-sheet liquid assets. The bank's satisfactory liquidity buffer amounted to about €4.2 billion as at June 2014, comprising €1.7 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 commitments from its parent VW. We also understand LeasePlan could access European Central Bank funding if needed.

Table 5

LeasePlan Corporation N.V. Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2014***	**2013**	**2012**	**2011**	**2010**
Core deposits/funding base	32.5	31.2	28.5	21.2	15.0
Customer loans (net)/customer deposits	351.4	348.5	377.3	507.8	755.7
Long-term funding ratio	79.5	75.9	77.1	69.3	70.3
Stable funding ratio	74.3	73.7	74.2	N/A	N/A
Short-term wholesale funding/funding base	24.5	28.4	26.5	35.2	33.9
Broad liquid assets/short-term wholesale funding (x)	0.5	0.5	0.5	N/A	N/A
Net broad liquid assets/short-term customer deposits	(47.5)	(49.0)	(56.0)	N/A	N/A
Short-term wholesale funding/total wholesale funding	36.3	41.2	37.1	44.7	39.9

Table 5

LeasePlan Corporation N.V. Funding And Liquidity (cont.)					
Narrow liquid assets/3-month wholesale funding (x)	3.6	3.5	1.3	N/A	N/A

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

External support: One notch of group support

Our long-term rating on LeasePlan benefits from a one notch of support from VW. We consider LeasePlan a "moderately strategic" subsidiary of VW, as our criteria define this term. This reflects our view that LeasePlan is not an integral part of VW's long-term strategy. It also highlights that LeasePlan is not tightly integrated with the group. In our view, LeasePlan is a successful investment for VW. Both entities also maintain strong commercial relationships, with VW brands representing about one-third of LeasePlan's fleet of 1.4 million multi-brand vehicles. However, there are few linkages between the business activities of LeasePlan and those of VW that induce a long-term commitment of VW's management toward LeasePlan.

However, we do not foresee VW divesting its 50% stake in LeasePlan. Our "moderately strategic" group status assumes that any sale is unlikely in the near term. We see this as a more likely medium-term prospect, although there are no tangible signs that this is likely in the foreseeable future.

Our "moderately strategic" group status also factors in our belief that LeasePlan is likely to continue to receive support from VW should it fall into financial difficulty. In our view, VW's commitment to LeasePlan is also demonstrated by the irrevocable €1.25 billion credit line it provides directly to the bank.

Fleet Investment B.V, the investment vehicle of Mr. Friedrich Von Metzler, a prominent German banker, owns the remaining 50%. However, we view this as a financial stake, and therefore support is derived exclusively from VW.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Sept. 18, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

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 January 8, 2015)

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
Counterparty Credit Ratings History	
18-Dec-2014	BBB+/Stable/A-2
29-Sep-2014	BBB+/Watch Neg/A-2
17-Dec-2013	BBB+/Positive/A-2
26-Nov-2013	BBB+/Watch Pos/A-2
17-Oct-2012	BBB+/Stable/A-2
28-Aug-2012	BBB+/Positive/A-2
27-Oct-2010	BBB+/Stable/A-2
Sovereign Rating	
Netherlands (State of The) (Unsolicited Ratings)	AA+/Stable/A-1+
Related Entities	
Scania AB (publ.)	
Issuer Credit Rating	A-/Stable/A-2
Nordic Regional Scale	--/--/K-1
South Africa National Scale	zaAAA/--/zaA-1
Commercial Paper	
Nordic Regional Scale	K-1
Senior Unsecured	A-
Volkswagen AG	
Issuer Credit Rating	A/Stable/A-1

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Ratings Detail (As Of January 8, 2015) (cont.)	
Commercial Paper	A-1
Canada National Scale Commercial Paper	A-1(MID)
Junior Subordinated	BBB+
Preferred Stock	BBB+
Senior Unsecured *Greater China Regional Scale*	cnAAA
Senior Unsecured	A
Short-Term Debt	A-1
Volkswagen Bank GmbH	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Volkswagen Financial Services AG	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	A-1
CaVal (Mexico) National Scale	mxA-1+
Senior Secured *CaVal (Mexico) National Scale*	mxAAA
Senior Unsecured *CaVal (Mexico) National Scale*	mxAAA
Senior Unsecured	A
Senior Unsecured	BBB-
Short-Term Debt	A-1
Volkswagen Finans Sverige AB	
Issuer Credit Rating	
Nordic Regional Scale	--/--/K-1
Volkswagen Group Services S.A.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Volkswagen Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

*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