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**Research Update:**

# Dutch Bank LeasePlan Ratings Lowered To 'BBB+' On Expected Weaker Financial Profile; Outlook Negative

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## Research Update:

# Dutch Bank LeasePlan Ratings Lowered To 'BBB+' On Expected Weaker Financial Profile; Outlook Negative

## Overview

- At Dutch bank LeasePlan, a worldwide leader in fleet leasing, we expect the funding profile to remain a key rating constraint and earnings prospects to weaken.
- We lowered the long-term rating to 'BBB+' from 'A-' and affirmed the short-term rating at 'A-2'.
- We now include one notch of uplift in our 'BBB+' rating for LeasePlan's strategically important status to Volkswagen AG.
- The negative outlook reflects the medium-term funding and profitability challenges the bank faces.

## Rating Action

On Sept. 14, 2009, Standard & Poor's Ratings Services lowered the long-term counterparty credit rating on Dutch bank LeasePlan Corporation N.V. to 'BBB+' from 'A-'. At the same time, we removed the long-term rating from CreditWatch with negative implications, where it was placed on May 8, 2009, following a similar rating action on ultimate parent German automaker Volkswagen AG (VW; A-/Negative/A-2). The short-term rating on LeasePlan is affirmed at 'A-2' and the outlook is negative.

## Rationale

The downgrade reflects our anticipation that LeasePlan's financial profile, essentially its earnings generation capacity and funding profile, will further weaken in the medium term.

LeasePlan's constrained wholesale-funding profile will remain a rating weakness in our view. LeasePlan strongly benefited from the Dutch Credit Guarantee Scheme implemented in the fourth quarter of 2008 to support domestic banks' funding profiles. The bank since then has issued around €6 billion in state-guarantee notes, which cover a large part of its 2010 refinancing needs. Both state and VW support--in the form of a €1.5 billion committed facility--have alleviated short-term liquidity pressures at LeasePlan.

However, we believe that the refinancing of the state funds (45% of the total funding base) could prove challenging for the bank in the medium term and it could find it challenging as well, in our opinion, to reestablish a fully independent funding base. On a positive note, we view positively the bank's intention to attract customer deposits via the creation of an online retail bank.

Additionally, we are of the opinion that residual value charges will remain elevated in 2009 and 2010 at least and will continue to weigh on core earnings generation, more and longer than we had previously anticipated. To a lesser extent, we also anticipate that margin pressure from higher refinancing costs, weaker prospects for new business generation, and rising pure credit risk charges on debtors will put additional pressure on earnings. All in all, we anticipate, in our base case scenario, that core earnings to adjusted assets will remain in the 0.6%-0.7% range in 2009-2011, compared with 1.5% on average from 2003 to 2008.

Capitalization is satisfactory in our view. Standard & Poor's risk-adjusted capital ratio was 8.5% at year-end 2008, after diversification and concentration adjustments.

Our current rating takes into account the bank's valuable franchise as one of the worldwide leaders in fleet leasing and its fully regulated banking status under Dutch law, especially its ongoing access to European Central Bank repo refinancing in addition to material support already received from the Dutch authorities. We consider LeasePlan to be a strategically important subsidiary of VW, which owns a 50% stake in LeasePlan via wholly owned captive subsidiary Volkswagen Bank GmbH (A-/Negative/A-2). We give the ratings on LeasePlan uplift of one notch above its stand-alone creditworthiness. This reflects the liquidity support that VW has already given to LeasePlan, our perception that the ultimate shareholder will remain committed to LeasePlan and could bring further support, if need be, and the benefits LeasePlan gives to VW Bank in terms of business and earnings diversification.

## Outlook

The outlook is negative. We indeed believe that downside risks remain important, especially the possibility that core earnings could drop below 0.5% of adjusted assets due to higher margin and credit risk pressure (from residual value and debtors) than we currently anticipate. LeasePlan's capacity to rebuild a fully independent funding base, independent from state and parental assistance, is a challenge as well. In case these pressures materialize and everything else remaining equal, we could downgrade LeasePlan.

A revision of the outlook back to stable would necessitate evidence of a quicker recovery in earnings power than we currently anticipate and improvement of LeasePlan's funding profile, notably a rapidly growing proportion of stable retail deposits in proportion to total funding and capacity to fund operations independently on a sustained basis.

## Related Research

- Group Methodology For Financial Services Companies, March 19, 2004

## Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed	To	From
LeasePlan Corporation N.V.		
Counterparty Credit Rating	BBB+/Negative/A-2	A-/Watch Neg/A-2
Subordinated	BBB	BBB+/Watch Neg
Commercial Paper	A-2	
Senior Unsecured	BBB+	A-/Watch Neg
LeasePlan Finance N.V. (Dublin Branch)		
Senior Unsecured	BBB+	A-/Watch Neg
Guaranteed by LeasePlan Corporation N.V.		
LeasePlan Australia Ltd.		
LeasePlan Finance N.V. (Dublin Branch)		
LeasePlan New Zealand Ltd.		
Commercial Paper	A-2	
Guaranteed by LeasePlan Corporation N.V.		

NB: This list does not include all ratings affected.

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