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LeasePlan Corporation N.V.

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LeasePlan Corporation N.V.

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

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Strong earnings and capitalization. • Regulated status as a bank. • Leading global position in commercial auto fleet leasing.	• A predominantly wholesale funding profile. • Concentrated business focus. • Significant exposure to double leverage risks.

Outlook: Stable

The stable outlook on LeasePlan Corporation N.V. reflects Standard & Poor's Ratings Services' view that, over the next two years, LeasePlan will maintain its solid operating performance, strong capitalization, and supportive asset quality profile, and that new ownership will not result in a more aggressive financial policy and risk appetite.

Downside scenario

We could lower the ratings on LeasePlan if we see evidence that its new ownership is altering the business or financial strategy of the company, for example, if the new owners further leveraged the holding structure above LeasePlan in a way that is detrimental to its creditworthiness.

Upside scenario

A positive rating action is unlikely within the next two years, in our view. However, we could consider an upgrade if we believed that the double leverage at the ultimate holding company was materially diminishing or if we expected LeasePlan to maintain a Standard & Poor's risk-adjusted capital (RAC) ratio sustainably above 15%.

Rationale

On March 21, 2016, LeasePlan announced that a consortium of investors had completed the acquisition of LeasePlan from Volkswagen AG (VWAG) and Dutch company Fleet Investments B.V., which jointly owned the bank. On Feb. 3, 2016, at the time of the announced financing, we lowered our ratings on LeasePlan to 'BBB-/A-3' with a stable outlook (see "LeasePlan Downgraded To 'BBB-/A-3' On Announced Financing For Sale To Investor Consortium; Outlook Stable"). Our issuer credit rating (ICR) is assigned based on our view of LeasePlan under its new ownership structure. It is derived through determining a group credit profile (GCP) based on the wider consolidated group that LeasePlan is a part of under the new ownership structure (a GCP is not a rating, but a component of a rating that represents our opinion of a group's creditworthiness as if it were a single legal entity). LeasePlan is by far the largest part of the group, contributing close to 100% of the consolidated group assets. We therefore view it as a core group entity and equalize the issuer credit rating on LeasePlan with the GCP.

The starting point in assigning the GCP on LeasePlan is the 'bbb+' anchor, which results from our calculation of the weighted average of its geographically diversified credit exposures and our view of the Dutch banking sector, where LeasePlan is domiciled and primarily regulated. We believe that LeasePlan has a concentrated business model, which is mitigated by its proven stability and resilience to the highly cyclical automotive sector. Capitalization is strong and we expect the bank to maintain a RAC ratio of 12.5%-13.0% by 2017, given the bank's above-average profitability, which allows for steady organic capital building. Our assessment of LeasePlan's risk position is constrained by our view that the double leverage within the group structure reduces the bank's financial flexibility. LeasePlan's funding and liquidity position factors in the bank's continued reliance on wholesale funding and satisfactory liquidity buffers.

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 Dutch banks incorporates high domestic concentration and our view of a stable competitive environment. We consider that the prospective profitability of domestic banking activities is adequate. Some of the large banks have undertaken large restructuring efforts in exchange for state aid. In our view, they no longer face the risk of significant one-off charges relating to these efforts. In the meantime, cost optimization programs continue in the context of the persistently low-interest-rate environment and cost of risk has also improved, mitigating asset repricing. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in life insurance and pension products, rather than in bank deposits. We consider that Dutch systemwide funding benefits from, among other things, the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support.

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Table 1

LeasePlan Corporation N.V. Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Adjusted assets	21,309.4	19,551.6	19,023.1	19,379.2	18,768.3
Customer loans (gross)	17,661.9	15,722.6	15,142.8	15,592.7	15,234.6
Adjusted common equity	2,943.1	2,485.7	2,320.6	2,182.1	2,052.3
Operating revenues	1,535.9	1,343.7	1,230.6	1,089.2	998.8
Noninterest expenses	904.7	816.0	773.2	742.8	728.9
Core earnings	442.5	378.3	329.9	249.1	199.3

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

Our assessment of LeasePlan's business position as moderate reflects the entity's concentration in commercial auto fleet leasing, which is a sector that has demonstrated high cyclicality, in our view. We believe that such sector concentration can increase the business model's susceptibility to negative external factors, such as increased economic risks that may impact the automotive sector, for example. However, we balance our assessment with our belief that this risk is mitigated by:

- The bank's leading global position in commercial auto fleet leasing;
- Its adequately diversified geographic exposure and sustainable sources of revenues;
- Its predictable earnings and solid track record of profitability; and
- Management's relatively prudent approach to risk management.

We expect that LeasePlan will remain a leading global fleet and vehicle management company. With a fleet size of 1.55 million vehicles, LeasePlan has strong positions in most of the 32 countries where it operates. We expect the bank will maintain these strong positions as a result of profitable growth of its fleet, either organically or through small bolt-on acquisitions.

We view LeasePlan's revenue streams as adequately diversified by geography and business line. LeasePlan's diversification of revenues by country is more granular in comparison to rated auto finance and leasing company peers. 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. Hence, the bank has a proven track record of profitability even through recent economic downturns.

In our view, 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. Although financial sponsor ownership can lead to changes in business strategy, often regarding financial policy and risk management, we believe that LeasePlan will continue to operate largely as an independent entity upon closure of the transaction. In our view, the "Structuurregime"--a piece of legislation that requires separation of the nonexecutive supervisory board, the executive management board, and LeasePlan's shareholders--will likely provide the bank with a reasonable degree of protection from direct shareholder influence on financial policy.

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 capital and earnings assessment reflects our expectation that LeasePlan's RAC ratio before adjustments will grow toward 12.5%-13.0% by the end of 2017, from 11.7% at the end of 2014. At end-2015, we estimate this ratio to be between 12.0%-12.5%. This capitalization compares favorably with that of the Top 50 Western European banks, as well as the rated auto finance and leasing company peers.

LeasePlan has a high regulatory common equity Tier 1 (CET1) ratio of 17.0% on Dec. 31, 2015. The gap between our projected RAC ratio and the CET1 ratio mainly reflects the higher risk weights we apply to LeasePlan's credit risk exposures.

The base-case RAC ratio projection over the next two years incorporates the following assumptions:

Total adjusted capital (TAC):

- Continued profitability, which will strengthen LeasePlan's capital position through retained earnings.
- Strain on the net interest margin, reflecting the slight increase in funding costs following LeasePlan's sale to a consortium of investors.
- A dividend policy to distribute about 60% of earnings.
- Progressive growth in the cost base in order to sustain commercial developments, while impairments should remain well controlled and in line with historical patterns.

Standard & Poor's risk-weighted assets (RWAs):

- Notable growth in credit RWAs at year-end 2015, a significant proportion of which reflects LeasePlan's 100% acquisition of a local entity in Turkey (increased stake from 51%).
- Expected annual growth rate of about 5%-10% in RWAs.

In our view, the key driver to LeasePlan's RAC ratio is its above-average profitability, which allows for steady organic capital building. We calculate the bank's five-year average core earnings-to-average adjusted assets ratio at approximately 1.7%, compared with about 1.2% on average for the auto captives we rate. We expect this ratio to remain between 1.5%-2.0% in the coming two years, notably boosted by strong net gains on vehicle sales.

Table 2

LeasePlan Corporation N.V. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	17.0	17.2	16.9	15.7	14.9
S&P RAC ratio before diversification*	N.M.	11.7	11.3	10.5	10.6
S&P RAC ratio after diversification*	N.M.	12.3	11.8	11.1	10.8
Adjusted common equity/total adjusted capital	N.M.	100.0	100.0	100.0	100.0
Net interest income/operating revenues	29.3	31.0	30.9	33.1	36.4

Table 2

LeasePlan Corporation N.V. Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Fee income/operating revenues	13.7	15.1	16.2	18.0	19.1
Market-sensitive income/operating revenues	0.9	(0.9)	2.1	(0.4)	(1.9)
Noninterest expenses/operating revenues	58.9	60.7	62.8	68.2	73.0
Preprovision operating income/average assets	3.1	2.7	2.4	1.8	1.5
Core earnings/average managed assets	2.2	2.0	1.7	1.3	1.1

*S&P RAC ratio calculation not yet finalized for 2015. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 3

LeasePlan Corporation N.V. RACF [Risk-Adjusted Capital Framework] Data

As of Dec. 31, 2014

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	1,705	221	13	152	9
Institutions	1,225	507	41	330	27
Corporate	12,468	5,858	47	10,778	86
Retail	2,470	1,506	61	2,366	96
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	1,532	1,693	111	2,202	144
Total credit risk	19,399	9,785	50	15,827	82
Market risk					
Equity in the banking book†	57	0	0	713	1,250
Trading book market risk	--	831	--	1,247	--
Total market risk	--	831	--	1,961	--
Insurance risk					
Total insurance risk	--	--	--	1,113	--
Operational risk					
Total operational risk	--	1,515	--	2,269	--
(Mil. €)		**Basel III RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		12,691		21,169	100
Total Diversification/Concentration Adjustments		--		(942)	(4)
RWA after diversification		12,691		20,227	96

Table 3

LeasePlan Corporation N.V. RACF [Risk-Adjusted Capital Framework] Data (cont.)				
(Mil. €)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	2,228	17.2	2,486	11.7
Capital ratio after adjustments‡	2,228	17.2	2,486	12.3

*Exposure at default. §Securitization exposure includes the securitzation 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, 2014, Standard & Poor's.

Risk position: Notable double leverage and inherent residual value risks are balanced by a low credit risk profile

Our assessment of LeasePlan's moderate risk position balances our view of the double leverage and residual value risks that are not directly captured within our capital and earnings assessment, with the bank's low credit risk profile.

We believe that the double leverage risks present in the group structure are a constraining factor on our assessment. In our view, our projected RAC ratio for LeasePlan (the stand-alone regulated entity) of 12.5%-13.0% over the next 12-24 months insufficiently captures the risks present at the consolidated group level. This is partly because of the relatively high double leverage at the ultimate holding company level, which we calculate at 180%-190% (a pro forma calculation, based on the proposed transaction structure, of investment in subsidiaries divided by holding company shareholders' equity). Our view of the wider group's capitalization is also weaker than LeasePlan's RAC ratio on a consolidated basis.

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. In our view, LeasePlan's introduction of, among other things, charging for early terminations, end-of-contract damages, and mileage variations somewhat mitigate this risk. Nevertheless, we continue to believe that asset risk is one of the key risks in LeasePlan's business model. We believe that fluctuations in second-hand car prices could have a material impact on LeasePlan's profitability from time to time. It is currently difficult to quantify the potential effect on the residual value of LeasePlan's fleet following the recent engine emissions and fuel consumption issues at Volkswagen, but our base-case expectation is that any direct financial impact will be manageable.

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 of 13 basis points and 0.8%-1.0% of the loan book, respectively, 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, in our view, the bank remains exposed to the potential lower business activity of its corporate clients in the current weak European economy.

Table 4

LeasePlan Corporation N.V. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	12.3	3.8	(2.9)	2.4	4.5
Total diversification adjustment /S&P RWA before diversification*	N.M.	(4.5)	(4.5)	(5.3)	(1.4)
Total managed assets/adjusted common equity (x)	7.3	7.9	8.2	8.9	9.2
New loan loss provisions/average customer loans	0.14	0.13	0.16	0.15	0.13
Net charge-offs/average customer loans	0.1	0.1	0.1	N.M.	N.M.
Gross nonperforming assets/customer loans and other real estate owned	0.9	0.9	0.9	1.0	0.8
Loan loss reserves/gross nonperforming assets	58.6	64.6	61.5	52.9	59.1

*S&P RAC ratio calculation not yet finalized for 2015. 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 adequate liquidity, 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 33% of the bank's funding base as of Dec. 31, 2015 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.

LeasePlan states that it could continue its business operations for slightly more than nine months in the event that the financial markets come under stress, while still repaying its debt. We believe this aligns with the bank's liquidity policy that is based on a matched funding principle and aims to meet 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 has improved significantly to 80% as of December 2015 (65% as of December 2014), but still remians lower than what we observe for banking industry peers. The improvement is a result of the refininacing activities in the first half of 2015. We note that the year-end ratio was higher than the average for auto finance peers and reflects the bank's proportionally much higher on-balance-sheet liquid assets. The bank's satisfactory liquidity buffer amounted to about €4.4 billion as of December 2015, comprising €1.9 billion of cash and other liquid assets, and two €1.25 billion of unused committed back-up facilities from a variety of banks. One of these facilities replaces the previous committed facility with VWAG, following the recent change of ownership. We also understand LeasePlan could access European Central Bank funding if needed.

Table 6

LeasePlan Corporation N.V. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Core deposits/funding base	33.2	31.3	31.2	28.5	21.2
Customer loans (net)/customer deposits	345.4	357.0	348.5	377.3	507.8

Table 6

LeasePlan Corporation N.V. Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	**2015**	**2014**	**2013**	**2012**	**2011**
Long term funding ratio	87.0	81.9	75.9	77.1	69.3
Stable funding ratio	82.1	78.2	73.7	74.2	N/A
Short-term wholesale funding/funding base	15.5	21.7	28.4	26.5	35.2
Broad liquid assets/short-term wholesale funding (x)	0.8	0.6	0.5	0.5	N/A
Net broad liquid assets/short-term customer deposits	(11.4)	(28.9)	(49.0)	(56.0)	N/A
Short-term wholesale funding/total wholesale funding	23.3	31.5	41.2	37.1	44.7
Narrow liquid assets/three-month wholesale funding (x)	4.2	1.9	3.5	1.3	N/A

N/A--Not applicable.

External support: None

We do not include any external support in our ratings on LeasePlan.

Additional rating factors:None

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- 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

Related Research

- LeasePlan Downgraded To 'BBB-/A-3' On Announced Financing For Sale To Investor Consortium; Outlook Stable, Feb. 3, 2016
- Dutch Bank LeasePlan Downgraded To 'BBB' And Placed On Watch Negative On Proposed Acquisition By Investor Consortium, July 28, 2015

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 April 6, 2016)

LeasePlan Corporation N.V.	
Counterparty Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Foreign Currency	A-3
Senior Unsecured	A-3
Senior Unsecured	BBB-
Short-Term Debt	A-3
Counterparty Credit Ratings History	
03-Feb-2016	BBB-/Stable/A-3
28-Jul-2015	BBB/Watch Neg/A-2
21-May-2015	BBB+/Stable/A-2
08-Apr-2015	BBB+/Watch Neg/A-2
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
Sovereign Rating	
Netherlands (State of The)	AAA/Stable/A-1+
Related Entities	
Lincoln Financing Holdings PTE (Singapore) Ltd.	
Issuer Credit Rating	BB+/Stable/--
Senior Secured	BB+

*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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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