S&P Global Ratings

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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 S&P Global Ratings' view that, over the next two years, LeasePlan will maintain its solid operating performance, strong capitalization, and supportive asset quality profile. It also reflects our view that new ownership will not result in a more aggressive financial policy and risk appetite.

Downside scenario

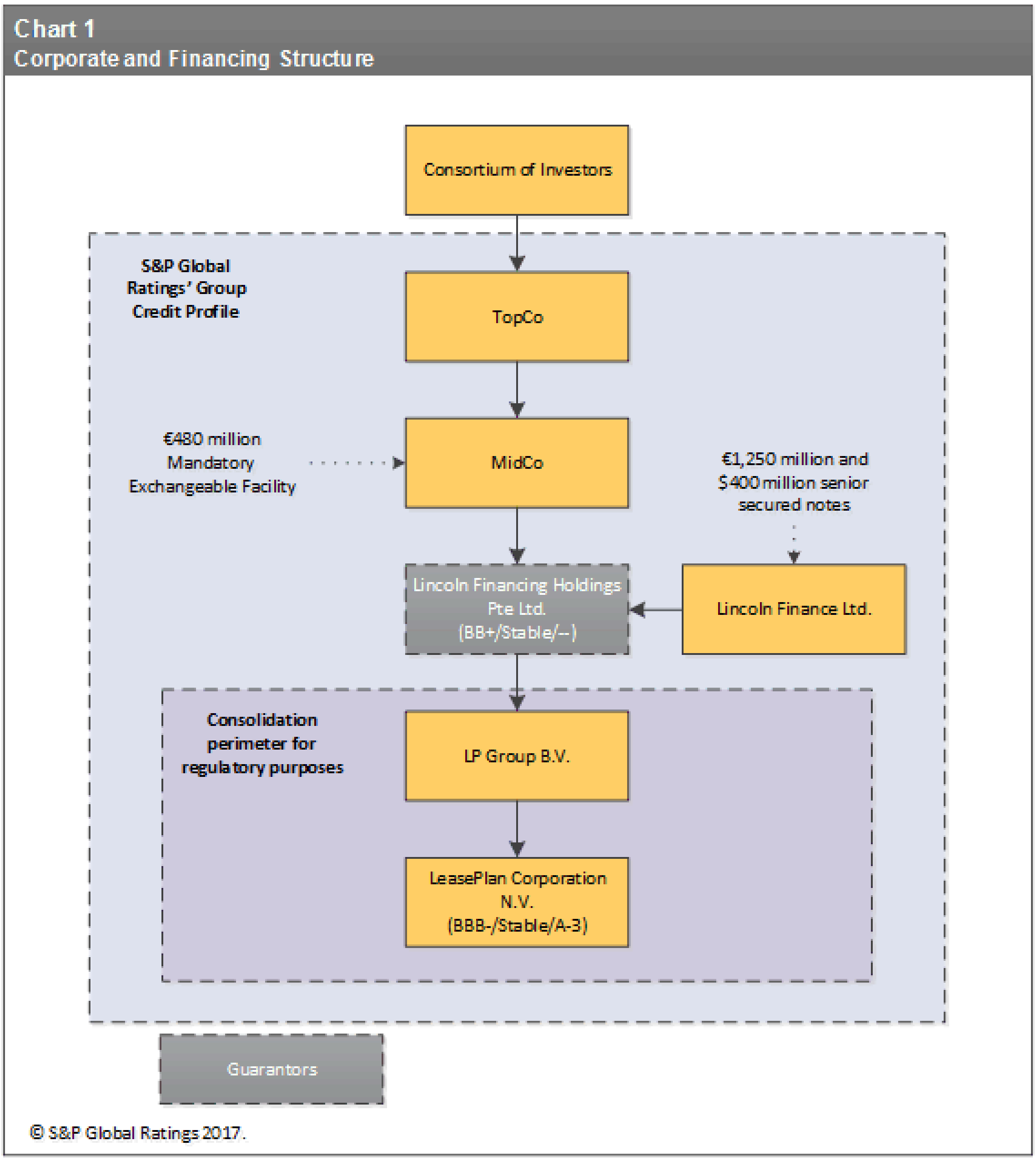
We could lower the ratings on LeasePlan within the next two years if we see evidence that its new ownership is altering the business or financial strategy of the company, for example, if the new owners further leveraged the holding structure above LeasePlan to the detriment of its creditworthiness.

Upside scenario

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 an S&P Global Ratings risk-adjusted capital (RAC) ratio sustainably above 15%.

Rationale

We assign our issuer credit rating (ICR) through determining a group credit profile (GCP) based on the wider consolidated group that LeasePlan is a part of (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 (see chart 1), contributing close to 100% of the consolidated group assets. We therefore view it as a core group entity and equalize the ICR 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. The bank's capitalization is strong and we expect it to maintain a RAC ratio comfortably above 10%, given the 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 Assessment (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 completed large restructuring efforts in exchange for state aid. 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. We view the trend on industry risk as stable.

Table 1

LeasePlan Corporation N.V. Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Adjusted assets	23,612.6	21,244.0	19,551.6	19,023.1	19,379.2
Customer loans (gross)	19,385.0	17,661.9	15,722.6	15,142.8	15,592.7
Adjusted common equity	2,774.9	2,611.4	2,485.7	2,320.6	2,182.1
Operating revenues	1,537.3	1,528.6	1,343.7	1,230.6	1,089.2
Noninterest expenses	935.0	904.7	816.0	773.2	742.8
Core earnings	451.8	437.1	378.3	329.9	249.1

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

We principally compare LeasePlan with the autocaptive banking peers that we rate, including FCA Bank SpA, FCE Bank PLC, RCI Banque S.A., Volkswagen Bank GmbH, and Volkswagen Financial Services AG. 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 affect the automotive sector, for example.

However, LeasePlan's moderate assessment is balanced with our belief that concentration risk are somewhat mitigated by:

- The bank's noncaptive business model, which means it does not rely on one original equipment manufacturer (see chart 2);
- The bank's leading global position in commercial auto fleet leasing;
- Its adequately diversified geographic exposure;
- Predictable earnings and good 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 1.7 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. Its revenue diversification by country is more granular than rated auto finance and leasing company peers. The bank's noninterest income represents around two thirds of total revenues, which compares well against its direct peer group (see chart 3) and adds a counter-cyclical element to LeasePlan's revenue profile. Additionally, we believe that LeasePlan's noncaptive business model, good brand awareness, and long-standing relationships with customers and partners support revenue stability. Therefore, the bank has a proven track record of profitability even through recent economic downturns. Since 2009, we believe LeasePlan has strengthened its capitalization, taken measures to better manage residual value risk, and reduced its reliance on wholesale funding.

Chart 2

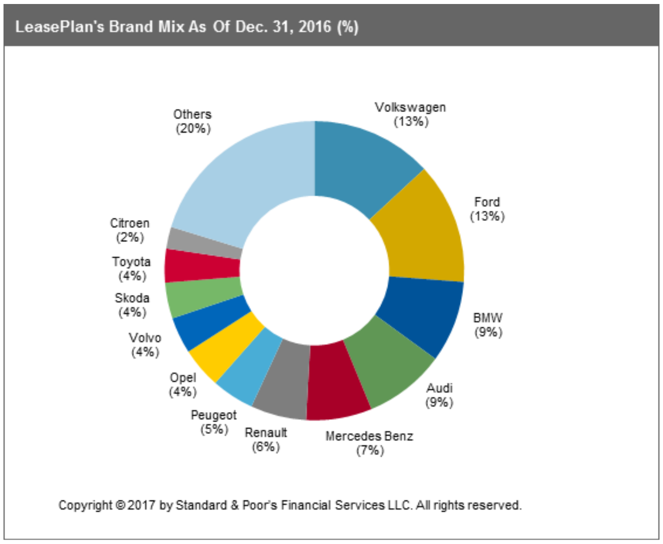
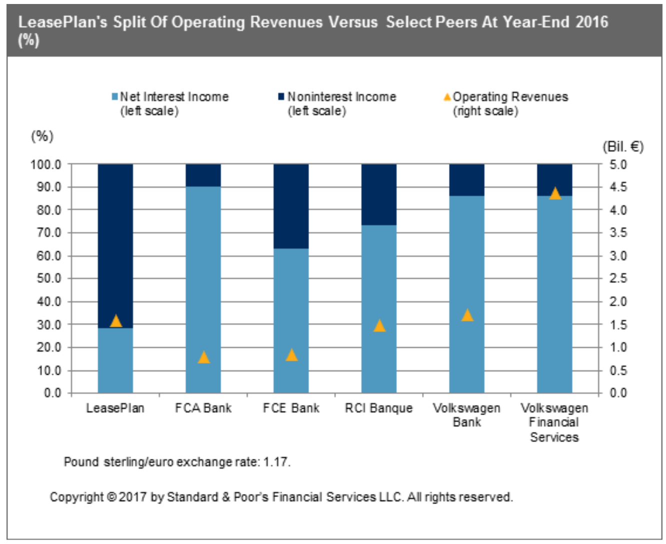


Chart 3



We will continue to monitor the evolution of the group's strategy, management, and governance given the relatively new ownership structure. 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. 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.

Table 2

LeasePlan Corporation N.V. Business Position					
	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenues from business line (mil. €)	1,576.4	1,535.9	1,343.7	1,234.6	1,089.2
Commercial banking/total revenues from business line	87.2	88.0	87.0	87.0	82.6
Commercial & retail banking/total revenues from business line	87.2	88.0	87.0	87.0	82.6
Insurance activities/total revenues from business line	12.8	12.0	13.0	12.7	16.5
Other revenues/total revenues from business line	0.0	0.0	0.0	0.3	0.9
Return on equity	13.8	15.0	13.7	13.1	10.6

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

We calculate LeasePlan's RAC ratio at the regulatory perimeter level (see chart 1). The effect of activities outside of the regulated banking group are factorerd into our GCP through our risk position assessment.

Taking this into account, 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 remain comfortably above 10% through to the end of 2018, from 10.9% at the end of 2016. 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 17.7% on Dec. 31, 2016. 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:

- Continued profitability, which will strengthen LeasePlan's capital position through retained earnings.
- A slightly lower net interest margin, reflecting the 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.

S&P Global Rating's risk-weighted assets (RWAs):

- Steady growth in credit RWAs over the next two years, reflecting organic growth in LeasePlan's lease portfolio. This factors in an expectation of single-digit growth in LeasePlan's specific market segments.
- Expected overall 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 1.8%, compared with about 1.2%, on average, for the auto captives we rate. We expect this ratio to remain at 1.25%-1.75% in the coming two years. However, given the potential for pressures in the used vehicle market, we could see it operating at the lower end of the range.

Table 3

LeasePlan Corporation N.V. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Tier 1 capital ratio	17.7	17.0	17.2	16.9	15.7
S&P RAC ratio before diversification	10.9	11.3	11.7	11.3	10.5
S&P RAC ratio after diversification	11.7	11.9	12.3	11.8	11.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	29.0	30.7	31.0	30.9	33.1
Fee income/operating revenues	12.1	12.5	15.1	16.2	18.0
Market-sensitive income/operating revenues	0.3	0.9	(0.9)	2.1	(0.4)
Noninterest expenses/operating revenues	60.8	59.2	60.7	62.8	68.2
Preprovision operating income/average assets	2.7	3.0	2.7	2.4	1.8
Core earnings/average managed assets	2.0	2.1	2.0	1.7	1.3

RAC--Risk-adjusted capital.

Table 4

LeasePlan Corporation N.V. Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	2,665	302	11	180	7
Institutions	859	480	56	245	28
Corporate	16,209	7,836	48	14,387	89
Retail	1,929	1,213	63	1,819	94
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	2,007	2,098	105	2,871	143
Total credit risk	23,669	11,929	50	19,502	82
Market risk					
Equity in the banking book†	27	0	0	342	1,250
Trading book market risk	--	1,051	--	1,576	--
Total market risk	--	1,051	--	1,918	--
Insurance risk					
Total insurance risk	--	--	--	1,109	--
Operational risk					
Total operational risk	--	1,515	--	2,899	--
		Basel II RWA		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification		15,450		25,428	100
Total Diversification/Concentration Adjustments		--		(1,665)	(7)
RWA after diversification		15,450		23,763	93
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,741	17.7	2,775	10.9
Capital ratio after adjustments‡		2,741	17.7	2,775	11.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' 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, 2016, S&P Global Ratings.

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 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 stand-alone 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 therefore exposed to car price volatility in the second-hand market as it resells the cars retained. In our view, LeasePlan's conservative pricing policy and 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 effect on LeasePlan's profitability from time to time. As chart 2 shows, LeasePlan carries sizable residual value risks with its Volkswagen branded vehicles. At this stage we understand that there has been little financial impact as a result of the recent engine emissions and fuel consumption issues at Volkswagen. Should anything materialize, our base-case expectation is that it will likely 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 of 14 basis points and nonperforming loans at 0.5%-1.0% 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. Nevertheless, in our view, the bank remains exposed to the potential lower business activity of its corporate clients in the recovering European economy.

Table 4

LeasePlan Corporation N.V. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Growth in customer loans	9.8	12.3	3.8	(2.9)	2.4
Total diversification adjustment / S&P RWA before diversification	(6.5)	(5.3)	(4.5)	(4.5)	(5.3)
Total managed assets/adjusted common equity (x)	8.6	8.2	7.9	8.2	8.9
New loan loss provisions/average customer loans	0.1	0.1	0.1	0.2	0.2
Net charge-offs/average customer loans	0.4	0.1	0.1	0.1	N.M.
Gross nonperforming assets/customer loans + other real estate owned	0.5	0.9	0.9	0.9	1.0
Loan loss reserves/gross nonperforming assets	43.0	58.6	64.6	61.5	52.9

N.M.--Not meaningful. RWA--Risk-weighted assets.

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 to be 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 (excluding Volkswagen Bank and Volkswagen Financial Services), but that it remains a relative rating weakness 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 31% of the bank's funding base as of Dec. 31, 2016 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. Despite this, the absence of core banking products means that we do not consider its deposit base to be franchise driven, unlike many Dutch banking 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 of 60% remians lower than what we observe for banking industry peers. However, this ratio does not capture LeasePlan's access to committed lines of credit. The bank's satisfactory liquidity buffer amounted to about €4.6 billion as of December 2016, comprising €2.1 billion of cash and other liquid assets, and two €1.25 billion of unused committed back-up facilities from a variety of banks. 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--				
(%)	2016	2015	2014	2013	2012
Core deposits/funding base	31.2	33.2	31.3	31.2	28.5
Customer loans (net)/customer deposits	353.0	345.4	357.0	348.5	377.3
Long term funding ratio	82.2	86.9	81.9	75.9	77.1
Stable funding ratio	78.8	82.0	78.2	73.7	74.2
Short-term wholesale funding/funding base	20.8	15.5	21.7	28.4	26.5
Broad liquid assets/short-term wholesale funding (x)	0.6	0.8	0.6	0.5	0.5
Net broad liquid assets/short-term customer deposits	(30.1)	(11.4)	(28.9)	(49.0)	(56.0)
Short-term wholesale funding/total wholesale funding	30.2	23.3	31.5	41.2	37.1
Narrow liquid assets/3-month wholesale funding (x)	2.4	4.2	1.9	3.5	1.3

External support: Low systemic importance in The Netherlands

The counterparty credit rating is in line with the GCP, reflecting our assessment of LeasePlan's low systemic importance in The Netherlands. This is based on the bank's limited domestic retail franchise.

Although we include notches of uplift under our additional loss absorbing capacity methodology (ALAC) for some large Dutch banks, we do not currently do so for LeasePlan. This is because we see it as being of low systemic importance in the Netherlands, and this implies to us that the bank might be declared bankrupt if regulators determined it to be nonviable. By contrast, we anticipate that the most systemically important Dutch banks would likely be subject to a well defined bail-in resolution process whose key objective is to ensure the timely and full payment of all these banks' senior unsecured obligations. Where we additionally see a credible plan for these banks to build a substantial buffer of ALAC in the coming years, we apply some uplift in the ICR.

We continue to monitor developments in this area (see "As The Tier 3 Ball Starts To Roll, European Banks Continue

To Plot Their Bail-In Buffers", published June 6, 2016 on RatingsDirect). For example, we anticipate that regulators may set a minimum requirement for eligible liabilities on LeasePlan within the next year. We anticipate that this, among other elements, could inform us of the authorities' preferred resolution strategy and so the possible eligibility for ALAC uplift.

The bank is owned by LP Group B.V., itself ultimately owned by a consortium of investors. Despite the potential for support from its owners, we do not factor any notches of group support in our ratings, reflecting, among other things, the private equity nature of its ownership.

Additional rating factors: None

No additional factors affect this rating.

Group status: LeasePlan is a core subsidiary of the wider group

LeasePlan is by far the largest part of the group, contributing close to 100% of the consolidated group assets. It therefore meets the characteristics for performance, materiality, and unlikelihood of divestment that we expect from a core operating subsidiary. As a core group entity we equalize the issuer credit rating on LeasePlan with the 'bbb-' GCP.

Holding company rating

Our rating on Lincoln Financing Holdings Pte Limited is based on our assessment of it as the nonoperating holding company (NOHC). Under our group rating methodology for NOHCs, we usually assign an ICR to the NOHC one notch below the GCP if the latter is 'bbb-' or above, to reflect the NOHC's reliance on dividends being upstreamed to meet its obligations. This applies to Lincoln. We do not notch down twice for structural subordination, as we consider that potential regulatory barriers to cash flows will only exist between LeasePlan as an operating company and LeasePlan's holding company, LP Group B.V. (The Netherlands). We do not consider that there will be further potential barriers to cash flows beyond LP Group B.V. to Lincoln Financing Holdings.

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

- As The Tier 3 Ball Starts To Roll, European Banks Continue To Plot Their Bail-In Buffers, published June 6, 2016

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 July 6, 2017)

LeasePlan Corporation N.V.	
Counterparty Credit Rating	BBB-/Stable/A-3
Senior Unsecured	A-3
Senior Unsecured	BBB-
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 Ltd.	
Issuer Credit Rating	BB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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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