

## CREDIT OPINION

22 August 2017

Update

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### RATINGS

#### LeasePlan Corporation N.V.

Domicile	Amsterdam, Netherlands
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## LeasePlan Corporation N.V.

### Semiannual Update

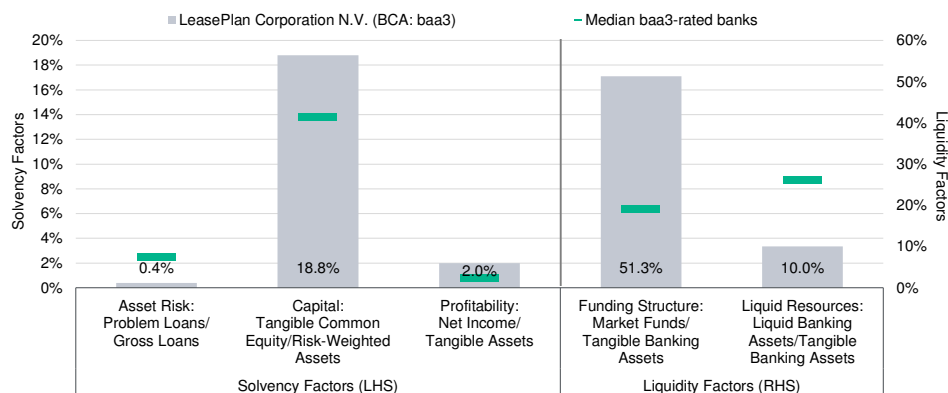
#### Summary Rating Rationale

LeasePlan Corporation N.V.'s (LeasePlan) long-term senior unsecured debt and deposit ratings are Baa1. The outlooks on these ratings are stable. LeasePlan's Baseline Credit Assessment (BCA) is baa3. The bank's short-term senior unsecured debt and deposit ratings are Prime-2. In addition, LeasePlan's long-term and short-term Counterparty Risk Assessments are A3(cr)/Prime-2(cr).

LeasePlan's BCA of baa3 reflects the company's strong franchise in fleet management, which benefits from a stronger geographical and customer diversification, as well as more resilient profitability relative to other auto finance companies. Moreover, contrary to auto-captives, LeasePlan is not tied up with a single carmaker, which gives it more business flexibility. The current BCA also reflects the company's effective management of material residual value risk, which is inherent to LeasePlan's business. Conversely, the company's large reliance on wholesale funding is a rating constraint, despite diversified funding sources and an adequate liquidity profile. LeasePlan is currently owned by a consortium composed of pension funds, sovereign wealth funds and private equity funds.

Exhibit 1

#### Rating Scorecard - Key Financial Ratios



Note: Scorecard ratios are computed as follows - Asset Risk and Profitability as historical averages, Capital, Funding Structure and Liquid Resources at year-end 2016.

Source: Moody's Financial Metrics

LeasePlan's long-term deposit and senior unsecured debt ratings of Baa1 reflects (1) the bank's BCA of baa3; and (2) two notches of uplift under our Advanced Loss Given Failure (LGF) analysis, reflecting the very low loss rate that senior debt holders and depositors are likely to experience in resolution given the large volume of senior unsecured debt issued by

the bank. We expect only a low probability of government support for LeasePlan's senior debt holders and depositors, resulting in no uplift for the senior debt and deposit ratings.

We assign a long-term debt rating of B1 to the Senior Secured Notes issued by Lincoln Finance Limited (Lincoln), a holding/financing vehicle set up in connection with the acquisition of LeasePlan. The outlook assigned to the rating is stable.

### Credit Strengths

- » Fleet management business provides the company with relatively more resilient earnings than those of other auto financing companies
- » Appropriate management of residual value risk and strong capital buffers substantially mitigate risk of material losses occurring on terminated contracts
- » Strong asset quality metrics reflect diversified credit risk exposures
- » Relatively benign operating environment across a range of diverse countries
- » Large volume of senior unsecured long-term debt resulting in debt and deposit ratings benefiting from a very low given-failure rate translating into a two-notch uplift from the BCA

### Credit Challenges

- » Structural reliance on wholesale funding remains a credit weakness, albeit mitigated by its matched funding profile, existing standby liquidity facilities and increased funding diversity

### Rating Outlook

LeasePlan's long-term debt and deposit ratings and the rating of the Senior Secured Notes issued by Lincoln all carry stable outlooks.

### Factors that Could Lead to an Upgrade

- » An upgrade of LeasePlan's BCA is unlikely at present, viewing that the owners are financial investors which are expected to constrain capital accrual at the bank.

### Factors that Could Lead to a Downgrade

- » The rating of the Senior Secured Notes may be downgraded if the interest coverage of the notes by dividends and cash reserves (through the interest reserve account) diminishes due to (1) a deterioration of LeasePlan's net results and/or (2) a diminution of LeasePlan's capacity to upstream dividends due to tighter regulatory constraints. Moody's does not envisage an upgrade of the notes in the foreseeable future, viewing the capacity of the shareholders to upstream cash and to incur additional indebtedness at Lincoln's level.
- » LeasePlan's BCA and long-term ratings may be downgraded if the shareholders implement a more aggressive financial policy at the bank. In addition, the BCA could be downgraded as a result of (1) the failure of risk mitigation techniques, recurring earnings or capital resources to adequately cover higher residual value risk; (2) evidence of deterioration of the bank's liquidity and funding profile, resulting from an increased reliance on wholesale funding or worse-than-expected liquidity gaps; (3) a structural deterioration in profitability or the diversity of income streams. A downgrade of LeasePlan's BCA would typically result in a downgrade of the bank's long-term ratings. These ratings could also be downgraded if there was a significant and sustainable decrease in debt loss-absorption capacity resulting in higher loss-given-failure for one or more instrument class.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key Indicators

Exhibit 2

### LeasePlan Corporation N.V. (Consolidated Financials) [1]

	3-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>3</sup>	CAGR/Avg. <sup>4</sup>
Total Assets (EUR million)	25,019	23,709	21,327	19,552	19,029	8.8 <sup>5</sup>
Total Assets (USD million)	26,760	25,007	23,167	23,660	26,222	0.6 <sup>5</sup>
Tangible Common Equity (EUR million)	2,942	2,906	2,908	2,687	2,433	6.0 <sup>5</sup>
Tangible Common Equity (USD million)	3,147	3,065	3,159	3,252	3,353	-1.9 <sup>5</sup>
Problem Loans / Gross Loans (%)	-	0.2	0.5	0.6	0.6	0.5 <sup>6</sup>
Tangible Common Equity / Risk Weighted Assets (%)	-	18.8	20.8	20.7	17.6	20.1 <sup>7</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	-	1.3	3.2	3.3	3.5	2.8 <sup>6</sup>
Net Interest Margin (%)	2.0	2.1	2.5	2.3	2.1	2.2 <sup>6</sup>
PPI / Average RWA (%)	-	3.9	4.6	4.0	3.2	4.2 <sup>7</sup>
Net Income / Tangible Assets (%)	2.3	1.8	2.1	1.9	1.7	2.0 <sup>6</sup>
Cost / Income Ratio (%)	53.9	64.0	59.1	61.4	63.5	60.4 <sup>6</sup>
Market Funds / Tangible Banking Assets (%)	52.1	51.3	48.3	49.9	51.0	50.5 <sup>6</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	14.0	10.0	9.3	11.3	12.8	11.5 <sup>6</sup>
Gross Loans / Due to Customers (%)	332.7	366.7	353.1	370.1	360.9	356.7 <sup>6</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

## Detailed Rating Considerations

FLEET MANAGEMENT BUSINESS PROVIDES THE COMPANY WITH RELATIVELY MORE RESILIENT EARNINGS THAN THOSE OF OTHER AUTO FINANCING COMPANIES

LeasePlan's global franchise is a key credit strength, reflecting the company's leading position in fleet management, with 1.7 million cars under management in 32 countries. LeasePlan has a dominant position in several key markets, providing geographical diversification to its business. As of December 2016, the company (1) had a leading position in the Netherlands, Belgium, Norway, Portugal, Sweden, Spain, Austria, Poland and the Czech Republic; (2) was one of the top three car leasing companies in the UK, Italy, Australia, Denmark, Finland, New Zealand, Switzerland, Greece and the US; and (3) was one of the top five players in Germany and France. Despite the subdued operating environment in many European economies, LeasePlan continues to report strong profitability, reflecting a moderate sensitivity of its business profile to economic cycles.

Overall, LeasePlan's profitability is strong and has been resilient in recent years, as evidenced by the regular progression of the reported net profit since 2009. In the first three months of 2017, the company reported an underlying net result (i.e. when excluding exceptional items) of €146 million, a 21% increase over the same period in 2016. The currently favourable funding environment also contributes to the strong net interest margin and net profit. We view the current profitability levels as particularly strong and not necessarily fully sustainable over the long-term, because the recent improvements are at least partly due to the current strength of the second-hand car market, which is cyclical.

Nonetheless, we expect that LeasePlan will continue to report resilient earnings which is supportive of its current BCA. Despite its monoline business model, LeasePlan's positioning as a fleet management company enables it to provide additional services, such as repair and maintenance and car insurance. Therefore, the company's revenue mix is more diversified than that of auto finance companies, and net interest income accounts for less than a third of total revenues. Furthermore, as a leading global fleet manager, LeasePlan has the capacity to generate large rebates and bonuses from its suppliers or service providers.

APPROPRIATE MANAGEMENT OF RESIDUAL VALUE RISK AND STRONG CAPITAL BUFFERS MITIGATE RISK OF MATERIAL LOSSES

Residual value risk (asset revaluation risk) is among the most important risks facing LeasePlan. It arises from the uncertainty, when underwriting lease contracts, surrounding the future market value of vehicles at the contract termination date. If market prices of used vehicles fall below their book value on the day they are disposed from LeasePlan's balance sheet (i.e., sold on the second-hand car market), owing to changes in local taxation, economic conditions or market structure, a negative value adjustment is to be recorded. The residual value risk, which is not captured in the ratio of problem loans to gross loans used in the asset risk score, is reflected in our adjustment to this score to a2.

Since 2009, when the second-hand car market suffered a significant drop in prices, LeasePlan has significantly strengthened its management and procedures on residual values to cope with depressed market prices for used cars; for each new lease contract, LeasePlan sets the net book value at termination (i.e., the residual value), accounting for (1) the current second-hand car market prices and (2) its ability to mitigate the residual value risk with numerous risk mitigation techniques. These risk mitigation techniques include the maturity extension of existing contracts, charging clients with "wear and tear" charges, invoicing mileage deviation from contracts, recalculating residual values in case of usage outside contract parameters, and selling the vehicles in countries where secondhand car market prices are more favourable.

The measures initiated in 2009 have contributed to restoring revenues on vehicles sold at contract termination since 2012. These measures, coupled with the steady improvement in the company's capital position, result in LeasePlan being in a structurally better position to face some deterioration in second-hand car market prices. However, LeasePlan's nominal residual value exposure remains high and above 300% of its common equity Tier 1 capital.

We believe that earnings retention and capital accretion may be constrained going forward, as the new owners will have little incentive to leave significant buffers above the minimum regulatory capital ratios, hence reducing financial flexibility in case of unexpected shocks. Furthermore Lincoln's debt burden may lead to changes in the company's direction and risk profile. However, the supervision of LeasePlan as a regulated credit institution should mitigate the risk of an overly aggressive financial policy and creates a relatively strong "ring-fence" for LeasePlan's credit profile.

As a result, we believe that LeasePlan's solvency and liquidity will remain satisfactory against the risks undertaken in the auto leasing business. The planned dividend payout ratio of 60% going forward, although above historical average, should allow LeasePlan's CET1 ratio to stay relatively elevated. The bank's CET1 ratio was 18.6% as of March 2017. In addition, LeasePlan's funding and liquidity profile has not been significantly altered as a result of the change of ownership. The bank has notably replaced the €1.25 billion Volkswagen (VW) liquidity facility by a bank line of similar amount and characteristics.

#### STRONG ASSET QUALITY METRICS REFLECT DIVERSIFIED CREDIT RISK EXPOSURES

LeasePlan's asset quality remains strong as the company has so far subdued credit losses arising from lease contracts. The company has historically registered (1) a very low level of problem loans, because of its focus on large international corporate clients with traditionally lower default rates; and (2) a modest loss given default of around 28% through the cycle, owing to the value of cars.

LeasePlan did not record any impairment on leased assets in 2014, 2015 and 2016. In terms of concentration, LeasePlan's top 20 group exposures are sizeable, relative to both its Tier 1 capital and pre-provision income. However, the customer concentration (concentration to lessees) remains limited because of the company's diversified franchise by geography, industry and customers. In addition, the largest part of LeasePlan's credit exposure is to large corporates, with less exposure to SMEs, which we regard as individually more risky.

#### STRUCTURAL RELIANCE ON WHOLESALF FUNDING REMAINS A CREDIT WEAKNESS, ALBEIT MITIGATED BY ITS MATCHED FUNDING PROFILE, EXISTING STANDBY LIQUIDITY FACILITIES AND INCREASED FUNDING DIVERSITY

LeasePlan's reliance on wholesale funding is a rating constraint because of the inherent confidence-sensitive nature and the potential for unexpected changes in availability and cost of market-based funding. The bank's Combined Liquidity score of b1 reflects this constraint on LeasePlan's BCA.

However, the company has successfully diversified its funding through the collection of online deposits that account for around a quarter of total funding or €5.8 billion as of end-March 2017. While we view online deposits as inherently less stable than "traditional"

retail deposits, given their sensitivity to price and reputational risks, the stability of LeasePlan's deposit base benefits from its inclusion in the Dutch Deposit Guarantee scheme (which guarantees individual deposits of up to €100,000). The increasing proportion of funding derived from customers' savings has not materially altered LeasePlan's matched funding profile, because approximately half of this funding is term savings, although mainly with remaining maturities of less than one year (estimates as of end-March 2017).

LeasePlan's ability to withstand a funding market disruption (based on our own scenario analysis) relies on the availability of two committed undrawn liquidity lines of €1.25 billion each, which are critical elements of the issuer's contingency funding plan. Following the shareholder change, LeasePlan has replaced the €1.25 billion VW liquidity facility by a bank line of similar amount and characteristics. The company would be able to maintain a positive liquidity position over nine months on unchanged business provided that it could tap the aforementioned liquidity lines. However, we believe that LeasePlan would need to undergo a reduction in business in order to withstand a longer period of stress of up to 24 months, which is Moody's standard assumption for other similarly rated auto finance and leasing companies. LeasePlan's outstanding business franchise relies on longstanding relationships with large international corporates and would likely be materially impaired if the company faced pressure to curtail its business production.

#### LEASEPLAN'S BCA IS SUPPORTED BY ITS "STRONG +" MACRO PROFILE

LeasePlan's operating environment is heavily influenced by Western European countries and its Macro Profile at Strong + is one notch above the broader EU average Macro Profile of Strong.

Overall, our assigned BCA is baa3, two notches below the unadjusted financial profile of baa1. This is due to our adjustment of -1 for business diversification as for other similar monoline issuers, as well as our adjustment of -1 for corporate behaviour in reflection of LeasePlan's owners which could weigh on the strategic and financial decisions of the bank.

## Notching Considerations

### Loss Given Failure

LeasePlan is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, a proportion of 10% of deposits considered junior and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

We believe that LeasePlan's deposits and senior unsecured debt are likely to benefit from very low loss-given-failure, due to the loss absorption provided by (i) the large amount of senior unsecured debt should deposits be treated preferentially in a resolution, and (ii) a small volume of deposits. This results in a Preliminary Rating Assessment (PRA) for both deposits and senior unsecured debt two notches above the BCA.

### Government Support

We expect a low probability of government support for debt and deposits, resulting in no uplift for both the long-term deposits and senior unsecured debt issued by the bank.

### CR Assessment

The CR Assessment is positioned at A3(cr)/Prime-2(cr).

The CR Assessment, prior to government support, is positioned three notches above the Adjusted BCA of baa3, based on the cushion against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

## Rating Methodology and Scorecard Factors

Exhibit 3

### LeasePlan Corporation N.V.

#### Macro Factors

**Weighted Macro Profile**                      **Strong +**    **100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.4%	aa1	← →	a2	Non lending credit risk	Quality of assets
Capital						
TCE / RWA	18.8%	aa2	← →	a1	Risk-weighted capitalisation	Nominal leverage
Profitability						
Net Income / Tangible Assets	2.0%	aa2	↓	aa3	Earnings quality	
Combined Solvency Score		aa2		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	51.3%	b3	← →	b3	Extent of market funding reliance	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	10.0%	ba2	← →	ba1	Access to committed facilities	Quality of liquid assets
Combined Liquidity Score		b1		b1		
Financial Profile						
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				-1		
Total Qualitative Adjustments				-2		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				baa2-ba1		
Assigned BCA				baa3		
Affiliate Support notching				0		
Adjusted BCA				baa3		

Balance Sheet	in-scope (EUR million)	% in-scope	at-failure (EUR million)	% at-failure
Other liabilities	12,679	51.0%	13,094	52.7%
Deposits	5,930	23.9%	5,515	22.2%
Preferred deposits	5,337	21.5%	5,070	20.4%
Junior Deposits	593	2.4%	445	1.8%
Senior unsecured bank debt	5,494	22.1%	5,494	22.1%
Equity	745	3.0%	745	3.0%
Total Tangible Banking Assets	24,848	100%	24,848	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Assessment	26.9%	26.9%	26.9%	26.9%	3	3	3	3	0	a3 (cr)
Deposits	26.9%	3.0%	26.9%	25.1%	2	3	2	2	0	baa1
Senior unsecured bank debt	26.9%	3.0%	25.1%	3.0%	2	2	2	2	0	baa1

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Deposits	2	0	baa1	0	Baa1	--
Senior unsecured bank debt	2	0	baa1	0	Baa1	Baa1

Source: Moody's Financial Metrics

## Ratings

Exhibit 4

Category [Moody's Rating](#)

### LEASEPLAN CORPORATION N.V.

Outlook	Stable
Bank Deposits -Dom Curr	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Bkd Commercial Paper	P-2
Other Short Term	(P)P-2

### PARENT: LINCOLN FINANCE LIMITED

Outlook	Stable
Senior Secured	B1

### LEASEPLAN FINANCE N.V. (DUBLIN BRANCH)

Outlook	Stable
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Bkd Sr Unsec MTN -Dom Curr	(P)Baa1
Bkd Commercial Paper	P-2
Bkd Other Short Term -Dom Curr	(P)P-2

### LEASEPLAN AUSTRALIA LIMITED

Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)Baa1
Bkd Commercial Paper	P-2
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

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