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CREDIT OPINION
20 February 2018

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.

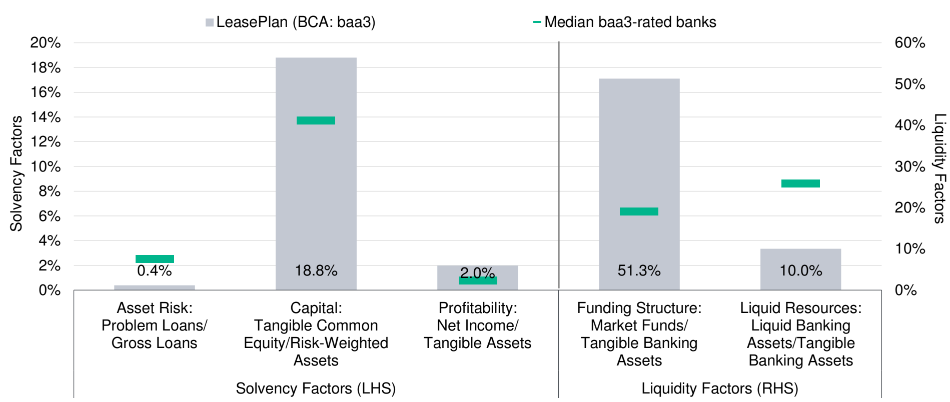
Update to credit analysis - Semiannual update

Summary

LeasePlan Corporation N.V.'s (LeasePlan) long-term senior unsecured debt and deposit ratings are Baa1. The outlook on these ratings is 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 (CR) assessments are A3(cr)/Prime-2(cr).

LeasePlan's BCA of baa3 reflects the company's strong franchise in fleet management, which benefits from 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 to a single carmaker, which gives it higher business flexibility. The BCA also reflects the effective management of the company's material residual value risk, which is inherent to its business. Conversely, the company's significant reliance on wholesale funding is a rating constraint, despite diversified funding sources and an adequate liquidity profile. LeasePlan is now owned by a consortium of pension funds, sovereign wealth funds and private equity funds, which may constrain earnings retention and capital accretion going forward, as the owners have little incentive to leave significant buffers above the minimum regulatory capital ratios.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

LeasePlan's long-term deposit and senior unsecured debt ratings of Baa1 reflect (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 debtholders 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 debtholders 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

» The fleet management business provides the company with relatively more resilient earnings than those of other auto financing companies.

» The sound management of residual value risk and strong capital buffers substantially mitigate the risk of material losses occurring on terminated contracts.

» Strong asset-quality metrics reflect diversified credit-risk exposures.

» The operating environment is relatively benign across a range of diverse countries.

» Large volume of senior unsecured long-term debt results in debt and deposit ratings benefiting from a very low loss given failure rate, which translates into a two-notch uplift from the BCA.

Credit challenges

» Profits from used vehicle sales will progressively decrease to normalised levels

» Structural reliance on wholesale funding remains a credit weakness, although mitigated by the company's matched funding profile, existing standby liquidity facilities and increased funding diversity.

» Earnings retention and capital accretion may be constrained going forward, as the owners have little incentive to leave significant buffers above the minimum regulatory capital ratios, hence reducing financial flexibility in case of unexpected shocks.

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, considering that the owners are private equity investors who 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 an interest reserve account) diminishes owing to (1) a deterioration in LeasePlan's net results, or (2) a diminution of LeasePlan's capacity to upstream dividends because of tighter regulatory constraints. We do not expect an upgrade of the notes in the foreseeable future, considering the capacity of the shareholders to upstream cash and 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 in the bank's liquidity and funding profiles, resulting from increased reliance on wholesale funding or worse-than-expected liquidity gaps; or (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 the debt loss-absorption capacity, resulting in higher loss given failure for one or more instrument classes.

Key indicators

Exhibit 2

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

	9-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (EUR million)	24,479	23,709	21,327	19,552	19,029	6.9[5]
Total Assets (USD million)	28,939	25,007	23,167	23,660	26,221	2.7[5]
Tangible Common Equity (EUR million)	3,040	2,906	2,908	2,687	2,433	6.1[5]
Tangible Common Equity (USD million)	3,594	3,065	3,159	3,252	3,353	1.9[5]
Problem Loans / Gross Loans (%)	-	0.2	0.5	0.6	0.6	0.5[6]
Tangible Common Equity / Risk Weighted Assets (%)	-	18.8	20.8	20.7	17.6	20.1[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	-	1.3	3.2	3.3	3.5	2.8[6]
Net Interest Margin (%)	2.1	2.1	2.5	2.3	2.1	2.2[6]
PPI / Average RWA (%)	-	3.9	4.6	4.0	3.2	4.2[7]
Net Income / Tangible Assets (%)	2.2	1.8	2.1	1.9	1.7	2.0[6]
Cost / Income Ratio (%)	56.0	64.0	59.1	61.4	63.5	60.8[6]
Market Funds / Tangible Banking Assets (%)	50.2	51.3	48.3	49.9	51.0	50.1[6]
Liquid Banking Assets / Tangible Banking Assets (%)	12.3	10.0	9.3	11.3	12.8	11.1[6]
Gross Loans / Due to Customers (%)	329.7	366.7	353.1	370.1	360.9	356.1[6]

[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

Profile

LeasePlan Corporation N.V. (LeasePlan) is a fleet and vehicle management company based in the Netherlands. As of 30 September 2017, it reported a consolidated asset base of €24.5 billion. With operations in 32 countries, the company managed a total of 1.725 million vehicles, mainly through operating leases, as of 30 September 2017. Since 1993, the company has held a banking licence in the Netherlands and it now operates a savings bank in the Netherlands and in Germany. It is supervised by the Dutch central bank. On 21 March 2016, LeasePlan was acquired by a consortium of private equity investors.

Please read LeasePlan's issuer profile for more information.

Detailed credit considerations

The 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 1.725 million cars under management in 32 countries as of end-September 2017. 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 companies in Germany and France. Despite the subdued operating environment in many European economies, LeasePlan continues to report strong profitability, reflecting the moderate sensitivity of its business profile to economic cycles.

Overall, LeasePlan's profitability is strong and has been resilient in recent years, as illustrated by the regular increase in its reported net profit since 2009. In the first nine months of 2017, the company reported an underlying net result (that is, when excluding exceptional items) of €430.5 million, a 19.2% increase from the year-earlier period. The favourable funding environment also contributes to the strong net interest margin and net profit. The current profitability levels is particularly strong and in part buoyed by strong profits on used vehicle sales, which is not necessarily fully sustainable over the long term because the recent improvements are at least partly owed to contracts that were originated with unusually low residual value expectations between 2009 and 2014.

Nonetheless, we expect LeasePlan to continue to report high and resilient earnings, which is supportive of its BCA. A number of initiative taken by LeasePlan will support profitability over time. LeasePlan is launching a digital marketplace, CarNext.com, that enables individual and professional customers to buy or lease high-quality used cars in Europe. This new business will allow LeasePlan to capture added value when selling its cars or leasing second-hand cars instead of leaving part of the value to car dealers. In addition, LeasePlan continues to deliver on its operational efficiency programme called “The Power of One LeasePlan”, targeting €370 million of profit before tax increase versus 2016 in the medium term.

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 other auto finance companies, and its net interest income accounts for less than a third of its total revenue. 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 the risk of material losses

Residual value risk is among the most important risks that LeasePlan is facing. This risk arises from the uncertainty, when underwriting lease contracts, surrounding the future market value of vehicles on 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 (that is, 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 of 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 the depressed market prices for used cars. For each new lease contract, LeasePlan sets the net book value at termination (that is, 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 the contract's parameters, and selling the vehicles in countries where second-hand car market prices are more favourable.

The measures initiated in 2009 have contributed towards restoring revenue 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 a 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 (CET1) capital.

In addition, LeasePlan expects the profits on used vehicle sales to follow a predictable normalisation from exceptional levels generated on cars leased in the dislocated market that followed the global financial crisis. Indeed, the current high profits made on residual values are linked to contracts that were originated with unusually low residual value expectations due to the depressed second-hand car market between 2009 and 2014, an advantage that will progressively disappear as leases have an average life of only 3-4 years.

We believe earnings retention and capital accretion may be constrained because 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 create a relatively strong ring-fence for LeasePlan's credit profile.

As a result, we believe LeasePlan's solvency and liquidity will remain satisfactory against the risks undertaken in the auto leasing business. The planned dividend payout ratio of 60%, although above the historical average, should allow LeasePlan's CET1 ratio to stay relatively elevated. The bank's CET1 ratio was 18.4% as of September 2017. In addition, LeasePlan's funding and liquidity profiles have not been significantly altered as a result of the change in ownership. The bank has notably replaced the €1.25 billion Volkswagen liquidity facility with a bank line of similar amount and characteristics.

Strong asset-quality metrics reflect diversified credit-risk exposures

LeasePlan's asset quality remains strong because the company has so far experienced subdued credit losses arising from lease contracts. The company has historically registered a very low level of problem loans because of its focus on large international corporate clients with traditionally lower default rates. In addition, losses in case of default were modest at around 28% through the cycle, owing to the value of used cars on the second-hand car market.

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, 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 lower exposure to small and medium-sized enterprises, which we regard as individually more risky.

Structural reliance on wholesale funding remains a credit weakness, although 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 of the funding, and the potential for unexpected changes in the 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 accounted for almost a third of its total funding or €5.9 billion as of the end of September 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 around half of this funding is in term savings, although mainly with remaining maturities of less than one year (estimated as of the end of September 2017).

LeasePlan's ability to withstand funding market disruption relies on the availability of committed undrawn liquidity lines, which are critical elements of the issuer's contingency funding plan. In November 2017, LeasePlan has replaced its two €1.25 billion committed revolving credit facilities (RCFs) with one single 5-year RCF of €1.5 billion. Although the size of the liquidity lines has been reduced, the company would still be able to maintain a positive liquidity position over the next nine months on unchanged business as its approach to liquidity risk has not changed. However, we believe LeasePlan would need to undergo a decline in business to withstand a longer period of stress of up to 24 months, which is our standard assumption for other similarly rated auto finance and leasing companies. LeasePlan's outstanding business franchise relies on long-standing relationships with large international corporates and would likely be materially impaired if the company experienced pressure to restrain business volumes.

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 of Strong+ is one notch above the broader European Union average Macro Profile of Strong.

Overall, our assigned BCA is baa3, two notches below the unadjusted financial profile of baa1. This is owing to our negative one-notch adjustment for business diversification, as with other similar monoline issuers, as well as our negative one-notch adjustment for corporate behaviour in reflection of LeasePlan's owners, who could weigh on the strategic and financial decisions of the bank. We believe that earnings retention and capital accretion may be constrained going forward, as the owners have little incentive to leave significant buffers above the minimum regulatory capital ratios, hence reducing financial flexibility in case of unexpected shocks. In addition, although the owners are expected to preserve the strategic and operating independence of LeasePlan, Lincoln's debt burden may in time lead to changes in the company's direction and risk profile.

Support and structural considerations

Loss Given Failure analysis

LeasePlan is subject to the European Union Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. We assume residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and a proportion of 10% of deposits considered junior, and assign a 25% probability to deposits being preferred to senior unsecured debt.

We believe that LeasePlan's deposits and senior unsecured debt are likely to benefit from very low loss given failure, owing to the loss absorption provided by (1) the large amount of senior unsecured debt should deposits be treated preferentially in resolution, and (2) a small volume of deposits, leading us to assign a two-notch uplift above the Adjusted BCA.

Government support

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

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps) letters of credit, guarantees and liquidity facilities.

LeasePlan's 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 buffer 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				baa1		
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
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3 (cr)	--
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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