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CREDIT OPINION
27 August 2019

Update

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RATINGS

LeasePlan Corporation N.V.

Domicile	Amsterdam, Netherlands
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
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

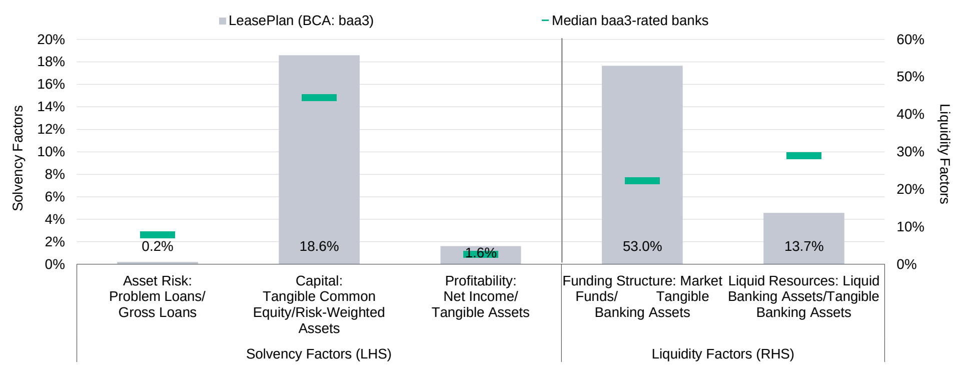
Summary

LeasePlan Corporation N.V.'s (LeasePlan) 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 incur in a resolution scenario, 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.

The baa3 BCA reflects the company's strong franchise in fleet management, which benefits from stronger geographical and customer diversification as well as more resilient profitability than other auto finance companies. Moreover, contrary to automotive 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, as the owners have little incentive to leave significant buffers above the minimum regulatory capital ratios. We apply one-notch negative qualitative adjustment for corporate behaviour to reflect LeasePlan's ownership, which could weigh on the strategic and financial decisions of the bank. We also apply a negative one-notch adjustment for business diversification, similarly to other similar monoline issuers.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » The fleet management business provides the company with more resilient earnings than those of other auto financing companies.
- » The sound management of residual value risk mitigates the risk of material losses occurring on terminated contracts.
- » Strong asset-quality metrics reflect diversified credit-risk exposures and relatively benign operating environment 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

- » 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.
- » Despite its strong geographical diversification, LeasePlan has a monoline business model.
- » Although mitigated by high regulatory capital requirements, earnings retention and capital accretion may be constrained, as the owners have little incentive to build significant buffers above the minimum regulatory capital ratios, hence reducing financial flexibility in case of unexpected shocks.

Outlook

LeasePlan's long-term debt and deposit ratings carry stable outlooks, reflecting our expectation that there will be no significant changes in the bank's fundamentals nor in its liability structure that could affect the ratings over the outlook horizon.

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

- » 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) an 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 result in a downgrade of the bank's long-term ratings.
- » The ratings could also be downgraded if there were 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]

	12-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	27,181.2	25,061.6	23,637.9	21,263.8	19,552.5	8.6[4]
Total Assets (USD Million)	31,072.1	30,093.9	24,932.1	23,098.7	23,659.5	7.1[4]
Tangible Common Equity (EUR Million)	3,083.8	3,085.9	2,925.2	2,907.6	2,687.2	3.5[4]
Tangible Common Equity (USD Million)	3,525.3	3,705.5	3,085.3	3,158.6	3,251.7	2.0[4]
Problem Loans / Gross Loans (%)	0.1	0.2	0.2	0.5	0.6	0.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.6	19.6	18.9	20.8	20.7	19.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	1.0	1.0	1.3	3.2	3.3	1.9[5]
Net Interest Margin (%)	2.0	2.0	2.1	2.5	2.3	2.2[5]
PPI / Average RWA (%)	3.4	3.9	3.6	4.6	4.0	3.9[6]
Net Income / Tangible Assets (%)	1.6	1.9	1.8	2.1	1.9	1.9[5]
Cost / Income Ratio (%)	63.0	61.9	65.6	59.4	61.4	62.3[5]
Market Funds / Tangible Banking Assets (%)	53.0	50.8	51.1	48.2	49.9	50.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.7	11.6	10.0	9.4	11.3	11.2[5]
Gross Loans / Due to Customers (%)	328.1	335.6	356.0	353.1	370.1	348.6[5]

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

Source: Moody's Investors Service; Company Filings

Profile

LeasePlan Corporation N.V. (LeasePlan) is a fleet and vehicle management company based in the Netherlands. As of the end of December 2018, it reported consolidated assets of €27.3 billion. With operations in over 30 countries, the company managed a total of 1.8 million vehicles, mainly through operating leases, as of year-end 2018. Since 1993, the company has held a banking licence in the Netherlands and 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.

The company provides an end-to-end service through its Car-as-a-Service (CaaS) business, typically for a duration of three to four years. The CaaS business includes, among others, purchasing services, fleet management services, financing services, maintenance management services and insurance and damage handling services. LeasePlan is a global market leader in the CaaS market. The company also sells or releases the vehicles that are coming off contract through its used car business. In this regard, LeasePlan launched in 2017 an online marketplace dubbed CarNext.com that allows customers to buy, lease or subscribe to any used vehicle.

Please read LeasePlan's issuer profile for more information.

Detailed credit considerations

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

LeasePlan's global franchise is a key credit strength, reflecting the company's worldwide leading position in fleet management, with 1.8 million cars under management in over 30 countries as of year-end 2018. LeasePlan is also the biggest reseller of three-to-four-year-old used cars in Europe. This dominant position in several key markets provides geographical diversification to its business. In 2018, the company (1) had a leading position in the Netherlands, Czech Republic, Greece, Ireland, Norway, Poland, Portugal, Romania, Slovakia and Sweden; (2) was one of the top three car leasing companies in Austria, Belgium, Denmark, Finland, Germany, Hungary, Italy, Luxembourg, Russia, the UK, Spain and Switzerland (3) was one of the top five companies in France and Turkey[1]. We believe that LeasePlan's business profile has a moderate sensitivity to economic cycles

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 a bit more diversified than that of other auto finance companies, and its operating lease and financial lease interest income accounted for around 40% of its revenue[2] in 2018. Furthermore, as a leading global fleet manager, LeasePlan has the capacity to generate large rebates and bonuses from its suppliers or service providers.

A number of initiatives were taken by LeasePlan to support profitability over time. In 2017, LeasePlan launched a digital marketplace, CarNext.com, which enables individual and professional customers to buy or lease high-quality used cars in Europe. This business allows LeasePlan to capture added value when selling its cars or leasing secondhand cars instead of leaving part of the value to car dealers. Going forward, the company intends to operate CarNext.com as a distinct business unit within the LeasePlan group as it is currently exploring strategic alternatives for the business, although no final decision has been reached.

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 2018, the company reported a net result of €424 million, a 9% decrease from 2017, driven primarily by impairments in Turkey (€103 million pretax) following the depreciation of the local currency in the summer[3], as well as in Germany, relating to a number of loss-making contracts (€29 million pretax)[4].

Appropriate management of residual value risk mitigates the risk of material losses

Residual value risk is among the most important risks that LeasePlan is facing. This risk arises from the uncertainty surrounding the future market value of vehicles on expiry of the lease contract. 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 in the secondhand car market) because of changes in local taxation, economic conditions or market developments, 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 from aa2.

In response to a significant drop in market prices that arose in the secondhand car market since 2009, LeasePlan has significantly strengthened its management and procedures on residual values. For each new lease contract, LeasePlan sets the net book value at termination (that is, the residual value), accounting for (1) the current secondhand 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 excessive 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 secondhand car market prices are more favourable. The aforementioned CarNext.com digital market place also contributes to the optimisation of the sale of used cars.

However, LeasePlan's nominal residual value exposure remains high — above 400% of its Common Equity Tier 1 (CET1) capital as of year-end 2018.

In addition, LeasePlan expects the profit on the sale of used vehicles to normalize from the high levels reported over the past few years. Indeed, the high profit made on residual values was linked to contracts that were originated with unusually low residual value expectations because of the depressed secondhand car market between 2009 and 2014, an advantage that will progressively disappear as leases have an average life of only three to four years. In 2018, the net result on disposal of vehicles fell to a loss of €14 million from a profit of €41 million in 2017.

We believe earnings retention and capital accretion may be constrained because LeasePlan's owners have little incentive to leave significant buffers above the minimum regulatory capital ratios, hence reducing financial flexibility in case of unexpected shocks. Furthermore, the debt burden incurred at the level of Lincoln Financing S.a.r.l (senior secured notes B1, stable), the issuer of high yield bonds which financed the acquisition of LeasePlan by the current shareholders, 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 will remain satisfactory against the risks undertaken in the auto leasing business. The dividend payout ratio of 60% for 2018 should allow LeasePlan's CET1 ratio to remain at a high level. The bank's CET1 ratio was 18.3%[5] as of year-end 2018. Following the Supervisory Review and Evaluation Process (SREP) by the Dutch central bank (DNB), LeasePlan’s minimum regulatory capital requirements for 2019 are 12.7% for the CET1 capital ratio[6] and 16.2% for the total SREP capital requirement. In addition, in May 2019 the bank issued for the first time €500 million of Additional Tier 1 securities, which will further strengthen Leaseplan's capital position.

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. The problem loan ratio at year-end 2018 was 0.14%.

In terms of concentration, LeasePlan's top 20 group exposures are sizeable, relative to its Tier 1 capital (around 80%). This is, however, mitigated by 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 riskier.

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 €6.4 billion as of year-end 2018. 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 40% of this funding is made up of term savings, although mainly with remaining maturities of less than one year.

LeasePlan's ability to withstand funding market disruption relies on the availability of committed undrawn liquidity lines (€1.5 billion as of year-end 2018) and a liquidity buffer of €5 billion as of year-end 2018, allowing it to maintain a positive liquidity position over the next nine months on unchanged business. 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 the standard stress test we apply to other 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 volume.

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 at the same level as the broader European Union average Macro Profile.

Overall, our assigned BCA is baa3, two notches below the unadjusted financial profile of baa1. We apply a negative one-notch adjustment for business diversification, similarly to other similar monoline issuers, as well as another one-notch negative adjustment for corporate behaviour to reflect LeasePlan's ownership, which could weigh on the strategic and financial decisions of the bank. We believe that earnings retention and capital accretion may be constrained, 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.

Rating methodology and scorecard factors

Exhibit 3

LeasePlan Corporation N.V.

Macro Factors							
Weighted Macro Profile	**Strong**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.2%	aa2	←→	a2	Non lending credit risk	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	18.6%	aa2	←→	a1	Risk-weighted capitalisation	Capital retention
Profitability						
Net Income / Tangible Assets	1.6%	a2	←→	a1	Expected trend	
Combined Solvency Score		aa3		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	53.0%	b3	←→	b3	Extent of market funding reliance	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	13.7%	ba1	←→	ba1	Access to committed facilities	Quality of liquid assets
Combined Liquidity Score		b1		b1		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
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	13,288	49.4%	13,742	51.1%
Deposits	6,490	24.1%	6,036	22.4%
Preferred deposits	5,841	21.7%	5,549	20.6%
Junior deposits	649	2.4%	487	1.8%
Senior unsecured bank debt	6,320	23.5%	6,320	23.5%
Equity	807	3.0%	807	3.0%
Total Tangible Banking Assets	26,905	100.0%	26,905	100.0%

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 Rating	28.3%	28.3%	28.3%	28.3%	3	3	3	3	0	a3
Counterparty Risk Assessment	28.3%	28.3%	28.3%	28.3%	3	3	3	3	0	a3 (cr)
Deposits	28.3%	3.0%	28.3%	26.5%	2	3	2	2	0	baa1
Senior unsecured bank debt	28.3%	3.0%	26.5%	3.0%	2	2	2	2	0	baa1
Non-cumulative bank preference shares	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-1	-2	ba3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
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
Non-cumulative bank preference shares	-1	-2	ba3	0	Ba3 (hyb)	

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
LEASEPLAN CORPORATION N.V.	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
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
Pref. Stock Non-cumulative -Dom Curr	Ba3 (hyb)
Bkd Commercial Paper	P-2
Other Short Term	(P)P-2
LEASEPLAN FINANCE N.V. (DUBLIN BRANCH)	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Bkd Commercial Paper	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

Endnotes

1 Estimate based on data as of end December 2017

2 Versus 75% typically for captive auto loan companies.

3 Indeed, Leaseplan has transactional foreign-exchange exposure related to its lease contracts in Turkey because of the fact that until recently lease contracts were typically euro-denominated, whereas vehicles at the end of the contract are sold in Turkish lira. The depreciation of the local currency depressed the euro prices of the used cars. The bulk of this impairment was booked in Q3 2018.

4 These were related to pressure on residual values due to tighter competition in the secondhand car market

5 Subject to the Dutch central bank's approval.

6 Composed of 4.5% of Pillar 1 requirement, 5.5% Pillar 2 requirement, 2.5% capital conservation buffer and 0.2% of countercyclical buffer

REPORT NUMBER 1187933

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