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LeasePlan Corporation N.V.

Primary Credit Analyst:
Nicolas Hardy, Paris (33) 1-4420-7318; nicolas.hardy@spglobal.com

Secondary Contact:
Letizia Conversano, Dublin 353 1 568 0615; letizia.conversano@spglobal.com

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LeasePlan Corporation N.V.

SACP	bbb-	+	Support	0	+	Additional Factors	0

Anchor	bbb+	
Business Position	Moderate	-1
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Below Average	-1
Liquidity	Adequate	

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

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Strong operating revenue generation and robust capitalization • Leading global position in commercial auto fleet leasing • Regulated status as a bank	• Substantial double leverage risk at the holding level • Concentrated business focus with a material exposure to residual value risk • A predominantly wholesale funding profile

Outlook: LeasePlan

The stable outlook on LeasePlan reflects S&P Global Ratings' view that the bank's ongoing growth strategy and strong pricing power will continue to support its earnings capacity and capital building. This could help reduce the high double leverage at the level of LeasePlan's ultimate holding company. Still, we expect the amount of debt at the intermediate holding companies (holdcos) level will continue constraining the ratings on LeasePlan, whose cash flows are used to service this holdco debt. We also expect LeasePlan's credit risk metrics will remain broadly supportive of the rating. We further expect that the postponement of the IPO announced in October 2018 will not result in a more aggressive financial policy or risk appetite.

Downside scenario

We could lower our ratings if LeasePlan's operating performance deteriorates significantly because of declining residual values, which could strain the bank's ability to generate earnings and reduce double leverage. We could also lower the ratings if LeasePlan's capital position weakens. This could result from acquisitive growth entailing increased leverage, or a material upstreaming of dividends to the group's ultimate private equity owners.

Upside scenario

The likelihood of an upgrade during our outlook period is remote in our view, as long as double leverage remains elevated. It stood close to 190% at June 30, 2019. We could raise our ratings on LeasePlan in the next 24 months if, combined with a a material reduction of double leverage and a prolonged track record of low residual value risks, we continue to observe stable risk appetite, satisfactory profitability, a strengthening balance sheet, and financial capacity to service debt obligations higher up in the group structure.

Outlook: Lincoln Financing Holdings (LFHP)

The stable outlook on LFHP (one of the holdcos, at the top of the structure) reflects our view that double leverage will remain elevated in the next 12 months, absent any specific management action to redeem a material amount of the debt issued at intermediate holding companies. At the same time, we expect cash flows from the operating company to remain strong and debt maturities to be long, so we do not anticipate deteriorating debt servicing capacity in the next two-to-three years.

Downside scenario

We could lower the ratings in the next 12 months if we observe double leverage increasing above 190%, for instance because total debt repayment risk is rising or debt-servicing capacity is falling. In such a scenario, we would likely enlarge the notching differential between the operating bank and this holding company.

Upside scenario

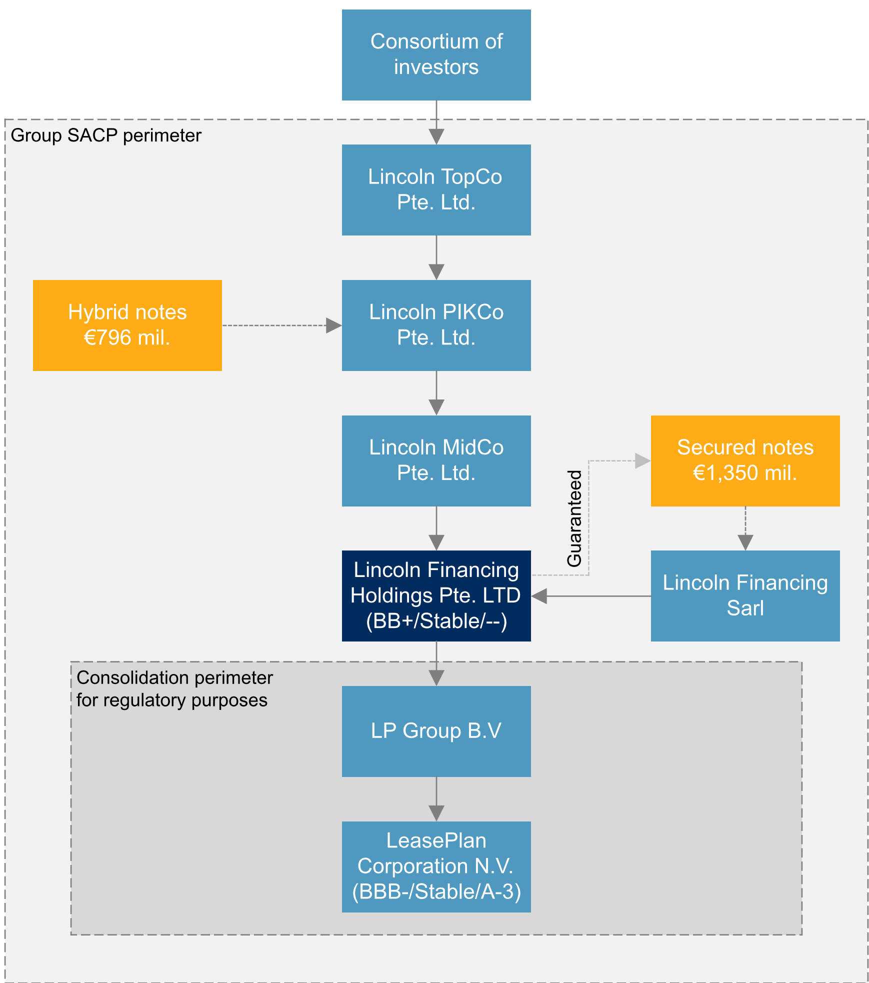
We consider an upgrade of LFHP unlikely in the next 12 months. An upgrade of the operating company would trigger a similar upgrade of the holding company only if double leverage reduces.

Rationale

Our ratings reflect LeasePlan's ability to extract resilient revenues from its leading global market position in the commercial auto fleet leasing sector, combined with a regulated status as a bank domiciled in the Netherlands, and a robust core capital base. LeasePlan benefits from a leading global franchise with a widespread presence in 32 countries, and a growth strategy that allows for economy of scale. Its leasing business reflects a sound diversification by clients, countries, and brands. We view the concentration on car leasing as a credit weakness compared the more diversified models of larger commercial banks but its business model has a proven stability and resilience to the cyclical performance of the automotive sector. The bank's capitalization is sound. We expect it to maintain a S&P Global Ratings-calculated risk-adjusted capital (RAC) ratio of about 10% over the two-to-three-year rating horizon. Good revenue generation balances the material double leverage risk, stemming from the substantial amount of debt issued at intermediate holding company levels, above LeasePlan, the operating company and main asset of the group. Debt instruments were issued in 2016 to finance the bank's acquisition by a consortium of international investors. LeasePlan needs to generate enough revenues to finance its own growth strategy and cash dividends upstream to service debt obligations higher in the group structure. Given the large amount of debt at holdco levels, we believe double leverage constrains LeasePlan's financial flexibility and our ratings. Residual value risk is another important rating driver. We view it as adequately managed but it represents a significant portion of the balance sheet. In our view, the bank relies more heavily than commercial banking peers on wholesale funding but maintains satisfactory liquidity buffers.

We assign our issuer credit rating (ICR) to LeasePlan by determining a group standalone credit profile (SACP) based on the wider consolidated group than LeasePlan, the regulated bank, is a part of (see chart 1). We therefore view the bank as a core entity of the group and equalize our ICR on LeasePlan with the 'bbb-' group SACP. We use this group approach because we believe that the debt instruments raised at intermediate holding levels above LeasePlan will essentially be serviced by the bank's cash flows.

Corporate And Financing Structure



SACP--Stand-alone credit profile.

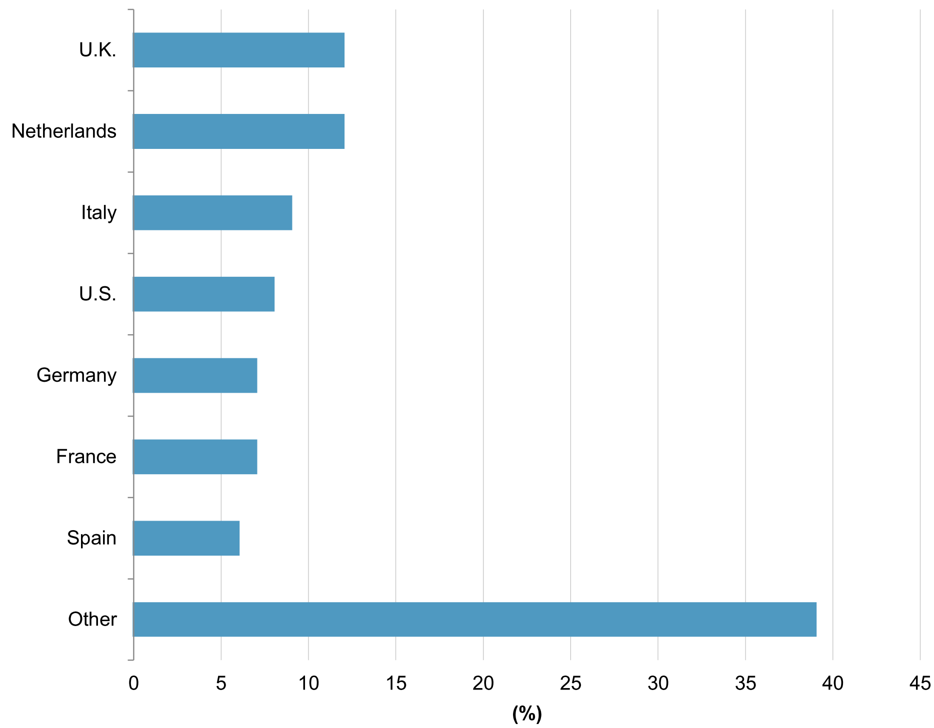
Anchor:'bbb+' for a bank with a geographically diversified portfolio

The starting point for our ratings on LeasePlan is the 'bbb+' anchor, which reflects the bank's geographically diversified profile and its regulated status in The Netherlands. We use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor. 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 the bank reflects 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 (see chart 2).

Chart 2

Geographical Breakdown Of LeasePlan's Funded Fleet



Data at end 2018. Source: LeasePlan.

Our assessment of industry risk reflects the characteristics of the banking system in which the bank is domiciled, namely the Netherlands. We view the Dutch banking system as concentrated and the competitive environment fairly stable, except in the mortgage lending segment. We consider the prospective profitability of domestic banking activities adequate. The system's relatively large reliance on wholesale funding is partially attributable to households' propensity to save via life insurance and pension products, rather than bank deposits. Dutch banks benefit from the depth of the capital markets where they operate.

Table 1

LeasePlan Corporation N.V.--Key Figures					
	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	30,590.3	27,003.5	24,956.3	23,612.6	21,244.0
Customer loans (gross)	22,195.4	21,140.2	20,006.7	19,385.0	17,661.9
Adjusted common equity	3,104.7	2,876.5	2,758.1	2,774.9	2,611.4
Operating revenues	1,189.8	1,486.2	1,585.2	1,537.3	1,528.6
Noninterest expenses	725.0	877.1	955.6	935.0	904.7
Core earnings	395.0	473.6	484.8	451.8	437.1

*Data as of Sept. 30.

Business position:Expanding activities under private equity ownership in a monoline business, with a demonstrated resilience to past downturns

LeasePlan is a leading global player in the commercial auto fleet leasing sector, managing about 1.9 million vehicles in 32 countries. Its international presence helps service large international clients. Given the importance of economy of scale in this sector, for instance to obtain favorable procurement conditions, the total number of vehicles is an important business indicator. It has very strong positions and pricing power in many of the 32 countries where it operates, boasting superior geographic diversification compared with most rated banks of its size.

LeasePlan's main sources of revenues include lease and additional servicers income. Noninterest income represents about two-thirds of total revenues, mainly via maintenance or fleet management fees, car sales at expiry, or insurance. We view the revenue streams as predictable by nature and adequately diversified. The typical rental period under these lease agreements is three-to-four years, which provide revenue stability.

We believe LeasePlan will continue to benefit from good prospects in markets where it operates and keep on expanding its revenue base. This is supported by the bank's continuing business diversification across the car leasing business. Along its main historical activities in lease services and fleet management (its Car-as-a-Service ecosystem), LeasePlan launched in late 2017 another line of activity, CarNext.com, which runs autonomously a digital platform selling used cars, either at end of its own leasing contracts, or from third parties.

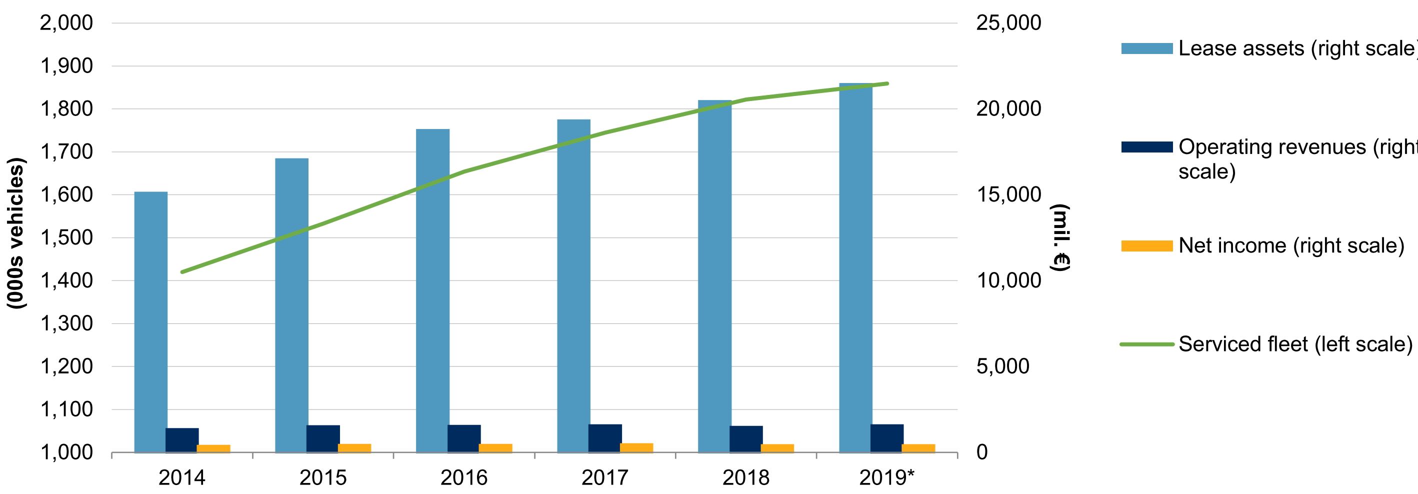
The bank's revenue diversification by country is more granular than most rated auto finance and leasing company peers. It operates in countries with different levels of sophistication maturities, and benefits from the global trend with customer switching from ownership to rental services. For a midsize bank, the quality of earnings is good, comparing well against its direct peer group. Revenue diversification adds a countercyclical element to LeasePlan's revenue profile, in particular when interest rates are low.

Growth prospects and the nature of the bank's revenue streams explain LeasePlan's strong operating performance historically, with a proven track record of profitability even through recent economic downturns. Indeed, LeasePlan displays high return on equity (ROE; 16.3% reported ROE on average during the past three years) while maintaining a robust capital base. It reflects, in our view, its good pricing power and the economy of scale allowed by an international franchise.

In the meantime, we believe LeasePlan's business model, like for other peers in this segment, is particularly sensitive to changing industry standards, technologies and customer preferences. We monitor for instance how the bank navigates away from diesel powered vehicles in European countries, given changing customer preferences, but limited alternative options for customers at the moment. LeasePlan reported that 73.5% of its fleet was made of diesel cars at year-end 2018 (76.4% at end 2017), mostly Euro VI, the latest European emission standards. In the meantime, electrical vehicles represented 2.1% of LP's fleet. LeasePlan has set a 100% target of zero emission for its fleet by 2030. The relatively near-term nature of lease contracts means that LeasePlan can theoretically manage a full transition and fleet renewal in a relatively short period, but adaptation to the existing model are needed to accompany changes in customer preference and maintain the economic value if its fleet, as price of diesel vehicles might suffer as environmental norms evolve.

Chart 3

LeasePlan Corporation N.V.--Key Performance Metrics



*Annualized based on third-quarter 2019 figures.

Private equity ownership. LeasePlan Corp. N.V. has a banking license and also operates LeasePlan Bank, an online-only Dutch savings bank. It is regulated as a financial institution by the Dutch Central Bank and the Dutch financial market authority. The balance sheet keeps growing, having exceeded €30 billion, which is the threshold set by the European Central Bank to determine whether a bank is considered significant, and therefore falls under its direct supervision. We expect this shift in terms of responsible supervisor to happen smoothly in the coming quarters, without triggering a change to the regulatory framework under which the bank operates. LeasePlan's status is a specificity compared with its direct peers, including U.S. based Wheels or France-based ALD (although ALD is part of the banking group Société Générale). It allows LeasePlan to access a diversified base of refinancing sources, including retail deposits; but entails more operating constraints, namely regulatory requirements (capital, funding and liquidity) which we view positively from a credit risk standpoint. Regulatory costs also inflate the cost base, especially compared to nonbank direct peers, but we observe that LeasePlan can absorb this extra cost.

Another important company-specific business model is its independent status compared with autocaptive banks owned by car manufacturers. Indeed, LeasePlan was acquired in 2016, with the approval of regulatory authorities, by a consortium of international investors from a joint venture including Volkswagen. We understand that the current investor base is diversified, including private equity investors, a sovereign wealth fund and pension funds (see table 2) and that none of them has control on the group. The respective shares of ownership are not disclosed.

Table 2

Nature Of LeasePlan's Shareholders	
Abu Dhabi Investment Authority	Sovereign wealth fund, investing on behalf of the government of Abu Dhabi.
ATP	Danish pension fund.
Broad Street Investments	A Singapore based holding company.
GIC	Global investment firm managing Singapor's foreign reserves.
PGGM	Cooperative Dutch pension fund service provider.
TDR Capital	Private equity investor.

Source: LeasePlan annual report, 2018.

Given the ownership's private equity nature, we are monitoring the evolution of the group's strategy, management, and governance. The consideration paid for LeasePlan's acquisition in 2016 amounted to about €3.5 billion. It was partially financed through a cash equity contribution of about €1.8 billion provided by the consortium, and the remaining through instruments issued by intermediate holding companies, hence creating high double leverage. In September 2018, LeasePlan announced that the consortium was considering an IPO. This project was cancelled in October 2018 due to unfavorable market conditions. For the moment, we are not aware whether an IPO will be contemplated any time soon. An IPO by itself would have no rating impact but we believe that such an event could trigger a revision of the group financial profile. In the meantime, we monitor to what extent, given the nature of the shareholder base, a renewed focus on value creation could be detrimental to the bank's credit standing, for instance in case of changes to its business or geographical perimeter. Regulatory oversight is an important mitigating factor in our view. We note management's intention to better segregate CarNext.com's activities and disclosures and explore strategic options for this endeavor, including a full or partial separation from the group.

The composition of the managing board has changed widely during the past 14 months with the departure of four members. We understand that the structure of this governance body is under review, and the strategic finance function is now part of the responsibilities of the CFO, which will also oversee the risk function in the interim period. Changes of this nature are also typically under regulatory oversight. We don't think that these changes signal a change of the bank's risk appetite, but we will monitor them closely. We also don't expect that the end state governance structure would be different from current market practice in the Netherlands.

Table 3

LeasePlan Corporation N.V.--Business Position					
	--Fiscal year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (mil. €)	1,189.8	1,486.3	1,590.3	1576.4	1535.9
Commercial banking/total revenues from business line	81.7	81.9	85.0	87.2	88
Insurance activities/total revenues from business line	18.3	18.1	15.0	12.8	12

Table 3

LeasePlan Corporation N.V.--Business Position (cont.)					
	--Fiscal year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Return on average common equity	11.2	12.9	14.8	13.8	15

*Data as of Sept. 30.

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

We believe LeasePlan will maintain a robust capital position, thanks to resilient revenue generation; the strengthening of core capital with issuance in May 2019 of a €500 million additional tier 1 (AT1) capital instrument, which qualifies for an intermediate equity content under our hybrid capital methodology; and a predictable and conservative dividend policy. We factor the specificities of the capital structure outside of the regulated banking group into our ratings through our risk position assessment.

The bank's common equity tier 1 (CET1) ratio stood at 17.8% and the Tier 1 ratio at a high 20.6% as of Sept. 30, 2019. Our RAC metric stood at 9.2% at year-end 2018, which we measure at the level of the consolidated regulated group (LeasePlan and its immediate holding company only). The ratio would have been close to 10.8% pro forma the May 2019 AT1 issuance. The gap between our projected RAC ratio and the CET1 ratio mainly reflects the higher risk weights we apply to LeasePlan's large residual value exposures. We expect our projected RAC ratio to remain in the 9.75%-10.25% range in the next two years, assuming the following:

- Steady growth in credit risk-weighted assets the bank's the next two years, reflecting organic growth in LeasePlan's lease portfolio and residual value growth from an expanding asset base;
- Resilient revenue growth and an increase of operating expenses to cater for business growth and digital transformation, leading to an annual net income of around €450 million in 2020-2021;
- Resilient asset quality indicators and adequate management of residual value risk. We expect marginal, if any, additional impairments on Turkish lease portfolio in 2019, and modest cost of risk (around 20 basis points in 2019-2020) due to the generally strong creditworthiness of the client base, mainly corporate entities; and
- A dividend payout ratio of 60% and no exceptional dividends. No final dividend was paid for 2018, to support growth.

Profits on disposal of vehicles have been high historically, thanks to higher resale values than expected during the most recent financial downturn. However, this trend is normalizing . This decline is partially offset by the increasing role of CarNext, its sales channel. Whereas revenue generation appears resilient, LeasePlan's bottom line performance has shown some volatility recently due to exceptional items. In 2018, LeasePlan made a €132 million pretax impairment charge in relation to its exposure to asset risks in Germany and Turkey. Then, in early 2019, it charged off €92 million with respect to its legacy IT system and other continuing investments in digitalization. This compares with a reported net result of €423.6 million for all of 2018 and €288 million for the first nine months of 2019.

As a regulated bank entity, LeasePlan is due to comply with a 10% CET1 ratio by end 2019 and 13.5% for the total supervisory and evaluation process capital ratio. These requirements exclude the combined buffer requirement (2.1% at end 2018), made of the capital conservation buffer and the countercyclical buffer requirements. Its leverage ratio stood at 10.3% at end 2018, well above the 3% regulatory minimum and we expect no major change. The quality of tier 1 capital is in line with peers, with the AT1 layer representing 15% of the S&P Global Ratings' total adjusted capital ratio.

Table 4

LeasePlan Corporation N.V.--Capital And Earnings

	--Fiscal year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	20.6	18.3	18.1	17.7	17.0
S&P RAC ratio before diversification	N.A.	9.2	9.5	10.9	11.3
S&P RAC ratio after diversification	N.A.	9.6	9.9	11.7	11.9
Adjusted common equity/total adjusted capital	86.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	23.2	24.8	21.9	29.0	30.7
Fee income/operating revenues	39.1	40.6	36.8	12.1	12.5
Noninterest expenses/operating revenues	60.9	59.0	60.3	60.8	59.2
Preprovision operating income/average assets	2.1	2.3	2.6	2.7	3.0
Core earnings/average managed assets	1.8	1.8	2.0	2.0	2.1

*Data as of Sept. 30. RAC--Risk-adjusted capital. N.A.--Not applicable.

Table 5

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 amd central banks	3,678.6	99.4	2.7	107.8	2.9
Of which regional governments and local authorities	71.0	33.1	46.6	10.1	14.2
Institutions and CCPs	437.4	219.2	50.1	130.2	29.8
Corporate	7,521.8	2,733.4	36.3	6,418.1	85.3
Retail	536.5	297.4	55.4	496.3	92.5
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	14,866.9	10,345.7	69.6	20,718.9	139.4
Total credit risk	27,041.4	13,695.1	50.6	27,871.3	103.1
Credit valuation adjustment					
Total credit valuation adjustment	--	14.2	--	0.0	--
Market risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0
Trading book market risk	--	398.0	--	597.0	--
Total market risk	--	398.0	--	597.0	--
Operational risk					
Total operational risk	--	1,515.0	--	2,689.3	--

Table 5

LeasePlan Corporation N.V.--Risk-Adjusted Capital Framework Data (cont.)					
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	16,572.8	--	31,157.5	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(1,257.2)	(4.0)
RWA after diversification	--	16,572.8	--	29,900.3	96.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,031.0	18.3	2,876.5	9.2
Capital ratio after adjustments‡		3,031.0	18.3	2,876.5	9.6

*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 2018', S&P Global Ratings.

Risk position:Double leverage is a risk, although residual value risk is well managed overall

We see two important rating-relevant sources of risks for LeasePlan: high double leverage risk (see table 6) due to the large amount of debt at intermediate holding levels, and the management of its material residual value risk.

Material double leverage constrains the ratings. Our double leverage calculation and materiality thresholds are detailed in table 6. The debt instruments issued in March 2019 at holding levels were intended to refinance the debt instruments issued in 2016 to finance the acquisition of LeasePlan. The latter were subsequently redeemed. Following this refinancing exercise, the total amount of debt issued has not materially changed since early 2016, whereas positively, the bank's profitability has increased. Still, because we assume that these instruments will essentially be serviced by the cash flows to be up streamed from LeasePlan, we view it as constraining the bank's financial flexibility. This is why, although we expect LeasePlan to maintain a supportive capital policy, our combined assessment of its capital, earnings, and risk position remains neutral for the rating. Assuming the bank's profitability remains broadly in line with the 2018 results, and it keeps a 60% pay-out ratio, we don't envisage additional pressure on our ratings on LeasePlan over the next two years. However, we believe the €796 million hybrid notes with capitalization of interest at 12% per year, might put additional liquidity pressure above the regulated perimeter. For the moment, we consider the bank's revenue generation sufficient to service debt in the near-to-medium term, and that there is no repayment risk in the next two years, given the very long maturity profile of debt instruments issued by the holding companies.

Table 6

Highlights Of S&P Global Ratings' Calculation Of Double Leverage
Our view on the materiality of double leverage is informed by several measures, in line with our group rating methodology.
In particular, we compare the group's investment in LeasePlan (in the numerator), its main asset, with the equity base of Lincoln Topco Pte. Ltd. (in the denominator), which is at the highest level in the group structure. At about 190% as of June 30, 2019, the corresponding ratio appears elevated versus our indicative materiality threshold of 120%.
We also consider the comparison between the nominal amount of double leverage in the group structure, and LeasePlan's net income. We estimate the nominal amount of double leverage stood at about €2.15 billion at mid-year 2019, following the issuance in March 2019 of €1.35 billion of senior secured notes (rated 'BB+'), and a €796 million hybrid notes (not rated). We note that the nominal amount of double leverage represents more than 4x LeasePlan's the bank's annualized net income, which is very high, given a 2x materiality threshold for this indicator.

A supportive track record of residual value risk management. 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. Despite its bank status, the main risk LeasePlan faces is not credit risk, but asset risk--the risk of a loss whenever the actual resale value of assets (leased cars) at termination of lease contracts appears to be materially lower than the expected value recorded at lease inception. Reported residual value amounted to €13.1 billion at Sept. 30, 2019 (€12.5 billion at Dec. 31, 2018), among the highest in proportion to total balance sheet compared to peers. We risk-weigh this amount as part of our risk-adjusted capital framework and we believe it is adequately captured.

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 the bank'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 evidenced in Turkey in 2018, as extreme volatility is difficult to capture in models.

By diversifying its exposure by car manufacturers, countries and clientele, and introducing risk mitigating techniques, residual value risk, which is intrinsically volatile, has been so far well managed. It manages the diversification of its fleet by industry sector, geographies, clientele (corporate, small and midsize enterprises, private individuals, and mobility providers), fleet type (mostly passenger vehicles), and brands. Mitigating factors to the risk of end of contract resale value fluctuations include charging for early termination, end-of-contract damages, or mileage variations. Exceptional events have, however, affected its performance. The diesel emissions fraud scandal has accelerated the depreciation of some diesel cars in the fleet. In the aftermath of the global financial crisis, the estimated recorded value of diesel cars proved to be more conservative than the actual evolution of market prices in the following years and LeasePlan has benefited from this trend.

Another asset risk has emerged during summer 2018 with the sudden and significant depreciation of the Turkish lira. This is because it was common market practice in Turkey to label regular lease contract payment in euro terms but record a sale value at end of contract in local currency. This risk was not hedged, a common market practice given the usual convergence of valuations in euro terms and resale prices due to high inflation. The legislative framework has been amended in Turkey and we understand that apart from Romania, where LeasePlan managed a small fleet, there is no other pockets of similar risk.

For 2018, the impairment amount was €132 million of which €103.5 million was for loss-making lease contracts in Turkey and €28.5 million impairment related to Germany because of a number of loss-making contracts. In first-half 2019, vehicles under operating lease contract were impaired for €15.2 million related to loss-making contracts in Austria and Poland.

About 75% of the managed fleet is in Europe (1.4 million vehicles for a total of 1.9 million), but this provides 90% of revenues. At end 2018, the U.K. represented the largest customer base with 12% of total funded book value. We monitor to what extent LeasePlan is sensitive to Brexit. We understand business risk are limited because it operates a local fleet--it does not constitute a hub for broader operations.

We view the bank's pure credit risk exposure as low. Credit risk stems from the potential inability of the lessor to make payment under its lease obligations. Its exposure to retail clients, which tends to display a more vulnerable credit profile, remains modest, below 5% of the fleet. LeasePlan benefits from the loyalty of a geographically diverse blue-chip corporate clientele with low single-name concentration, and high-sector diversification. With an historical cost of risk of 10-14 basis points and nonperforming loans at 0.3%-1.0% of the loan book on average over the past five years, it shows sound credit quality. We expect only a marginal deterioration in the cost of risk, toward 20 basis points, as the broad environment becomes somewhat less supportive. Nevertheless, in our view, the bank remains exposed to the potential lower business activity of its corporate clients.

Table 7

LeasePlan Corporation N.V.--Risk Position

	--Fiscal year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	6.66	5.67	3.21	9.80	12.30
Total diversification adjustment / S&P RWA before diversification	N.A.	(4.04)	(4.00)	(6.50)	(5.30)
Total managed assets/adjusted common equity (x)	9.92	9.48	9.12	8.60	8.20
New loan loss provisions/average customer loans	0.13	0.14	0.10	0.10	0.10
Gross nonperforming assets/customer loans	0.26	0.27	0.31	0.50	0.90
Loan loss reserves/gross nonperforming assets	83.58	72.82	60.42	43.00	58.60

*Data as of Sept. 30. RWA--Risk-weighted assets. N.A.--Not applicable.

Funding and liquidity:Wholesale funding profile with satisfactory liquidity buffer.

We consider LeasePlan's funding below average, given its reliance on wholesale funding; and its liquidity adequate owing to satisfactory liquidity buffers.

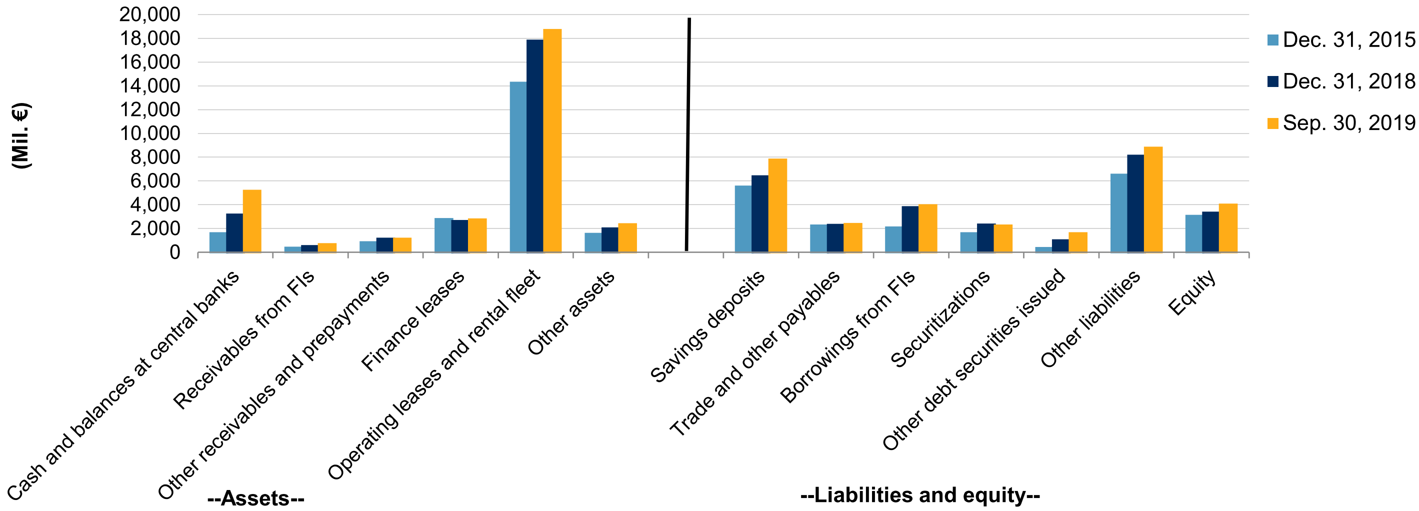
We see the bank's wholesale funding profile as a rating weakness. We believe that LeasePlan has a better funding profile than most auto finance companies we rate (excluding Volkswagen Bank and Volkswagen Financial Services), but that it remains a relative rating weakness compared with diversified banks.

LeasePlan Bank has operated in the Netherlands since 2010 and in Germany since 2015. 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 constituted 32% of the bank's funding base as of Dec. 31, 2018 and appear resilient, in our view. Deposits are from retail clients, including about half that are term deposits, with a cost now in line with peers, but a much higher average customer balance than a traditional retail bank. 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.

The stable funding ratio, 83.5% at year-end 2018, continues to improve gradually in line with deposit collection and lengthening of maturities.

Chart 4

LeasePlan Corporation N.V.--Balance-Sheet Structure



FI--Financial institutions.

LeasePlan manages its liquidity so that it could continue its business operations for at least nine months in the event that the financial markets come under stress, while still repaying its debt. In our view, the bank's ratio of broad liquid assets to short-term wholesale funding of 88% at year-end 2018 remains lower than what we observe for commercial banks but is also improving, reflecting the reduction of short-term wholesale debt when compared to available cash. This ratio does not capture LeasePlan's access to committed lines of credit. The bank's satisfactory liquidity buffer amounted to about €5 billion as of end 2018, comprising cash and other liquid assets, as well as one unused committed back-up facility. LeasePlan could also access European Central Bank funding if needed.

Table 8

LeasePlan Corporation N.V.--Funding And Liquidity

	--Fiscal year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	34.16	31.31	32.16	31.20	33.20
Customer loans (net)/customer deposits	278.87	325.08	332.68	353.00	345.40
Long term funding ratio	86.72	85.30	83.33	82.20	86.90
Stable funding ratio	N.A.	86.78	81.73	78.80	82.00
Short-term wholesale funding/funding base	15.47	16.88	19.39	20.80	15.50
Broad liquid assets/short-term wholesale funding (x)	N/A	1.02	0.77	0.60	0.80
Short-term wholesale funding/total wholesale funding	22.74	24.58	28.58	30.20	23.30
Narrow liquid assets/three-month wholesale funding (x)	N/A	3.12	3.08	2.40	4.20

*Data as of Sept. 30. N/A--Not applicable.

External support:Low systemic importance in the Netherlands.

We consider LeasePlan of low systemic importance in the Netherlands, given its limited domestic retail franchise. Since December 2015, we have regarded the prospect of extraordinary government support for Dutch banks as uncertain, in view of the country's well-advanced and effective resolution regime. We therefore believe that the bank might be declared bankrupt if regulators determined it to be nonviable. By contrast, we anticipate that the more systemically important Dutch banks would likely be subject to a well-defined bail-in resolution process. Where we see a credible plan for banks to build a substantial buffer of additional loss absorbing capacity methodology , we apply some uplift in the ICR. We do not currently do so for LeasePlan but we continue to monitor developments in this area. The counterparty credit rating is in line with the group SACP. Regulators might set a minimum requirement for eligible liabilities on LeasePlan, but we do not anticipate this in the coming two years.

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.

Ratings on hybrid notes

The 'B+' issue rating on the €500 million AT1 instrument issued by LeasePlan in May 2019 reflects our analysis of the proposed instrument and the 'BBB-' long-term issuer credit rating (ICR) on LeasePlan Corp. To derive the rating, we deducted four notches from the ICR, namely:

- One notch for subordination;
- A further two notches since coupon payments are discretionary and the notes will be eligible as regulatory Tier 1 capital; and
- One notch because the notes' documentation contains a contractual write-down clause if, at any time, the common equity tier 1 (CET1) ratio (regardless of whether solo-consolidated, sub-consolidated, or group) falls to or remains below 5.125%. We treat this mandatory trigger as a nonviability trigger and therefore don't apply additional notching.

The 'BB+' issue ratings on the secured notes issued by Lincoln Finance S.a.r.l. in March reflect the guarantee provided by LFHP. We therefore equalize the issue ratings on the notes with our 'BB+' ICRs on LFHP. Any rating action on LFHP would trigger a rating action on these notes.

We do not rate the €796 million hybrid notes issued in March 2019 by Lincoln Pikco Ltd.

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

LeasePlan represents most 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. We equalize the ICR on LeasePlan, as a core group entity, with the 'bbb-' group SACP.

Holding company rating

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

For the moment, we do not widen the rating gap between LFHP and LeasePlan. However, LFHP's liquid assets do not cover a material part of double leverage. Moreover, given the hybrid notes' capitalization of interest, double leverage will continue to increase, absent management's actions. In our base-case scenario, we expect stakeholders will take actions to address this situation in the coming quarters.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Dutch Bank LeasePlan Affirmed At 'BBB-/A-3' On Solid Capital Base And Resilient Revenues; Outlook Stable, Dec. 5, 2019
- LeasePlan Corporation's Proposed Additional Tier 1 Notes Assigned 'B+' Rating, May 17, 2019
- Dutch Bank LeasePlan Outlook Revised To Stable From Positive; Ratings Affirmed, Nov. 27, 2018

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 January 6, 2020)*

LeasePlan Corporation N.V.	
Issuer Credit Rating	BBB-/Stable/A-3
Junior Subordinated	B+
Senior Unsecured	A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
27-Nov-2018	BBB-/Stable/A-3
28-Nov-2017	BBB-/Positive/A-3
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
Sovereign Rating	
Netherlands	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.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com