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CREDIT OPINION
26 August 2020

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

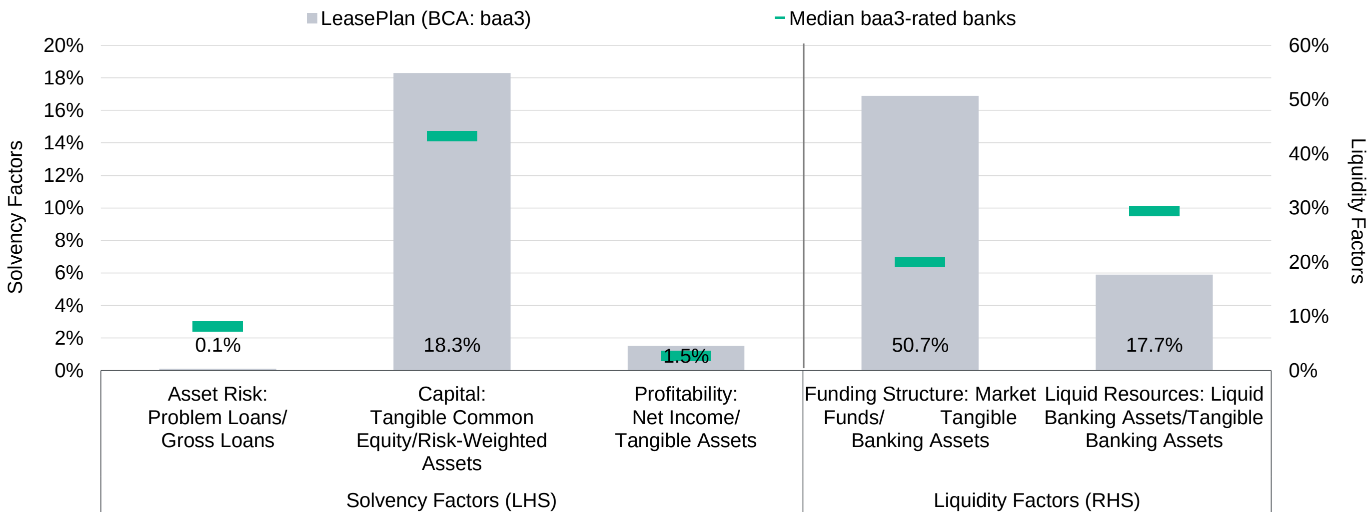
LeasePlan Corporation N.V.'s (LeasePlan) long-term deposit and senior unsecured debt ratings of Baa1 reflect (1) the bank's Baseline Credit Assessment (BCA) of baa3; and (2) two notches of uplift under our Advanced Loss Given Failure (LGF) analysis, reflecting the very low loss rate that senior debtholders 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 and leading position in the European car leasing market, high revenue generating capacity, a capitalisation commensurate with its risk profile and sound funding structure despite its material reliance on confidence-sensitive wholesale funding. These strengths are partly offset by its significant exposure to residual-value risk. We expect a further fall in the results achieved upon used car disposals [1] and higher operating expenses because of investments in CarNext.com and its IT system to weigh on the bank's net profit over the coming two to three years.

The outbreak of the coronavirus pandemic is resulting in simultaneous supply and demand shocks that will materially slow economic activity. The full extent of the economic costs will be unclear for some time. While fiscal and monetary policy measures will likely help limit the damage, the pandemic will nonetheless have a direct negative impact on the asset quality and profitability of banks, including LeasePlan. These pressures come in addition to the aforementioned strain on the bank's profits.

We consider the governance of LeasePlan, in place since the leveraged buyout of the company by a consortium of pension funds, sovereign wealth funds and private-equity funds in 2016, creates some tension between the respective interests of LeasePlan's creditors and its shareholders[2]. We apply a one-notch negative adjustment for corporate behaviour to reflect this risk. We also apply a negative one-notch adjustment, given Leaseplan's narrow franchise, as is the case for similar monoline issuers.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Leading franchise in full-service leasing

» Strong asset-quality metrics, reflecting diversified credit-risk exposures

» Capitalisation commensurate with risk profile

» Good underlying profitability, which is underpinned by high margins

» Matched funding profile

Credit challenges

» Material exposure to residual-value risk

» Structural reliance on wholesale funding

» Monoline business model

» Ownership by a consortium of pension funds, sovereign wealth funds and private equity funds in 2016, which creates some tension between the respective interests of LeasePlan's creditors and its shareholders

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 in the foreseeable future despite the negative impact of the Covid-19-related crisis.

Factors that could lead to an upgrade

» An upgrade of LeasePlan's BCA is unlikely in the foreseeable future taking into consideration the fact that (i) the owners are private-equity investors, which is expected to constrain any further material improvement in the bank's solvency, and (ii) profitability is under pressure. An upgrade could nonetheless be triggered by a substantial improvement in capital or in its funding profile.

Factors that could lead to a downgrade

» LeasePlan's BCA and long-term ratings may be downgraded if the shareholders were to 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) any 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. 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]

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	31,185.6	27,181.2	25,061.6	23,637.9	21,263.8	10.0[4]
Total Assets (USD Million)	35,005.8	31,072.1	30,093.9	24,932.1	23,098.7	11.0[4]
Tangible Common Equity (EUR Million)	3,363.2	3,083.8	3,085.9	2,925.2	2,907.6	3.7[4]
Tangible Common Equity (USD Million)	3,775.2	3,525.3	3,705.5	3,085.3	3,158.6	4.6[4]
Problem Loans / Gross Loans (%)	0.1	0.1	0.2	0.2	0.5	0.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.3	18.6	19.6	18.9	20.8	19.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.9	1.0	1.0	1.3	3.2	1.5[5]
Net Interest Margin (%)	1.8	2.0	2.0	2.1	2.5	2.1[5]
PPI / Average RWA (%)	3.9	3.4	3.9	3.6	4.6	3.9[6]
Net Income / Tangible Assets (%)	1.5	1.6	1.9	1.8	2.1	1.8[5]
Cost / Income Ratio (%)	57.0	63.0	61.9	65.6	59.4	61.4[5]
Market Funds / Tangible Banking Assets (%)	50.7	53.0	50.8	51.1	48.2	50.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	17.7	13.7	11.6	10.0	9.4	12.5[5]
Gross Loans / Due to Customers (%)	295.5	328.1	335.6	356.0	353.1	333.6[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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

LeasePlan Corporation N.V. (LeasePlan) is a fleet and vehicle management company based in the Netherlands. At end-June 2020, it reported consolidated assets of €31.9 billion and a leasing portfolio of €21.1 billion, 84% of which were operating leases. With operations in over 30 countries, the company managed a total of 1.84 million vehicles at end-June 2020. Since 1993, the company has held a banking licence in the Netherlands and operates a savings bank since 2010 in the Netherlands and since 2015 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 re-leases 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 or lease used vehicles.

Please read LeasePlan's Issuer Profile for more information.

Detailed credit considerations

Leading franchise in full service leasing is a key credit strength

In its CaaS business, LeasePlan typically offers all-in leasing (84% of its leases are operating leases) and fleet-management services packaged with additional services, such as repair, maintenance, and car insurance, mainly to corporate customers. LeasePlan has a leading position in the industry with 1.84 million cars under management as of end-June 2020, slightly ahead of its main peers, including ALD Automotive, a subsidiary of Societe Generale and Arval (BNP Paribas). LeasePlan operates in over 30 countries although it is strongly focused on Europe and has a dominant position in several key markets.[3] Its fleet is also well diversified by car brand, limiting the company's sensitivity to changes in a manufacturer's pricing policy and sales strategy. As a leading global fleet manager, LeasePlan has the capacity to generate large rebates and bonuses from its suppliers or service providers.

While the car leasing market is growing at a fast pace in Europe[4] as a result of a global shift from car ownership to car usership, the corporate leasing business remains highly competitive despite the relatively limited number of large companies. We believe that the company's stated priority to develop a fully digitalised business is part of its strategy to preserve its competitiveness and share of the growing market.

LeasePlan is also targeting new types of customers. While LeasePlan's historical client base under its CaaS activity has been focused on, and is still dominated by corporate clients (76% at end-June 2020), the share of small and medium-sized enterprises (SMEs) has been progressing (18% at end-June 2020). The SME market, which had historically been relatively underserved, has become highly sought after by both the large leasing companies like LeasePlan and the car manufacturers' captives because of its higher profitability. On the other hand, the private individual market remains within the hands of car manufacturers' captives and banks and the mobility providers' market (such as Uber Technologies, Inc. rated B2 stable) is still marginal at LeasePlan.

Through the sale of the cars that come off contract under the CaaS business, LeasePlan is also the largest reseller of three-to-four-year-old used cars in Europe. In 2017, LeasePlan launched a digital marketplace, CarNext.com, which enables both individuals and professionals to directly buy or lease used cars from LeasePlan online and get it delivered through physical delivery stores. In addition to digital experience, CarNext.com has introduced the Business-to-Consumer (B2C) sales channel to LeasePlan's car disposal activity. The ability to direct the cars to the most appropriate channels (B2C or Business-to-Business - B2B -) also allows the company to optimise car disposal prices. In H1 2020, B2C business represented 16.5% of total vehicles sold by CarNext.com (15.6% in full-year 2019).

LeasePlan's ambition is to further develop CarNext.com and extend its business to the sale of third-party suppliers' vehicles (i.e. not only the vehicles coming off contract at LeasePlan) to make it an activity in its own right. At the same time, LeasePlan continues to review various strategic alternatives for CarNext.com, including a potential full or partial separation of the business from the group (in such case, LeasePlan would continue to sell its used cars through the CarNext.com B2B and B2C platforms).

Strong asset-quality metrics reflect its diversified credit-risk exposures, but its residual-value policy has been less conservative over the past few years

The a3 Asset Risk score is driven by the lease portfolio's robust credit risk, reflecting LeasePlan's focus on large international corporate clients that are well diversified across sectors and countries, as well as the low loss given default on its operating lease contracts. LeasePlan nonetheless bears significant residual-value risk. This risk is reflected in the four-notch negative adjustment of the Asset Risk score from the aa2 Macro-Adjusted score.

Residual value risk arises from the uncertainty surrounding the future market value of vehicles on expiry of the lease contract relative to its value on LeasePlan's book. While inherent to all leasing businesses, we believe that LeasePlan has been less conservative than in the past in its residual-value policy between year-end 2015 and 2018, the negative effect of which will likely materialise in lower results from car disposals over the coming two to three years (for more details, please refer to our research Rising residual value risks will weigh on LeasePlan's profitability published in March 2020).

In addition, the substantial disruption in the second-hand car markets in Europe since March this year due to the Covid-19 pandemic had a negative impact on the value of LeasePlan's operating lease assets and inventories.[5] This resulted in additional impairments of €86 million in H1 2020 on these assets,[6] all of which were taken in Q1. Given the recovery in the second-hand car markets in June, there has been no further value adjustment in Q2.[7]

LeasePlan has historically experienced very low levels of problem loans and subdued credit losses arising from lease contracts, reflecting its focus on large international corporate clients with traditionally lower default rates. As a result of the Covid-related crisis, the problem loan ratio rose slightly to 0.19% of the total portfolio at end-June 2020 from 0.14% at year-end 2019.[8] As a result of low loss given defaults on operating leases,[9] impairment charges on loans and receivables have historically been limited over the past few years (11 bps to 14 bps of outstanding leases since 2015), but increased to 36 bps (annualised) in H1 2020. We expect credit costs in H2 2020 to remain in the same range as in H1.

In terms of concentration, LeasePlan's top 20 group exposures are sizeable, relative to its Common Tier 1 capital. This is, however, mitigated by the company's diversified franchise by geography and industry. In addition, the largest part of LeasePlan's credit exposure is to large corporates, which we generally regard as more resilient compared to SMEs.

Capitalization, in line with high regulatory requirements, is commensurate with risk profile

LeasePlan's Common Equity Tier 1 (CET1) capital ratio and total capital ratio were 16.9% and 19.5% respectively at end-June 2020[10] (year-end 2019: 17.7% CET1 and 20.4% total capital ratio), which we believe remains commensurate with its risk profile. The decrease in the CET1 and total capital ratios compared to year-end 2019 was mainly driven by the application of the standardized approach for operational risk as per 1 January 2020 instead of the advanced measurement approach which was applied until then. As of the end of December 2019, the leverage ratio (tangible common equity [TCE] divided by total assets) was at a comfortable 10.8% and the risk-weight of assets was 59%[11].

Despite the decision earlier this year not to pay the final dividend of 2019 in the context of the Covid-19 outbreak, we believe that earnings retention and capital accretion will remain 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. The need to upstream dividends from the operating company is also enhanced by the debt burden incurred at the level of Lincoln Financing S.a.r.l (Lincoln, B1 stable[12]), the issuer of high-yield bonds that financed the acquisition of LeasePlan by the current shareholders. Excluding the final dividends of both 2018 and 2019 which the bank did not pay, the dividend payout ratio has been around 60% since 2014.

That being said, the supervision of LeasePlan as a regulated credit institution mitigates the risk of an overly aggressive financial policy and creates a strong ring-fence for LeasePlan's credit profile, in our view. LeasePlan's minimum regulatory capital requirements for 2020 under the Supervisory Review and Evaluation Process (SREP) by the Dutch central bank (DNB) was set at a relatively high 13% for the CET1 capital ratio[13] and 15.6% for the total capital requirement.

LeasePlan is not yet subject to any minimum requirement for own funds and eligible liabilities (MREL) requirement.

Higher cost of risk in the context of the current crisis as well as lower end-of-contract results and high IT expenses will likely weigh on net profit over the coming quarters

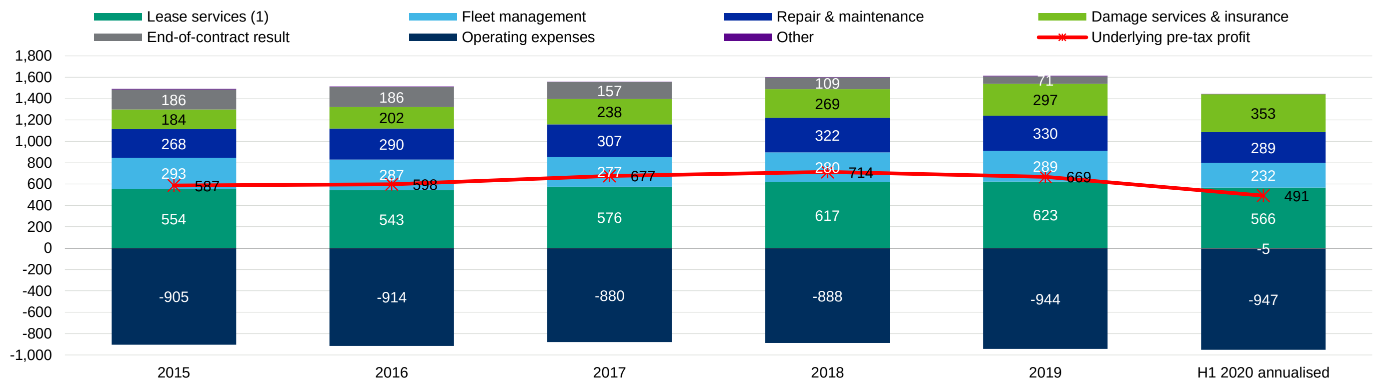
LeasePlan's revenues consist of comfortable financial margins from the car leasing business, profit generated by additional services[14] and end-of-contract results[15]. Direct income from lease services account for around 40% of the bank's total revenues while the remainder stems from additional services and end-of-contract results. From 2015 to 2019, the company's total revenue grew at an average rate of 2% per annum [16] as a result of the growth in the portfolio (compound annual growth rate of 2.8% since year-end 2015), partly offset by a slight erosion in margins because of intense competition and a material decrease in end-of-contract results. Despite these pressures, total underlying revenue still represented some 7.5% of the outstanding lease portfolio in 2019, which we consider as high.

LeasePlan has a high cost base. Even excluding the impact of additional charges related to the "Power of One LeasePlan" programme[17], which was launched in 2016 and has been reported as non-recurring costs by the company between 2016 and 2018, the cost-to-income ratio has ranged from 56% to 61% over the past five years.

Exhibit 3

Underlying revenue grew by 2% per annum from 2015 to 2019 but was down 12% in H1 2020 due to the Covid-crisis

Breakdown of underlying profit in € million



(1) Amount is net of loan-loss impairments

Source: Company data

In H1 2020, the underlying gross profit was down 12% on H1 2019. Despite strong results from damage services and insurance, all other services were affected by the Covid-19-related crisis and lockdown measures through lower rebates and bonuses due to reduced business activity, higher cost of risk,[18] and lower end-of-contract results.

In addition to the negative trend related to the current crisis, which will likely continue through 2020, we believe that the aforementioned strain on end-of-contract results and high IT expenses will continue to weigh on LeasePlan's profit:

» Losses on disposal of vehicles will likely continue to increase, peaking in 2021 or 2022 (please refer to the asset risk section). Part of these losses could be taken at an earlier stage through asset impairments if it is anticipated that lease contracts will be loss-making before maturity. Such impairments were taken in H1 2020 as the second-hand car prices dropped between March and June due to the market disruption in the context of the Covid-19 outbreak (€86 million[19], included in non-recurring items in Exhibit 4 below). Similar impairments were also taken in Q3 2018 on lease contracts in Turkey (€103 million, included in non-recurring items in Exhibit 4), in Q4 2018 in Germany (€29 million, included in non-recurring items in Exhibit 4), and in Q3 2019 in Austria and Poland (€34 million, included in non-recurring items in Exhibit 4).

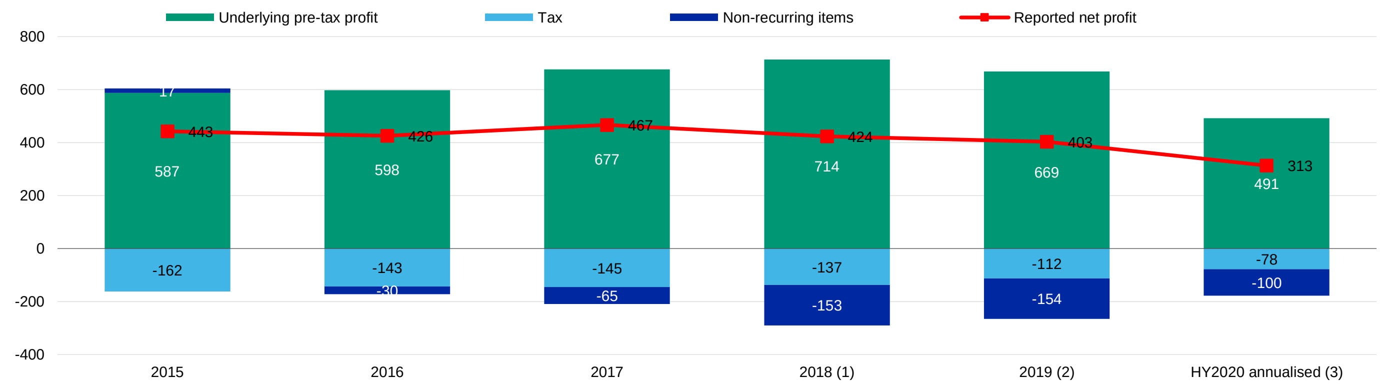
» We also expect operating expenses to continue to increase because of further investments in CarNext.com and the need to upgrade the IT system. The latter needs to be started anew since LeasePlan decided to discontinue its Core Leasing System (CLS) in June 2019 after a development phase of more than two years and write down this investment in its books accordingly (€92 million in Q2 2019, reported as non-recurring item in Exhibit 4).

The baa2 assigned score for Profitability takes account of these pressures.

Exhibit 4

LeasePan has reported material "non-recurring" items over the past three years

Breakdown of net profit in € million



(1) Non-recurring items in 2018 mainly consist of a €103 million (pretax) impairment on residual values in Turkey because of the depreciation of the local currency, and €29 million (pretax) contract impairment in Germany relating to a number of loss-making contracts.
(2) Non-recurring items in 2019 mainly consist of a €92 million impairment of CLS and a €34 million contract impairment in Austria and Poland relating to a number of loss-making contracts.
(3) All data are annualised except for the non-recurring items. Non-recurring items of H1 2020 include €86 million impairment on loss-making contracts and vehicle inventories.
Source: Company data

Structural reliance on wholesale funding mitigated by matched funded profile, standby liquidity facilities and 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. Reliance on wholesale funding, however, is partly mitigated by a good diversification of funding sources, including retail deposits, the company's matched funding policy and a comfortable liquidity buffer. These factors are reflected in a Combined Liquidity score of ba3.

As of the end of June 2020, LeasePlan's funding base of €24 billion was 36% composed of senior unsecured debt, 37% of retail deposits, 11% of securitization and 16% of bank lines and other resources. This liability structure has roughly remained the same over the past five years and we expect it to be maintained over the outlook horizon.

LeasePlan has been raising online flexible savings assets and term deposits in the Netherlands and Germany under the LeasePlan Bank brand since 2010 and 2015, respectively. As of the end of June 2020, retail deposits amounted to €8.8 billion, up 15% since year-end 2019 and 16% since end-June 2019. Most of these products are covered by the Dutch Deposit Guarantee Scheme, which we believe, limits their sensitivity to reputational risks.

The maturity profile of assets and liabilities are matched in such a way that in a run-off scenario, LeasePlan's outstanding liabilities would slightly exceed outstanding assets at all times (including modeled deposit run-off). In addition, a liquidity buffer of €8.6 billion at end-June 2020 (year-end 2019: €6.7 billion), consisting of €7.1 billion of cash balances and committed revolving credit facility by banks for a total amount of €1.5 billion, ensures the company's ability to maintain a positive liquidity position over at least nine months while continuing to write new business under adverse market conditions. LeasePlan's outstanding business franchise relies on long-standing relationships with large international corporates and would likely be materially impaired if the company were forced to restrict business volume.

Qualitative adjustment and affiliate constraint

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, similar to auto captive monoline issuers. We also assign another one-notch negative adjustment for corporate behaviour to reflect our view that the company's shareholding structure (refer to section below) could result in changes in the company's direction and risk profile.

Environmental, social and governance considerations

In line with our general view on the banking sector, LeasePlan has a low exposure to social risks. See our social risk heat map for further information. We also regard the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

Although banks generally have a low exposure to environmental risks, as explained in our environmental risk heat map, certain banks could, however, face a higher risk from concentrated lending to individual sectors or operations concentrated in disaster-prone areas, or more generally from environmental risks. This is the case for LeasePlan because of its car leasing activity, which has an elevated exposure to environmental risk. As of year-end 2019, the total share of diesel cars in its portfolio was still 67% (year-end 2018: 73%), although almost all of them are the latest Euro VI diesels and, therefore, are not subject to any legislative restrictions.

The company has started to take measures to support the implementation of the Paris agreement and climate-related sustainable development growth. Its stated goal is to achieve zero carbon dioxide emissions from its total fleet by 2030 through an increase in electric vehicles. As of year-end 2019, the share of electric vehicles was still a low 4% of LeasePlan's total fleet (2% at year-end 2018) and 7.4% of its new orders in 2019. Other measures are being undertaken such as (1) transitioning LeasePlan's employee fleet to an electric vehicle fleet by 2021; and (2) introducing a "full-package" electric vehicle product, currently available in 12 countries; and (3) introducing carbon neutral contracts through a partnership with Land Life Company, where customers offset their fleet emissions through Land Life Company's reforestation programme.

We consider that the governance of LeasePlan in place since the leveraged buyout of the company by a consortium of pension funds, sovereign wealth funds and private-equity funds in 2016 creates a some tension between the respective interests of LeasePlan's creditors and its shareholders. The main risk is that of a corporate strategy that favours short-term profit at the expense of the operating company's long-term creditworthiness and sustainability. The lack of stability in the bank's management team since mid-2018 is also negative.

Support and structural considerations

Loss Given Failure (LGF) 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 because of 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.

The analysis shows a high loss-given-failure for LeasePlan's AT1 securities, one notch below the bank's Adjusted BCA of baa3. We incorporate two additional downward notches to reflect coupon suspension risk ahead of failure, leading to an assigned rating of Ba3(hyb), three notches below 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 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.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in the event of a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

LeasePlan's CRRs are positioned at A3/P-2

The CRRs are positioned three notches higher than the Adjusted BCA of baa3, based on the level of subordination to CRR liabilities in the bank's balance sheet, and assuming a nominal volume of such liabilities.

Focus on Lincoln

Lincoln is an issuing vehicle domiciled in Luxembourg which issued senior secured notes on behalf of Lincoln Financing Holdings Pte. Limited (FinCo), an intermediary holding company, which indirectly owns 100% of LeasePlan. The secured notes issued by Lincoln were used to refinance high-yield bonds originally issued in 2016 to finance part of the acquisition of LeasePlan by the consortium.

The B1 rating of Lincoln's senior secured notes is driven by (1) the baa3 BCA of LeasePlan; (2) the deeply subordinated position of the instrument and the high expected loss-given-failure; and (3) the fact that LeasePlan, as a regulated bank, could be constrained in its ability to pay dividends, which could impair Lincoln's ability service its debt. Therefore, the B1 rating is four notches below LeasePlan's baa3 BCA, reflecting the structural subordination of the senior secured notes and the significant double leverage incurred at Lincoln, which results in additional default risk.

Rating methodology and scorecard factors

Exhibit 5
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	0.1%	aa2	↓↓	a3	Non lending credit risk	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	18.3%	aa2	←→	aa3	Risk-weighted capitalisation	Capital retention
Profitability						
Net Income / Tangible Assets	1.5%	a2	↓↓	baa2	Expected trend	
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	50.7%	b3	←→	b2	Extent of market funding reliance	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	17.7%	baa3	←→	baa3	Access to committed facilities	Quality of liquid assets
Combined Liquidity Score		ba3		ba3		
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		
BCA Scorecard-indicated Outcome - 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	12,366	39.9%	12,910	41.7%
Deposits	7,764	25.1%	7,220	23.3%
Preferred deposits	6,987	22.6%	6,638	21.4%
Junior deposits	776	2.5%	582	1.9%
Senior unsecured bank debt	9,401	30.4%	9,401	30.4%
Preference shares (bank)	500	1.6%	500	1.6%
Equity	929	3.0%	929	3.0%
Total Tangible Banking Assets	30,960	100.0%	30,960	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	36.9%	36.9%	36.9%	36.9%	3	3	3	3	0	a3
Counterparty Risk Assessment	36.9%	36.9%	36.9%	36.9%	3	3	3	3	0	a3 (cr)
Deposits	36.9%	4.6%	36.9%	35.0%	2	3	2	2	0	baa1
Senior unsecured bank debt	36.9%	4.6%	35.0%	4.6%	2	2	2	2	0	baa1
Non-cumulative bank preference shares	4.6%	3.0%	4.6%	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 6

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)	
Counterparty Risk Rating	A3/P-2
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Bkd Commercial Paper	P-2
LEASEPLAN AUSTRALIA LIMITED	
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 We expect pressures on end-of-contract results over the coming two to three years because of the higher and, therefore, less conservative manner in which LeasePlan has set residual values between year-end 2015 and mid-2018.

2 The main risks are that of a corporate strategy which would favour short-term profit at the expense of the company's long-term creditworthiness as well as the need to upstream substantial profit, which could lead to changes in the company's direction and risk profile.

3 The company (1) has a leading position in the Netherlands, Czech Republic, Greece, Ireland, Norway, Poland, Portugal, Romania, Slovakia and Sweden; (2) is one of the top three car leasing companies in Austria, Belgium, Denmark, Finland, Germany, Hungary, Italy, Luxembourg, Russia, the UK, Spain and Switzerland; and (3) is one of the top five companies in France and Turkey.

4 More than 5% per annum since 2010.

5 Inventories consist of cars and trucks from terminated contracts.

6 This amount includes €49.4 million impairment on lease contracts and €36.6 million valuation allowance on inventories.

7 In Q2, €37 million of losses from disposal of vehicles were booked against the inventory valuation allowance and fleet impairments taken in Q1.

8 On operating leases, problem loans are only calculated on the basis of rents that have been invoiced to the customer without any contagion of future rents. Nonetheless, the denominator of the problem loan ratio includes the whole lease portfolio, that is, including rents not yet due on operating leases. Therefore, the ratio tends to understate the level of NPL; that said the average loss given default on operating leases is materially lower than for financial leases. Excluding future rents on operating leases from the denominator, the problem loan ratio as of the year-end 2019 would be 0.8%.

9 LeasePlan remains the owner of the vehicles in operating leases.

10 Both ratios assume no dividend accrual.

11 Credit risk for corporate and a portion of the retail portfolio (Netherlands and UK) are calculated under the advanced internal ratings-based approach [AIRB]. Exposures to governments, banks and the other retail clients are under the standardised approach.

12 The rating shown for Lincoln Financing S.a.r.l. is that of the senior secured notes

13 Composed of 4.5% of Pillar 1 requirement, 2.8% Pillar 2 requirement, 2.5% capital conservation buffer, 0.1% of countercyclical buffer (as of end-June 2020), and 3.1% shortfall of the AT1 and Tier 2 buckets. The P2R was revised to 2.8% from 5% previously following the capital relief measure introduced by the ECB/DNB according to which a portion of the P2R can be met with AT1 and Tier 2 capital.

14 Additional services include fleet management, repair and maintenance, damage services and insurance.

15 End-of-contract results include (1) the profit or loss stemming from the disposal of cars coming off leasing contracts in the secondary markets and (2) end-of-contract fees charged to clients for excess wear-and-tear, mileage deviation from contracts etc...

16 Growth rate is calculated on gross income, excluding the negative effect of loan loss impairments.

17 The “Power of One LeasePlan” initiative was launched in 2016 to enhance the company's operating efficiency by centralising key functions, leveraging scale and best practices, and renegotiating contracts with suppliers.

18 LeasePlan reports loan loss charges on lease receivables within revenues.

19 This amount also includes €36.6 million impairments on the stock of vehicles held for sale

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EMEA	44-20-7772-5454

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