MOODY'S INVESTORS SERVICE

CREDIT OPINION
25 January 2022

Update

Rate this Research

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	Positive
Long Term Deposit	Baa1
Type	LT Bank Deposits - Dom Curr
Outlook	Positive

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 following rating action

Summary

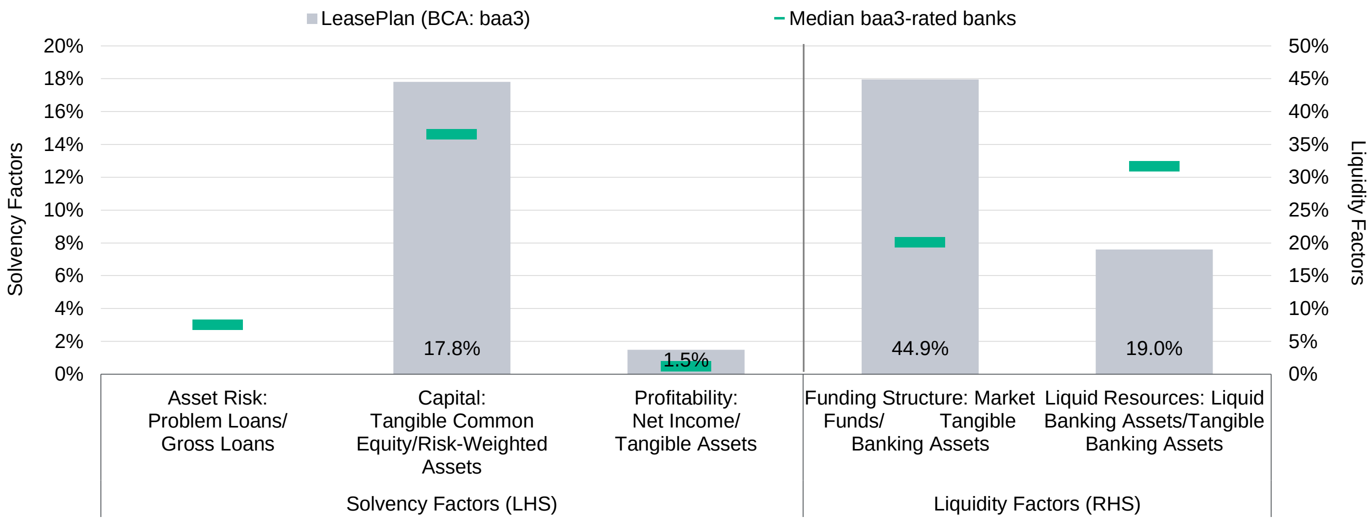
LeasePlan Corporation N.V.'s (LeasePlan) long-term deposit and senior unsecured debt ratings of Baa1 reflect (1) the bank's Baseline Credit Assessment (BCA) of baa3; and (2) two notches of uplift under our Advanced Loss Given Failure (LGF) analysis, reflecting the very low loss rate that senior debtholders 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 cars' residual-value risk. We expect higher operating expenses because of investments in its IT system to weigh on the bank's net profit over the coming one to two years.

We apply a negative one-notch adjustment, given Leaseplan's narrow franchise, as is the case for similar monoline issuers. Also, 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.[1] We therefore also apply a one-notch negative adjustment for corporate behaviour to reflect this risk.

On 6 January 2022, Societe Generale (A1 deposit and senior unsecured, stable outlook, baa2 BCA) announced that it would acquire LeasePlan through ALD S.A., its 80% owned subsidiary. On 18 January, we changed the outlook to positive from stable reflecting the expected positive impact of the change in ownership at LeasePlan[2] and integration into the Societe Generale group.

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 since 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 positive outlooks, reflecting the expected positive impact of the change in ownership at LeasePlan by year-end 2022 and integration into the Societe Generale group.

Factors that could lead to an upgrade

» In the absence of a material deterioration in its fundamentals, the acquisition of the company by ALD, if implemented as announced, could trigger an upgrade of the BCA through the removal of the one-notch negative adjustment for corporate behavior. An upgrade of the BCA would likely trigger an upgrade of the bank's ratings. Deposit and senior unsecured debt ratings could also be upgraded if the integration in NewALD as a core subsidiary leads to its integration in Societe Generale's group resolution perimeter.

Factors that could lead to a downgrade

» A downgrade of LeasePlan is currently unlikely because of the positive impact expected from the announced transaction. LeasePlan's BCA and long-term ratings could nonetheless be downgraded if the current 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 and/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.

Key indicators

Exhibit 2

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

	06-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	31,450.2	31,016.1	31,185.6	27,181.2	25,061.6	6.7[4]
Total Assets (USD Million)	37,296.9	37,950.0	35,005.8	31,072.1	30,093.9	6.3[4]
Tangible Common Equity (EUR Million)	3,878.2	3,418.8	3,363.2	3,083.8	3,085.9	6.7[4]
Tangible Common Equity (USD Million)	4,599.2	4,183.1	3,775.2	3,525.3	3,705.5	6.4[4]
Problem Loans / Gross Loans (%)	--	0.3	0.1	0.1	0.2	0.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.8	17.3	18.3	18.6	19.6	18.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	--	1.9	0.9	1.0	1.0	1.2[5]
Net Interest Margin (%)	1.6	1.6	1.8	2.0	2.0	1.8[5]
PPI / Average RWA (%)	4.9	1.7	3.9	3.4	3.9	3.6[6]
Net Income / Tangible Assets (%)	2.2	0.8	1.5	1.6	1.9	1.6[5]
Cost / Income Ratio (%)	45.6	76.5	57.0	63.0	61.9	60.8[5]
Market Funds / Tangible Banking Assets (%)	39.7	44.9	50.7	53.0	50.8	47.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	17.3	19.0	17.7	13.7	11.6	15.9[5]
Gross Loans / Due to Customers (%)	221.5	241.9	295.5	328.1	335.6	284.5[5]

[-] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [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, which is chartered since 1993 as a bank hence subject to European banking regulation and supervision of the European Central Bank since January 2021. The company has a leading franchise in full service leasing. It also collects savings in the Netherlands since 2010 and in Germany since 2015. At end-December 2020, it reported consolidated assets of €31 billion and a leasing portfolio of €22 billion, 85% of which were operating leases. With operations in over 30 countries (Leaseplan completed the sale of 100% of its shares in LeasePlan Australia Ltd and LeasePlan New Zealand Ltd in September 2021), the company managed a total of around 1.9 million vehicles at end-June 2021. On 21 March 2016, LeasePlan was acquired by a by a consortium of pension funds, sovereign wealth funds and private-equity funds.

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 with car brokers mostly. LeasePlan launched in 2017 an online marketplace branded CarNext.com to allow it to directly reach out to households customers and professionals for both sales or re-leasing contracts.

In July 2021, CarNext was carved-out into an independent business owned by a consortium of investors, largely made up of the current owners of LeasePlan. LeasePlan retains a minority stake in CarNext (the company has not disclosed the exact stake it has retained). In October 2021, Constellation Automotive Group, a large European digital marketplace for used cars, announced the acquisition of CarNext.

Please read LeasePlan's Issuer Profile for more information.

Recent developments

On 6 January, Societe Generale announced that it had agreed to acquire LeasePlan through ALD S.A. (ALD), its 80% owned global car fleet management company for €4.9 billion, of which €2 billion are in cash and the rest in shares. Societe Generale and LeasePlan expect to close the transaction by the end of 2022. Societe Generale would hold c.53% of “NewALD”, while LeasePlan shareholders would own 30.75%, with a 12-month lock-up period. Societe Generale is expected to remain the long-term majority owner of the newly formed entity. The transaction will bring together two global leaders in the car fleet management and mobility sector representing a combined car fleet of around 3.5 million vehicles, the third largest globally. The new entity would benefit from higher scale and synergies, set to fully materialize by 2025.

Based on the stated synergy ambitions, we expect a high level of integration between LeasePlan and ALD, although the practical arrangements have not yet been disclosed. We also believe that NewALD, as a leading global mobility player, will be of strategic importance for Societe Generale and become one of the main pillars of its business portfolio. We take note of the bank's commitment to remain the long-term majority shareholder of the combined entity as well as its plan to provide 30% of the company's funding needs. We also believe the planned change of NewALD's status into a regulated entity as a financial holding company, while LeasePlan is expected to keep its banking license, reinforces Societe Generale's shareholder accountability towards its subsidiary.

Detailed credit considerations

Leading franchise in full service leasing is a key credit strength

In its CaaS business, LeasePlan typically offers all-in leasing (over 85% 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 around 1.8 million cars under management as of end-September 2021, 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] In September 2021, Leaseplan completed the sale of 100% of its shares in LeasePlan Australia Ltd and LeasePlan New Zealand Ltd to SG Fleet.

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. 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 (73% at end-December 2020), the share of small and medium-sized enterprises (SMEs) has been progressing (20% at end-December 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 largely dominated by car manufacturers’ captives and banks and the mobility providers’ market (such as Uber Technologies, Inc.) is still a small business 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, to enable both individuals and professionals to directly buy or lease used cars from LeasePlan online and get it delivered through physical delivery stores.

CarNext was carved-out from LeasePlan in July 2021 into a business owned by a consortium of investors (mainly formed of the current shareholders of LeasePlan). LeasePlan and CarNext concomitantly entered into an exclusive long-term service agreement through which CarNext will be responsible for performing the remarketing of the vehicles coming off lease contract at LeasePlan in seven core European countries representing around 70% of its business.[5] From an operating and risk perspective, we believe that the carve-out of CarNext will have limited impact on LeasePlan. The service agreement and the strong relationship between the two entities ensure the continuity of operations, while the management of risks other than car-marketing-related risks (such as residual value risk) remains with LeasePlan. We also expect that the carve-out will be marginally positive for LeasePlan's profitability in the short-term because CarNext has not yet reached its break-even point and still requires substantial investments which will now be financed outside LeasePlan.

Strong asset-quality metrics reflect its diversified credit-risk exposures, but LeasePlan continues to bear material residual value risk

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.

LeasePlan has historically experienced subdued credit losses arising from lease contracts, reflecting its focus on large international corporate clients with traditionally low default rates. Impairment charges on loans and receivables have ranged from 11 bps to 14 bps of outstanding leases between 2015 and 2019.

After a temporary rise in the cost of risk to €76.3 million (36 bps of outstanding contracts) in full-year 2020 due to the Covid-19 crisis, asset performance returned to pre-crisis levels with impairment charges on loans and receivables of €14.6 million in the first nine months to end-September 2021 (or around 9 bps of outstanding contracts on an annualised basis), reflecting the improved macroeconomic projections under IFRS 9 and lower default levels.

Residual value risk, inherent to all leasing businesses, 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. Its materialization into losses depends, amongst others, on the originator's residual value policy and developments in the second-hand car prices. At LeasePlan, the relatively aggressive residual value policy implemented between 2015 and 2018[6] followed by the substantial disruption in the second-hand car markets in Europe between March and June 2020 in the context of the Covid-19 pandemic resulted in material impairments of €120 million in full-year 2020 on operating lease assets and inventories.[7] The second-hand market however progressively recovered since mid-2020 and strengthened materially in 2021,[8] resulting not only in a reversal of impairments of €4 million but also a substantial increase in profit generated from disposed vehicles in the first nine months of 2021 (a profit of €191 million versus a loss of €73 million in the first nine months of 2020).

In terms of concentration, LeasePlan's top 20 group exposures are sizeable, relative to its Common Tier 1 capital. This is, however, partly 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 15.4% and 17.7% respectively at end-September 2021,[9] down from 16.7% and 19.3% respectively at end-December 2020.[10] The decrease in the bank's CET1 ratio was driven by a material increase in risk-weighted assets (RWA) of €1.9 billion (+9.6% since year-end 2020) to €21.6 billion at end-September 2021. The increase in RWA was in turn primarily driven by the impact of the new definition of default as per European Banking Authority's (EBA) guideline, which became effective as of 1 January 2021, and to a lesser extent by the growth in its off-balance-sheet position. [11].

Despite the fact that the bank has not paid any dividend since the end of 2019, we believe that under the current ownership, earnings retention and capital accretion will remain constrained because the shareholders have little incentive to leave significant buffers above the minimum regulatory capital ratios. 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]),[13] the issuer of high-yield bonds that financed the acquisition of LeasePlan by the current shareholders. The dividend payout ratio has been around 60% between 2014 and 2019. Dividend distribution will likely resume this year but we do not expect any material deterioration in the bank's regulatory capital ratios since the latest interim results have already been excluded from the ratios.

The supervision of LeasePlan as a regulated credit institution also 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 2021 under the Supervisory Review and Evaluation Process (SREP) by the Dutch central bank (DNB) is set at 14.45%[14] for the total capital ratio.

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

The assigned capital score of a1, one notch below the macro-adjusted score of aa3, is adjusted for the results of H1 2021 and Q4 2020 which are included in the TCE calculation as of the end of June 2021, but could be distributed in the coming quarters.

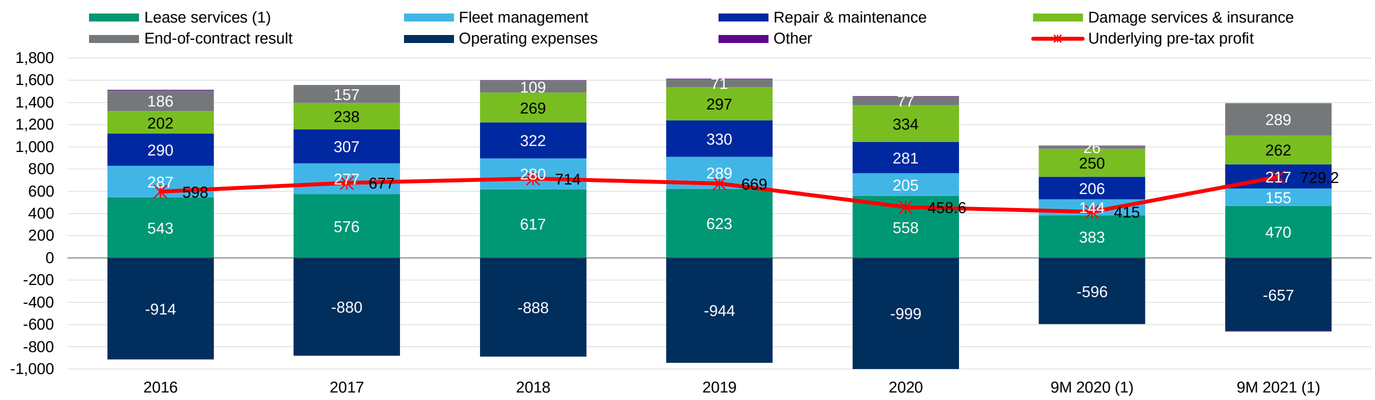
Profitability recovers to pre-crisis levels thanks to lower cost of risk, improved end-of-contract result and the absence of lease contract impairments

LeasePlan's revenues consist of comfortable financial margins from the car leasing business, profit generated by additional services[15] and end-of-contract results.[16] 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 [17] as a result of the growth in the lease 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.

The underlying gross profit dropped by 10% in 2020 as the Covid-19-related crisis and lockdown measures implied lower business activity (and thus lower rebates and bonuses) and higher cost of risk[18] The underlying gross profit nonetheless rebounded substantially in the first nine months of 2021 (up 38% from the same period in 2020), principally driven by the increase in profits on disposal of vehicles (as reflected in the strong rise in end-of-contract results in the below chart). The improvement in profit on disposal of vehicles after two years of depressed performance was driven by the recovery in used-car pricing and the higher volumes of vehicles sold. We also believe that the profit on vehicle disposal was boosted in 2021 by the lower book value of vehicles that resulted from the large impairments recorded in 2020.

Underlying operating expenses were up 10% on the first nine months of 2020 due to continued investments in digital platforms and relatively low expenses in the same period of 2020 (notably in Q2 2020) in the context of the Covid-19 crisis. We believe IT expenses will remain high over the coming quarters as further investments are made in IT systems through the Next Generation Digital Architecture programme, which includes cloud-based customer service and fleet data management platforms.[19] On the other hand, the carve-out of CarNext, which still requires heavy investments, will alleviate LeasePlan's cost base and have a positive impact on its profitability in the short-term.

Exhibit 3
Underlying profit in € million

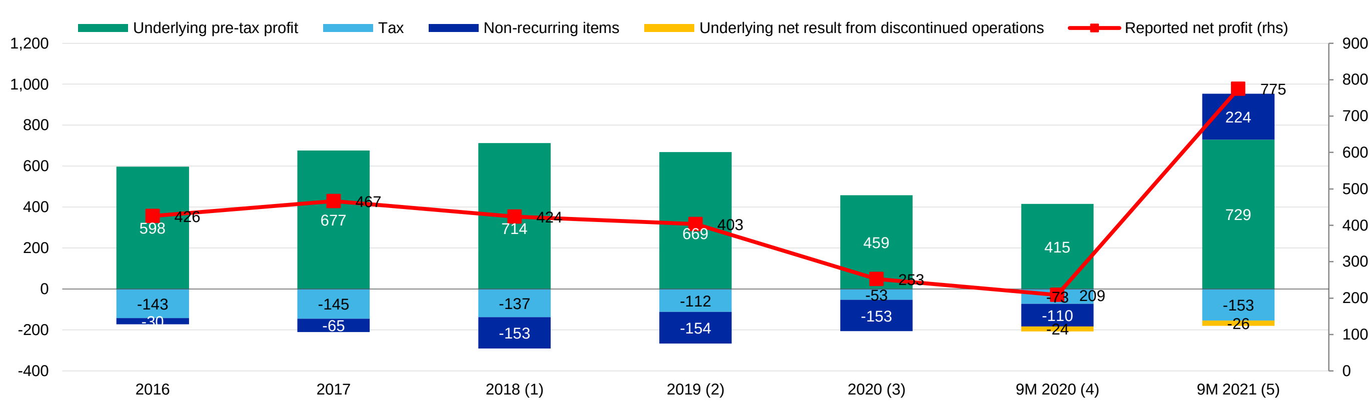


(1) Non-annualised
Source: Company data

Tensions related to residual value risk had implied impairments on lease contracts and inventories between 2018 and 2020. These impairments, reported by LeasePlan as "non-recurring" items, materially weighted on the bank's bottom-line over this period (see the below chart). The absence of such impairment in 2021, supported by the improved second-hand car market conditions, further contributed to the increased net profit of LeasePlan.

The a2 assigned score for Profitability takes account of the improved results of 2021 and is based on the level of profitability which we believe LeasePlan can sustain through credit cycles. The score also takes account of the volatility stemming from non-recurring items and end-of-contract revenues.

Exhibit 4
LeasePan has reported material "non-recurring" items between 2018 and 2020
Breakdown of net profit in € million (9M 2020 and 9M 2021 are not annualised)



(1) Non-recurring items in 2018 mainly consist of €103 million (pre-tax) impairment on residual values in Turkey due to 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 €92 million impairment of CLS and €34 million contract impairment in Austria and Poland , relating to a number of loss-making contracts
(3) Non-recurring items in 2020 notably include €120 million impairment (pre-tax) on loss-making contracts and vehicle inventories and €44 million of consultancy costs (pre-tax)
(4) Non-annualised
(5) Non annualised; non recurring items in 2021 notably includes €127 million capital gain on the disposal of LeasePlan Australia and New Zealand and a €86 million book gain on the carve-out of CarNext.
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 September 2021, LeasePlan's funding base (adjusted for discontinued operations) of €23.4 billion was 33% composed of senior unsecured debt, 45% of retail deposits, 8% of securitization and 14% 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 and term deposits in the Netherlands and Germany under the LeasePlan Bank brand since 2010 and 2015, respectively. As of the end of September 2021, retail deposits amounted to €10.5 billion, up 14% since year-end 2020. Most of these products are covered by the Dutch Deposit Guarantee Scheme, which we believe, limits their sensitivity to reputational risks. We expect LeasePlan to keep its banking license and continue to collect retail deposits after the merger with ALD.

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 €8.3 billion at end-September 2021 (year-end 2020: €7.1 billion), consisting of €6.8 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 being able 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 behavior to reflect our view that the company's shareholding structure could result in changes in the company's direction and risk profile. In the context of the announcement of the transaction with ALD, the perspective of a change in ownership from a consortium of funds looking for short-term return to a banking group considering a long-term investment driven by an industrial rationale is credit positive. If the acquisition is implemented as planned, the negative adjustment will likely be removed.

Environmental, social and governance considerations

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 2020, the total share of diesel cars in its portfolio was 61% (year-end 2019: 67%), although almost all of them are the latest Euro VI diesel engines and, therefore, are not subject to any legislative restrictions. In Q2 2021, new orders of electric vehicles and plug-in hybrids increased to 17.4%.[20]

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 2020, the share of electric vehicles was up to 13% of LeasePlan's total fleet (4% at year-end 2019) and 14.9% of its new orders in 2020. Other measures are being undertaken such as (1) transitioning LeasePlan's employee fleet to an electric vehicle fleet; and (2) introducing a "full-package" electric vehicle product, currently available in 12 countries. LeasePlan used to offer carbon neutral contracts through a partnership with Land Life Company, where customers offset their fleet emissions through Land Life Company's reforestation programme. The company however terminated this partnership and is currently reassessing what would be the most appropriate carbon offsetting programme in light of the Science Based Targets initiative. The transition to electric vehicle is supported by Leaseplan's funding strategy notably via the launch of a Green bond and Green Finance Frameworks. In this regard a total of €3 billion in five-year notes were raised in 2019-2021.

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

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 potential 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. Post-acquisition, as Societe Generale intends to remain a long-term investor, our concern on this issue would abate.

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 amounting to 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

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)

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.

Despite the change of the outlook on LeasePlan published on 18 January 2022, we maintain a stable outlook on Lincoln Financing S.a.r.l.'s senior secured notes rating because the notes will likely be redeemed by the closing of the announced acquisition of LeasePlan by ALD.

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	-	-	-	a3	Non lending credit risk	Quality of assets
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	17.8%	aa3	↓	a1	Risk-weighted capitalisation	Capital retention
Profitability						
Net Income / Tangible Assets	1.5%	a2	↔	a2	Expected trend	
Combined Solvency Score		aa3		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	44.9%	b1	↔	b2	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	19.0%	baa3	↔	baa3	Access to committed facilities	Quality of liquid assets
Combined Liquidity Score		ba2		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	12,887	41.3%	13,594	43.6%
Deposits	10,093	32.4%	9,387	30.1%
Preferred deposits	9,084	29.1%	8,630	27.7%
Junior deposits	1,009	3.2%	757	2.4%
Senior unsecured bank debt	6,754	21.7%	6,754	21.7%
Preference shares (bank)	500	1.6%	500	1.6%
Equity	935	3.0%	935	3.0%
Total Tangible Banking Assets	31,170	100.0%	31,170	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	28.7%	28.7%	28.7%	28.7%	3	3	3	3	0	a3
Counterparty Risk Assessment	28.7%	28.7%	28.7%	28.7%	3	3	3	3	0	a3 (cr)
Deposits	28.7%	4.6%	28.7%	26.3%	2	3	2	2	0	baa1
Senior unsecured bank debt	28.7%	4.6%	26.3%	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	Positive
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

Source: Moody's Investors Service

Endnotes

1 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.

2 Which could lead to a removal of the aforementioned negative adjustment for corporate behaviour once ALD has acquired LeasePlan.

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, except in 2020.

5 In the other 15 European countries, LeasePlan retains the remarketing business of its vehicles but will make use of CarNext's B2B (Business-to-Busines) and B2C (Business-to-Consumer) platforms through a service agreement.

6 For more details, please refer to our research Rising residual value risks will weigh on LeasePlan's profitability published in March 2020.

7 Inventories consist of cars and trucks from terminated contracts.

8 In a context of sluggish recovery in automotive production.

9 The ratios are calculated at the regulatory sub-consolidated level, that is to say, LeasePlan Corporation N.V. consolidated. They exclude the 2021 net interim result as well as the Q4 2020 result.

10 The capital ratio as of December 2020 did not include the Q4 2020 result.

11 LeasePlan's order book, i.e. the stock of vehicles to be delivered by the OEMs, has temporarily increased as a result of delays in car delivery due to a semiconductor shortage.

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

13 This is partly mitigated by the large cash position of Lincoln at year-end 2020 (€374 million cash and €171 million interest reserve account).

14 Composed of 8% of Pillar 1 requirement, 3.9% Pillar 2 requirement, 2.5% capital conservation buffer, 0.05% of countercyclical buffer.

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

16 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.

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

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

19 Leaseplan's IT system had 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 3).

20 Excluding USA

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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