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Research Update:

LeasePlan Downgraded To 'BBB-/A-3' On Announced Financing For Sale To Investor Consortium; Outlook Stable

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Research Update:

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Overview

- On Feb. 1, Dutch bank LeasePlan Corporation N.V. announced that regulators have approved its sale to a consortium of investors, funded through a mix of shareholder equity and debt.
- In our view, the transaction structure and resulting double leverage restricts the financial flexibility of the group, diminishing the creditworthiness of LeasePlan.
- We are therefore lowering our ratings on LeasePlan to 'BBB-/A-3' from 'BBB/A-2' and removing them from CreditWatch negative, where they were placed on July 28, 2015.
- We are also assigning a 'BB+' issuer credit rating to Lincoln Financing Holdings PTE Ltd. (Singapore), the intermediary nonoperating holding company of the vehicle issuing the proposed senior secured notes that will part-fund the acquisition.
- The stable outlook on LeasePlan reflects our view that LeasePlan will maintain its solid operating performance, and that the new ownership will not result in a more aggressive financial policy and risk appetite.

Rating Action

On Feb. 3, 2016, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings on Dutch bank LeasePlan Corporation N.V. to 'BBB-/A-3' from 'BBB/A-2'. The outlook is stable.

At the same time, we removed the ratings from CreditWatch, where we initially placed them with negative implications on July 28, 2015.

We also assigned a 'BB+' issuer credit rating to Lincoln Financing Holdings PTE Ltd. (Singapore), the intermediary nonoperating holding company of Lincoln Finance Ltd. (Jersey), issuer of the proposed €1.55 billion senior secured notes. The outlook is stable. We assigned a 'BB+' rating to the proposed notes.

Rationale

The rating actions follow LeasePlan's announcement that regulators have approved its sale to a consortium of investors, funded with a mix of shareholder equity and debt. In our view, the approved transaction will

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diminish the creditworthiness of LeasePlan because it will lead to a marked increase in leverage at the consolidated group level.

Financial sponsor ownership can lead to further risks related to financial policy and risk appetite, but we have limited the downgrade to one notch. We believe that LeasePlan will continue to operate largely as an independent, regulated entity, through the "Structuurregime." This piece of legislation requires separation of the non-executive supervisory board, the executive management board, and LeasePlan's shareholders. This is likely to provide LeasePlan with a reasonable degree of protection from direct shareholder influence on financial policy.

Under the proposed transaction terms, the consortium of investors will finance the acquisition of LeasePlan through about €1.9 billion equity, a €0.5 billion mandatory exchangeable facility (MEF) that will convert to equity after three years, and €1.6 billion senior secured notes. The interest payments on the proposed senior secured notes, to be issued by Lincoln Finance Ltd. (Jersey), will depend on the flows of dividends upstreamed from LeasePlan.

Therefore, in line with our group rating methodology, we now consider LeasePlan to be part of a wider group and we have determined a group credit profile (GCP) based on the new group structure. (A GCP is not a rating, but a component of a rating that represents our opinion of a group's creditworthiness as if it were a single legal entity.) LeasePlan is by far the largest part of the group, contributing close to 100% of the consolidated group assets. We therefore view it as a core group entity and equalize the issuer credit rating on LeasePlan with the GCP.

In our view, our projected risk-adjusted capital (RAC) ratio for LeasePlan (the stand-alone regulated entity) of 12.5%-13.0% over the next 12-24 months insufficiently captures the risks present at the consolidated group level. This is partly because of the relatively high double leverage at the ultimate holding company level, which we calculate at 180%-190% (a pro forma calculation, based on the proposed transaction structure, of investment in subsidiaries divided by holding company shareholders' equity). Our view of the wider group's capitalization is also weaker than LeasePlan's RAC ratio on a consolidated basis. To reflect these factors, we make a qualitative adjustment to our risk position assessment, revising it down to moderate from adequate. The other factors that underpin our group credit profile are the same as our assessment of LeasePlan prior to the transaction. This results in a GCP of 'bbb-'.

We expect LeasePlan's operating performance to remain solid over the two-year outlook horizon, even allowing for potentially less-favorable secondhand auto market conditions. It's currently difficult to quantify the potential effect on the residual value of LeasePlan's fleet, following the recent engine emissions and fuel consumption issues at Volkswagen, but our base-case expectation is that any direct financial impact will be manageable.

Our rating on Lincoln Financing Holdings PTE Ltd. (Singapore) (FinCo) is based on our assessment of it as the nonoperating holding company (NOHC) of the vehicle issuing the senior secured notes. Under our group rating methodology for NOHCs, we usually assign an issuer credit rating (ICR) to the NOHC one notch below the GCP if the latter is 'bbb-' or above, to reflect the NOHC's reliance on dividends being upstreamed to meet its obligations. This applies to FinCo. We do not notch down twice for structural subordination, as we consider that potential regulatory barriers to cash flows will only exist between LeasePlan as an operating company and LeasePlan's holding company, LP Group B.V. (The Netherlands). We do not consider that there will be further potential barriers to cash flows beyond LeasePlan Group B.V. to FinCo.

We also believe that liquidity at FinCo will be adequate to service its obligations, as covenants to the senior secured notes and the MEF restrict dividends to shareholders while the MEF has not been converted to equity. The indenture also requires that interest coverage be maintained at a level of 2.5x. We therefore expect a noteworthy build-up of excess cash and higher coverage levels for at least three years, while the MEF is not converted and LeasePlan is upstreaming dividends to the NOHC.

We equalize the rating on the proposed senior secured notes with the 'BB+' ICR on FinCo. The rating is subject to our review of the notes' final documentation.

Outlook

The stable outlook reflects our view that, over the next two years, LeasePlan will maintain its solid operating performance, strong capitalization, and supportive asset quality profile, and that new ownership will not result in a more aggressive financial policy and risk appetite.

Downside scenario

We could lower the ratings on LeasePlan if we see evidence that its new ownership is altering the business or financial strategy of the company; for example, if the new owners further leveraged the holding structure above LeasePlan in a way detrimental to its creditworthiness.

Upside scenario

A positive rating action is unlikely within the next two years, in our view. However, we could consider an upgrade if we believed that the double leverage at the ultimate holding company was materially diminishing or if we expected LeasePlan to maintain a RAC ratio sustainably above 15%.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital

Framework, June 22, 2012
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Commercial Paper I: Banks, March 23, 2004
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
LeasePlan Corporation N.V.		
Counterparty Credit Rating	BBB-/Stable/A-3	BBB/Watch Neg/A-2
Senior Unsecured	BBB-	BBB/Watch Neg
Commercial Paper (1)	A-3	A-2/Watch Neg
LeasePlan Australia Ltd.		
Senior Unsecured (2)	BBB-	BBB/Watch Neg

New Rating

Lincoln Financing Holdings PTE (Singapore) Ltd.		
Counterparty Credit Rating	BB+/Stable/--	
Lincoln Finance (Jersey) Ltd.		
Senior Secured (3)	BB+	

(1) Co-issued by LeasePlan Australia Ltd., LeasePlan Finance N.V. (Dublin Branch), and LeasePlan New Zealand Ltd.

(2) Guaranteed by LeasePlan Corporation N.V.

(3) Guaranteed by Lincoln Financing Holdings PTE (Singapore) Ltd.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.