

Rating Action: Moody's rates Lincoln Finance Limited's Senior Secured Notes at B1 with a stable outlook

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LeasePlan Corporation's long-term ratings downgraded to Baa1 from A3; outlook stable

Paris, February 04, 2016 -- Moody's Investors Service has today assigned a long-term debt rating of B1 to the Senior Secured Notes to be issued by Lincoln Finance Limited (Lincoln) in connection with the acquisition of LeasePlan. The outlook assigned to the rating is stable.

Concurrently, Moody's has downgraded LeasePlan Corporation N.V.'s (LeasePlan) and its supported entities' long-term senior unsecured debt and deposit ratings to Baa1 from A3. The outlooks on these ratings are stable. Moody's has also downgraded LeasePlan's Baseline Credit Assessment (BCA) to baa3 from baa2. The bank's short-term senior unsecured debt and deposit ratings were affirmed at Prime-2. In addition, Moody's has downgraded LeasePlan's long-term and short-term Counterparty Risk Assessments to A3(cr)/Prime-2(cr) from A2(cr)/Prime-1(cr).

These actions conclude the review for downgrade initiated on LeasePlan's ratings on 28 July 2015, following the bank's announcement on the 23rd of July of a change of ownership. On 1 February 2016, LeasePlan announced that the European Central Bank (ECB) approved the transaction under which its 100% shareholder Global Mobility Holding B.V. (GMH; unrated) sold its shares to a consortium of investors. GMH is a joint venture between Volkswagen Aktiengesellschaft (VW; A3 negative) and Fleet Investment BV (unrated). The consortium of buyers is composed of pension funds, sovereign wealth funds and private equity funds.

Please see the end of this press release for a full list of the affected ratings.

RATINGS RATIONALE

-- LINCOLN FINANCE LIMITED

Moody's has assigned a B1 rating to the EUR1.55 billion Senior Secured Notes issued by Lincoln. This debt will be used to finance part the 100% acquisition of LeasePlan's shares, the remainder being financed through equity. The total proceeds of the transaction will be approximately EUR3.9 billion, which essentially comprise the acquisition purchase price of EUR3.5 billion, an interest reserve account of 2.5 years of interest on the Senior Secured Notes and transaction expenses of EUR100 million. 61% of the transaction financing will be funded through equity, which includes the proceeds of a EUR480 million mandatory convertible instrument issued by an affiliate.

The B1 rating of the Senior Secured Notes is a function of (1) the baa3 BCA of LeasePlan, which is Lincoln's principal investment; (2) the deeply subordinated position of the instrument and high expected loss-given-failure; and (3) the fact that LeasePlan is a regulated bank and may at times be constrained in its ability to pay dividends, a credit negative for Lincoln's creditors, which will be reliant on such dividend payments for the servicing of their debt. The B1 rating is positioned four notches below LeasePlan's baa3 BCA. This outcome compares to a non-viability security rating for LeasePlan, which would typically be positioned three notches below the bank's BCA, at Ba3. The additional notch is a reflection of the structural subordination of the Senior Secured Notes and the significant double leverage incurred at Lincoln's level which result in additional default risk.

-- LEASEPLAN

The downgrade of LeasePlan's BCA to baa3 reflects the leveraged nature of the proposed acquisition, which suggests a more aggressive financial policy given the need to service the EUR1.55 billion cash-pay acquisition debt and optimise the return on invested equity. Moody's believes that earnings retention and capital accretion may be constrained going forward, as the new owners will have little incentive to leave significant buffers above the minimum regulatory capital ratios, hence reducing financial flexibility in case of unexpected shocks. In addition, although the new owners are expected to preserve the strategic and operating independence of LeasePlan, Lincoln's debt burden may in time lead to changes in the company's direction and risk profile. These constraints and uncertainties have led the rating agency to downgrade the bank's BCA to baa3 from baa2.

Nonetheless, LeasePlan's credit profile continues to benefit from its status as a regulated credit institution which is subject to capital and liquidity requirements. This supervision could mitigate the risk of an overly aggressive financial policy and creates a relatively strong "ring-fence" for LeasePlan's credit profile. As a result, Moody's believes that LeasePlan's solvency and liquidity will remain satisfactory against the risks undertaken in the auto leasing business. The planned dividend payout ratio of 60% going forward, although above historical average, should allow LeasePlan's CET1 ratio to stay relatively elevated. The bank's CET1 ratio was 17.2% as of end-September 2015. In addition, LeasePlan's funding and liquidity profile will not be significantly altered. The bank will notably replace the EUR1.25 billion VW liquidity facility by a bank line of similar amount and characteristics.

The downgrade of LeasePlan's long-term deposit and senior unsecured debt ratings to Baa1 reflects (1) the downgrade of the bank's BCA to baa3; and (2) two notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, reflecting the very low loss rate that senior debt holders and depositors are likely to experience in resolution given the material volume of senior unsecured debt issued by the bank. Moody's expects only a low probability of government support for LeasePlan's senior debt holders and depositors, resulting in no uplift for the senior debt and deposit ratings.

OUTLOOKS

LeasePlan's long-term debt and deposit ratings and the rating of the Senior Secured Notes all carry stable outlooks.

WHAT COULD CHANGE THE RATING UP/DOWN

The rating of the Senior Secured Notes may be downgraded if the interest coverage of the notes by dividends and cash reserves (through the interest reserve account) diminishes due to (1) a deterioration of LeasePlan's net results and/or (2) a diminution of LeasePlan's capacity to upstream dividends due to tighter regulatory constraints. Moody's does not envisage an upgrade of the notes in the foreseeable future, viewing the capacity of the shareholders to upstream cash out of the restricted group and to incur additional indebtedness at Lincoln's level under certain covenants.

LeasePlan's BCA and long-term ratings may be downgraded if the shareholders implement a materially 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 address higher residual value risk; (2) evidence of deterioration of the bank's liquidity and funding profile, resulting from an increased reliance on wholesale funding or worse-than-expected liquidity gaps; (3) a structural deterioration in profitability or the diversity of income streams. A downgrade of LeasePlan's BCA would typically result in a downgrade of the bank's long-term ratings. These ratings could also be downgraded if there was a significant and sustainable decrease in debt loss-absorption capacity resulting in higher loss-given-failure for one or more instrument class.

An upgrade of LeasePlan's BCA is unlikely at present, viewing that the new acquirers are financial sponsors which are expected to limit equity retention at the bank.

LIST OF AFFECTED RATINGS, BASELINE CREDIT ASSESSMENTS AND COUNTERPARTY RISK ASSESSMENTS

The following rating has been assigned:

- Lincoln Finance Limited's senior secured debt rating of B1, stable outlook.

The following ratings, Baseline Credit Assessments (BCAs) and Counterparty Risk Assessments have been downgraded:

- LeasePlan Corporation N.V.'s BCA and adjusted BCA to baa3 from baa2
- LeasePlan Corporation N.V.'s long-term debt, issuer and deposit ratings to Baa1 stable from A3 Ratings under Review
- LeasePlan Corporation N.V.'s senior unsecured MTN ratings to (P)Baa1 from (P)A3
- LeasePlan Corporation N.V.'s long-term and short-term counterparty risk assessments to A3(cr)/Prime-2(cr) from A2(cr)/Prime-1(cr)

- LeasePlan Australia Limited's backed senior unsecured rating to Baa1 stable from A3 Ratings under Review
- LeasePlan Australia Limited's backed senior unsecured MTN rating to (P)Baa1 from (P)A3
- LeasePlan Finance N.V. (Dublin Branch)'s backed senior unsecured rating to Baa1 stable from A3 Ratings under Review
- LeasePlan Finance N.V. (Dublin Branch)'s backed senior unsecured MTN rating to (P)Baa1 from (P)A3
- LeasePlan Finance N.V. (Dublin Branch)'s long-term and short-term counterparty risk assessments to A3(cr)/Prime-2(cr) from A2(cr)/Prime-1(cr)

The following ratings have been affirmed:

- LeasePlan Corporation N.V.'s short-term debt and deposit ratings of Prime-2
- LeasePlan Corporation N.V.'s other short term ratings of (P)Prime-2
- LeasePlan Australia Limited's backed short-term Commercial Paper rating of Prime-2
- LeasePlan Australia Limited's backed other short term ratings of (P)Prime-2
- LeasePlan Finance N.V. (Dublin Branch)'s backed short-term Commercial Paper rating of Prime-2
- LeasePlan Finance N.V. (Dublin Branch)'s backed other short term ratings of (P)Prime-2

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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