FITCH AFFIRMS LEASEPLAN AT 'BBB+' & LINCOLN FINANCE AT 'BB-'; OUTLOOK STABLE

Fitch Ratings-London-10 October 2017: Fitch Ratings has affirmed LeasePlan Corporation NV's (LeasePlan) Long-Term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+' following the completion of our fleet leasing peer review. Fitch has also affirmed the LT rating of Lincoln Finance Ltd's (LFL) senior secured notes at 'BB-' and the LT IDR of the notes' guarantor, Lincoln Financing Holdings Pte Limited (LFHPL), at 'BB-'. The Rating Outlooks on LeasePlan and LFHPL's LT IDRs are Stable. A full list of rating actions follows at the end of this release.

KEY RATING DRIVERS
LEASEPLAN's IDRS, VR, SENIOR DEBT AND SUPPORT RATING
LeasePlan's IDRs, VR and senior debt ratings are driven by the company's franchise position as one of the world's leading vehicle leasing companies, its regulation as a deposit-taking bank by De Nederlandsche Bank (DNB) and its stable and diversified funding and liquidity profile. The ratings also take into account the company's sizeable but historically well-managed exposure to residual value risk, and an ownership structure which incorporates debt at the holding company level.

LeasePlan manages approximately 1.7 million vehicles, across over 30 countries, in many of which it holds leading market positions. This geographic diversification counterbalances the group's monoline business model and renders its performance less susceptible to economic downturn in any individual market.

LeasePlan's banking status is unusual among lessors, and regulatory risk-weighted capital ratios are strong (CET1 ratio of 18.8% at end-June 2017) and rising. Debt-to-tangible equity leverage (5.9x at end-June 2017) falls to 5.1x on a net basis when accounting for the group's significant cash position.

Its banking license has also allowed LeasePlan to achieve a more diversified funding profile than peers via the gathering of retail savings in the Netherlands and, since 2015, in Germany. At end-June 2017 these totalled 28% of non-equity liabilities, consistent with a year earlier, and most are eligible for the Dutch deposit guarantee scheme, which supports their stability. Wholesale funding is mostly unsecured, but LeasePlan is also a well-established participant in the securitisation market. Fitch regards liquidity and refinancing risk as prudently managed, and, as a bank, the group has potential access to European Central Bank (ECB) refinancing operations, if needed.

Residual value risk arises via the large proportion of closed-end operating leases in LeasePlan's portfolio, and cannot be entirely eliminated, as it depends on external factors such as second-hand car prices. However, efficient risk management has historically allowed LeasePlan to avoid material losses from this source. On a consistent basis, net vehicles sales revenues remained practically stable in 2016 at EUR189 million, after adoption of a revised presentation of revenues and cost of revenues which reclassifies elements of net contribution to Lease Services. In common with other fleet lessors, Fitch expects some medium-term downward pressure on used vehicle values, but that the impact on LeasePlan's earnings will be manageable alongside its other more stable income streams.

Since early 2016, LeasePlan has been ultimately owned by an investor consortium, via a new holding company, LFHPL. LFL is a financing subsidiary of LFHPL, and both entities sit outside LeasePlan's regulatory ring-fence. The investor consortium partly funded its acquisition of LeasePlan via LFL's issue of EUR1.25 billion and USD0.4 billion senior secured notes, guaranteed by LFHPL. None of the acquisition-related debt is LeasePlan's own direct responsibility, but Fitch believes the structure moderately reduces LeasePlan's financial flexibility through the need to upstream dividends to service it, as LFHPL presently has no other source of income. At the same time Fitch recognises that this potential negative influence on internal capital generation is limited by LeasePlan's status as a regulated bank, as DNB can exercise the power to prohibit or restrict upstream dividend distributions.

The Stable Outlook on LeasePlan's IDR reflects Fitch's expectation that management's stated objectives will lead to maintenance of steady profitability and leverage.

LeasePlan's Support Rating of '5' indicates Fitch's view that institutional support from its shareholders, if ever required, may be possible but cannot be relied upon.

In light of LeasePlan's banking status and deposit-taking activities, Fitch used its "Global Bank Rating Criteria" dated Nov. 25, 2016 to help inform its assessment of certain aspects of LeasePlan's standalone profile, such as operating environment (in particular, the regulatory framework), company profile, capitalisation and leverage, and funding and liquidity.

LFHPL's IDR AND LFL's SENIOR SECURED NOTES
LeasePlan represents LFHPL's only significant asset, and neither LFHPL nor LFL have material sources of income other than its upstreamed dividends. There are no cross-guarantees of debt between LFL and LeasePlan, and LeasePlan's regulator could prohibit or restrict dividend distributions. In Fitch's view, debt issued by LFL is sufficiently isolated from LeasePlan to limit the implications for LeasePlan's own creditworthiness if it fails to service it. Consequently, the senior secured notes' rating is based on the standalone profiles of LFL and LFHPL as guarantor, rather than on notching from LeasePlan.

LFHPL holds an interest reserve account and an interest coverage account between them containing EUR419 million at end-first half 2017, equivalent to 3.9x the annual interest expense of the senior secured notes. LFHPL is also covenanted to maintain at least 2.5 years' cash coverage in the interest reserve account, but replenishment of this cash will depend on both LeasePlan's ongoing ability to generate profits and DNB approval for their distribution in dividend form.

RATING SENSITIVITIES
LEASEPLAN's IDRS, VR AND SENIOR DEBT
Negative rating pressure could develop from a material deterioration in the group's capitalization or leverage, which could result from less effective management of residual value risk amid a fall in used vehicle prices. Demonstration of an increased risk appetite or a less conservative approach towards liquidity management would also be negative for the ratings.

Ratings would benefit in the medium term from improving leverage. A significant reduction of holding company debt, either as a result of partial repayment or from a build-up and retention of a dedicated cash cushion at the LFHPL level, could also be credit positive.

Fitch does not currently expect changes to LeasePlan's Support Rating.

LFHPL's IDR AND LFL's SENIOR SECURED NOTES
LFHPL's IDR and LFL's notes' rating are not directly notched from LeasePlan's IDR. However, as LeasePlan represents LFHPL's principal asset and source of income, material change in LeasePlan's financial strength and capacity to upstream dividends represents a key sensitivity for LFHPL's IDR and LFL's notes' rating.

The ratings could also be affected positively by accumulation of significant additional cash within LFHPL, or negatively by its depletion, as these events would respectively reduce or increase the dependence of ongoing debt service on future LeasePlan dividends.

The ratings could also be sensitive to the addition of new liabilities or assets within LFHPL, but the impact would depend on the balance struck between increasing LFHPL's debt service obligations and diversifying its income away from reliance on LeasePlan dividends.

Fitch has affirmed the following ratings:

LeasePlan
--Long-term IDR at 'BBB+', Outlook Stable;
--Short-term IDR at 'F2';
--Viability Rating at 'bbb+';
--Support Rating at '5';
--Long-term senior unsecured debt rating at 'BBB+';
--Short-term senior unsecured debt and commercial paper rating at 'F2'.

LFHPL
--Long-term IDR at 'BB-', Outlook Stable.

LFL
--Senior secured notes long-term rating at 'BB-'.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051
Global Non-Bank Financial Institutions Rating Criteria (pub. 10 Mar 2017)