New Issue Rating Report

EFL Lease ABS 2017-1 DAC

Leasing ABS/Structured Finance

SCOPE Scope Ratings
www.scoperatings.com

RATINGS

Class	Rating	Notional (PLN m)	Notional (% assets)	CE[1] (% assets)	Coupon	Final maturity
Class A1	AAA_{SF}	1,057.0	81.0	20.6	3m-Wibor + 1.07%	29 October 2029
Class A2	AAA_{SF}	741.0	81.0	20.6	3m-Wibor + 1.07%	29 October 2029
Rated notes notional		**1,798.0**				

Scope's quantitative analysis is based on the portfolio dated 30 June 2017 and subsequent updates as well as the replenishment criteria in the transaction documents, provided by the arranger. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions

Transaction details

Purpose	Liquidity/Funding
Issuer	EFL Lease ABS 2017-1 DAC
Originator/Servicer	Europejski Fundusz Leasingowy S.A. (NR)
Account bank	Citibank N.A. London Branch (NR)
Paying Agent	Citibank N.A. London Branch (NR)
Asset class	Lease receivables
Assets	PLN 2,220.1m
Rated notes	PLN 1,798.0m
ISIN Class A1	XS1701862143
ISIN Class A2	XS1701862499
Closing date	25 October 2017
Legal final maturity	29 October 2029
Payment frequency	Quarterly
Payment dates	27 January, April, July and October

Transaction profile

The transaction is a true-sale securitisation of a revolving portfolio comprising PLN 2,220.1m of lease receivables with no residual value risk, granted to SMEs in Poland by Europejski Fundusz Leasingowy S.A. The issuer account bank and paying agent is Citibank N.A. London Branch.

The leases relate to light vehicles, trucks and trailers, and machinery and equipment. The portfolio at closing has a weighted average life of 1.8 years and a weighted average margin of 5.9%. The initial portfolio composition and profile is expected to change because of replenishments, within reasonable limits.

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Rating rationale (summary)

The rating reflects: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral in the context of the robust Polish macroeconomic environment; iii) the ability of the originator and servicer, Europejski Fundusz Leasingowy S.A. (EFL); and iv) the counterparty exposure to Citibank N.A. London Branch (Citibank) as the account bank and paying agent.

Class A1 and Class A2 (together, Class A) benefit from 20.6% overcollateralisation at closing and protection from excess assets interest against losses from the portfolio. The risk of portfolio performance deterioration is mitigated partly by early amortisation triggers. Asset and portfolio-level covenants limit qualitative changes to the portfolio's composition. The Class A is expected to amortise over a weighted average life of 1.3 years[2] from the end of the three-year revolving period.

The stable short-term outlook on the Polish economy reflects positively on the expected portfolio performance. Scope has determined that sovereign risk does not constrain the notes' ratings over its expected life.

The transaction bears counterparty exposures to EFL as servicer and Citibank as account bank and paying agent. The counterparty risks in this transaction are mitigated by the credit quality of the counterparties; mechanisms in the structure such as regular cash sweeps, contingent reserves and back-up arrangements. In addition, the account bank is subject to a replacement trigger upon credit quality deterioration. Scope has assessed EFL's credit quality using public information. Scope considered Citibank´s public credit ratings.

[1] Including the PLN 35.96m reserve fund.
[2] The weighted average life from the end of the revolving period considers 0% prepayments and characteristics of the closing portfolio.

RATING DRIVERS AND MITIGANTS

Positive rating drivers	Negative rating drivers and mitigants
Credit enhancement. The Class A benefits from 20.6% credit enhancement from overcollateralisation including a funded cash reserve, which protects against losses from the portfolio.	**Revolving portfolio.** The characteristics and credit quality of the portfolio may migrate during the replenishment period, which is three years after the closing date. This risk is mitigated by the originator's expertise and by asset, portfolio and performance covenants in the structure.
Excess spread. The portfolio will generate substantial spread, trapped up to 0.5% of the performing lease balance to cover temporary collections shortfalls for the payment of senior expenses and interest.	**Unsecured recoveries**. The commitment of the originator to transfer proceeds from the sales of leased objects is generally unenforceable should the originator become insolvent. Scope has analysed this transaction as a purely unsecured transaction.
Robust Polish economy. Scope expects a positive effect on the portfolio performance as a result of the polish economic environment supported by a robust GDP growth and rising employment.	**Unhedged interest reset-risk**. The structure does not hedge against reset risk – at least 90% of the assets pay one-month Wibor while notes receive three-month Wibor. Scope has stressed the margin of the assets to accommodate temporary margin compression during a possible sharp rise in interest rates and along the life of the transaction.
Servicer commingling risk. Servicer commingling losses are mitigated by available credit enhancement. Furthermore, the transaction features a commingling reserve funded upon the servicer's credit quality deterioration.	
Liquidity coverage. The structure provides liquidity protection via a fully interconnected separate priority of payments, ensuring the timely payment of Class A interest. Additionally, the structure features an amortising cash reserve of 2% of the Class A notes' principal amount, floored at PLN 1m. The cash reserve is available to absorb loses at maturity but cannot be used to provision for defaults during the life of the transaction.	
No residual value risk. Receivables from leased objects´ residual value are not securitised. All contracts amortise via constant annuities (French amortisation).	

Positive rating-change drivers	Negative rating-change drivers
Not applicable	**Worse-than-expected asset performance** showing in a higher-than-expected default rate or lower-than-expected recovery upon asset default would negatively impact the ratings.

Related reports

General Structured Finance Rating Methodology, dated August 2017.

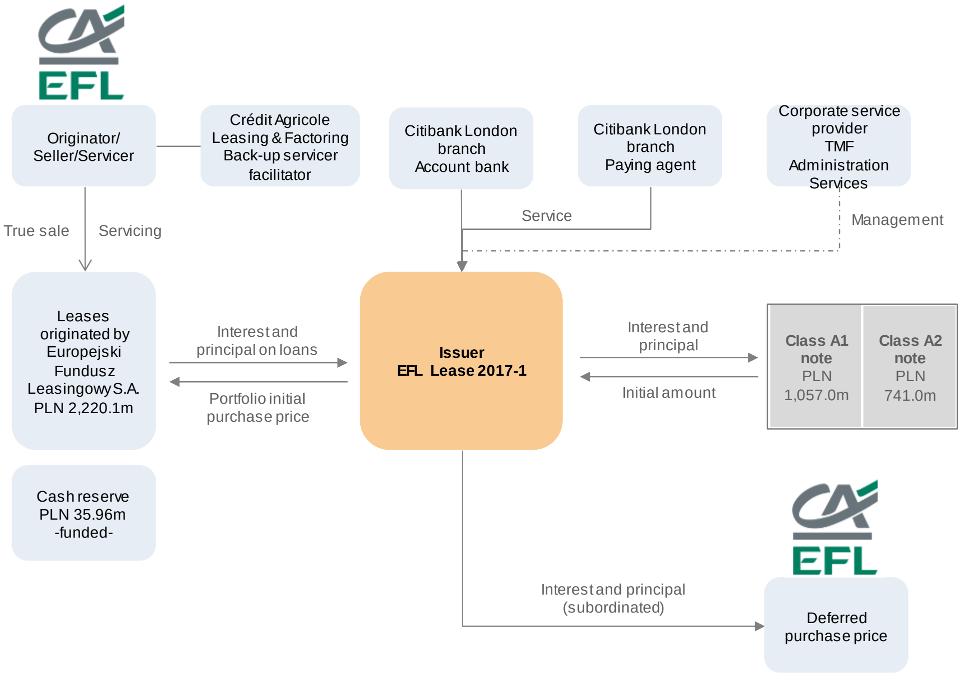
Auto ABS Rating Methodology, dated August 2017.

Methodology for Counterparty Risk in Structured Finance, dated August 2017.

Contents

1 TRANSACTION SUMMARY

Figure 1. Simplified transaction diagram



Source: Transaction documents and Scope.

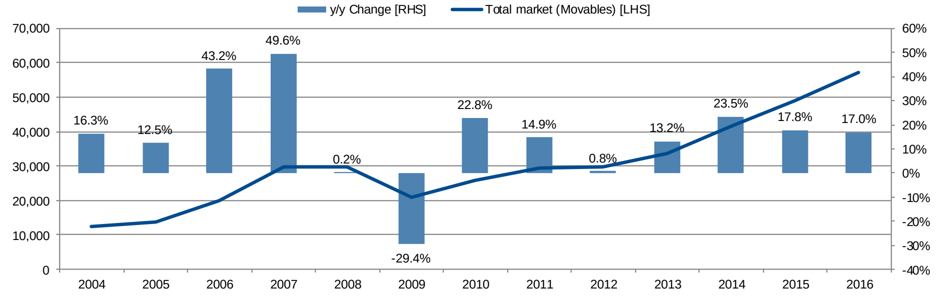
EFL Lease ABS 2017-1 is EFL's first leasing transaction, and third Polish ABS publicly rated by Scope. The transaction consists of the securitisation of a PLN 2,220.1m portfolio of fully amortising lease receivables with no residual value risk. The leases were granted to finance the acquisition of new and used light vehicles, trucks and trailers, and machinery and equipment. The transaction features a three-year replenishment period, subject to performance and asset-eligibility covenants.

2 THE LEASING MARKET IN POLAND

Since 2010, the Polish leasing market has exhibited a steady, two-digit growth rate almost every year (see Figure 2). New business in Poland is driven mainly by very small companies (turnover < EUR 5m), which accounted for 53% of all new business in 2016. Real estate leases only play a marginal role, and the new business of movables in the first half of 2017 is spearheaded by passenger and commercial light vehicles (44%), followed by heavy vehicles (27%), and machinery and equipment (26%).

The Polish leasing market benefits from positive macroeconomic conditions in the country. Investments of EU funds, a well-performing industrial sector, solid availability of credit, and strengthening private consumption have supported Polish economic growth to date.

Figure 2. The Polish leasing market



Source: Polish Leasing Association

3 ASSET ANALYSIS

3.1 Securitised assets

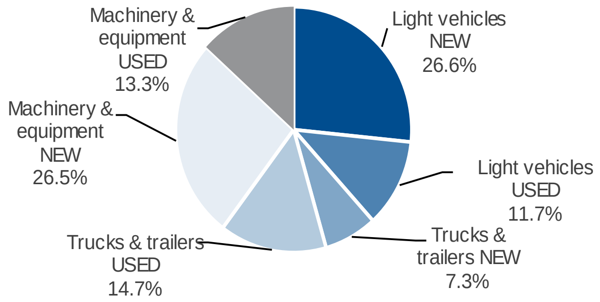
The securitised portfolio comprises lease receivables to finance light vehicles, trucks and trailers, and machinery and equipment. The assets are either new or used. The portfolio benefits from a positive selection compared to EFL's total lease book, since eligibility criteria exclude exposures that were formerly in arrears for more than 90 consecutive days, or more than 31 days in arrears at closing.

The lease portfolio as of 30 September has approximately 11 months of seasoning, a weighted average remaining term to maturity of 3.4 years and a weighted average life of 1.8 years. The lease receivables in the portfolio were originated between 2011 and 2017, with 86.2% originated from 2016 onwards. Lease receivables transferred to the portfolio have at least one instalment paid and mature at a maximum of 83 months after the transaction closes.

There is no residual risk in this transaction, since the residual value is not securitised. The standard amortisation scheme is French. 96.3% of the lease receivables pay floating interest referenced to one-month Wibor and 3.7% pay fixed interest.

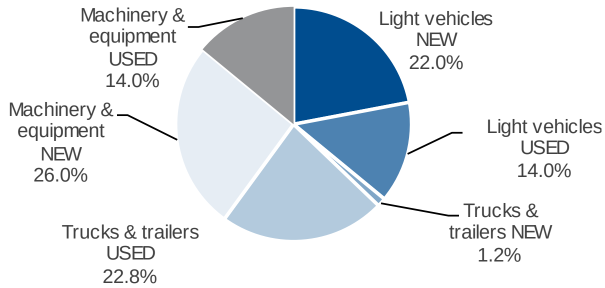
The leases were granted mainly to Polish SMEs (98.2%) and corporates (1.8%). Scope performed the asset analysis using six portfolio segments (see Figure 3) and their respective risk profiles at the end of the revolving period (see Figure 4).

Figure 3. Segment distribution by % of remaining principal balance (30 September 2017)



Source: EFL, Scope

Figure 4. Segment distribution by % of remaining principal balance (assumed as of the end of the revolving period)

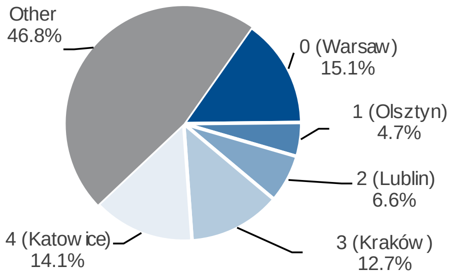


Source: EFL, Scope

3.1.1 *Granular portfolio with no relevant concentrations*

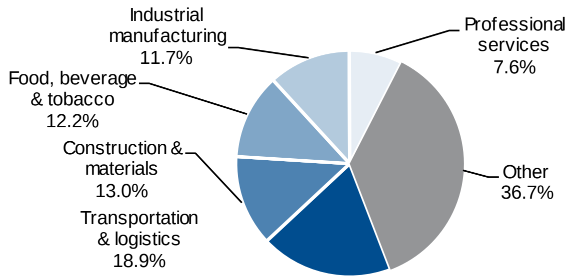
Scope did not adjust the portfolio's credit figures (estimated using vintage data) based on obligor, sector or regional concentrations. The portfolio is granular and well diversified across sectors.

Figure 5. Regional distribution by postal code by % of remaining principal balance



Source: EFL, Scope

Figure 6. Industry exposures by % of remaining principal balance



Source: EFL, Scope

The portfolio eligibility criteria do not allow single obligors to exceed 0.5% of the portfolio, and the actual obligor concentration is 0.4% with the top 10 exposures accounting for 1.8% of the initial portfolio.

3.1.2 Excess spread

Class A benefits from significant available excess spread. The portfolio provides a gross excess spread of 5.4% to cure undercollateralisation arising from periodic defaults.

Scope incorporated margin and interest rate stresses in its analysis to address: i) lower excess spread via prepayments, amortisation and defaults; ii) flexibility available to the servicer to modify the lease; and iii) interest rate mismatches between assets and liabilities.

Scope assumes a portfolio weighted average interest rate of 5% for fixed-rate leases and 3% margin for floating-rate leases, which is equivalent to a gross excess spread of 2.4% and in line the portfolio's minimum margin covenant.

3.2 Replenishment period

3.2.1 Portfolio covenants

The closing portfolio will change through monthly replenishments over a three-year revolving period ending October 2020. The maximum replenishment amount on each replenishment date is the difference between the initial portfolio balance and the outstanding balance.

Risks inherent to revolving transactions including portfolio-quality migration and portfolio-performance deterioration are mitigated by portfolio and asset covenants over the replenishment period and early amortisation triggers.

The asset and portfolio covenants however allow for an increase in worst-performing segments compared to the closing portfolio: used light vehicles, used trucks, and used machinery and equipment. Portfolio-level covenants set a minimum granularity. (see Figure 7). In addition, the asset covenants prevent asset-liability mismatches and ensure new assets have a minimum interest rate and history.

Figure 7. Portfolio covenants

Portfolio covenants	Limit	Current portfolio as of 30 September 2017
Performing principal balance where residual price principal instalments due over the contract's life exceed 25% of the corresponding leased object's original value	10%	7.6%
Largest obligor	0.5%	0.4%
5 largest obligors	1.5%	1.3%
50 largest obligors	5.0%	4.4%
Machinery and equipment	40%	38.3%
Machinery and equipment, used	14%	11.7%
Trucks and trailers	24%	22.4%
Light vehicles, used	14%	11.1%
Maximum leases with fixed rates	10%	3.7%
Minimum weighted average interest rate relating to fixed-rate leases	5%	8.1%
Minimum weighted average margin relating to floating-rate leases	3%	5.9%
Minimum leases related to SMEs	90%	98.2%
Maximum leases related to a single postcode region	20%	15.1%
The largest activity sector	20%	17.6%
Five largest activity sectors	50%	45.7%
Weighted average remaining term (months)	48	40.2

Source: EFL, Scope

3.2.2 Impact of replenishment mechanisms and early-amortisation triggers

The replenishment mechanisms preserve the collateralisation of notes via non-defaulted assets and cash. The structure uses principal collected from the portfolio to acquire new assets every month.

Amortisation is driven by scheduled and unscheduled principal payments, as well as write-offs. The replenishment period is long and would be terminated early if the performance deteriorates.

The amortisation phase starts if the servicer cannot originate enough eligible receivables to maintain the notes asset collateralisation, i.e. the maximum collateralisation allowed in cash is 10%. This is possible if the originator's strategy changed significantly over the replenishment period.

The structure relies on the principal deficiency ledger trigger to preserve the credit enhancement available for the notes. We believe the trigger on the cash reserve is not very effective because strong liquidity support is already provided by the interconnected priority of payments. We expect the cash reserve would only be used during a transition to the back-up servicer, which would anyway trigger the end of the replenishment period.

Additionally, the structure will enter the amortisation phase upon illegality (including fraud), tax or regulatory events relating to the issuer, as well as enter accelerated amortisation upon enforcement events (e.g. insolvency or default of the issuer on its obligors in respect of the Class A notes).

Figure 8. Early-amortisation events related to the originator and the asset

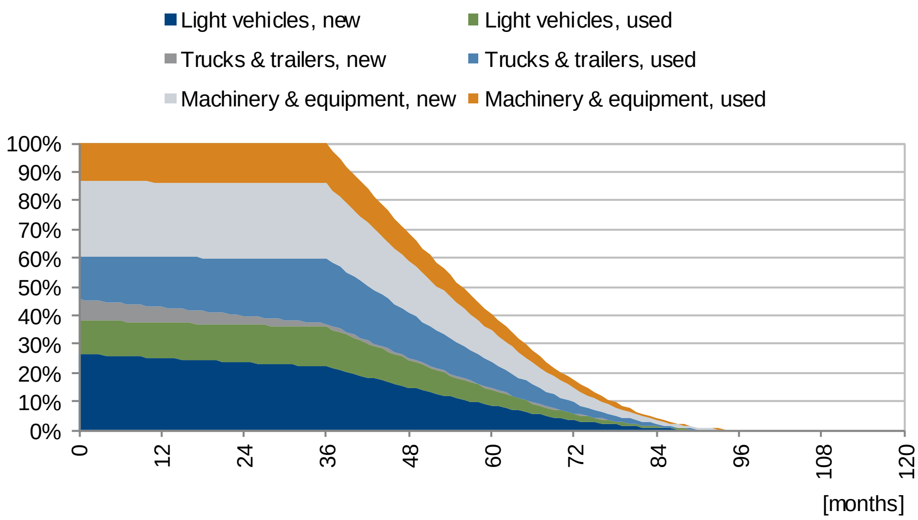
Early-amortisation events
Breach of any of the performance triggers: a) three-month rolling average late delinquency ratio is greater than 3% b) Gross loss ratio greater than 3% in the first year, 4.5% in the second year and 5.5% in the third year of the revolving period
EFL ceases to be a leasing company
Insolvency proceedings in relation to EFL
Servicer termination
Enforcement notice
Breach of the seller's payment or repurchase obligation
Excess cash event
Tax event
Cash reserve is not fully funded
Principal deficiency ledger > 0.5% of the performing lease balance

Source: EFL, Scope

3.3 Amortisation profile

The projected amortisation profile reflects the replenishment period, covenants over the remaining term, and the amortisation scheme of the underlying assets. Figure 9 shows developments of the six portfolio segments that Scope considered in its analysis. Scope expects the replenishment criteria will lead to a higher share of leases to finance used light vehicles, used trucks and trailers, and used machinery and equipment.

Figure 9. Projected portfolio amortisation profile (0% prepayment, 0% defaults)



Source: EFL, Scope

3.4 Analytical portfolio assumptions

Figure 10. Portfolio assumptions for the projected portfolio at the end of the revolving period

	Pool	Light vehicles. new	Light vehicles, used	Trucks & trailers, new	Trucks & trailers, used	Machinery & equipment, new	Machinery & equipment, used
Share of portfolio 30 September 2017	100%	26.6%	11.7%	7.3%	14.7%	26.5%	13.3%
Share of portfolio at start of amortisation period	100%	22.0%	14.0%	1.2%	22.8%	26.0%	14.0%
Point-in-time default rate	5.3%	3.0%	4.0%	5.5%	6.0%	6.5%	7.0%
Coefficient of Variation	54.4%	45.0%	60.0%	60.0%	70.0%	40.0%	60.0%
Cure rate	13.0%	15.0%	15.0%	15.0%	15.0%	10.0%	10.0%
Base case recovery rate	4.9%	3.0%	1.0%	13.5%	4.0%	4.0%	10.5%
AAA recovery rate	2.9%	1.8%	0.6%	8.1%	2.4%	2.4%	6.3%
CPR low	0%	0%	0%	0%	0%	0%	0%
CPR high	8%	8%	8%	8%	8%	8%	8%

Source: EFL, Scope

Note: aggregated portfolio recovery rates consider the respective asset segments weighted by their point in time default rates.

3.4.1 *Portfolio assumptions*

Scope's assumptions are based on asset and portfolio covenants and the application of stresses accounting for the risks of portfolio deterioration and changes in portfolio characteristics. Scope projected the characteristics of the post-replenishment portfolio by considering the initial portfolio's contractual amortisation and its replacement with new unseasoned loans. For subsequent portfolio replenishments, Scope assumed the most adverse possible additions, i.e. the maximum share of the three sub-segments comprising used light vehicles, used trucks and trailers, and used machinery and equipment. Scope also considered the minimum average yield for the portfolio, the maximum allowed amount of fixed-rate lease receivables, the minimum seasoning, and the maximum remaining term.

Scope also assumed 0.5% of the portfolio will have defaulted by the end of the revolving period, i.e. assets which are not performing nor provisioned with excess spread. This share corresponds to the early-amortisation trigger linked to the principal deficiency ledger (see Figure 8) and is deducted from the performing balance at closing, assuming no recoveries.

3.4.2 *Default rate analysis for portfolio*

Scope calibrated a point-in-time default rate for the six portfolio asset segments, based on 2008-2017 vintage data and reflecting the performance of EFL's lease book.

The default rates were further adjusted by cure rates derived from a separate vintage set provided by EFL. Scope believes these cure rates reflect EFL's business model, i.e. turning defaulted obligors back to making regular payments.

The default rate assumptions for the analysis in Figure 10 reflect the potential migration of the portfolio during the revolving period. The most relevant data used for the analysis is shown in APPENDIX II.

3.4.3 *Recovery rate*

Scope analysed EFL's 2009-2017 recovery vintage data, considering accumulated recoveries of up to three years after a default to derive base case recovery rates.

Scope did not consider liquidation proceeds from leased objects. This is because recovery proceeds would be commingled with the originator's insolvency estate should it default.

Therefore, we based our recovery assumptions on the vintage data, which reflects the recovery proceeds from cash receipts from the obligors only. Since this data also includes the cash flow streams from lease receivables that technically defaulted but turned back to regular payments, we adjusted our assumptions to reflect the observed cure rates.

Scope analysed the portfolio using fixed recovery rates stressed using a 40% rating conditional haircut (see Figure 10).

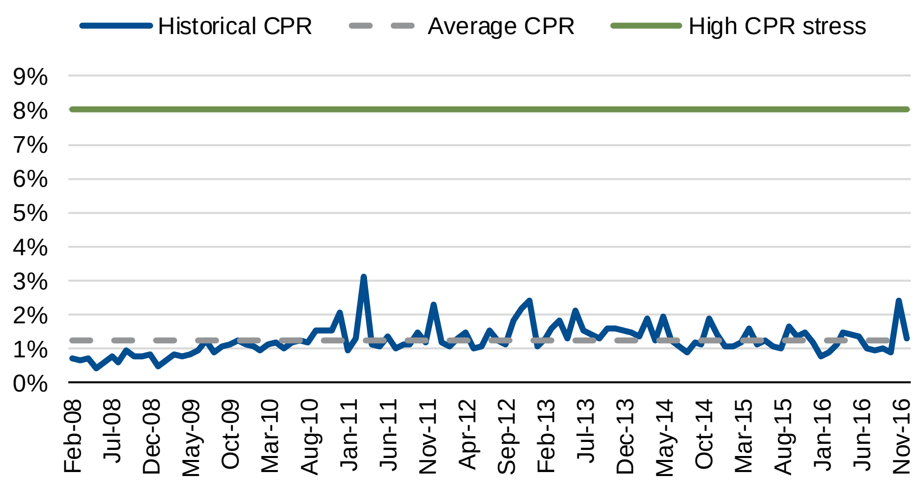
3.4.4 Cure rate

Vintage default data provided by EFL included defaults not adjusted for cured assets. Scope estimated a 10-15% cure rate for the six portfolio segments, as the share of 90 'days past due' (dpd) delinquent assets that do technically default but quickly return to making regular payments. We have assumed the same cure rate for all rating stresses.

3.4.5 Constant prepayment rate (CPR)

Scope tested the performance of the rated notes under 0% and 8% prepayment rates. EFL's product-specific historical information exhibits an average constant prepayment rate of only 1.23%.

Figure 11. Historical prepayments and stress



Source: EFL, Scope

4 ORIGINATOR AND SELLER

EFL is an experienced originator of leases in Poland and ranks third by total portfolio size in the country's leasing market. EFL focuses on maintaining its 9% market share and a growth in line with the Polish leasing market's rate. EFL's 17.3% growth in newly originated assets in 2016 slightly exceeded the 15:1% market average growth.

EFL will continue to focus on the micro SME lease segments and SOHO (small offices and home offices) since the growth in Poland's leasing activity is driven by these segments, a trend also reflected in EFL's lease book. According to EFL´s strategy, the source of growth should not stem from deteriorating underwriting standards but rather increased sales activity.

Sales activity will further be supported by a new IT tool aimed at improving efficiency, incentives for dealers (profit participation from contracts) and stronger co-operation with third-party suppliers (from 2018). In 2016, 52% of EFL's newly originated business came from clients it already knows.

EFL's lease products comprise fixed- or floating-rate operating leases denominated in euros or Polish zloty. EFL also offers a deferrable payment schedule; currently only a small share of customers has opted for it.

Margins are adjusted in line with EFL's funding cost and then transferred to the lessee. Lessees are only aware of the updated instalment amount to be paid under their contract.

4.1 Sanctioning and underwriting

Credit decisions in EFL are centralised. The exposure of a lease contract in EFL defines the credit approval process. Individual contracts approval is delegated by exposure size, the customers' current exposure with EFL, and applicants' creditworthiness.

Underwriting is highly automated and based on defined exposure thresholds. This process is driven by the client's behavioural score and creditworthiness, which is checked externally and further enhanced by contract parameters such as duration, down payments, and asset quality. An additional manual review is performed if the applicant is not a clear rejection or approval, leading to a potential adjustment of down payment and/or term. The model is continuously monitored, back-tested and reviewed.

The process for individual decisions focuses on the risk appetite and characteristics of the contract, e.g. its purpose and business experience. EFL's asset risk management serves as an additional review, providing opinions on the contracts' assets, supported by external valuation providers.

EFL's credit committees have the flexibility to sanction large and potentially risky contracts (approval rate is around 80-85%). Branch managers, regional managers and the sales department director can all override the rejection of contracts, limited at PLN 160m across EFL per year, split for branches by the head of sales. Overridden contracts comprise of 3%-4% of EFL's portfolio. A delegation scheme defines the permissible number of overridden contracts and the managers' areas of responsibility. EFL also tracks overridden contracts for each manager. A manager's ability to override is suspended swiftly if overridden contracts underperform.

The quality of advisors, agents and brokers, and suppliers is constantly monitored based on signed leasing agreements and target realisation and portfolio quality. Remuneration for advisors consists of bonuses, or financial penalties for defaulted contracts. Brokers are paid solely a fee for new clients based on the contracts' profitability.

4.2 Servicing and recovery

EFL's recovery strategy is pro-active and focuses on customer relations. It aims at finding a joint solution and avoiding immediate repossession of the leased object. Once a solution is agreed, restructured deals are monitored. Unresolved cases are escalated quickly to repossession.

Obligors are monitored via a process that triggers automatic reminders after four days in arrears, which is sent via SMS, normal post and registered post until 30 dpd. After this, the contract is terminated if no payment is received.

EFL divides the collection process into three steps. The riskier the customer the faster the process is escalated.

After termination, the process is no longer automated. The collections department contacts by phone the lessees who are up to 70 days in arrears. EFL considers the case resolved if the lessee returns to its original payment schedule, or if the asset is repossessed/repurchased. According to EFL, this step resolves 90% of such cases.

Upon unsuccessful contact by phone, collectors visit the clients until the case is resolved or 100 dpd is reached. EF. According to EFL, this step resolves 80% of such cases.

After 100 dpd, EFL deploys external collectors: four companies that are paid only for successful cases. The target is to collect money, or to find, secure and repossess the leased object. This process is limited to four months. According to EFL, this step resolves 90% of such cases. Even within six months after default, 15% (on average) of defaulted lessees return to making regular payments.

EFL's collection procedure deals only with the repossession and eventual sale of the leased object. A centralised facility liquidates the assets underlying defaulted contracts.

5 FINANCIAL STRUCTURE

5.1 Capital structure

The capital structure features two senior classes: Class A1 and Class A2 (together Class A). Interest and principal amounts on Class A1 and Class A2 rank pari passu and pro rata. The proceeds from the issuance of the Class A notes were used to purchase the initial portfolio of assets and to fund the cash reserve. The initial portfolio is sold to the issuer at a discount purchase price forming part of the credit enhancement of the Class A of 20.6%.

The Class A notes pay a quarterly coupon of three-month Wibor + 1.07%, which is floored at zero. Unused excess spread is first trapped in the excess spread ledger up to an amount of 0.5% of the performing lease balance and then paid to EFL.

5.2 Priority of payments

Payments to the issuer consist of lease principal instalments, lease interest instalments, insurance proceeds, deemed collections and recoveries.

The structure features a combined priority of payments that provides material protection against payment interruption. Principal collections from the assets can be used to pay timely interest on the Class A notes.

Figure 12. Simplified priority of payments and available funds

	Interest priority of payments	Principal priority of payments
Available funds	First: Interest available amount Second: Principal reclassified as interest	Principal collections and interest reclassified as principal
Pre-enforcement (revolving period)	Taxes and senior expenses	Taxes and senior expenses if not paid in full (debited to PDL)
	Class A interest	Class A interest if not paid in full (debited to PDL)
	Cash reserve	Accumulation ledger
	Principal deficiency ledger	Deferred purchase price
	Excess spread ledger	Deferred consideration
	Deferred purchase price	
	Deferred consideration	
Pre-enforcement (amortisation period)	Taxes and senior expenses	Taxes and senior expenses if not paid in full (debited to PDL)
	Class A interest	Class A interest if not paid in full (debited to PDL)
	Cash reserve	Class A principal
	Principal deficiency ledger	Deferred purchase price
	Excess spread ledger	Deferred consideration
	Cash reserve repayment ledger	
	Deferred purchase price	
	Deferred consideration	
Post-enforcement	Taxes and senior expenses	
	Class A interest	
	Class A principal	
	Deferred purchase price	
	Deferred considerations	

Source: EFL, Scope

5.3 Amortisation and provisioning

Scope believes that the combination of a cash reserve and excess spread, which is partially trapped, are effective in protecting the Class A.

The amount allocated to replenishments – and following the replenishment period, to the principal amortisation of the Class A notes – equals the monthly reduction in the performing balance of the portfolio.

The default definition of the transaction results in the early capture of excess spread. Lease receivables are classified as 'defaulted' if they are more than 60 days in arrears for exposures equal to or larger than PLN 1m, and 90 days in arrears for exposure smaller than PLN 1m, or if subjectively considered unrecoverable by the servicer.

5.4 Cash reserve and cash reserve repayment ledger

The structure features a fully funded cash reserve, equivalent to 2.0% of the Class A's outstanding balance. The cash reserve is funded at closing from the notes' proceeds and used to cover temporary shortfalls in collections available to pay senior expenses and interest on the notes. On the final maturity date, or on the payment date where the performing- lease principal balance is zero, it can also be used to cover shortfalls in collections available to pay the outstanding principal amount.

The cash reserve cannot be used to fund replenishments and is amortising with the outstanding Class A notes to a minimum of PLN 1m.

The cash reserve pays fees and interest for up to two payment periods at the current levels of one-month and three-month Wibor rates or below; and up to one payment period at a Wibor of three times the current levels.

Excess cash in the reserve account, i.e. resulting from a reduction in required amounts, are available to redeem the notes.

5.5 Excess spread ledger

The excess spread ledger is not funded at closing but ramped up by trapping excess spread at 0.5% of the performing lease balance over the life of the transaction. The ledger covers temporary shortfalls in collections available to pay senior expenses and interest. On the final maturity date or on the payment date, it can also be used to cover shortfalls in collections available to pay the outstanding principal amount.

The ledger cannot be used to fund replenishments and is amortising with the performing-lease principal balance.

5.6 Matched interest rates

Interest rate risk is limited by natural hedging from the floating nature of both assets and liabilities, all referenced to Wibor. A minimum 90% of the assets yield interest indexed to one-month Wibor, which is highly correlated with the notes' three-month Wibor. We have reduced the interest generated from the pool by 50 bps over the life of the transaction to account for the possible negative impact of basis mismatches.

In addition, Scope expect a reduction of available excess spread because of replenishments. Scope considered the minimum covenant portfolio spread over one-month Wibor available during the expected life of the Class A, resulting in an excess spread of 0.9%. This represents a significant stress, compared to the excess spread of 5.4% available at the closing of the transaction. All calculations of excess spread assume stressed senior costs of 1%.

5.7 Issuer accounts

The issuer has a treasury account held by Citibank N.A., which holds collections from the assets as well as the debt service reserve. The servicer transfers the portfolio collections on one designated day per month.

The transaction is exposed to Citibank N.A. as the account bank (see '**Counterparty Risk**'), though Scope takes comfort from the bank's public ratings and replacement trigger. Potential negative carry introduced by this account is covered by credit enhancement.

6 QUANTITATIVE ANALYSIS

Scope has assigned an AAA_{SF} rating to the Class A notes based on its cash flow analysis. This result is underpinned by Poland's solid macroeconomic conditions and the strong support the Class A receives from the transaction's credit enhancement mechanisms.

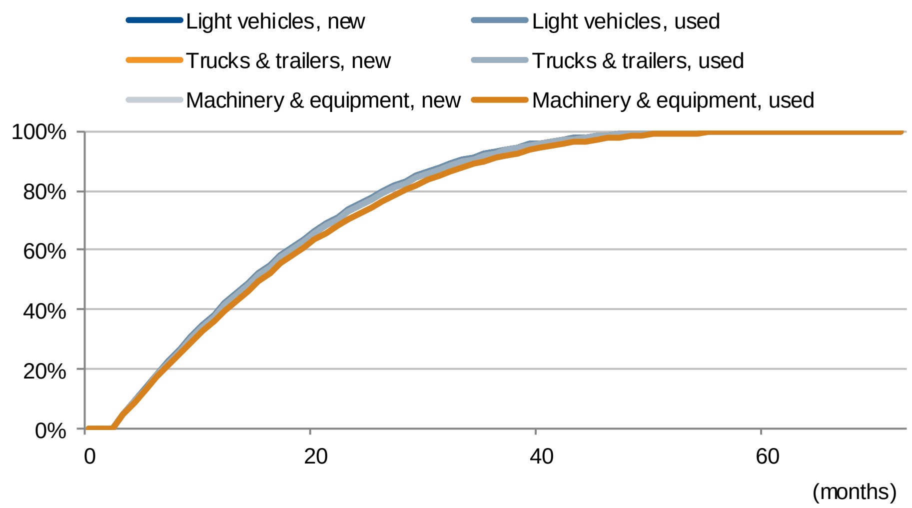
Scope applied its large homogenous portfolio approximation approach when analysing the highly granular collateral pool. Scope analysed the transaction using six distinct sub-segments, based on the composition of the portfolio that comprises lease receivables financing the purchase of new and used light vehicles, trucks and trailers, and machinery and equipment.

A long-term adjustment of the default rate and coefficient of variation is not justified in Scope's view, given the historically stable economic expansion in Poland.

Scope analysed the transaction using cash flow projections assuming an inverse Gaussian portfolio default probability distribution to calculate the probability-weighted loss for the Class A. The analysis also provides the expected weighted average life for the Class A.

Scope considered the assets' amortisation characteristics and assumed a default timing with a constant default intensity. The cumulative default-timing assumptions are shown in Figure 13 and represent the assumed default timings for the six portfolio segments when the replenishment period ends. The defaults are classified as 90+ dpd, broadly in line with definitions in the documentation.

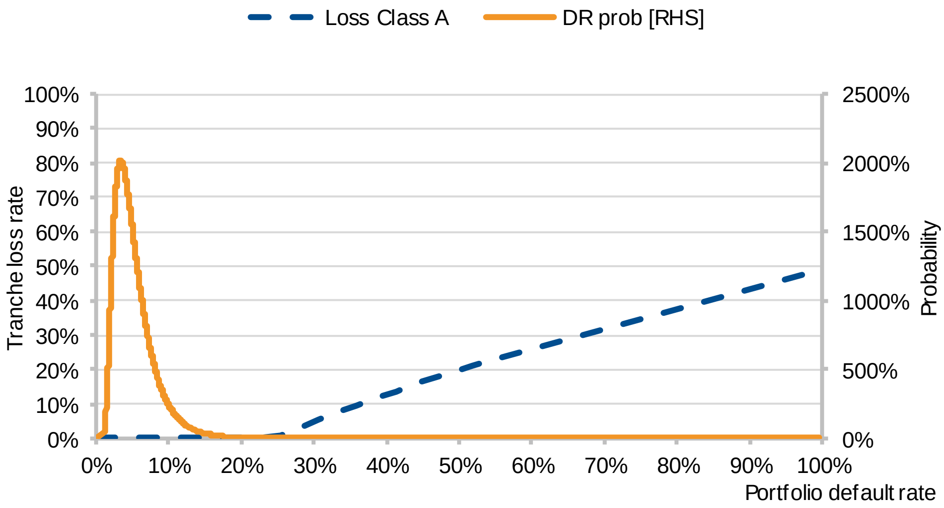
Figure 13. Cumulative default-timing assumptions for each portfolio segment



Source: Scope

Figure 14 illustrates the losses of the Class A at all portfolio default rates. The chart shows how credit enhancement, excess spread and recovery proceeds protect the Class A in cases of default. The results in Figure 14 factor in an unconditional 0.5% discount to the portfolio balance at the beginning of the amortisation period, which accounts for potential non-performing assets in the portfolio at the end of the revolving period.

Figure 14. Cash flow analysis results for base case mean default rate, coefficient of variation and rating case recovery rate



Source: Scope
Note: The probabilities on the right-hand axis were considered by Scope in its calculation of probability density.

7 RATING STABILITY

7.1 Rating sensitivity

Scope tested the resilience of the rating against deviations in the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the cash flow analysis-implied rating for the bond changes when the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

Class A: sensitivity to probability of default, five notches; sensitivity to recovery rates, zero notches.

7.2 Break-even analysis

The resilience of the Class A rating is demonstrated by the break-even default rate analysis. The Class A would not experience losses under a portfolio lifetime default rates of 22.9% or lower.

8 SOVEREIGN RISK

Sovereign risk does not limit the rating. The risks of an institutional framework meltdown or legal insecurity are immaterial for the Class A rating, especially given its short expected weighted average life.

Scope factors in Poland's solid economic performance, driven by strong economic fundamentals, favourable financing conditions, adequate external buffers and a credible public finance framework.

The country's GDP is continuously growing, accompanied by rising wages and falling unemployment. Consequently, the financial performance of Polish obligors is likely to remain stable in the short term, further supported by the improved debt service capacity among borrowers.

9 COUNTERPARTY RISK

Scope does not consider any of the counterparty exposures to be excessive, i.e. if counterparty risk crystallises, and a downgrade is still limited to a maximum of six notches.

9.1 Operational risk from servicer

Operational risk from EFL as servicer is mitigated in the transaction. Should EFL need to be replaced as servicer, Crédit Agricole Leasing & Factoring, as back-up servicer facilitator, would select a Polish institution within 20 business days.

9.2 Commingling risk from servicer

Mechanics of the commingling reserve and available credit enhancement is sufficient to cover commingling risk in case the servicer defaults.

A commingling reserve covering shortfalls arising from the servicer's failure to credit all or part of the collections to the issuer will be funded by the servicer should the servicer's credit quality fall below a BBB credit quality by Scope.

The required amount is 2.5 times the last three months' average collections during the revolving period. During the amortisation period, the required amount is the lower of i) 2.5 times the last three months' average collections, ii) 50% of the Class A notes' outstanding principal and iii) the higher of 2.5% of the initial pool balance and 10% of the performing pool balance. The required amount has to be paid in an account in the name of the issuer.

Once funded, the reserve account will cover commingling losses upon a servicer default. Furthermore, the contribution to expected loss from commingled assets as estimated by Scope would not impact the Class A rating should the commingling reserve be unfunded upon servicer default event.

9.3 Commingling risk from the account bank

The Class A has an expected weighted average life of 4.3 years under a 0% constant prepayment rate and including the revolving period. Given the high credit quality of the account bank, Citibank, Scope considers the risk of commingling losses to be immaterial for the Class A notes.

The risk is further mitigated by the replacement of Citibank upon loss of BBB.

Scope assessed the credit quality of Citibank using public information as well as the public ratings of the bank.

9.4 Set-off risk from originator

Scope does not believe set-off risk from the originator is material in the context of this transaction. The originator is not a deposit-taking financial institution, and lessees' claims against the lessor generally cannot be set-off.

If the servicer's credit quality falls below BBB by Scope, the servicer will fund a reserve held with the issuer, to mitigate risks related to unallocated overpayments. Unallocated overpayments are collections from obligors that bear set-off risk upon the servicer's bankruptcy, because those have not been specified by purpose. The reserve's amount is the positive difference of remaining unallocated overpayments recorded by the servicer from the preceding cut-off date and 0.5% of the performing portfolio balance.

10 LEGAL STRUCTURE

10.1 Legal framework and use of legal and tax opinions

This securitisation is affected by three different legal regimes. Receivables are originated and transferred under Polish law. The issuer is incorporated in Ireland and governed by English law. Any dispute arising regarding the English legal documents will be referred to and finally resolved by arbitration from the International Chamber of Commerce.

Scope reviewed the legal and tax opinions produced for the issuer. The legal opinions provide comfort on the issuer's legal structure and supports Scope's general legal analytical assumptions.

The nature and purpose of the vehicle and the legal structure of the issuer effectively results in a tax-efficient issuer. The tax opinions produced for the issuer indicate that the transaction has a tax-efficient structure, i.e. no taxes apply except for value-added tax on contracted services, which remain a cost for the issuer.

10.2 Asset replacement

EFL will replace or repurchase any asset in the portfolio that does not comply with eligibility criteria in the documentation.

10.3 Restructuring lease terms

The documentation allows the servicer to restructure terms of leases in the portfolio provided this is not a non-permitted amendment. In all cases, this would follow the originator's standard procedures and approval processes. Restructured lease contracts that consist of non-permitted amendments will constitute a repurchase and the repurchase price be payable by the seller to the issuer as deemed collection.

11 MONITORING

Scope will monitor this transaction based on the performance reports from the cash manager as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

12 APPLIED METHODOLOGY AND DATA ADEQUACY

For the analysis of this transaction Scope has applied its Auto ABS Rating Methodology, dated August 2017, the General Structured Finance Rating Methodology, dated August 2017 and the Methodology for Counterparty Risk in Structured Finance, dated August 2017, all available on our website www.scoperatings.com.

EFL provided Scope with default and recovery data, segmented by monthly vintage of origination, referring to a 60/90 dpd default definition, depending on the obligors' exposure. The default rate data covers a period from 2008 to 2017 and is generally granular. The recovery data also covers a period from 2009 to 2017, referring to all recoveries during that period, which also includes payments from obligors making regular payments after having defaulted.

APPENDIX I. SUMMARY OF PORTFOLIO CHARACTERISTICS

Key features	Portfolio as of 30 September 2017	Portfolio adjustments for replenishments
Originator (% of balance)	Europejski Fundusz Leasingowy S.A. (100%)	
Portfolio balance (PLN m)	**2,220.1**	
Number of assets	44,765	
Number of obligors	26,642	
Average asset size (PLN)	49,594	
Maximum asset size (PLN)	5,210,000	
Minimum asset size (PLN)	1,000	
Segment: Light vehicles, new	**26.6%**	**22.0%**
Segment: Light vehicles, used	**11.7%**	**14.0%**
Segment: Trucks, new	**7.3%**	**1.2%**
Segment: Trucks, used	**14.7%**	**22.8%**
Segment: Machinery & equipment, new	**26.5%**	**26.0%**
Segment: Machinery & equipment used	**13.3%**	**14.0%**
Largest obligor	0.4%	
Top 10 obligors	1.8%	
Largest region by postal code	15.1% (0 - Warsaw)	
Top 3 regions by postal code	42.2%	
Current weighted average floating margin	5.9%	**3.0%**
Current weighted average fixed interest	8.1%	**5.0%**
Loans in portfolio referencing one-month Wibor (% of balance)	96.3%	**90.0%**
Amortising leases	100.0%	

APPENDIX II. VINTAGE DATA PROVIDED BY EUROPEJSKI FUNDUSZ LEASINGOWY S.A.

EFL provided 60/90 dpd (depending on the defaulted exposure) delinquency and recovery performance data for the six segments in the portfolio in line with the definition of the transaction. The data represents EFL's lease book from 2008-2017 and 2009-2017 for defaults and recovery respectively. Scope considered the information in its analysis as foundation for the calibration of point-in-time default rates, coefficient of variation and base case recovery rates.

EFL vintage data – default and recovery rates – 60/90 dpd reference

Figure 15. Light vehicles, new – delinquency vintage data presented by EFL

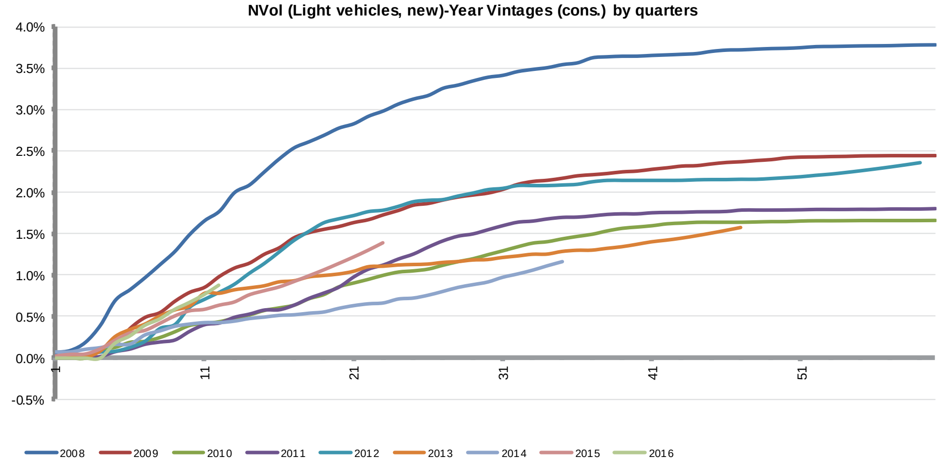


Figure 16. Light vehicles, new – recovery vintage data presented by EFL

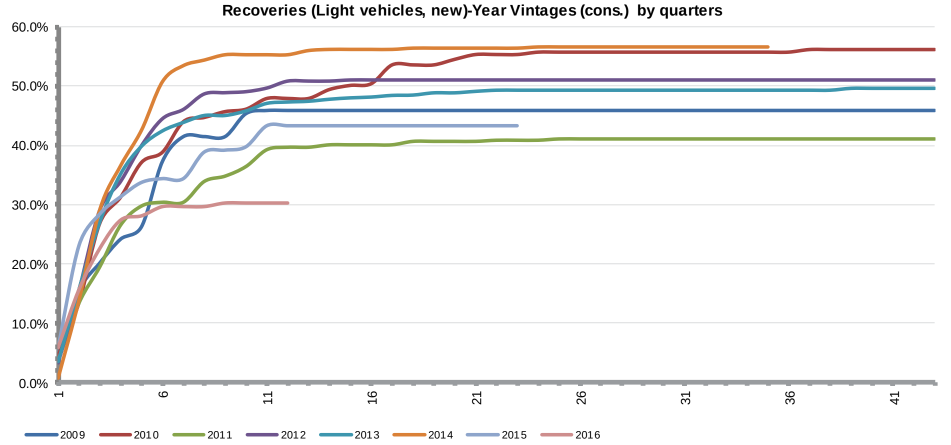


Figure 17. Light vehicles, used – delinquency vintage data presented by EFL

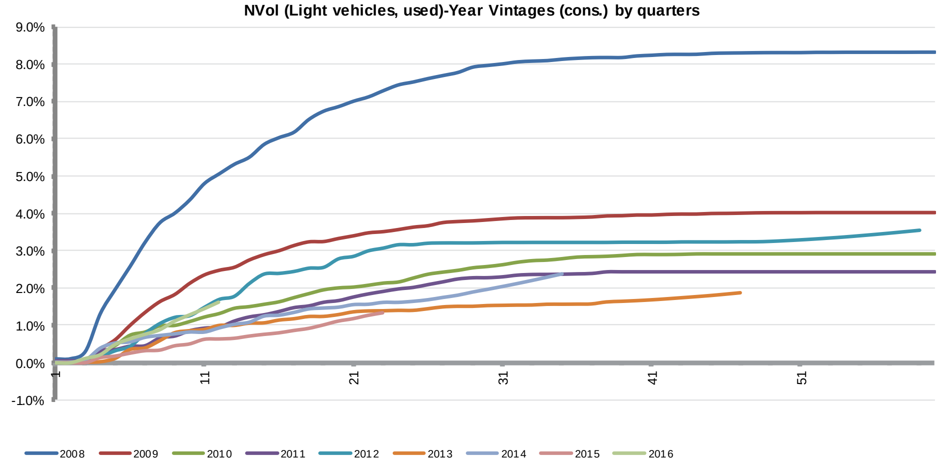


Figure 18. Light vehicles, used – recovery vintage data presented by EFL

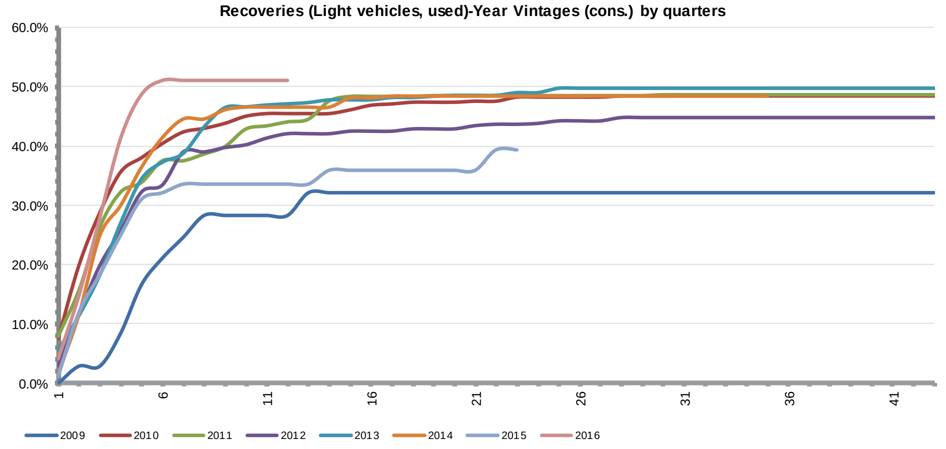


Figure 19. Trucks & trailers, new – delinquency vintage data presented by EFL

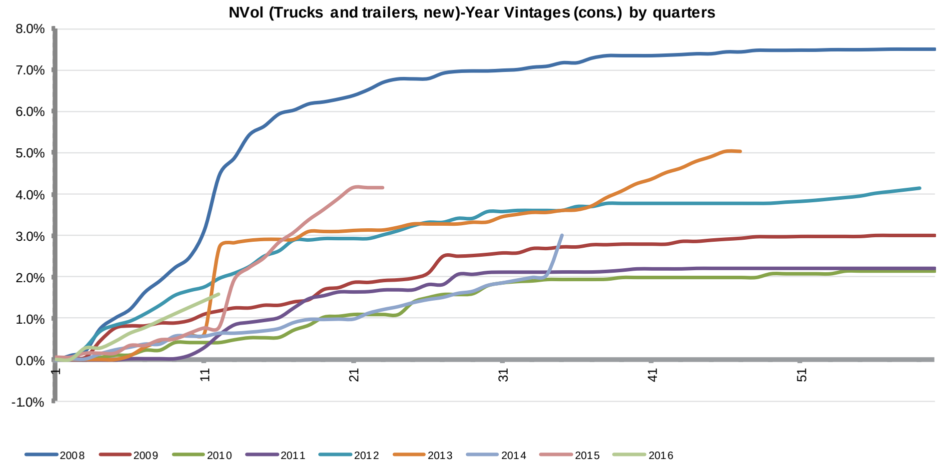


Figure 20. Trucks & trailers, new – recovery vintage data presented by EFL

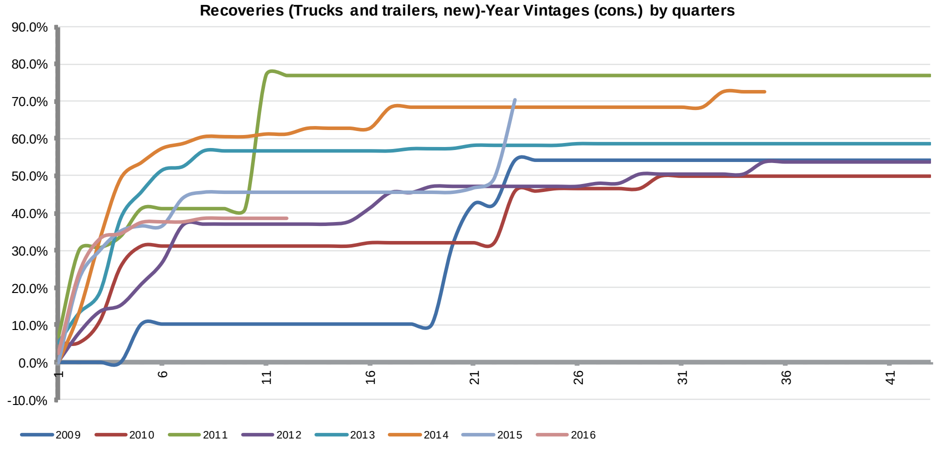


Figure 21. Trucks & trailers, used – delinquency vintage data presented by EFL

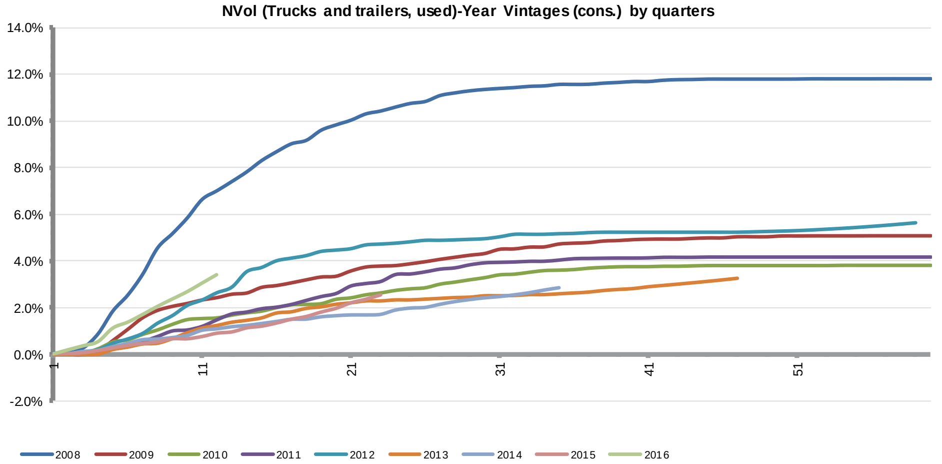


Figure 22. Trucks & trailers, used – recovery vintage data presented by EFL

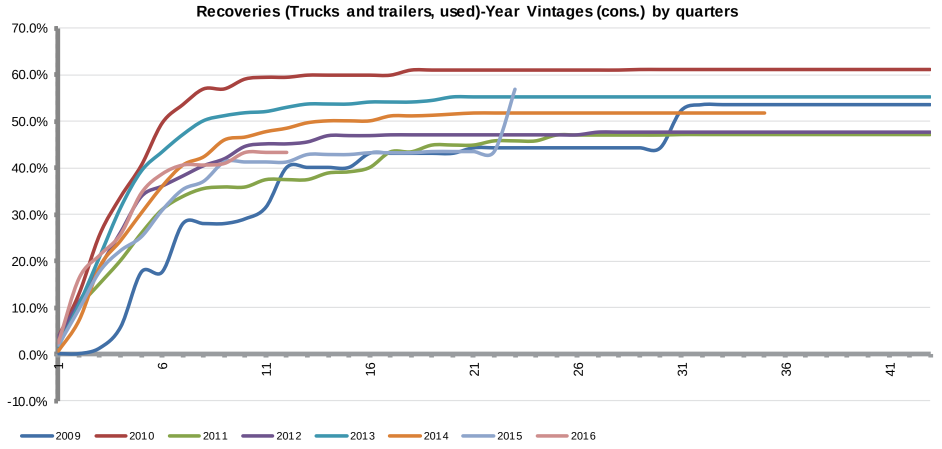


Figure 23. Machinery & equipment, new – delinquency vintage data presented by EFL

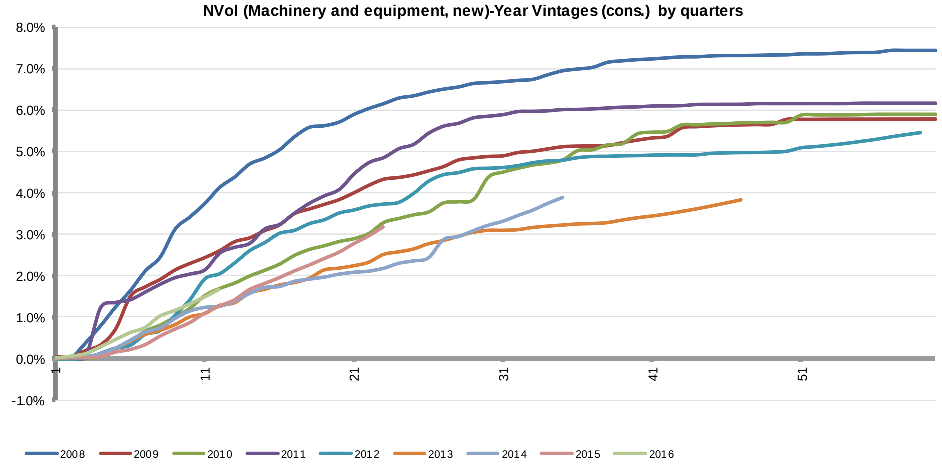


Figure 24. Machinery & equipment, new – recovery vintage data presented by EFL

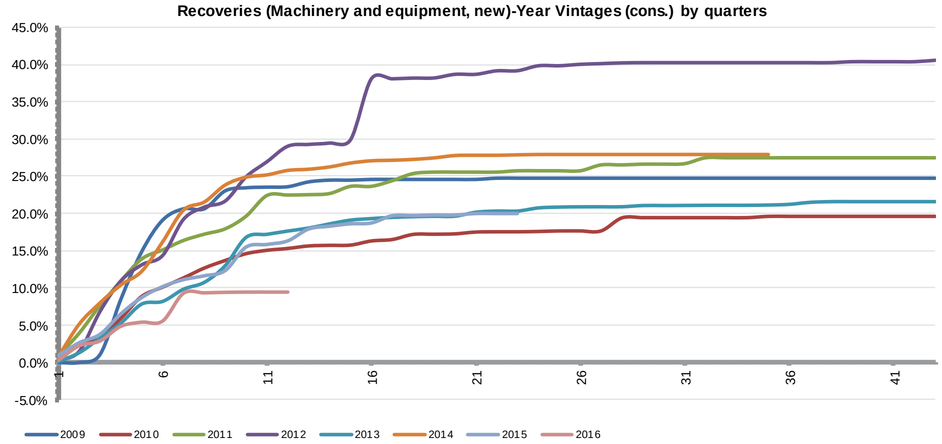


Figure 25. Machinery & equipment, used – delinquency vintage data presented by EFL

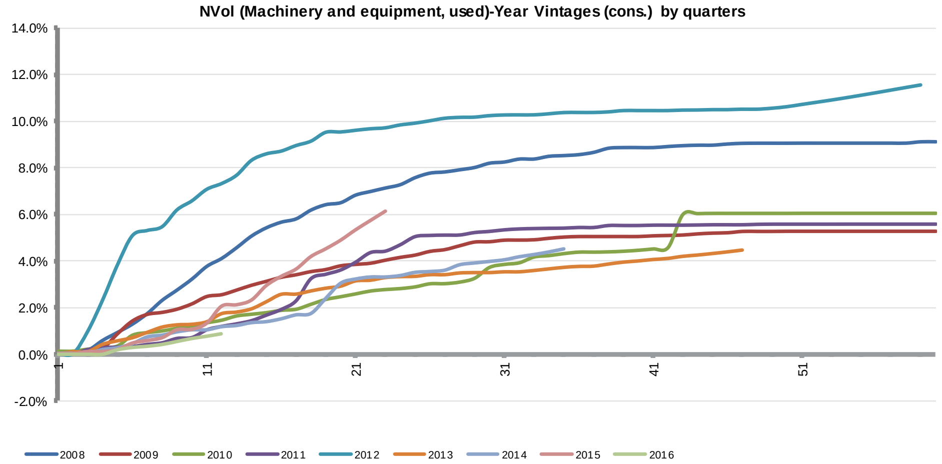
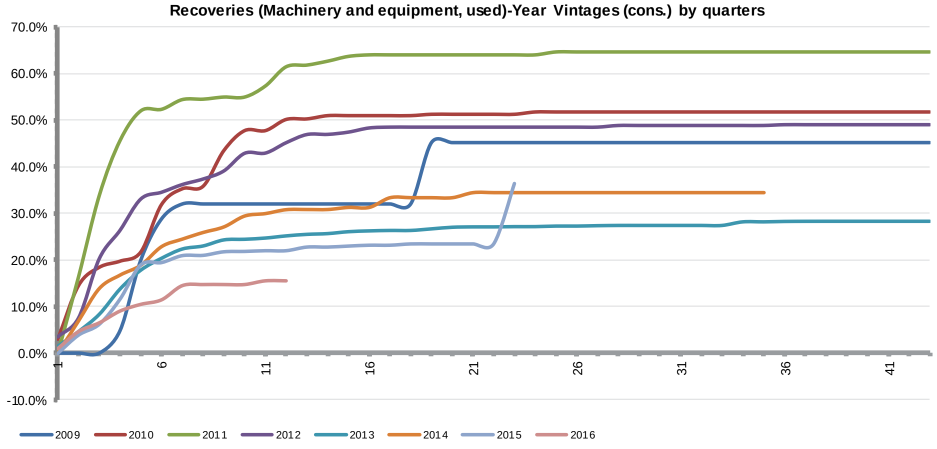


Figure 26. Machinery & equipment, used – recovery vintage data presented by EFL



APPENDIX III. REGULATORY AND LEGAL DISCLOSURES

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Martin Hartmann, Lead Analyst. Guillaume Jolivet, Committee Chair, is the analyst responsible for approving the rating.

Rating history

The rating concerns newly issued financial instruments, which were evaluated for the first time by Scope Ratings AG.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but for a fee based on a mandate of the issuer of the investment. The issuer has participated in the rating process.

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

Key sources of information for the rating

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity, the rated entities' agents, third parties and Scope internal sources. Historical data used for this rating is limited.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Scope has not undertaken any assessment of agreed upon procedures carried out at the level of underlying financial instruments or other assets of structured finance instruments. Scope has relied on a third-party assessment and the use of such third-party assessment had no negative impact on the credit rating.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodology applicable for the ratings is 'General Structured Finance Rating Methodology', dated August 2017, 'Auto ABS Rating Methodology', dated August 2017, and the 'Methodology for Counterparty Risk in Structured Finance', dated August 2017. All files are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

Conditions of use / exclusion of liability

Rating issued by

Scope Ratings AG, Lennéstraße 5, 10785 Berlin.