

# EFL Lease ABS 2021-1 DAC

## Leasing ABS - Poland/Structured Finance



Scope  
Ratings

### Ratings

Series	Rating	Notional (PLN m)	Notional (% assets)	CE* (% assets)	Coupon	Final maturity
Class A1	AAA <sub>SF</sub>	890.0	41.3	23.1	3M-Wibor + 1.06%	October 2036
Class A2	AAA <sub>SF</sub>	800.0	37.2	23.1	3M-Wibor + 1.06%	October 2036
Rated notes		1,690.0				

Scope's quantitative analysis is based on the portfolio dated 30th September 2021, subsequent updates and the replenishment criteria in the prospectus, provided by the originator. 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](#).

\*Credit enhancement reflects overcollateralisation and cash reserve

### Transaction details

Purpose	Liquidity/Funding
Issuer	EFL Lease ABS 2021-1 DAC
Originator/servicer	Europejski Fundusz Leasingowy S.A. (NR)
Closing date	27 October 2021
Payment frequency	Quarterly (27 January, 27 April, 27 July, 27 October of each year)

The transaction is a true-sale securitisation of a PLN 2,152.9m revolving portfolio of lease receivables with no residual value risk, granted to individuals and SMEs in Poland by Europejski Fundusz Leasingowy S.A. (EFL). Citibank N.A. London Branch is the issuer account bank and paying agent.

### 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 exposure to and 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 referred to as class A) benefit from 23.1% of credit enhancement<sup>1</sup> at closing and excess spread from the portfolio. Moreover, asset and portfolio-level covenants together with early-amortisation triggers protect the class A against adverse portfolio migration and asset underperformance during the three-year revolving period. The class A notes are expected to amortise over a weighted average life of 1.3 years<sup>2</sup> from the end of the revolving period.

The stable outlook on the Polish economy reflects positively on expected portfolio performance. Sovereign risk does not constrain the notes' ratings over their 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 i) the credit quality of the counterparties; and ii) 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. We have assessed EFL's and Citibank's credit qualities using public information.

### Analytical team

Sebastian Dietzsch  
+49 30 27891-252  
[s.dietzsch@scoperatings.com](mailto:s.dietzsch@scoperatings.com)

Shashank Thakur  
+49 30 27891-336  
[s.thakur@scoperatings.com](mailto:s.thakur@scoperatings.com)

David Bergman  
+39 02 30315-838  
[d.bergman@scoperatings.com](mailto:d.bergman@scoperatings.com)

### Investor Outreach

Michael John MacKenzie  
+44 203 71449-81  
[m.mackenzie@scopegroup.com](mailto:m.mackenzie@scopegroup.com)

### Scope Ratings GmbH

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0  
Fax +49 30 27891 100

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)



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<sup>1</sup> including the PLN 33.8m reserve fund.

<sup>2</sup> 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

**Credit enhancement (positive).** Class A benefits from a 23.1% credit enhancement from overcollateralisation including a funded cash reserve, which also protects against portfolio losses at maturity.

**Excess spread (positive).** At closing, the portfolio will generate a substantial spread of up to 4.4% of the performing lease balance available to provision for collection shortfalls and protect the payment of senior expenses and interest.

**Robust Polish economy (positive).** The Polish economy has proved more resilient than euro area countries during the Covid-19 pandemic. Scope expects a supportive Polish economic environment for the life of this transaction.

**Liquidity coverage (positive).** The structure provides liquidity protection via a fully interconnected priority of payments, ensuring timely payment of Class A interest. Additionally, the structure features an amortising liquidity reserve of 2% of the Class A notes' principal amount, floored at PLN 1.0m, which can also be used to cover principal shortfalls at maturity.

**No residual value risk (positive).** The residual value of the leased objects is not securitised. All contracts amortise via constant annuities (French amortisation).

#### Negative rating drivers and mitigants

**Revolving portfolio (negative).** The characteristics and credit quality of the portfolio may deteriorate during the three-year replenishment period. This risk is partially mitigated by the originator's expertise and by asset, portfolio and performance covenants in the structure.

**Unsecured recoveries (negative).** The originator's commitment to transfer disposal proceeds from leased objects is generally unenforceable should the originator become insolvent. Therefore, Scope's recovery analysis has only considered historical recovery rates that do not account for the sale of the leased objects.

**Servicer commingling exposure (negative).** Servicer commingling exposes the transaction to EFL's credit quality. The available credit enhancement and a commingling reserve, which will be funded if the servicer's credit quality deteriorates, partially mitigate this risk.

**Unhedged interest reset risk (negative).** The structure does not hedge against reset risk – at least 90% of the assets pay a spread over one-month Wibor while the notes are indexed to three-month Wibor. Scope stressed the margin of the assets to accommodate temporary margin compression during a possible sharp rise in interest rates during the life of the transaction. Additionally, the significant correlation between the two Wibor reference rates that are involved, along with the high excess spread and the cash reserve, partially mitigate this risk.

#### Downside rating-change drivers

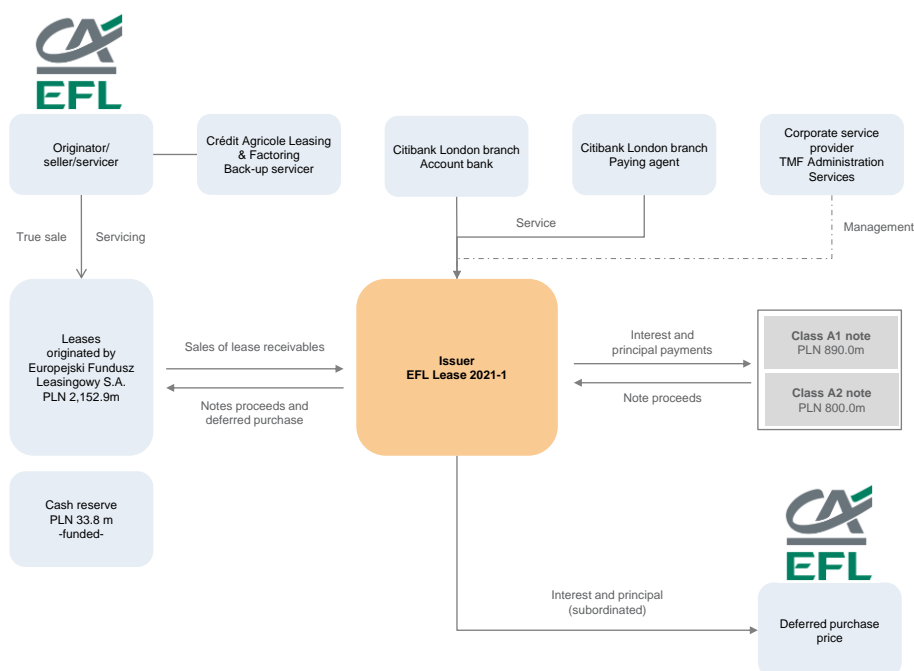
**Negative.** A higher-than-expected default rate or lower-than-expected recovery upon asset default could negatively impact the ratings.

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## 1. Transaction summary

EFL Lease ABS 2021-1 is the second leasing transaction of EFL that we have rated. The transaction is a securitisation of a PLN 2,152.9m portfolio of fully amortising lease receivables with no residual value risk. The leases were granted to finance the acquisition of light vehicles, trucks and trailers, and machinery and equipment, both new and used. The transaction features a three-year replenishment period, subject to performance and asset-eligibility covenants.



Source: Transaction documents and Scope.

## 2. Vehicle and equipment leasing in Poland

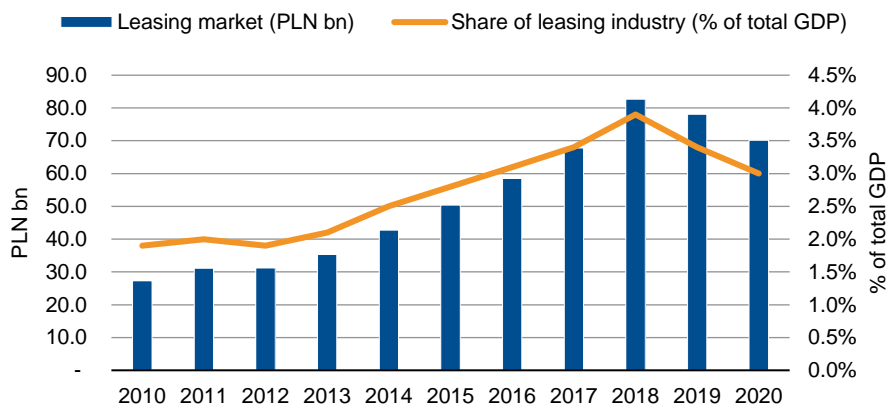
The upward trending macroeconomy in Poland has been to the advantage of the mainly SME obligors. The sound borrower performance has been helped by i) the continuous economic support from EU funds; ii) the strongly performing industrial sector; iii) the good availability of credit; and iv) strengthening private consumption.

The Polish leasing market had been growing at double-digit rates since 2010 until Covid lockdowns in spring 2020 led to a decline in volume. The Polish economy showed more resilience than its eurozone peers and started to recover in second half of the 2020. This was partially due to the manufacturing sector's overweight in the Polish economy and a lower dependence on tourism.

We assume that the economic recovery will improve credit affordability among Polish SMEs, which will be reflected in low defaults and stable recovery rates for the transaction's portfolio. Small and micro companies (turnover of less than EUR 5m), which accounted for 58% of all new business in 2020, have been the backbone of the Polish economic recovery.

**The Polish economy showed more resilience than its eurozone peers**

**Figure 1. Leasing market in Poland**



Source: Leaseurope, Polish Leasing Association (PLA), GUS, Eurostat and EFL.

### 3. Asset analysis

#### 3.1. Securitised assets

The portfolio benefits from positive selection

The securitised portfolio comprises receivables from leases granted to finance the acquisition of light vehicles, trucks and trailers, and machinery and equipment. The transaction has no residual risk since the residual value is not securitised. The portfolio benefits from positive selection compared to EFL's total lease book, as eligibility criteria exclude exposures that were ever more than 90 consecutive days in arrears or more than 30 days in arrears at closing.

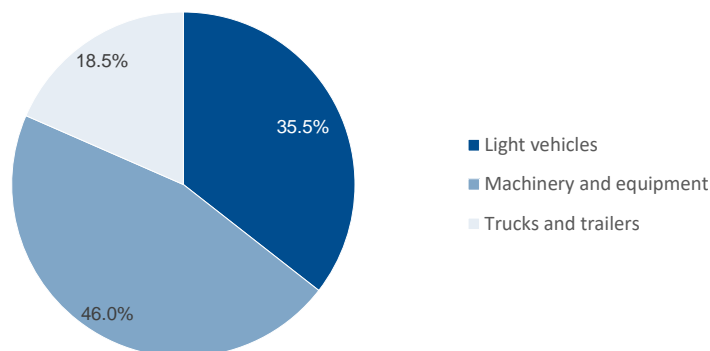
The lease portfolio as of 30 September 2021 has 11.0 months of weighted average seasoning, a weighted average remaining term to maturity of 3.1 years and a weighted average life of 1.8 years. The lease receivables in the portfolio were originated after 2015, with more than 87.2% originated after 2019.

The standard amortisation scheme is French. About 7.6% of the receivables pay fixed interest, while the remainder pay floating interest referenced to one-month Wibor.

Leases are mainly to Polish retail clients

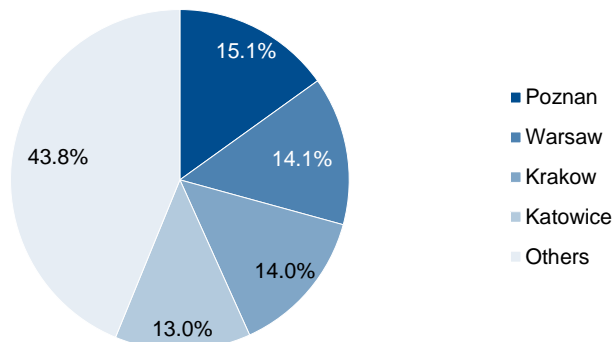
Leases are mainly to Polish retail clients (90.3%), with the remainder to SMEs (9.5%) and corporates (0.2%). We performed the asset analysis using three portfolio segments: light vehicles, machinery and equipment, and trucks and trailers (see Figure 2).

**Figure 2. Segment distribution by % of remaining principal balance**



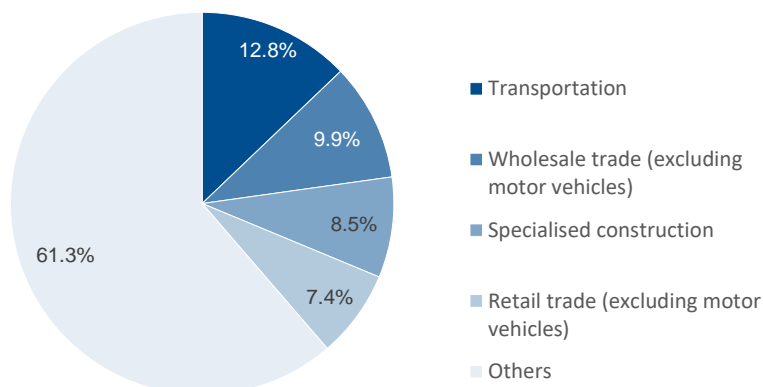
Source: EFL, Scope

**Figure 3. Regional distribution % of remaining principal balance**



Source: EFL, Scope

**Figure 4. Industry exposures by % of remaining principal balance**



Source: EFL, Scope

**Class A benefits from significant excess spread**

**3.1.1. Excess spread**

At closing, Class A benefits from significant excess spread of up to 4.4% of the performing lease balance. This is available to cover temporary collection shortfalls for the payment of senior expenses and interest as well as to provision for defaults.

Our analysis incorporates margin and interest rate stresses to address: i) lower excess spread via prepayments, amortisation and defaults; ii) a potential reduction through replenishments; iii) the flexibility available to the servicer to modify the lease; and iv) the interest rate mismatches between assets and liabilities.

We consider 1.4% of excess spread, accounting for a portfolio weighted average interest rate of 4.0% for fixed-rate leases, a 3.1% margin for floating-rate leases, in line with the portfolio’s minimum margin covenant, and stressed senior cost of 1.0%.

**3.2. Replenishment period**

**3.2.1. Asset and portfolio covenants**

The portfolio will change through monthly replenishments over a three-year revolving period ending in October 2024. The maximum replenishment amount on each

The portfolio will change through monthly replenishments during the revolving period

replenishment date is the difference between the initial portfolio balance and the non-defaulted outstanding balance.

Early-amortisation triggers together with portfolio and asset covenants mitigate the risks of portfolio-quality migration and portfolio-performance deterioration over the replenishment period.

However, asset and portfolio covenants allow the portfolio to shift towards the worst-performing segments: used light vehicles, used trucks and trailers, and used machinery and equipment. The covenants shown in Figure 5 preserve a level of granularity, prevent asset-liability mismatches and ensure new assets have a minimum interest rate and credit history.

Figure 5. Asset and portfolio covenants

Portfolio covenants	Limit	Current portfolio as of 30 September
Performing principal balance where residual price principal instalments due over the contract's life exceed 25% of the corresponding leased object's original value	10.0%	3.0%
Largest obligor	0.5%	0.2%
Five largest obligors	1.5%	0.9%
50 largest obligors	5.0%	4.0%
Machinery and equipment	60.0%	46.0%
Trucks and trailers	24.0%	18.5%
Light vehicles	16.0%	35.5%
Maximum leases with fixed rates	10.0%	7.6%
Minimum weighted average interest rate relating to fixed-rate leases	4.0%	5.7%
Minimum weighted average margin relating to floating-rate leases	3.1%	5.6%
Minimum leases related to SMEs	90.0%	99.5%
Maximum leases related to a single postcode region	20.0%	15.1%
The largest activity sector	20.0%	12.9%
Five largest activity sectors	50.0%	43.9%
Weighted average remaining term (months)	48.0	37.0
<b>Receivable eligibility criteria</b>		
Originated lease term (minimum/maximum) (in months)	24/84	24/84
Remaining lease term (minimum/maximum) (in months)	1/83	1/83
Minimum floating rate margin (yearly)	2.00%	2.01%
Minimum fixed rate (yearly)	2%+1M Wibor	2.24%
Maximum ratio of due residual lease price to lease object original value	35%	35%

Early-amortisation triggers protect against portfolio underperformance

### 3.2.2. Impact of replenishment mechanisms and early-amortisation triggers

The replenishment mechanisms (see Figure 6) preserve the collateralisation of the notes through non-defaulted assets and cash. The structure uses principal collected from the portfolio to acquire new assets every month.

**Figure 6. Early-amortisation triggers related to the originator and the asset**

Early-amortisation events
Breach of any of the performance triggers: <ul style="list-style-type: none"> <li>a) Three-month rolling average late delinquency ratio is greater than 3%</li> <li>b) Gross loss ratio is greater than 3% in the first year of the revolving period, 4.5% in the second year and 5.5% in the third year</li> </ul>
EFL ceases to be a leasing company
Insolvency proceedings in relation to EFL
Servicer termination
Enforcement notice
Breach of seller's payment or repurchase obligation
Excess cash event
Tax event
Cash reserve is not fully funded
Principal deficiency ledger is greater than 0.5% of the performing lease balance

The total amount of replenishment and, later, portfolio amortisation is driven by both scheduled and unscheduled principal payments as well as write-offs. The replenishment period is long and would terminate early only in the event of performance deterioration.

The amortisation phase starts if the servicer cannot originate enough eligible receivables to maintain the notes' collateralisation with assets; cash collateralisation is limited at 10%. We expect that only a significant change in the originator's business strategy during the replenishment period would precipitate such an event.

The structure relies on a principal deficiency ledger trigger to preserve the credit enhancement available for the notes. We consider the trigger related to the cash reserve ineffective because support from available excess spread in the interconnected priority of payments is already strong. We expect the cash reserve would only be used in case of 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 early upon instances of illegality (including fraud) and/or tax or regulatory events relating to the issuer. It will enter accelerated amortisation upon enforcement events such as the insolvency or default of the issuer on its obligors in respect of the class A notes.

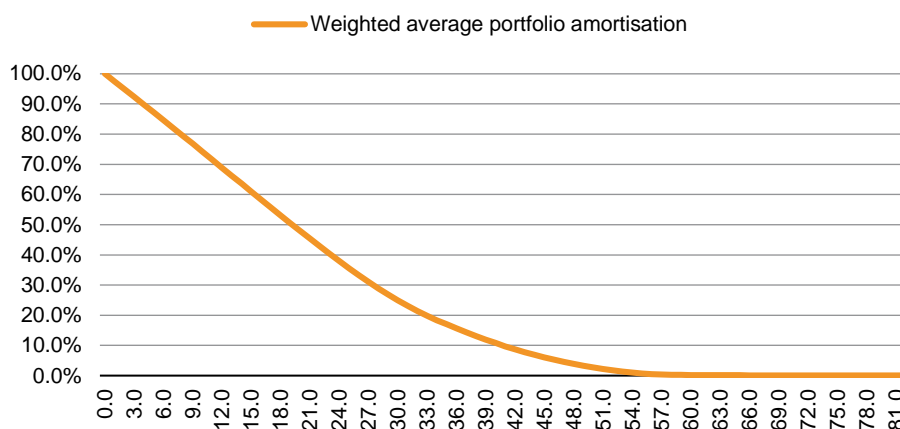
### 3.3. Amortisation profile

The projected amortisation profile reflects the effect of the replenishment period, the covenants over the remaining term, and the amortisation scheme of the underlying assets. Figure 7 shows developments of the three portfolio segments considered in our analysis. We expect replenishment criteria to lead to a higher share of leases to finance used light vehicles, used trucks and trailers, and used machinery and equipment.

A principal deficiency ledger trigger preserves the credit enhancement

Class A has short exposure to counterparty risk and possible macroeconomic decline

**Figure 7. Weighted average portfolio amortisation**



### 3.4. Portfolio modelling assumptions

**Figure 8. Portfolio assumptions for the projected portfolio**

	Pool
Mean default rate	5.5%
Coefficient of variation for default rate	50.0%
Base case recovery rate	19.0%
AAA conditional recovery rate	11.0%
Constant prepayment rate (low)	0.0%
Constant prepayment rate (high)	5.0%

#### 3.4.1. Portfolio modelling assumptions

We modelled the portfolio from the end of the revolving period, accounting for potential migration as well as overdue and defaulted assets accumulated during the revolving period. Our assumptions are based on asset and portfolio covenants as well as stresses addressing the risks of portfolio deterioration and changes in portfolio characteristics. We 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, we 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. We 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.

We also assumed that 3.0% of the portfolio will have defaulted by the end of the revolving period, i.e., assets that are not performing or provisioned with excess spread. This share corresponds to the early-amortisation trigger linked to the principal deficiency ledger (see Figure 6) and is deducted from the performing balance.

#### 3.4.2. Portfolio default rate analysis

We calibrated the mean default rate for the asset portfolio, based on 2008-20 vintage data that reflects the default performance of EFL's lease book.

Our default rate assumptions shown in Figure 8 reflect potential portfolio migration during the revolving period. The most relevant data used for the analysis is shown in APPENDIX II.

We modelled the portfolio from the end of the revolving period, accounting for migration



Liquidation proceeds from leased objects were not considered due to commingling

Scope tested the class A against the most conservative constant prepayment assumption (0%)

The capital structure features two senior classes

The notes benefit from a fully funded cash reserve

### 3.4.3. Recovery rate analysis

We analysed EFL's 2009-20 recovery vintage data and derived base case recovery rates considering accumulated recoveries up to three years after a default.

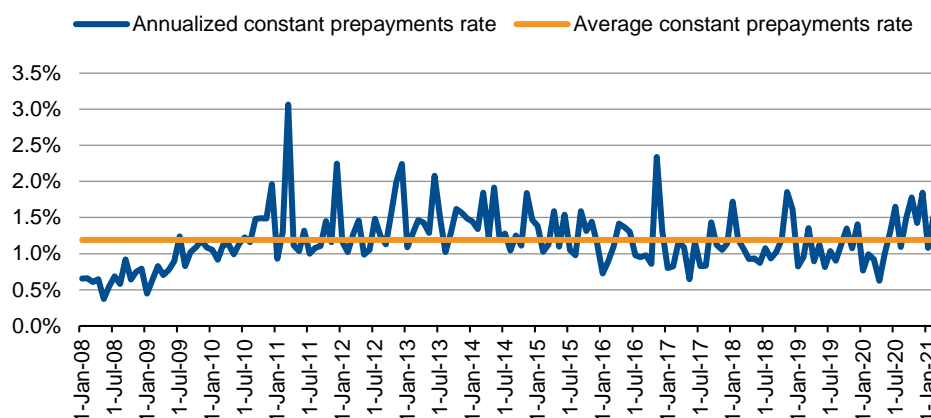
We did not consider liquidation proceeds from leased objects. This is because recovery proceeds could become commingled with the originator's insolvency estate in the event of a default. Therefore, we based our recovery assumptions on the vintage data, which reflects the recovery proceeds from cash receipts from the obligors only.

We analysed the portfolio using a fixed recovery rate that incorporates stresses under the AAA scenario (see Figure 8).

### 3.4.4. Constant prepayment rate

We tested the performance of the rated notes under 0% and 5% constant prepayment rates. EFL's product-specific historical information, Figure 9, exhibits an average constant prepayment rate of only 1.19%.

**Figure 9. Historical prepayments**



## 4. Financial structure

### 4.1. Capital structure

The capital structure features two senior classes: class A1 and class A2 (together referred to as class A). Interest and principal amounts on classes A1 and A2 rank pari passu and pro rata. Class A issuance proceeds were used to purchase the initial portfolio of assets and fund the cash reserve. The initial portfolio was sold to the issuer at a discount, providing the 21.5% overcollateralisation for the class A.

The class A notes pay a quarterly coupon of three-month Wibor plus 1.06% with a zero floor. Unused excess spread is first trapped in the excess spread ledger at up to 0.5% of the performing lease balance and then paid to EFL.

### 4.2. 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 and will be used to cover temporary shortfalls in collections available to pay senior expenses and interest on the notes. At final maturity, or on the payment date on which the performing lease principal balance is zero, it can also be used to cover principal shortfalls on the notes.

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

Combined priority of payments is the main protection against payment interruption

The cash reserve can cover stressed fees and interest for up to three payment periods, based on the current three-month Wibor rate.

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

### 4.3. 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 10. Priority of payments and available funds**

	Interest priority of payments	Principal priority of payments
Available funds	First: available interest amount	Principal collections and interest reclassified as principal
	Second: principal reclassified as interest	
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 principal deficiency ledger)
	Class A interest	Class A interest if not paid in full (debited to principal deficiency ledger)
	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	

### 4.4. Amortisation and provisioning

Senior noteholders benefit from sequential amortisation

We consider the combination of a cash reserve and excess spread, which is partially trapped, to be effective at 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 non-defaulted balance of the portfolio.

The excess spread ledger is not funded at closing but ramped up and available to cover shortfalls

Interest type and payment frequency accommodate well with the liabilities

The transaction is exposed to Citibank N.A. as the account bank

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 90 days in arrears or subjectively considered unrecoverable by the servicer.

#### 4.5. Excess spread ledger

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

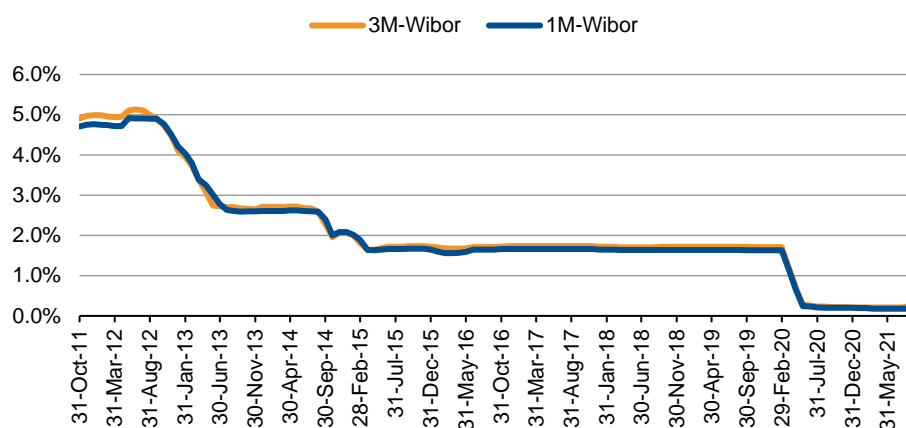
The ledger cannot be used to fund replenishments and is amortising with the performing-lease principal balance.

We assumed a stressed excess spread of 1.4% at closing to address a potential reduction through early repayments, replenishments and defaults. We considered the covenanted minimum portfolio spread over one-month Wibur. The 1.4% stress is significant compared to the 4.4% available at closing. All calculations of excess spread assume stressed senior costs of 1%.

#### 4.6. Matched interest rates

Interest rate risk is limited due to the natural hedging provided by the floating rates on both assets and liabilities, all referenced to Wibur. At least 90% of the assets yield interest indexed to one-month Wibur, which is highly correlated with the notes’ three-month Wibur.

Figure 11: Historical Wibur rates



#### 4.7. Issuer accounts

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

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

**EFL is the second largest leasing company in Poland**

**EFL grows with the market**

**Credit decisions in EFL are centralised and highly automated**

**Adequate and proactive servicing and recovery processes**

## 5. Originator and seller

EFL is the second largest leasing company in Poland<sup>3</sup>, just behind market leader Santander Leasing. Poland's vehicle and equipment leasing market declined in 2020 by 10.3%, which was only 34% of the drop during the 2009 crisis. Overall, EFL's business fell much less than the market average (0.7%), which resulted in an increase of its market share to 8.2% from 7.4% in 2019. Customer-friendly adjustments to existing contracts and a recovery in demand for light vehicles helped EFL to maintain its business throughout the pandemic. Around 64% of EFL's business in 2020 came from existing clients. The overall moderate Covid impact on the economy, mainly due to the orientation on manufacturing, also helped business clients.

EFL's growth is at the same pace as the Polish leasing market's, with a market share of around 8%. EFL will continue to focus on the micro-SME lease segment and SOHO clients (small offices and home offices), with some activity in private leasing. Growth will be driven not by amended underwriting but by increased sales activity, using both short and long channels. Strategy focuses on high customer satisfaction through an efficient infrastructure, a broad financing solution portfolio and a cooperative client approach.

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

### 5.1. Sanctioning and underwriting

Credit decisions in EFL are centralised and highly automated. The automatic decision is broadly based on scoring models, group internal data, external information and risk policy rules. Further, credit scoring is driven by the client's behavioural score and creditworthiness. Around 69% of decisions are made in this automated way. EFL's scoring model is continuously monitored and back-tested. It was last reviewed in 2020.

An additional manual review is performed if the applicant is not a clear rejection or approval. The process for individual decisions focuses on the risk appetite and characteristics of the contract, including 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 monitors its significant exposures by checking the financial situation of the relevant clients and taking immediate preventive measures when necessary.

In 2020, EFL improved and updated its rating model and risk policies. This could lead to better discriminatory power for individual decisions, a lower cost of risk and better-quality information through the access to economic information bureaux.

### 5.2. Servicing and recovery

EFL's recovery strategy is pro-active and focuses on customer relations. The strategy seeks to find a joint solution and avoid 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, sent via text message, normal post and registered post until 30 days past due. After this, the contract is terminated if no payment is received and no client interaction is established. EFL divides the collection process into three steps. The riskier the customer the faster the process is escalated.

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<sup>3</sup> Considering total originated lease volume.

After termination, the process is no longer automated

After termination, the process is no longer automated. The collections department contacts by email or text message the lessees who are up to 24 days in arrears. EFL considers the case resolved if the lessee returns to the original payment schedule, or if the asset is repossessed/repurchased. EFL may also reach out to the clients for the remainder outstanding balance. According to EFL, this step resolves 90% of such cases.

Upon unsuccessful contact by phone, collectors visit the client until the case is resolved or 120 days past due is reached. According to EFL, this step resolves 80% of such cases.

After 120 days past due, 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.

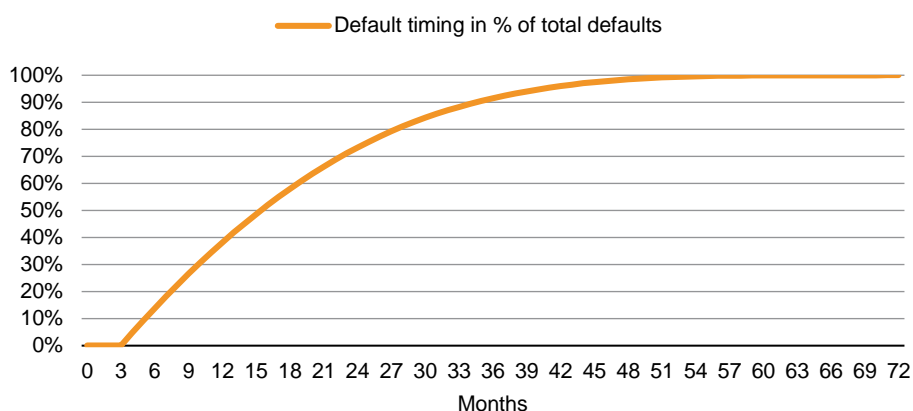
### 6. Quantitative analysis

The ratings of the notes are based on our cash flow analysis. We also account for the current Polish macroeconomic scenario, taking a forward-looking view on macroeconomic developments. With this analysis we derive the cash flows available to the class A notes in each default scenario as well as the associated probability of that scenario, producing an expected weighted average life for the tranche.

We calculated losses on the notes by projecting the cash flow generated by the securitised portfolio, accounting for the transaction's structural features. For the asset side, our main quantitative inputs consist of our assumptions on default probability distribution (assumed to be Inverse Gaussian), default timing, recovery rates, recovery timing, prepayment rates, asset amortisation, and portfolio yield.

For the liability side, the main inputs were the priorities of payments, size of the notes, expected coupons, transaction fees and expenses, and the reserve fund.

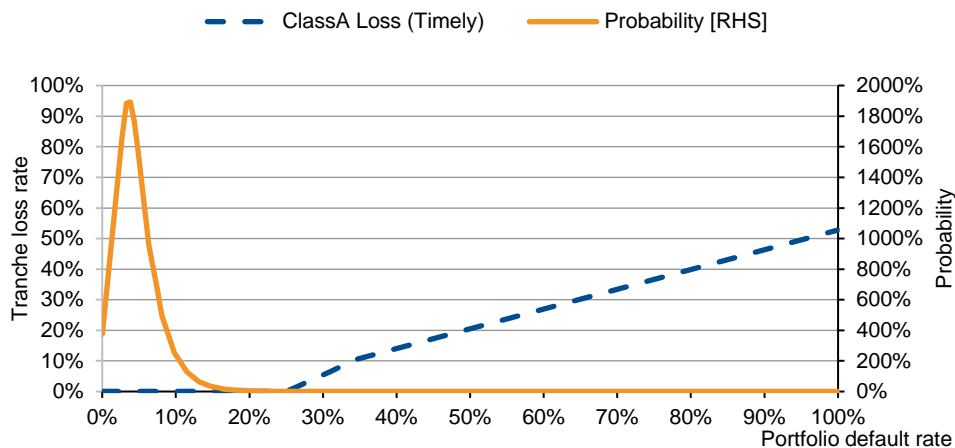
**Figure 12: Default timing**



Credit enhancement and excess spread protect the senior notes

Figure 12 shows the losses of the class A notes at all portfolio default rates. The chart shows how credit enhancement and excess spread protect the tranche, as well as recovery proceeds in case of default. The results in Figure 12 consider an unconditional 3% discount to the portfolio balance at the beginning of the amortisation period, which accounts for i) servicer commingling; and ii) potentially weak assets at the end of the revolving period.

**Figure 13: Cash flow analysis results for mean default rate, coefficient of variation and rating case recovery rate**



Note: The probabilities displayed on the right hand side axis have to be considered in the context of the calculation of the probability density.

The senior notes show limited sensitivity to recovery rate stresses

## 7. Rating stability

We tested the resilience of the ratings 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 results would change 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, four notches; sensitivity to recovery rates, zero notches.

Sovereign risk does not limit the transaction's ratings

## 8. Sovereign risk

Sovereign risk does not limit the rating. The ongoing degradation of Poland's institutional framework and associated moderate economic ramifications are immaterial for the Class A rating, especially given its short expected weighted average life. Scope does not consider 'Pol-exit' – a scenario of Poland exiting the European Union – to be likely.

Scope factors in Poland's solid economic performance, driven by sturdy economic fundamentals, still favourable financing conditions despite recent increase in yields, a profitable, liquid, and well-capitalised banking sector and credible fiscal and monetary policy frameworks.

The country's real GDP is growing an estimated 5.6% in 2021 before 4.6% in 2022 (after a 2.6% contraction last year), accompanied by rising wages and falling unemployment. Consequently, financial performance of Polish obligors is likely to remain stable short term, further supported by improved debt-service capacity among borrowers.

## 9. Counterparty risk

Servicer replacement unlikely

We assess counterparty risk in this transaction to be immaterial. This is due to the strong counterparty ratings for the servicer and account bank roles as well as stipulated mitigants such as commingling reserve and replacement triggers.

Commingling risk is sufficiently remote as to not to represent material risk for the class A

### 9.1. Commingling risk from servicer

We assess commingling risk to be immaterial based on the limited holding period and good servicer credit strength. Mechanics of the commingling reserve and available credit enhancement are 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. Upon loss of BBB, the servicer has to pay to the commingling reserve account an amount equivalent to 2.5 times the average collections from the past three months.

### 9.2. Commingling risk from the account bank

Given the high credit quality of the account bank, Citibank, we consider the risk of commingling losses from the account bank to be immaterial for the class A notes.

The risk is further mitigated by the replacement of Citibank upon loss of BBB. A new agent will be appointed by the issuer in case of a termination within 30 days.

We assessed Citibank's credit quality using public information and public ratings.

### 9.3. Set-off risk from originator

We do not consider set-off risk from the originator to be material for the transaction. The originator is not a deposit-taking financial institution, and lessees' claims against the lessor generally cannot be set off.

Set-off risk from originator fully mitigated

## 10. Legal structure

### 10.1. Legal framework

This securitisation is governed 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 around the English legal documents will be referred to and finally resolved through an arbitration by the International Chamber of Commerce.

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

The vehicle's nature and purpose and the issuer's legal structure 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. Lease term amendments

The servicer can amend the terms of leases in the portfolio unless it is expressly prohibited in the documentation. In all cases, this would follow the originator's standard procedures and approval processes.

Lease contracts containing non-permitted amendments will be repurchased, with the seller to pay the repurchase price to the issuer as a deemed collection.

Limits protect from economic imbalance of the transaction from restructurings

## 11. Monitoring

We will monitor this transaction based on performance reports from the management company 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.



## **EFL Lease ABS 2021-1 DAC**

### **Leasing ABS/Structured Finance**

Scope analysts are available to discuss all the details surrounding the rating analysis

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, we applied our Consumer and Auto ABS Rating Methodology dated 3 March 2021, General Structured Finance Rating Methodology dated 14 December 2020, and Methodology for Counterparty Risk in Structured Finance dated 13 July 2021. All are available on our website, [www.scoperatings.com](http://www.scoperatings.com).

EFL provided us with default and recovery data, segmented by the monthly vintage of origination, referring to a '90 days past due' default definition depending on the obligors' exposure. The default rate data covers a period from 2008 to 2020 and is granular. The recovery data also covers a period from 2009 to 2020, referring to all recoveries during that period, which also include payments from obligors making regular payments after having defaulted.





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### APPENDIX I. Summary of portfolio characteristics

Analysis considers replenishment covenants and the portfolio from 30 September 2021.

Key features	Portfolio as of 30 September 2021	Portfolio adjustments for replenishments
<b>Originator (% of balance)</b>	Europejski Fundusz Leasingowy S.A. (100%)	
Portfolio balance (PLN m)	<b>2,152.9</b>	
<b>Number of assets</b>	34,917	
<b>Number of obligors</b>	24,027	
<b>Average asset size (PLN)</b>	61,657	
<b>Maximum asset size (PLN)</b>	1,618,088	
<b>Minimum asset size (PLN)</b>	72	
Segment: light vehicles	<b>35.5%</b>	<b>16.0%</b>
Segment: trucks and trailers	<b>18.5%</b>	<b>24.0%</b>
Segment: machinery and equipment	<b>46.0%</b>	<b>60.0%</b>
<b>Largest obligor</b>	0.2%	
<b>Top 10 obligors</b>	1.5%	
<b>Largest region by postal code</b>	15.1% (Poznan)	
<b>Top three regions by postal code</b>	43.2%	
<b>Current weighted average floating margin</b>	5.6%	<b>3.1%</b>
<b>Current weighted average fixed interest</b>	5.7%	<b>4.0%</b>
<b>Assets in portfolio referencing one-month Wibor (% of balance)</b>	92.4%	<b>90.0%</b>
<b>Amortising leases</b>	100.0%	

### APPENDIX II. Vintage data provided by Europejski Fundusz Leasingowy S.A.

#### Vintage data provided by the originator

EFL provided 90 days past due (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 2008-2020 for defaults and from 2009-2020 for recoveries. We considered the information in our analysis for the calibration of the mean default rate, coefficient of variation and base case recovery rate assumptions.

#### EFL vintage data – default and recovery rates – 90 days past due reference

Figure 14: Light vehicles, new – delinquency vintage data presented by EFL

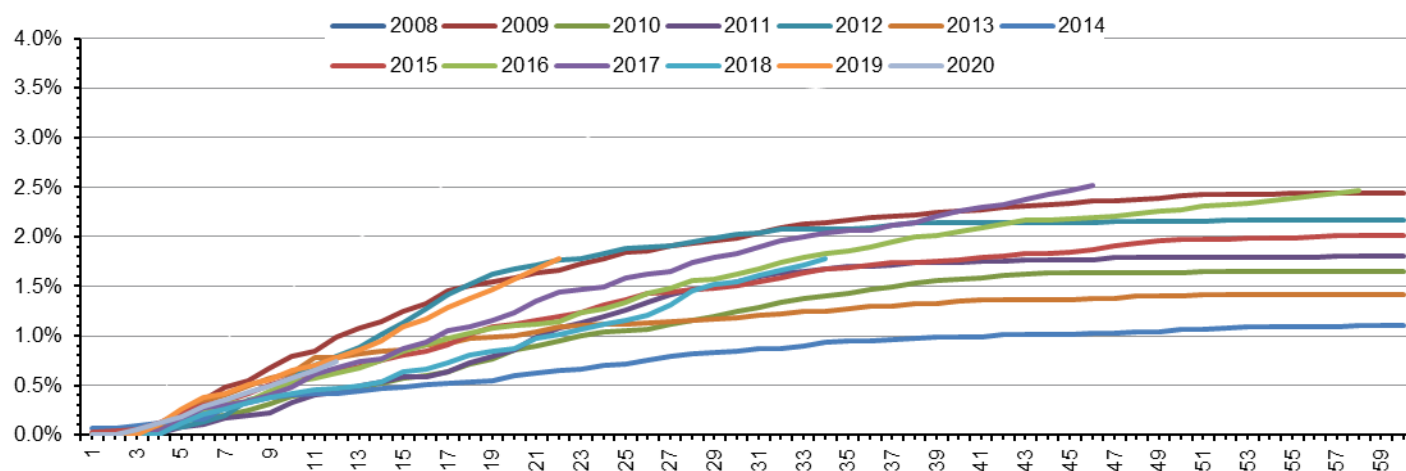
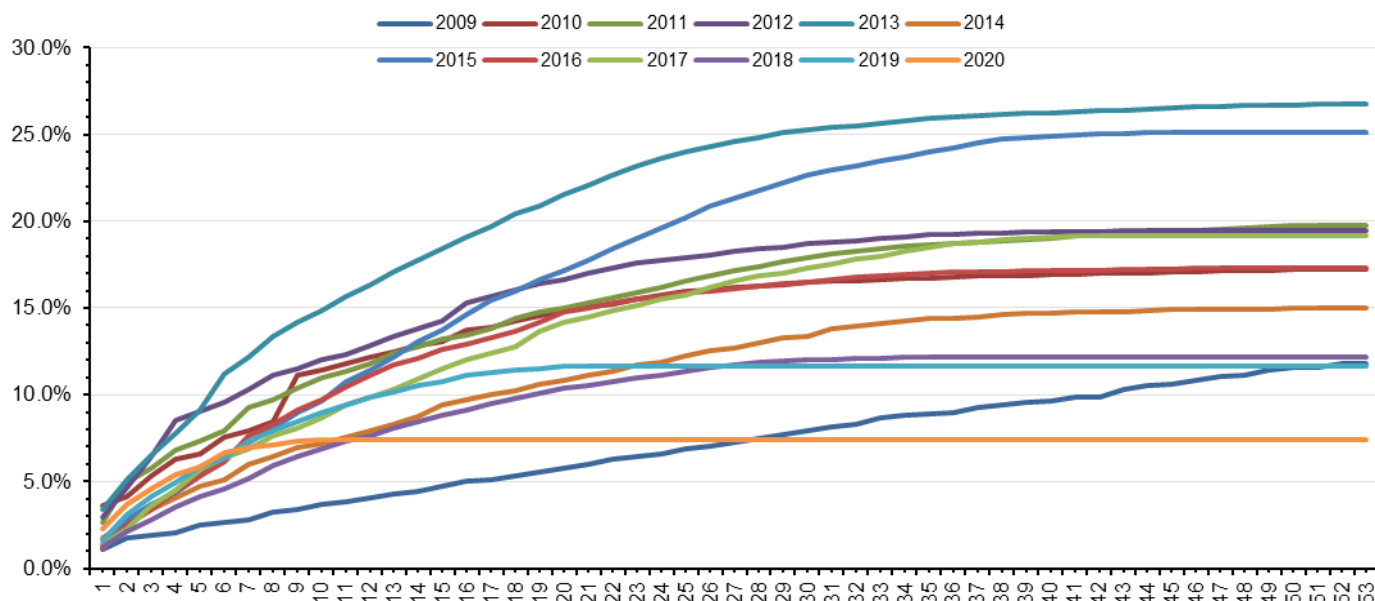


Figure 15: Light vehicles, new – recovery vintage data presented by EFL





# EFL Lease ABS 2021-1 DAC

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Figure 16: Light vehicles, used – delinquency vintage data presented by EFL

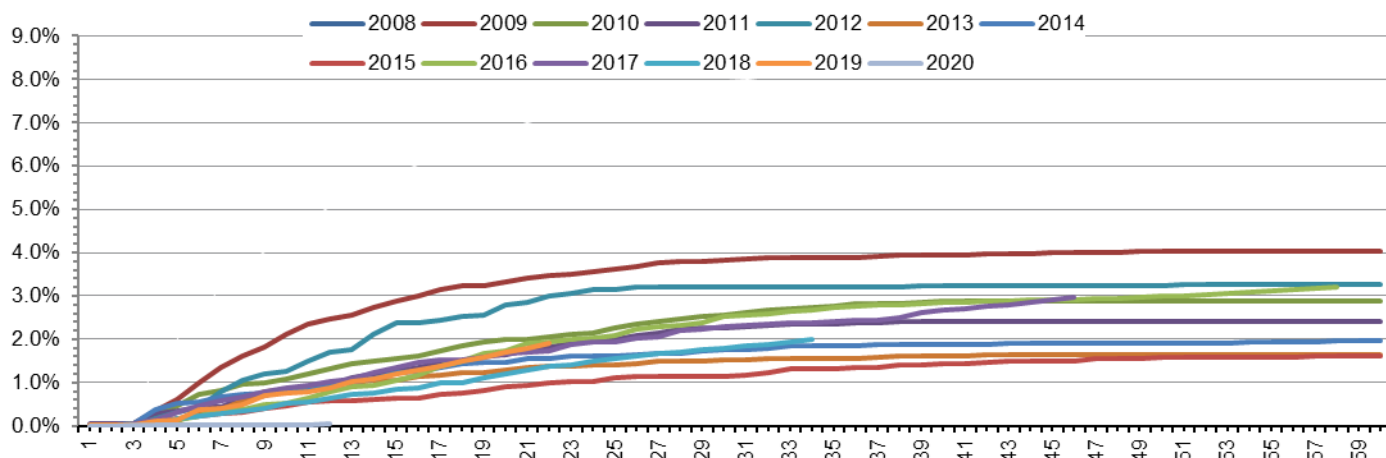
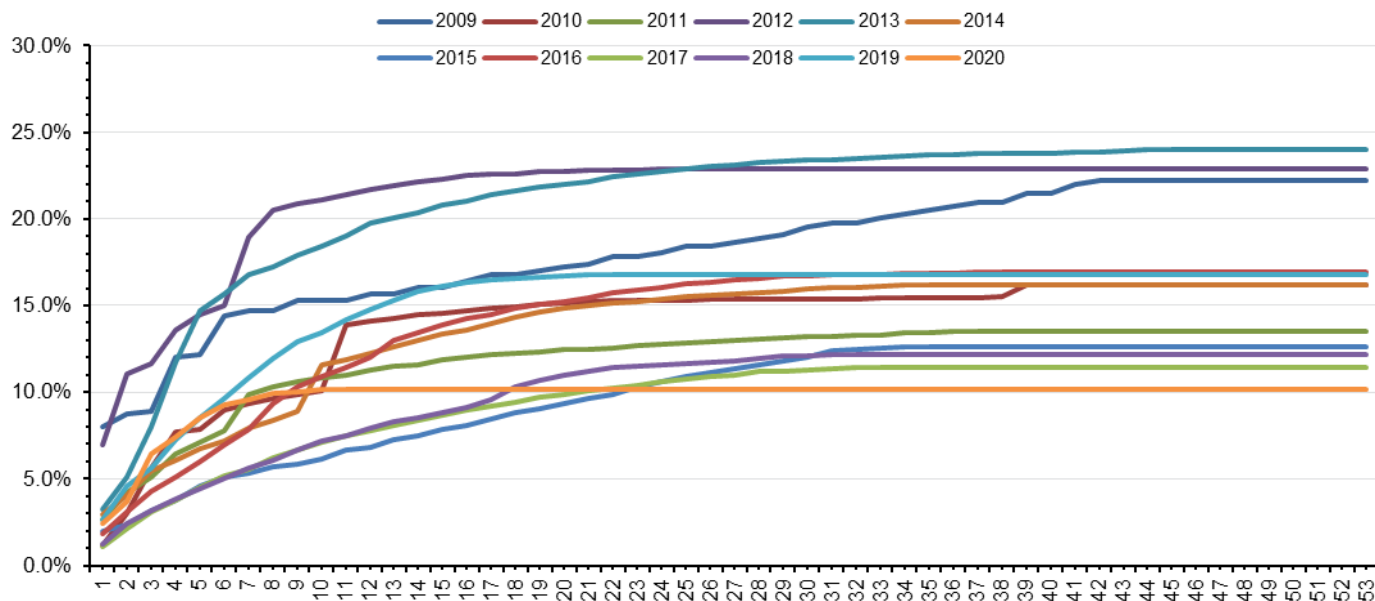


Figure 17: Light vehicles, used – recovery vintage data presented by EFL





# EFL Lease ABS 2021-1 DAC

## Leasing ABS/Structured Finance

Figure 18: Trucks and trailers, new – delinquency vintage data presented by EFL

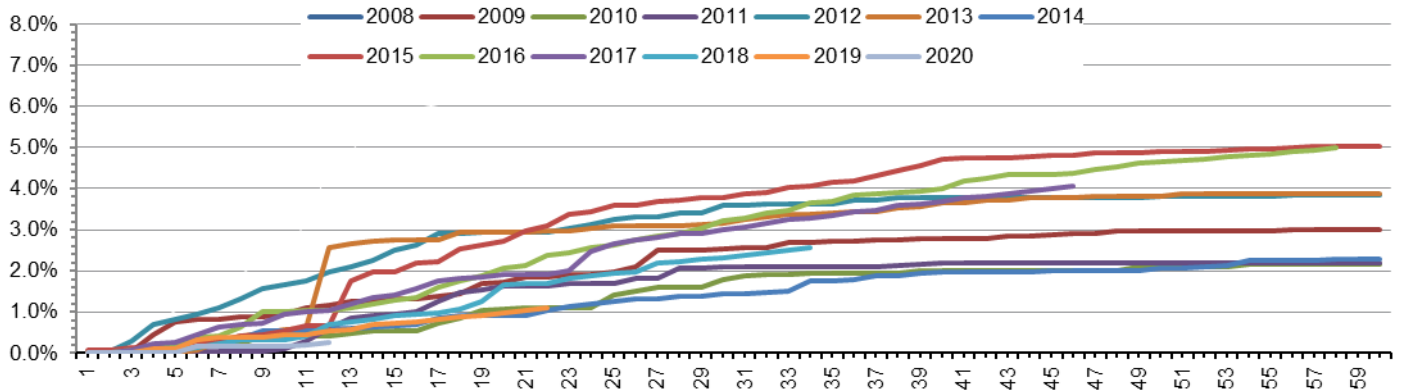
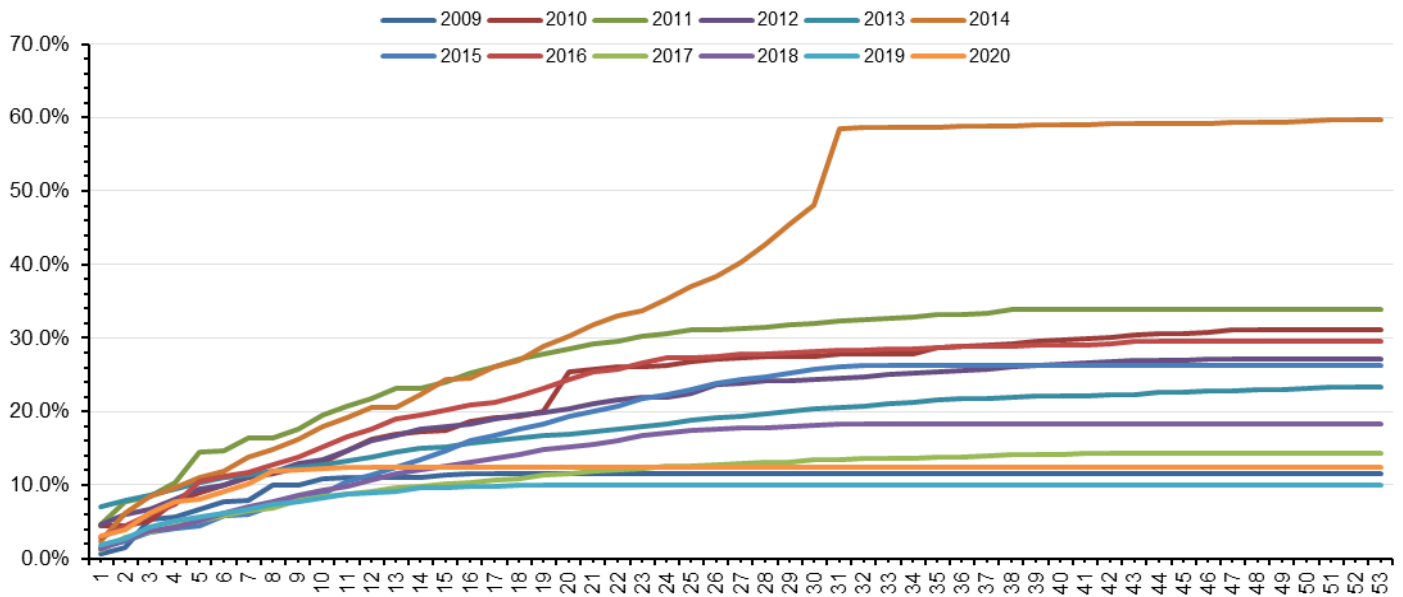


Figure 19 : Trucks and trailers, new – recovery vintage data presented by EFL





# EFL Lease ABS 2021-1 DAC

## Leasing ABS/Structured Finance

Figure 20: Trucks and trailers, used – delinquency vintage data presented by EFL

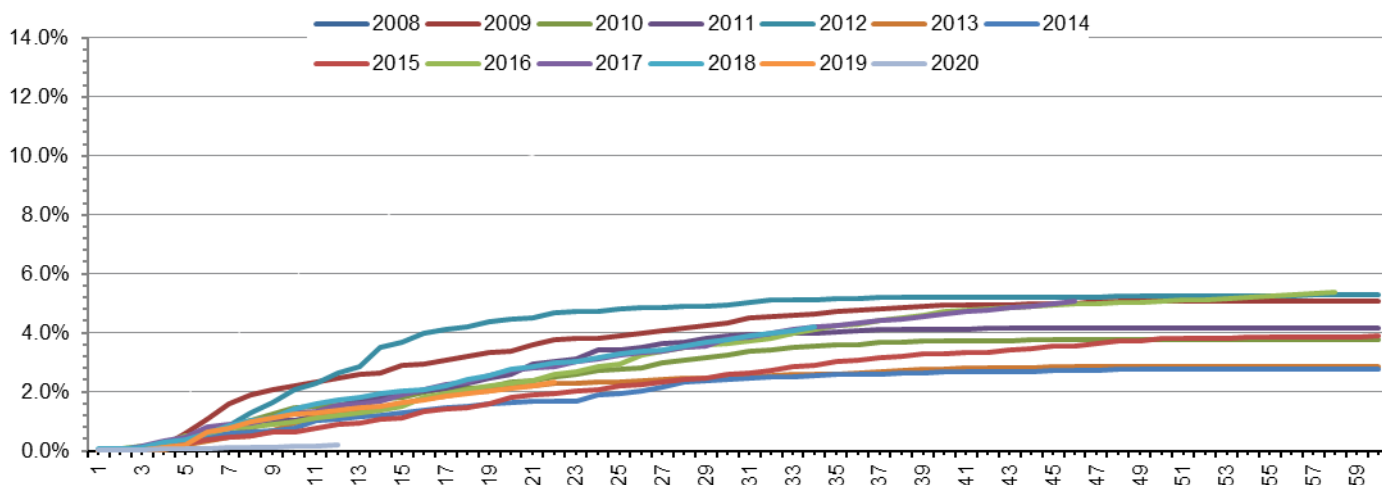


Figure 21: Trucks and trailers, used – recovery vintage data presented by EFL

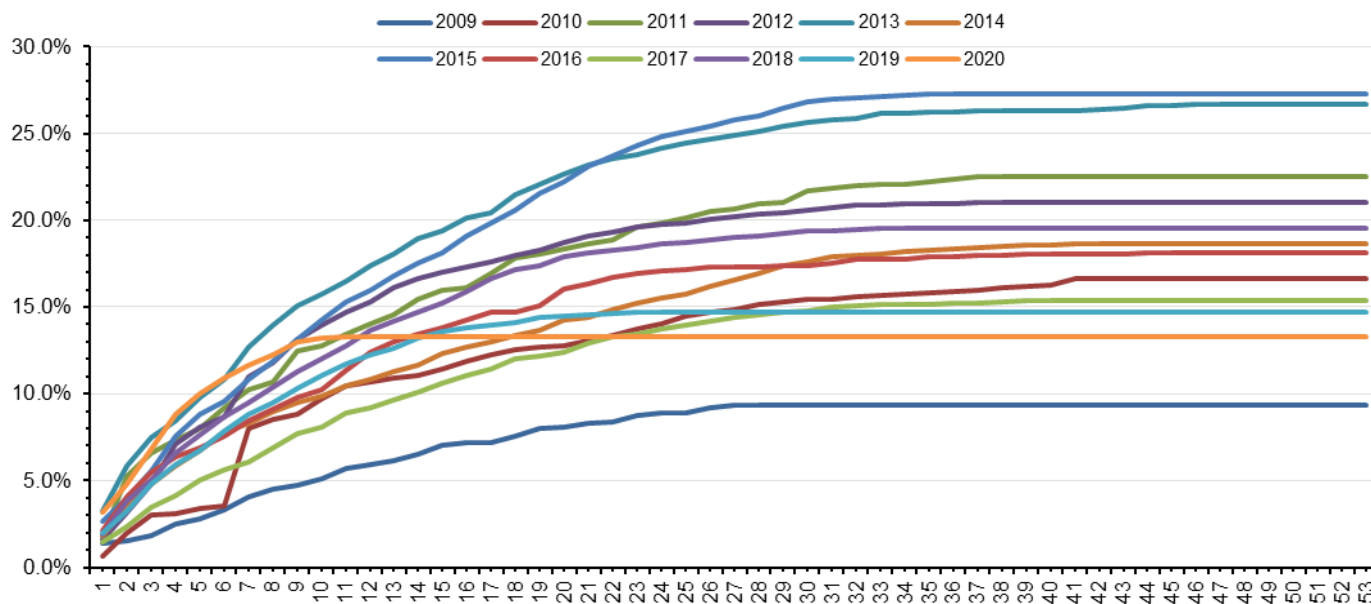


Figure 22: Machinery and equipment, new – delinquency vintage data presented by EFL

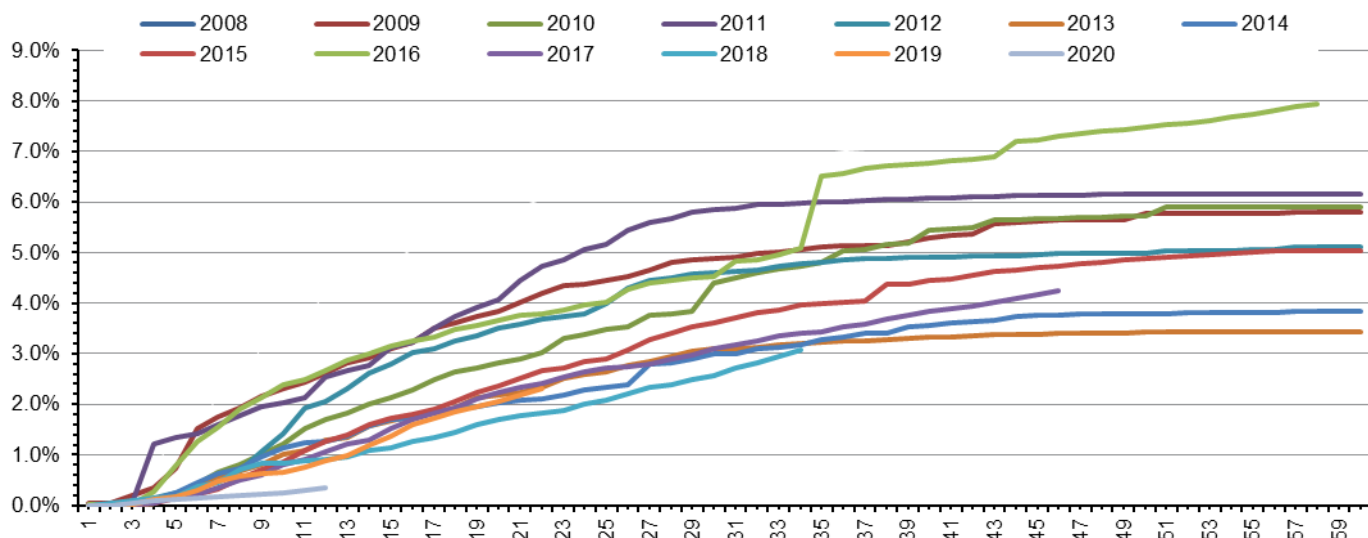
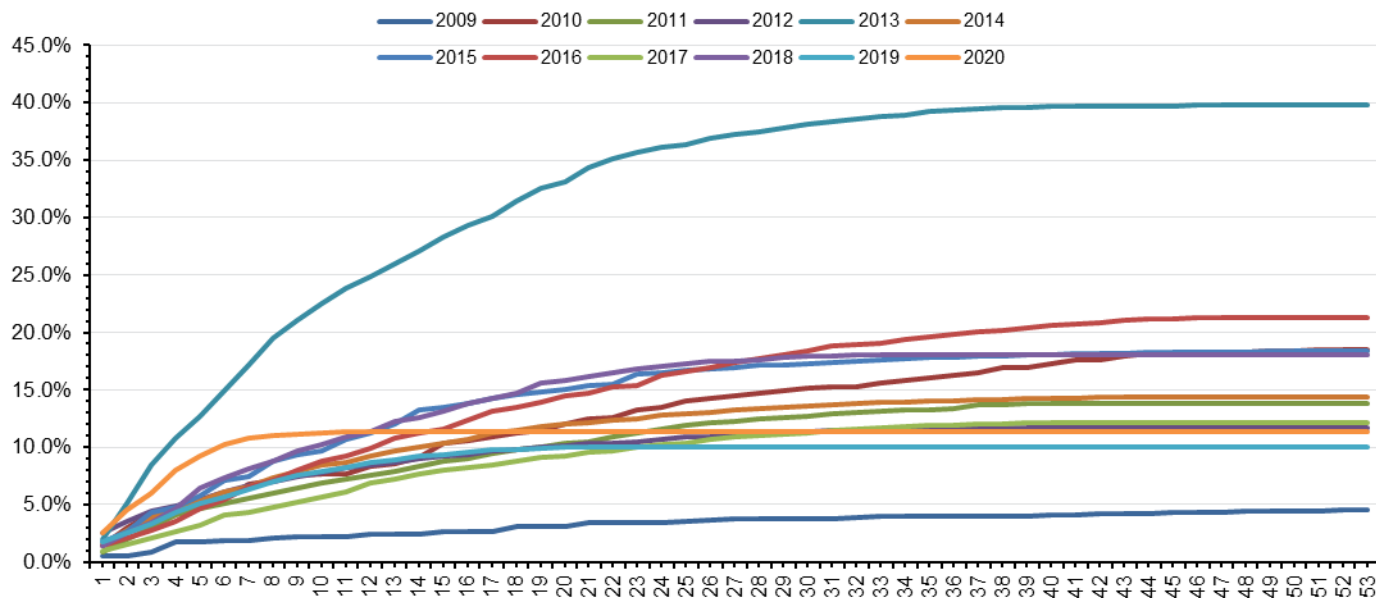


Figure 23: Machinery and equipment, new – recovery vintage data presented by EFL





# EFL Lease ABS 2021-1 DAC

## Leasing ABS/Structured Finance

Figure 24: Machinery and equipment, used – delinquency vintage data presented by EFL

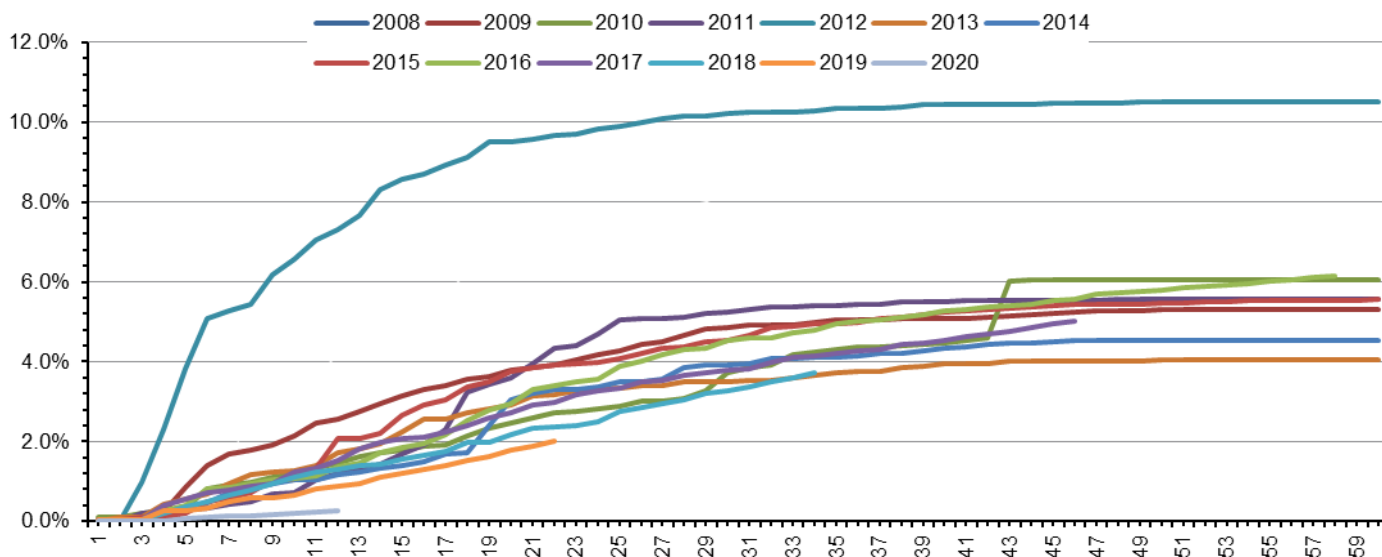
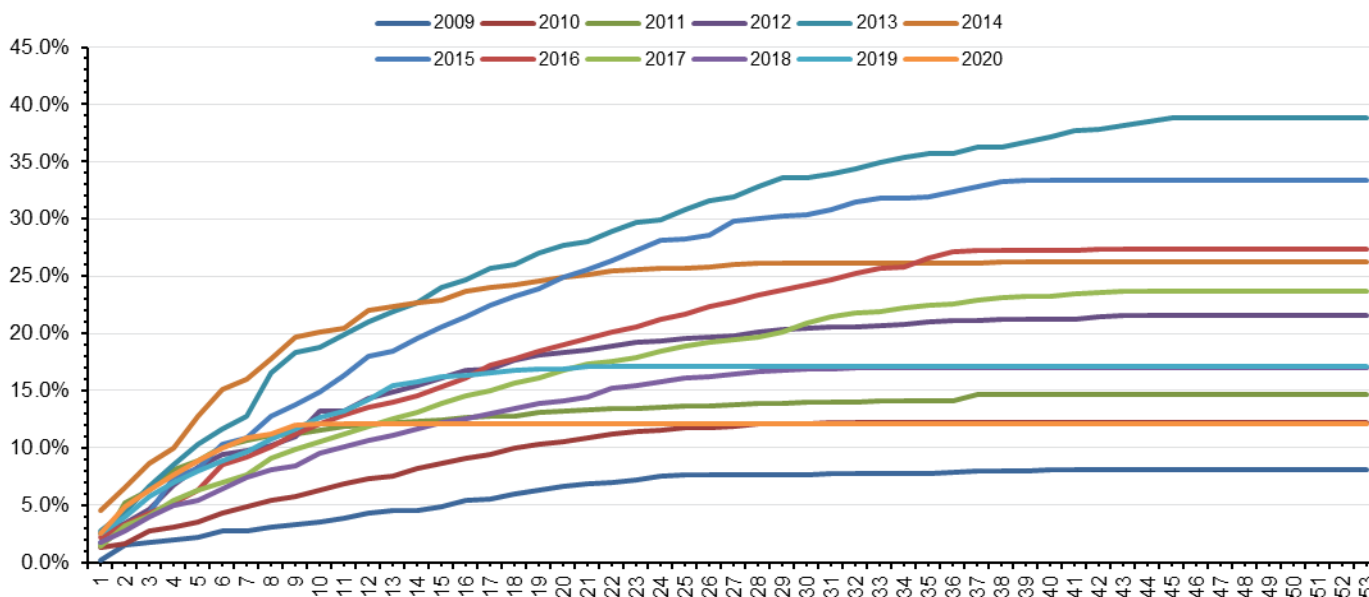


Figure 25: Machinery and equipment, used – recovery vintage data presented by EFL





## **EFL Lease ABS 2021-1 DAC**

Leasing ABS/Structured Finance

### **Scope Ratings GmbH**

#### **Headquarters Berlin**

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0

#### **Oslo**

Karenslyst allé 53  
N-0279 Oslo

Phone +47 21 62 31 42

#### **Frankfurt am Main**

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

#### **Madrid**

Edificio Torre Europa  
Paseo de la Castellana 95  
E-28046 Madrid

Phone +34 914 186 973

#### **Paris**

23 Boulevard des Capucines  
F-75002 Paris

Phone +33 1 8288 5557

#### **Milan**

Via Nino Bixio, 31  
20129 Milano MI

Phone +39 02 30315 814

### **Scope Ratings UK Limited**

#### **London**

52 Grosvenor Gardens  
London SW1W 0AU

Phone +44 20 7824 5180

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

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