

**ARC Ratings, S.A. affirms the public, final long-term 'AA-(sf)', ('AAA(sf)(uncapped)') ratings accorded to the Class A1 and A2 Notes, and the 'BB+(sf)' rating accorded to the Class B Notes issued by Polish Lease Prime 1 DAC, all with stable outlooks**

London 18 September 2020 - ARC Ratings has affirmed the final, long-term public 'AA-(sf)', ('AAA(sf)(uncapped)'), ratings accorded to the Class A1 and A2 Notes (the 'Class A Notes'), and the 'BB+(sf)' rating accorded to the Class B Notes issued by Polish Lease Prime 1 DAC, with stable outlooks.

The ratings address the timely payment of interest and the ultimate repayment of principal.

<u>ISSUER</u>	<u>ORIGINATOR</u>	<u>CLASS / TRANCHE</u>	<u>TRANCHE AMOUNT</u>	<u>RATING CLASS</u>	<u>RATING CAPPED</u>	<u>RATING UNCAPPED</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
Polish Lease Prime 1 DAC	PKO Leasing Spółka Akcyjna	Class A1 and A2 Notes	PLN 1.84bn	ABS	AA-(sf)	AAA(sf)	Stable	20 September 2021
Polish Lease Prime 1 DAC	PKO Leasing Spółka Akcyjna	Class B Notes	PLN 640m	ABS	BB+(sf)	N/A	Stable	20 September 2021

**TRANSACTION OVERVIEW**

PKO Leasing Spółka Akcyjna (PKOL) is the largest leasing company in Poland, which undertook its fourth securitisation last year of c.PLN 2.5bn, this encompassing a variety of asset classes including vehicles and machinery, among others. The portfolio of receivables is highly granular with a total of 50,957 assets, as at August 2020, with an Aggregate Outstanding Balance of c.PLN 2.5bn. PKOL predominantly makes loans to micro businesses and SMEs which constitute 59.5% and 26.0% of the Total Principal Balance of the portfolio respectively, with new and used cars constituting the largest asset types at 37.6% and 23.7%, respectively. The transaction has a Legal Maturity Date of 28 December 2029 and is still in the Revolving Period (due to end in September 2021).

As a result of the outbreak of Covid-19, the replenishment of the portfolio was suspended in April 2020, with all cash from the portfolio's amortisation being held by the SPV (as opposed to purchasing additional assets). The reason for the suspension was due to PKOL's request to waive elements of the transaction documentation in order to allow payment holidays, noting these were prohibited under the documentation. As at April 2020, 26.1% (PLN 653.0m) of the portfolio filed an application for an interest-only payment holiday (i.e. only paying interest for the payment holiday duration) with c.16%, as at August 2020, still benefiting from payment holidays. This decrease is partially due to the replacement of some of the receivables by PKOL, 2,836 contracts with an Outstanding Balance at transfer of PLN 159.5m, with ones that have not been subject to any payment holiday. These replacement receivables have similar credit quality to those which were substituted (the portfolio's weighted average probability of default decreased slightly to 3.69% from 3.75%). To facilitate this substitution and the following resumption of the replenishment of the portfolio, amendments to the transaction documentation were

executed on 26 August 2020, these are discussed below.

Despite the aforementioned Covid-19 related payment holidays, the transaction has performed well over the last year with delinquencies and defaults remaining low; this is discussed in more detail below.

## **RATING RATIONALE**

The rating actions reflect the credit enhancement available to each Class of Notes as well as the structural and legal mechanisms in place.

### Key Rating Drivers:

- **Covid-19 Related Payment Holidays:** Poland, as with other countries, has been impacted by the outbreak of Covid-19 with the European Commission forecasting a 4.6% contraction for Poland's GDP in 2020; this contrasts the consecutive years of modest growth between 2017-2019 (4.9%, 5.3% and 4.1% respectively). As aforementioned, the pandemic resulted in a significant proportion of the portfolio requesting an interest-only payment holiday. The resulting retention of cash and suspension of replenishment caused economic inefficiencies for PKOL and spread compression for the transaction (due to the decreasing asset base), which was credit negative for the transaction. Therefore, ARC has reviewed the amendments addressing the resumption of the portfolio's replenishment, along with the replacement of some of the assets subject to a payment holiday and, additionally, the new 18% limit on the number of receivables who have been approved for a payment holiday (currently 17.8%). ARC views these amendments as a credit positive for the transaction, particularly if compared to the starting position had these not been executed. ARC notes that whilst the credit quality and concentrations of the substituting assets is comparable to those replaced, the fact they have been subject to a payment holiday could, in ARC's opinion, be considered to have a negative impact on PKOL's estate in the event of their insolvency. However, ARC considers this to be unlikely and therefore, does not impact the present ratings.
- **Portfolio Performance:** The transaction has performed well over the last year with delinquencies remaining low (0.53% as at August 2020) compared to a trigger threshold of 1.50%. In addition, cumulative gross defaults have also remained low (0.36%) and are below ARC's expected gross default base case. ARC notes that the 'true' delinquency/default rates would have been higher in the absence of payment holidays, however this would have been caused by non-business specific reasons, namely government enforced lockdowns. Thus, they would not be an accurate representative of the true performance of the portfolio. ARC considers the target market to be reliant on the assets comprising the portfolio, on a look through basis, for continued operations of the respective businesses, therefore serving as a motivating factor to resume and maintain principal repayments. Nevertheless, ARC will continue to monitor the transaction through its monthly surveillance given the potential risk of assets becoming delinquent as payment holidays gradually come to an end.
- **Cashflow Model:** ARC incorporated its updated gross loss base case, given the expansion of available data, which increased to 3.17% from 3.06% last year. In addition, ARC's cashflow model was updated to reflect the aforementioned payments holidays and to ensure the short-term spread compression did not impact the rated Notes. Despite these additional scenarios, the rated Notes continued to pass at their respective levels in front, stable and back loaded default vectors.

- **Country Ceiling:** As the Polish country ceiling remains at 'AA-', the Class A notes will continue to be capped at a 'AA-(sf)' rating.

### **SENSITIVITY ANALYSIS**

In assessing the stability of the ratings, ARC has performed a range of sensitivity analyses. The tables below show how an increase in defaults and a decrease in recoveries would impact the transaction.

Sensitivity Analysis - Class A1 and A2 Notes				
		Additional Defaults		
		0%	25%	50%
Reduced Recoveries	0%	AAA(sf)	AA(sf)	AA-(sf)
	25%	AAA(sf)	AA(sf)	A+(sf)
	50%	AA+(sf)	AA-(sf)	A+(sf)

Sensitivity Analysis - Class B Notes				
		Additional Defaults		
		0%	25%	50%
Reduced Recoveries	0%	BB+(sf)	BB(sf)	BB-(sf)
	25%	BB+(sf)	BB(sf)	BB-(sf)
	50%	BB(sf)	BB(sf)	B+(sf)

KEY TIPPING POINTS	
<p><u>Positive Turning Points</u></p> <ul style="list-style-type: none"> <li>- Class A Notes capped rating would automatically be upgraded should Poland's country ceiling be increased. However, in the current macroeconomic environment, ARC considers this to be highly unlikely.</li> <li>- Class B Notes: significantly lower defaults than the extrapolated base case curve.</li> </ul>	<p><u>Negative Turning Points</u></p> <ul style="list-style-type: none"> <li>- Increase in the delinquency rates.</li> <li>- Significant increase in the number of defaults to the point where defaults exceed the extrapolated base case curve.</li> <li>- Second outbreak of Covid-19, causing another nationwide lockdown.</li> <li>- Decrease in the overall recoveries for defaulted assets, below the base case (i.e. once losses have crystallised).</li> </ul>

### **RELATED CRITERIA AND RESEARCH**

ARC Ratings' Global Structured Finance Rating methodology (September 2019)

ARC Ratings' Global Consumer ABS Rating Criteria (September 2019)

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