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April 27, 2011

New Issue: Bumper 4 (NL) Finance B.V.

€744. 2 Million Asset-Backed Floating-Rate Notes

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Ratings Detail

Class	Rating*	Amount (mil. €)	Available credit support (%)§	Interest	Legal final maturity
A	AAA (sf)	703.5	33.25	One-month EURIBOR plus 1.30%	May 20, 2026
B	AAA (sf)	40.7	29.25	One-month EURIBOR plus 1.65%	May 20, 2026

*We have obtained comfort that risks due to the transfer of obligations of the originator to the issuer, following LPNL's insolvency, are mitigated in line with the rating assigned to the highest-rated note. Standard & Poor's ratings address timely interest and principal. §Credit support figures indicate the enhancement available at closing, which comprises subordination, a subordinated loan equal to €275.5 million (27% of the asset balance), and liquidity and default cash reserves equal to 1.3% and 0.95% of the asset balance respectively that cover interest for the class A and B notes and, at maturity, also principal. NR—Not rated. EURIBOR—European interbank offered rate.

Transaction Participants	
Originator	LeasePlan Nederland N.V.
Arranger	Deutsche Bank AG, London branch
Seller	LeasePlan Nederland N.V.
Servicer	LeasePlan Nederland N.V.
Back-up servicer facilitator	HSBC Bank PLC
Guarantee provider for certain seller obligations	LeasePlan Corporation N.V.
Security trustee	Stichting Security Trustee Bumper 4 (NL) Finance
Maintenance coordinator	LeasePlan Nederland N.V.
Back-up maintenance coordinator	KPMG LLP
Swap counterparty	ING Bank N.V.
Transaction account provider	ING Bank N.V.
Realization agent	LeasePlan Nederland N.V.
Paying agent	ABN AMRO Bank N.V.

Supporting Ratings

Institution/role	Ratings
ING Bank N.V. as transaction account bank	A+/Stable/A-1
ING Bank N.V. as swap provider	A+/Stable/A-1
LeasePlan Corporation N.V. as guarantee provider for certain seller obligations	BBB+/Stable/A-2

Transaction Key Features	
Closing date	April 27, 2011
Collateral	Auto lease installment receivables resulting from operating lease agreement with commercial and public-sector clients; and the residual values of the related vehicles
Country of origin	The Netherlands
Total receivables (mil. €)*	1,019.7
Leasing installments (mil. €)*	572.6
Receivables representing residual values (mil. €)*	447.1

Transaction Key Features (cont.)	
Revolving period (years)	1
Lessee concentration*	Top 1: 2%; top 10: 16.25%; top 30: 32.5%
Geographic concentration*	Noord Holland (23.76%), Zuid-Holland (20.68%), and Utrecht (17.97%)
Number of leasing contracts*	56,597
Number of lessees*	4,770
Average discounted balance per leasing contract (€)*	18,017
Weighted-average seasoning (months)*	21.21
Discount rate (%)*	8.30
Arrears*	No lessee is in arrears for more than 31 calendar days
Cash reserve	3.08% of the rated note balance

*As of the final pool cut-off on Feb. 28, 2011.

Transaction Summary

Standard & Poor's Ratings Services has assigned credit ratings to Bumper 4 (NL) Finance B.V.'s €744.2 million class A and B floating-rate notes.

This is LeasePlan's second term securitization in The Netherlands; it follows Bumper 1, which closed in December 2006.

Since we assigned preliminary ratings to this transaction on April 6, 2011, there have been certain material structural changes to this transaction, notably an increase in the amount of excess spread available.

Following the release of the final capital structure, we have decided to rate the class B notes at 'AAA (sf)', rather than 'AA (sf)' as in our preliminary review.

The transaction securitizes a pool of auto lease receivables and related residual values. LeasePlan Nederland N.V. (LPNL) originated the lease contracts to its Dutch commercial and public-sector customers in the ordinary course of its business. All of the lease contracts are operating leases that contain a servicing component and a financing component. Only the finance component is securitized here.

LeasePlan Nederland N.V. (LPNL) is a part of the international LeasePlan Corporation N.V. (LPC; BBB+/Stable/A-2) and was established in 1963.

We believe the most relevant risks for the transaction are the credit risk of the underlying lessees and the market-value decline risk of the vehicles backing the residual-value receivables. The transaction is revolving, and so our assessment of credit risk also considered portfolio deterioration through adverse migration, which is partially offset by certain portfolio limits. Our analysis also took into account liquidity risk, commingling risk, set-off risk, tax risks, and lease-termination risk.

A combination of subordination, excess spread, and cash reserves (which provide both liquidity and credit support) act to provide credit enhancement. In addition, a commingling reserve, a maintenance reserve, and a set-off reserve aim to protect noteholders from seller risks. LPC funded the liquidity and default reserves upon closing and will fund the remaining reserves upon the downgrade of LPC below 'BBB' with an 'A-2' short-term rating, or 'BBB+' in the absence of an 'A-2' short-term rating.

As regards lease-termination risk, our analysis took into account the appointment of a back-up servicer upon LPC's downgrade to below investment-grade, the maintenance reserve that can be used to pay maintenance costs, and the availability of sufficient cash to make payments to the insolvency administrator to encourage cooperation with the issuer.

In our view, counterparty risk is present with regard to the account bank and the interest rate swap provider, ING Bank N.V. (A+/Stable/A-1), as well as the guarantor and subordinated lender of the originator, LPC. We believe that exposure to these counterparties is mitigated through appropriate downgrade/replacement language in line with our counterparty criteria.

Strengths, Concerns, And Mitigating Factors

Strengths

- LeasePlan is an established player in the fleet management market, with a strong worldwide presence. In The Netherlands, LPNL has more than 45 years' experience in servicing leasing contracts.
- The transaction benefits from two cash reserves: a liquidity reserve sized as 1.78% of the rated note balance and a default reserve sized as 1.30% of the rated note balance, which serve primarily as liquidity support to mitigate any liquidity stresses, but are also available to cover potential principal shortfalls.
- The transaction documents require that LPNL nominates a back-up servicer and a back-up realization agent if the rating on LPC falls below 'BBB-'. On the closing date, KPMG LLP was nominated as the back-up maintenance coordinator and HSBC Bank PLC as the back-up servicer facilitator.

Concerns and mitigating factors

- As LPNL primarily provides fleet leasing to commercial clients, the single-obligor and industry concentration in the underlying portfolio is higher than we typically see in auto-related portfolios. To some extent, this risk is mitigated by concentration limits in the transaction documentation that govern the maximum percentage of lessee groups and industries in the pool. Moreover, we have incorporated the risk of simultaneous default of several large lessee groups into our credit analysis by including a concentration floor in our stressed gross loss assumptions (see "Credit Analysis").
- The portfolio consists of operating leases that contain servicing components. We understand that lessees may have termination rights if the contractually agreed services are not rendered. In our view, continuation of the provision of the services after servicer default is ensured through: (i) a back-up servicer, which would be appointed upon a downgrade of LPC to below investment-grade; (ii) KPMG as a "hot" back-up maintenance coordinator; and (iii) a maintenance reserve that can be used pay maintenance costs if these exceed the maintenance collections. Lastly, in our analysis we rely on the availability of sufficient cash to make payments to the insolvency administrator to motivate it to cooperate with the issuer and the back-up maintenance coordinator.
- During the replenishment period, the credit quality of the pool may shift and the performance may deteriorate due to substitution of amortizing assets. The transaction documentation provides for caps on some of the riskier products that limit a material shift in portfolio quality. Further, the documentation provides for performance triggers, which would stop the replenishment period if the transaction accumulates more losses than available excess spread.

- We understand that several legal risks could arise if the originator were to go into insolvency: Funds belonging to the issuer could be commingled with funds of the originator; lessees may be entitled to set off their payment obligations against certain amounts the originator owes them and the issuer may be liable for some of originator's obligations toward the lessees. The transaction features several reserves, which will be funded by LPC upon the downgrade of LPC below 'BBB' with an 'A-2' short-term rating, or 'BBB+' in the absence of an 'A-2' short-term rating, and which Bumper 4 can use if any of these risks materialize. We have sized the different risks, compared them with amounts available in the reserves, and included any uncovered amounts in our cash flow analysis.

Transaction Structure

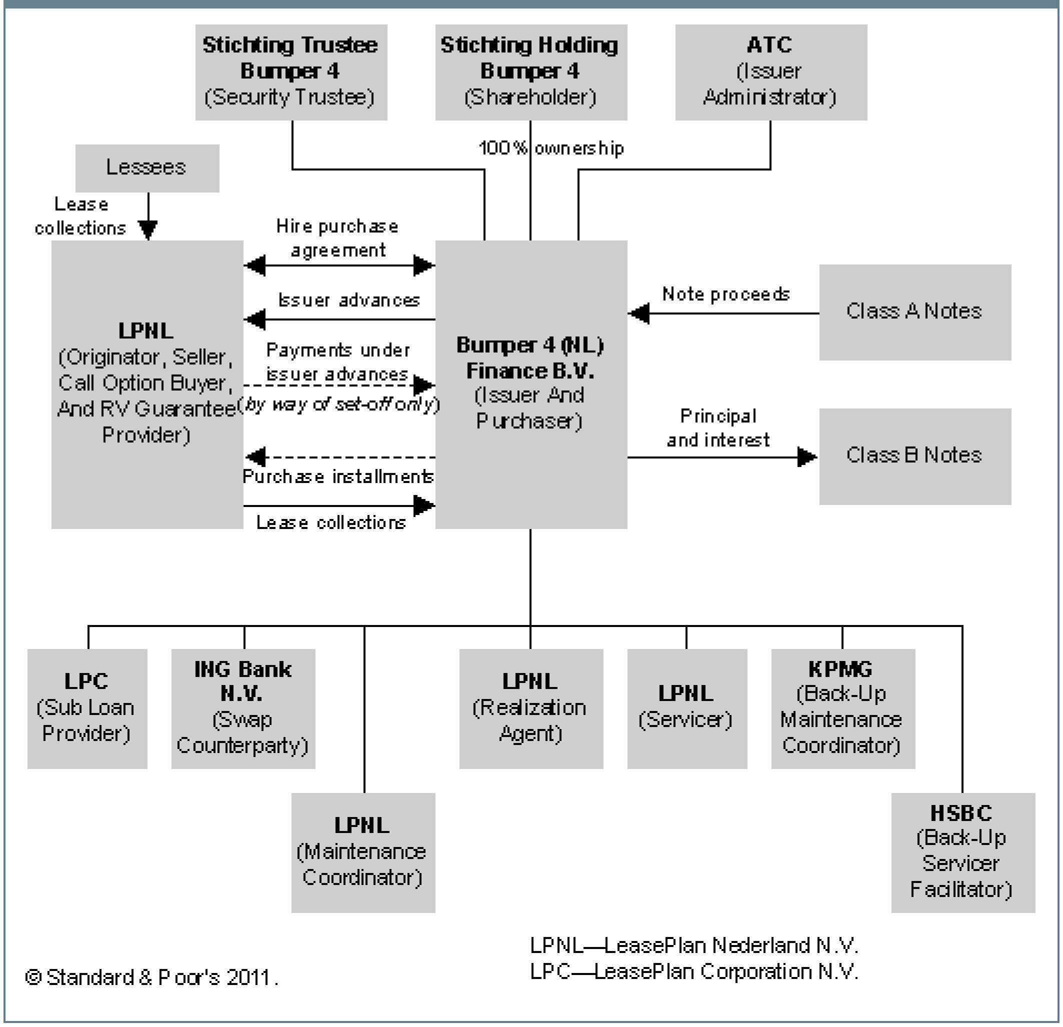
Bumper 4, the issuer, is a newly established Dutch special-purpose entity (SPE). On the closing date in April 2011, the issuer purchased a portfolio of auto lease installment receivables and payment receivables that economically represent the residual value of the leased vehicles in an aggregate discounted amount of €1,019.7 million. Subsequently, the issuer uses all principal and interest cash flows from the assets to hire-purchase further assets from the originator so that the portfolio volume remains at its initial level. Replenishment will continue until up to and including the payment date in April 2012, or will end earlier if performance levels breach certain triggers.

On the closing date, the issuer made an advance to the seller in exchange for a deed of pledge over the vehicles. Prior to the transfer of the legal title to the issuer, the issuer will only have a right to the lease receivables. The transfer of the full legal title will occur upon the payment of the final purchase installment. In the case of an LPNL insolvency, the payment of the final purchase installment will be accelerated by means of set-off with the issuer advance, following which the legal title to the vehicles will pass to the issuer by operation of law.

An interest rate swap counterparty has assumed the interest rate risk between the fixed-rate assets and the floating rate of interest payable on the class A and B notes.

On the closing date, we consider that the issuer fulfills our criteria for bankruptcy-remote entities (see "European Legal Criteria For Structured Finance Transactions," published Aug. 28, 2008). In forming our opinion on the issuer's bankruptcy-remoteness, we have taken into account that in the case of LPNL's insolvency all rights and obligations of the originator under the lease agreements would transfer to the issuer; this involved considering the relevant contractual and statutory obligations the issuer would be taking over under the lease agreements, based on information provided by LPNL and transaction counsel, as well as related structural mitigants, such as e.g., the maintenance reserve.

Chart 1: Bumper 4 (NL) Finance B.V. Transaction Structure



Originator

Since 1963, LPNL has provided auto leasing services to commercial customers. It is part of the international LPC group, which is owned by Global Mobility Holding B.V., whose shareholders are Fleet Investments B.V. (50%) and Volkswagen Bank (50%).

LPNL has about 5,679 customers and presently manages about 114,000 cars. In our view, LPNL has a stable position in the market place, with recent data implying a growing market share.

We consider that LPNL has a good level of experience in its core business. The company headquarters in Almere originates all contracts, where information is available on the payment behavior of a large part of the customer base. LPNL monitors existing clients both on an entity and group level, taking into account balance-sheet data and interim performance reports. LPNL also monitors exposure to vulnerable industries in the portfolio.

Priority of payments

The class A and B notes pay interest in arrears on the 20th of each month, at a rate of one-month EURIBOR plus a margin of 1.30% and 1.65%, respectively. The initial portfolio subordinated loan advance pays a fixed rate. The first interest payment date is in June 20, 2011, and the legal final maturity date is in May 2026.

On each monthly interest payment date, Bumper 4 meets its obligations in a particular priority of payments. For this, it uses all cash flows received from the assets, all vehicle remarketing proceeds, all swap receipts, and any amounts on the reserve account—including interest earned on this account. Unless an enforcement event occurs, Bumper 4, in this order:

- Pays taxes;
- Repays servicing collections to the originator (unless the originator fails to top up the maintenance reserve);
- Pays senior fees and expenses;
- Prior to an LPNL event of default, repays any excess of vehicle sales proceeds over the estimated residual value to the seller, along with any excess of collections over payments under mileage adjustments; following an LPNL event of default, pays the relevant lessees under open calculation lease agreements or mileage adjustments and credit any surplus to the incidental surplus reserve;
- Pays the senior swap counterparty (excluding termination amounts where the counterparty is the defaulting party or the swap is terminated due to a downgrade);
- Pays class A interest;
- Pays class B interest;
- Tops up the liquidity reserve to the required liquidity amount (1.78% of the rated note balance);
- Pays the purchase price for further assets (only during the replenishment period);
- Repays principal on the class A notes until the outstanding note balance plus the outstanding subordinated loan balance equals the outstanding discounted asset balance (only during the amortization period);
- Repays principal on the class B notes until the outstanding note balance plus the outstanding subordinated loan balance equals the outstanding discounted asset balance (only during the amortization period, and only once it has repaid the class A noteholders in full);
- Tops up the default reserve to the required default amount(1.30% of the rated note balance);
- Pays the increase in the asset balance following any recalculations of lease agreements to the seller;
- Pays subordinated loan interest;
- Repays principal on the subordinated loan until the outstanding note balance plus the outstanding subordinated loan balance equals the outstanding discounted asset balance (only during the amortization period, and only once it has repaid the class A and B noteholders in full);
- Pays any termination fees to the swap counterparty not paid above; and
- Pays other junior expenses.

If an enforcement occurs, Bumper 4 would no longer top up the reserve and the waterfall would switch so that Bumper 4 pays interest and principal on the class A notes before it pays interest and principal on the class B notes. We have reviewed the enforcement events and deem them to be sufficiently remote for our assigned ratings.

The originator can exercise a clean-up call as soon as the aggregate discounted asset balance is less than 10% of the aggregate discounted asset balance at the closing date.

Replenishment

The transaction has a revolving period, during which Bumper 4 uses principal and interest collections from the assets and vehicle sales proceeds to purchase further assets from the originator. According to the transaction documents, Bumper 4 can only purchase assets that comply with the eligibility criteria (see "Collateral Description" below).

The revolving period continues up to and including the payment date falling in April 2012, or earlier if an early amortization events occurs, including if:

- Amounts remaining on the replenishment account after the purchase of further assets remain above 10% for two consecutive months;
- The cumulative default ratio exceeds 3%;
- The dynamic delinquency ratio exceeds 0.4%;
- Amounts available for replenishment are insufficient to fully replenish the asset pool up to the initial level;
- LPC fails to meet its obligations to top up any of the reserves;
- LPNL fails to meet any of its obligations as either originator, servicer, or realization agent; or
- No substitute servicer has been appointed within 120 days after LeasePlan is downgraded to below investment-grade.

The waterfall mechanisms and the availability of the default reserve effectively allow Bumper 4 to cure up to €9.7 million of losses before the replenishment is stopped. We have incorporated this feature in our cash flow analysis by reducing the amount of enhancement we expect to be available for the amortization period by €9.7 million.

The portfolio's composition after being replenished is limited by the concentration limits shown in table 1.

Table 1

Concentration Limits*

Single-obligor concentrations	**(% of the outstanding discounted asset balance)**
Top 1 to 5 lessee groups (each)	Max 2.00
Top 6 to 10 lessee groups (each)	Max 1.25
Top 11 to 15 lessee groups (each)	Max 1.00
Top 16 to 30 lessee groups (each)	Max 0.75
All other lessee groups	Max 0.50
Industry concentrations	
Any single industry	Max 22.00
Leased object type concentrations	
Heavy goods vehicles and commercial vehicles	Max 4.00
Receivable type concentrations	
Receivables from SME contracts	Max 22.00
Receivables representing residual values	Max 48.00
Maturity concentrations	
Contracts with remaining term >60 months	Max 5.00

*Non-exhaustive list. SME—Small and midsize enterprise.

Interest rate hedging

Bumper 4 and the swap counterparty entered into an interest rate swap agreement that conforms with our updated criteria for derivative support counterparties. The swap hedges the issuer's exposure to interest rate risk resulting from the fixed discount rate under the purchased receivables and the floating-rate obligations under the class A and B notes. Under this swap agreement, Bumper 4 to pays a fixed rate of 2.5% on the outstanding principal balance of the class A and B notes. In exchange, the swap counterparty pays to the issuer a floating interest rate based on one-month EURIBOR (i.e., the same index that the notes pay).

Credit enhancement

A combination of subordination, excess spread, and cash reserves (which provide both liquidity and credit support) act to provide credit enhancement. In addition, a commingling reserve, a maintenance reserve, and a set-off reserve aim to protect noteholders from seller risks. LPC fully funded the default and liquidity reserves at closing. The remaining reserves will be funded by LPC upon the downgrade of LPC below 'BBB' with an 'A-2' short-term rating, or 'BBB+' in the absence of an 'A-2' short-term rating.

Excess spread

Excess spread results from the difference between (i) the interest income received from the assets, and (ii) the fixed payment paid under the swap, plus the weighted-average note spreads, as well as any senior fees and expenses. Interest from the assets is generated through discounting the future payments under the purchased receivables by 8.30%. We understand that unstressed excess spread for the rated notes was above 4% at closing.

Cash reserves

The transaction has two cash reserves that LPC fully funded at closing. The entire reserves are released into the waterfall each month:

- The liquidity reserve (amortizing as 1.78% of the rated note balance) tops up to the required liquidity reserve amount in the waterfall after interest payments and before principal payments/asset replenishment. This means that the reserve is available in full (unless there is a severe liquidity stress) at the end of the replenishment reserve.
- The default reserve (amortizing as 1.30% of the rated note balance) tops up to the required default reserve amount in the waterfall only after principal payments/asset replenishment. As early amortization would be triggered only once available funds are insufficient to bring the note balance in line with the asset balance, this means that this reserve effectively serves as credit enhancement during replenishment and may not be available thereafter.

The definition of the amounts to which the reserves are replenished will lead to an amortization of the reserves, to a floor of €3.5 million for the liquidity reserve and €2.5 million for the default reserve. Once the pool volume goes down to zero, Bumper 4 would not top up the reserves in the waterfall at all, so that all amounts remaining on the reserves at that time would be available to cure losses.

Commingling risk

The transaction documents allow the servicer to freely decide to sweep collections to the issuer either on a monthly or on a twice-weekly basis. In our analysis, we distinguish two streams of cash flow to determine any further amounts that the servicer receives on the servicer account after insolvency, but before Bumper 4 instructs the lessees to redirect their payments:

- Cash flows from lease installments, which the servicer receives from the lessees and which are clustered around

the first and last day of each month; and
- Cash flows from the sale of the returned leased vehicles, which are equally spread around the days of the month.

The transaction has a commingling reserve that LPC will fund upon the downgrade of LPC below 'BBB' with an 'A-2' short-term or 'BBB+' in the absence of an 'A-2' short-term rating, and which it will adjust monthly to reflect the changing commingling exposure, based on (i) the amounts of collections expected in the next period(s), and (ii) the frequency with which LPNL sweeps collections to the issuer. If LPC fails to bring the reserve into line with the current commingling exposure, the issuer would have the right to immediately notify the lessees to redirect their payments.

We have used the above inputs and stressed assumptions on notification timing and prepayment speed, to calculate the commingling risk we would expect at the relevant rating levels. We have incorporated any such amounts not covered by the commingling reserve into our cash flow analysis.

Set-off risk

Set-off under the lease agreement may arise due to security deposits the originator holds, as well as potential adjustments to the year-end calculation of the lease contracts or mileage amounts that may be payable by the originator to the lessees under the lease agreements. The transaction has a set-off reserve that LPC will fund upon the downgrade of LPC below 'BBB' with an 'A-2' short-term rating or 'BBB+' in the absence of an 'A-2' short-term rating, and which it will adjust monthly to reflect the changing set-off exposure in the pool. If LPC fails to bring the reserve into line with the current set-off exposure, the issuer would have the right to immediately notify the lessees to redirect their payments.

We have used the above inputs and stressed assumptions on interest rate movements to calculate the set-off risk we would expect at the relevant rating levels. We have incorporated any such amounts not covered by the respective reserves into our cash flow analysis.

Collateral Description

The transaction securitizes a pool of auto lease receivables and the residual values of the related vehicles. Most lessees are commercial entities that have their registered office in The Netherlands, but there are also some public entities in the pool. Most of the leased objects are passenger vehicles, but the securitized pool also contains some commercial objects, such as trucks, forklifts, or buses. In our view, the pool shows good diversification over contract maturities and over vehicle make, but shows considerable single-lessee concentration.

The lease receivables are based on leasing contracts that LPNL originated to its commercial leasing customers in its ordinary course of business. All contracts are operating lease contracts that consist of a financing part and a servicing part. Although only the financing part is included in this transaction, the existence of the servicing part could lead to certain termination rights for the lessees if the servicer (or its substitute) fails to provide the contractually agreed services.

The transaction is a hire-purchase structure. The purchase price payable in consideration of each leased vehicle and the associated lease receivables (monthly interest and principal installments and the residual value at the end of the contract) is payable in installments.

On the closing date, the issuer made an advance to the originator calculated by applying a uniform discount rate of

8.30% to the current outstanding balance of the securitized pool—i.e., the same monthly interest and principal installments and the estimated residual value. Any payments to be made under the hire-purchase agreement are set-off against the advance. The advance also provides for accelerating the payment of the installments in case of LPNL's insolvency, which will automatically result in the transfer of the legal title to the vehicles to the issuer.

The purchase price payable for the receivables that represent the residual values is equal to the expected sale proceeds of the leased object calculated at inception of the lease contract (or recalculated under certain conditions). If the actual vehicle sale proceeds achieved at contract termination are insufficient to repay this purchase price, Bumper 4 would incur a loss. LPNL actually guarantees performance of these receivables, but we have not given any benefit to this guarantee in our analysis.

According to the transaction documents, the receivables must be in line with certain eligibility criteria. The following is a non-exhaustive list of these criteria:

- The underlying lease agreement must be: (i) legally valid and binding, (ii) based on LPNL's general terms and conditions, and (iii) governed by Dutch law.
- The lessee must have paid at least one installment under the lease agreement.
- The lessee cannot be part of the LeasePlan group.
- The lessee cannot be in default or in arrears for more than 31 calendar days and for an amount exceeding €1,000 in case of corporate and public-sector lessees or €50 in case of SME lessees.
- The original term of the related lease agreement cannot be longer than 120 months.
- The lease receivables must be denominated in euros.

Table 2 shows stratifications of the securitized pool. The portfolio's composition may, however, change over time due to replenishment of maturing assets (see "Replenishment" above).

Table 2

Securitized Pool Breakdown*	
Weighted-average original term (months)	50.66
Weighted-average seasoning (months)	21.22
Receivable type (%)	
Lease receivable	56.15
Receivables representing residual values	43.85
Lease contract type (%)	
Operating lease	100.00
Product type (%)	
Open calculation	34.71
Closed calculation	65.29
Customer type (%)	
Private	0
Commercial	>98
Public entities	<2
Vehicle make (%)	
Volkswagen	15.96
Audi	10.51

Table 2

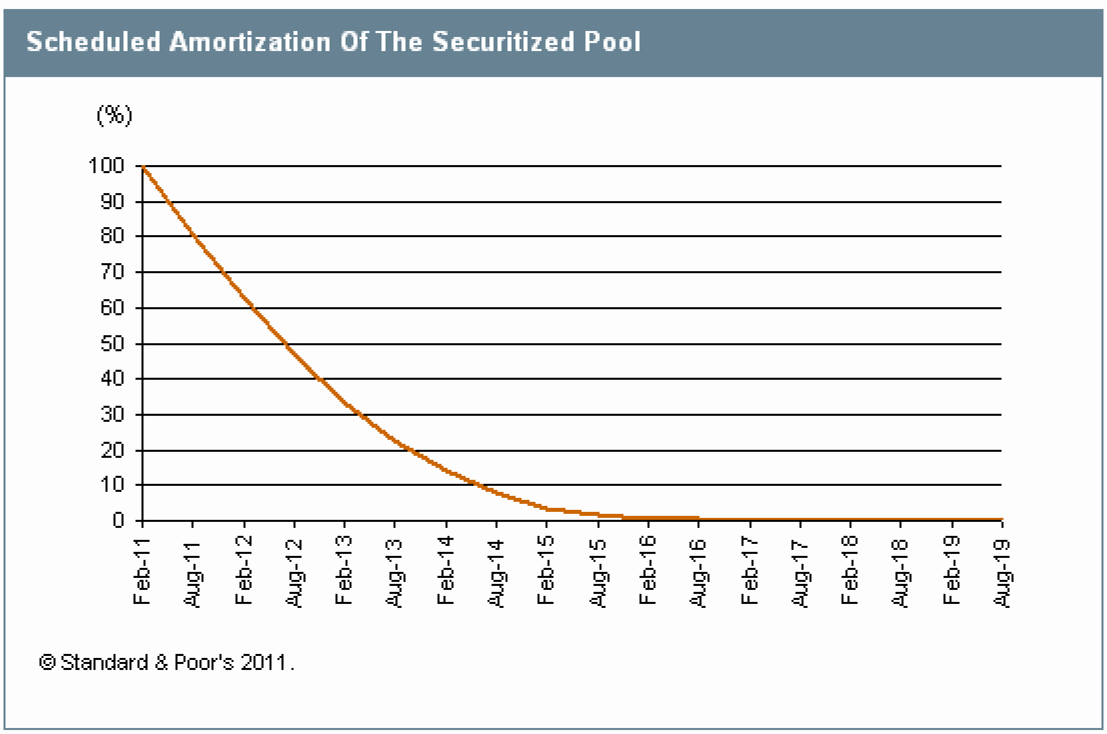
Securitized Pool Breakdown* (cont.)	
Ford	10.16
BMW	7.80
Renault	7.37
Toyota	6.38
Other	41.82

*Portfolio stratifications may change through replenishment.

The pool does have considerable industry and single-lessee concentrations, in our view: In the securitized pool, the largest industry accounts for 18.46% but is capped through concentration limits at 22.00%; and the largest lessee group accounts for 1.97% and is capped through concentration limits at 2.00%.

LPNL originated the contracts in the securitized pool between 2001 and 2011 (with the bulk of originations coming from 2008 to 2010). The highest amount of residual value receivables maturing in any period of three consecutive months is 8.22% of the total residual value balance and occurs between September 2011 and November 2011. In our view, the residual values are not clustered in any particular period and are well spread over the term of the transaction.

Chart 2



Credit Analysis

Our rating analysis includes an assessment of the credit risk and market value risk inherent in the transaction under various stress scenarios. We based our credit analysis for each class of the issuer's notes on our rating methodology for analyzing consumer finance transactions.

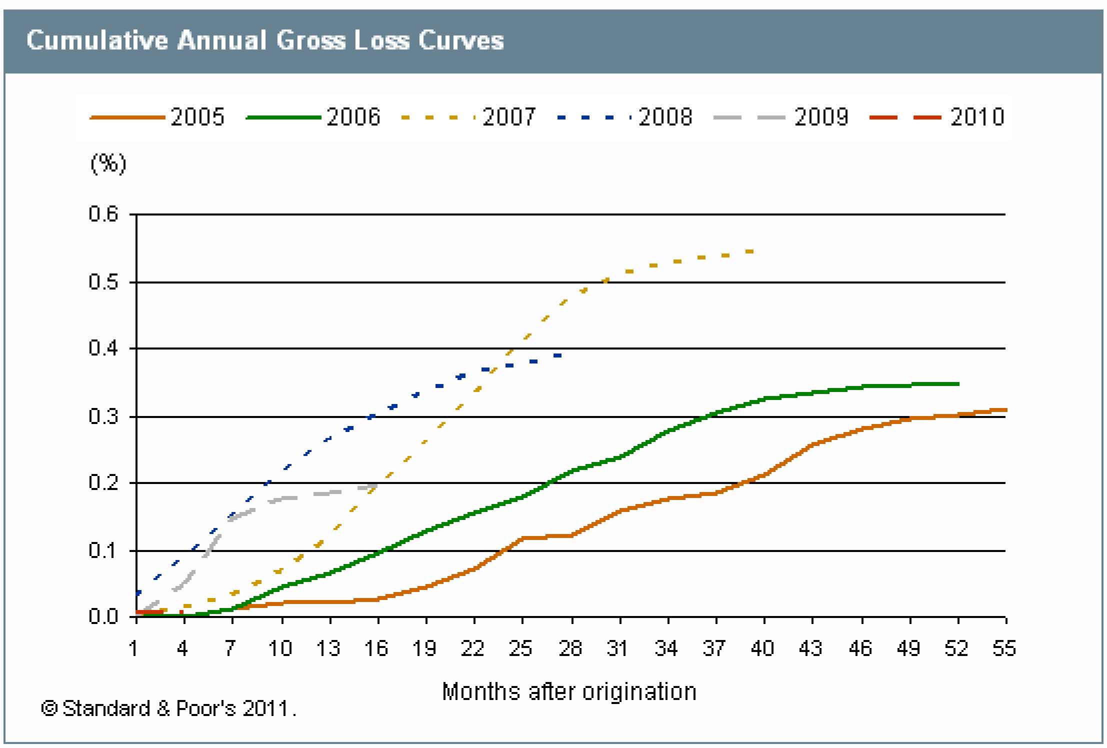
We have received dynamic default data, cumulative quarterly and monthly default data, and monthly delinquency data covering the period from July 2005 to December 2010. The gross loss data show that historically, LPNL has seen only very low levels of default compared with other European auto lease transactions. On the recovery side, we have received data on all defaulted lessees since 2005. We have also received extensive data on vehicle remarketing success.

Given the few defaults observed historically and based on the high concentrations inherent in the portfolio, we based our stressed gross loss assumption on the following three considerations: historical gross losses, single-lessee concentrations, and industry concentrations. Ultimately, we sized stresses at the 'AAA' level on the maximum result of the three.

Default risk

Chart 4 shows annual averages of the cumulative gross loss cohorts for the total lease book. As can be observed, the above-average quality, low granularity pool showed few defaults in the mild stress environment during the recent downturn.

Chart 3



We sized a conservative base case of 1.75% and high-end multiples for the pool to capture the low granularity and resulting higher uncertainty surrounding future performance. Table 3 gives the resulting stressed gross loss numbers.

Table 3

Gross Loss Assumptions	
Base case for the closing pool (%)	1.75

Table 3

Gross Loss Assumptions (cont.)	
'AAA' stress assumption (%)	8.31

As described above, we also considered single-lessee concentrations and industry concentrations to capture the idiosyncratic risk in this pool. As the transaction is revolving, we did this by looking at the concentration limits rather than the actual concentration levels in the closing pool. Tables 4 and 5 give the concentration coverage we would deem to be commensurate with the 'AAA' rating level and the resulting gross loss number, taking into account the concentration limits as set out in the transaction documents (see "Replenishment" above). It can be observed that ultimately, the single-lessee concentration risk determined our gross loss assumption.

Table 4

Single Lessee Concentrations

Rating level	Number of largest lessee groups expected to be covered	Resulting gross loss assumption (%)
AAA	16	22.00

Table 5

Industry Concentrations

Rating level	Number of largest industries expected to be covered	Resulting gross loss assumption (%)
AAA	1	22.00

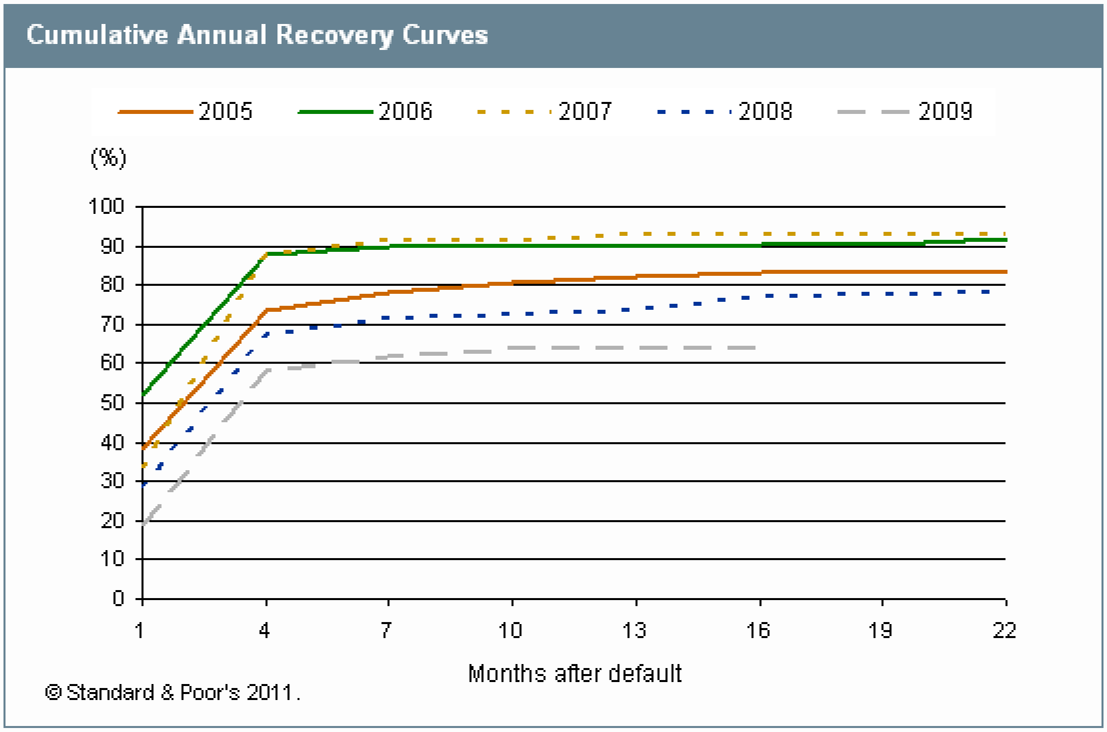
Recovery analysis

We received full recovery data for the limited number of historical defaults LPNL has observed, including a split between the vehicle sale proceeds and ancillary payments received from the lessee: secured and ancillary recoveries. Table 6 gives the base-case and haircut assumptions we applied.

Table 6

Recovery Rate Assumptions	
Base case for the closing pool (%)	65.0
'AAA' stress assumption (%)	39.0

Chart 4



Market value risk

The issuer faces the risk of loss on the receivables that represent the residual values if and when:

- The market value of a vehicle is below the purchase price the issuer paid for the receivable (loss severity); and
- A third party, which covers the loss, defaults (risk frequency).

We combine these parameters into the residual value loss rate—i.e., the loss on residual value claims that reach their contractual maturity (after defaults and prepayments).

We assumed a market value decline (i.e., loss severity) of 34.0% of the undiscounted residual value of the vehicles at 'AAA'. This assumption builds mainly on the high volatility seen across Europe in used car prices over the past 24 months, the fact that the portfolio has a fairly high single-obligor concentration, and—as a positive—the comparatively high diversification of vehicle make and maturity in the portfolio.

We applied a risk frequency of 100% because the market value risk will ultimately transfer to the issuer for all contract types in the pool. We did not give any benefit to the fact that LPNL (in its role as realization agent) undertakes to repurchase the vehicles for a purchase price equal to the price that the issuer paid for the receivable, because in our view the default risk of LPNL is not mitigated. We did, however, incorporate the fact that LPNL builds a certain safety margin into the residual value that it sets at the contract's inception.

Combining loss severity and risk frequency results in the residual value loss rates shown in table 7. We sized aggregate numbers based on the worst-case portfolio composition to take into account potential portfolio deterioration through replenishment. In our cash flow model, we applied this residual value loss rate only to those residual values that see their contractual maturity—i.e., we applied this loss rate to the assets after prepayments and defaults.

Table 7

Market Value Stress Assumptions

	Loss severity (%)	Risk frequency (%)
'AAA' stress assumption (%)	34.0	100.0

Cash Flow Analysis

In our cash flow analysis, we tested three stressed interest rate scenarios: Rising (up to 12%), flat (at 2%), and falling (down to 0%). Furthermore, we applied prepayment scenarios of up to 24% and down to 0.5%, and assumed equally weighted default patterns over two years. We applied losses from the residual values according to the maturity profile of these assets, and further reduced cash flows to incorporate payments to the insolvency administrator to encourage a continuation of the leases.

Other key elements of our cash flow analysis include stressed senior fees of 1% and the amounts of seller risk we see at the respective rating scenarios that are not covered in the relevant seller-risk reserves. We have not further stressed prepayment losses resulting from the present value structure, because the lessees do not have a unilateral right to prepay the leases.

Cash flow results

Our analysis indicates that the rated class of notes achieves timely payment of interest and ultimate payment of principal under the respective stressed rating scenario and assumptions discussed above. The low prepayment scenarios have proven to be more stressful, mostly because we applied additional market value decline stresses only to contracts that reach their scheduled maturity.

Scenario Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European auto and consumer asset-backed securities (ABS) transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis we focused on what we consider to be the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in vehicle prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a bond (see table 8).

Table 8

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross loss rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

It is worth noting that our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases takes account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated notes in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separated the applied methodology into three distinct stages. In the first stage, we stressed our expected base case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assumed the stresses that we apply occur at closing, with gross losses applied based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis we re-rated this transaction at the one-year horizon, after revising our base case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. The implied base case stresses and scenario stress results are shown in the tables 9–11.

Table 9

Scenario Stresses

Stress horizon—12 months

Rating variable	Base case*	Scenario 1	Scenario 2
Weighted-average gross loss rate (%)	4.9	6.4	7.3
Recovery rate (%)	65.0	45.5	32.5

Table 9

Scenario Stresses (cont.)			
Constant prepayment rate (%)	10.0	8.0	6.7

*Implied base case from single-obligor concentration analysis.

Table 10

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AAA (sf)	AAA (sf)
	B	AAA (sf)	AAA (sf)
Scenario 2	A	AAA (sf)	AA+ (sf)
	B	AAA (sf)	AA (sf)

Table 11

Cash Flow Impact

		Principal shortfall			Interest shortfall	
Scenario stress	Worst case run	Amount (mil. €)	Expected loss as a % of the transaction size	Month	Amount (€)	Month
Class A						
Scenario 1	Low CPR/low interest	0	N/A	N/A	0	N/A
Scenario 2	Low CPR/low interest	20.6	2.0	67	22,306	93
Class B						
Scenario 1	Low CPR/low interest	0	N/A	N/A	0	N/A
Scenario 2	Low CPR/low interest	40.7	4.0	1	55,962	93

N/A—Not applicable. CPR—Constant prepayment rate.

Given the structure of the transaction, the more stressful scenario for our cash flow analysis is a low collateral prepayment rate with a low interest rate environment. Given the stresses we applied under scenario 1, both class A and class B notes would most likely retain their 'AAA (sf)' rating. Under scenario 2, class A notes would, however, be downgraded to 'AA+ (sf)' and the class B notes to 'AA (sf)'. The stability of the rating on the rated notes is influenced by the size of the subordinated loan, as well as the fact that the liquidity reserve will be available at legal final maturity to cure losses.

Monitoring And Surveillance

As part of the ongoing surveillance of this transaction, we regularly assess:

- The performance of the underlying portfolio, including defaults, delinquencies, and prepayments;
- The supporting ratings; and
- The servicer's operations and its ability to maintain minimum servicing standards.

Related Criteria and Research

- European Auto ABS Index Report Q3/Q4 2010—Performance Mirrors Three-Speed Economic Recovery, Feb. 24, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

- The Eurozone's Three-Speed Recovery Continues To Unfold, Widening The Competitive Gap Between Members, Jan. 26, 2011
- Counterparty And Supporting Obligations Methodology And Assumptions, Dec. 6, 2010
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- European Consumer Finance Criteria, March 10, 2000

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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