

RATING ACTION:

ARC RATINGS ASSIGNS PUBLIC, FINAL LONG-TERM RATINGS TO THE CLASS A1, CLASS A2 AND CLASS A3 NOTES HELD BY BNP PARIBAS AS PART OF THE CLASS A NOTES ISSUED BY DONLEN FLEET LEASE FUNDING 2 LLC, SERIES 2021-1

London, 16 September 2022 - ARC Ratings (UK) Limited (ARC) has assigned public, final long-term ratings of 'AAA(sf)' to the Class A1 Notes, 'AA(sf)' to the Class A2 Notes and 'A+(sf)' to the Class A3 Notes, held by BNP Paribas as part of the Class A Notes issued by Donlen Fleet Lease Funding 2 LLC, all with stable outlook.

ISSUER	TRANCHE	AMOUNT	RATING	OUTLOOK	NEXT REVIEW DATE
Donlen Fleet Lease Funding 2 LLC	Class A1	USD 196.3m	AAA(sf)	Stable	18 September 2023
Donlen Fleet Lease Funding 2 LLC	Class A2	USD 10.5m	AA(sf)	Stable	18 September 2023
Donlen Fleet Lease Funding 2 LLC	Class A3	USD 5.8m	A+(sf)	Stable	18 September 2023

COMPANY PROFILE

Donlen LLC ('Donlen') is a fleet leasing and management provider, servicing corporations in the United States and is headquartered in Bannockburn, Illinois. Donlen is an affiliate of Athene Holding Ltd, an 'A' rated insurance company, having been bought from Hertz following their insolvency. Donlen is the sponsor of the transaction.

TRANSACTION OVERVIEW

The transaction is structured as a master trust, with the underlying asset pool originated and serviced by Donlen. The proceeds of the Series 2021-1 Notes issued on 30 March 2021 are used to acquire and hold special units of beneficial interests ('SUBI') in a revolving pool of fleet leases and the fleet vehicles thereof. The transaction remains in its revolving period until 30 March 2023 and has a final maturity date of 31 March 2036.

ANALYTICAL CONTACT DETAILS

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Series 2021-1 are the first asset-backed variable funding notes issued by the Donlen Fleet Lease Funding 2 LLC (the 'Issuer'). The Series 2021-1 capital structure is comprised of four classes of floating rate notes: Class A, Class B, Class C, and Class RR. The subject of these ratings is BNP Paribas' share of the Class A Notes, totalling USD 212.7m, which has been tranching further by way of a side letter into Class A1, A2 and A3 Notes that will amortise sequentially following the revolving period or the occurrence of an amortisation event.

The transaction grants security interests to the noteholders in the following: (a) SUBI and the Issuer's rights under certain Transaction Documents, (b) the Issuer's rights under Hedging Instruments, (c) the Collection Account and all monies on deposit, and (d) other relevant proceeds. The ratings address the timely payment of interest and ultimate repayment of principal.

KEY COUNTERPARTIES

Donlen Trust ('Origination Trust') – a statutory trust organised under the laws of the state of Delaware with registered address at U.S. Bank National Association, as Administrative Trustee, 190 S. LaSalle Street, 7th Floor, Chicago, IL 60603, United States.

DNRS 2 LLC ('Initial Beneficiary') – a limited liability company validly incorporated under the laws of the state of Delaware with registered address at 2315 Sanders Road, Northbrook, Illinois 60062, United States.

Donlen Fleet Lease Funding 2 LLC ('DFLF2', the 'Issuer') – a limited liability company validly incorporated under the laws of the state of Delaware with registered address at One Manhattanville Road, Suite 201 Purchase, New York 10577, United States.

Donlen LLC ('Servicer', 'Administrator') – a limited liability company validly incorporated under the laws of the state of Delaware with registered address at 3000 Lakeside Drive, Bannockburn, IL 60015, United States.

US bank National Association ('SUBI Trustee') – a national banking association validly incorporated under the laws of the state of Delaware with registered address at 300 East Delaware Avenue, Wilmington, Delaware 19809-1515, United States – rated AA- with stable outlook by Fitch, A1 with negative outlook by Moody's and AA- with negative outlook by S&P.

JP Morgan Chase Bank, N.A. ('Lockbox Bank', 'Administrative Agent', 'Interest Rate Hedge Counterparty') – a national banking association validly incorporated under the laws of the United States with registered address at JPM Collateral Services, 500 Stanton Christiana Road, Newark, Delaware 19713, United States – rated long-term AA, Aa2 and A+ and short-term F1+, P-1 and A-1 by Fitch, Moody's and S&P.

The Bank of New York Mellon Trust Company, N.A. ('Indenture Trustee', 'Custodian') – a national banking association validly incorporated under the laws of the United States with registered address at 2 North LaSalle Street, Suite 700, Chicago, IL 60602, US – rated long-term AA, Aa2 and AA, and short-term F1+, P-1 and A-1+ by Fitch, Moody's and S&P

Wells Fargo, National Association ('Back-up Servicer') – a national banking association validly incorporated under the laws of the state of Delaware with registered address at MAC N9300-061, 600 S. 4th Street, Minneapolis, MN 55415, US – rated AA- with stable outlook by Fitch, Aa2 with stable outlook by Moody's and A+ with stable outlook by S&P.

Lord Securities Corporation ('Back-up Administrator') – with registered address at 48 Wall Street, 27th Floor, New York 10005, United States

PORTFOLIO SUMMARY

The transaction benefits from a well-diversified high credit quality portfolio of open-end leases, with an aggregate securitisation value of USD 1.45bn as at January 2022, comprising c.114k leases provided to 354 obligors.

Key Portfolio Details as at 31 January 2022	
Aggregate Securitisation Value of Leases	\$1,450,677,701
Average Leases per Lessee	323
Average Securitisation Values per Lease	\$12,693
Weighted Average Original Lease Term (years)	4.6
Weighted Average Remaining Lease Term (years)	3.1
Weighted Average Seasoning (years)	1.6
Fixed Rate Leases (% of securitisation value)	23%
Floating Rate Leases (% of securitisation value)	77%

All obligors are concentrated within the United States; however, they are well diversified across 42 of the 50 states, with the largest concentrations in Indiana, Illinois and Texas. The obligors are relatively well-diversified across different industries, with higher concentrations observed in business services, healthcare and construction, where the demand for large vehicle fleets is higher. The majority of the leases are used for essential business services and the vehicle pool primarily consists of cars, vans and light duty trucks, which are more marketable than medium-heavy duty vehicles and specialized equipment.

KEY RATING DRIVERS

The ratings reflect the quality of the underlying collateral, market outlook, and legal structure of the transaction.

- **Market Outlook:** The economy in the United States faces a number of economic headwinds at present, including rising interest rates, inflation, and supply chain disruptions. The most concerning aspect of the macroeconomic forecast to this transaction is the rising interest rates. In a high interest rate environment, obligors, particularly those of weaker credit or of small scale with less financial liquidity, will be exposed to a higher risk of default. The portfolio also has some exposure to cyclical sectors, such as 17.5% in business services and 16.8% in construction, which are exposed to increased risk in a recessionary environment. On the upside, the transaction is supported by strong fundamentals in the global fleet lease industry. According to the 2022 report by Fortune Business Insights, the global car leasing market size – personal and business combined – is expected to grow at a compound annual growth rate (CAGR) of 6.9% from 2022 to 2029, with the North American market and business lease segment expected to outperform this expectation.
- **Origination and Servicing:** ARC was unable to conduct a review call directly with Donlen. However, ARC has been able to draw sufficient comfort from its review of Donlen’s origination and servicing policies following receipt of the documentation provided by BNP Paribas (who have liaised with Donlen and sought responses to ARC’s requests and questions), including Donlen’s credit policies and an AUP report which contained no material findings, and the existence of public ratings available for some of the notes of both series issued to date. The back-up servicing arrangements in place with Wells Fargo, National Association, a reputable and highly rated servicer, suitably mitigates the operational risk that would be prevalent in the event of Donlen’s insolvency.
- **Obligor Credit Quality:** Donlen originates leases that are ‘triple net’ and ‘hell or high water’, with no set-off language. Open-end leases comprise all of the transaction’s collateral at present (with a low level of closed-end leases permissible), meaning that the credit quality of the obligors is the primary driver of the credit risk posed to the transaction. Within the portfolio assessed by ARC, 46% were rated (weighted average rating of ‘BB+’ at present), with 49% of this proportion rated investment grade or higher, implying relatively strong credit quality. For the unrated proportion, ARC assumed all were rated ‘B’ in its asset analysis.
- **Historical Performance:** Leased vehicles are often essential to a companies’ ongoing operations. As a result, where a bankrupt lessee goes through a reorganisation the leases are frequently affirmed. This is supported by Donlen’s credit performance, where from 2008 to 2021 average net losses were less than 0.01%, with a peak of 0.06% in 2015. Delinquencies also remained low over this period, often negative due to a contractual netting term that allows Donlen to withhold balances due to the lessee if they are

delinquent on any payments due. This performance also highlights Donlen's ability to effectively service its portfolio.

- **Capital Structure:** The transaction benefits from credit enhancement mechanisms including subordination, overcollateralisation and reserve accounts. When fully invested, the Class A1, A2 and A3 notes benefit from credit enhancement of at least 16.04%, 11.54% and 9.05% respectively, including a cash reserve totalling 0.71% of the total note balance (Class A through RR). Asset amounts in excess of the concentration limits are not advanced by the noteholders, and thus support by way of overcollateralisation is increased, although ARC has not considered this within its analysis. Certain types of leases also require additional concentration excesses that will increase the required overcollateralisation amount. In addition to the cash reserve, other reserves ensure there is ample liquidity for the payment of senior fees and interest and, notably, an incremental reserve increases credit enhancement if performance deteriorates. Finally, there are early amortisation triggers in place to provide protection against deteriorating transaction performance through early repayment.
- **Hedging:** The majority of the leases are floating rate, with the basis set in accordance with Donlen-derived indices which consider the market commercial paper rate and Libor rate in the United States. The Issuer is required to maintain hedging instruments to hedge against the inherent exposure where there are fixed rate assets versus floating rate liabilities, governed by a required cap strike rate which ARC considered in its cashflow analysis.
- **Cash Flow Analysis:** ARC's cash flow analysis assessed the timely payment of interest and the ultimate repayment of principal of the rated notes by the final maturity date, assuming exposure to an adjusted underlying portfolio whereby a minimal level of credit enhancement would be available to support the rated notes. ARC maximised the senior fees payable and assumed obligors with the highest yielding leases defaulted first, placing greater pressure on excess spread. The cashflow analysis based on the above assumptions indicates that Class A1, Class A2 and Class A3 Notes can withstand the maximum stresses commensurate with the rating levels assigned.
- **Cash Commingling:** All lessees, including those not part of the DFLF 2 SUBI, are required to deposit payments to a lockbox account controlled by JP Morgan Chase Bank, N.A. The Servicer is obligated to identify and distribute lease payments that are part of the DFLF 2 SUBI to the DFLF 2 collection account within 2 working days, sufficiently mitigating cash commingling risk.
- **Legal Considerations:** The Issuer's counsel delivered a legal opinion stating that each Transaction document constitutes a legal, valid and binding obligation of each Transaction Party thereto. Additionally, the Issuer's counsel delivered a legal opinion on bankruptcy remoteness, stating that the transfer of the SUBI by Donlen to DNRS II would constitute a true contribution. Therefore, the SUBI and related property would not be property of Donlen's bankruptcy estate.

SENSITIVITY ANALYSIS AND TURNING POINTS

ARC ran sensitivity tests to determine to what extent the performance of the portfolio would need to deteriorate in order for the ratings to be downgraded. The table below shows the impact on the ratings as a result of increasing assumed weighted average probability of default (WAPD) for the assets comprising the underlying portfolio.

Change in Tranche ratings	Increase in the WAPD (%)
Class A1 – no change Class A2 – no change Class A3 – no change	5%
Class A1 – one notch downgrade Class A2 – no change Class A3 – no change	10%
Class A1 – one notch downgrade Class A2 – one notch downgrade Class A3 – no change	20%

<u>Positive Turning Points</u>	<u>Negative Turning Points</u>
<ul style="list-style-type: none"> - Positive migration in the weighted average rating of the underlying obligors and other key portfolio metrics. - Increased credit enhancement available through subordination as a result of de-leveraging post-revolving period end. 	<ul style="list-style-type: none"> - Negative migration in the weighted average rating of the underlying obligors and other key portfolio metrics. - Reduced credit enhancement available as a result of higher than expected defaults and losses. - Key counterparty ratings no longer in line with ARC's criteria.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Global Structured Finance Rating Criteria (Sep 2021).

The rating(s) were assigned by ARC Ratings (UK) Limited and endorsed by ARC Ratings, S.A. in accordance with Regulation (EC) N° 1060/2009 of the European Parliament and of the Council.

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In the rating process, ARC Ratings adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by conflicts of interest.

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