

## Structured Finance Rating Report

# Silver Arrow Benz Leasing 2022-1 Asset Backed Notes

May 11, 2022

### Preliminary Rating:

Senior Notes    AAA<sub>spc(sf)</sub>

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### Contents

Tear Sheet .....	1
1. Macro-Economic and Industry Trend .....	1
2. Transaction Overview .....	1
3. Credit Quality of the Securitized Assets .....	3
4. Payment Structure and Cash Flow Mechanics .....	14
5. Operational and Administrative Risk .....	16
6. Counterparty Risk .....	17
7. Legal and Regulatory Risk .....	18
Surveillance Plan .....	20
Appendix 1: Ratings Definitions .....	21
Appendix 2: Eligibility Criteria .....	22
Appendix 3: Asset Stratification Summary .....	23

\*This rating report is based on information as of May 11, 2022. This report is for the purpose of regulatory filing as required by the relevant laws and regulations only. This report does not constitute a recommendation to buy, hold, or sell securities.

\* The rating(s) presented in this report is effective until and unless we make any further updates.

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## Tear Sheet

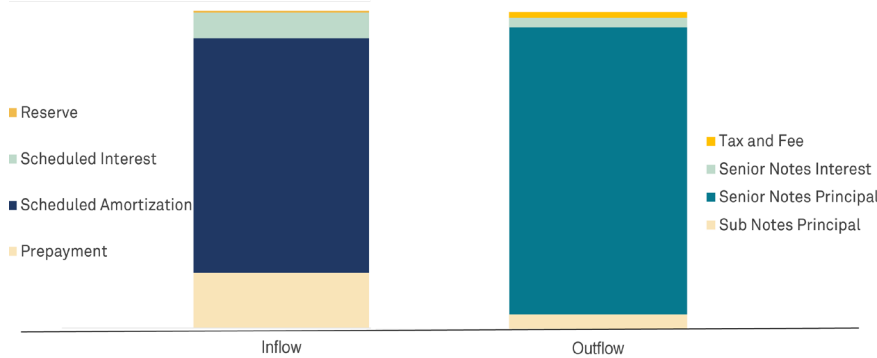
Structure	Preliminary Rating	Amount (CNY million)	Percentage %	Coupon Rate Type	Expected Maturity Date	Repayment Method	S&P Global (China) Ratings CE Buffer (%)
Senior	AAA <sub>spc(sf)</sub>	4,500.00	84.12	Fixed	2024/4/26	Pass Through	>0
Sub	NR	849.67	15.88	N/A	2024/5/26	-	-
<b>Total Assets (Liabilities)</b>	-	<b>5,349.67</b>	<b>100.00</b>	-	-	-	-

**Analysis of the Securitized Assets' Credit Quality:** S&P Global (China) Ratings analyzed the originator's operational framework, risk management and track record, historical static and dynamic pool data, aggregated and securitized assets, and other qualitative and quantitative factors to derive our base-case assumptions which are further refined by forward-looking considerations. We have formed a base-case assumption of a default rate (1.40%) and recovery rate (15.00%). We applied a stress multiple, recovery haircut as well as extra stress for final installments, return of leased vehicles and residual value loss caused by returned vehicles to account for specific transaction features under a AAA<sub>spc(sf)</sub> rating stress scenario. Finally, the WA loss rate is 15.13%.

## Credit Analysis Assumptions

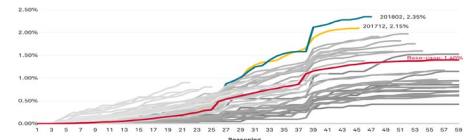
Base-case Default Rate (%)	1.40
Base-case Recovery Rate (%)	15.00
Rating Stress Scenario	AAA <sub>spc(sf)</sub>
Stress Multiples (x)	5.00
Recovery Haircut (%)	50.00
Final Installments Stress Multiples (x)	2.00
Return Rate of Leased Vehicles (%)	80.00
Residual Value Loss Rate (%)	25.00
WA Loss Rate (%)	15.13

**Stress Scenarios and Cash Flow Analysis:** The table below illustrates the cash flow distribution under our most stressed scenario derived from a combination of default timing assumptions, prepayment rate assumptions, different triggers and payment structures, tax, fees and expenses assumptions. We expect asset cash flow to be able to withstand stresses commensurate with the rating assigned to the notes, and still meet payment obligation in a timely manner.



**Originator Overview:** Mercedes-Benz Leasing Co. Ltd. (MBLC) was established in 2012 as a joint venture between Daimler Greater China Investment Co., Ltd. and BAIC Motor Corporation Ltd. Its ultimate holding company is Mercedes-Benz Group AG. As of the end of 2021, MBLC's total assets reached CNY61.50 billion, with a net outstanding lease receivables balance of CNY56.24 billion. The NPL ratio of its lease contracts was 0.43%.

**Static 90+ Cumulative Default Rate:** Based on static pool performance, accumulative default rates are below 2.50% under 91-120 DPD bucket in the past five years. The red line is our base-case assumption for this transaction.



**Dynamic Pool CPR:** Based on dynamic data, MBLC's historical prepayment rate has ranged between 1% and 8% since 2016.

## Transaction Key Information:

<b>Issuer</b>	Silver Arrow Benz Leasing 2022-1 Asset Backed Notes Trust
<b>Main Financial Data of the Issuer</b>	N/A
<b>Purpose of the Issuance</b>	To supplement working capital, fund the leasing business and repay existing bank loans or matured bonds; to provide additional funding channels and further optimize the asset and liability structure of MBLC
<b>Underlying Asset</b>	Lease Receivables & Leased Property Repurchase Claims
<b>Originator/Service</b>	MBLC
<b>Trustee</b>	FOTIC
<b>Account Bank</b>	ICBC BJ
<b>Credit Enhancement Entity</b>	N/A
<b>Cut-off Date</b>	December 31, 2022
<b>Expected Closing Date</b>	May 19, 2022
<b>Legal Maturity Date</b>	November 26, 2027
<b>Special Arrangement</b>	General Reserve, Repurchase Claims

Transaction Comparison		SABL 2022-1 ABN	SABL 2021-2 ABN	BSCL 2021-1 ABN	Anji 2022-1 ABN	Yueying 2021-1 ABN	Wisdom 2021-1 ABN
Originator		MBLC	MBLC	HIFLC	Anji LC	Yueda LC	Wisdom LC
Closing Date		2022/5/19 (Expected)	2021/11/4	2021/4/15	2022/1/21	2021/4/30	2021/8/16
Number of Assets		27,719	22,380	19,567	24,163	7,151	36,918
Outstanding Principal Balance (CNY bn)		5.35	4.50	3.00	1.50	0.42	1.90
Average Outstanding Principal Balance (CNY)		192,996.34	201,072.36	153,319.37	61,933.77	58,197.26	51,552.96
WA Seasoning (month)		19.48	17.20	9.38	8.93	2.53	2.72
WA Remaining Tenor (month)		20.97	22.17	27.29	31.00	23.89	26.29
WA Asset Yield (%)		6.32	6.51	5.69	4.32	1.34	1.10
WA OLV (%)		68.86	66.78	65.36	79.32	64.55	60.40
Revolving Period (Y/N)		N	N	N	N	N	N
Transaction Structure (%)	A	84.12	84.22	87.07	89.95	67.28	47.81
	B	0.00	0.00	0.00	1.80	18.50	43.61
	Sub	15.88	15.78	12.93	8.25	9.37	8.58
OC		0.00	0.00	0.00	0.00	4.85	0.00

## Rating Summary

Transaction Name	Report Type	Rating Type	Rating Date
Silver Arrow Benz Leasing 2022-1 Asset Backed Notes	Presale	Preliminary Rating	May 11 2022

## Rating Rationale

S&P Global (China) Ratings has assigned rating AAA<sub>spc(sf)</sub> to the Silver Arrow Benz Leasing 2022-1 Asset Backed Notes (SABL 2022-1 ABN) Senior Notes. The rating primarily reflects the following:

- **Credit Quality of the Securitized Assets:** We analyzed the originator's operational framework, risk management and track record, historical static and dynamic pool data, aggregated and securitized assets, and other qualitative and quantitative factors to derive our base-case assumptions which are further refined by forward-looking considerations. We have formed a base-case assumption of a default rate (1.40%) and recovery rate (15.00%). After applying the stress multiple, recovery haircut as well as extra stress for final installments, return of leased vehicles and residual value loss caused by returned vehicles, the WA loss rate is 15.13% under our AAA<sub>spc(sf)</sub> rating stress scenario.
- **Payment Structure and Cash Flow Mechanics:** We model various combinations under default timing assumptions, prepayment rate assumptions, different triggers and payment structures, tax, fees and expenses assumptions. The asset cash flows are expected to be able to withstand stresses commensurate with the ratings assigned to the notes, and still meet payment obligations in a timely manner. We estimated the final S&P Global (China) Ratings CE buffer to be greater than 0%.
- **Operational and Administrative Risk:** The direct debit payment mechanism will reduce MBLC's operational risk to some extent. Although there is no back-up servicer, the general reserve can provide liquidity support to the transaction. We believe the participants in this transaction are capable of fulfilling the duties and responsibilities stipulated in the agreement given their experience and past track record.
- **Counterparty Risk:** Our assessment of counterparty risk takes into account payment interruption risk, account bank risk, commingling risk etc. The transaction documents have incorporated various credit quality triggers to mitigate the abovementioned counterparty risk.
- **Legal and Regulatory Risk:** We believe the legal structure of the special purpose trust (SPT) meets the principle of true sale and bankruptcy remoteness in securitization. This transaction is exposed to risk related to dispute over ownership and disposal of leased vehicles, as well as the originator's bankruptcy risk. We believe the abovementioned risks have been mitigated by the existing arrangements stipulated in the transaction documents to some extent.

## Credit Highlights

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>— Credit positive pool traits. The WA seasoning is 19.48 months, and the WA remaining tenor is 20.97 months, with a WA OLV ratio of 68.86%.</li> </ul>	<ul style="list-style-type: none"> <li>— Relatively short history for auto financial leasing industry in China; the data available for analysis has not gone through a full economic cycle.</li> </ul>
<ul style="list-style-type: none"> <li>— Geographical or obligor concentration risk is relatively low in the portfolio. As of the cut-off date, there are 27,719 leases in the portfolio and the average outstanding principal balance is CNY 192,996.34. The Top 10 largest obligor accounts for 0.18% of total balance. Total lease claims are spread across 31 provinces, autonomous regions and municipalities directly under the central government.</li> </ul>	<ul style="list-style-type: none"> <li>— The transaction's underlying asset pool comprises of a large share of final installments (accounting for 73.67% of the outstanding lease principal balance), with lessees expected to come under relatively high payment pressure at the end of the lease term. If the return rate or residual value loss rate of leased vehicles increases significantly in the future, the transaction may face short-term liquidity pressure.</li> </ul>
<ul style="list-style-type: none"> <li>— The senior notes have credit enhancement of 15.88% supported by subordinated notes with sufficient CE buffer based on our assessment.</li> </ul>	<ul style="list-style-type: none"> <li>— The transaction may be exposed to risk related to disputes over ownership and disposal of leased vehicles, as well as the originator's bankruptcy risk.</li> </ul>
<ul style="list-style-type: none"> <li>— The transaction adopts a general reserve account. MBLC will deposit an upfront cash reserve (0.5% of pool balance as of the cut-off date) to provide liquidity support for senior interest payments.</li> </ul>	<ul style="list-style-type: none"> <li>— The transaction is exposed to account bank risk, payment interruption risk, and commingling risk.</li> </ul>
<ul style="list-style-type: none"> <li>— MBLC follows the mature underwriting process, IT system &amp; risk control and securitization processes established by Mercedes-Benz Group AG.</li> </ul>	

## Related Methodologies, Models & Research

### Methodology Applied:

- [S&P Ratings China--Structured Finance Methodology](#)

### Related Research & Commentary:

- [Commentary: Understanding Our Approach to China Consumer Asset-Backed Securities](#)
- [Seeking Growth and Stability | China Outlook 2022](#)

### Model Applied:

- [SPG China Ratings Structured Finance Cash Flow Engine](#)

## Overview of Mercedes-Benz Leasing Co., Ltd. (Originator / Servicer)

### Key points:

As Mercedes-Benz Group AG's only auto leasing company in China, MBLC's business position is highly stable, with extensive network and dealership channels. Among commercial leasing companies, MBLC's leverage level is relatively high, but we believe that it receives ongoing capital support from its group and has strong earnings. For this reason, MBLC's overall capital and earnings is above average. Its financial lease assets have good quality, with an above-average risk position compared to domestic financial institutions. MBLC benefits from financing facilities provided by the group and prudent liquidity management. Its overall funding and liquidity is above the industry average, with sufficient and stable liquidity. In addition, the company's close ties to its group in terms of business and finance mean it is highly likely to obtain group support in times of crisis.

### Strengths

- MBLC receives a high level of on-going funding support from its group, and is highly likely to receive group support in times of crisis.
- The company has strong business synergy with the group, and its business stability is better than that of similar-sized commercial leasing companies.
- High earnings and strong internal capital generation capacity.
- Its risk management system is prudent and well established, It has good asset quality.

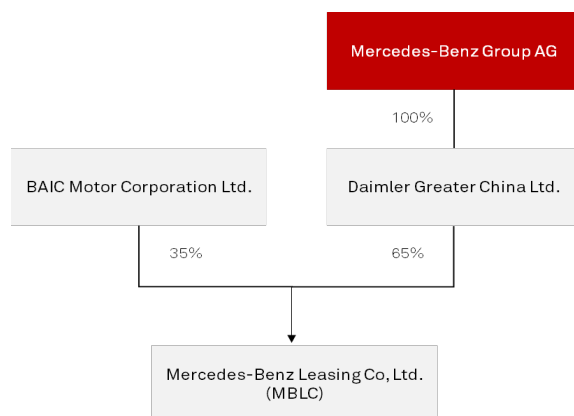
### Weaknesses

- Commercial leasing companies cannot participate in interbank lending through the interbank market.
- Commercial leasing companies generally come under less stringent supervision than financial leasing companies.

### Outlook:

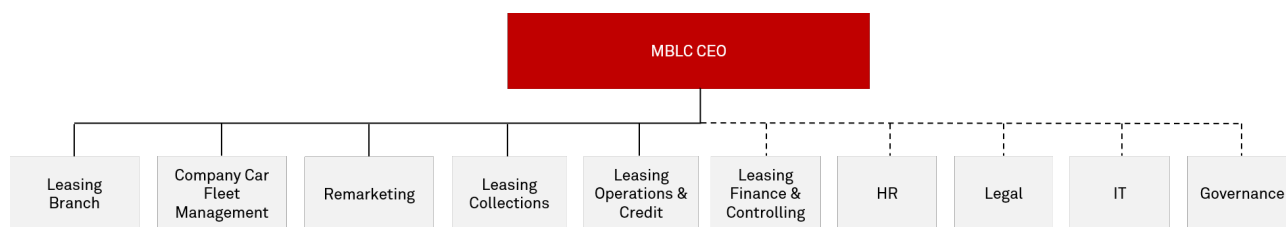
The stable outlook reflects our expectation that MBLC's business operations and financial strength will remain stable over the next two years or a longer timeframe. At the same time, the company's importance to its group is expected to remain stable.

#### ( a ) Equity Structure



Sources: MBLC, compiled by S&P Global (China) Ratings.

#### ( b ) Organizational Structure



Sources: MBLC, compiled by S&P Global (China) Ratings.

## (c) Business Performance

MBLC Key Financial Data				
	2018	2019	2020	2021
<b>Business Position (mil. RMB, %)</b>				
Total assets	39,145.93	53,297.88	61,791.31	61,458.46
Net financial lease receivables	36,441.45	51,379.64	59,386.39	56,240.26
YoY growth of net financial lease receivables	87.07	40.99	15.58	(5.30)
Operating income	1,251.19	2,147.19	2,425.63	2,645.04
YoY growth of operating income	88.48	71.61	12.97	9.05
Net income	450.48	861.10	1,339.93	1,621.97
YoY growth of net income	51.48	91.15	55.61	21.05
<b>Capital and Earnings</b>				
Reported regulatory leverage (X)	9.45	8.79	7.91	6.53
Total debt/total equity (%)	8.60	7.71	6.92	5.89
Interest income/average interest-generating assets (%)	9.07	9.18	8.55	7.83
Interest expense/average interest-bearing liabilities (%)	5.25	4.87	4.57	4.09
Net interest margin (%)	4.14	4.74	4.46	4.25
Return on average assets (%)	1.46	1.86	2.33	2.63
Return on average equity (%)	14.46	17.11	19.47	19.63
<b>Risk Position (%)</b>				
Non-performing ratio of financial lease receivables	0.10	0.17	0.31	0.43
Overdue financial lease receivables/gross financial lease receivables	1.66	0.92	1.34	1.71
Lease loss reserves/gross financial lease receivables	1.41	1.82	1.64	1.68
Lease loss reserves/non-performing financial lease receivables	1,472.90	1,057.06	533.70	390.95
Net write-offs of financial lease receivables/average financial lease receivables	0.07	0.15	0.35	0.27
<b>Funding and Liquidity</b>				
Short-term debt/total debt (%)	31.34	32.47	48.75	40.14
Total debt/income before tax (X)	55.68	38.72	28.73	24.26

Sources: MBLC, compiled by S&amp;P Global (China) Ratings.

## (d) Calculation formula of relevant financial indicators

Key Terms	Formulae and Definitions
Interest-generating assets	= Cash and balances with central bank + deposits with banks and non-bank financial institutions + placements with banks and non-bank financial institutions + financial assets held under resale agreements + loans and advances to customers (gross value) + financial lease receivables (gross value) + financial investments measured at fair value through profit or loss + financial investments measured at amortized cost + financial investments measured at fair value through other comprehensive income + other interest-generating assets
Average interest-generating assets	= (Interest-generating assets at the beginning of the term + interest-generating assets at the end of the term) / 2
Reported regulatory leverage	= Total risk assets (i.e., total assets minus cash, bank deposits and treasury bonds) / total equity
Interest income/average interest-generating assets	= (Interest income + operating lease income) / [(interest-generating assets at the beginning of the term + interest-generating assets at the end of the term) / 2]
Interest expense/average interest-bearing liabilities	= Interest expense / [(total debt at the beginning of the term + total debt at the end of the term) / 2]
Net interest margin	= (Net interest income + net operating lease income) / [(interest-generating assets at the beginning of the term + interest-generating assets at the end of the term) / 2]
Return on average assets	= Net income / [(total assets at the beginning of the term + total assets at the end of the term) / 2]
Return on average equity	= Net income / [(total equity at the beginning of the term + total equity at the end of the term) / 2]
Non-performing ratio of financial lease receivables	= Non-performing financial lease receivables / (gross financial lease receivables - unrealized financing income)
Total debt	= Deposits from banks and non-bank financial institutions + placements from banks and non-bank financial institutions + financial assets sold under repurchase agreements + short-term borrowing + long-term borrowing + bonds payable + other interest-bearing liabilities
Short-term debt	= Total debt maturing within one year

Sources: Compiled by S&amp;P Global (China) Ratings.

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## 1. Macro-Economic and Industry Trend

In 2021, China's ongoing control measures over COVID remained effective, as the economy continued to recover at a healthy pace. New regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. We expect China GDP growth to be 4.9% in 2022. We have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality so our baseline includes some of these dynamics.

We expect the credit quality of the vehicle manufacturing industry to remain stable in 2022. Sales of passenger vehicles should continue to pick up from 2021, with low sales growth maintained as chip supply shortages ease amid the current low level of market inventory. Meanwhile, sales of new energy vehicles (NEVs) are set to continue rising with an increasing market penetration rate. However, given the current low market share of NEVs and crowding-out effect of traditional fuel vehicles, NEV sales growth shouldn't play a significant role in driving the growth of overall vehicle sales.

Under COVID, differentiation of asset quality among commercial leasing companies has become more prominent. Those leasing companies that primarily focus on group-related business usually have satisfactory and stable asset quality, while those that focus on business lines beyond their groups face increasing pressure from asset quality deterioration. Meanwhile, with increased local government regulations on commercial leasing companies, major disruption in the industry has been avoided. We expect commercial leasing companies' business to continue growing at a low rate.

During COVID, auto sales were fairly resilient. As more and more consumers purchase cars through loans or leasing, the overall auto financial penetration rate should increase further. As an important part of auto financial services, auto leasing services satisfy customers' diversified needs in terms of product type, required down payments and flexible repayment methods. Regarding the credit performance of personal auto financial leases, the first half of 2020 saw an increase in the overall overdue rate, reflecting the pandemic's short-term impact. With COVID largely under control, overall asset performance is recovering. However, due to auto leasing companies' different business models, operating strategies and target customers, the divergences and fluctuations in the sector's credit performance have been more pronounced than in the personal auto finance loan market. More innovative products have emerged in recent years, as auto leasing gradually filters through to lower-tier cities. These factors and changes in the auto leasing market may affect the asset composition and credit performance of auto leasing ABN.

## 2. Transaction Overview

This new auto leasing backed notes transaction is the 4<sup>th</sup> auto leasing securitization transaction to be originated by MBLC since 2020. An SPT named Silver Arrow Benz Leasing 2022-1 Asset Backed Notes Trust will be set up according to the trust agreement entered by the originator, MBLC, and the trustee – China Foreign Economy and Trade Trust (FOTIC). The funds raised under ABN will be used to supplement working capital, fund the leasing business and repay existing bank loans or matured

**S&P Global (China) Ratings expects the personal auto leasing ABN sector's credit performance to fluctuate and diverge more than auto loan ABS.**

**S&P Global (China) Ratings estimates that the Senior Notes of SABL 2022-1 ABN have a CE buffer greater than 0%.**

bonds, while also providing an additional funding channel and further optimizing MBLC's asset and liability structure.

The "CE buffer" in Table 1 represents the excess credit enhancement supported by available assets after the senior class notes' timely payment of interest and ultimate payment of principal have been addressed under S&P Global (China) Ratings' most stressed scenario according to the assigned ratings. It is not equivalent to this transaction's breakeven CE.

Table/Chart 1 Basic Structure

Structure	Preliminary Rating	Amount (CNY mn)	Percentage %	Coupon Type	Expected Maturity <sup>1</sup>	CE Buffer (%)
Senior	AAA <sub>spc(sf)</sub>	4,500.00	84.12	Fixed	2024/4/26	>0
Sub	NR	849.67	15.88	-	2024/5/26	-
<b>Total Assets (Liabilities)</b>	-	5,349.67	<b>100.00</b>	-	-	-

Note1: Expected maturity with clean-up call.

Source: Transaction documents, compiled by S&P Global (China) Ratings.

The transaction is backed by a pool of eligible entrusted lease receivables and all ancillary related interests, along with the rights, interests and benefits payable by the fund trust under the Vehicle Purchase Agreement. As of the cut-off date, there are 27,719 lease receivables in the underlying asset pool. The lessees and the originator have entered into lease agreements in respect of the relevant leased vehicles, and such leases have been duly registered with the relevant registration authorities. The weighted average (WA) seasoning of the portfolio is 19.48 months, with a WA remaining term to maturity of 20.97 months. The WA original lease to value (OLTV = original principal amount financed/purchase price of the financed vehicle) ratio is 68.86%. The portfolio is well diversified, with underlying assets spread across 31 provinces, autonomous regions and municipalities directly under the central government, where 13.48% are located in Guangdong Province. For this transaction, balloon-payment lease receivables account for 86.08% of the overall outstanding lease principal amount. These balloon-payment lease receivables include products with a return option and products without, with the former accounting for 46.82% of the transaction's overall outstanding lease principal amount and the latter 39.26%. A large portion of the portfolio comprises of final installment payments, which account for 73.67%<sup>1</sup> of the overall outstanding lease principal amount.

There is no revolving structure in the transaction. Senior notes' interest is paid monthly, and senior principal is paid in a pass-through manner. The transaction adopts a general reserve account with an upfront cash reserve of CNY 26.75 million (0.5% of the pool balance as of the cut-off date) from MBLC set aside to cover any shortfall in tax, senior fees and senior interest payments. The table and chart below display the transaction's main participants, structure diagram, key dates, revolving mechanism as well as the payment frequency.

**The portfolio is well diversified with credit positive pool traits. The portfolio has a large portion of final installment payments, which account for 73.67% of the aggregate outstanding lease principal amount.**

<sup>1</sup> Final installment refers to the amount of the final payment of principal (excluding the interest paid). This definition applies throughout this report.

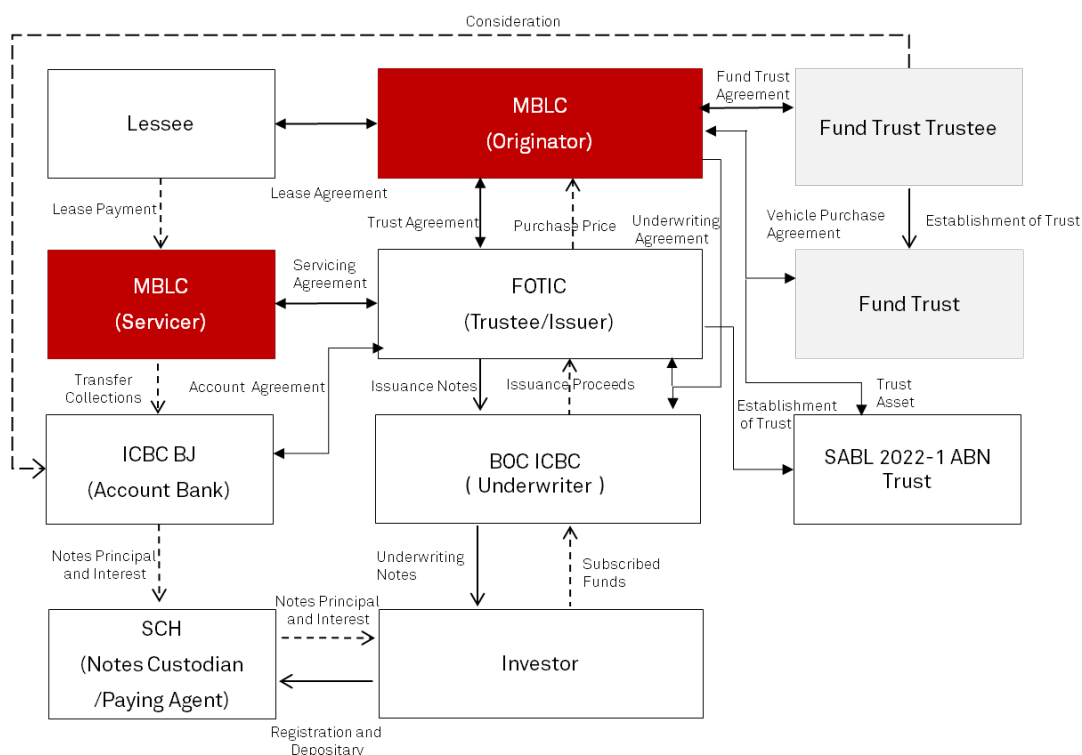
Table/Chart 2 Key Dates and Payment Cycle

Category	Date/Frequency
Cut-off Date	December 31, 2021
Expected Closing Date	May 19, 2022
First Payment Date <sup>1</sup>	June 27, 2022
Payment Frequency	Monthly
Legal Final Maturity Date	November 26, 2027

Note1: Payment date is subject to the Business Day Convention, the first payment date is 27 June 2022 and thereafter the 26th day of each calendar month.

Source: Transaction documents, compiled by S&P Global (China) Ratings.

Table/Chart 3 Structure Diagram



Source: Transaction documents, compiled by S&P Global (China) Ratings.

### 3. Credit Quality of the Securitized Assets

#### 3.1. Originator/Servicer

##### 3.1.1 Originator/Servicer Background

Mercedes-Benz Leasing Co., Ltd. (MBLC) was incorporated in 2012 as a joint venture between Daimler Greater China Investment Co., Ltd. and BAIC Motor Corporation Ltd. Its ultimate holding company is Mercedes-Benz Group AG. As of the end of 2021, MBLC's registered capital was CNY5.10 billion and its total assets reached CNY61.50 billion, with a net lease receivables outstanding balance of CNY56.24 billion.

MBLC's current business focuses on financial leasing, mainly through sale and lease-back. MBLC is dedicated to providing financial support to Mercedes-Benz passenger cars' customers, as well as customers of other Mercedes-Benz commercial vehicles

**MBLC's ultimate holding company is Mercedes-Benz Group AG. As of the end of 2021, MBLC's total assets reached CNY61.50 billion, with outstanding lease receivables balance of CNY56.24 billion.**

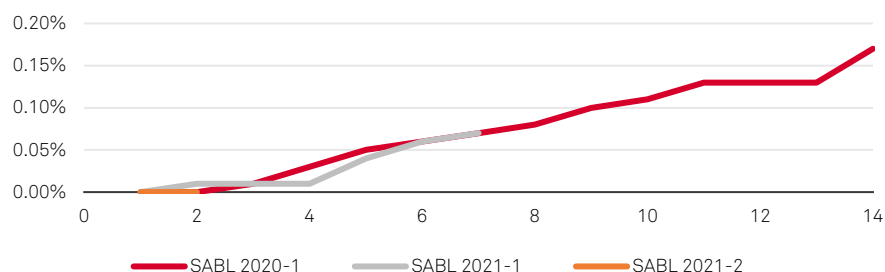
(including vans) through its authorized dealership network in China. MBLC does not yet provide financial leasing for non-Daimler vehicles. MBLC's target customers are retail customers.

### 3.1.2 ABS Issuance Experience

MBLC benefits from the mature asset securitization practices established within Mercedes-Benz Group AG. This is the third issuance since the first transaction in the Silver Arrow Benz Leasing series was launched in 2020. MBLC's first registration issuance quota of CNY16 billion was approved in 2020.

By the end of December 2021, MBLC had issued 3 ABN transactions with a total issuance scale of CNY13.60 billion. These transactions performed well, with cumulative default rates all under 0.20%. The following chart illustrates the historical accumulative default rate for the auto ABN issued by MBLC.

Table/Chart 4 Historical Silver Arrow China Cumulative Default Rate



Sources: Public Information, compiled by S&P Global (China) Ratings.

### 3.1.3 Lease Products Analysis

MBLC primarily provides retail customers with three types of leasing products: Agility Products, Finance Lease with Balloon Products and Finance Lease without Balloon Products. The term of the products is usually between 12 to 60 months, with a minimum down payment of 0% of the vehicle sale price. Each type of lease product has its own campaign product, which is designed based on the standard product and is specifically tailored for different models and lease terms. These campaign products are subsidized by MBLC's brand partners, which may lead to a lower contract interest rate. The payment methods for the above lease products include direct debit, bank transfer, direct payment and such other means accepted by MBLC. Payments are made monthly.

Specifically, the main features of Agility Products are that, at term-end, the manufacturer will guarantee the residual value and flexible options will be provided to the lessee. Upon the end of the lease term, the Agility Products allow the lessee the option of either (i) repurchasing the leased vehicle by paying the final instalment, or (ii) returning the leased vehicle to the lessor with no obligation to pay the final instalment or (iii) choosing balloon extension. This product is only applicable to new Mercedes-Benz passenger cars and light commercial vehicles. Finance Lease with Balloon Products allow the lessee to repurchase the leased vehicle by (i) paying the final instalment at the end of the lease term or (ii) choosing balloon extension. This product is only applicable to new Mercedes-Benz passenger cars and light commercial vehicles. Finance Lease without Balloon Products can be used for new trucks and Mercedes-Benz certified used cars. Currently, MBLC's portfolio is dominated by

**MBLC had issued 3 auto ABN transactions with a total issuance scale of CNY13.60 billion as of the end of December 2021.**

balloon leases. The securitized assets in this pool are lease products for new car leases with balloon features.

### 3.1.4 Origination and Underwriting

MBLC has developed a complete and mature business network throughout the country. It has continued to expand its dealer network, offering retail financing through 672 dealers as of the end of December 2021.

At present, MBLC's business scope focuses on financial leasing through a sale and lease-back model. MBLC pays the purchase price of the vehicle to the dealer on behalf of the customer. The customer obtains ownership of the vehicle and simultaneously transfers the ownership to MBLC. The customer signs the Finance Lease and Guarantee Agreement and the Mortgage Contract and completes the lease registration with the relevant motor vehicle administration bureau. From a legal perspective, the transfer of a vehicle title (as a movable asset) is not conditional upon it being registered with a motor vehicle administration bureau, and the vehicle registration certificate is not a title document. The lessee is not the legal owner of the vehicle, even if they are registered as the "owner" on the vehicle registration certificate. During the lease term, the customer is required to make certain payments to MBLC including but not limited to monthly rental and other applicable fees. The lease issued by MBLC is only used to finance the purchase of vehicles and value-added services. MBLC requires the customer to enact a first priority lease in favour of MBLC in respect of the leased vehicle. The dealer assists the customer in obtaining a Vehicle Registration Certificate which includes the registration of the lease in the name of MBLC. The lease registration process should be conducted within 30 days of the activation of the contract and disbursement might be approved before registration is completed. In cases where the lease registration has not been completed within the specified period, MBLC will promptly notify the dealer requesting it to assist the customer in completing the lease registration.

We believe MBLC has established a standard lease origination process and a rigorous lease approval process. The lease origination process begins with a financial consultant who will collect information and submit the application to the system. The system assigns a score to each applicant based on information obtained externally and through the application, and then enters the risk threshold notification process. Applications that do not trigger any risk thresholds and obtain relatively high scores will be automatically approved, otherwise manual review is required. After reviewing the basic information, the risk rating (A/B/C/D) and third-party data, the authorized approver will draw a conclusion based on the applicant's income, liabilities, historical performance etc. The case may be handed over to a more senior manager if necessary. The completeness and compliance of all applications approved by the system will be manually checked. By the end of December 2021, about 91.2% of retail private auto financial leases submitted had been approved, 1.7% were conditionally approved, and around 8.8% were declined.

### 3.1.5 Arrears Management and Collection

According to standard market practice, lessees usually set up payment through direct debit, and the payment date could be selected as any date throughout the month. Collection activities include SMS/WeChat reminders, collection letters, phone calls, onsite visits, outsourcing to third-party agents for collection (overdue amount or all debts under the contract), vehicle repossessions, litigation, account closure and

**MBLC has a well-developed dealership network and standard lease origination process with stringent underwriting policies.**

**MBLC closely monitors lease performance, with defaulted lease payments usually collected through cash payments rather than vehicle disposal.**

recoveries after verification, and fraud case management etc. The Collection Department is divided into four sub-divisions based on the delinquency cycle, namely Early Collection, Late Collection, Recovery and Litigation. At the Early Collection stage (overdue 1-60 days), collection activities mainly include SMS or WeChat reminders, phone calls and home visits, etc. If the customer fails to fulfil the first repayment obligation within 60 days, the contract will be passed on to the Late Collection Team and outsourced agents according to the collection strategy. If a lease payment is delinquent for 90 days, or there is any serious breach of contract, the Late Collection Team may proceed with terminating the contract based on the terms of the contract, assign a third-party agent for collection, and demand the customer repay any outstanding payments or return the vehicle. If the lease payment is overdue for up to 180 days, and the leased vehicle cannot be repossessed, the amount would be written-off. According to the collection process, the internal or external collection teams will continue to recover the written-off amount. Generally speaking, after write-off, MBLC will commence litigation proceedings against the customer. In addition, if the contract is identified as a high-risk account by the Collection Team, write-off and litigation proceedings could be commenced in advance.

When the customer exercises their right to return the vehicle, MBLC will conduct a series of tests on the vehicle and price the vehicle according to the criteria for returning, with reference to third-party and internal data, and obtain cash back through auction sales. According to historical data for the originator, from January 1, 2016 to December 31, 2021, the accumulative number of leased vehicles returned under the Agility Products category was only about 56, which accounts for 0.01% of the total number of the leased vehicles during such period.

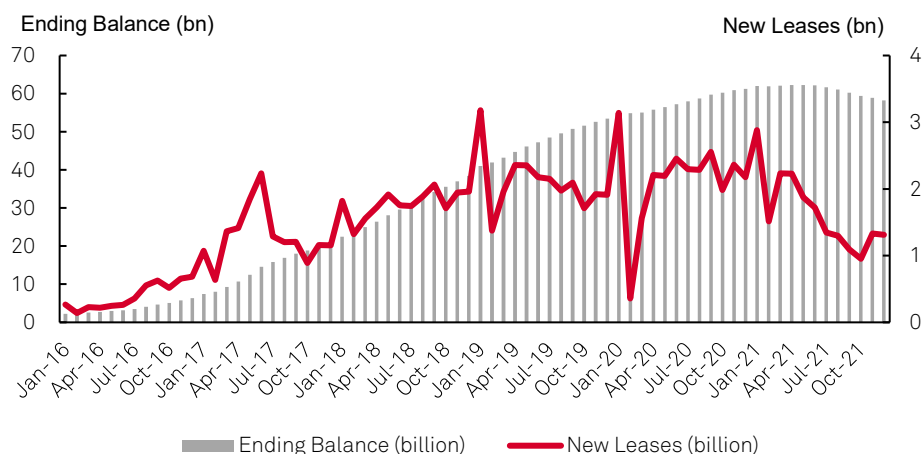
Based on our analysis of the trust reports of Silver Arrow Benz Leasing ABN series, combined with interviews with MBLC and our research, collection of overdue lease receivables is generally done out-of-court. Overdue lease receivables collection is mainly carried out through the lessee's cash repayments rather than the disposal of the mortgaged vehicle.

### 3.2. MBLC Aggregate Portfolio Analysis

MBLC's portfolio has grown rapidly over the past few years. Relying on its parent company's mature auto finance management and operational experience, MBLC has a professional and efficient competitive advantage in terms of its retail and wholesale business. As of the end of December 2021, MBLC's outstanding lease receivables balance reached CNY56.24 billion and the non-performing ratio of lease contracts was 0.43%, of which the NPL ratio for its retail private customers and institutional customers was about 0.46% and 0.25% respectively, a good level for the industry. The COVID-19 outbreak saw a decrease in the amount of new leases issued in the first few months of 2020, but with the easing of the epidemic and the implementation of relevant policies, issuance of new lease contracts has returned to levels similar to 2019. However, the amount of new leases in the second half of 2021 seemed to decrease.

**As of the end of December 2021, MBLC's NPL ratio for its retail private customers and institutional customers was about 0.46% and 0.25% respectively.**

Table/Chart 5 MBLC's Auto Lease Book Overview and Growth (Dynamic pool data)



Sources: MBLC, compiled by S&P Global (China) Ratings.

### 3.3. MBLC Securitized Portfolio Analysis

#### 3.3.1. Securitized Pool Overview

The asset portfolio provided by the originator had a total outstanding principal balance (OPB) of CNY 5.35 billion as of the cut-off date on December 31, 2021. We estimate the securitized portfolio accounts for approximately 9% of MBLC's total auto lease receivables. The lease assets are randomly selected subject to the eligibility criteria.

Table/Chart 6 Asset Pool Summary

Pool Summary (as of cut-off date)	SABL 2022-1 ABN
Number of Assets	27,719
Number of Lessees	27,705
Outstanding Principal Balance (OPB) (CNY million)	5,349.67
Average OPB (CNY)	192,996.34
WA OLTV (%)	68.86
WA Interest Rate (%)	6.32
WA Seasoning (months)	19.48
WA Remaining Term (months)	20.97
Top Three Models (%)	GLK/GLC-Class/21.35; E-Class/20.87; A-Class/17.67
Lease Products / Ratio (%)	Balloon products with return option /46.82; Balloon products without return option /39.26; Non-Balloon /13.92
Top 10 Lessees (%)	0.18
Final Installment Payments (%)	73.67
New Car (%)	100.00

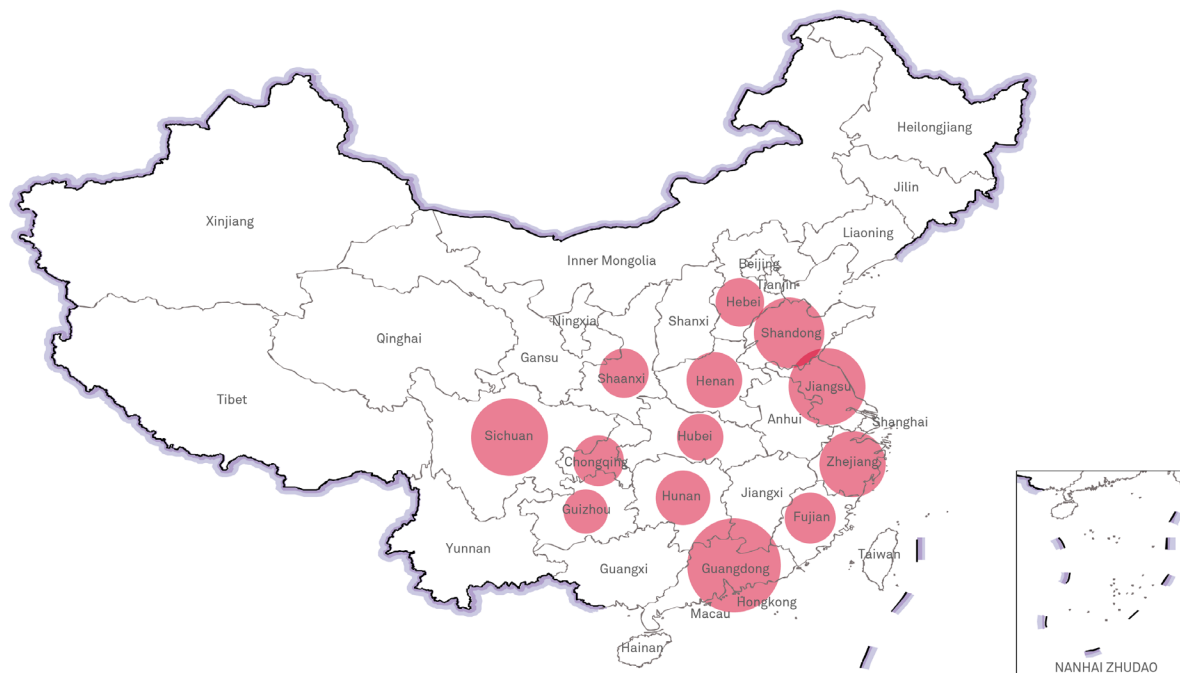
Source: MBLC, compiled by S&P Global (China) Ratings.

#### 3.3.2. Pool Stratification and Asset Characteristics

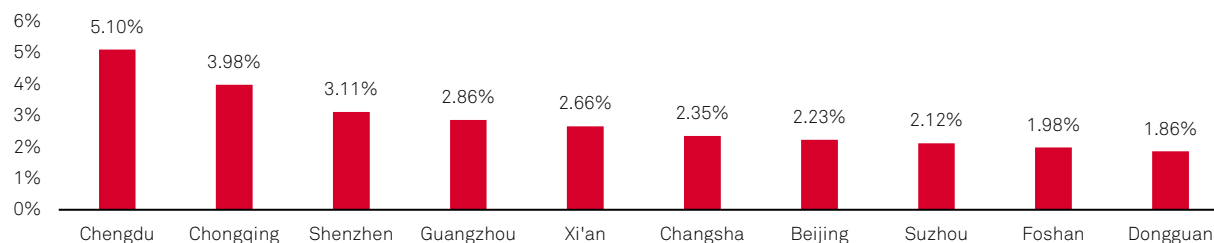
This transaction's pool stratification is similar to the Silver Arrow Benz Leasing ABN series with credit positive pool traits. As of the pool-cut date, the portfolio had a WA seasoning of 19.48 months, with a WA remaining term of 20.97 months. Average OPB

is CNY 192,996.34. The portfolio is well diversified, with underlying lease receivables spread across 31 provinces, autonomous regions and municipalities directly under the central government. Currently the balance of final installment payments among the underlying assets is relatively high within the same series.

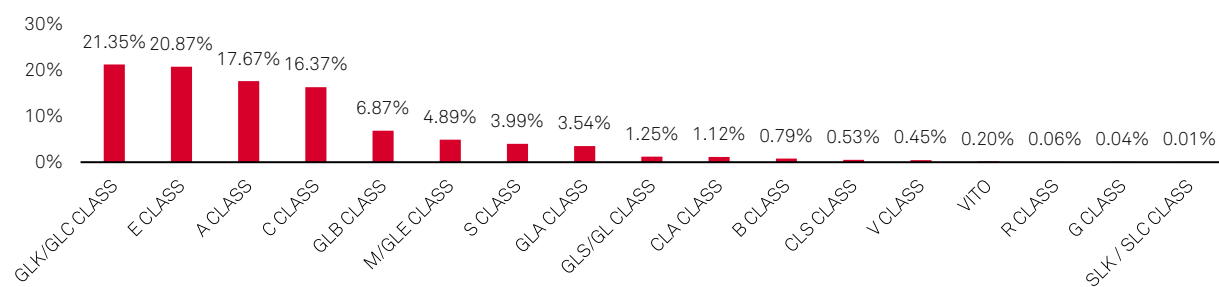
Table/Chart 7 Geographic Concentration (By province; over 3% of Outstanding Principal Balance)



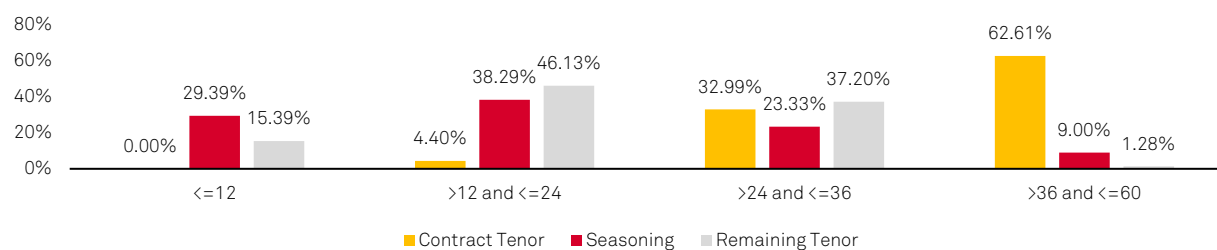
Table/Chart 8 Geographic Concentration (By cities; top ten by OPB)



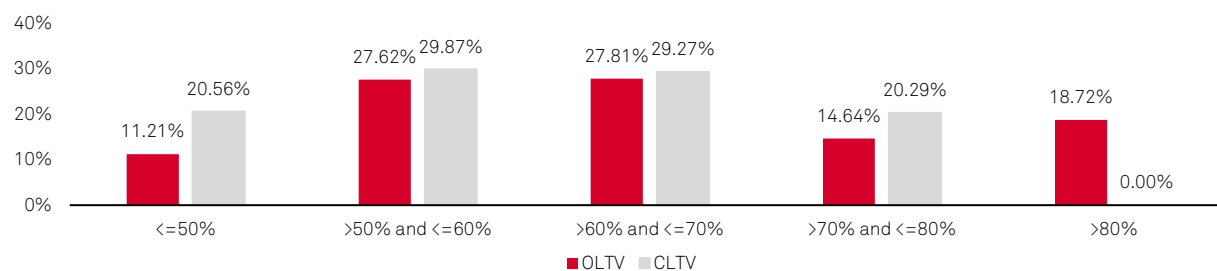
Table/Chart 9 Auto Models (% of OPB)



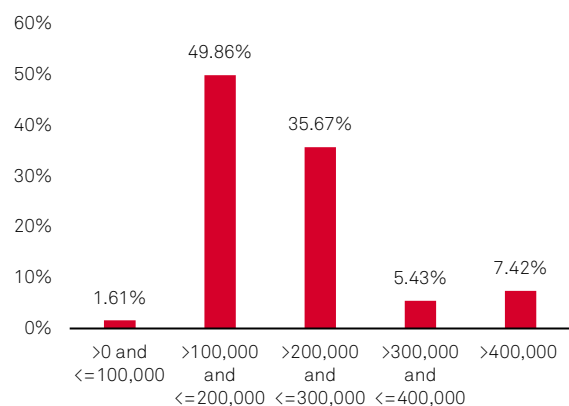
Table/Chart 10 Contract Tenor, Seasoning and Remaining Tenor (% of OPB)



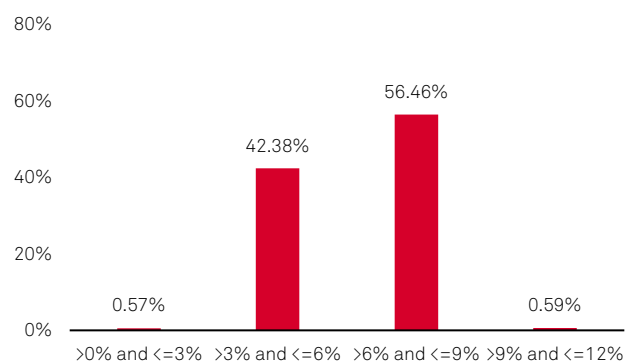
Table/Chart 11 OLTV (% of OPB)



Table/Chart 12 Outstanding Principal Balance (% of OPB)



Table/Chart 13 Asset Yield (% of OPB)



### 3.3.3. Peer Comparison

Table/Chart 14 Peer Comparison

Transaction Name	SABL 2022-1 ABN	SABL 2021-2 ABN	BSCL 2021-1 ABN	Anji 2022-1 ABN	Yueying 2021-1 ABN	Wisdom 2021-1 ABN
Originator	MBLC	MBLC	HIFLC	Anji LC	Yueda LC	Wisdom LC
Closing Date	2022/5/19 (Expected)	2021/11/4	2021/4/15	2021/1/21	2021/4/30	2021/8/16
<b>Asset Characteristics</b>						
Number of Assets	27,719	22,380	19,567	24,163	7,151	36,918
Number of Lessees	27,705	22,375	19,557	24,163	7,147	36,917
OPB (bn)	5.35	4.50	3.00	1.50	0.42	1.90
Average OPB (k)	193.00	201.07	153.32	61.90	58.20	51.60
WA Contract Tenor (months)	40.46	39.36	36.67	-	26.42	29.07
WA Seasoning (months)	19.48	17.20	9.38	8.93	2.53	2.72
WA Remaining Term (months)	20.97	22.17	27.29	31.00	23.89	26.29
WA Interest (%)	6.32	6.51	5.69	4.32	1.34	1.10
WA OLTV (%)	68.86	66.78	65.36	79.32	64.55	60.40
New Vehicle (%)	100.00	100.00	100.00	100.00	100.00	100.00
Collateral Location (%)	Guangdong/ 13.48	Guangdong/ 12.54	Zhejiang/ 12.84	Sichuan/ 10.81	Jiangsu/ 30.55	Zhejiang/ 11.19
<b>Transaction Characteristics</b>						
Issuance Amount (bn)	5.35	4.50	3.00	1.50	0.40	1.90
% by Note	Class A (%)	84.12	84.22	87.07	89.95	70.71
	Class B (%)	0.00	0.00	0.00	1.80	19.44
	Sub (%)	15.88	15.78	12.93	8.25	9.85
% by Asset	Class A (%)	84.12	84.22	87.07	89.95	67.28
	Class B (%)	0.00	0.00	0.00	1.80	18.50
	Sub (%)	15.88	15.78	12.93	8.25	9.37
	OC (%)	0.00	0.00	0.00	0.00	4.85
Revolving (Y/N)	N	N	N	N	N	N
Cash Reserve (Y/N)	Y	Y	Y	N	N	N

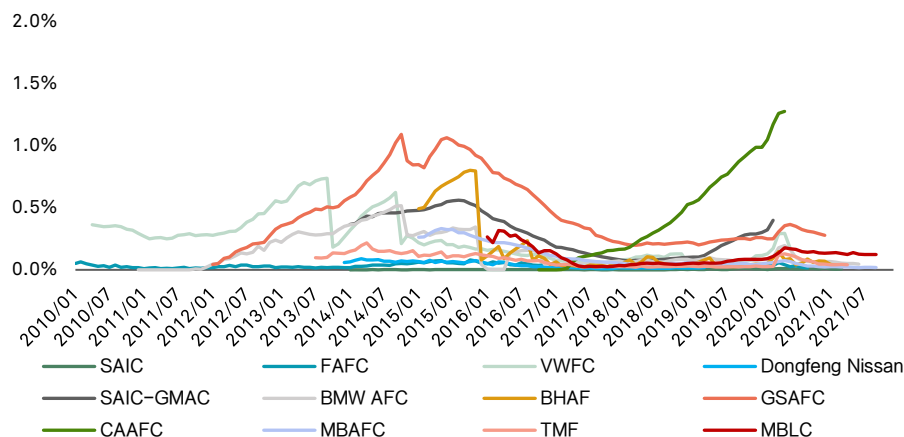
Sources: Public Information, compiled by S&amp;P Global (China) Ratings.

### 3.4. Credit Assessment

Based on S&P Global (China) Ratings' structured finance methodology, historical performance data is the foundation for developing our base-case default, recovery, and net loss rates assumptions, which are further refined by forward-looking considerations.

Based on our analysis of dynamic data, MBLC's delinquencies represented by 90+ DPD bucket ranged from 0.02% to 0.32% on a dynamic basis from January 2016 to December 2021 and the data has remained stable in recent years. The chart below shows the 90+ DPD delinquency rate comparison of the asset performance of MBLC and other AFCs based on dynamic pool analysis.

Table/Chart 15 Dynamic Data Analysis – 90+ DPD Delinquency Rate Comparison\*



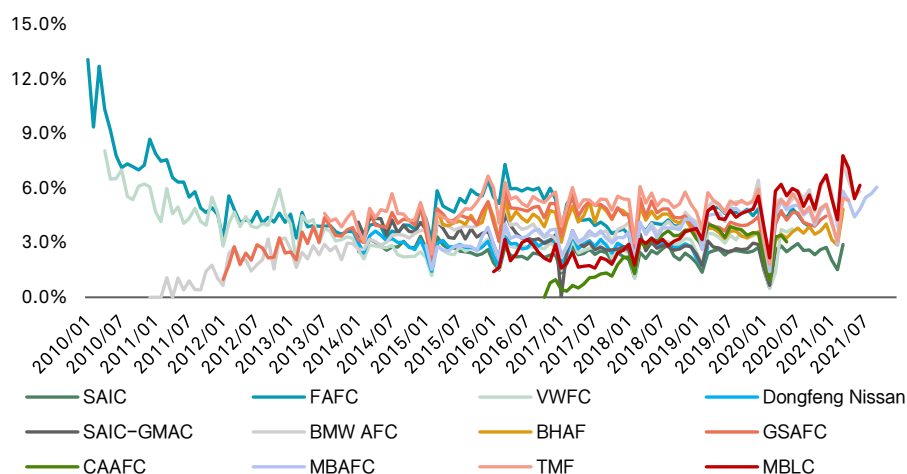
Note: Delinquency rate is calculated based on MBLC's dynamic data. The formula is as following: Delinquency rate = The total balance of delinquent leases over 90 days of the month / the outstanding balance in the beginning of the month.

Sources: Public information, compiled by S&P Global (China) Ratings.

Chart 16 compares the historical annualized conditional prepayment rate (CPR) of MBLC and other AFCs in recent years. From January 2016 to December 2021, the CPR of MBLC ranged between 1% and 8%, with an average of 4%. Severe volatility in the beginning of 2020 saw a significant downturn from January to February, before a return to normal levels in March. We believe such volatility reflects the short-term liquidity shock brought by the COVID-19 outbreak. In the past five years, MBLC's prepayment performance has shown a similar pattern with MBAFC and has been within our expectations. S&P Global (China) Ratings' standard prepayment speed vector assumptions were applied in the cashflow analysis and stress testing scenarios.

**In the past five years, MBLC's prepayment trends have been consistent with other AFCs in the industry and are within our expectations.**

Table/Chart 16 Dynamic Data Analysis – Historical CPR Comparison



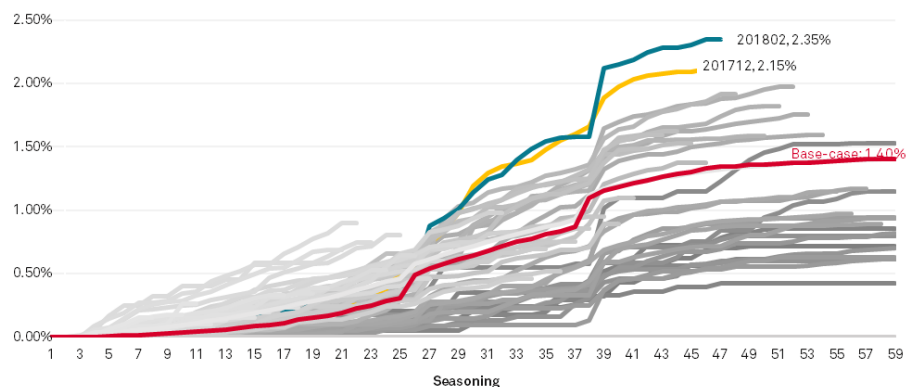
Note: CPR is calculated based on MBLC's dynamic data. The formula is as following:  $CPR = 1 - (1 - \text{prepayment amount in the month} / \text{the outstanding balance in the beginning of the month})^{12}$ .

Sources: Public information, compiled by S&P Global (China) Ratings.

We have also analyzed the static pool performance from January 2016 to December 2021. The payout ratio for 33 out of the total 72 vintages was over 80%. We generally apply historical gradient factors to extrapolate younger vintages and predict future performance.

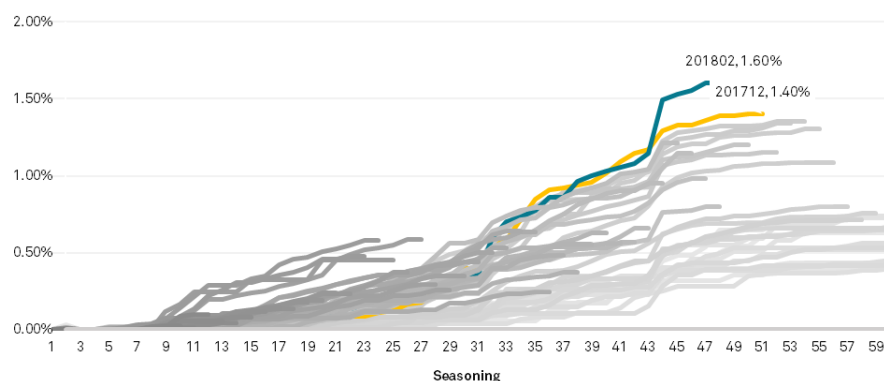
In our credit analysis, we view a 91-120 DPD delinquency rate as an important proxy indicator for default. Based on actual performance data, we observed that December 2017 and February 2018 vintages had the two highest cumulative delinquency rates of 2.15% and 2.35% respectively and two highest charge-off rates of 1.40% and 1.60% respectively. The following charts display the 91-120 DPD cumulative delinquency rates and charge-off rates respectively.

Table/Chart 17 Static Pool Analysis—Historical Cumulative 91-120 DPD Delinquency Rate



Sources: MBLC, compiled by S&P Global (China) Ratings.

Table/Chart 18 Static Pool Analysis—Historical Charge-off Rate



Sources: MBLC, compiled by S&P Global (China) Ratings.

We also observed that the portfolio has a WA remaining term of 20.97 months, which makes the risk exposure period of the pool relatively short. We have formed our base-case assumptions based on the analysis of MBLC's operational framework, risk management and track record, historical static and dynamic pool data, aggregated and securitized assets, and other qualitative and quantitative factors. The assumptions are further refined by forward-looking considerations. We expect the base-case default rate for this transaction to be 1.40%. The stress multiple is 5.00 under a  $AAA_{spc(sf)}$  rating stress scenario. We also analyzed the migration rate of 91-120 DPD delinquent leases, charge-off rate, and recovery policies etc. to form the base-case recovery rate. We expect the recovery rate for this transaction to be 15.00%. After applying a 50% haircut at  $AAA_{spc(sf)}$  stress, the stressed recovery rate is 7.50%.

Balloon products with a return option and balloon products without a return option account for 46.82% and 39.26% of the aggregate outstanding lease principal amount respectively. The balance of non-balloon lease principal of this transaction only

accounts for 13.92% of the aggregate outstanding lease principal amount. The underlying asset pool of this transaction has a relatively large share of final installment payments, which account for 73.67% of the aggregate outstanding lease principal amount. The lessees may face relatively high payment pressure at the end of the lease term, and the transaction may face short-term liquidity pressure should the return rate or residual value loss rate increase dramatically. For this reason, we also applied additional stress pressure for final installment payments, the return rate of leased vehicles and the residual value loss rate in our analysis.

For balloon products without a return option, based on our analysis of the “jump” trend led by the final installment payments in the static pool data and historical experience, we applied an extra stress multiple of 2.00 for the final installments.

We apply a separate analysis for balloon products with a return option based on whether the lessee chooses to return the vehicle or not. In our analysis of the return rate of leased vehicles<sup>2</sup>, after comprehensively considering MBLC’s historical return data, MBLC’s current business performance and international experience for similar products, we assumed that the return rate of the leased vehicles under a AAA<sub>spc(sf)</sub> rating stress scenario is 80.00%.

- For a lease agreement where the lessee chooses to return the leased vehicle to MBLC, it is stipulated in the transaction document that MBLC will be obliged to repurchase the lease receivables upon the occurrence of a lessee return event or an extension of final installment, but we did not consider this arrangement as extra credit enhancement during our credit analysis according to our credit analysis on MBLC and the target AAA<sub>spc(sf)</sub> rating of the rated notes. After considering the down payment ratio, the remaining amount of final installments, remaining term and the level of residual value of the auto market and MBLC’s control process for returning vehicles, we also looked at examples from more mature markets and global standards for similar products, before finally assuming a residual value loss rate of 25.00%.
- For a lease agreement where the lessee chooses to not return the leased vehicle to MBLC, the credit risk is considered the same as the lease agreement without a return option. Thus, the extra stress multiple (2x) for final installment payments is still applicable for such lease contracts.

To sum up, we divided the underlying asset pool according to the lease product type and combined with the characteristics of these products to conduct a credit analysis in line with their risks. The final stressed WA loss rate under a AAA<sub>spc(sf)</sub> rating stress scenario is estimated at 15.13%. The key assumptions involved are shown in the table below:

**Under a AAA<sub>spc(sf)</sub> rating stress scenario, the WA loss rate for this transaction is 15.13%.**

<sup>2</sup> The return rate of the leased vehicles = OPB of the leases in which the lessees choose to return the leased vehicles at the cut-off date/OPB of the leases with return option at the cut-off date.

Table/Chart 19 Credit Analysis Assumptions

Credit Analysis Assumptions	
Base-case Default Rate (%)	1.40
Base-case Recovery Rate (%)	15.00
Rating Stress Scenario	AAA <sub>spc(sf)</sub>
Stress Multiples (x)	5.00
Recovery Haircut (%)	50.00
Final Installments Stress Multiples (x)	2.00
Return Rate of the Leased Vehicles (%)	80.00
Residual Value Loss Rate (%)	25.00
WA Loss Rate (%)	15.13

Sources: S&P Global (China) Ratings' assumption.

## 4. Payment Structure and Cash Flow Mechanics

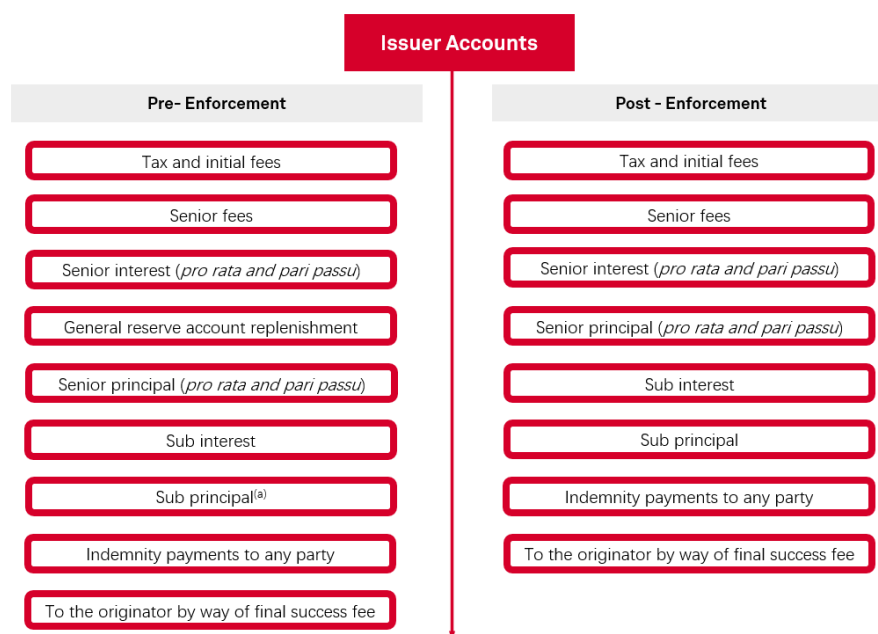
The SPT will issue fixed-rate senior notes and subordinated notes at par. Available funds for distribution include interest collections, principal collections and recovery collections in respect of the entrusted lease receivables; any repurchase price related to the relevant entrusted lease receivables to be repurchased on the respective payment date; consideration paid by the fund trust under the vehicle purchase agreement; any investment earnings on the general reserve account, and the operating account received during the relevant collection period; the general reserve draw amount; the commingling reserve draw amount etc. In our cash flow analysis, we typically do not give any credit to enforcement proceeds, insurance proceeds, obligor fees etc.

This transaction does not split interest accounts and principal accounts under the trust account. The issuer account has three sub-accounts (operating account, general reserve account and commingling reserve account). This transaction also has protocol in place for rights perfection event, enforcement event, lessee return event, and commingling reserve trigger event.

### 4.1 Payment Structure

Prior to the occurrence of an enforcement event, the available distribution amount will be first paid to cover tax and initial fees, senior fees (including administration expenses and any servicing fee etc.), Senior Notes interest, replenishing the general reserve account; and then to Senior Notes principal, subordinated interest (which is 0), subordinated principal; and the remaining amounts to the originator by way of a final success fee. Please refer to the below chart for the summarized priority of payments.

Table/Chart 20 Priority of Payments



(a) After the aggregate outstanding note principal of the Senior Notes is reduced to zero, principal amounts until the aggregate outstanding note principal amount of the Subordinated Notes is reduced to zero.

Sources: Transaction documents, compiled by S&P Global (China) Ratings.

## 4.2 Cash Flow Analysis and Stress Test

Both rates of assets and notes are fixed, bringing no interest rate risk due to different benchmark rates and adjustment frequencies to this transaction. The table below summarizes our key assumptions in cash flow analysis and stress testing.

Table/Chart 21 Summary of cash flow modeling assumptions

### Cash Flow Modeling Assumptions

Rating Stress Scenario	AAA <sub>spc(sf)</sub>
WA Loss Rate (%)	15.13
Additional Asset Characteristics Stress	N/A
Additional Originator/Servicer Stress	N/A
Payment Structure Assumptions	Pass through
Recovery Period	6 months
Constant Prepayment Speed Vector	high (12%), base (4%), and low (0%)
Interest Rate Assumption	Senior Notes: 3.45%
Extra Pressure on Structure	N/A
Other Qualitative or Quantitative Adjustments	Adjustments for loss of final installments

Sources: S&P Global (China) Ratings' assumptions.

Our stress testing includes different stress scenarios from a combination of default timing assumptions (front-end, base-case and back-end), and prepayment rate assumptions (high, constant and low). We model different combinations under different payment structures, tax, fees and expenses assumptions, as well as various triggers. We expect asset cash flows to be able to withstand stresses commensurate with the ratings assigned to the notes, and still meet payment obligations in a timely manner. Based on the above analysis, SABL 2022-1 ABN Senior notes have passed all

**SABL 2022-1 ABN Senior Notes have passed all our cash flow modelling stress scenarios. S&P Global (China) Ratings CE buffer is estimated at greater than 0%.**

our cash flow modelling stress scenarios. The CE buffer under the most stressed scenario is estimated at greater than 0%.

In addition to the above stress scenario testing and ratings assigned to this transaction, we have also conducted a separate sensitivity analysis. This analysis measures how the initial rating of the notes may vary based on only changing WA loss rate. It provides insight on the sensitivity of the rating; it is intended to consider potential rating migration under a heightened stress environment well beyond our AAA<sub>spc(sf)</sub> stress (scenario). It does not have an impact on our cash flow analysis results or the rating assignment. The table below displays the outcome of our sensitivity analysis.

Table/Chart 22 Sensitivity Analysis

Stress Scenarios	SABL 2022-1 ABN	WA Loss Rate +10%	WA Loss Rate +20%
WA Loss Rate (%)	15.13	16.64	18.16
Rating*	AAA <sub>spc(sf)</sub>	AA <sub>spc(sf)</sub>	A <sub>spc(sf)</sub>

Note\*: The outcome of the above analysis does not represent our rating assignment on the security.

Sources: S&P Global (China) Ratings' assumption.

## 5. Operational and Administrative Risk

This transaction is the 4<sup>th</sup> auto lease securitization transaction for which MBLC has originated and acted as the trust servicer. As the servicer, MBLC collects and applies lease payments, investigates and administers delinquent, defaulted and charged-off leases and otherwise manages the leases. There are no observed past servicer issues relating to a failure to perform the duties in these transactions. As with previous transactions, lessees generally enter into a direct debit collection agreement with MBLC. This payment mechanism will reduce MBLC's servicing workload. We believe MBLC's IT infrastructure and operational model are capable of fulfilling the duties and responsibilities stipulated in the agreement.

There is no back-up servicer on this transaction; however, there is a general reserve account. MBLC will deposit an upfront cash reserve with CNY 26.75 million (accounting for 0.5% of the aggregate outstanding lease principal amount as of the initial cut-off date). This reserve is to provide liquidity support to the transaction by covering any shortfall on tax, senior fees and interest of the senior tranche.

ICBC, through its Beijing branch, acts as the account bank for the trust. The account bank opens and maintains all bank accounts for the trust. FOTIC, as the trustee, operates the accounts' cash flow on the trust's behalf. Any cash flow operations will be strictly executed under the terms of various legal agreements. The status of the corresponding trust assets and the payment information in relation to the notes of each class is expected to be disclosed publicly via a monthly asset operation report. The monthly asset operation report published by FOTIC is expected to follow NAFMII's detailed regulatory public disclosure requirements. The remaining counterparties, such as the paying agent – Shanghai Clearing House, or SCH, are all experienced securitization service providers. We believe the participants in this transaction are capable of fulfilling the duties and responsibilities stipulated in the agreement given the current arrangements, their experience and past track records.

**We believe the participants in this transaction are capable of fulfilling the duties and responsibilities stipulated in the agreement given the current arrangements, their experience and past track records.**

## 6. Counterparty Risk

### 6.1. Account Bank Risk and Mitigants

We typically expect the minimum eligible counterparty's credit quality (i.e., the level below which a counterparty typically commits to implementing remedies) to be equivalent to a high BBB<sub>spc</sub> level or above to be able to support an AAA<sub>spc(sf)</sub> rating on the notes. If the trigger is breached, the trustee needs to appoint a successor account bank that meets the minimum credit quality provisions. In addition, permitted investments are limited to deposits with the eligible banks subject to the minimum eligible counterparty's credit quality requirements, national bonds, and interbank policy-driven financial bonds. We believe these arrangements can mitigate account bank risk for this transaction.

### 6.2. Payment Interruption Risk and Mitigants

The transaction documents stipulate that the rights perfection notice must be sent out within 5 business days upon the occurrence of a servicer replacement event. MBLC should inform the trustee to select an eligible back-up servicer upon the servicer's credit quality deteriorating and no longer being considered sufficient by S&P Global (China) Ratings to support the outstanding rating on the notes. Also, the servicer must transfer all assets and related information to the back-up servicer. This transaction has also set up a general reserve account to satisfy tax and fees, senior fees, and interest of Senior Notes. We believe the payment interruption risk is mitigated by the transaction arrangements and liquidity reserve.

### 6.3. Commingling Risk and Mitigants

The transaction is exposed to potential commingling risk when MBLC, the servicer, holds the monthly collection for up to a month and sets up a monthly collateral account before the distribution is made to the trust account. This transaction sets up related triggers as well as a commingling reserve account. The transaction documents stipulate that if MBLC's credit quality is no longer considered sufficient by S&P Global (China) Ratings to support the outstanding rating on the notes, an amount of installments scheduled to be received from MBLC during the next collection period will be transferred to the commingling reserve account to provide liquidity. We believe the commingling risk is mitigated by the above structure.

### 6.4. Set-off Risk and Mitigants

MBLC is not an authorized deposit-taking institution in China and the collateral pool's lessees do not include employees. We believe there is no set-off risk in this transaction.

### 6.5. Risk related to the Payment of Final Installments and Mitigants

A large portion of the portfolio is made up of final installment payments, which account for 73.67% of the aggregate outstanding lease principal amount. The lessees would face relatively high payment pressure at the end of the lease term. Specifically, the lessee can pay the final installment in order to repurchase the leased vehicle or return the leased vehicle to the lessor. For lessees that choose to repurchase the leased vehicle, the lessee may also apply to extend the lease term in order to defer payment of the final installment. In respect of the abovementioned risks related to payment of final installments, the transaction establishes a single fund trust (MBLC as grantor, FOTIC as trustee) and signs the Vehicle Purchase Agreement (FOTIC as

**The transaction documents have incorporated various credit quality triggers to mitigate relevant counterparty risk.**

buyer, MBLC as seller). If a lessee return event occurs with respect to any entrusted lease receivables with a return option or extended final installment, the payment of the relevant consideration (or in the case that the originator becomes obliged to repurchase the affected underlying assets, the relevant repurchase price) would ultimately depend on the performance of the originator regarding its repurchase obligations under the trust agreement. According to our credit analysis of MBLC and the target AAA<sub>spc(sf)</sub> rating of the rated notes, we have not considered the additional credit support of the repurchase arrangement. We believe the WA loss rate and cash flow analysis reflect the risk related to the final installment.

## 7. Legal and Regulatory Risk

This transaction is structured in accordance with China's Trust Law and China Asset Securitization scheme. We believe the SPT's legal structure meets the principle of true sale and bankruptcy remoteness in securitization. This transaction is exposed to legal and regulatory risk, such as lessee notification risk, collateral re-registration risk etc.

### 7.1. Dispute over Ownership and Disposal of the Leased Vehicles Risk

The asset transfer will be publicly announced on the trust effective date according to the regulations. The transfer between the originator and trust is legally effective based on the Civil Code, but the originator will not necessarily notify the lessee at this time. The Civil Code stipulates that there are no legal implications for the lessee if they are not notified by the originator about the transfer. Therefore, there is a risk that lessees may continue to make payments to the originator acting as the servicer even if the servicer is no longer performing its duties. This risk can be mitigated by the rights perfection notice arrangement.

The ownership of the leased vehicles within the underlying asset pool will not be transferred to the trust on the trust effective date, and the originator would still retain ownership and mortgage rights on the vehicles. This may lead to legal risk related to disputes over ownership and disposal of the leased vehicles. As the underlying collaterals are usually spread across the whole country, it is common practice in China's auto loan securitization and auto lease securitization transactions for the registration of changes to the collateral to not be completed on the trust effective date.

It is stipulated in the transaction document that within 20 business days of the occurrence of the termination of MBLC as the servicer, or an insolvency event with respect to the originator, the originator shall transfer the ownership of the relevant leased vehicles to the issuer administrator. The originator shall cooperate with and assist the issuer administrator to complete registration of alterations to the ownership and/or mortgage of the leased vehicles in connection with the abovementioned transfer. We believe that the above provisions mitigate the legal risk related to disputes over ownership and disposal of the leased vehicles to some extent.

### 7.2. Originator/Servicer's Bankruptcy Risk

According to our credit analysis and the required rating of the transaction structure, we believe the bankruptcy risk of the originator is relatively low, meanwhile, we will continue to monitor the credit quality of the originator. Since the originator still retains ownership of the leased vehicle, there is still a risk that the leased vehicle may be judicially considered as the originator's bankruptcy property if the originator enters into bankruptcy proceedings during the term of the trust. Also, there is a risk that the

originator's bankruptcy administrator may decide to terminate the lease agreement. We believe that the possibility of the transaction being exposed to these risks is very low.

It is stipulated in the transaction document that within 20 business days of the occurrence of the termination of MBLC as the servicer, or an insolvency event with respect to the originator (the "leased vehicles transfer period"), the originator shall transfer the ownership of the relevant leased vehicles to the issuer administrator. In the case that the originator fails to complete the transfer of ownership within the leased vehicles transfer period, the ownership of the relevant leased vehicles shall still be deemed as having been transferred to the trust upon the expiry of the leased vehicles transfer period. We believe that the above supplementary provisions mitigate the risks that may occur in extreme cases due to the trustee's failure to obtain the ownership and mortgage rights of the collateral to some extent.

The originator represents and warrants that the lease receivables can be and by the closing date will have been validly entrusted to the issuer according to the relevant lease agreement, with such entrustment not subject to any legal restrictions which prevent the valid transfer thereof to the issuer; and the lease receivables are free of third party rights, including any set-off rights, any defense, retention or revocation rights of the relevant lessee in the Trust Agreement. If the originator violates these obligations and/or fails to remedy in time, the originator shall repurchase the lease receivables.

## Surveillance Plan

### Silver Arrow Benz Leasing 2022-1 Asset Backed Notes

#### Surveillance Plan

S&P Ratings (China) Co, Ltd. shall monitor the credit conditions of the rated notes and certain entities deemed a type of credit dependency in this transaction (including entities such as asset servicers and bank account providers) on an ongoing basis. We shall monitor the changes in the credit quality of the asset pool and the repayment of the notes, consider the relevant reports released by the aforementioned relevant entities and other relevant information, and apply the appropriate methodology to determine any impact on the rated notes.

## Appendix 1: Ratings Definitions

Category	Definition
AAA <sub>spc(sf)</sub>	The repayment ability is extremely strong, generally not impacted by any adverse economic environment, and the default risk is extremely low.
AA <sub>spc(sf)</sub>	The repayment ability is very strong, not considerably impacted by any adverse economic environment, and the default risk is very low.
A <sub>spc(sf)</sub>	The repayment ability is comparatively strong, comparatively vulnerable to the impact of adverse economic environment, and the default risk is comparatively low.
BBB <sub>spc(sf)</sub>	The repayment ability is average, comparatively impacted by adverse economic environment, and the default risk is average.
BB <sub>spc(sf)</sub>	The repayment ability is comparatively weak, materially impacted by adverse economic environment, and the default risk is comparatively high.
B <sub>spc(sf)</sub>	The repayment ability relies comparatively on fair economic environment and the default risk is very high.
CCC <sub>spc(sf)</sub>	The repayment ability relies extremely on fair economic environment and the default risk is extremely high.
CC <sub>spc(sf)</sub>	Lower protection in situation of bankruptcy or reorganization and the repayment of debt may not be generally guaranteed.
C <sub>spc(sf)</sub>	Unable to repay the debt.

\* Ratings from AA<sub>spc(sf)</sub> to CCC<sub>spc(sf)</sub> may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.

## Appendix 2: Eligibility Criteria

Eligibility criteria means, in respect of any Entrusted Lease Receivable as of the Cut-Off Date (unless otherwise specified below):

- (a) such Lease Receivable has been originated by the Originator pursuant to a Lease Agreement governed by PRC Law;
- (b) each Lease Receivable has been originated in the PRC in the ordinary course of the Originator's business in compliance with the Credit and Collection Policy;
- (c) each Lessee to which such Lease Receivable relates is a resident of the PRC;
- (d) the Originator is the sole legal owner of the Leased Vehicles, and the Leased Vehicles are free of mortgage, pledge or any other security interests or encumbrances (other than security interests or encumbrances granted in favor of the Originator);
- (e) the Lease Receivables are free of mortgage, pledge or any other security interests or encumbrances;
- (f) the Lessees as mortgagor and the Originator as mortgagee have entered into mortgage agreements in respect of the relevant Leased Vehicles, and such mortgages have been duly registered with the relevant registration authorities;
- (g) the vehicle registration certificate of each Leased Vehicle is held by the Originator;
- (h) such Lease Receivable may be segregated and identified at any time for the purpose of leasing contractual relationship and at any time be identified as a Lease Receivable;
- (i) such Lease Receivable can be and by the Closing Date will have been validly entrusted to the Issuer according to the relevant Lease Agreement, such entrustment is not subject to any legal restriction which prevents the valid transfer thereof to the Issuer;
- (j) such Lease Receivable is free of third party rights, including any set-off rights, any defense, retention or revocation rights of the relevant Lessee;
- (k) such Lease Receivable constitutes the legal, valid and binding obligations of the Lessee(s), enforceable against the Lessee(s) in accordance with its terms;
- (l) such Lease Receivables are denominated in RMB;
- (m) the Leased Vehicles are Mercedes-Benz or smart brand vehicles, and such Leased Vehicles are new at the time of the commencement of the leasing;
- (n) the relevant Lessee has the obligation to make monthly rent payments in accordance with the schedule as specified in the relevant Lease Agreement;
- (o) the interest rate applicable to each Lease Receivable is fixed;
- (p) the Originator has paid the Vehicle Sale Price for the relevant Leased Vehicles, and the Leased Vehicles have been delivered to the relevant Lessees;
- (q) each Lease Receivable has a seasoning above or equal to one (1) month;
- (r) according to the Originator's records, the Lessee is not insolvent;
- (s) each Lease Receivable is classified as "Stage 1" according to the Originator's internal classification;
- (t) at origination, the relevant Lessee is not an employee of the Originator;
- (u) for each Lease Receivable, the Outstanding Lease Principal Balance as of the Cut-Off Date is no more than 80% of the Vehicle Sale Price;
- (v) As of the Cut-Off Date, no Lease Receivable is overdue and no Lease Receivable has been delinquent for more than thirty (30) consecutive days;
- (w) each Lease Agreement has a specific repayment schedule;
- (x) the lease term under each Lease Agreement is no more than sixty (60) months;
- (y) the remaining lease term of each Lease Agreement as of the Cut-Off Date is more than four (4) months;
- (z) no security deposit is payable by the Lessees to the Originator under the Lease Agreements; and
- (aa) neither the Lease Receivables nor the Leased Vehicles are related to national defense, military project or other State's secrets.

## Appendix 3: Asset Stratification Summary

Asset Stratification Summary	
Number of assets	27,719
Number of lessees	27,705
Outstanding contract balance (million)	6,370.89
OPB (million)	5,349.67
Largest contract balance (thousand)	1,342.60
Largest OPB (thousand)	994.68
Average contract balance (thousand)	229.84
Average OPB (thousand)	193.00
WA interest rate (%)	6.32
Highest interest rate (%)	11.59
Lowest interest rate (%)	2.04
WA contract tenor (month)	40.46
Longest contract tenor (month)	59.41
Shortest contract tenor (month)	24.00
WA remaining term (month)	20.97
Longest remaining term (month)	45.96
Shortest remaining term (month)	4.01
WA seasoning (month)	19.48
Longest seasoning (month)	55.00
Shortest seasoning (month)	2.07
WA lessees' age (age)	37.75
WA OLV (%)	68.86
Final Installment Payments(%)	73.67
Aggregate original vehicle sale price (billion)	9.63
New vehicle (%)	100.00/0.00
Top city (%)	Chengdu / 5.10
Top province (%)	Guangdong / 13.48

Note: The percentage is calculated by OPB as of cut-off date and may differ because of rounding issue, applied in the whole report.

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