

Structured Finance Rating Report

Silver Arrow China Mercedes-Benz Leasing Co., Ltd. 2023-1 Asset Backed Notes

May 10, 2023

Preliminary Rating:

Senior Notes AAA_{spc(sf)}

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

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Tear Sheet

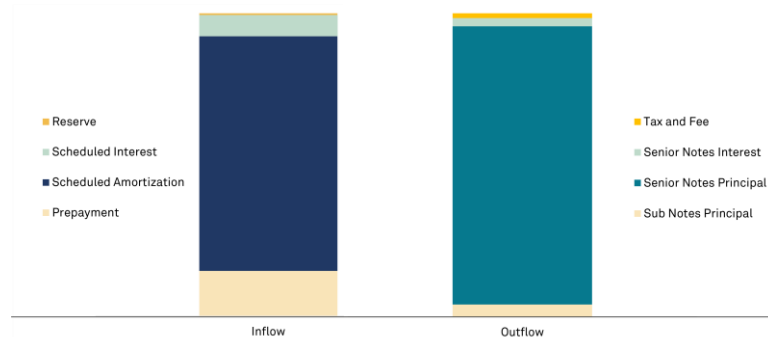
Structure	Preliminary Rating	Amount (CNY million)	Percentage %	Coupon Rate Type	Expected Maturity Date	Repayment Method	S&P Global (China) Ratings CE Buffer (%)
Senior	AAA _{spc(sf)}	3,030.00	86.36	Fixed	2025/2/26	Pass Through	>0
Sub	NR	478.70	13.64	Fixed	2025/3/26	-	-
Total Assets (Liabilities)	-	3,508.70	100.00	-	-	-	-

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_{spc(sf)} rating stress scenario. Finally, the WA loss rate is 12.95%.

Credit Analysis Assumptions

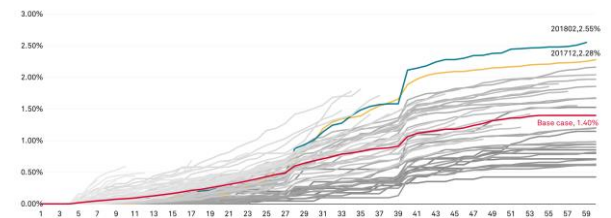
Base-case Default Rate (%)	1.40
Base-case Recovery Rate (%)	15.00
Rating Stress Scenario	AAA _{spc(sf)}
Stress Multiples (x)	5.00
Recovery Haircut (%)	50.00
Final Installments Stress Multiples (x)	2.00
Return Rate of Leased Vehicles (%)	80.00
Residual Value Loss Rate (%)	25.00
WA Loss Rate (%)	12.95

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 Mercedes-Benz Group China Ltd. and BAIC Motor Corporation Ltd. Its ultimate holding company is Mercedes-Benz Group AG. As of the end of December 2022, MBLC's total assets reached CNY52.67 billion, with a net outstanding lease receivables balance of CNY49.72 billion. The NPL ratio of its lease receivables was 0.84%.

Static 90+ Cumulative Default Rate: Based on static pool performance, accumulative default rates have been below 2.50% under 91 -120 DPD bucket in the past few 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 9% since 2016.

Transaction Key Information:

Issuer	Silver Arrow China Mercedes-Benz Leasing Co., Ltd. 2023-1 Asset Backed Notes Trust
Main Financial Data of the Issuer	N/A
Purpose of the Issuance	To supplement the working capital, fund the leasing business and repay existing debts
Underlying Asset	Lease Receivables & Leased Property Repurchase Claims
Originator/Service	MBLC
Trustee/Issuer Administrator	FOTIC
Account Bank	ICBC
Credit Enhancement Entity	N/A
Cut-off Date	January 31, 2023
Expected Closing Date	May 19, 2023
Legal Maturity Date	January 26, 2029
Special Arrangement	General Reserve, Repurchase Claims

Transaction Comparison		SABL 2023-1 ABN	SABL 2022-2 ABN	BSCL 2022-1 ABN	Anji 2022-1 ABN	Wisdom 2022-1 ABN	Yiqi 2021-1 ABN
Originator		MBLC	MBLC	HIFLC	Anji LC	Wisdom LC	Yiqi LC
Closing Date		2023/5/19 (Expected)	2022/10/20	2022/4/13	2022/1/21	2022/4/25	2022/12/9
Number of Assets		19,595	25,342	18,331	24,163	25,866	42,622
Outstanding Principal Balance (CNY bn)		3.51	4.73	3.00	1.50	1.51	2.58
Average Outstanding Principal Balance (CNY)		179,061.07	186,793.34	163,657.20	61,933.77	58,556.99	60,527.21
WA Seasoning (month)		23.55	20.83	8.32	8.93	1.29	8.43
WA Remaining Tenor (month)		17.84	20.13	32.16	31.00	30.82	22.71
WA Asset Yield (%)		6.20	6.21	5.70	4.32	2.41	1.94
WA OLV (%)		72.03	71.01	70.09	79.32	60.26	64.26
Revolving (Y/N)		N	N	N	N	N	N
Transaction Structure (%)	A	86.36	84.50	88.00	89.95	47.54	87.68
	B	0.00	0.00	0.00	1.80	43.71	0.00
	Sub	13.64	15.50	12.00	8.25	8.76	9.77
	OC	0.00	0.00	0.00	0.00	0.00	2.55

Rating Summary

Transaction Name	Report Type	Rating Type	Rating Date
Silver Arrow China Mercedes-Benz Leasing Co., Ltd. 2023-1 Asset Backed Notes	Presale	Preliminary Rating	May 10, 2023

Rating Rationale

S&P Global (China) Ratings has assigned rating AAA_{epc(sf)} to the Silver Arrow China Mercedes-Benz Leasing Co., Ltd. 2023-1 Asset Backed Notes (SABL 2023-1 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 12.95% under our AAA_{epc(sf)} 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"> – Credit positive pool traits. The WA seasoning is 23.55 months, and the WA remaining tenor is 17.84 months, with a WA OLV ratio of 72.03 %. – Geographical or obligor concentration risk is relatively low in the portfolio. As of the cut-off date, there are 19,595 leases in the portfolio and the average outstanding principal balance is CNY 179,061.07. The top 10 largest obligor accounts for 0.28% of total balance. Total lease claims are spread across 31 provinces, autonomous regions and municipalities directly under the central government. – The senior notes have credit enhancement of 13.64% supported by subordinated notes with sufficient CE buffer based on our assessment. – The transaction adopts a general reserve account. MBLC will deposit an upfront cash reserve (0.5% of overall OPB as of the cut-off date) to provide liquidity support for senior interest payments. – MBLC follows the mature underwriting process, IT system & risk control and securitization processes established by Mercedes-Benz Group AG. 	<ul style="list-style-type: none"> – Relatively short history for auto financial leasing industry in China; MBLC's data available for analysis has not gone through a full economic cycle. – The transaction's underlying asset pool comprises of a large share of final installments (accounting for 72.63% 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. – 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. – The transaction is exposed to account bank risk, payment interruption risk, and commingling risk.

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](#)
- [The Post-Covid Recovery | China Outlook 2023](#)

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. Compared to other commercial leasing companies, MBLC's leverage level is relatively high, but we believe that it receives ongoing capital support from its group. For this reason, MBLC's overall capital and earnings is above average. Its financial lease assets have good quality, with a better-than-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.
- Its risk management system is prudent and well established. It has good asset quality.
- Its funding position is highly stable.

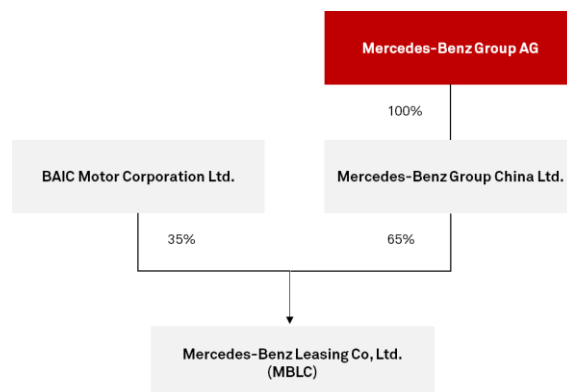
Weaknesses

- 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:

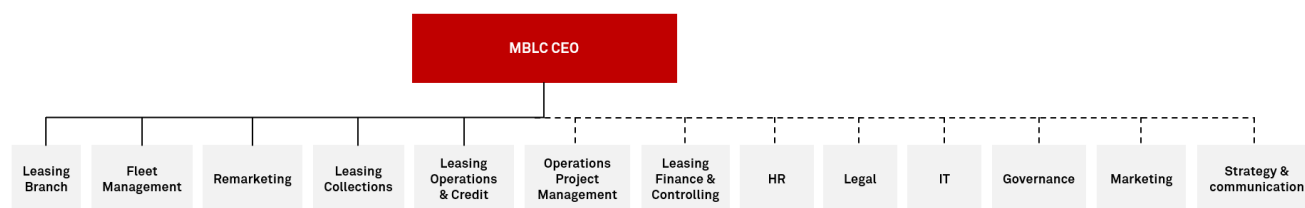
The stable outlook reflects our expectation that MBLC's business operations and financial strength would remain stable over the next two years or a longer timeframe. At the same time, the company's importance to its group is expected to remain stable.

(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				
	2019	2020	2021	2022
Business Position (mil. RMB, %)				
Total assets	53,297.88	61,791.31	61,458.46	52,671.30
Net financial lease receivables	51,379.64	59,386.39	56,240.26	49,724.05
YoY growth of net financial lease receivables	40.99	15.58	(5.30)	(11.59)
Operating income	2,147.19	2,425.63	2,645.04	2,285.91
YoY growth of operating income	71.61	12.97	9.05	(13.58)
Net income	861.10	1,339.93	1,621.97	1,126.81
YoY growth of net income	91.15	55.61	21.05	(30.53)
Capital and Earnings				
Reported regulatory leverage (X)	8.79	7.91	6.53	6.27
Total debt/total equity (X)	7.71	6.92	5.89	5.40
Interest income/average interest-generating assets (%)	9.18	8.55	7.83	7.35
Interest expense/average interest-bearing liabilities (%)	4.87	4.57	4.09	3.75
Net interest margin (%)	4.74	4.46	4.25	4.12
Return on average assets (%)	1.86	2.33	2.63	1.97
Return on average equity (%)	17.11	19.47	19.63	13.27
Risk Position (%)				
Non-performing ratio of financial lease receivables	0.17	0.31	0.43	0.84
Overdue financial lease receivables/gross financial lease receivables	0.92	1.34	1.71	3.63
Lease loss reserves/gross financial lease receivables	1.82	1.64	1.68	1.92
Lease loss reserves/non-performing financial lease receivables	1,057.06	533.70	390.95	229.36
Net write-offs of financial lease receivables/average financial lease receivables	0.15	0.35	0.27	0.43
Funding and Liquidity				
Short-term debt/total debt (%)	32.47	48.75	40.14	62.09
Total debt/income before tax (X)	38.72	28.73	24.26	26.92

Sources: MBLC, compiled by S&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	$= (\text{Interest-generating assets at the beginning of the term} + \text{interest-generating assets at the end of the term}) / 2$
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	$= (\text{Interest income} + \text{operating lease income}) / [(\text{interest-generating assets at the beginning of the term} + \text{interest-generating assets at the end of the term}) / 2]$
Interest expense/average interest-bearing liabilities	$= \text{Interest expense} / [(\text{total debt at the beginning of the term} + \text{total debt at the end of the term}) / 2]$
Net interest margin	$= (\text{Net interest income} + \text{net operating lease income}) / [(\text{interest-generating assets at the beginning of the term} + \text{interest-generating assets at the end of the term}) / 2]$
Return on average assets	$= \text{Net income} / [(\text{total assets at the beginning of the term} + \text{total assets at the end of the term}) / 2]$
Return on average equity	$= \text{Net income} / [(\text{total equity at the beginning of the term} + \text{total equity at the end of the term}) / 2]$
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&P Global (China) Ratings.

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1. Macro-Economic and Industry Trend

We expect China's 2023 GDP growth to recover significantly from 2022. The economic recovery would build momentum from the easing of COVID restrictions and stronger domestic consumption and investment growth. Increasing domestic demand may see inflation rise, but it should remain within the targeted range. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, 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 2023. Passenger car sales are set to remain unchanged from 2022, with growing demand for new energy vehicles (NEV) forming a solid basis for the industry. The NEV penetration rate is likely to exceed 30%. Amid intensifying competition in the NEV sector, subsidy support has been withdrawn and automakers may struggle to pass on cost fluctuations to consumers. This, coupled with growing R&D investment, is putting automakers' profitability under pressure. Despite such challenges, we believe that automakers' generally low leverage ratios and abundant cash flows give them strong resilience. Meanwhile, most enterprises can maintain good access to refinancing channels through stable government support or relying on their own strengths.

We expect commercial leasing companies to maintain stable business and risk positions in 2023. The asset quality performance of leasing companies closely related to their group's main business is generally good and stable. Asset quality pressure still exists for those leasing companies focused on business largely unrelated to that of their groups.

During COVID, auto sales in China 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 satisfies customers' various needs in terms of product type, required down payments and flexible repayment methods. In terms of asset credit performance, growing delinquencies and increased volatility in recent years reflect the short-term impact that COVID had on the market. Furthermore, considering the different models, strategies and target customers of different leasing companies, their industry credit performance has been more differentiated and volatile than the personal auto finance loan market. At the same time, we have also observed that in recent years, there have been more product innovations in the personal auto leasing market. Business is also spreading further into lower-tier cities and regions. These industry characteristics and changes would further impact the asset composition and credit performance of personal auto leasing asset-backed notes products ("auto leasing ABN").

2. Transaction Overview

This new auto leasing backed notes transaction is the 6th auto leasing securitization transaction to be originated by MBLC since 2020. An SPT named Silver Arrow China Mercedes-Benz Leasing Co., Ltd. 2023-1 Asset Backed Notes Trust will be set up according to the trust agreement entered by the originator and grantor, MBLC, and the

We believe that the overall credit performance of China's personal auto leasing ABN will remain stable in 2023. Differentiation and fluctuation of credit performance of different products may become more significant.

S&P Global (China) Ratings estimates that the Senior Notes of SABL 2023-1 ABN have a CE buffer greater than 0%.

trustee – China Foreign Economy and Trade Trust (FOTIC). The funds raised from the issuance will be used to supplement the working capital, fund the leasing business and repay existing debts.

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 ¹	Expected Maturity ²	CE Buffer (%)
Senior	AAA _{spc(stf)}	3,030.00	86.36	Fixed	2025/2/26	>0
Sub	NR	478.70	13.64	Fixed	2025/3/26	-
Total Assets (Liabilities)	-	3,508.70	100.00	-	-	-

Note1: Transaction documents, the respective applicable interest rate for subordinated notes is zero.

Note2: 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 19,595 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 23.55 months, with a WA remaining term to maturity of 17.84 months. The WA original lease to value (OLTV = original principal amount financed/purchase price of the financed vehicle) ratio is 72.03%. The portfolio is well diversified, with obligors spread across 31 provinces, autonomous regions and municipalities directly under the central government, where 13.43% are located in Guangdong Province. For this transaction, balloon-payment lease receivables account for 87.12% of the overall outstanding principal balance (OPB)¹. These balloon-payment lease receivables include products with and without return options, with the former accounting for 21.17% of the transaction’s overall OPB and the latter 65.95%. A large portion of the portfolio comprises final installment payments, which account for 72.63%² of the overall OPB.

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 17.54 million (0.5% of the overall OPB 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 payment frequency.

Table/Chart 2 Key Dates and Payment Cycle

Category	Date/Frequency
Cut-off Date	January 31, 2023

¹ OPB or outstanding principal balance refers to outstanding lease principal balance. This applies throughout this report.

² Final installment refers to the amount of the final payment of principal (excluding interest paid). This applies throughout this report.

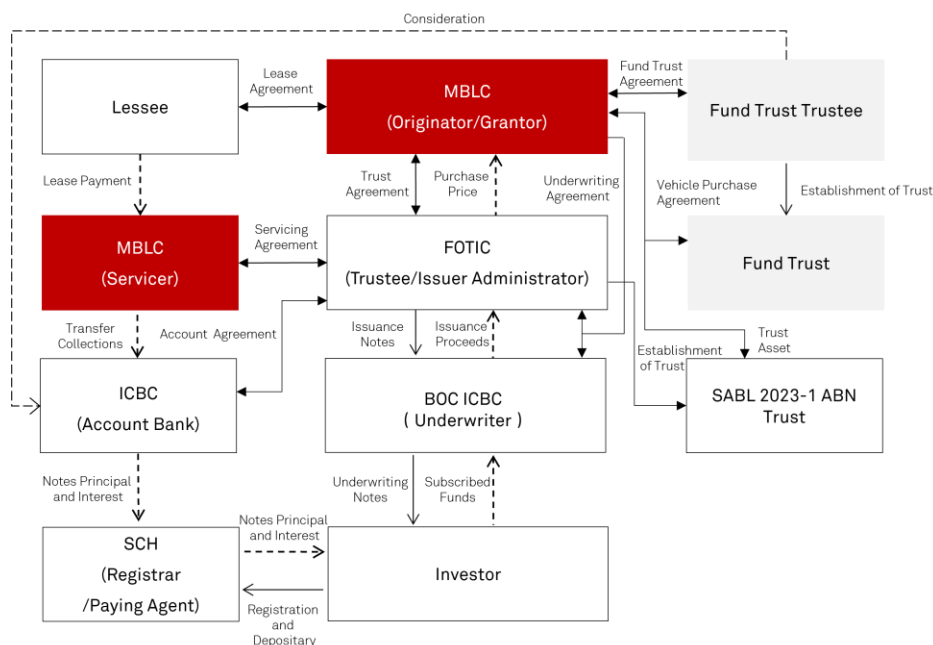
The portfolio is well diversified with credit positive pool traits. A large proportion of the portfolio is final installment payments, which account for 72.63% of overall OPB.

Category	Date/Frequency
Expected Closing Date	May 19, 2023
First Payment Date ¹	June 26, 2023
Payment Frequency	Monthly
Legal Final Maturity Date	January 26, 2029

Note1: The payment date is the 26th day of each calendar month. If any payment date is a statutory public holiday in China, the payment date shall be the next Business Day unless it would thereby fall into the next calendar month, in which event such payment date shall be the immediately preceding Business Day.

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 Mercedes-Benz Group China Ltd. (65%) and BAIC Motor Corporation Ltd. (35%). Its ultimate holding company is Mercedes-Benz Group AG. As of the end of December 2022, MBLC's registered capital was CNY5.10 billion and its total assets reached CNY52.67 billion, with a net lease receivables outstanding balance of CNY49.72 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 (including vans) through its authorized dealership network in China. Apart from Smart brand vehicles, MBLC does not yet provide financial leasing for other non-Mercedes-Benz vehicles. MBLC's target customers are retail customers.

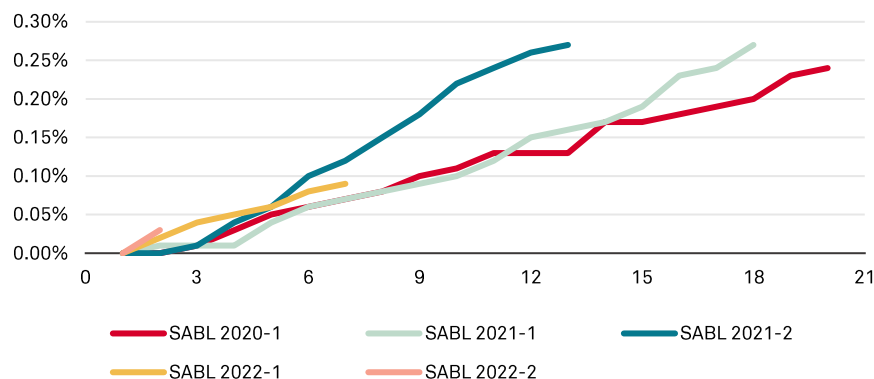
MBLC's ultimate holding company is Mercedes-Benz Group AG. As of the end of December 2022, MBLC's total assets reached CNY52.67 billion, with outstanding lease receivables balance of CNY49.72 billion.

3.1.2 ABS Issuance Experience

MBLC benefits from the mature asset securitization practices established within Mercedes-Benz Group AG. This is the 6th issuance since the first transaction in the Silver Arrow Benz Leasing series was launched in 2020.

By the end of 2022, MBLC had issued 5 ABN transactions with a total issuance scale of CNY 23.68 billion. These transactions performed well, with cumulative default rates all under 0.30%. 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. Certain lease products have tailored campaign product features, which are designed based on the standard products and specifically cater 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. Payment methods for the above lease products include direct debit, bank transfer, direct payment and other such means as designated or accepted by MBLC. Payments are made monthly.

The main features of Agility Products are that, at term-end, the manufacturer guarantees the residual value, and flexible options are 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 EQC SUV vehicles. Finance Lease with Balloon Products allows 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 balloon leases. The securitized assets in this pool are, at the time of contract activation, all new-car balloon leasing products.

MBLC had issued 5 auto ABN transactions with a total issuance scale of CNY 23.68 billion as of the end of December 2022.

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 691 dealers as of the end of December 2022.

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 ownership to MBLC. The customer signs the Finance Lease and Guarantee Agreement and the Mortgage Contract and completes the mortgage 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 payments to MBLC including but not limited to monthly rentals 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 mortgage with MBLC designated as the mortgagee in respect of the leased vehicle. The dealer assists the customer in obtaining a Vehicle Registration Certificate which includes the registration of the mortgage in the name of MBLC. The mortgage registration process should be conducted within 30 days of the activation of the contract and disbursement may be approved before registration is completed. In cases where the mortgage registration has not been completed within the specified period, MBLC shall promptly notify the dealer, requesting it to assist the customer in completing the mortgage registration.

We believe MBLC has established a standardized lease origination process and a rigorous lease approval process. The lease origination process begins with a financial consultant who collects required information and submits the application to MBLC's internal 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 breach any risk thresholds and obtain relatively high scores are automatically approved. For other applications, a manual review is required. After reviewing the basic information, the risk rating (A/B/C/D) and third-party data, the authorized approver can draw a conclusion from 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 are manually checked. By the end of December 2022, about 87.8% of retail private auto financial leases submitted had been approved (9.2% were conditionally approved), and around 12.2% were declined.

3.1.5 Arrears Management and Collection

According to standard market practice, lessees usually set up payment through direct debit, paying on any selected date through 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 recoveries after verification, and fraud case management etc. The Collection Department is divided into four subdivisions based on the delinquency cycle: Early Collection, Late Collection, Recovery and Litigation. At the Early Collection stage (overdue 1-60 days), collection activities

MBLC has a well-developed dealership network and standardized 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.

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 case 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 agreed, 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, internal or external collection teams continue to work on recovering the written-off amount. Generally speaking, after a write-off, MBLC would 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 conducts a series of tests on the vehicle and prices the vehicle according to the criteria for returning, with reference to third-party and internal data, and obtains cash back through auction sales. According to historical data for the originator, from January 1, 2016 to December 31, 2022, the accumulative number of leased vehicles returned under the Agility Products category was only 61, 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 the 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 cash repayments by the lessee rather than disposal of the mortgaged vehicle.

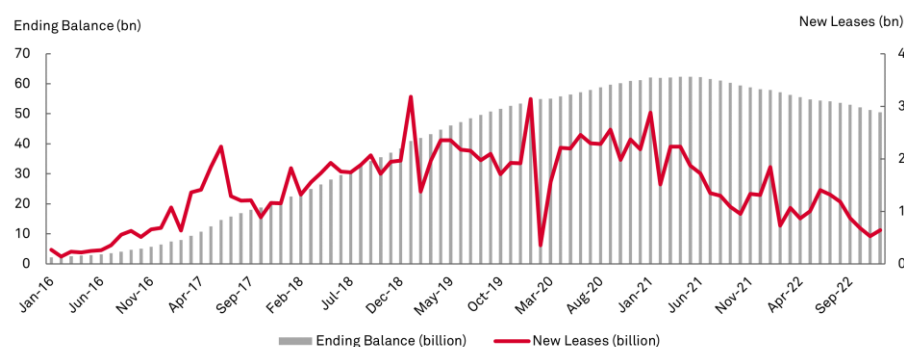
3.2. MBLC Aggregate Portfolio Analysis

MBLC's asset 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 competitive advantage in terms of its retail and wholesale business. As of the end of December 2022, MBLC's outstanding lease receivables balance reached CNY49.72 billion and the overall non-performing ratio of lease receivables was 0.84%, a good level for the industry. Due to COVID outbreaks in 2022, leasing customers were impacted, with delinquencies increasing over 2022.

COVID saw a decrease in the amount of new leases issued in the first few months of 2020, but with the pandemic situation largely easing and the implementation of relevant policies, issuance of new lease contracts has returned to levels similar to 2019. Overall, the amount of new leases saw a certain level of volatility in the past three years due to COVID.

As of the end of December 2022, MBLC's NPL ratio was about 0.84%.

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 OPB of CNY 3.51 billion as of the cut-off date on January 31, 2023. We estimate the securitized portfolio accounts for approximately 7% 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 2023-1 ABN
Number of Assets	19,595
Number of Lessees	19,581
Outstanding Principal Balance (OPB) (CNY million)	3,508.70
Average OPB (CNY)	179,061.07
WA OLTV (%)	72.03
WA Asset Yield (%)	6.20
WA Seasoning (months)	23.55
WA Remaining Term (months)	17.84
Top Three Models (%)	E-Class / 20.50; GLK/GLC-Class / 19.29; A-Class / 17.60
Lease Products / Ratio (%)	Balloon products with return option / 21.17; Balloon products without return option / 65.95; Non-balloon / 12.88
Top 10 Lessees (%)	0.28
Final Installment Payments (%)	72.63
New Car (%)	100.00

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

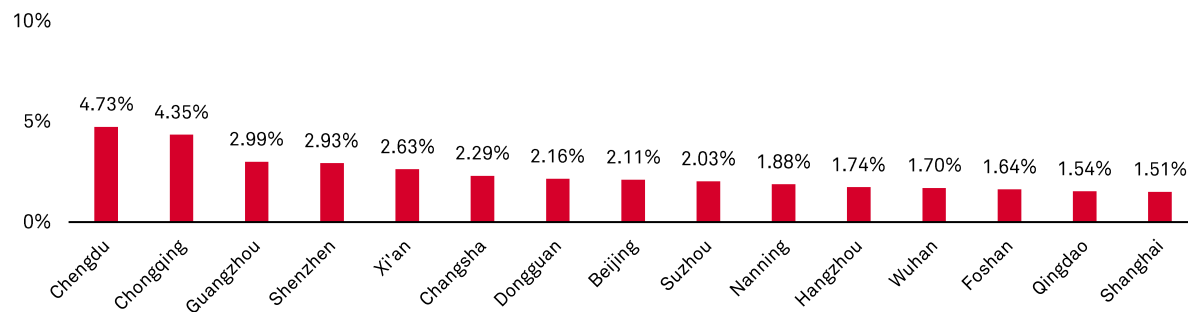
3.3.2. Pool Stratification and Asset Characteristics

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 23.55 months, with a WA remaining term of 17.84 months. Average OPB is CNY 179,061.07. 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.

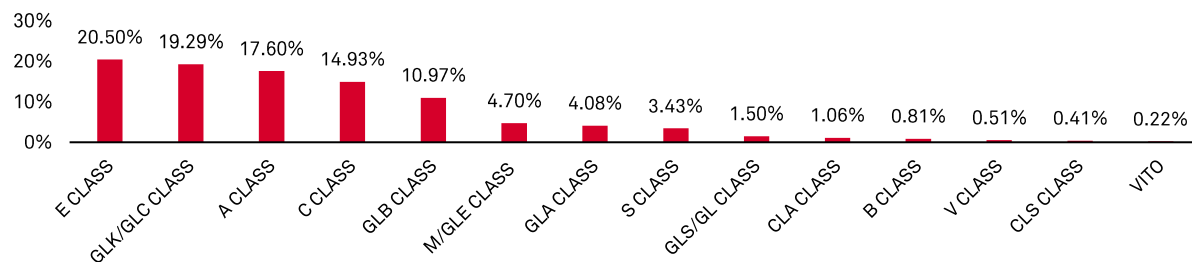
Table/Chart 7 Geographic Concentration (By province; over 3% of Outstanding Principal Balance)



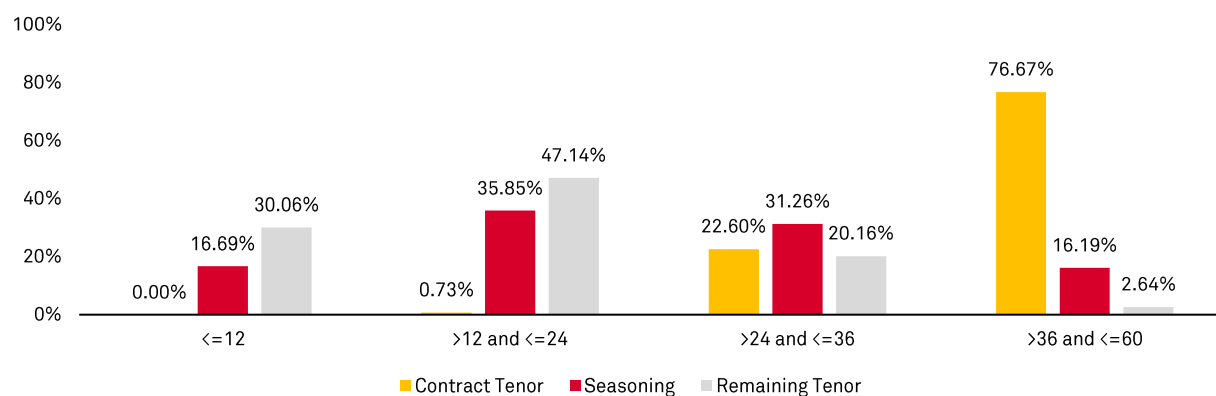
Table/Chart 8 Geographic Concentration (By cities; over 1.5% of Outstanding Principal Balance)



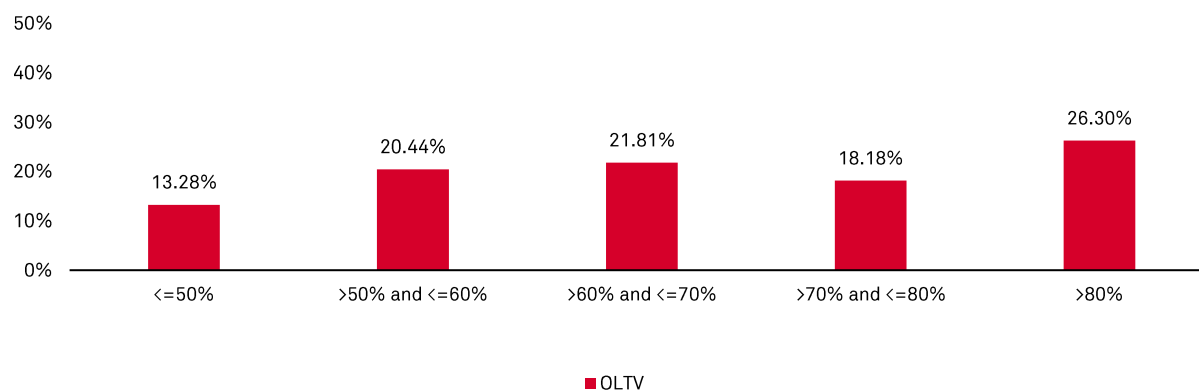
Table/Chart 9 Auto Models (% of OPB)



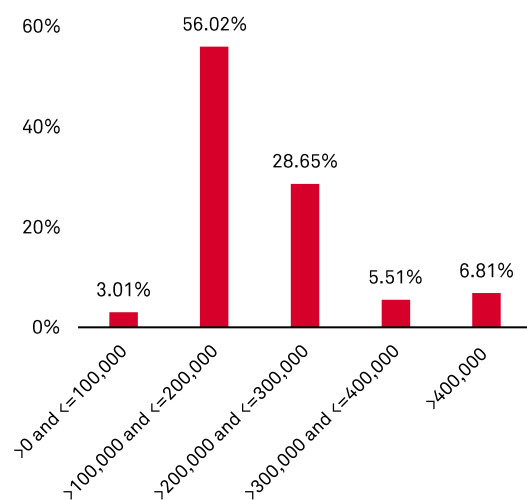
Table/Chart 10 Contract Tenor, Seasoning and Remaining Tenor (% of OPB)



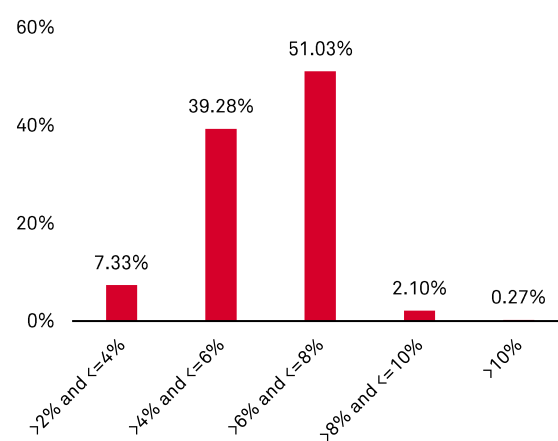
Table/Chart 11 OLTV (% of OPB)



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 2023-1 ABN	SABL 2022-2 ABN	BSCL 2022-1 ABN	Anji 2022-1 ABN	Wisdom 2022-1 ABN	Yiqi 2022-5 ABN
Originator	MBLC	MBLC	HIFLC	Anji LC	Wisdom LC	Yiqi LC
Closing Date	2023/5/19 (Expected)	2022/10/20	2022/4/13	2022/1/21	2022/4/25	2022/12/9
Asset Characteristics						
Number of Assets	19,595	25,342	18,331	24,163	25,866	42,622
Number of Lessees	19,581	25,324	18,326	24,163	25,865	42,612
OPB (bn)	3.51	4.73	3.00	1.50	1.51	2.58
Average OPB (k)	179.06	186.79	163.66	61.93	58.56	60.53
WA Contract Tenor (months)	41.39	40.95	40.47	NA	32.11	31.14
WA Seasoning (months)	23.55	20.83	8.32	8.93	1.29	8.43
WA Remaining Term (months)	17.84	20.13	32.16	31.00	30.82	22.71
WA Asset Yield (%)	6.20	6.21	5.70	4.32	2.41	1.94
WA OLTV (%)	72.03	71.01	70.09	79.32	60.26	64.26
New Vehicle (%)	100.00	100.00	100.00	100.00	100.00	100.00
Top Province /(%)	Guangdong/ 13.43	Guangdong/ 13.93	Zhejiang/ 12.23	Sichuan/ 10.81	Henan/ 10.38	Guangdong/ 12.09
Transaction Characteristics						
Issuance Amount (bn)	3.51	4.73	3.00	1.50	1.51	2.51
% by Note	Class A (%)	86.36	84.50	88.00	89.95	89.98
	Class B (%)	0.00	0.00	0.00	1.80	0.00
	Sub (%)	13.64	15.50	12.00	8.25	10.02
% by Asset	Class A (%)	86.36	84.50	88.00	89.95	87.68
	Class B (%)	0.00	0.00	0.00	1.80	0.00
	Sub (%)	13.64	15.50	12.00	8.25	9.77
	OC (%)	0.00	0.00	0.00	0.00	2.55
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&P Global (China) Ratings.

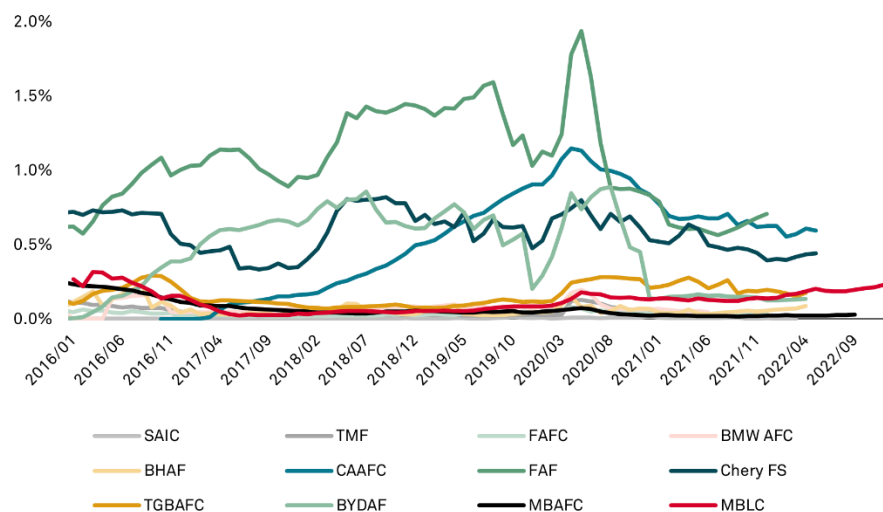
Note: NA as the data is not disclosed in the public information.

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 2022, and the data has remained stable in recent years. We believe MBLC's 90+DPD delinquencies are at a lower level than that of other leasing companies in the industry, and asset quality also maintains a leading position in the industry. 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*

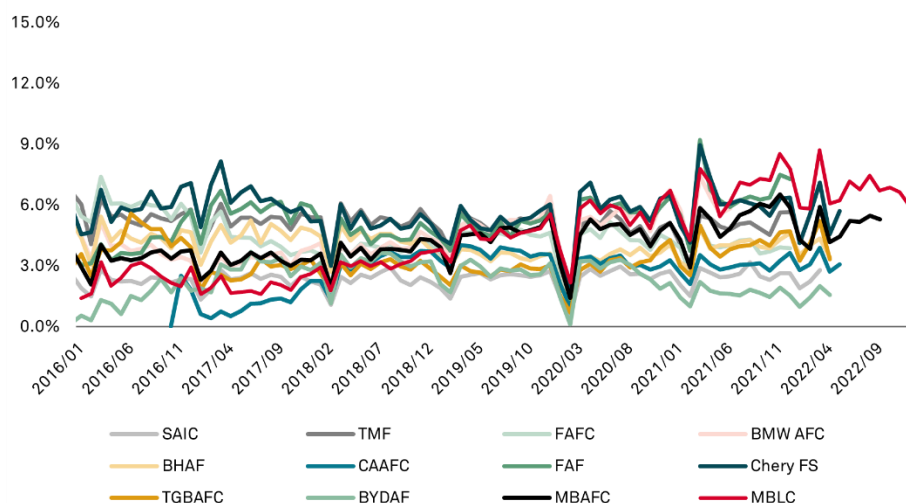


Note: Delinquency rate is calculated based on dynamic data. The formula is as following: Delinquency rate = The total balance of delinquent leases over 90 days of the month / the outstanding balance in the beginning of the month.

Sources: MBLC, public information for other originators' dynamic data. (Detailed data for leasing company peers not disclosed), 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 June 2022, the CPR of MBLC ranged between 1% and 9%, with an average of 4%. We believe the volatility in 2020 and 2022 reflects the short-term liquidity shock brought by COVID-19. In the past few years, MBLC's prepayment performance has shown a similar pattern with other AFCs and Mercedes-Benz Auto Finance Ltd. (MBAFC), another subsidiary of Mercedes-Benz Group AG, 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.

Table/Chart 16 Dynamic Data Analysis – Historical CPR Comparison



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

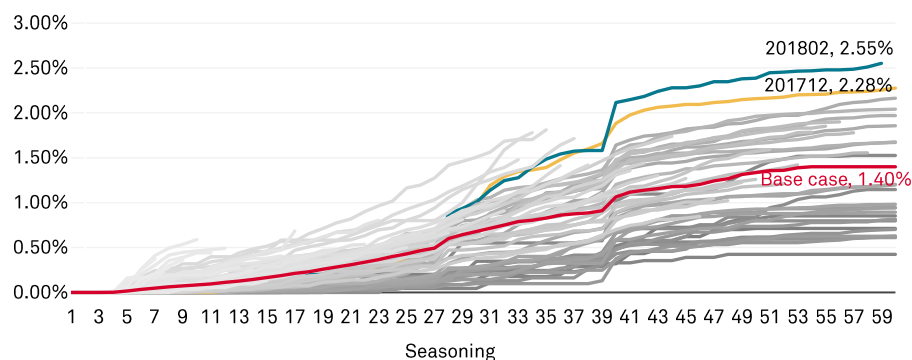
Sources: MBLC, public information for other originators' dynamic data, compiled by S&P Global (China) Ratings.

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

We have also analyzed the static pool performance from January 2016 to December 2022. The payout ratio for 39 out of the total 84 vintages was over 80%. We generally apply historical gradient factors to extrapolate younger vintages and predict future performance.

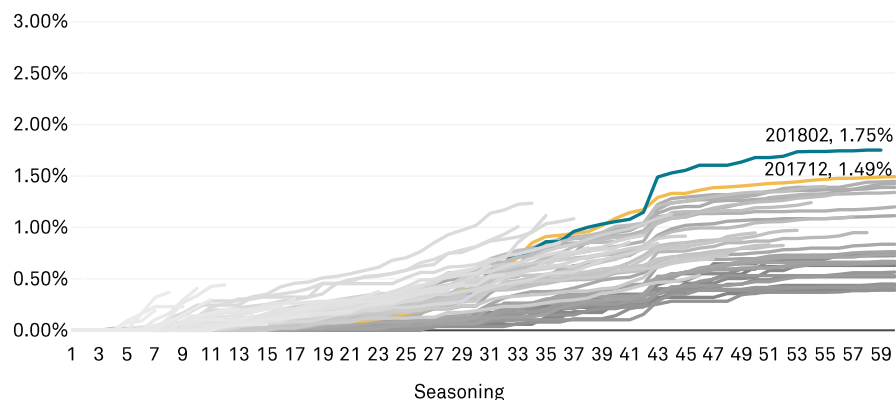
In our credit analysis, we view a 91–120 DPD delinquency rate as an important proxy indicator for default. Based on actual performance data, we observed that December 2017 and February 2018 vintages had the two highest cumulative delinquency rates of 2.28% and 2.55% respectively and two highest charge-off rates of 1.49% and 1.75% 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 17.84 months, which makes the risk exposure period of the pool relatively short. We have formed our base-case assumptions according to 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 21.17% and 65.95% of overall OPB respectively. The balance of non-balloon lease outstanding principal for this transaction only accounts for 12.88% of the overall OPB. The underlying asset pool of this transaction has a relatively large share of final installment payments, which account for 72.63% of OPB. 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 vehicles³, 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_{spc(sf)} 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 is obliged to repurchase the lease receivables upon the occurrence of a lessee return event or an extension of final installment. However, 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_{spc(sf)} 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 based on the auto market and MBLC’s 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 for lease agreements 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 that 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_{spc(sf)} rating stress scenario is estimated at 12.95%. The key assumptions involved are shown in the table below:

Under a AAA_{spc(sf)} rating stress scenario, the WA loss rate for this transaction is 12.95%.

³ 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 _{spc(sf)}
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 (%)	12.95

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

4. Payment Structure and Cash Flow Mechanics

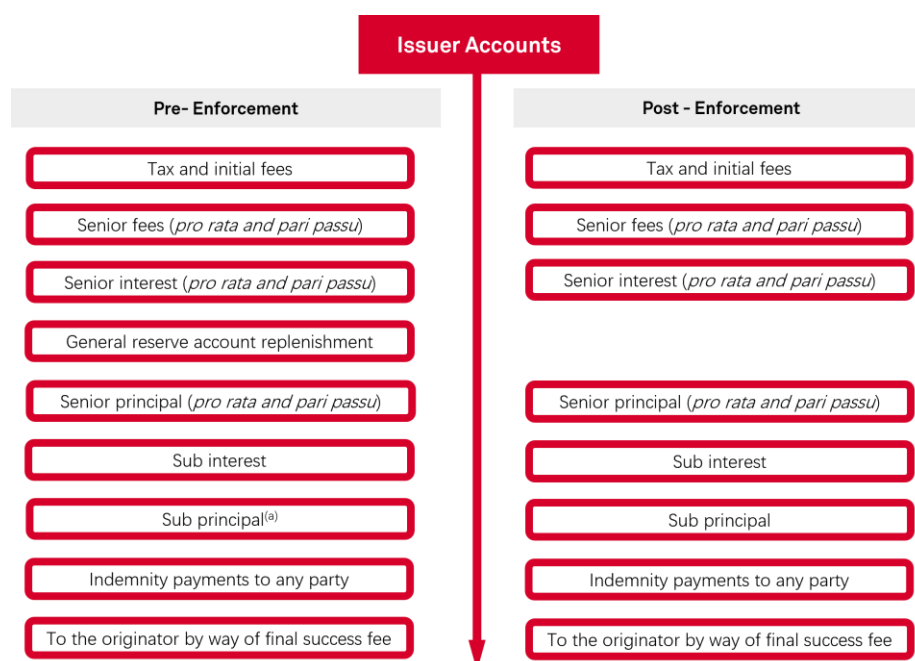
The SPT will issue fixed-rate senior notes and subordinated notes at par. Available funds for distribution include interest collections, principal collections and recovery collections in respect of the entrusted lease receivables; any repurchase price related to the relevant entrusted lease receivables 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

Rates for both 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 _{spc(sf)}
WA Loss Rate (%)	12.95
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: 3.37%
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 2023-1 ABN Senior notes have passed all

SABL 2023-1 ABN Senior Notes have passed all our cash flow modeling stress scenarios. S&P Global (China) Ratings CE buffer is estimated at greater than 0%.

our cash flow modeling 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_{spc(sf)} 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 2023-1 ABN	WA Loss Rate +10%	WA Loss Rate +20%
WA Loss Rate (%)	12.95	14.25	15.54
Rating*	AAA _{spc(sf)}	AA _{spc(sf)+}	AA _{spc(sf)}

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 6th 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 can 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 17.54 million (accounting for 0.5% of the overall OPB 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 all notes 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_{spc} level or above to be able to support an AAA_{spc(sf)} rating on the notes. If the trigger is breached, a successor account bank that meets the minimum credit quality provisions shall be appointed or an irrevocable and unconditional guarantor that meets the minimum credit quality requirements shall issue a guarantee in support of the account bank. 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.

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

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 termination event. A commingling reserve trigger event may occur upon MBLC's credit quality deteriorating and no longer being considered sufficient by S&P Global (China) Ratings to support the outstanding rating on the notes. Upon the occurrence and continuance of a commingling reserve trigger event, if MBLC fails to fund or transfer the commingling reserve required amount (an amount equal to the amount of instalments scheduled to be received by the servicer on the entrusted lease receivables during the next collection period upon the occurrence and the continuance of a commingling reserve trigger event, or otherwise, zero) to the commingling reserve account in accordance with the servicing agreement within the time specified for such payment to be made, a servicer termination event shall be considered to have occurred. According to the servicing agreement, after the occurrence of such an event, the issuer administrator shall notify the servicer in writing to terminate their appointment and designate a successor. The successor shall be qualified and able to provide such services pursuant to applicable laws and have the required rating to succeed the servicer. MBLC shall transfer all records and any and all related material, documentation and information to the successor servicer or any other successor servicer upon their request, within reason. This transaction has also set up a general reserve account to satisfy taxes and fees, senior fees, and interest of Senior Notes. We believe 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 shall be transferred to the commingling reserve account to provide liquidity. We believe 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 MBLC's employees. We believe there is no set-off risk in this transaction.

6.5. Risk Related to Payment of Final Installments and Mitigants

A large portion of the portfolio is made up of final installment payments, which account for 72.63% of the overall OPB. Lessees may face risks in terms of relatively high payment pressure at the end of the lease term. Specifically, the lessee can pay the final installment 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 to defer payment of the final installment. In respect of the abovementioned risk related to final installment payment pressure, the transaction establishes a single fund trust (MBLC as grantor, FOTIC as trustee) where a Vehicle Purchase Agreement (FOTIC as buyer, MBLC as seller) is signed. 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 the relevant repurchase price should the originator be obliged to repurchase the affected underlying assets) 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_{spc(sf)} rating of the rated notes, we have not considered 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 shall 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 may 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.

Ownership of the leased vehicles within the underlying asset pool is not transferred to the trust on the trust effective date, upon which 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.

Through our legal and regulatory risk analysis, risks related to dispute over ownership and disposal of the leased vehicles have been sufficiently mitigated by the arrangements stipulated in the transaction documents.

It is stipulated in the transaction document that within 20 business days after 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. That being said, we 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 legally considered as property owned by the originator if the originator enters 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 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 China Mercedes-Benz Leasing Co., Ltd.

2023-1 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 _{spc(sf)}	The repayment ability is extremely strong, generally not impacted by any adverse economic environment, and the default risk is extremely low.
AA _{spc(sf)}	The repayment ability is very strong, not considerably impacted by any adverse economic environment, and the default risk is very low.
A _{spc(sf)}	The repayment ability is comparatively strong, comparatively vulnerable to the impact of adverse economic environment, and the default risk is comparatively low.
BBB _{spc(sf)}	The repayment ability is average, comparatively impacted by adverse economic environment, and the default risk is average.
BB _{spc(sf)}	The repayment ability is comparatively weak, materially impacted by adverse economic environment, and the default risk is comparatively high.
B _{spc(sf)}	The repayment ability relies comparatively on fair economic environment and the default risk is very high.
CCC _{spc(sf)}	The repayment ability relies extremely on fair economic environment and the default risk is extremely high.
CC _{spc(sf)}	Lower protection in situation of bankruptcy or reorganization and the repayment of debt may not be generally guaranteed.
C _{spc(sf)}	Unable to repay the debt.

* Ratings from AA_{spc(sf)} to CCC_{spc(sf)} 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	19,595
Number of lessees	19,581
Outstanding contract balance (million)	4,612.38
OPB (million)	3,508.70
Largest contract balance (thousand)	1,321.00
Largest OPB (thousand)	983.54
Average contract balance (thousand)	235.39
Average OPB (thousand)	179.06
WA asset yield (%)	6.20
Highest asset yield (%)	10.78
Lowest asset yield (%)	2.25
WA contract tenor (month)	41.39
Longest contract tenor (month)	59.61
Shortest contract tenor (month)	24.00
WA remaining term (month)	17.84
Longest remaining term (month)	46.88
Shortest remaining term (month)	4.01
WA seasoning (month)	23.55
Longest seasoning (month)	53.00
Shortest seasoning (month)	1.05
WA lessees' age (age)	38.23
WA OLTV (%)	72.03
Final installment payments(%)	72.63
Aggregate original vehicle sale price (billion)	6.67
New vehicle (%)	100.00
Top city (%)	Chengdu / 4.73
Top province (%)	Guangdong / 13.43

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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