Credit Rating Report on Silver Arrow China 2019-1 Retail Auto Loan Asset Backed Notes

Rating results

Name of securities	Amount (RMB 10,000)	Proportion to the asset pool (%)	Proportion to the notes (%)	Credit rating
Class A Notes	850000.00	85.53	95.00	AAA_{sf}
Subordinated Notes	44736.84	4.50	5.00	NR
Total	**894736.84**	**90.03**	**100.00**	—
Target OC	82453.12	8.30	—	—
Yield supplementary OC	16667.65	1.68	—	—
Total asset pool	**993857.61**	**100.00**	—	—

Notes: ① NR stands for Not Rated;

② Due to rounding, the aggregate amount or percentage may or may not equal to the Total.

Overview of Transaction

Cut-Off Date of trust property: Jan. 31, 2019

Legal Final maturity date of securities: June 26, 2024

Type of transaction: Static cash flow ABS

Type of vehicle: Special purpose trust

Underlying asset: Mercedes-Benz Auto Finance Ltd.'s personal auto mortgage loans of RMB 9,938,576,100

Credit Enhancement mechanism: Senior/Junior structure, General Reserve Account, Commingling Reserve Account, Overcollateralization, trigger mechanism

Grantor/Originator/Loan servicer: Mercedes-Benz Auto Finance Ltd.

Trustee/Issuer: China Foreign Economy and Trade Trust Co., Ltd.

Account Bank: Industrial and Commercial Bank of China, Beijing Municipal Branch

Lead Underwriter: China Merchants Securities Co. Ltd.

Joint Lead Underwriters: BNP Paribas (China) Co., Ltd. and Bank of China Limited

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Analysts

WANG Fang, LIU Hao, MA Li

Tel. no.: 010-85679696
Fax: 010-85679228
E-mail: lianhe@lhratings.com
Address: Floor 17, PICC Plaza, No.2, Jianguomenwai Avenue, Chaoyang District, Beijing (100022)
Website: www.lhratings.com

Rationale

China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as "Lianhe Ratings") has performed credit analysis on the transaction including its underlying assets, transaction structure and legal elements, and the performance ability and operational risk of relevant participants. In addition cash flow analysis and stress test are performed on the underlying assets.

The underlying assets of this Transaction are personal auto mortgage loans and relevant mortgage and accessory security interest held by the Grantor Mercedes-Benz Auto Finance Ltd. ("MBAFC"). The overall dispersion of pooled assets is fairly high (72,269 transactions in total) with a high percentage of down payment (41.17%). In addition, based on the excellent historical performance of personal auto mortgage loans of MBAFC (the expected cumulative default rate in 60 months[1]is 0.68%), the overall quality of the underlying assets is good. Based on that, the setup of overcollateralization, General Reserve Account, Commingling Reserve Account, Senior/Junior structure and trigger mechanism have provided sufficient credit support for senior asset-backed notes.

It should be noted that due to the more conservative hierarchical approach (the support provided by the overcollateralization and subordinated structure is 14.47%), the risk borne by the senior asset-backed notes is apparently higher than the minimum requirements for AAA (the safe distance in stress test is 13.84%).

Taking the above factors into consideration, Lianhe Ratings has finally determined that the credit rating of the senior Class A Notes under

[1]Lianhe Ratings defines loans that are more than 30 days overdue as default loans in the auto financing asset securitization rating project, and uses this as a standard to calculate default rate data.

the item “Silver Arrow China 2019-1 Retail Auto Loan Asset Backed Notes” is AAA_{sf}.

Strengths

1. The underlying assets in this transaction involved 72,269 personal auto mortgage loans granted by MBAFC to 72,242 borrowers who are based in 31 regions. The proportion of the outstanding balance of principal of an individual loan was very small, the maximum proportion was only 0.017%, and the diversification of the borrowers was good.
2. The Transaction adopts a Senior/Junior structure, holders of the Subordinated Notes offer credit loss protection to holders of the Senior Notes. Specifically, based on the issuance amount the credit support provided by Subordinated Notes for the Class A Notes in this Transaction is 5.00%.
3. Overcollateralization was adopted in this transaction as the credit rating upgrading measure and the amount of it on the Cut-Off Date equals 9.98% of the pool balance, which provided relatively good credit support for the Class A Notes.

Concern and Mitigation

1. In this Transaction, when the Originator transfers the Entrusted Loan Receivables to the Trustee, the mortgages are also transferred at the same time. However, the Originator and the Trustee will not register the mortgage transfers, which make it possible that the Trustee cannot use the mortgage as a defence against bona fide third parties when exercising its mortgage rights.
   Risk mitigation: One of the Eligibility Criteria requires that each Loan Receivable is secured by a mortgage over the relevant Financed Vehicle with the Originator being the first priority mortgagee; the vehicle registration certificate of each vehicle to which such Loan Receivable relates is held by the Originator. This means that the Originator shall be registered as the mortgagee with the registration department of a competent Governmental Authority and hold the originals of the vehicle registration certificates. The Originator Mercedes-Benz Auto Finance Ltd. has extremely high corporate credit rating and is capable of serving the deal. So it seems unlikely that a bona fide third party would be able to prevent the Trustee from exercising its mortgage rights. Lianhe Ratings will continuously follow the willingness and capability of the Originator and the Trustee.
2. There may be errors in relevant assumptions or parameter estimates adopted in the quantitative analysis, due to multiple factors affecting loan default and post-default recovery and a short history of domestic auto loan and Originators’ engagement in it, which provides inadequate data base.
   Risk mitigation: In the cash flow model, Lianhe Ratings tested the endurance capacity of the Class A Notes towards the default of the borrowers repeatedly by high default rate, reducing recovery rate and narrowing spread, so as to minimize the possibility of underestimation of risks due to errors in assumptions or estimates.