Presale:

Generation 2023-2 Retail Auto Mortgage Loan Securitization

May 30, 2023

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Preliminary Ratings

Class	Preliminary rating	Preliminary amount (mil. RMB)	Credit support provided by subordination (%)
A1	AAA (sf)	1,600.00	13.85
A2	AAA (sf)	2,535.00	13.85
Subordinated	NR	665.01	N/A

Note: This presale report is based on information as of May 30, 2023. The rating shown is preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. This report does not constitute a recommendation to buy, hold, or sell securities. NR--Not rated. N/A--Not applicable. RMB--Chinese renminbi.

Profile

Expected closing date	June 2023
Legal final maturity date	Aug. 26, 2029
Collateral	Renminbi-denominated, fully amortizing loans to prime-quality borrowers, secured by first registered mortgages over vehicles
Structure type	Prime auto loan-backed securities with sequential repayment mechanism
Issuer	Shanghai International Trust Co. Ltd. as trustee of Generation 2023-2 Retail Auto Mortgage Loan Securitization
Servicer	Genius Auto Finance Co. Ltd.
Primary credit enhancement	Note subordination

Supporting Ratings

Bank account provider	Postal Savings Bank of China Co., Ltd.

Loan Pool Statistics As Of March 31, 2023

Total number of contracts	81,925

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Loan Pool Statistics As Of March 31, 2023 (cont.)

Total receivable balance of contracts (RMB)	4,800,005,551.43
Maximum receivables balance of contracts (RMB)	486,276.64
Average receivables balance of contracts (RMB)	58,590.24
Weighted average down payment (%)	40.52
Weighted average interest rate (%)	2.30
Total balloon payments as a percentage of total pool balance (%)	0.00
Weighted-average contract seasoning (months)	3.36
Weighted-average remaining term to maturity (months)	26.22

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Rationale

We assigned our 'AAA (sf)' preliminary ratings to the class A1 and A2 notes to be issued by Shanghai International Trust Co. Ltd. as trustee of Generation 2023-2 Retail Auto Mortgage Loan Securitization (the issuer). This is an auto loan securitization transaction originated by Genius Auto Finance Co. Ltd. (GAFC).

The preliminary ratings reflect the following factors.

- The credit risk associated with the underlying collateral portfolio and the credit support available are commensurate with S&P Global Ratings' view of credit risk under 'AAA' rating stress. Our assessment of credit risk also takes into account originator GAFC's underwriting standards and centralized approval process, which are comparable to major peers in the China auto finance industry, despite its relatively short operating history. We also incorporated our view of the macroeconomic and industry dynamics in the coming years.

- Credit support for the class A1 notes and class A2 notes comprises the subordination of the subordinated notes. Any loss on the collateral pool will be absorbed by the subordinated notes first, followed by the class A1 notes and class A2 notes. In addition, the liquidity reserve (if more than the required amount) can be released to the waterfall and enable some note principal payment, which provides additional credit support.

- The transaction's cash flows can meet the timely payment of interest and ultimate payment of principal to the rated notes under stresses commensurate with the ratings assigned.

- The use of interest and principal collections from the underlying pool of loans, and a liquidity reserve that initially equals 1% of the pool balance at transaction close, support the timely payment of senior expenses and rated note coupon. The liquidity reserve will be maintained at a required amount of three times of the monthly taxes, senior fees and expenses, and interest on the rated notes from the second trust distribution date onward.

- The legal structure of the trust, established as a special-purpose trust (SPT) under China's Trust Law, and the transaction structure and terms, are consistent with the governance of the National Administration of Financial Regulation (NAFR) and The People's Bank of China (PBOC)'s credit assets securitization (CAS) scheme. The legal structure of the SPT reflects our criteria for insolvency remoteness.

- The rating on the bank account provider, currently Postal Savings Bank of China Co., Ltd., coupled with the replacement trigger of the bank account provider if the rating on the bank falls below a certain level, is consistent with our counterparty criteria to support a 'AAA' rated transaction.

- The preliminary ratings on the notes are higher than our sovereign rating on China. We applied our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions" criteria published on Jan. 30, 2019, and determined that the highest rating that can be considered for this transaction is 'AAA'.

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Strengths And Weaknesses

Strengths

In our opinion, the strengths of the transaction observed in the rating analysis are:

- The sound quality of the loan portfolio at closing. All underlying loans have a full-recourse feature, are fully amortizing, and are backed by new passenger vehicles for personal use. The portfolio is well diversified, with a single loan concentration of around 0.01%, and the portfolio is static. Our observations in other markets suggest these features tend to support consistent and stronger performance.
- The limited exposure period. The remaining terms of all loans are less than or equal to 52 months, with a weighted-average remaining term of about 26 months. Coupled with the static nature of the portfolio, this means that the risk exposure period of the pool--or weighted-average life of the notes--is likely to be short.
- The repayment structure of the transaction. The transaction adopts a sequential payment waterfall, which means no principal may be passed to the subordinated notes until the class A1 and class A2 notes (collectively, the senior notes) have been fully repaid.

Weaknesses

In our opinion, the weaknesses of the transaction and the corresponding mitigants observed in the rating analysis are:

- The shorter operating history of China's auto finance sector, which has seen rapid growth only in the past decade. As a result, the sector has limited historical performance data available for analysis, and it has not experienced true periods of economic stress. We have factored this potential weakness into our credit risk analysis of the transaction. We also note that China's regulators have set forth quite stringent requirements on auto loan origination, and have adopted continued supervision and administrative guidelines on loan quality control. In our view, such regulatory oversight will prevent a lowering of the origination standards in China's auto finance sector, and is the main reason for the reasonable credit performance in the vintage loan pools.
- Relative lack of experience in servicing transition in China's securitization market. Despite the recent rapid development of Chinese securitization, only a few transactions to date have experienced the critical stress of a failure of important counterparties such as the servicer, and the potential for negative effects on the transaction's cash flow. In this transaction, the risk of servicer transition and cash flow continuity are partly mitigated by the payment arrangements such as direct debit associated with borrowers and a liquidity reserve.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For the auto asset-backed securities (ABS) sector, we view its exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as below average (see "ESG Industry Report Card: Auto Asset-Backed Securities," published March 31, 2021).

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The transaction's above-average exposure to environmental credit factors is in line with our sector benchmark, given that the collateral pool primarily comprises vehicles with internal combustion engines (ICE). While the adoption of electric vehicles (EV) and future regulation could in time lower the value of ICE vehicles, we believe our current approach to evaluating recovery value is adequate. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

The transaction's exposure to social credit factors is average, in line with the sector benchmark. Social risks for the auto sector could become more relevant over the longer term if consumer preferences change considerably regarding vehicle ownership and usage.

The transaction's exposure to governance credit factors is below average, in line with the sector benchmark. Given the nature of structured finance transactions, most have relatively strong governance frameworks that typically restrict what activities the special-purpose entity can undertake. We consider the risk management and governance practices in place to be consistent with industry standards and our benchmark expectations.

Transaction Structure

The transaction is based on China's CAS scheme set up by NAFR and PBOC.

The originator, GAFC, will sell a pool of auto loans receivables, along with all related rights such as mortgages, to an SPT, which is set up by Shanghai International Trust Co. Ltd., the trustee, for the purpose of securitization. To fund the receivables purchase, the trustee will issue, on behalf of the SPT, three classes of trust certificates: class A1, class A2, and subordinated notes.

The collateralized assets are loans extended to retail borrowers, used to finance the purchase of new cars manufactured by Geely Automobile Holdings Ltd. (Geely Auto), Volvo Car Corp. (Volvo Car), and Lynk & Co. Vehicles financed by these loans are mortgaged for the benefit of the originator.

The asset pool will be static, meaning that no asset substitution or reinvestment is allowed. The transaction adopts a single waterfall, which pools interest and principal collections together for payment. Collections from the assets, inclusive of interest, principal, penalties, and any other payments, will be used to pay SPT taxes, senior fees and expenses, interest on rated notes, and to replenish reserves, if required. The remaining collections will follow a pass-through structure with a soft amortization schedule for the class A1 notes. If an acceleration event occurs, principal payments to the rated notes will change to a pro-rata pay structure between class A1 and class A2 notes. The transaction also incorporates a sequential-pay mechanism, which prevents payments to the subordinated notes before the full pay-down of senior notes.

A cash liquidity reserve equal to 1.0% of the initial asset pool balance will be funded upon transaction closing to provide liquidity support to the transaction in case of need. From the second trust distribution date onward, the liquidity reserve will be maintained at an amount equivalent to three times of monthly tax, senior fees/expenses, servicing fees (if any) and interest on the rated notes. Any deficient or excess amount will be topped up or released through the transaction's waterfall.

The originator will be the transaction's servicer to collect borrower payments and to manage arrears.

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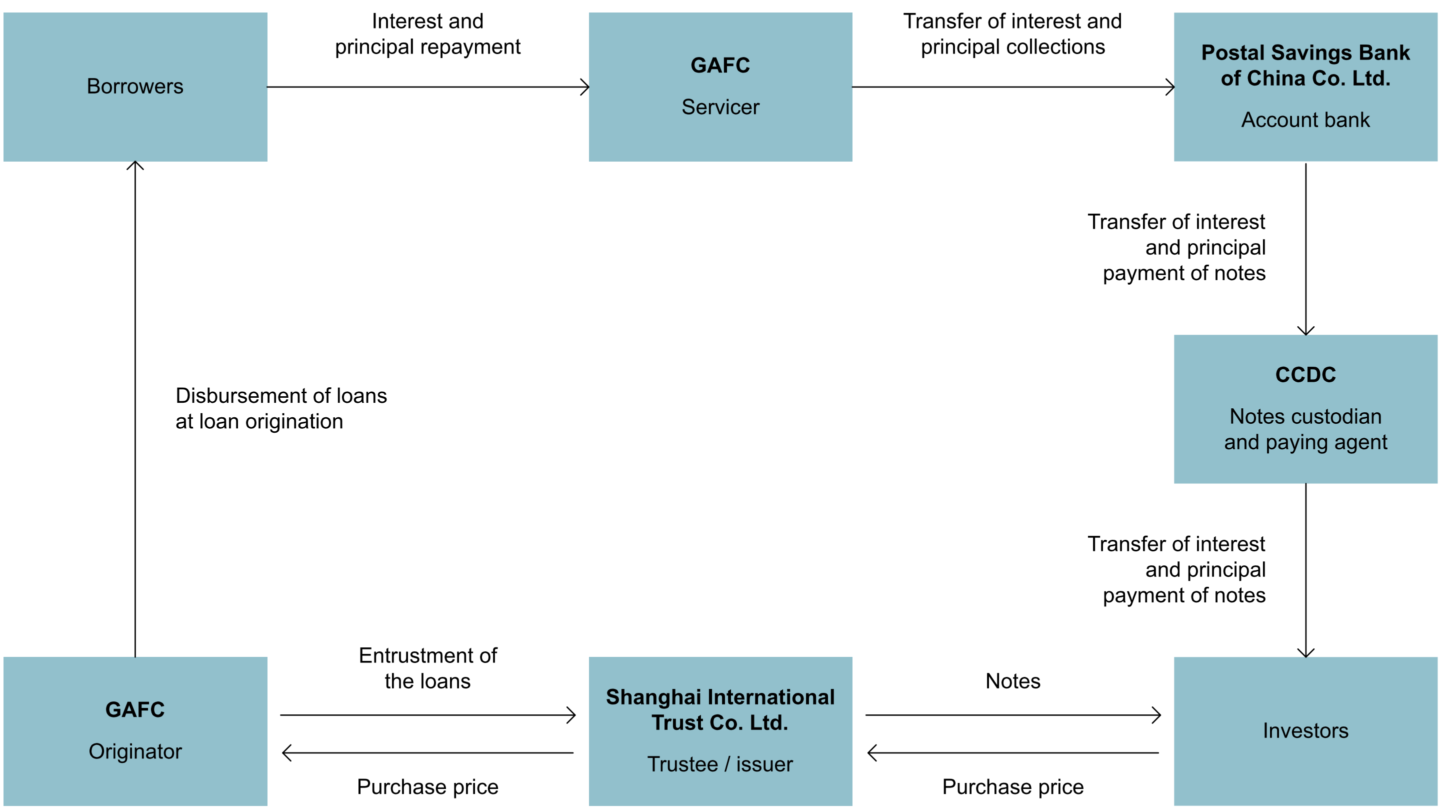
The structure of the transaction is shown in chart 1.

Chart 1

Generation 2023-2 Retail Auto Mortgage Loan Securitization
Transaction structure



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Asset Segregation And Issuer's Bankruptcy Remoteness Under The CAS Scheme

The CAS pilot program shares the typical features of international securitization transactions, such as asset sale and issuer bankruptcy remoteness. The program is primarily for bank and nonbank financial institution originators under the management of NAFR.

We believe the asset true sale and issuer's bankruptcy remoteness in this transaction meet our special-purpose entity criteria. The primary reason for this is that the securitization transaction adopts an SPT structure by referring to China's Trust Law, in line with the regulations in the CAS pilot program.

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Collateral Assignment

Typical car loan contracts in China have clauses addressing the transferrable and assignable nature of the receivables, meaning that the originators can sell or transfer the contracts to third parties without the borrowers' consent, pursuant to Part III (Contracts) of China's Civil Code. The asset eligibility criteria stipulated in this transaction confirm that the purchased loan receivables are assignable.

Legally, the issuer will have the title of the receivables and the associated rights, including the mortgage, after the asset sale. Practically, however, the transfer will not be effective against the borrowers if the originator does not notify the borrowers of the transfer. Without such notification, although the receivables have been legally acquired by the issuer, the borrowers' payments will continue to be made to the originator or the initial servicer. This issue could be more complicated if the originator becomes insolvent, making it unable to issue a notice to borrowers that a trust has been created over the related loan and that borrowers should redirect their payments to the new lender.

The transaction addresses this risk by introducing a perfection notice event upon the termination of the initial servicer. The occurrence of a perfection notice event will cause the title and rights transfer to be perfected through the originator's notification to each borrower, each guarantor (if any), and the vehicle's insurance company. Such notification will state a trust has been created over the related loan and all payments on the loans should be made from then on to the issuer's account.

Through an executed power of attorney upon transaction closing, the originator has empowered the trustee to issue the transfer notices to individual obligors directly if the servicer does not do so, and to redirect the loan payments to the issuer's account.

Note Terms And Conditions

Interest payment structure

The class A1 and class A2 notes are fixed-rate notes. Interest on the class A1 and class A2 notes will be paid on a pari passu and pro rata basis.

Interest paid on the class A1 and class A2 notes will be calculated based on their outstanding principal, which is the initial principal as reduced by cumulative principal repayments on previous payment dates.

Principal payment structure

Principal collections--after helping pay taxes, senior fees and expenses, rated note interest, and reserve top-up--will be used to amortize the class A1 notes to their target balance on each payment date during the first 12 months, in line with a soft amortization schedule. The remaining collections will be passed through to class A2 noteholders. If class A2 notes are fully paid down, collections will be used to pay down class A1 notes until fully repaid.

The transaction has defined some acceleration events. Upon the occurrence of an acceleration event, principal payments on the class A1 and class A2 notes will be made on a pari passu and pro rata basis. Given the pass-through nature of the notes, the actual date on which the principal

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amount of the notes will be fully repaid will be determined by the actual prepayment rate experience on the loan portfolio. As a result, the risk of loan prepayments is borne by the noteholders.

Pro rata paydown triggers (acceleration events)

Automatic acceleration events include an insolvency event in relation to the originator, and the occurrence of any servicer termination event. The events also include: (1) cumulative default rate triggers (1.5% during the first year and 3.5% during the second year and beyond from transaction close); (2) severe delinquency rate trigger (three-month moving average exceeding 1.5%); and (3) the occurrence of a failure to fully repay the class A1 and class A2 notes by the expected maturity date.

Acceleration events also include qualitative events, for which noteholders' resolution is required to take effect.

Clean-up call

The originator has a "clean-up call" option to purchase the auto loans from the trust if: (1) the pool balance at the end of any month is 10% or less of the initial pool balance; and (2) the market value of the pool balance is not less than the aggregate amount of the senior notes' outstanding principal balance and accrued interest, and all fees and expenses of the trust.

Our analysis is based on the assumption that the notes are fully redeemed by their legal final maturity date and that the clean-up call will not be exercised.

Priority Of Payments

The transaction has a combined interest and principal waterfall. The pre-enforcement priority of payments is summarized in table 1.

Table 1

Priority Of Payments

1	To pay any taxes of the trust due under China's laws that have not been paid
2	Senior fees and expenses - to pay trustee, fund custodian, notes custodian and paying agent, rating agencies and auditor, (a) their service fees, and (b) up to a capped amount of trust expenses per month
3	Servicer fee (if any)
4	Pari passu and pro rata, note interest of class A1 and A2 notes
5	Pari passu and pro rata, top up the liquidity reserve, servicer transition and notification costs reserve and commingling reserve up to the required level
6	Class A1 notes' principal in accordance with the amortization schedule
7	Class A2 notes' principal
8	Class A1 notes' principal
9	Other indemnities, costs, and expenses not covered in item 2
10	Subordinated notes

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Originator/Servicer Overview

Company background

GAFC is a joint venture of Geely Auto, one of the largest passenger vehicle manufacturers in China, and BNP Paribas Personal Finance (BNPP PF), a long-established financial institution in Europe with expertise in personal finance. As a manufacturer's captive finance company, GAFC's primary business is to provide consumer loans to finance the purchase of vehicles related to Geely Auto, Volvo Car, Lynk & Co., and other brands.

GAFC was set up in August 2015, and commenced operations in September 2015. Its management team has extensive experience in either the automotive or finance industry, or both. The experienced management team, together with BNPP PF's support in risk management and control processes, has helped GAFC establish auto loan origination and management guidelines which are of a standard comparable to industry peers', despite the joint venture's relatively short operating history. We therefore believe the company's risk management and control and operating procedures are consistent with those we have observed in its industry peers.

Loan origination and underwriting

More than 1,700 auto dealerships across China act as first-contact points for potential borrowers of GAFC auto loan products. Besides, GAFC has started to develop auto financing service provider (SP) channel since mid-2019. Financial consultants in these dealerships and SP channels provide services that include loan product introduction, preliminary loan terms suggestions, and borrowers' identity verification. The financial consultants enter loan applications and related information in GAFC's loan referral and review system.

All credit decisions are centralized at GAFC's head office. In addition, a dealership's performance is also tracked via arrears performance and fraud history that could affect its future business relationship with GAFC.

After financial consultants enter the client-related information in the loan-review system, GAFC adopts a four-step review and approval process in its operation center.

Operational staff in the operation center will first check loan documents and conduct system-based credit record enquiries and borrower credit scoring. At this stage, staff will decide whether to process the review, and proceeding applications will then go through the automatic review system. The automatic review system rejects, approves, or refers the applications to the manual review process. For loan applications subject to a manual check, credit reviewers will conduct personal interviews, validation, and credit analyses. The credit reviewers prepare credit reports based on the proposed loan terms, and suggest revisions to the terms, if necessary. Loan applications may be approved, referred, or rejected at this stage. The credit approval team, composed of more experienced credit staff, makes the final credit decision on referred loans, based on the loan application data and credit analyses conducted by the credit reviewers.

GAFC's credit process includes checks on each borrower's identity, the borrower's credit history, and affordability in the Financial Credit Information Database, a nationwide credit reference system. The process also looks into adverse credit history such as fraud and criminal records. Any exceptions on loan applications need to be reviewed by the head of operations.

GAFC's expert system for credit decision-making assesses applications. Since April 2017, GAFC

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has continued to improve the system, based on the loan performance data and the credit information in the Credit Reference Center of PBOC. In June 2020, GAFC launched a new credit scoring system based on the development of historical statistics of GAFC's loan asset portfolio and supplemented by the PBOC credit bureau score. Current credit decision-making is primarily based on credit scoring and the rule-based function, supported by manual review by a credit reviewer and credit approver on all the materials and credit record check results.

The production of loan documents is controlled by GAFC's systems. Documents are printed by the dealer, signed by the borrower, and sent to GAFC's settlements team. System-generated settlement checklists, which include any approval conditions, assist the settlement team in its verification process. All documentation is scanned and stored in GAFC's document-management system for future reference of collections.

Stringent regulatory oversight and characteristics of prime loans

GAFC's loan underwriting policies reflect the stringent regulatory control on auto loan risks in China. The 2017 amended "Auto Loans Management Guideline" promulgated by the PBOC and NAFR constitutes the following basic loan underwriting requirements that all auto finance companies and commercial banks must follow in their auto loan business:

- The borrowers need to have good credit history, with demonstration of stable income or other property to support the down payment and continued debt servicing.
- The terms of the loan financing a new vehicle should not be longer than five years, and the loan tenor for preowned-vehicle loans should not be longer than three years.
- The highest loan-to-value (LTV) ratio on retail loans is 80% for new vehicles, except defined new energy cars, and 70% for preowned vehicles.
- The value of the vehicles for the calculation of LTV ratio should be the lower of the manufacturers' suggested vehicle price and the amount actually paid by the buyer (for new vehicles).

Borrowers with good credit quality and debt serviceability are no longer required to mortgage the vehicles financed by such loans or other collateral to the lenders after the amendment. However, all loans to be securitized in this transaction have a vehicle mortgage.

Loan servicing

GAFC will be responsible for servicing the receivables in the collateral pool. Its customer service department tracks and manages loan repayments. The collections department, centralized at the head office, is responsible for telephone contact on overdue loans, on-site collection for severe delinquency, outsource management, and legal and foreclosure processes.

Borrowers repay their loans through direct-debit repayments into GAFC's account. To do this, all borrowers need to maintain a bank account with major national banks, and deposit sufficient money for periodic loan repayments. Each of these banks has a nationwide network in China for such service.

When a contract falls into arrears, GAFC follows a collections process--done in stages--beginning with text messaging, interactive voice response notification, robot or phone notification, official letters, and GAFC collections, depending on how long the loans are delinquent. Delinquent loans will be classified according to the prospect and difficulty of recovery. The collection process

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typically starts with text messaging and robot or phone notification of delinquency within one to 45 days, followed by an on-site visit, and then delivery of official letters. On-site collections can apply for severely delinquent loans, loss of contact with borrowers, or other material adverse developments relating to the loan or the borrower. For any remaining amount owed to GAFC after a vehicle is sold, including costs and expenses incurred during the collection process, GAFC has the right to continue pursuing the borrowers, due to the full-recourse nature of the loans.

Collateral

The pool contains consumer loan contracts, secured by vehicles manufactured by Geely Auto, Volvo Car and Lynk & Co. The aggregate outstanding principal balance is about Chinese renminbi (RMB) 4.8 billion.

The following summarizes some distinct features of the collateral pool:

- The collateral pool is a static auto loan pool that will amortize each month, with no reinvestment or substitution of receivables.
- The entire portfolio comprises receivables that are backed by new passenger vehicles. Historical data in other markets show that losses involving financing of new motor vehicles are typically lower than those involving used motor vehicles.
- There are no balloon or bullet loans in the asset pool; all loans are fully amortized with equal instalments.
- The transaction has a diversified pool of 81,925 loans, with the largest single loan accounting for about 0.01% of the pool by outstanding receivables balance. Borrower concentrations therefore do not present an additional risk for this transaction.
- The collateral pool has a weighted-average contract seasoning as of the cutoff date of about three months.
- The loans in the collateral pool have relatively low interest rates, with a weighted-average interest rate of 2.30%. The loans with interest rates higher than 4% account for 31.79% of the pool, while those with interest rates less than or equal to 2% represent 65.38%.
- All contract payments, including interest, principal, expenses, and prepayment penalty, are full-recourse obligations of the borrowers. As a result, the trust is not exposed to any market-value risk associated with the sale of the motor vehicles (on performing receivables), which is a risk that could be associated with products such as operating leases.

The loan pool for Generation 2023-2 Retail Auto Mortgage Loan Securitization as of March 31, 2023, is summarized in table 2.

Table 2

Loan Pool Characteristics (% Pool By Outstanding Principal Balance)

Customer type	
Retail	100.00
Corporate	0.00
New and used (financed vehicle)	
New	100.00
Used	0.00

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Table 2

Loan Pool Characteristics (% Pool By Outstanding Principal Balance) (cont.)

Loan payment method	
Direct debit	100.00
Seasoning (months)	
Less than or equal to 6	95.32
Greater than 6 and less than or equal to 12	4.29
Greater than 12	0.40
Remaining term to maturity (months)	
Less than or equal to 6	0.32
Greater than 6 and less than or equal to 12	2.55
Greater than 12 and less than or equal to 18	3.51
Greater than 18 and less than or equal to 24	53.91
Greater than 24 and less than or equal to 30	0.13
Greater than 30 and less than or equal to 36	32.85
Greater than 36 and less than or equal to 42	0.52
Greater than 42 and less than or equal to 48	2.10
Greater than 48 and less than or equal to 54	4.11
Effective interest rate (%)	
Greater than or equal to 0 and less than or equal to 1	64.78
Greater than 1 and less than or equal to 2	0.60
Greater than 2 and less than or equal to 3	1.08
Greater than 3 and less than or equal to 4	1.76
Greater than 4 and less than or equal to 5	2.07
Greater than 5 and less than or equal to 6	4.75
Greater than 6 and less than or equal to 7	11.72
Greater than 7 and less than or equal to 8	9.22
Greater than 8 and less than or equal to 9	2.96
Greater than 9 and less than or equal to 10	1.04
Greater than 10	0.03
Receivables balance (RMB)	
Less than or equal to 50,000	25.12
Greater than 50,000 and less than or equal to 100,000	64.11
Greater than 100,000 and less than or equal to 150,000	5.16
Greater than 150,000 and less than or equal to 200,000	2.18
Greater than 200,000 and less than or equal to 250,000	1.85
Greater than 250,000	1.58

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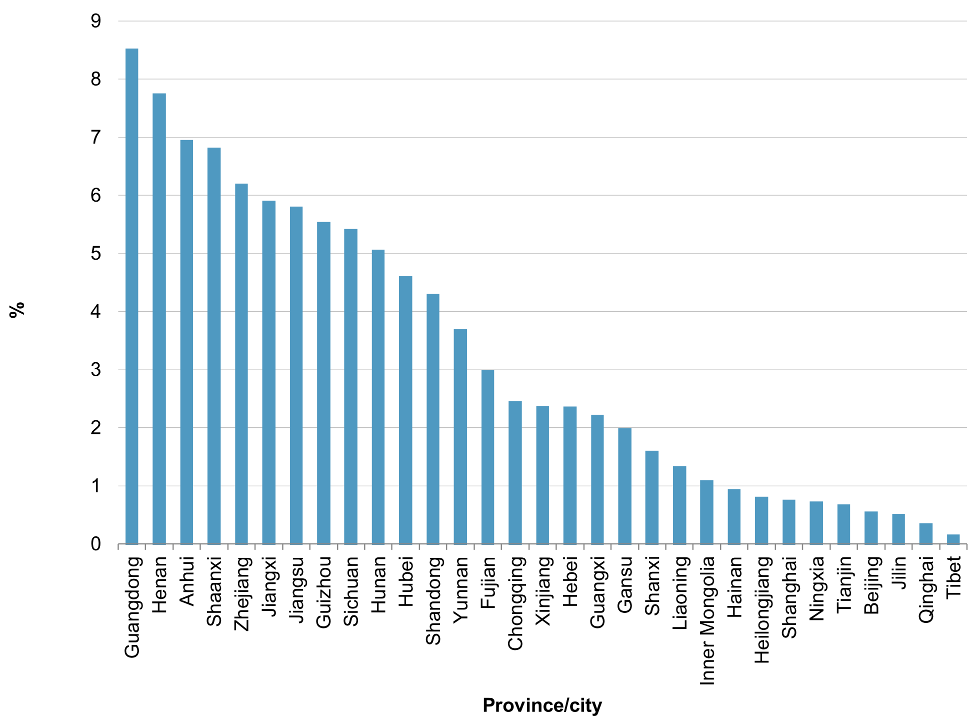
Table 2

Loan Pool Characteristics (% Pool By Outstanding Principal Balance) (cont.)

Car brand	
Geely	76.86
Lynk & Co.	13.69
Volvo	9.45

Chart 2

Securitized Loans
Borrower geographic distribution



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Selective Eligibility Criteria

- The loan was originated by GAFC in China, in the ordinary course of the company's business, and underwritten according to its underwriting criteria and guidelines;
- The loan agreements stipulate that the borrower shall set up the first priority mortgage over the related financed vehicle with GAFC as the mortgagee, and the borrower shall be obliged to complete the mortgage registration at the relevant registry office in China;
- Direct debit authorization has been established by the borrower for amounts to be directly

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debited by GAFC from the borrower's bank account in payment of amounts due and payable under the loan agreement;

- The loan accrues interest at a fixed rate;
- The loan agreement requires the borrower to obtain insurance on the financed vehicle pursuant to industry standards;
- As of the cutoff date, the loan has not been paid off, charged off, or rescinded, nor has the related financed vehicle been released from the mortgage registration;
- As of the cutoff date, the loan has never been overdue for more than 30 days;
- As of the cutoff date, at least one scheduled monthly payment has been made on the loan;
- The LTV ratio of the loan for traditional ICE vehicles is not greater than 80% and for new electric vehicle is not greater than 85%, where "loan" is the original principal amount financed under the loan and "value" is the value of the financed vehicle (including tax) as identified in the "Uniform Invoices for the Sale of Motor Vehicles";
- Under the loan agreement, the original principal amount borrowed is not greater than RMB1,000,000; and
- Each loan will mature no later than 60 months after the cutoff date.

Commingling Risk

Our counterparty criteria consider a transaction's commingling risk through the rating on the servicer, the amount of funds likely to be held in a servicer account at any given time, and the potential impact of a delay in receipt of those funds on the supported securities. In our opinion, there is potential commingling risk in this transaction if the servicer defaults, because GAFC, acting as the servicer in this transaction, can hold the collections for a period of one month before remittance to the SPT account.

A commingling reserve account will be established for this transaction with the account bank, but there will be no upfront deposit in the account upon closing. The reserve will be topped up, through the payment waterfall, to an amount that equals the expected monthly collections in the collection period (defined as required commingling reserve amount) if the rating on the servicer is lowered to certain levels, based on local rating agencies' scale.

In our view, the current transaction arrangement (such as uncertainty about the commingling reserve amount and rating triggers that do not include S&P Global Ratings' ratings) does not sufficiently mitigate commingling risk in accordance with our counterparty criteria. For this reason, we have assumed that one full month of collections may be lost before collections could be redirected to the SPT accounts or the accounts of the replacement servicer, if the original servicer becomes insolvent. We have considered this one-month collection loss in our cash-flow analysis of the transaction.

Set-Off Risk

We believe the obligors' set-off risk in this transaction is remote because GAFC is not an authorized deposit-taking institution in China.

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Counterparty Risk With Respect To The Bank Account Provider

Issuer accounts for this transaction will be held with Postal Savings Bank of China Co. Ltd. pursuant to the account bank agreement. Among other transaction arrangements, the bank will be replaced if the ratings on it are lower than 'BBB/A-2' within 30 calendar days. This arrangement meets our counterparty criteria to support a 'AAA' rated transaction, considering the transaction's cash flow arrangement.

Counterparty Risk With Respect To The Servicer

GAFC cannot resign from its role as the initial servicer, but can be removed if a servicer termination event occurs. Such an event might happen if GAFC were to become insolvent, failed to remit collections to the issuer when due, or could not remedy a breach of a material covenant that has a material adverse effect on the note holders. The transaction does not have a backup servicer upon transaction closing. Only if the ratings on GAFC fall below a certain level, based on local rating agencies' rating scales, will a noteholders' meeting appoint a backup servicer.

Prime auto transactions in other markets do not typically include backup servicers upon transaction closing, however, because of the high credit quality and homogeneous nature of the receivables, combined with the availability of institutions experienced in servicing them. We believe that in China the most likely servicer replacement would be other auto finance companies or commercial banks that have a nationwide network for loan collections.

All loan payments in this transaction will be collected through the direct debit of borrowers' cash accounts in major national banks rather than by other, more demanding collection processes. This will reduce the workload of the servicer and make it easier to find a replacement. We have also factored into our analysis a potential increase in servicer fees should a replacement servicer require a higher return. Finally, the transaction includes a liquidity reserve that is funded upfront and could cover three months of transaction expenses and notes' interest, should asset collections be temporarily unavailable to meet the transaction's obligations. In our view, this will allow the transaction sufficient time to find a new servicer and resume asset collections.

Liquidity Support

Timely payment of senior expenses and rated note interest is supported by the use of principal draw, and a liquidity reserve funded at closing by GAFC, initially equal to 1.0% of the receivables' balance.

The liquidity reserve will amortize over time, but be maintained at an amount that can cover three times the aggregate amount of the monthly taxes, senior fees and expenses, servicing fees (if any), and interest payments to the senior notes from the second trust distribution date and onward. Any deficiency in the required amount will be topped up through the waterfall. Any excess above the required amount will be released to the waterfall, which could increase the amount of excess spread available to make turbo note principal payments, thereby creating additional credit support.

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Interest-Rate Risk

The collateralized loans carry fixed interest rates, and the interest rate is fixed on the class A1 and class A2 notes. As a result, there is no risk of interest rate mismatch in this transaction.

Credit And Cash-Flow Analysis

We consider a significant performance deterioration of the underlying receivables to be the principal factor affecting rating transition in this transaction. We have applied our criteria titled, "Global Auto ABS Methodology And Assumptions," published March 31, 2022, to the credit risk analyses in this transaction.

Historical performance data

We received the following historical performance data for auto loan pools originated by GAFC:

- Static pool data grouped by origination month, including detailed origination amounts, repayments every month, and delinquency track every month. The data included vintage performance data from October 2015 to February 2023.
- Dynamic pool data: aggregate loans amounts, repayments, and delinquency statistics for each month from October 2015 to February 2023.

The pay-out ratio for each vintage is depicted in chart 3.

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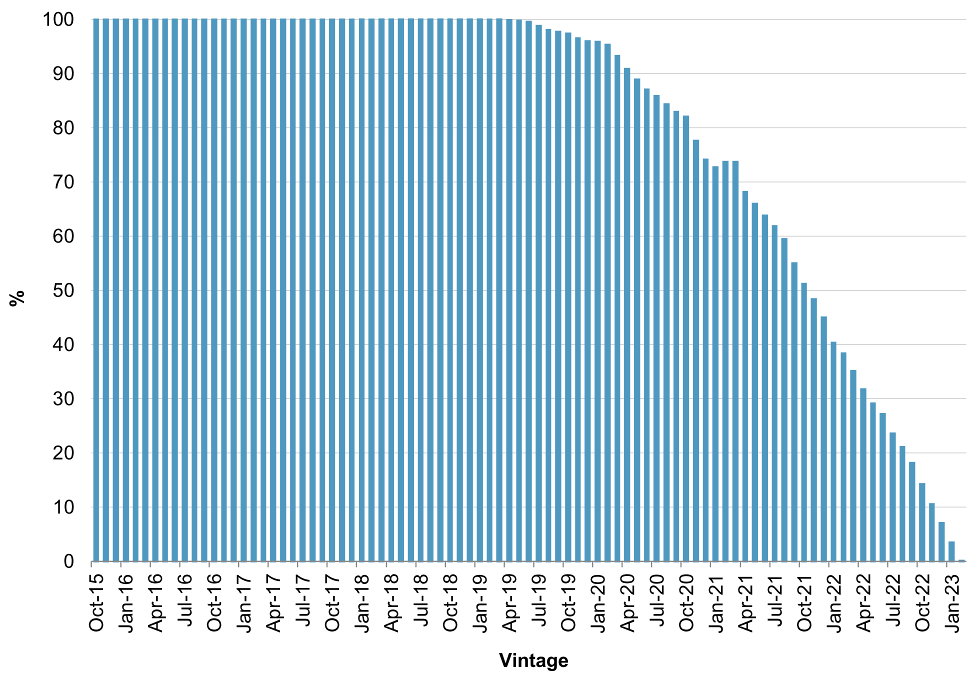
Chart 3

GAFC's loan vintages
Payout ratio



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GAFC generally sets 90-plus and 180-plus days delinquencies for the recognition of loan defaults and loan losses, respectively. A loan can also be deemed in default or irrecoverable due to termination or detected fraud.

In our credit-risk analysis, we assumed all loans delinquent for more than 90 days would default, and used this classification to determine the base-case default frequency for the securitized pool. This assumption reflects the low cure rates--returning from delinquency to current--of loans overdue for more than 90 days, and the practical collection operations GAFC adopts. Our assessment also takes into account the comparison with the loan performance of major peers in the China auto finance industry and GAFC's customer and product features.

We assume that loans overdue for more than 180 days would be deemed as a loss. We use this as a benchmark to estimate the recovery after defaults for the collateral pool.

Charts 4 and 5 illustrate the cumulative default and cumulative loss experience of GAFC's total auto loan portfolio, based on our assumptions of deemed default and deemed loss, from October 2015 to February 2023.

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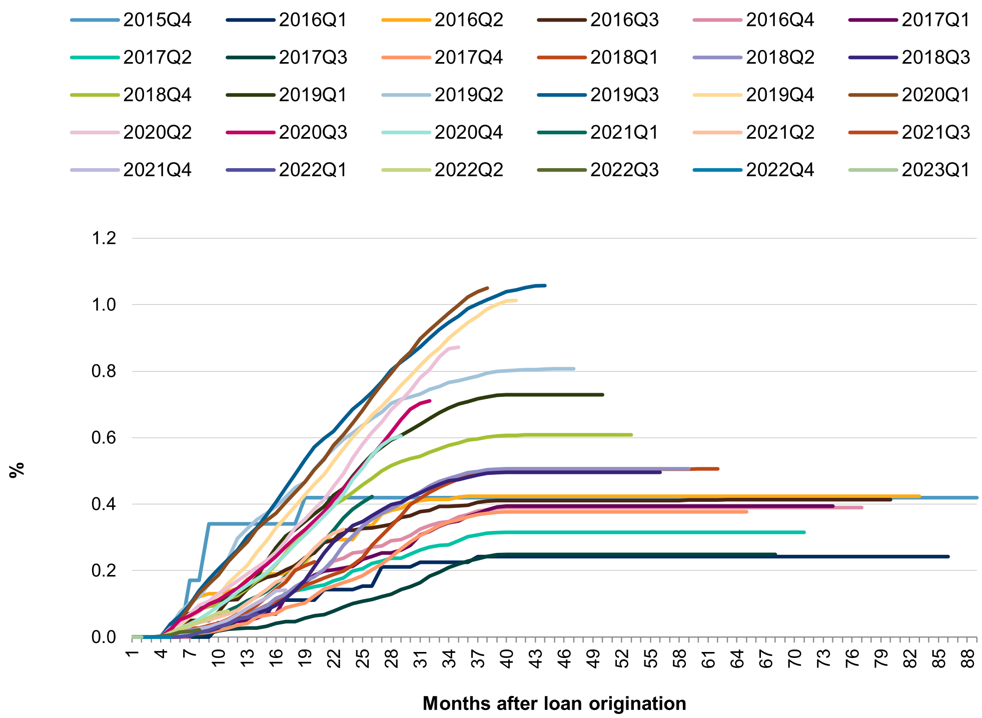
Chart 4

Historical Performance
Cumulative default rate by quarter of origination



Q1--Quarter one. Q2--Quarter two. Q3--Quarter three. Q4--Quarter four.
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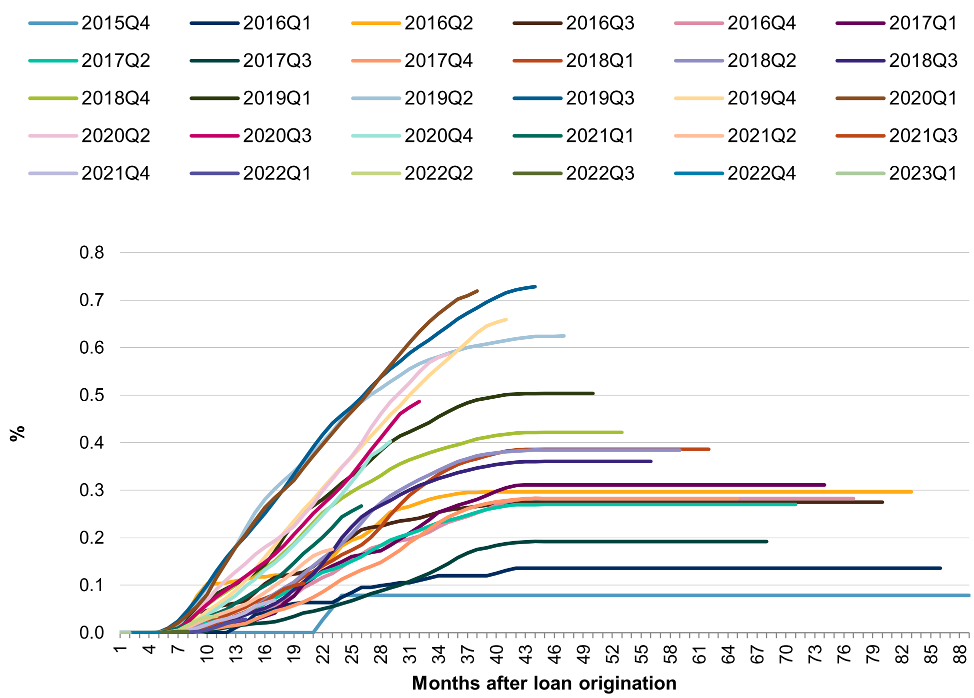
Chart 5

Historical Performance
Cumulative loss rate by quarter of origination



Q1--Quarter one. Q2--Quarter two. Q3--Quarter three. Q4--Quarter four.

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Base-case assumptions and stressed default and loss

Our base-case default assumption for the collateral pool is 1.0%, based on the stable historical performance observed in the static pool and dynamic pool data, securitized pool characteristics, China's macroeconomic conditions, peer comparison, and our observation of the GAFC's underwriting, servicing capabilities, and risk management.

We applied a stress multiple to the base-case default percentage in the 'AAA ' rating. The magnitude of the stress multiple that we applied reflects the rating on the notes, as well as our consideration of the relatively short development history of auto loan securitization in China. We have not observed any significant macroeconomic stress because the economic environment has been relatively benign in the past decade. We therefore applied a higher stress multiple.

We have taken into account the remaining terms of the loans that are all 52 months or less, making the risk exposure period of the pool, or weighted-average life of the notes, relatively short.

We gave limited credit to recoveries. Our base-case recovery assumption for the collateral pool is 10.0%, which we derived from the migration analyses of the "deemed default" and "deemed loss" loans. For a 'AAA' rating stress scenario, we gave 50% credit to the 10% base-case expected recoveries to arrive at a loss severity assumption of 95%.

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Table 3 shows a summary of the credit assessment.

Table 3

Credit Assessment Summary

	AAA
Base-case default frequency (%)	1.0
Stress multiple used (x)	6.0
Default frequency (%)	6.0
Loss severity (%)	95.0
Minimum credit support after credit to recovery (%)	5.7

Cash flow analysis

We analyzed the capacity of the transaction's cash flows to support the rated notes--i.e., timely interest payments and repayment of principal by the legal maturity date--by running several scenarios correlated with a 'AAA' rating level for the class A1 and class A2 notes. Our cash flow analysis included various scenarios that reflect different combinations of the following factors:

- Level of defaults and recoveries commensurate with the rating level.
- Three different default curves: a front-loaded, back-loaded, and normal default curve. The curves we employed primarily reflected the default timing that we observed in GAFC's static default curves.
- Recovery period (assumed to be nine months).
- Stressed fees and expenses upon servicer transition and increase in unexpected expenses.
- The loss of one month of collections due to the potential commingling risk.
- Different prepayment rates.
- Compression in asset yield as a result of default and prepayment in the higher-yielding loans.

For the prepayment rates, we modeled three different prepayment curves. The prepayment stresses assumed include voluntary and involuntary (default) prepayments (see table 4). We use a high constant prepayment rate (CPR) test--going to 15% annualized CPR under high CPR stress, a normal CPR scenario (constant at 3%) that reflects the prepayment we observed in GAFC's historical data and a low CPR scenario (constant at 1%).

Table 4

Assumed Constant Prepayment Rates (CPR)

Transaction seasoning	Low CPR (% per year)	Normal CPR (% per year)	High CPR (% per year)
1	1.0	3.0	4.0
2	1.0	3.0	6.0
3	1.0	3.0	8.0
4	1.0	3.0	10.0
5	1.0	3.0	12.0
6	1.0	3.0	14.0

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Table 4

Assumed Constant Prepayment Rates (CPR) (cont.)

Transaction seasoning	Low CPR (% per year)	Normal CPR (% per year)	High CPR (% per year)
7+	1.0	3.0	15.0

The transaction pays principal in a mix of sequential and pro rata, as well as soft amortization and pass-through schedule between class A1 and A2 notes, in accordance with the transaction documents. In our cash flow analysis, we modeled the pro rata principal waterfall assuming an acceleration event is triggered immediately after transaction close due to servicer insolvency. We also modeled the sequential repayment waterfall followed by pro rata repayment waterfall assuming an acceleration event is triggered by a breach of the cumulative default rate triggers and a failure to repay senior notes principal in full by the expected maturity date.

The transaction can pass all of the scenarios that we analyzed in our cash flow adequacy tests. Some of the noteworthy features of the transaction's cash flows are as follows:

- Credit support for the senior notes is provided by the subordination of the subordinated notes. Excess spread, if any, will also be used to pay down the principal of the class A1 and A2 notes, which could create additional credit support. However, due to stressed fees and expenses upon servicer transition and unexpected expenses, and our assumption of decreasing asset yield, the transaction would need to draw principal collections to meet the payment obligations on senior expenses and rated notes' interest in some months. This negative-carry phenomenon eroded some of the credit support available for credit losses.
- The liquidity reserve, if in excess of the required amount, will be released to the waterfall on each trust distribution date. This would provide additional credit support for the rated notes when excess liquidity reserve amount is used for note principal payment under the turbo payment mechanism.

Sensitivity Analysis

We cash flow modeled two additional scenarios to determine how vulnerable the notes would be to a downgrade under each scenario:

- Scenario 1: Base-case default frequency is 25% higher than our expected level of 1.0%.
- Scenario 2: Base recoveries are only 75% of our expected base recovery rate of 10%.

The minimum credit support under each scenario is set out in table 5.

Table 5

Minimum Credit Support After Credit To Recovery (%)

Scenario	AAA
Expected	5.70
Scenario 1	7.13
Scenario 2	5.78

Table 6 sets out what the rating level of each class of notes would be at transaction close under each scenario.

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Table 6

Rating Transition

Scenario	Class A1 notes	Class A2 notes
Expected	AAA (sf)	AAA (sf)
Scenario 1	AAA (sf)	AAA (sf)
Scenario 2	AAA (sf)	AAA (sf)

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Related Criteria

- Criteria | Structured Finance | ABS: Global Auto ABS Methodology And Assumptions , March 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities , Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions , March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions , Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology , March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions , Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts , May 31, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment , May 28, 2009

Related Research

- China Securitization: Auto ABS And RMBS Tracker April 2023, May 29, 2023
- China Securitization Performance Watch 1Q 2023: A Slow Quarter For Issuance, May 17, 2023
- China Structured Finance Outlook 2023: Issuance Likely To Slowly Stir, January 12, 2023
- A Primer On China's Auto Loan Asset-Backed Securities Market, April 28, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- ESG Industry Report Card: Auto Asset-Backed Securities, March 31, 2021
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 17, 2016

The issuer has not informed S&P Global Ratings whether the issuer is publicly disclosing all relevant information about the structured finance instruments that are subject to this rating report or whether relevant information remains non-public.

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