中華信用評等
Taiwan Ratings
A Standard & Poor's Ratings Partner

June 20, 2014

Rating Research Services

Presale:
Chailease 2014 Securitization Special Purpose Trust

Primary Credit Analyst:
Joe Lin; (886) 2 8722-5856; joe.lin@taiwanratings.com.tw
Secondary Contact:
Andrea Lin; (886) 2 8722-5853; andrea.lin@taiwanratings.com.tw

Table Of Contents

Chailease 2014 Securitization Special Purpose Trust

Profile

NT$ 6,000,000,000 Trust Beneficiary Certificates

This presale report is based on information as of June 20, 2014. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Table 1

Preliminary Ratings As Of June 20, 2014

	Preliminary rating*	Amount (NT$)	Coupon rate (%)	Credit enhancement	Legal final maturity
Class A	twAAA (sf) (prelim)	4,688,000,000	To Be Decided	21.87%	2021/7/24
Class B	twA (sf) (prelim)	357,700,000	To Be Decided	15.91%	2021/7/24
Class C	Unrated	954,300,000			

*The ratings are preliminary and subject to change at any time. NT$-New Taiwan dollar.

Table 2

Profile

Issuer:	Land Bank of Taiwan as trustee for Chailease 2014 Securitization Special Purpose Trust (the SPT)
Cut-off Date:	June 30, 2014
Expected Closing Date:	July 24, 2014
Expected Maturity Date:	July 24, 2017 ~ July 24, 2019
Legal Final Maturity Date:	July 24, 2021
Seller/Originator/Servicer:	Chailease Finance Co. Ltd. (Chailease)
Trustee/Custodian/Back-up Servicer/Account Bank:	Land Bank of Taiwan
Arranger:	CTBC Bank
Issue:	NT$ 6.00 billion trust beneficiary certificates
NT$--New Taiwan dollar	

Rationale

The Class A and Class B trust beneficiary certificates (together 'the notes') to be issued through **Chailease 2014 Securitization Special Purpose Trust** (Chailease 2014 Securitization SPT) are supported by a pool of New Taiwan dollar-denominated(NT$) lease and installment receivables (receivables) originated by Chailease. The preliminary ratings assigned by Taiwan Ratings Corp. to the notes to be issued reflect the likelihood of the issuer to pay interest in full on time and to repay principal outstanding no later than the legal final maturity date, according to the terms and conditions of the notes. Our preliminary ratings reflect our opinions of:

- The credit quality and historical performance of the underlying receivables, in view of the originator's underwriting policy, business strategy, and Eligibility Criteria of Receivables that the SPT can invest in as stipulated in the transaction documents.
- The servicer transition reserve set aside at deal closing to mitigate servicer and trustee transition risk and to cover the shortfall, if any, of senior fees, expenses and

rated interest payments;
- The embedded amortization triggers that will accelerate the repayment of rated notes on a sequential basis if the underlying asset performances deteriorate beyond certain levels;
- The size of the cash reserve to cover shortfalls on interests to be paid to receivables obligors for the margin principals that they deposit upon receivables origination;
- The payment structure that provides timely rated interests payment every month and ultimate principal payments to rated notes by the legal final maturity date;
- The rating requirement and replacement language on the account bank and eligible investment in transaction documents; and
- The legal framework of the transaction and provisions under related Taiwan laws.

Strengths, Concerns, And Mitigating Factors

Strengths

- The asset pool comprises receivables with clean payment records and a certain level of creditworthiness under Chailease's internal scoring system.
- Chailease is an experienced servicer, in our opinion, and has been in the lease and installment industry for more than three decades.

Concerns

- The overall credit quality of the underlying receivables may be adversely affected because of the new receivables transferred from the originator during the revolving period.
- Non-standard collaterals and funding targets may result in uncertainty in the recovery periods and recovery levels of defaulted receivables in the long term.
- The underlying pool may be concentrated on certain industries or certain groups, raising its vulnerability to event risk or industry risk.
- There could be a payment mismatch between the asset side and liability side of the SPT, because the underlying receivables pool allows up to 20% of the receivables not making payments on a monthly basis but the payment frequency on the rated notes is monthly.
- Commingling risk will arise if the servicer fails to remit any payments received from receivables obligors to the SPT.

Mitigating Factors

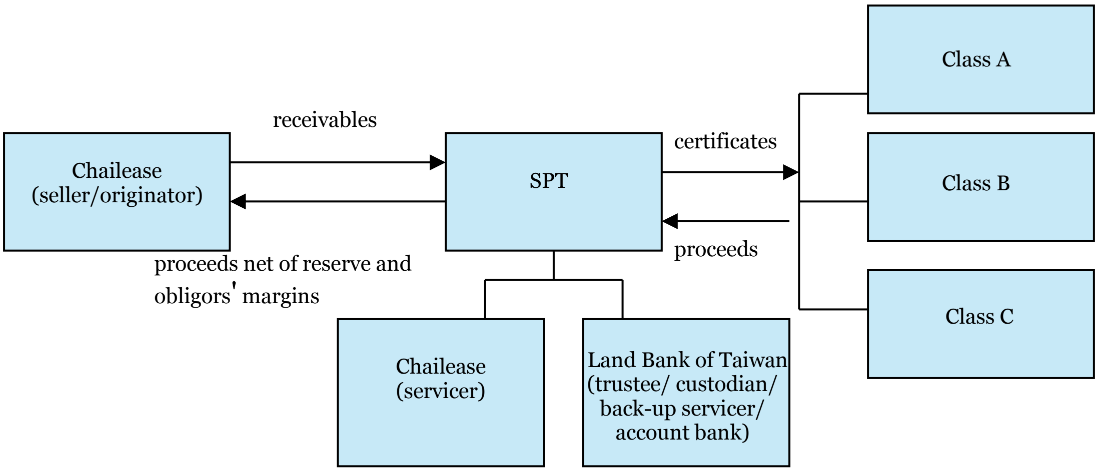
- The transaction has the predetermined Eligibility Criteria of Receivables stipulated in the transaction documents, which aim to keep the pool's credit quality from deteriorating immediately after the new assets are transferred to the SPT. In addition, the transaction's amortization will be triggered if the performance of underlying receivables deteriorates beyond certain levels. In that circumstance, the transaction will stop investing in new receivables and principal collections from the receivables will be used to pay down the issued notes.
- Our rating analysis only considers the recoveries from margin principals and excludes potential recoveries from other non-standard collaterals and funding targets, despite the fact that all of them will be transferred to the SPT.

- The risk of potential asset concentration is reflected in our assumptions of pool losses and stress multiples under respective rating scenarios. Additionally, Eligibility Criteria of Receivables also set forth certain concentration limits for the underlying receivables' obligors.
- The potential payment mismatch is mitigated by the relatively high yields of underlying receivables, principal collections to meet senior fees, expenses and rated interest payments, as well as the servicer transition reserve. Taiwan Ratings has conducted a cash flow analysis to evaluate the cash flow adequacy under respective ratings scenarios.
- We believe the transaction arrangement largely prevents the occurrence of commingling risk because the receivables obligors will commit their debt service through issuing a set of post-dated checks when the lease and installment receivables are originated. The post-dated check will be transferred to the SPT along with the transfer of receivables. If however the servicer receives the payment or recovery amount from an obligor and fails to transfer such amounts to the SPT up to a certain level, this would trigger the transaction's amortization.

Transaction Overview

This is the fourth asset-backed securitization transaction collateralized by lease and installment receivables that Chailease has originated. At deal closing, the originator will transfer assets, composed of lease and installments receivables, to the SPT, along with their related legal rights and interests with aggregate value of about NT$ 6.00 billion. At the same time the SPT will issue three classes of trust certificates to fund the transfer. Class A and Class B certificates will be publicly offered, while Class C will be held by the originator.

The transaction has a revolving period up to three years after the deal closing, followed by an amortization period of about two years. During the revolving period, principal repayments from the receivables will be used to purchase additional eligible lease and installment receivables every month. Upon the occurrence of any early amortization triggers or after the scheduled end of the revolving period (whichever happens earlier), repayments from the receivables will be used to redeem issued notes on a sequential basis. The early amortization triggers include some general performance measures such as cumulative default rate, delinquency ratio, excess spread ratio, and performance of the servicer and trustee, according to the transaction documents.



The receivables consist of payment commitments made by obligors in relation to lease and installment contracts, based on the underlying funding targets as equipment, machinery, and raw materials that Chailease assists to fund. To be more specific, lease receivables are generally backed by equipment or machinery, while installments receivables are collateralized by raw materials or inventories. A lease and installment contract will govern the payment on a monthly basis or other payment terms as agreed between an obligor and Chailease.

All obligors have to make the scheduled payment in the form of post-dated checks and are required to issue a set of post-dated checks for the life of the receivable to Chailease when entering into the contract. All the post-dated checks will be transferred to the SPT under the title of the trust and will be collected when due. For certain receivables, obligors may be requested to provide additional collaterals to provide more protection to the creditor. In these cases, collaterals may constitute several forms including but not limited to margin principal, real estate, and chattel. The receivables, ownership of their respective funding targets, and all collaterals will be transferred to the SPT.

In addition to the payments made under the receivable contract, the SPT is also entitled to receive money from prepayments from the obligors and proceeds from the disposal of the underlying funding targets as well as collaterals.

The receivables transferred to the SPT must comply with the Eligibility Criteria of Receivables, including but not limited to certain credit quality, specific payment frequency, minimum-required yield, weighted average remaining tenor, and highest concentration of obligors, as stipulated in the transaction documents. If a receivable does not comply with the criteria but is transferred, the originator has the obligation to buy it back from the SPT.

Originator

Chailease was established in 1977 and has been the largest leasing company, in terms of asset size in Taiwan, to provide lease, installment, factoring financing and other financial services primarily to small-to-midsize enterprises over the past three decades. The company had total assets of NT$ 75.9 billion as of Dec. 31, 2013 and held about 45% of Taiwan's lease and installment financing sectors in terms of contract amount during 2013.

Risk Analysis

Credit Risk

We use the actuarial approach per the related criteria in analyzing the credit risk of this transaction. To this end, we analyzed the historical performances of Chailease's lease and installment receivables. We also conducted on-site review with the originator regarding its credit policies, underwriting and foreclosure processes, and recovery practices. We then considered the related structure risks in the transaction arrangement to form our view of the credit risk.

Our base-case loss rate assumption of the underlying receivables pool is 3.96%. This assumption is based on our analysis on Chailease' historical performance data to gauge the general default and delinquency trend, with consideration of changes in the macroeconomy as well as any adjustment of underwriting polices. In determining the base-case loss assumption of the receivables pool, we only consider the recovery from defaulted receivables' margin principals, despite the fact that the funding targets and other collaterals may provide additional recoveries to reduce the eventual loss amount. This is because most funding targets and collaterals are not standardly specified assets and their liquidated value and recovery period could be volatile when the market condition is not favorable.

With the base-case loss assumption, we then employed the stress multiples for the respective rating scenarios corresponding with each different class of notes. Furthermore, the final aggregate credit loss assumptions that we expect the rated notes be able to bear also reflect the embedded triggers that will lead the transaction into the amortization period.

Cash Flow Mechanism

The cash flow analysis evaluates the likelihood of timely payment of rated interests, on a monthly basis, and the ultimate principal repayment by the legal maturity date for the Class A and B notes.

<u>Interest Payment</u>

The Class A and B notes will be issued at par at deal closing and carry fixed-rate coupons payable every month in arrears.

The interest payments of the rated notes are supported by the money in the interest collections, composed of interest payments from underlying receivables, and interests received from eligible investment of the idle cash of the SPT after satisfying related tax items, senior fees and expenses. The principal collection and servicer transition reserve are both available to cover any shortage of rated interest payments when due.

<u>Principal Payment</u>

During the revolving period, the trustee will use the principal collections, including but not limited to ordinary principal repayment from the underlying obligors, principal recovery amounts from defaulted receivables, originator's buy-back proceeds, and funding targets' insurance proceeds, if any, to purchase new eligible receivables from Chailease. No principal collections will be used to repay the note holders in this period.

During the amortization period, the transaction will adopt the pass-through approach to distribute the principal collections as defined above to repay the Class A and B note holders every month on a sequential basis.

If there is any principal collection amount used to cover the shortfall, if any, of the senior fees, expenses and rated interest payments during the revolving or amortization period, such amounts will be replenished afterward by the interest collection amounts after satisfying certain financial obligations (from the most senior fees and expenses to the Class B notes' interest payments).

Cash Flow Analysis

We conducted cash flow analysis based on our pool default and loss assumptions under respective rating scenarios, coupon rates of Class A and B notes, available liquidity sources, and the transaction's capital structure. We also assume all underlying receivables to generate yield at 4.00% per annum, which is the minimum yield required by Eligibility Criteria of Receivables. Furthermore, transaction tax, fees and expenses are sized at the amounts according to the tax opinion, transaction documents, and general practices.

Our analysis shows that the Class A and B notes can pass the respective rating scenarios with our credit risk and cash flow assumptions. The liquidity risk in this transaction is manageable considering the following.

- The relatively high yield of underlying receivables should be able to cover the possible expenses in the payment dates. In addition, the transaction arrangement will reserve a certain amount of money in the paid-in advance ledge upon every interest payment date for the annual expense items.
- The principal repayment, mostly on a monthly basis, can cover the shortfall, if any, for the interest waterfall from the most senior expenses and fees to the interest payment of rated notes.
- At deal closing, the transaction will set aside a servicer transition reserve to cover the senior fees, expenses and rated interest payments if needed.
- When the transaction enters into amortization, the transaction will set aside an additional reserve amount based on predetermined formulas to prevent lower cash inflow (due to gradually amortized underlying receivables) from failing to meet the fixed amount of senior fees and expenses. These additional reserved amounts will be assessed based on the duration between the maturity of the last matured underlying receivables then and the beginning date of the amortization period.

Interest Rate Risk

The interest rate risk is remote in this transaction as both the asset and liability of the SPT carry fixed interest rates.

Currency Rate Risk

There is no currency risk in this transaction because the payments of interest and principal from asset and liability of the SPT are denominated in New Taiwan dollars.

Commingling Risk

Commingling risk in the transaction is manageable. This is because when a receivable is initially extended, the obligor will issue a set of post-dated checks to cover all payments during the life of the receivable. The trust will be entitled to these checks after the receivable is transferred to the SPT, and the checks will be sent out for collection from the trust account when due. Under this arrangement, it is highly unlikely the collections from the assets will be commingled with the servicer's own money. If for whatever reasons the servicer receives the payment or recovery amount from an obligor and fails to transfer such amounts to the SPT up to a certain level, this would trigger the transaction's amortization.

Set-off Risk

The set-off risk is remote because the originator is a leasing company that is not allowed to take any deposits.

Prepayment Risk

The prepayment risk is manageable because the prepayment rate of underlying receivables is low primarily due to the relatively high penalty to close out the receivables contract earlier than scheduled.

During the revolving period, the principal repayment from the receivables, no matter the scheduled ones or prepayments, will be used to invest new receivables that generate interest collections. In order to avoid that too much idle funds in the trust (when there are less eligible receivables to acquire) brings in negative carry concern, the pool will enter into the amortization period if the three-month moving average of excess spread is lower than the specific figure. During the amortization period, the principal repayment from the receivables is used to pay down the rated liabilities on a sequential basis every month. Such high payment frequency in this period could also diminish the negative carry risk.

Counterparty Risk

The counterparty risk in this transaction includes the reliance on the account bank, Land Bank of Taiwan, for cash holding and distribution, and the performance of eligible investments in which the trustee temporarily places unused cash and margin principals. The ratings on **Land Bank of Taiwan** (twAA/Stable/twA-1+) as of June 20, conditioned on the replacement arrangement upon the account bank's ratings becoming ineligible, the required rating levels for eligible replacement, and the minimum ratings of eligible investments, can support a 'twAAA (sf)' transaction, according to our criteria.

Operational Risk

The servicer, Chailease, is responsible for the day-to-day administration and ongoing servicing of the underlying receivables and for producing all reports and calculations in connection with the receivable performances.

We view the operational risk in this transaction manageable. The servicer has been in the lease/instalment industry for many years and we believe it has adequate experience, expertise, and resource for receivables collections and arrears management. In addition, the servicer transition reserve set aside at deal closing can partially mitigate the potential shortfall of senior fees, expenses and rated interest payments during the whole transaction life, if any temporary cash flow interruption happens.

Legal Risk

The transaction is structured in accordance with the Financial Asset Securitization Law of Taiwan, which provides for the establishment of the bankruptcy-remote SPT, the legally perfected transfer of assets from the originator to the SPT, and the protection of the transferred assets from the originator's creditors' and third parties' claims.

Unique Feature

When Chailease extends credits to obligors, they may be required to deposit margin principals to Chailease as the further payment protection on the receivables. If the obligors comply with the receivable contracts and make all scheduled payments on time, Chailease has to return the margin principals to the obligors, together with interests as agreed between obligors and Chailease, when the receivables mature.

When receivables are transferred to the SPT, the respective margin principals will also be transferred to the SPT. The trustee will then invest the margin principals on consecutive bank time deposits per the transaction documents, so that the SPT can have sufficient deposit interests for the interests obligations on the aforementioned margin principals when receivables are fully repaid.

The transaction also sets aside certain amounts of reserves to mitigate potential shortfalls if the deposit interests are insufficient to cover the agreed interest obligations on the margin principals. If there is still a shortfall in the agreed interest obligations after exhausting these reserves, the shortage can be covered by the interest waterfall ranked junior to the rated interests.

Standard & Poor's 17g-7 Disclosure Report

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. Taiwan Ratings Corp., as a rating affiliate of Standard & Poor's Ratings Services under its annual NRSRO filing, will also comply with the Rule for its rating analysis on all structured finance transactions.

The Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at [http://standardandpoorsdisclosure-17g7.com/2549.pdf].

Related Criteria And Research

Related Criteria

- **Understanding TRC Rating Definitions,** www.taiwanratings.com, Oct. 29, 2013
- **Counterparty Risk Framework Methodology And Assumption,** June 25, 2013
- **Asset Isolation And Special-Purpose Entity Criteria-Structured Finance,** May 7, 2013**Global Investment Criteria For Temporary Investments In Transaction Accounts,** May 31, 2012
- **Equipment Leasing Criteria: Credit Risk Evaluated In Lease-Backed Securitizations,** Sept. 1, 2004

Related Research

- **Credit FAQ: The Implementation Of Counterparty Risk Framework Methodology And Assumptions On Taiwan-Based Structured Finance Transactions,** www.taiwanratings.com, July 30, 2012
- **Credit FAQ: Credit FAQ: How Does Taiwan Ratings Corp. Analyze Asset Recovery For A Securitization Transaction,** www.taiwanratings.com, Oct. 13, 2011

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)