

Chailease 2023 Securitization Special Purpose Trust

Presale

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Preliminary Ratings As Of Oct. 31, 2023

Class	Preliminary rating	Preliminary amount (NT\$)	Credit support provided by subordination (%)
A	twAAA (sf) (prelim)	3,584,000,000	28.33
B	twA (sf) (prelim)	423,500,000	19.86
C	NR	993,006,996	N/A

NT\$--new Taiwan dollar, N/A--Not applicable, NR--Not rated. Note: This presale report is based on information as of October 31, 2023. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Profile

Profile

Expected Closing Date:	January 12, 2024
Legal Final Maturity Date:	January 12, 2031
Collateral:	New Taiwan dollar denominated lease and instalment receivables
Structure type:	Lease and instalment receivables-backed securities with revolving feature
Issuer:	Land Bank of Taiwan as trustee for Chailease 2023 Securitization Special Purpose Trust (the SPT)
Servicer:	Chailease Finance Co. Ltd.
Primary credit enhancement:	Note subordination

Supporting Ratings

Supporting Ratings

Bank account provider:	Land Bank Of Taiwan
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Initial Receivable Pool Statistics

Receivable Pool Statistics As Of September 30, 2023

Total number of contracts	494
Total receivables balance of contracts (NT\$)	5,000,506,996
Total receivables balance of lease contracts (NT\$)	129,276,156
Total receivables balance of installment contracts (NT\$)	4,871,230,840
Maximum receivables balance of contracts (NT\$)	49,746,125
Average receivables balance of contracts (NT\$)	10,122,484
Weighted average interest rate (%)	8.02
Weighted-average contract seasoning (months)	11.38
Weighted-average remaining term to maturity (months)	31.49

Rationale

We assigned our 'twAAA (sf)' preliminary rating and 'twA (sf)' preliminary rating to the Class A notes and B notes (together 'the rated notes'), respectively, to be issued by Land Bank Of Taiwan as trustee of **Chailease 2023 Securitization Special Purpose Trust** (Chailease 2023 Securitization SPT). The notes are supported by a pool of new Taiwan dollar-denominated (NT\$) lease and instalment receivables (receivables) originated by Chailease Finance Co. Ltd. The preliminary ratings assigned to the rated notes by Taiwan Ratings Corp. reflect the likelihood of the issuer to pay interest in full on time and to repay principal no later than the legal final maturity date, according to the terms and conditions of the rated notes.

Our preliminary ratings reflect the following factors.

- The credit risk associated with the underlying collateral portfolio and the credit support available under the Class A notes and B notes in the form of subordination are commensurate with our view of credit risk under 'twAAA' and 'twA' rating stress, respectively. Our assessment of credit risk also considers Chailease's (as the originator and servicer in this transaction) underwriting policy, foreclosure process, business strategy, recent historical performance of the underlying receivables, as well as transaction structure, including but not limited to the amortization triggers, revolving period, and eligibility criteria of receivables that the SPT can invest in. In addition, upon the occurrence of any trust enforcement event, such as reaching transaction legal maturity, the transaction can use any balance remaining in the liquidity reserve amount, together with the remaining underlying receivables, to repay the notes, providing additional credit support for the transaction.
- The transaction's cash flows can meet the timely payment of interest and ultimate payment of principal to the rated notes by the legal maturity date under stresses commensurate with the ratings assigned. Our rating stresses consider the scenarios including, but not limited to, the assumed default rate and recovery rate under the respective rating scenarios, stressed prepayment speed, stressed fees and expenses, as well as different default patterns. We have also performed sensitivity analysis to see how vulnerable the rated notes would be to a downgrade when the transaction's default rate is higher than our base-case assumption or the recovery rate is lower than our expectation.
- The timely payment of senior expenses/fees and the rated note coupon is first supported by the use of interest, and then if needed, principal collections from the underlying pool of receivables (i.e., principal draw), and lastly an initial liquidity reserve equal to 0.37% of the initial note issuance amount. This initial liquidity reserve will amortize due to factors such as the rated note balance that may be gradually redeemed over the transaction life, based on the pre-determined formula stipulated in the transaction document. The timely payment of senior expenses/fees is also underpinned by the additional liquidity reserve that the transaction will also set aside from the underlying interest collection during the transaction life if the revolving period ceases.
- The transaction has counterparty exposure to Land Bank of Taiwan (twAA+/Stable/twA-1+) as the bank account provider. The rating on the bank account provider, coupled with the replacement trigger of the bank account provider if the rating on it falls below a certain level, is consistent with our counterparty criteria to support the 'twAAA' rating on the rated notes. The rating requirement and replacement language of the eligible investment in transaction documents is akin to the risk as bank account provider, in our view and is also able to support the transaction.
- The operational risk of this transaction, particularly with Chailease acting as the servicer, is consistent with our operational risk criteria to support a 'twAAA' rating. Our assessment is mainly underpinned by the transaction's documented provisions regarding servicer termination and replacement, as well as Chailease's franchise value, market position, and experience.
- The legal structure of the trust, established as an SPT under the Taiwan Financial Asset Securitization Act, and the transaction structure and terms, reflects our criteria for asset isolation and insolvency remoteness.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considered the potential exposure of the transaction to ESG credit factors. Given the high level of diversity of obligors, many of which are small to mid-size enterprises (SMEs), and collateral types in the transaction, we believe the exposure to environmental and social risks is limited. In our view, the transaction has relatively higher exposure to governance credit factors, given the revolving collateral pool and the originator's more active role over the transaction's life, which exposes investors to the risk of loosening underwriting standards or potential adverse selection. To account for this risk, the transaction documents include asset eligibility criteria intended to prevent the pool's credit quality from materially deteriorating during revolving periods in addition to amortization triggers. Our analysis is based on the eligibility criteria of the receivables among other factors to capture the most stressful representation of the underlying receivables.

Strengths And Weaknesses

Strengths

In Taiwan Ratings' opinion, the strengths of the transaction as assessed by our rating analysis are:

- **Long operating history of the originator.** Chailease has been operating as the leading company in the leasing market in Taiwan for more than four decades and the underlying receivables supporting this transaction are mature products that Chailease has offered to the market for many years. Additionally, the static pool data provided to us has a clean payment history and long track record, which cover not only the originator's recent performance but also during periods of credit downturns in Taiwan.
- **Diversified pool.** The transaction is backed by the receivables mostly from SMEs and each obligor stands for just a small portion of the total outstanding balance. The eligibility criteria also stipulate a concentration limit for underlying receivables in the transaction documents, which states that the maximum receivable shall be no higher than 1% of the total portfolio balance and for the two largest obligors, the exposure should not exceed 1.2%. Based on the initial pool as of September 30, 2023, there are 494 underlying receivable contracts, and the maximum receivable represents 0.99% of the total pool balance. We view this pool as likely to become even more diversified as the SPT continues to purchase new receivables into the pool during the revolving period.
- **The experience of the servicer.** Chailease has been serving several transactions that it originated since 2007 and has accumulated sufficient experience in serving the underlying receivables, particularly in terms of the foreclosure processes on defaulted obligors.

Weaknesses

In our opinion, the weaknesses of the transaction and the corresponding mitigants identified through our rating analysis are:

- **Potential deterioration of the underlying asset credit quality during the revolving period.** The overall credit quality of the underlying receivables may be adversely affected because during the revolving period, principal collections will be used to invest in new receivables transferred by Chailease. However, the transaction documents include asset eligibility criteria intended to prevent the pool's credit quality from materially deteriorating during such period. In addition, the transaction will cease purchasing new receivables from Chailease, and accordingly enter the amortization period during which all principal collections from the receivables will be used to pay down the issued notes, if the transaction breaches its amortization triggers; for example, the performance of the underlying receivables deteriorates beyond certain levels.
- **Complex recovery sources of the defaulted receivables.** The underlying receivables may be secured by different types of collateral, including but not limited to real estate, automobiles, funding targets, and margin principal (i.e., cash deposits). The value of such non-standard collateral and the recovery period could be volatile when liquidating, which is subject to economic conditions and respective collateral liquidity. This makes them much more uncertain than other standard collateral. With this in mind, our rating scenario only considers the recoveries from margin principal to be the reliable recovery source and we assume zero recovery from other non-standard

collateral, although all of them will be transferred to the SPT and may provide additional support to the transaction if realized.

- **Potential payment mismatch between the asset and liability side.** The mismatch may occur as the payment frequency on the rated notes is monthly, while the eligibility criteria permit up to 20% of the collateral pool not making payments on a monthly basis. The potential payment mismatch is first mitigated by the relatively high yields of underlying receivables, then principal collections to meet the shortfall (if any) of senior fees, expenses, and rated interest payments, and lastly the liquidity reserve. In addition, we consider the stressed rating scenarios in our cash flow analysis, indicating that the transaction has sufficient cash flow adequacy throughout the transaction life.

Notable Features

According to Chailease's underwriting policy, it may require the obligors to provide margin principal as a further payment protection on the receivables. If the obligors comply with the receivable contracts and make all scheduled payments on time, Chailease is required to return the margin principal to the obligors, together with interest on the margin principal as agreed between the obligors and Chailease, when the receivables mature.

In the transaction, all respective collateral, including margin principal, together with the receivables, will be transferred to the SPT. The trustee will then invest the margin principal in consecutive bank time deposits per the transaction documents so that the SPT can meet its interest obligations on the aforementioned margin principal when receivables are fully repaid.

The transaction also sets aside certain amounts of reserves to mitigate potential shortfalls if the deposit interest is insufficient to cover the agreed interest obligations on the margin principal. 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 rated notes interest. Taiwan Ratings has assessed the arrangement of the margin principal investment and the time deposit rate in our analysis, which we believe are able to support the transaction. This feature remains unchanged compared with the previous deals.

Transaction Structure

This is the eighth asset-backed securitization transaction collateralized by receivables that Chailease has originated. The transaction structure largely remains unchanged compared with the previous deals. At transaction close, the originator will sell a pool of assets, composed of lease and instalment receivables, to the SPT, along with their related legal rights and interest. At the same time, the SPT will issue three classes of trust certificates to fund the transfer. Class A and Class B notes will be publicly offered, while Class C will be entirely held by the originator.

The transaction has a revolving period up to three years after transaction close, 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 instalment receivables each 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 the notes on a sequential basis. The documented early amortization triggers include some collateral performance measures such as cumulative default rate, delinquency ratio and excess spread ratio, as well as performance of the servicer and trustee.

The receivables consist of payment commitments made by obligors in relation to lease and instalment contracts, based on the underlying funding targets as equipment, machinery, and raw materials under the receivable structures. For certain receivables, obligors may be requested to provide additional collateral to strengthen the creditworthiness per Chailease's underwriting policy and risk management. In these cases, collateral may vary, including but not limited to margin principal, real

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estate, and chattel, depending on the negotiation between the obligors and Chailease. The receivables, ownership of their respective funding targets, and all collateral securing the receivables will be all transferred to the SPT. The receivable contracts will govern the payment on a monthly basis or other payment terms as agreed between an obligor and Chailease.

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 collateral.

Most of the 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. Some portion (no higher than 20% of total pool balance) of obligors will repay the receivables by directly transferring the payment to Chailease, and Chailease as servicer will have to remit the collection to the trust account within the following two business days.

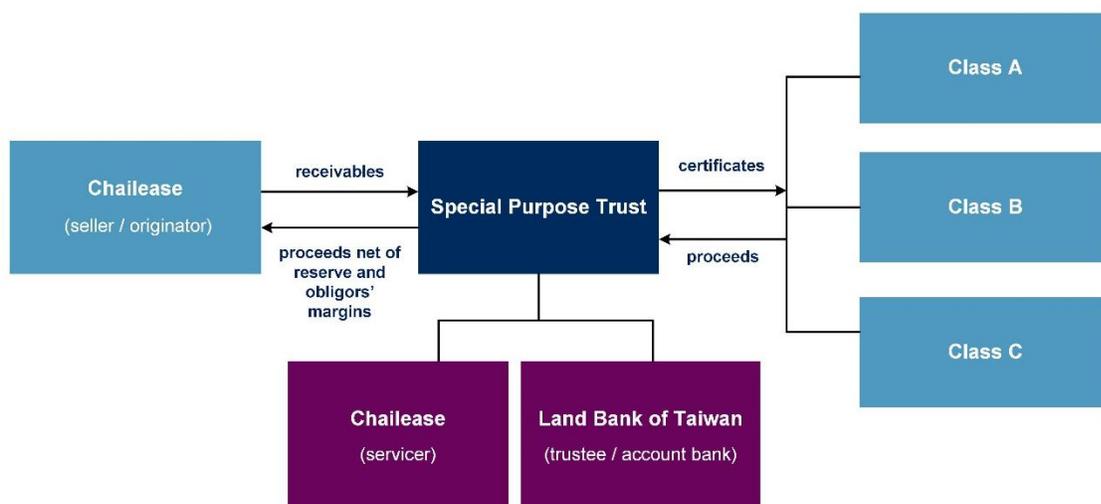
The receivables transferred to the SPT must comply with the documented eligibility criteria, including but not limited to certain credit quality satisfying the specific internal scores of the originator, specific payment frequency, minimum-required yield, weighted average remaining tenor, and highest concentration of obligors. If a receivable does not comply with the criteria but is transferred, the originator has the obligation to purchase it back from the SPT and needs to bear the related cost.

An initial liquidity reserve equal to 0.37% of the initial asset pool balance will be funded upon transaction closing to provide liquidity support to the transaction in case of need. While this initial liquidity reserve will be amortized during the transaction life, the deal will set up the additional reserve amount upon entering the amortization period by the excess spread to provide more liquidity support for the transaction. Upon a trust enforcement event, for example the maturity of the transaction, any balance remaining in these liquidity reserves will be used as one of the payment sources for the notes' principal.

The structure of the transaction is shown in chart 1.

Chart 1

Transaction Structure



Asset Segregation And Issuer's Bankruptcy Remoteness

The transaction is structured in accordance with the Financial Asset Securitization Act 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. This, together with the legal and accounting opinions, supports our view that the asset's true sale and issuer's bankruptcy remoteness in this transaction reflect our special-purpose entity criteria.

Note Terms And Conditions

Interest payment structure

The Class A and B notes will be issued at par at transaction close and carry fixed-rate coupons payable every month. Interest payments on the Class A notes rank in priority to interest payments on the Class B notes and Class C notes. Interest payments on the Class B notes rank in priority to interest payments on the Class C notes. The Class C notes have no stated coupon and will receive interest payments only after Class A and Class B notes' interest payments are fully met. Interest paid on each class of rated notes will be calculated based on the outstanding principal, which is the initial principal reduced by cumulative principal repayments on previous payment dates.

The interest payments on the rated notes are supported by the money in the interest collection account, composed of interest payments from the underlying receivables, and interest received from eligible investment of the idle cash of the SPT after satisfying related tax items, senior fees, and expenses. Principal collections and the liquidity reserve are also available to cover any shortage of senior fee/expenses and rated interest payments when due.

If there is any principal collection amount used to cover any shortfall during the transaction life, such amounts will be replenished afterwards by the interest collection amounts net of related tax items, senior fees and expenses and rated notes' interest payments.

Principal payment structure: revolving period

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 noteholders during this period. When there are insufficient eligible receivables to purchase, the remaining principal collections will stay in the trust account and become idle cash. If the idle cash continues to accumulate and cause the transaction's excess spread to drop below certain level, then the transaction will end the revolving period early and enter the amortization period.

Principal payment structure: amortization period

Once entering the amortization period, the arrangement to purchase the new receivables will cease. Instead, the transaction will adopt a pass-through approach to distribute the principal collections as defined in accordance with the transaction document to repay the Class A and B notes every month on a sequential basis. The Class C notes will receive principal payments only after Class A and Class B notes' principal is fully repaid.

Clean-up call

The originator has a clean-up call option to purchase the remaining underlying receivables from the trust if the aggregate balance of the Class A and Class B notes is 10% or less of their initial aggregate note balance. The originator may exercise its clean-up call option only if the clean-up call price for the receivable will be sufficient to repay in full the rated notes' principal and interest, as well as all fees

and expenses of the trust. Upon the originator's exercise of its clean-up call option, the notes will be redeemed and repaid in full and the trust will be terminated.

Our analysis is on the basis that the rated notes are fully redeemed by their legal final maturity date. We don't assume the clean-up call will be exercised.

Priority Of Payments

The transaction has one interest and two separate principal cash-flow priority of payments before a trust enforcement event, as well as one combined interest and principal cash-flow priority of payment after a trust enforcement event.

The interest waterfall is summarized in table 1. Under this waterfall, the interest payment for the Class A and B notes are on a sequential basis. In most cases, the excess spread, if any, will not be accumulated in the transaction account but will simply go to Class C noteholders, unless the loss rate is higher than 19.86%. If the loss rate is higher than 19.86%, the excess spread will be used to pay down the Class A and B notes on a sequential basis, which would accelerate the payment speed of the rated notes. However, due to the position of this payment in the cash flow waterfall, whereby it ranks below items we cannot size, Taiwan Ratings has not included this feature in its cash flow analysis.

Table 1

Priority Of Payment (Summarized)	
1	Taxes - to pay any taxes of the trust due under Taiwan laws that have not been paid, if any
2	Regulatory examination fee, if any, OTC and custody fee on a pari passu basis
3	Senior fees and expenses up to the capped amount
4	Class A interest
5	Class B interest
6	Replenish principal draw
7	Top up liquidity reserve to the minimum-required level
8	Set aside additional reserve to certain amount if any early amortization trigger occurs
9	Top up interest and reserve on Margin Principal Account and Interest On Margin Principal Account, if needed
10	Senior fees and expenses not covered in item 3
11	Other indemnities, costs, and expenses
12	Servicer fee
13	If the loss ratio is equal to or lower than 19.86%, the excess spread, if any, can distribute to Class C. Otherwise, the excess spread shall be deemed as the income source of principal waterfall to pay down the rated notes on a sequential basis.

Before the occurrence of a trust enforcement event, which principal waterfall applies depending on whether the transaction is in the revolving or amortization period.

The principal waterfall during the revolving period is shown in table 2 below.

Table 2

Priority Of Payment (Summarized)	
1	Cover the shortfall in interest waterfall from items 1 to 5 (i.e., principal draw)
2	Purchase new receivables from the originator
3	Balance maintained in the trust account (i.e., idle cash)

During the amortization period, the other principal waterfall will be applied, as indicated in table 3.

Table 3

Priority Of Payment (Summarized)	
1	Cover the shortfall in interest waterfall from item 1 to 5 (i.e., principal draw)
2	Class A principal
3	Class B principal
4	Cover the unpaid amount in the interest waterfall items 9 to 12
5	Class C principal
6	Class C noteholder, if any

Originator/Servicer Overview

Chailease was established in 1977 and has since been the largest leasing company in Taiwan with a market share consistently above 40% over the past four decades. The company provides a variety of financing services including leasing, instalment receivables, collateralized lending, and account receivable factoring in Taiwan, with most of its clients categorized as SMEs. The company had total assets of NT\$290 billion as of Dec. 31, 2022, and held about 51% of Taiwan's lease and instalment financing sectors in terms of contract amount in 2022. We believe Chailease can sustain its market share, supported by their industry expertise, market penetration, and brand franchise.

Chailease is fully owned by Chailease Holding Co. Ltd. with the total assets and equity of about NT\$877 billion and NT\$150 billion, respectively, as of Dec. 31, 2022. The holding company also has other subsidiaries with a long operating history in various markets including but not limited to China, U.S., Thailand, and Vietnam. The holding company has been a listed company on the Taiwan Stock Market Exchange since Dec. 13, 2011, and is under certain regulatory oversight, albeit not as stringent as for financial institutions such as banks or securities houses.

We view Chailease, like its holding company, has a comprehensive risk framework and adequate risk mechanisms including calculations of probability of default and expected losses by countries and products. The group's lending and underwriting standards depend highly on its knowledge of and familiarity with clients through close monitoring and constant onsite visits, as well as management's experience in the finance and leasing business.

We consider the potential competition on the originator's business from market players is mild, particularly for SME loans provided by local banks. This is because the characteristics of banks' SME loans are quite different from leases and installments receivables originated by Chailease. The key distinct feature, for example, is that the banks' SME loans are usually qualified for support from the government program "Small and Medium Business Credit Guarantee Fund of Taiwan", meaning that such loans are partially guaranteed by the Taiwan government in the event of a default. Nonetheless, the receivables originated by Chailease do not receive any support from such a program.

Collateral

The underlying pool backing this transaction will be composed of two types of receivables, namely lease and instalment. Around 99% of the underlying receivables are scheduled to repay their principal and interest monthly, according to the initial pool cut. We also expect such a percentage to remain stable throughout the transaction life, according to the track record of their past deals.

The composition of the underlying pool may change during the revolving period because the transaction can use principal collections to purchase new receivables from the originator during this period. Despite this, all receivables must comply with the eligibility criteria of receivables stipulated in

the transaction documents to align the newly-purchased receivables with certain standard during the revolving period. The initial collateral pool contains 494 receivable contracts originated by Chailease. The pool will become even more diversified as the deal vintages, in our view.

The nature of the revolving period may lead to significant changes in the underlying pool compared with the initial pool. Therefore, we base our analysis on the eligibility criteria of the receivables rather than the initial pool to construct the most stressful representation lines of the underlying receivables to test whether or not the rated notes can pass the cash flow tests under the respective rating scenarios.

Eligibility Criteria Of Receivables

The representations and warranties made by Chailease in respect of the receivables throughout the transaction life are defined as:

1. All receivables comply with the local regulations and are fully entitled to the originator.
2. All receivables are legally existing and follow the credit policy of the originator.
3. The originator's internal scores for the borrowers are ranged from R1 to R6 (including R6A and R6B).
4. There is no contract dispute between the originator and the borrowers.
5. The originator is the sole creditor for the receivables.
6. The originator is the only owner of the funding targets.
7. All payments of the receivables are denominated in New Taiwan dollars.
8. The outstanding amount of receivables that make interest and principal repayment through Automated Clearing House (ACH) or remittance cannot be higher than 20% of the total portfolio balance.
9. The receivable contracts specifies that the ACH authorization remains effective after receivables are transferred to the SPT, meaning that the originator can collect payment through ACH on behalf of the trust.
10. The outstanding amount of lease receivables cannot be higher than 10% of the total portfolio balance.
11. The receivables whose repayment method (inclusive of interest and principal) is on a monthly basis cannot be lower than 80% of the total portfolio balance.
12. The interest rates for all receivables are fixed and shall not be less than 4.0% annually.
13. The receivable contracts shall clearly define the repayment method except for the delinquency interest and penalty payment.
14. The tenor of receivables should not exceed 60 months after the issue day of the securitization.
15. There is no delinquent track record of underlying obligors before transferring to the SPT.
16. Repayment of principal and interest shall comply with local accounting rules.
17. The receivable contract states no restriction for transferring receivables, and receivables can be transferred without consent from the obligors.
18. Receivables are never restructured before transferring to the SPT.
19. The weighted average tenors of the instalments and leases shall not exceed 34 and 35 months, respectively.
20. Aircraft and vessels are ineligible funding targets.
21. The borrowers are required to be eligible obligors. Obligor from construction and real estate industries shall be excluded.
22. The collaterals of the receivables cannot include post-dated checks of other companies, time deposits, or stocks.
23. The receivables are not originated by the originator's micro-enterprises department or heavy-duty vehicle business sector.
24. The outstanding principal balance of each obligor should be less than 1% of the total portfolio balance. For the two largest obligors, the outstanding principal balance of each one should be less than 1.2% of the total portfolio balance.
25. The originator has issued all the up-front uniform invoices relating to the underlying receivable.

26. If receivables are backed by guarantor, the receivable contract shall contain the signature of the guarantor, or the letter of guarantee can be associated with the receivable contract and shall be deemed as part of the receivable contract.

If any of the transferred receivables does not comply with the eligibility criteria of receivables, the originator is required to purchase back the asset in the amount of the remaining outstanding principal, accrual interest, penalty and related costs.

Commingling Risk

If the servicer fails to remit the underlying cash inflow that it collects during the transaction life to the SPT accounts within the predetermined time frame based on the transaction documents, commingling risk may emerge and the investors are likely to experience delayed repayment or even losses due to such risk. However, we view the commingling risk in the transaction is largely mitigated through following structural mechanisms.

In this transaction, most of the underlying obligors (at least 80% of total pool balance per asset eligibility criteria) will issue a set of post-dated checks to cover all payments during the life of the receivable contract. The trust will be fully entitled to such checks once the asset is transferred into the SPT pool. With this, the trustee can collect payment from the obligors when due and pay money directly into the trust accounts. Under this arrangement, there is only a remote chance that the collections from the assets will be commingled with the servicer's own money.

The remainder of the obligors (up to 20% of total pool balance per asset eligibility criteria) will make payments to the servicer's account through ACH or direct remittance that may lead to the commingling loss. We, however, view that the such the risk is largely constrained by the servicer's satisfactory creditworthiness and the transaction's arrangement that the servicer is required to remit the collections to the trust account within two business days upon receipt as per the transaction documents.

The commingling risk is also mitigated by other transaction arrangements that if the servicer receives a payment or recovery amount but fails to transfer such amounts up to NT\$5 million to the SPT within the predetermined period, then this will trigger the transaction to enter the amortization period when the underlying principal collection will start to repay noteholders which will shorten the transaction life.

Set-Off Risk

We believe there is limited set-off risk for cash deposits in this transaction because Chailease is not an authorized deposit-taking institution in Taiwan. In addition, the documented eligibility criteria for the receivables include that there is no set-off ability in the contracts between the originator and the borrowers.

Counterparty Risk With Respect To The Bank Account Provider

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 principal. After our assessment of the ratings on Land Bank of Taiwan at the time we assigned the preliminary ratings for this transaction, the required rating levels for replacement, and the minimum ratings of eligible investments, we believe there is sufficient support for a 'twAAA' rating on this transaction.

Counterparty Risk With Respect To The Servicer

We believe that Chailease is highly likely to perform its obligation as the initial servicer in accordance with the transaction document throughout the deal life. However, potential replacement of the initial servicer may still happen if any of the servicer termination events are triggered, including but not limited to the servicer becoming insolvent, if the servicer fails to remit collections up to NT\$5 million to the issuer after three business days when due, or if the servicer could not remedy a breach of a material covenant that has a material adverse effect on the noteholders.

If any of the servicer termination events is trigger, the transaction will either appoint the trustee as the back-up servicer or hold the noteholder meeting to determine whether to appoint a successor servicer, subject to how severe the servicer termination event is. Regardless of which replacement approach being applied, the servicer shall continue to perform its duty before a back-up or successor servicer takes over servicing work. If there is no successor from the market to be the servicer, Land Bank of Taiwan will be the successor servicer for this transaction according to the transaction documents.

Most of the receivable payments in this transaction will be collected through post-dated checks of borrowers where the SPT will collect the money directly. For the remainder of the receivables, the servicer will receive the payments through ACH or remitted directly from the obligors, both of which are common practices across financial institutions in Taiwan. All the payment approaches are not unique ones, making it easier to find a replacement in our view.

Taiwan Ratings has also factored into its analysis a potential increase in servicer fees should a replacement servicer requires a higher return. Additionally, liquidity reserve funded upon transaction close could be used to cover about two months of transaction expenses and rated note interest if asset collections are temporarily unavailable to meet the transaction obligations. In our view, this will allow the transaction sufficient time to find a new servicer and resume asset collections.

Liquidity Support

In case the underlying interest collection is not sufficient to satisfy the timely payment of senior expenses and rated note interest, this shortfall is first supported by the use of principal collections (i.e., principal draw), and then, if still insufficient, covered by a liquidity reserve funded at transaction close by Chailease, roughly equal to 0.37% of the initial receivables balance.

The liquidity reserve is amortized per transaction arrangement. If the amount in the liquidity reserve account is higher than the minimum required reserve amount in each payment date, the surplus of this reserve will be returned to the originator. On the contrary, if the liquidity reserve amount is lower than the minimum required reserve amount in each payment date, it will be topped up by excess spread, if any.

On each payment date, the trustee may use principal collection to cover any shortfall in tax, senior fees/expenses, and interest due to the Class A and Class B notes. However, if principal collections are insufficient to cover such a shortfall, the trustee will draw funds in the liquidity reserve account to enhance the liquidity support.

When the transaction enters the amortization period, the SPT will also set aside some additional reserve amount from the excess spread, if any. The purpose of this arrangement is to mitigate the risk that the gradually amortizing underlying assets will lead to the shrinking collection amount, which in turn may not be sufficient to cover some fixed senior fee and expense items during the amortization period. Such an amount on the reserve amount is not amortized and will not be topped up once the amount reaches the reserve target per the transaction documents.

Interest-Rate Risk

The collateralized receivables carry fixed interest rates, and the interest rate is fixed on the Class A and Class B notes. As a result, there is no interest rate mismatch risk in this transaction.

Credit And Cash-Flow Analysis

Under respective rating stress scenarios, Taiwan Ratings considers a significant performance deterioration of the underlying receivables to be the primary factor affecting rating transition in this transaction. We have therefore applied our "Global Equipment ABS Methodology And Assumptions" criteria (see Related Criteria) to the credit risk analyses of this transaction.

Independent portfolio data audit report

An agreed-upon procedure is used for the independent data audit report conducted by an external party mandated by the issuer. Information provided to us for ratings analyses has been reviewed per this procedure. According to the transaction documents, the mandated accounting firm randomly selected the samples from all information provided by Chailease to conduct certain audits, including but not limited to whether the related-receivable documents exist, any inconsistency between documents and data occurs, and whether the entrusted assets meet the eligibility criteria of receivables. As a rating agency, we do not conduct separate due diligence checks on the data or information received.

Historical performance data

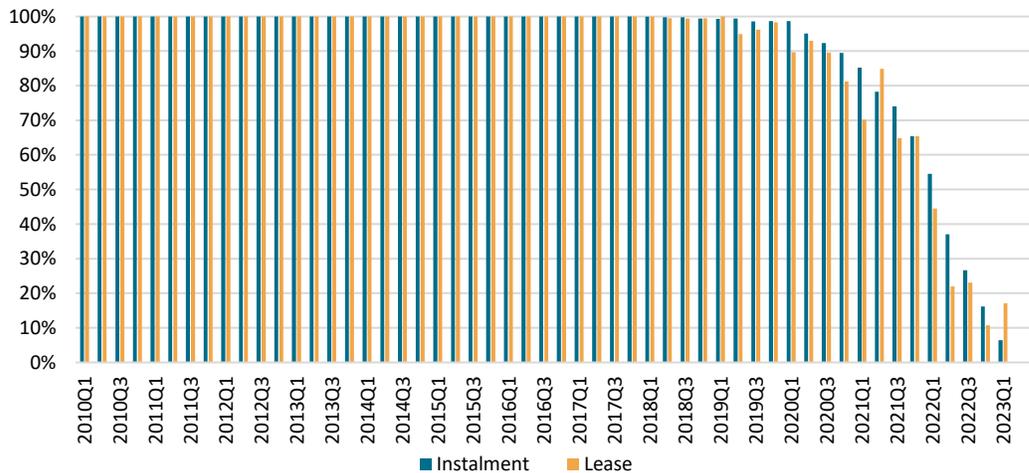
We received the following historical performance data for lease and instalment receivables originated by Chailease. The static pool data provided to us has clean payment records that not only cover the recent performance but also credit downturns in Taiwan (i.e., they have a long track record). However, we focused more on the performance data after January 2010 because we believe it is more representative, particularly in terms of the business strategy and underwriting policy.

- Static pool data grouped by product type and origination month including detailed origination amounts, repayments every month, and delinquency track every month. The data included vintage performance data from January 2006 to February 2023.
- Recovery data grouped by product type and defaulting month including detailed defaulting amount, recovery amount and source of recovery every month. The data spanned from January 2006 to February 2023.

The pay-out ratios for lease and instalment receivables for each vintage are depicted in Chart 2.

Chart 2

Chailease receivable vintage payout ratio



Presale: Chailease 2023 Securitization Special Purpose Trust

In our credit-risk analysis regarding the gross default rate, we consider all receivables overdue by more than one day to be default and used this classification to determine the base-case default frequency for each of the underlying receivable types. Our assumption is in line with practice that Chailease will generally commence foreclosure processes as long as the receivables are overdue by one day despite the fact that the company has no specific delinquency dates for the recognition of receivable defaults and losses. However, this foreclosure process is sometimes subject to a case-by-case determination, enabling Chailease in some cases to restructure the receivables in view of certain factors, including but not limited to the obligor's industry prospects, the result of on-site review, or collateral that the obligors can further provide.

In our credit-risk analysis regarding the recovery rate, we assumed margin principal (secured cash provided by obligors) as the only reliable recovery source for the defaulted receivables. This is because other recovery sources from non-standard collaterals and funding targets are not stable and even quite volatile under the stressed economic condition. Despite being not credited by us, any inflow from such the recovery source, if realized, may still provide additional support to the transaction.

We determined the pool base-case default rate and loss rate based on the worst-case portfolio combination per the documented eligibility criteria, by assuming that the pool will be composed of 90% instalment and 10% lease receivables.

Chart 3, Chart 4 and Table 4 illustrate the cumulative default experience and historical recovery rate performances of Chailease's receivable portfolio based on our assumptions of deemed default and recovery rate observed from January 2010 to February 2023.

Chart 3

Lease: Gross default rate historical performance
Receivables delinquent for more than one day

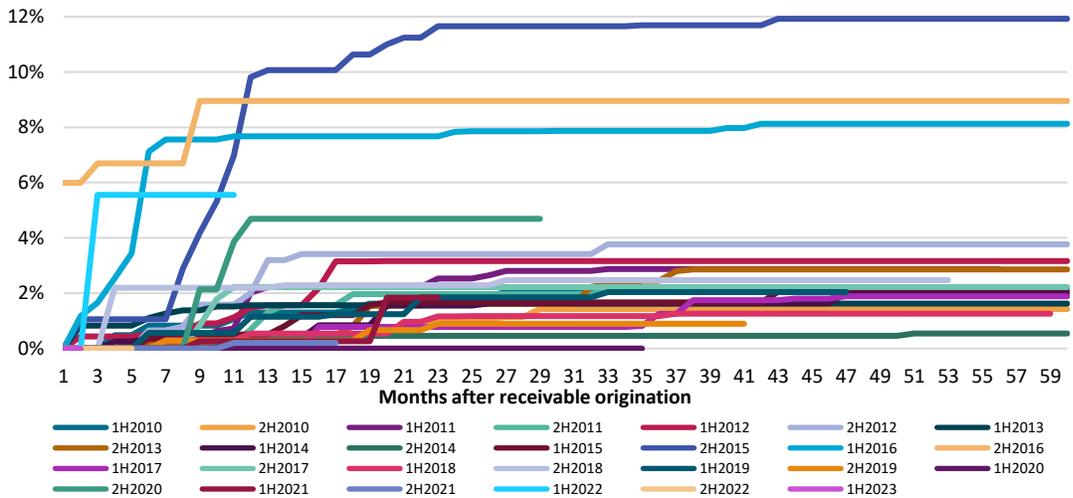


Chart 4

Instalment: gross default rate historical performance

Receivables delinquent for more than one day

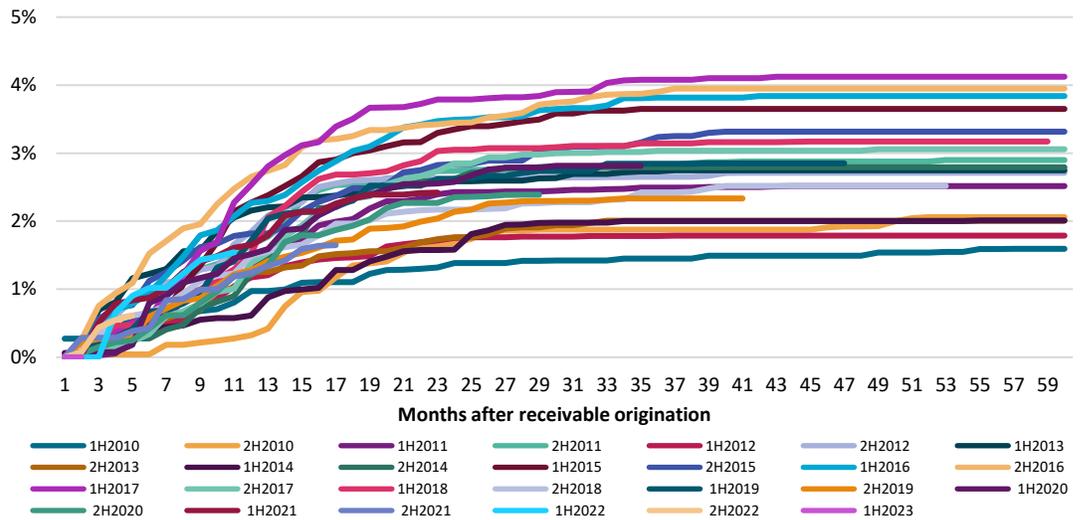


Table 4

Historical Recovery Rate Performance		
Product Type	Recovery rate by margin principal	Recovery rate by other non-standard collaterals and funding targets
Lease	16.4%	37.5%
Instalment	17.6%	45.1%

Base-case assumptions and stressed default and loss

Our base-case default assumption for the collateral pool is 6.55%, mainly based on the following factors: Chailease's business growth plan in the near future, the economic outlook in Taiwan where the underlying receivables are domiciled, historical performance for each of the two product types observed in the static pools, and the worst-case portfolio combination backing the notes per the transaction's eligibility criteria of receivables reinvestment.

We applied respective stress multiples of 4 times and 2.5 times to the base-case default percentage (6.55%) in the 'twAAA' and 'twA' rating scenarios, and the rating level default assumption would therefore be 26.2% and 16.4% respectively. The magnitude of the stress multiple that we applied reflects the rated notes' respective rating levels that mainly consider Chailease's underwriting policy, transaction structure particularly the length of the revolving period, the performances of the past seven transactions originated by Chailease, and how susceptible the receivables are to the economic downturn.

Our base-case recovery assumption for the collateral pool is 17.0%, based on our analysis of the recovery amount from the margin principal, and do not factor in other recovery sources. Since margin principal is cash deposited under SPT accounts, we do not apply any haircuts to the base-case recovery assumption. Therefore, the rating level recovery assumption will be 17.0% for both 'twAAA' and 'twA' rating scenarios.

We assume the transaction will enter the amortization period upon transaction close due to the occurrence of 6% cumulative net loss of the underlying assets, which is one of the triggers to cease the revolving period.

Our net loss assumptions during the amortization period under the 'twAAA' and 'twA' rating scenarios are 21.8% and 13.6%, respectively, considering our rating level default and recovery assumptions. The total net loss assumption during the transaction life under the 'twAAA' and 'twA' rating scenarios are 27.8% and 19.6%, respectively, incorporating the aforementioned 6% net loss assumption during the revolving period.

The large obligor default assumption per our criteria is not applicable in this transaction. We generally only incorporate this assumption if a single-obligor concentration exceeds about 1.5% of the total pool balance. In this transaction, the eligibility criteria for the underlying asset pool only allow 1.2% as the maximum threshold for the two largest individual receivable each.

The supplemental largest obligor default test per our criteria is also not applicable in this transaction because the default under such a test is lower than that based on the base-case default rate times stress multiples under the respective rating scenarios.

Table 5 shows our credit assessment summary for this transaction.

Table 5

Credit Assessment Summary		
	'twAAA'	'twA'
Revolving period: net loss (%) (a)	6	6
Amortization period: base-case default frequency (%) (b)	6.55	6.55
Amortization period: stress multiple used (X) (c)	4	2.5
Amortization period: rating level default frequency (%) (d=b*c)	26.2	16.4
Amortization period: rating level recovery rate (%) (e)	17.0	17.0
Amortization period: minimum credit support after credit to recovery (%) [(f=d*(100%-e)]	21.8	13.6
Transaction life: minimum credit support after credit to recovery (%) (g=a+f)	27.8	19.6

The credit enhancement provided for the Class A and Class B notes in this transaction is 28.33%, and 19.86%, respectively. Both levels exceed the minimum credit enhancement levels per our criteria, where for example 'twAAA' rated notes may need 3.5% for the minimum credit enhancement level as a percentage of the current balance and 1.75% for the minimum hard credit enhancement level as a percent of the current balance.

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 different scenarios correlated with a 'twAAA' rating level for Class A notes as well as a 'twA' rating level for Class B 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 levels.
- Various default amount and default timing distribution.
- Recovery period (assumed to be three months).
- 4% fixed-rate yield of underlying receivables (i.e., the minimum required yield based on eligibility criteria in the transaction documents).
- Stressed fees and expenses upon servicer transition and unexpected expenses increase.
- Different prepayment rates.

To evaluate the effect on cash flow of various pool default amounts and default timing distributions, we modeled 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 from Chailease's historical static default curves.

For the prepayment rates, we modeled three different prepayment curves. The prepayment stresses assumed include voluntary prepayments (see table 6). The high and low constant prepayment rate (CPR) are based on the adjustment on historical average CPR rate (i.e., normal CPR).

Table 6

CPR Assumption			
Months from transaction close	Normal CPR (% per year)	High CPR (% per year)	Low CPR (% per year)
1	10.0	15.0	2.0
2	10.0	15.0	2.0
3	10.0	15.0	2.0
4	10.0	15.0	2.0
5	10.0	15.0	2.0
6	10.0	15.0	2.0
7	10.0	15.0	2.0
8+	10.0	15.0	2.0

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

- The balance remaining in the liquidity reserve account on the maturity date will be deemed as one of the payment sources to redeem Class A notes and then Class B notes. This arrangement provides additional support to the transaction, and we factor in this into our cash flow analysis.
- According to the transaction arrangement, the servicer fee will not be ranked senior unless the servicer replacement occurs, and the trustee is required to perform the role of the servicer until the successor servicer of the transaction takes over. However, we assume the servicer replacement will occur upon transaction close and stress the servicer fee to the level in which we believe it will accelerate the transition period of such replacement to test if there is any impact on the transaction's cash flow adequacy.
- We assume the interest yield of the underlying receivables to be only 4.0%, which is just enough to meet the eligibility criteria. However, the average yield of the past few transactions originated by Chailease over the past 15 years has generally and consistently been higher than 7.0%. This may provide some liquidity support to the transaction if this relatively high yield continues in this transaction.
- Our assumption of minimum asset yield and stressed senior fee/expenses will reduce the cash inflow available to pay the notes' interest. In our cash flow analysis, the transaction will generally need to draw principal collections to cover the shortfall of rated notes' interest. However, the principal leakage due to principal draw can be mitigated by the subordination and the remaining liquidity reserve amounts upon the transaction maturity.

Sensitivity Analysis

In our cash flow modeling, we also consider two additional scenarios to determine how vulnerable the rated notes would be to a downgrade under each scenario:

- Scenario 1: Rating level default frequency is 25% higher than our expected level of 26.2% (i.e., 32.75%).
- Scenario 2: Rating level recovery rate are only 75% of our expected rating level recovery assumption of 17% (i.e., 12.75%).

Table 7 sets out the rating level that each class of rated notes would be under in each scenario.

Table 7

Rating Transition		
Scenario	Class A notes	Class B notes
Expected	twAAA (sf)	twA (sf)
Scenario 1	twAA- (sf)	twBBB (sf)
Scenario 2	twAA+ (sf)	twA- (sf)

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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 | ABS: Global Equipment ABS Methodology And Assumptions, May 31, 2019
- Criteria - Structured Finance - General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 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, October 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 07, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Taiwan 2023 Mid-year Outlook: GDP To Rebound Despite Global Headwinds, July 18, 2023
- Taiwan Ratings' Ratings Definitions, November 11, 2021
- Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High, September 26, 2023
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, December 17, 2016

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