

Gongyuan Yiju 2019-1 Residential Mortgage-Backed Securities (RMBS)

Ratings

Class	Amount (CNY 10,000)	Percent of Total (%)	Rating
Senior A-1	600,000.00	40.06	AAA _{sf}
Senior A-2	710,000.00	47.41	AAA _{sf}
Subordinated	187,703.87	12.53	NR
Total	1,497,703.87	100.00	—

Notes: Note: NR stands for not rated; the same below.

Analysts

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Transaction Overview

Cut-off date: 00:00 on May 1, 2019

Legal maturity date: May 26, 2037

Type of the transaction: RMBS

Type of the trust: Special-purpose trust

Underlying assets: CNY 14,977,038,700.00 worth of home mortgage loans issued by Industrial and Commercial Bank of China Limited and associated security interests (if any)

Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms

Trustor/Originator: Industrial and Commercial Bank of China Limited

Trustee/Issuer: China Resources SZITIC Trust Co.

Loan service provider: Industrial and Commercial Bank of China Limited

Fund custodian: Beijing Branch of China Construction Bank Corporation

Lead underwriter: GF Securities Co., Ltd.

Co-underwriters: Everbright Securities Co., Ltd., Bank of Communications Co., Ltd.

Rating Assigned Date:

July 25, 2019

Rationale

China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as “Lianhe Ratings”) has conducted a comprehensive credit analysis on the transaction including its underlying assets, transaction structure, legal elements, the ability of the related institutions to perform contracts, and operating risks. In addition, cash flow analysis and stress tests are performed on the underlying assets.

The underlying assets in the transaction are home mortgage loans originated by Industrial and Commercial Bank of China Limited (hereinafter referred to as “ICBC”), the trustor. The assets in the pool are not only highly diversified (a total of 56,595 loans, with the single largest loan accounting for no more than 0.06% of the pool) but also fully collateralized (a weighted average loan-to-value ratio (LTV) of 50.25%). In addition, the static pool composed of 114 issuances has a cumulative default rate¹ of 3.67%, pointing to decent credit performance. Based on the excellent quality of the underlying assets, the senior/subordinated structure with trigger mechanisms will provide enough credit support for the senior (including senior A-1 and senior A-2) securities.

ICBC, the trustor/originator of the transaction, is a leading state-owned joint stock commercial bank established with the approval of the State Council and the People’s Bank of China. As a long-time provider of home mortgages, the bank has a sophisticated risk control system and extensive loan servicing experience, enabling it to better control the quality of loans in the pool and manage the transaction in the future.

Taking all the above into consideration, Lianhe Ratings assigns AAA_{sf} to the senior (including senior A-1 and senior A-2, the same below) securities under Gongyuan Yiju 2019-1

residential mortgage-backed securities.

Strengths

1. **The underlying assets are highly diversified.** The assets in the pool include 56,595 loans with the single largest loan accounting for no more than 0.06% of the pool, so the assets are highly diversified, which is conducive to diversifying default risks.
2. **The underlying assets are fully collateralized, which increases the possibility of loan recovery in the event of defaults.** The loans in the pool have a weighted average LTV of 50.25%. This LTV ratio is low and it indicates a greater recovery rate in the event of defaults, thus assuring repayment for the senior securities.
3. **The transaction adopts a senior/subordinated structure as its main internal credit enhancement mechanism, which provides enough credit support for the senior securities.** Specifically, the senior securities receive credit support of 12.53% from the subordinated securities.
4. **ICBC, the trustor/originator of the transaction, possesses strong going-concern capabilities, a fully developed risk control system and extensive experience in loan servicing.** As a leading state-owned joint stock commercial bank, ICBC enjoys a very high long-term credit rating, and has well-developed home mortgage issuance process, risk control procedure and information management system. It has very strong capabilities to fulfill its duties as the loan service provider of the transaction.

¹When rating RMBS, Lianhe Ratings defines loans overdue for more than 90 days as default and calculates

default rates using this standard.

Concerns and Risk Mitigation

- 1. Risks associated with registration and change of mortgage rights.** For some mortgage loans in the pool, only advance-notice mortgage right registration has been completed for properties purchased, and the originator has not obtained the mortgage right for the properties registered yet, so it will pose a risk to loan recovery in the event of defaults; when transferring creditor's rights to mortgage loans, the originator hands over the associated security interests but fails to register such changes with the relevant authorities, thereby exposing itself to potential risks from bona-fide third parties.

Risk mitigation: To control such risks, the transaction documents stipulate that the originator will hold the interests under the advance-notice registration on behalf of the trustee for mortgage loans that have completed advance-notice mortgage right registration only and will complete the mortgage right institution registration in time after the institution conditions are met. The originator shall register changes in mortgage right within the prescribed time to ensure that the mortgage right is registered under the name of the trustee and cover the relevant expenses if any of the following circumstances occurs: (i) a right perfection event occurs; (ii) the loan service provider recovers a mortgage loan and claims its mortgage right or interests associated with the advance-notice mortgage right registration; (iii) the loan service provider's status as a rights holder is under question and it is unable to exercise relevant rights. Where the originator fails to complete the mortgage right institution or transfer registration formalities within the period prescribed in the transaction documents or laws and regulations, it shall take remedial measures,

such as assuming losses or making redemptions.

- 2. Potential modeling risks.** Not only many factors may affect default on loan repayment and subsequent loan recovery, but also the data supplied by the originator only covers a limited period. Therefore, the simulation methods and related data used in quantitative analysis may lead to modeling risks.

Risk mitigation: By modifying the prepayment ratio and interest spread level and simulating scenarios of concentrated defaults, Lianhe Ratings has repeatedly tested the senior securities' tolerance of defaults by loan borrowers, with an aim to minimize the modeling risks.

- 3. Interest rate risks.** This transaction will have high risk exposure toward interest rates because the senior securities have a long duration while both the home mortgage policies and the interest rate environment are uncertain.

Risk mitigation: When conducting stress tests under the cash flow model, Lianhe Ratings has devised various interest rate scenarios to measure the impact of interest spread changes on the repayment of the senior securities through repeated tests. The test results indicate that the senior securities can withstand interest rate pressure in such scenarios. Lianhe Ratings will closely monitor changes in relevant policies and their potential impact on the repayment of the senior securities.

- 4. Risks associated with uncertainties in the external economic environment.** The underlying assets in the transaction are home mortgage loans. In China, the credit quality of such loans is closely related to the development of the real estate market. The Chinese property market is still subject to macro policy changes and could be easily

affected by national policies. This means its future development faces a certain level of uncertainties.

Risk mitigation: Lianhe Ratings has incorporated risks associated with the real estate industry into its default models by raising the default ratio and allowing greater price declines. Lianhe Ratings will continue to monitor development in the property market.