

Anxin 2019-1 Residential Mortgage-Backed Securities (RMBS)

Ratings

Underlying securities	Amount (CNY 10,000)	Percent of total (%)	Rating
Senior A1	70,000.00	70.00	AAA _{sf}
Senior A2	19,600.00	19.60	AAA _{sf}
Subordinated	10,403.29	10.40	NR
Total	100,003.29	100.00	—

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

Transaction overview

<p>Cut-off date of the trusted assets: November 1, 2018</p> <p>Legal maturity date: December 26, 2030</p> <p>Type of the transaction: RMBS</p> <p>Type of the trust: Special-purpose trust</p> <p>Underlying assets: CNY 1,000,032,900 worth of home mortgage loans issued by Ping An Bank Co., Ltd. and their associated security interests</p> <p>Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms</p> <p>Originator/Trustor: Ping An Bank Co., Ltd.</p> <p>Trustee/Issuer: Ping An Trust Co., Ltd.</p> <p>Loan service provider: Ping An Bank Co., Ltd.</p> <p>Fund custodian: Shanghai Branch of China Merchants Bank Co., Ltd.</p> <p>Lead underwriter: China Merchants Securities Co., Ltd.</p> <p>Joint lead underwriters: Ping An Securities Co., Ltd., Bank of Communications Co., Ltd.</p>
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Rating assigned date:

July 31, 2019

Analysts

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Rationale

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

The underlying assets in the transaction are CNY 1,000,032,900.00 worth of mortgage loans originated and held by the Originator, Ping An Bank Corporation (“Ping An Bank”), and their associated security interests. The assets (2,299 loans in total) included in the pool of this transaction are not fully diversified compared to similar products, but its static pool has good historic credit records (with a 2.51% cumulative default rate for 142 tranches), relatively short remaining term (weighted average remaining term of the loans: ¹6.94 years), and relatively low loan-to-value (LTV) ratio (weighted average LTV ratio: ²42.54%, materially reducing risks associated with the asset pool. Therefore, the quality of the underlying assets is good overall. The senior/subordinated structure and the trigger mechanisms will provide enough credit support for the senior asset-backed securities (ABS).

Taking all of the above into consideration, Lianhe Ratings assigns the AAA_{sf} rating to the senior A1 securities and senior A2 securities of Anxin 2019-1 residential mortgage-backed securities. The rating given to the senior securities reflects that their holders are expected to receive interest on time and receive full principal repayment on or prior to the legal maturity date, and that their holders’ default risk is extremely low.

¹As defined by China Lianhe Credit Rating, in the case of securitization projects based on residential mortgage, loans for which repayment is overdue for more than 90 days are considered to be in default, and the default rate is calculated accordingly.

² LTV ratio = outstanding principal/appraised value of the collateral at loan issuance; the same below.

Strengths

1. **Good historical performance of similar assets.** The assets in the pool include 2,299 loans and the largest single outstanding loan principal accounts for 0.41% of the total value of the pool. The assets included in the pool are not fully diversified compared to similar products, but its static pool has good historic credit records (with a 2.51% cumulative default rate for 142 tranches), relatively short remaining term (weighted average remaining term of the loans: 6.94 years), and relatively low loan-to-value (LTV) ratio (weighted average LTV ratio: 42.54%, materially reducing risks associated with the asset pool. Therefore, the quality of the underlying assets is good overall.
2. **All the underlying assets are fully collateralized.** A low LTV ratio not only raises the cost of repayment default for the borrower, but also guarantees a higher asset recovery rate in the event of a default, thereby providing repayment assurance for the senior securities.
3. **The transaction adopts a senior/subordinated structure as its main internal credit enhancement mechanism and provides enough credit support for the senior securities.** Specifically, the senior securities receive credit support of 10.40% from subordinated securities.
4. **The Trustor/Originator, Ping An Bank, possesses strong operational capabilities, a fully developed risk control system and extensive experience in providing loan services.** Ping An Bank has a relatively comprehensive business process, risk control system and information management system on personal housing mortgage. It is well positioned to fulfill its duties as the loan service provider of this transaction.

Concerns and Risk Mitigation

1. **Interest rate risk.** This transaction will have

high risk exposure toward interest rates because the senior asset-backed securities have a long duration, while both housing mortgage policies and the environment of interest rate market 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 interest rate policies and its potential impact on the repayment of the senior securities.

2. **Potential modeling risks.** Not only many factors may contribute to or 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 method 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 the aim of minimizing the modeling risks.

3. **Risks associated with housing mortgages.** For some mortgage loans in the pool, only "registration of advanced-notice on mortgage right" 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 default; 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, thus exposing itself to potential

risks from bona-fide third parties.

Risk mitigation: To control such risks, the transaction documents provide that the Originator will hold the rights and interests under the advance-notice registration on behalf of the Trustee for mortgage loans that have completed “registration of advanced-notice on mortgage right” only, and complete the mortgage right institution registration within three months after the institution conditions are met. If a rights improvement event occurs, the loan service provider recovers the mortgage loans or exercises the mortgage right or rights and interests associated with the advance-notice mortgage right registration, or its status as the claimant is challenged and the loan service provider is unable to exercise related rights, the Originator should go through the formalities for modifying the mortgage right registration within the prescribed time limit, so as to make sure that the mortgage right is registered under the Trustee’s name. Costs thus incurred should be borne by the Originator. Where the Originator fails to

complete the mortgage right institution or registration modification formalities within the period prescribed in the transaction documents or laws and regulations, it will make remedies by compensating the losses or redeeming the assets.

4. **The risk of uncertainties in the external economic environment.** The underlying assets in the transaction are personal housing 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-level regulation, and could be easily affected by national policies, and 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 developments in the property market.