Credit Rating Report for Jianyuan 2019-3 Residential Mortgage-Backed Securities (RMBS)

Ratings

Class	Amount (CNY 10,000)	Percent as of Total (%)	Rating
Senior A-1	160,000.00	17.46	AAA_{sf}
Senior A-2	190,000.00	20.73	AAA_{sf}
Senior A-3	480,000.00	52.38	AAA_{sf}
Subordinated	86,465.17	9.43	NR
Total	**916,465.17**	**100.00**	—

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

Transaction Overview

Cut-off date: February 12, 2019

Legal maturity date: December 26, 2048

Type of the transaction: RMBS

Type of the trust: Special-purpose trust

Underlying assets: CNY9,164,651,700 worth of home mortgage loans that are issued by China Construction Bank Corporation and their associated security interests

Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms

Trustor/Originator: China Construction Bank Corporation

Trustee/Issuer: CCB Trust Co., Ltd.

Loan service provider: China Construction Bank Corporation

Fund custodian: Fuzhou Branch of China Merchants Bank Co., Ltd.

Lead underwriter/book runner: CITIC Securities Co., Ltd.

Co-underwriter: Bank of China Ltd., Guosen Securities Co., Ltd. and Everbright Securities Co., Ltd.

Rating Assigned Date:
April 9, 2019

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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 9,164,651,700 worth of mortgage loans originated by China Construction Bank Corporation ("CCB") and their associated security interests. Assets in the pool are highly diversified (41,138 loans in total), maintain an excellent historical performance (NPL ratio of 0.25% as of end-June 2018) and have a low weighted average loan-to-value ratio (LTV) of 49.30%[1]. Based on the excellent quality of the underlying assets, the senior/subordinated structure and the trigger mechanisms will provide enough credit support for the senior securities.

Taking all the above into consideration, Lianhe Ratings assigns AAA_{sf} to the senior securities (including senior A-1, senior A-2 and senior A-3) under Jianyuan 2019-3 residential mortgage-backed securities.

The rating on 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.

Strengths

1. **Personal mortgage loans issued by CCB have good historical performance.** As of June 2018, the NPL ratio of personal housing mortgages issued by CCB was relatively low at 0.25%. Based on CCB's five-level

[1] Loan-to-value ratio = outstanding principal/appraised value of the collateral at loan.

classification, all the loans in the asset pool are normal loans, which means the high quality of assets in the pool.

2. **The underlying assets are highly diversified and it can help disperse default risk.** Assets in the pool include 41,138 loans and the largest single loan outstanding principal accounts for 0.07% of the pool, so assets in the pool are highly diversified.
3. **All the underlying assets are collateralized and is conducive to asset disposal in the event of defaults.** Loans in the pool have a weighted average LTV of 49.30%. A low weighted average LTV indicates greater possibility to recover assets in full in the event of defaults, thus provides repayment assurance for the senior securities.
4. **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 9.43% from subordinated securities.
5. **Cross-complementarity mechanism between the trust's principal account and income account besides the trigger mechanisms will provide further assurance for the senior securities in terms of principal and interest repayment.** The cross-complementarity mechanism between the principal account and an income account can help mitigate liquidity risks associated with interest payment of the senior securities; trigger mechanisms such as default event trigger and accelerated settlement event trigger will offer further guarantee for the repayment of the senior securities.
6. **CCB, the trustor/originator, possesses strong going-concern capabilities, a fully developed risk control system, and extensive experience in loan servicing.** As a leading state-owned commercial bank, CCB enjoys a high long-term credit rating, and has a sophisticated personal mortgage loan servicing process, risk control procedure, and information management system. It has strong capabilities to fulfill its duties as the loan service provider of the transaction.

Concerns and Risk Mitigation

1. **Interest rate risks.** The term of the senior securities in the transaction is relatively long. Given the great uncertainties on China's home mortgage and interest rate policies, the transaction will face high interest rate risks.
   Risk mitigation: When conducting stress tests under the cash flow model, Lianhe Ratings has adopted various interest rate scenarios to measure the impact of interest spread changes. Test results indicate that the senior securities can withstand interest rate pressure under those scenarios. Lianhe Ratings will closely monitor interest rate policy development 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, changing interest spread level and simulating scenarios of extensive repayment defaults, Lianhe Ratings has repeatedly tested the senior ABS' default tolerance imposed by loan borrowers, in order to minimize the modeling risks.
3. **Risks associated with 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 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, thereby exposing itself to potential risks from bona-fide third parties.

Risk mitigation: Assets, for which only advance-notice mortgage right registration has been completed, make up only a small portion (5.23%) of the underlying assets in the transaction. To control such risks, the transaction documents provide 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 complete the mortgage right institution registration within 90 days after the institution conditions are met. If a trigger event occurs or the loan service provider's status as the rights holder is challenged and thus is unable to exercise relevant rights, the trustor and the trustee shall complete the mortgage right transfer registration formalities within the prescribed period. 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 will make remedies by paying the losses or via a repurchase. These remedial measures are considered effective, given the exceptionally high credit ratings of the originator.

4. **Uncertainties in external economic environment.** The underlying assets in the transaction are personal mortgage loans. In China, the credit quality of such loans is closely correlated with the development of its real estate market. The Chinese property industry is still subject to macro regulation and could be easily affected by national policies, and its future development faces a certain level of uncertainty.

   Risk mitigation: Lianhe Ratings has incorporated risks associated with the real estate industry into its default model, and will continue monitoring developments in the real estate market.