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

Ratings

Class	Amount (CNY 10000)	Percent as of Total (%)	Rating
Senior A-1	390,000.00	38.26	AAA_{sf}
Senior A-2	498,000.00	48.85	AAA_{sf}
Subordinated	131,381.94	12.89	NR
Total	**1,019,381.94**	**100.00**	—

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

Transaction Overview

Cut-off date: 00:00 on October 1, 2018

Legal maturity date: January 26, 2037

Type of the transaction: RMBS

Type of the trust: Special-purpose trust

Underlying assets: CNY10,193,819,400 worth of home mortgage loans issued by Agricultural Bank of China Limited and associated security interests (if any)

Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms

Trustor/Originator: Agricultural Bank of China Limited

Trustee/Issuer: CCB Trust Co., Ltd.

Loan service provider: Agricultural Bank of China Limited

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

Lead underwriter: CITIC Securities Co., Ltd.

Co-underwriter: China Merchants Securities Co., Ltd., Huatai Securities Co., Ltd., Guotai Junan Securities Co., Ltd.

Rating Assigned Date

February 12, 2019

Analysts

XU Yang, LI Ze, LI Kaiyan

Tel: 010-85679696
Fax: 010-85679228
Email: lianhe@lhratings.com
Address: 17/F PICC Tower, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing (100022)
Website: www.lhratings.com

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 CNY10,193,819,400 worth of home mortgage loans originated by Agricultural Bank of China Limited ("ABC") and associated security interests (if any). Assets in the pool are not only highly diversified but also fully collateralized. Both weighted average loan-to-value ratio (LTV) of 43.24% and NPL ratio of 0.29% are very low and loan payment collections are on track. 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.

ABC, the trustor/originator of the transaction, is one of China's big four state-holding banks. The bank has extensive experience in loan origination, audit and service, and is financially sound with high capital adequacy ratios and strong profitability. ABC also 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 A-1 securities and senior A-2 securities under Nongying 2019-1 residential mortgage-backed securities.

Strengths

1. **The underlying assets in the transaction are of decent quality, highly diversified and fully collateralized, which increases the possibility of loan recovery in the event of defaults.** The assets in the pool include 52,479 loans with the single largest loan accounts for 0.07% of the pool, so the assets are highly diversified. ABC's home mortgage business is developed well. By the end of June 2018, the NPL ratio for the mortgage business was 0.29%. The loans in the pool have a weighted average LTV of 43.24%. This LTV ratio is low and it indicates a greater recovery rate in the event of defaults, thus assuring repayment for the senior securities.
2. **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 12.89% from the subordinated securities.
3. **Agricultural Bank of China, the trustor/originator of the transaction, possesses strong going-concern capabilities, a fully developed risk control system and extensive experience in loan servicing.** As one of China's big four state-holding banks, ABC 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.

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 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: To control the above risks, the transaction document stipulates that if registration of changes of mortgage right or advance-notice mortgage right under the relevant mortgage loan fails to be completed within the specified period due to reasons that already existed before the effective date of the trust, the originator should redeem these mortgage loans according to the agreement; if the registration of changes of mortgage right or advance-notice mortgage right under the relevant mortgage loan fails to be completed within the specified period due to intentional or gross negligence of ABC after the effective date of the trust, the originator should take remedial measures, such as assuming losses or making redemptions.
2. **Risks associated with interest rate volatility.** As the interest rates of the loans in the pool and the interest rates of the senior securities have different adjustment range and different frequency, there are risks associated with interest rate volatility or adjustment mismatches. This transaction will have high risk exposure toward interest rates because the 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 interest rate policy development and its potential impact on the repayment of the senior securities.

3. **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 an aim to minimize the modeling risks.
4. **Changes in the real estate market and 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 industry market is still subject to macro policy changes 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 development in the property market.