Zhongying Wanjia 2019-2
Residential Mortgage-Backed Securities (RMBS)

Ratings

Name of the securities	Amount (CNY 10,000)	Percent as of Total (%)	Rating
Senior A-1	60,000.00	6.43	AAA_{sf}
Senior A-2	330,000.00	35.37	AAA_{sf}
Senior A-3	424,000.00	45.44	AAA_{sf}
Subordinated	119,084.00	12.76	NR
Total	**933,084.00**	**100.00**	—

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

Transaction Overview

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

Legal maturity date: March 26, 2039

Type of the transaction: RMBS

Type of the vehicle: Special-purpose trust

Underlying assets: CNY 9,330,840,000.00 worth of home mortgage loans that are issued by Bank of China Limited and their associated security interests

Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms

Originator/Trustor/Loan service provider: Bank of China Limited

Trustee/Issuer: CCB Trust Co., Ltd.

Fund custodian: Huaxia Bank Co., Ltd.

Lead underwriter/book runner: China International Capital Corporation Limited

Co-underwriter: China Construction Bank Corporation, Shanghai Pudong Development Bank Co., Ltd., Industrial Bank Co., Ltd.

Rating Assigned Date: May 29, 2019

Analysts

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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, 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 9,330,840,000.00 worth of personal home mortgage loans issued and held by Bank of China Limited (BoC), the Trustor, and their associated security interests. Assets in the pool are highly diversified (30,602 loans in total) and have a relatively low weighted average loan-to-value ratio (LTV)[1] of 51.01%. Based on 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, same below) under “Zhongying Wanjia 2019-2 residential mortgage-backed securities”.

The ratings on the senior securities mentioned above reflect 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 default risk is extremely low.

Strengths

1. **The underlying assets are highly diversified, which can help disperse default risk.** The assets in the pool include

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

30,602 loans with the single largest loan accounting for 0.08% of the pool, so the assets are highly diversified.

2. **All the underlying assets are collateralized, which increases the possibility of loan recovery in the event of defaults.** The loans in the pool have a weighted average LTV of 51.01%. This LTV ratio is low, which 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 and provides enough credit support for the senior asset-backed securities.** Specifically, the senior securities receive credit support of 12.76% from the subordinated securities.
4. **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 the income account can help mitigate liquidity risks associated with interest payment of the senior securities; trigger mechanisms such as triggering by "default event" and "accelerated settlement event" will offer further guarantee for the repayment of the senior securities.
5. **Bank of China (BoC), 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 commercial bank, BoC enjoys a very high long-term credit rating, and has a well-developed home mortgage backed loan extension 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. **Interest rate risk.** The senior securities in this transaction have a long duration. Given the great uncertainty of China's home mortgage and interest rate policies, this transaction will have high risk exposure toward interest rates.
   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.
2. **Potential modeling risk.** 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 risk.
   Risk mitigation: By modifying the prepayment ratio and interest spread level and simulating scenarios of extensive repayment defaults, Lianhe Ratings has repeatedly tested the senior securities' default tolerance imposed by loan borrowers, with an aim to minimize the modeling risk.
3. **Risks associated with mortgage rights.** For some mortgage loans in the pool, only advance-notice of 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: Assets for which only advance-notice of mortgage right registration has been completed make up only a small portion (7.37%) of the underlying assets in the transaction. To control such a risk, the transaction documents stipulate that for mortgage loans that have completed advance-notice of mortgage right registration only, the originator will hold the interests under the advance-notice registration on behalf of the trustee 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 take remedial measures, such as assuming losses or making redemptions. 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 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 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 model, and will continue to monitor development in the property market.