

## 2018 Annual Research Report on Asset-Backed Securities Market in China

### Overview of Chinese Asset-Backed Securities Market

- The issuance amount of asset-backed securities (“ABS”) increased significantly to RMB1,995.2 billion with year-on-year growth of RMB557.5 billion in 2018. 1,762 of the total 2,660 issued ABS were assigned credit ratings, among which ABS with ‘AAA’ ratings accounted for the highest proportion at 48.01%. Most of the ABS showed a good credit performance due to the structural credit enhancements.
- The issuance ratings of 39 ABS were downgraded in 2018 due to the high concentration of the underlying assets, poor quality of debtors, the worse-than-expected performance of asset pools and non-performance of counterparties which led to the misappropriation of transaction cashflow. The average issuance spreads of ABS with ‘AAA’, ‘AA+’, and ‘AA’ ratings were 240 basis points (“bps”), 317bps, and 360bps, respectively in 2018. The spread differences between each credit rating were significantly widened.
- Favourable policies aimed at effectively promoting the issuance of ABS were issued frequently. In addition, the regulatory authorities have continued to issue a series of regulatory documents on the standards of ABS issuance, information disclosure and risk management on duration in order to guide the rapid development of the ABS market.
- The ABS market continued to develop innovative products. The green-themed asset-backed products for state-owned companies, the Internet e-commerce supply chain ABS, and the intellectual property ABS were issued for the first time in 2018. Whereas, the regulatory supervisions intensified continuously given the growing market size and penetration of ABS products. In addition, the number of regulatory actions, regulatory penalties and penalized market entities have increased substantially.

### Outlook

- Regulatory authorities are likely to take measures to support the development of the ABS market while tightening regulatory supervisions. The house leasing and long-term apartment leasing ABS are expected to grow rapidly. We expect the regulatory authorities to continue its strong-handed regulatory actions by strengthening oversights and implementing harsher penalties to guide the development of a healthier ABS market.
- Enterprises are expected to finance through ABS actively, which may result in revitalizing stock assets and creating more first-time ABS issuers. The issuance of consumer finance ABS with underlying assets of micro loans and credit loans may decline amid the economic downturn and a subdued residential consumption capacity. We expect the residential mortgage-backed securities with highly diversified asset pools and full guarantees to be well-received by investors.

For more details, please refer to the Chinese report:

《2018年资产支持证券市场研究报告》

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