

Structured Finance Credit Rating

Structured products, also referred to as “asset securitization”, involve the creation of an asset pool consisting of underlying assets that lack liquidity but contain predictable future cash flows. The cash flows generated from the asset pool serve as the basis for repayment. Through structural designs, such as risk isolation and cash flow restructuring, credit enhancement will be achieved, enabling the issuance of asset-backed special plans in the market as structured financing.

Structured product ratings integrate the rationality analysis of future cash flows of the underlying assets with various types of protective mechanisms embedded in the particular transaction structure and apply the quantitative rating methodology to simulate and forecast cash flows under various stress scenarios. It assesses the degree of protection for principal and interest repayment for each tranche of the structured product.

The credit rating symbols and meanings of structured products for each grade are as follows:

Symbols	Definitions
AAA _{sf}	There is an extremely high degree of guarantee that the expected returns of structured products will be paid on time and the principal will be paid in full on or before the statutory maturity date, and the risk of default is extremely low.
AA _{sf}	There is a very high degree of guarantee that the expected returns of structured products will be paid on time and the principal will be paid in full on or before the statutory maturity date, and the risk of default is very low.
A _{sf}	There is a high degree of guarantee that the expected returns of structured products will be paid on time and the principal will be paid in full on or before the statutory maturity date, and the risk of default is low.
BBB _{sf}	The structured product demonstrates moderate capacity to guarantee timely payment of expected returns and full repayment of principal on or before the legal maturity date, with moderate default risk.
BB _{sf}	The guarantee that the expected returns of structured products will be paid in time and the principal will be paid in full on or before the statutory maturity date is low, and the default risk is high.
B _{sf}	The guarantee that the expected returns of structured products will be paid in time and the principal will be paid in full on or before the statutory maturity date is very low, and the default risk is very high.

CCC _{sf}	The guarantee that the expected returns of structured products will be paid in time and the principal will be paid in full on or before the statutory maturity date is extremely low, and the default risk is extremely high.
CC _{sf}	The structured product demonstrates an extremely weak capacity to ensure timely payment of expected returns and full repayment of principal on or before the legal maturity date, with an extremely high probability of default.
C _{sf}	The repayment of principal and interest on the structured product is highly uncertain, with partial or complete loss of principal and interest.
D _{sf}	Default is confirmed.

Note: Except for “AAA_{sf}” and grades below “CC_{sf}” (inclusive), each credit grade can be fine-tuned with “+” or “-” symbols to indicate a slightly higher or lower credit grade than the base grade.

The credit rating symbols and meanings of REITs structured products are as follows:

Symbols	Definitions
AAA _{pr}	The probability of investors fully recovering their invested capital on or before the legal maturity date is extremely high, with minimal impact from adverse economic conditions.
AA _{pr}	The probability of investors fully recovering their invested capital on or before the legal maturity date is very high, with little impact from adverse economic conditions.
A _{pr}	The probability of investors fully recovering their invested capital on or before the legal maturity date is relatively high, with potential impact from adverse economic conditions.
BBB _{pr}	The probability of investors fully recovering their invested capital on or before the legal maturity date is average, with potential impact from adverse economic conditions and risk of loss.
BB _{pr}	The probability of investors fully recovering their invested capital on or before the legal maturity date is relatively low, with significant vulnerability to adverse economic conditions and risk of large loss.
B _{pr}	The probability of investors fully recovering their invested capital on or before the legal maturity date depends on a favorable economic environment, with relatively high uncertainty. It is strongly affected by adverse economic conditions and could result in substantial loss.
CCC _{pr}	The probability of investors fully recovering their invested capital on or before the legal maturity date highly depends on a favorable economic environment, with huge uncertainty.
CC _{pr}	There is minimal assurance that investors will fully recover their invested capital on or before the legal maturity date.
C _{pr}	Investors are unable to recover their invested capital, with partial or total loss of the invested capital.
D _{pr}	Default is confirmed.

Note: (1) Except for “AAA_{pr}” and grades below “CC_{pr}” (inclusive), each credit grade can be fine-tuned with “+” or “-” symbols to indicate a slightly higher or lower credit grade than the base grade. (2) Currently, the above rating symbols and definitions can only apply to hold-to-maturity real estate asset securitization products.

The future cash flows of the underlying assets are structured products that can be analyzed and evaluated based on the credit ratings of one or more specific entities. Different credit rating methodologies are applied depending on the degrees of influence exerted by each specific entity.

For specific entities that directly impact the future cash flows of the underlying assets, such as (but not limited to) the specific originator, guarantor, shortfall payer, and co-obligor of the structured products, credit ratings are conducted based on their public credit ratings, rating outlooks, and rating opinions on any outstanding debt (if applicable). These issuer ratings can only be used to assess the credit enhancement of the structured product and cannot be used as a basis for evaluating other debt issuances. The rating symbols and definitions for the entities can be referenced from the long-term debt issuer credit ratings.

For entities that only partially impact the future cash flows of the underlying assets, such as (but not limited to) major debtors, general debtors, and guarantors of major debtors, shadow ratings are conducted based on their public credit ratings, rating outlooks, and rating opinions on any outstanding debt (if applicable). This process also incorporates information provided by the structured product sponsor and primary asset servicer, including basic details of the underlying assets, financial data, debt agreements, due diligence reports, and other publicly available sources. Shadow ratings do not involve comprehensive on-site due diligence or interviews with the entities. Additionally, factors such as corporate governance, strategic planning, financial policy, and support from shareholders or ultimate controllers are excluded from the evaluation. Shadow ratings are generally not disclosed publicly.

The credit rating symbols and meanings of shadow ratings are shown as follows:

Symbols	Definitions
AAA _s	The entity’s capacity to repay its debt is extremely strong, with minimal impact from adverse economic conditions, resulting in an extremely low probability of default.
AA _s	The entity’s capacity to repay its debt is very strong, with little impact from adverse economic conditions, resulting in a very low probability of default.
A _s	The entity’s capacity to repay its debt is relatively strong, with potential impact from adverse economic conditions, resulting in a relatively low probability of default.

BBB _s	The entity's capacity to repay its debt is moderate, with relatively large impact from adverse economic conditions, resulting in moderate default risk.
BB _s	The entity's capacity to repay its debt is relatively weak, with huge impact from adverse economic conditions, resulting in a relatively high probability of default.
B _s	The entity's capacity to repay its debt depends on a favorable economic environment, resulting in a very high probability of default.
CCC _s	The entity's capacity to repay its debt highly depends on a favorable economic environment, resulting in an extremely high probability of default.
CC _s	The entity has limited protection in the event of bankruptcy or restructuring, resulting in minimal assurance of debt repayment.
C _s	The entity is insolvent.
D _s	Default is confirmed.

Note: (1) Except for "AAA_s" and grades below "CC_s" (inclusive), each credit grade can be fine-tuned with "+" or "-" symbols to indicate a slightly higher or lower credit grade than the base grade.

Specifically, when the degree of credit risk influence of a specific entity in the transaction structure of a structured product on the underlying asset cash flows is no longer aligned with the quantitative rating methodology for structured products, the credit rating of the structured product at this point is the debt credit rating. The rating symbols and definitions can be referenced from the debt credit rating symbols and definitions.