

China Minsheng Bank Leads the Underwriting of Carbon Neutrality Bonds to Support Green Upgrading of Public Transport Infrastructure

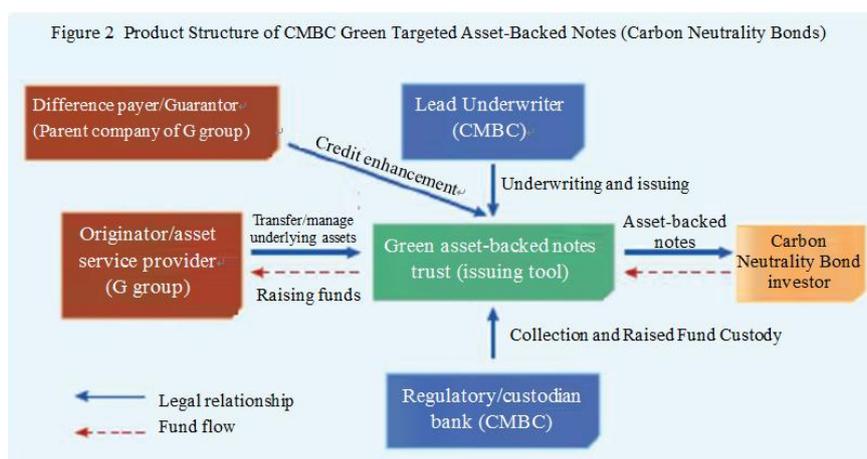
In addition to personal consumption, urban public transport and other public transportation are also important application scenarios for new energy vehicles. The G Group, a state-owned enterprise, undertakes municipal functions including the operation of urban public transport of a certain city. In 2019, its operating income from main businesses was RMB200 million, of which, income from transportation accounted for nearly 90%. The Public Transport Group, one of its wholly-owned subsidiaries, was the only state-owned public transportation service provider in the city. In recent years, as the fixed asset expenditure for purchase of new energy buses and construction of new stations and bus lanes continued to increase, the G Group planned to transfer the income from fares of 47 bus lines of the Public Transport Group for the next 8 years. The funds raised will be used to pay for the financing lease, the purchase of public transport vehicles and the replenishment of working capital, which was within the scope of clean transportation under carbon neutrality bonds.

China Minsheng Bank customized financing products for the G Group according to its operational characteristics. In the first half of 2021, the G Group's first tranche of green targeted asset-backed bills (carbon neutrality bonds) with the Bank as the lead underwriter was successfully issued in the interbank market. The bills, with a total amount of RMB270 million, were issued for a maximum term of 8 years with coupon rate of 5.50%. The issuance solved the financing difficulty of the Public Transport Group. The proceeds of the project were under the custody of the Bank, directly generating RMB270 million of general deposits for the Bank. This project harvested significant benefits for both the G Group and the Bank. The asset-backed bills were the first carbon neutrality bonds in Jiangxi Province and also the first batch of medium- to long-term asset-backed carbon neutrality bills in China.

As a subcategory of green bonds, carbon neutrality bonds emphasize that the raised funds should be earmarked for green projects in relation to energy conservation and environmental protection, pollution prevention and control, and resource conservation and recycling, and that a green assessment and certification report issued by a third-party certification agency is required before the issuance.

To solve the problems of deficits recorded in the financial statements and insufficient credit enhancement of the Public Transport Group, the G Group, with a robust financial strength, acted as the issuer of the asset-backed bills and took charge of the arrangements for necessary internal and external credit enhancement. To be specific: (1) For internal credit enhancement, the primary and secondary orders for the repayment of principal and interest of the bills were set to achieve internal credit enhancement. Cash flow of underlying assets over-covered the amount of primary repayment of the bills. Events such as "accelerated repayment", "default", "rights perfection" were set to ensure the primary repayment of the bills. (2) For external credit enhancement, the G Group was responsible for deficiency payment, cost support, and resale and redemption commitments, while the parent company of the controlling shareholder of the G Group provided guarantees. The right of bus fare collection was also pledged.

The specific product structure of the asset-backed bills was as follows: (1) The G Group established a trust plan for the income from bus fares under the transferred rights of bus fares of the Public Transport Group and transferred its legally-owned underlying assets to the trust plan. (2) The trustee took the rights from the trust property as the source benefits, and the issuer took the trust as the carrier for special purpose and issued the asset-backed bills. (3) The controlling shareholder of the G Group covered the deficiency repayment of the principal and interest of the primary bills, provided operating cost support to the Public Transport Group, and carried out resale and redemption of the primary bills. (4) The parent company of the controlling shareholder of G Group provided guarantee for the G Group in its deficiency repayment, support for operating cost, and resale and redemption of the primary bills. (5) In the duration of the bills, the G Group collected the income from bus fares to the regulatory account on a quarterly basis to repay the principal and interest. (6) China Minsheng Bank acted as the lead underwriter and the custodian and regulatory bank of the trust funds. See Figure 2 below for the details:



图片内容修改意见：

1. CMBC改为 China Minsheng Bank's, Notes改为Bills;
2. Difference payer/Guarantor (Parent company of G group) 改为 Deficiency payer/Guarantor (parent company of G Group);
3. Lead Underwriter (CMBC)改为Lead underwriter (China Minsheng Bank);
4. Originator/asset service provider (G group) 改为 Sponsor/Asset service provider (G Group);
5. Green asset-backed notes trust (issuing tool) 改为 Green asset-backed bills trust (issuing carrier);
6. Carbon Neutrality Bond investor改为Carbon neutrality bond investor;
7. Regulatory/custodian bank (CMBC) 改为 Supervision/Custodian bank (China Minsheng Bank);
8. Underwriting and issuing改为Underwriting and issuance;
9. Transfer/manage underlying assets改为Transfer/Management of underlying assets;
10. Collection and Raised Fund Custody改为Funds collection and proceeds custody.

The 318 buses in operation included in the underlying assets of this issuance were all electric new energy buses. New energy vehicles of the G Group, the issuer, accounted for 90% of its total operating vehicles, providing low-carbon transportation of 40 million person-times a year. As assessed by China Bond Rating Co., Ltd., the underlying assets of the above carbon neutrality bonds saved 23,434 tons of standard coals and reduced carbon dioxide emissions by 61,865 tons each year, showing effective implementation of the national strategies for carbon neutrality and carbon emission peaking.

Note: This case study was published with the title of *Green Finance Supports the Accelerated Development of the Whole Industry Chain of New Energy Vehicles in China Banking* (Issue 4, 2022)