Annual Report on Bank of China's 2021 Transition Bond

Bank of China's (hereinafter referred to as "BOC" or "We") Transition Bonds enables BOC to achieve its decarbonization targets of business strategy by financing and/or refinancing eligible transition projects which are in line with strategic pathways of carbon neutrality goals and strategies of the countries and regions the projects are located in. As stated in the *Bank of China Limited Transition Bonds Management Statement* (hereinafter referred to as "the Management Statement")[1], we hereby provide Annual Report on BOC's 2021 Transition Bond, disclosing the allocation of the bond proceeds as well as the expected greenhouse gas emission reductions of the Eligible Projects as of 31 December 2023.

Introduction

1. Climate Transition Strategy and Governance

BOC embodies a noble sense of duty and commitment over its long years history. As a signing institution of the UN Principles for Responsible Banking, BOC exerts its utmost to build a new financial system that is greener and more inclusive, and continuously contributes to the realisation of the national "dual carbon" goals and the UN Sustainable Development Goals (SDGs).

In 2021, BOC formulated and released the *14th Five-Year Plan for Development and Long-range Objectives Through the Year 2035 of Bank of China Limited*. BOC also successively formulated the plan for green finance , as well as the plan for inclusive finance, the work plan for development of county-level financial services and the action plan for boosting rural revitalisation, etc. in the 14th Five-Year Plan period, clarifying the action objectives in key areas.

We keep a close eye on the development goal of achieving "dual carbon" goals, adapt to the trend of sustainable development and economic transformation, and serve the development needs of the real economy. We put in place the requirements of green development, intensify the penetration of green philosophy, raise the green development awareness of all staff, and create a green development atmosphere in the whole bank. We integrate green and low carbon concepts into every aspect of our management and business activities, and have established the "BOC Green+" global brand and launched dozens of green financial products and services across five categories, covering deposits, loans, bonds, consumption and other comprehensive services.

BOC keeps refining the top level design and policy systems for green finance. Green finance gradually became our new calling card. BOC established professional green finance teams to coordinate the work on green finance. Full-time or part-time specialists were arranged in relevant departments to carry out green credit, green bonds, environmental and social risk management, carbon market services, data system construction, operational carbon neutrality and other related businesses. Domestic and overseas branches and comprehensive operation companies had set green finance departments, teams or employees in place for relevant work. To ensure the sound

[1] available at http://www.boc.cn/en/investor/ir10/

implementation of green finance strategies, BOC incorporated green development, environmental and social risk management and other factors into the assessment system for executives and employees, and allocated special-purposed resources to the green finance business to ensure the effective management of green finance.

In order to achieve these targets, as a financial institution and referring to the ICMA *Climate Transition Finance Handbook (2020)* and relevant Chinese policy documents including The Guiding Opinions on Promoting Investment and Financing in Response to Climate Change, BOC keeps following the changes in industrial development and macro policies, and actively seized green investment and financing opportunities in the low carbon and zero-carbon transformation of the real economy. For industries in restricted categories subject to key regulation of the state and industries with major environmental and social risks, we proactively formulated specific credit guidelines and implemented differentiated and dynamic credit policies as well as risk exposure management systems. BOC set the plan for the management of credits granted to industries with high energy consumption and high emissions, and examined and approved energy-intensive and high-emission projects in a prudent way. We supported production capacity replacement, green transformation, technological upgrading and the like in high-carbon industries. We guided resources towards key areas such as advanced production capacity, lower unit energy consumption, technology upgrading and transformation, intelligent and efficient operation, and guaranteed energy supply.

Additionally, BOC has signed the "Green Investment Principles for the Belt and Road Initiatives" and also serves as the co-chair of GIP working group on Transition Finance. In 2021, BOC officially signed the UN Principles for Responsible Banking (PRB), and became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). BOC actively participated in international cooperation on green development. We actively adopted global sustainability-related initiatives or principles, promoted the development of professional cooperation platforms, and participated in various forms of exchange activities on green finance, climate actions and other themes. In this way, we made our voice heard on the international stage of green finance and contributed our wisdom to its development.

2. Business Model Environmental Materiality

BOC is one of the biggest Chinese state-owned commercial banks and also the Bank with the highest degree of globalization in China. It has an extensive business and lending portfolio to clients across various geographies and sectors.

In consideration of China's goals of achieving emissions peak before 2030 and carbon neutrality before 2060, BOC believes that the future climate and environmental policies, regulatory and market environment factors will result in more severe challenges faced by traditional industries with high emissions. Therefore, the Bank pays significant attention to transition towards low-carbon or zero-carbon within these industries, and will expand BOC's transition financing to effectively reduce BOC's carbon footprint and carbon risk exposure in credit portfolios.

In order to accelerate the further transformation of industry structure of BOC's credit business, BOC formulated the *Supporting Policies of Bank of China Regarding Corporate Green Credit*. In terms of credit policies for relevant industries involving green development, we provided preferential policies for green projects, and detailed guidance and support for the development of green businesses. We opened up green approval channels for qualified green projects, allowing them to enjoy preferential credit support such as loan priorities under the same conditions. BOC

continued to allocate more credit resources to energy conservation, cleaner production, clean energy, ecological environment, green infrastructure upgrading, green services and other green industries specified in the national *Guiding Catalogue for Green Industries*.

Going forward, BOC further carries out research on Green and Low-carbon projects in growing industries and traditional industries to increase lending business in these related fields. Meanwhile, BOC sets up green financial institutions in the green finance reform and innovation pilot zones in ten localities of seven provinces and autonomous regions. These specialized institutions worked hard to innovate green financial products and provide green and low-carbon transformation plans for the pilot zones.

BOC reinforces its business guidance to domestic and overseas branches on Green and Transition Finance. For post-disbursement internal compliance inspections, the Bank focuses on the implementation of green and transition projects, also builds environmental indicators into the on-site inspection plan for BOC's corporate finance business lines.

3. Climate Transition Strategy to be Science-based including Targets and Pathways

Focusing on the national carbon peak and carbon neutrality goals, we integrated green finance into our 14th Five-Year Plan development plan, and established our "1+1+N" green finance policy system, and refined relevant policies, to guide the Bank towards deepening green finance practices on all fronts. Keenly focusing on the impacts of climate risk changes on our financial assets, we identified and analysed how physical and transitional changes of climate risks caused impacts and transmitted such impacts. The Bank performed the group's stress tests under climate risk macro scenarios, examining the effects of various factors such as temperature rises and carbon emission pricing on the credit risk associated with corporate loans.

4. Implementation Transparency

BOC takes issuing Transition Bonds as a starting point and appoints third party reviewers to verify and certify the proceeds allocation for Transition Bonds related projects and the subsequent environmental impacts. With the concept of Green and Transition Finance progressively being embedded into the Bank's overall business, BOC ensures to enhance information disclosure transparency on a wider range of Green and Low-carbon Finance, including transition finance.

Outstanding BOC 2021 Transition Bond

Transition Bonds	Issue Date	Maturity (year)	Currency	Amount (million)	CNY Equivalent Amount (million)
2021 Transition Bond	2021/1/7	3	USD	500.00	3,237.30
	2021/1/7 expired	2	CNY	1,800.00	1,800.00

2021 Transition Bond Details and Proceeds Allocation

Transition Bonds	Alignment with
2021 Transition Bond were issued in the offshore market through Hongkong Branch in January 2021. The total amount equated to CNY 5,037.30 million, and net proceeds equated to CNY 5,026.58 million. As of 31 December 2023, CNY 1,800 million was expired, and the unexpired net proceeds equated to CNY 3,228.59 million, all of these net proceeds have been utilized to fund 5 Natural Gas based Cogeneration Projects and 1 Waste Heat Recovery and Power Generation Project at Cement Plant.	Climate Transition Finance

Section breakdown of BOC 2021 Transition Bond Portfolio

As of 31 December 2023, the proceeds of BOC 2021 Transition Bond have been allocated to BOC Transition Portfolio, which were split into two sectors, i.e. the Public Utility Industry and Cement Industry. And Natural Gas based Cogeneration Projects of Public Utility Industry take up 90.54%, which is the largest part of the portfolio.

90.54%

Public Utility Industry

Natural Gas Based Cogeneration Projects

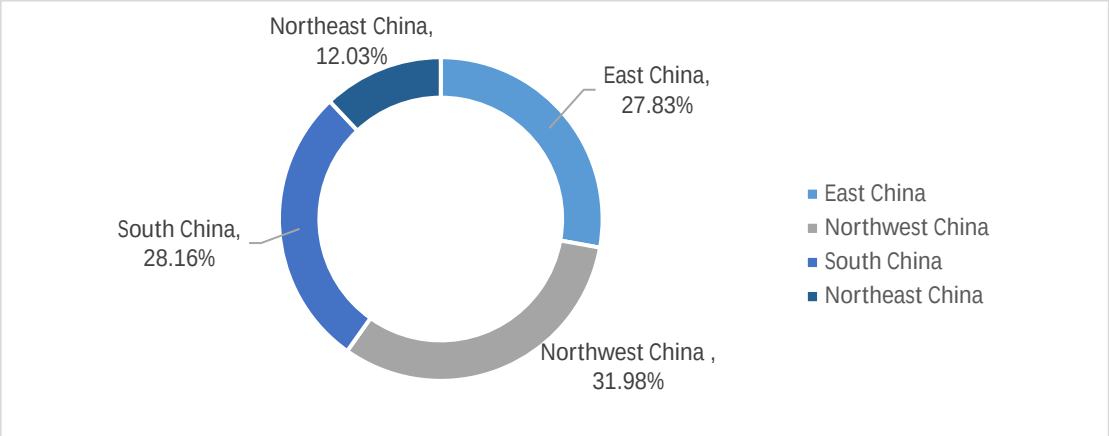
9.46%

Cement Industry

Waste Heat Recovery and Power Generation Project at Cement plant

Geographical breakdown of BOC 2021 Transition Bond Portfolio

All of the net proceeds from BOC 2021 Transition Bond have been allocated to the projects in mainland China.



Impact Reporting

The emission reductions
Due to the considerations of confidentiality for our loan clients, the environmental impact results of the transition projects are disclosed on a portfolio basis. For each of the indicators in the table, the project-by-project results include only the pro-rated share (as a percentage of the issuer's share of the total financing) of the total projects' results; these individual pro-rata project impacts are then aggregated to indicate the overall impact of the funded projects in a certain category[2].
The emission reductions are calculated as:
For Natural Gas based Cogeneration Projects, the emission reductions are calculated based on the UNFCCC CDM methodology AM0107 New Natural Gas Based Cogeneration Plant (version 4.0)[3]. Noted by * in the table below.
For Waste Heat Recovery Projects, the environmental impact is calculated based on the UNFCCC CDM methodology ACM0012 waste energy recovery (version 6.0)[4]. Noted by ** in the table below.

Below show the expected emission reductions in detail.

Public Utility Industry (Natural Gas based Cogeneration Projects)	Allocated amount (CNY million)	Annual GHG emissions reduced* (CO_2 tons)
	2,923.07	244,300.97

Cement Industry (Power Generation Projects at Cement Plants)	Allocated amount (CNY million)	Annual GHG emissions reduced** (CO_2 tons)
	305.52	8,169.50

[2] Due to the fact that some projects are still under construction and some data were not sufficiently available，the environmental impact data in this report only includes some projects.
[3] Available at https://cdm.unfccc.int/methodologies/DB/LNCA9RBFUK6S53W1CDLHM9TASAEP48
[4] Available at https://cdm.unfccc.int/methodologies/DB/FXBXLVGFF4DLI5WC1PKFW7KBRW62QB

Use of Proceeds

BOC selected eligible projects based on the countries or regions where the projects are located and the relevant national and regional pathways of achieving carbon neutrality ultimately, the principle of best practice including the data availability of eligible projects in each country and region, EU Taxonomy transition activity classification and relevant measurable quantitative indicators as thresholds (if any).

All the net proceeds raised from Transition Bonds were used for financing or refinancing of eligible projects set out in the below section, including but not limited to supporting acquisition, research and development, manufacturing, construction, equipment operation and/or maintenance, procurement and installation of equipment and related facilities. Proceeds unallocated to eligible projects will be managed in accordance with the approach described in the "Management of Proceeds" section.

Based on the two principles of “Avoidance of Carbon Lock-in” and “Do No Significant Harm” and the list of “Explicitly Excluded Projects”, eligible projects include:

1. Projects in the Public Utility Industry:

a) Project Categories
• Production of Electricity from Gas (including but not limited to natural gas) • Cogeneration of Heat/Cool and Power from Gas (including but not limited to natural gas) • Production of Heat/Cool from Gas (including but not limited to natural gas)
b) Eligibility Criteria and Project Examples
• Power generation, cogeneration, heating or cooling using natural gas • Improvement of energy efficiency of natural gas power generation, cogeneration, heating or cooling • Maintenance and technical upgrade of natural gas pipelines to reduce and prevent gas leakage, and to prepare for the integration of using hydrogen or other low carbon gases (construction and expansion of natural gas pipelines are excluded) • Carbon capture and storage technology for energy systems • Research and development of technologies that can reduce the carbon intensity/energy consumption of natural gas power generation, cogeneration, heating or cooling
c) Quantitative Indicators and Eligibility Thresholds (including but not limited to)
Projects located in China: • Carbon emission to be below the national average of 72.8 tons CO2/TJ of natural gas consumption Projects located in the EU: • To comply with the requirements of the EU Taxonomy, including carbon emissions of natural gas power generation and cogeneration to be below 100 grams of CO2e/kWh Projects located in other regions: • Reference to relevant local towards low-carbon or zero-carbon transition policies and guidelines (if any)

2. Project in Cement Industry:

a) Project Category
• Manufacture of Cement
b) Eligibility Criteria and Project Examples
• Reduction of the clinker-to-cement ratio (including but not limited to the production of blended cement) • Furnace heating using natural gas • Improvement of energy efficiency of clinker production (including but not limited to the use of automation systems to optimize kiln operation and clinker production) • Recovery and utilization of waste heat energy (including but not limited to power generation using waste heat) • Carbon capture and storage technology for the cement industry • Research and development of technologies that can reduce the carbon intensity/energy consumption of cement production
c) Quantitative Indicators and Eligibility Thresholds (including but not limited to)
Projects located in China: • Clinker-to-cement ratio to be below the national average of 0.64 (if applicable) • To meet the State Council's latest environmental targets, such as the "13th Five Year Plan" 2020 target value of energy consumption of cement clinker production to be 105 kg standard coal/ton (equivalent to 3.07 GJ/ton) or lower (if applicable) Projects located in the EU: • To comply with the requirements of the EU Taxonomy, including carbon emissions from clinker production to be below 0.766 tons of CO2e/ton of cement clinker Projects located in other regions: • Reference to relevant local towards low-carbon or zero-carbon transition policies and guidelines (if any

3. Projects in Aluminium Industry:

a) Project Category
• Manufacture of Aluminium
b) Eligibility Criteria and Project Examples
• Reduction of carbon emission/energy consumption of aluminium refining and smelting • Collection and recycling of scrap aluminium, and utilization of aluminium scrap for aluminium reproduction • Aluminium manufacturing using natural gas-generated electricity • Recovery and utilization of waste heat energy • Research and development of technologies that can reduce carbon intensity/energy consumption of aluminium production
c) Quantitative Indicators and Eligibility Thresholds (including but not limited to)
Projects located in China: • Aluminium refining and processing energy consumption to be below the national average of 11,525 MJ/ton (if applicable) • To meet the State Council's latest environmental targets, such as the "13th Five Year Plan" 2020 target value of electricity consumption of aluminium smelting is to be 13,200 kWh/ton or lower (if applicable) Projects located in the EU:

• To comply with the requirements of the EU Taxonomy, including carbon emissions of aluminium production to be below 1.514 tons of CO2e/ton of aluminium Projects located in other regions: • Reference to relevant local towards low-carbon or zero-carbon transition policies and guidelines (if any)

4. Projects in Steel Industry:

a) Project Category
• Manufacture of Iron and Steel
b) Eligibility Criteria and Project Examples
• Reduction of carbon emissions/energy consumption during steel processing (including but not limited to the use of hydrogen and biomass as reducing agents) • Collection and recycling of scrap iron and steel, and utilization of scrap iron and steel for steel reproduction • Furnace heating with natural gas (including but not limited to natural gas) • Recovery and utilization of waste heat energy (including but not limited to recovery and utilization of waste heat energy during sintering and dry quenching) • Carbon capture and storage technology for the steel industry • Research and development of technologies that can reduce carbon intensity/energy consumption of steel production
c) Quantitative Indicators and Eligibility Thresholds (including but not limited to)
Projects located in China: • To meet the State Council's latest environmental targets, such as the "13th Five Year Plan" 2020 target value of energy consumption per ton of steel to be 560 kg standard coal/ton (equivalent to 16.37 GJ/ton) or lower Projects located in the EU: • To comply with the requirements of the EU Taxonomy, including carbon emission of hot metal production to be below 1.328 tons CO2e/ton iron Projects located in other regions: • Reference to relevant local towards low-carbon or zero-carbon transition policies and guidelines (if any

5. Projects in Fertilizer Manufacturing Industry:

a) Project Category
• Manufacture of Fertilizers and Nitrogen Compounds
b) Eligibility Criteria and Project Examples
• Fertilizer manufacturing using natural gas • Equipment maintenance and technological upgrades to improve raw material management and reduce gas leakage • Use lower carbon and clean technologies and methods to produce fertilizers (including but not limited to renewable electrolysis, biomass gasification) • Research and development of technologies that can reduce the carbon intensity/energy consumption of fertilizer manufacturing
c) Quantitative Indicators and Eligibility Thresholds (including but not limited to)
Projects located in China:

- To meet the State Council's latest environmental targets, such as the "13th Five Year Plan" 2020 target value of energy consumption of synthetic ammonia production to be 1,300 kg standard coal/ton (equivalent to 38.01 GJ/ton) or less Projects

located in the EU:

- To comply with the requirements of the EU Taxonomy, including carbon emission of nitric acid production to be below 0.302 tons of CO2e/ton of nitric acid, and the carbon emission of ammonia production to be below 1.3 tons of CO2e/ton of ammonia

Projects located in other regions:

- Reference to relevant local towards low-carbon or zero-carbon transition policies and guidelines (if any)

Note: The locations of the above natural gas related eligible projects are limited to countries and regions where natural gas is currently considered as a part of the local energy transition trajectory in International Energy Agency's Sustainable Development Scenario, such as China.

The Principle of "Avoidance of Carbon Lock-in"

Along with the global progression in transition towards low-carbon or zero carbon, BOC closely follows the latest transition standards and policy guidelines towards low-carbon or zero-carbon in each country and region, regularly evaluates the local threshold selection criteria for projects, and phases out ineligible or out-of-dated transition projects to avoid the proceeds raised from Transition Bonds "locked-in" such projects. By referring to the decarbonization pathway of the countries or regions where the relevant projects are located, and actively responding to the development and deployment of decarbonization technologies, BOC strives to fund projects which ultimately contribute to achieving carbon neutrality target.

The Principle of "Do No Significant Harm"

In addition to making substantial contributions to climate change mitigation and adaptation, BOC applies the principle of "Do No Significant Harm", namely, to do no significant harm to other important environmental goals such as water and marine resources, pollution prevention and control, biodiversity, and meet the social safeguard requirements set by local laws and regulations of the countries or regions where the relevant projects are located. Therefore, under the premise of meeting the threshold of the aforementioned project categories, each project obtains, for instance, feasibility study report and approval, environmental impact assessment report and approval, energy conservation assessment report, soil and water conservation report, or other compliance documents, in order to meet the requirements for eligible projects.

Explicitly Excluded Projects:

- Coal related projects, including clean coal power generation or other higher efficiency coal plant technologies (e.g. subcritical or supercritical to ultra-supercritical technology for coal plants)
- Biofuels, biogas or biomass which utilize food crops as sources
- Nuclear related projects
- Mining and quarrying related projects
- Luxury services or goods related projects, such as clubhouse operation
- Alcoholic beverages related projects
- Gambling and predatory lending enterprises related projects
- Tobacco and tobacco-related products related projects

- Weapons and ammunitions related projects

Process for Project Evaluation and Selection

BOC follows the procedures below, to evaluate and select the Eligible Projects:

- Preliminary Screening

Domestic and overseas branches of BOC conduct a preliminary screening of potential projects in accordance with the criteria and standards set out in BOC's internal regulations and the Eligible Project categories as described in the "Use of Proceeds" section, and form a list of nominated projects which are submitted to the Headquarter for review.

- Review and Approval

The Headquarter reviews each of the nominated projects for approval as Eligible Projects. The approved projects form an Eligible Project list.

- Update and Maintenance

BOC's Headquarters shall review the Eligible Project List on a quarterly basis and determine if any change(s) is necessary (for example, if a project has become ineligible due to amortization, prepayment, sale or other reasons). If such change(s) is necessary, the Headquarters shall organize domestic and overseas branches to nominate new projects and approve the eligible ones to replace projects that have become ineligible due to amortization, prepayment, sale or other reasons.

Management of Proceeds

BOC allocates the proceeds of the Transition Bonds to the eligible projects across various domestic and overseas markets via BOC's global network. BOC has established an effective mechanism to manage the proceeds, ensuring that the proceeds raised from Transition Bonds will be corresponded to the eligible projects

- Planning for Use of Proceeds

Prior to the issuance of Transition Bonds, BOC developed the preliminary Eligible Project List as per "Process for Project Evaluation and Selection" section in the Statement, to ensure that proceeds raised from Transition Bonds can be allocated to the eligible projects.

- Management of Separate Ledger

BOC records the source and allocation of proceeds in a separate ledger to ensure that all the net proceeds of the Transition Bonds are used to fund Eligible Projects. The ledger contains detailed information of the funding source (including the issue amount, the coupon rate, the issue date and the maturity date of the Transition Bonds) and the capital allocation (including the project name, the borrower description, the project category, the balance, the release date, the repayment date, the relevant FX rate and the interest rate of the loan). BOC reviews and updates the ledger on a quarterly basis. Any proceeds allocated to the projects that have amortized, been prepaid, sold or otherwise become ineligible shall be reallocated to newly nominated and approved Projects.

- Use of Unallocated Proceeds

Unallocated proceeds hasn't been invested in greenhouse gas (GHG) intensive, highly polluting, energy intensive projects nor projects with negative social impacts (including but not limited to "Explicitly Excluded Projects"). The

unallocated proceeds could be temporarily invested in Green or Transition Bonds issued by non-financial institutions in domestic or international capital markets, and in money market instruments with good credit ratings and market liquidity, or kept in cash until they are allocated to eligible projects.

Reporting

As long as the Transition Bonds are outstanding, BOC will make disclosure in relation to the allocation of the proceeds and the environmental and/or social impacts of the funded Eligible Projects on an annual basis on its official website (http://www.boc.cn/en/investor/ir10/) when the Transition Bonds remain outstanding. BOC is committed to ensuring the transparency of information disclosure in accordance with the best practices recommended by the ICMA. The contents to be disclosed annually include but not limited to:

- Annual report of the Transition bonds, where the content includes but not limited to the following proceeds allocation and environmental impacts information:
  - A brief description of the eligible projects where the proceeds were allocated, and breakdown in terms of amount and percentage allocated to each of the categories
  - The unallocated proceeds and how they are invested temporarily
  - Appropriate case information of the selected Eligible Projects
  - The environmental benefits of each category of the eligible projects where the proceeds were allocated
- An assurance report for the annual report issued by a qualified third party.
- An assurance report for the use of proceeds issued by a qualified third party.

2021 Transition Bond

Table 1 Detailed Information of 2021 Transition Bond

ISIN code	Currency	Tenor (year)	Coupon type	Amount (million)	CNY Equivalent Amount (million)	FX rate	CNY Net Amount (million)
XS2279870575	USD	3	Fixed	500.00	3,237.30	6.4746	3,228.59
Total							3,228.59

Table 2 Proceeds Allocation in Terms of Category

Category	Allocated amount (CNY million)	Number of Projects	Proportion
Natural gas based cogeneration project	2,923.07	5	90.54%
Waste heat recovery and power generation project at cement plant	305.52	1	9.46%
Total	3,228.59	6	100.00%

Table 3 Proceeds Allocation in Terms of Location

Location	Allocated amount (CNY million)	Proportion
East China	898.55	27.83%
Northwest China	1,032.52	31.98%
South China	909.06	28.16%
Northeast China	388.46	12.03%
Total	3,228.59	100.00%

Table 4 Environmental Impact

Public Utility Industry (Natural Gas based Cogeneration Projects)	Allocated amount (CNY million)	Annual GHG emissions reduced* (CO_2 tons)
	2,923.07	244,300.97

Cement Industry (Power Generation Projects at Cement Plants)	Allocated amount (CNY million)	Annual GHG emissions reduced** (CO_2 tons)
	305.52	8,169.50

Example

• A Natural Gas based Cogeneration Project located in South China. The project is equipped with 2×400MW gas-steam combined cycle cogeneration units. In 2023 the project supplied 4,881,800 MWh to the grid which will result in the CO_2 emissions reduction of about 638,103 tons. The Bank's loan accounted for approximately 15.10% of the total project investment, which reduced CO_2 emissions of 96,345.63 tons in 2023.

• A Waste Heat Recovery and Power Generation Project at Cement Plant located in Northwest China. The project is equipped with a pure low-temperature waste heat recovery and power generation system with the installed capacity of 15 MW on one clinker line. In 2023 the project delivered 76,170 MWh electricity which will result in the CO_2 emissions reduction of 47,175 tons. The Bank's loan accounted for approximately 17.32% of the total project investment, which reduced CO_2 emissions of 8,169.50 tons in 2023.

Bank of China Limited
12 April 2024