

Bank of China Limited

Transition Bonds Management Statement

Bank of China Limited (“BOC” or “the Bank”) is responsible for the preparation and fair presentation of this Transition Bonds Management Statement (the “Statement”).

In September 2020, China announced that it will strengthen its policies and measures to promote Green and Low-carbon development, striving to reach carbon emissions peak before 2030 and carbon neutrality by 2060. China will facilitate global climate governance and will contribute towards the achievement of the Paris Agreement through enhancing its Nationally Determined Contributions. BOC recognizes the significant importance of green finance for its long-term business development and progressively integrates “Green and Low-carbon Finance” into the Bank’s overall sustainable development strategy. While firmly developing the green finance business, BOC also leverages its financial tools and expertise to support transition activities towards low-carbon or zero-carbon in China and across the world. Not only does BOC work to reduce carbon emissions associated with its own business operations, BOC furthermore supports the traditional industries in the transition pathway towards low-carbon or zero-carbon through financing business.

“Green and Low-carbon Finance” in this Statement is referred to as encompassed of: (A) Green finance which aligns with international market accepted principles and standards, (B) Transition finance which aligns with international guidelines or standards, namely, in accordance with the respective

national and regional pathways of achieving carbon neutrality ultimately, and transition finance which covers projects for the reduction of pollution and emissions from traditional industries through technical retrofits and equipment upgrades towards low-carbon or zero-carbon.

As such, BOC's publication of this Statement, which includes the section of "Alignment with *ICMA Climate Transition Finance Handbook (2020)* Disclosure Recommendation", illustrates BOC's commitment to contributing to global climate transition as well as BOC's endeavor in continuous optimization of its own climate transition strategy and relevant disclosure efforts.

Purpose

This Statement has been prepared to demonstrate BOC will issue Transition Bonds (A) in line with the *ICMA Climate Transition Finance Handbook (2020)* disclosure recommendation on issuers' transition activities, (B) in alignment with the four pillars of relevant ICMA principles¹, (C) as well as in consideration of the climate change mitigation transition activity classification as defined in the *TEG Final Report on the EU Taxonomy*, and including the principles of "Avoidance of Carbon Lock-in" and "Do No Significant Harm", to fund eligible transition projects which are in line with strategic pathways of carbon neutrality goals and strategies of the countries or regions the projects are located in.

Assertions from the Management

BOC's management hereby asserts that it will perform disclosures in line with

¹ For example, *ICMA Green Bond Principles 2018 (GBP)*

the *ICMA Climate Transition Finance Handbook (2020)*, and: (A) disclose the intended eligible projects categories in the “Use of Proceeds” section, (B) establish a thorough internal process for “Project Evaluation and Selection”, (C) establish an appropriate tracking process for the “Management of Proceeds”, (D) annually perform and keep readily available up-to-date report on the proceeds allocation and the environmental impacts of the eligible projects.

Alignment with ICMA Climate Transition Finance Handbook (2020) Disclosure Recommendation

BOC has considered below four disclosures in accordance with the *ICMA Climate Transition Finance Handbook (2020)* disclosure recommendation, in order to raise market awareness of BOC’s Green and Low-carbon Finance strategy which includes transition finance, relevant internal governance and management, business achievement, applicable credit policy and planning in the future, information disclosure planning and, as a financial institution, BOC’s credit service mechanism for helping corporate clients to achieve decarbonization strategy and targets.

1. Climate Transition Strategy and Governance

In the course of its development over a century, BOC has always taken social responsibilities seriously. In recent years, BOC has been increasingly playing an active role in China’s decarbonization steps towards carbon neutrality and global transition towards low-carbon or zero-carbon. BOC has already embodied green finance into the Bank’s overall strategy, and going forward it will further integrate “Green and Low-carbon Finance” into the Bank’s overall development

strategy.

In 2019, BOC formulated a bank-wide “Bank of China Green Finance Development Plan” (the “Plan”) and incorporated the philosophy of advancing Green and Low-carbon Finance into the Bank's “14th Five-Year Development Plan”. Based on the Plan, a detailed roadmap has been formulated in various business areas such as Green and Low-carbon credit, green bond underwriting, green bond investment, etc.

BOC continuously strengthens the leadership role of the Board of Directors and the management in Green and Low-carbon Finance business. In order to monitor the implementation of the Plan, a Green Finance Management Committee (the “Committee”) has been established to coordinate the management and decision-making of Green and Low-carbon Finance of the whole group. The Committee is chaired by senior executive members, with more than 10 departments at the Headquarters serving as permanent members, such as, Credit Management Department, Corporate Finance Department, and Asset and Liability Management Department, etc. The Committee reviews and reports the Bank’s Green and Low-carbon Finance progress against the Plan to the Board of Directors annually, and is responsible for the strategic direction and implementation plan for the year ahead. Meanwhile, every newly appointed director is required to attend separate training on Green and Low-carbon Finance provided by professional external training institutions.

The decarbonization targets of BOC’s business strategy are in full alignment with China’s goals of reaching carbon emissions peak before 2030, and achieving carbon neutrality before 2060.

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*, **firstly**, BOC will further expand green lending, referring to the Green and Low-carbon transition related technical standards and requirements specified in loan's project report, environmental assessment report, and regulatory approval filings, then further clarify the Green and Low-carbon transition benchmarking standards in the full working process including credit approval, post-loan management, etc. **Secondly**, BOC will increase credit support in transition projects towards low-carbon or zero-carbon, such as technological transformation of traditional industries. When it comes to the selection of the Green and Low-carbon projects including transition finance, BOC will focus on the domestic steel, cement, electrolytic aluminum and other "two high and one overcapacity" (i.e. high pollution, high energy consumption and overcapacity) industries, and follow the principles of commercialization and sustainability to guide the clients in such industries to achieve their decarbonization targets as per relevant processes and technologies, and maximizing environmental and social benefits, hence actively promoting companies to achieve their own climate transition goals and strategies. Meanwhile, BOC aims to contribute to the realization of the United Nations Sustainable Development Goals (the "Goals"), including but not limited to Goals 7 (Affordable and Clean Energy), Goals 9 (Industry, Innovation and Infrastructure) and Goals 13 (Climate Action).

Additionally, BOC has signed the "Green Investment Principles for the Belt and Road Initiatives" and also serves as the co-chair of the green financial product

innovation working group. BOC is in the meanwhile a member of the ICMA Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines Advisory Council. BOC will proactively strengthen international cooperation with professional organizations that advocate Green and Low-carbon Finance, to collectively drive the realization of the goals set in the Paris Agreement.

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 as well as integration 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.

BOC's Corporate Finance Department, Credit Management Department and Credit Approval Department jointly established the Whitelist for Green and Low-carbon projects to provide differentiated support in pricing, scale, EVA ("Economic Value Add"), and other performance indicators, as well as in

resource allocation.

With the ongoing development of relevant climate policies in China and globally, BOC will continue to expand the Green and Low-carbon credit business and increase its share within the Bank's overall loan portfolio.

As of the end of September 2020, BOC's domestic corporate green credit balance denominated in both RMB and foreign currencies totaled over RMB 800 billion equivalent, representing an increase of over 10% comparing to the beginning of this year, faster than the overall loan growth rate of the Bank, and accounting for over 12% of the Bank's gross loan book, which is slightly higher than the number at the previous year end. At the same time, BOC's exposure to coal and five other industries with severe overcapacity² was RMB 262.0 billion with growth rate of 0.94%, 8.13 percentage points slower than the overall loan growth rate of the Bank, only accounting for 4.12% of BOC's overall loan assets.

In order to accelerate the further transformation of industry structure of BOC's credit business, BOC has been actively promoting the formulation of credit policies for energy conservation and environmental protection sectors, and improved the Green and Low-carbon credit policy system this year. Meanwhile, BOC has been expanding the business opportunities on eligible Green and Low-carbon projects in several categories such as municipal sewage treatment, garbage treatment, solid waste treatment, industrial water treatment, flue gas treatment, energy-saving technological transformation, etc.

² Namely, steel industry, cement industry, electrolytic aluminium industry, flat glass industry, shipbuilding industry

Going forward, BOC will further carry out research on Green and Low-carbon projects in growing industries and traditional industries to increase lending business in these related fields. Meanwhile, BOC has also selected National Green Finance Reform and Innovation Pilot Zones such as Huzhou in Zhejiang Province and Guangzhou in Guangdong Province as key areas, where BOC strengthens research work in local policies, optimizes business authorization system and coordinates with domestic and overseas branches to take advantages of local conditions, as well as to promote green and transition finance product innovation and create BOC's internal Green and Low-carbon Finance Reform Pilot Branch.

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

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

BOC has been continuously increasing its emphasis on the Green and Low-carbon Finance and progressively increasing credit support for Green and Low-carbon projects. BOC is now researching on engaging qualified external consultants, and in the future BOC will conduct environmental and climate risk stress testing to clearly outline its decarbonization targets and pathway in a science-based approach.

Meanwhile, after engaging external consultants, BOC commits to adopting

practical methods and means to review BOC's decarbonization target to make sure that BOC is on the track of effectively supporting the Paris Agreement. BOC also intends to make relevant disclosures on the above, subject to data availability.

4. Implementation Transparency

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

Alignment with the Four Pillars of Relevant ICMA Principles

For each Transition Bonds issued under this Statement, BOC shall follow the below pillars: I. Use of Proceeds, II. Project Evaluation and Selection, III. Management of Proceeds and IV. Reporting.

I. Use of Proceeds

BOC shall select 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).

The proceeds raised from Transition Bonds will be 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
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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 will closely follow the latest transition standards and policy guidelines towards low-carbon or zero-carbon in each country and region, regularly evaluate the local threshold selection criteria for projects, and phase 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 will apply 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 shall obtain, 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

II. Project Evaluation and Selection

BOC shall follow the procedures below to evaluate and select the eligible projects:

1. Preliminary Screening

Based on the project compliance documents (such as feasibility study report and approval, environmental impact assessment report and approval), and referring to criteria and standards of eligible project categories defined in the “Use of Proceeds” section, BOC’s domestic and overseas branches shall conduct preliminary screening of eligible projects, to form the list of nominated projects and submit to the Headquarters for further review.

2. Review and Approval

BOC’s Headquarters shall review each of the nominated projects, and then submit to professional third party agencies for independent assessment. Approval will be granted to nominated projects certified by the professional third party agencies. The approved projects will form the Eligible Project List.

3. Update and Maintenance

BOC’s Headquarters shall review the Eligible Project List on a quarterly basis and determine if any changes are necessary (for example, if a project has become ineligible due to amortization, prepayment, sale or other reasons). If such changes are 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.

III. Management of Proceeds

BOC will allocate 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.

1. Planning for Use of Proceeds

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

2. Management of Separate Ledger

BOC shall record the source and allocation of proceeds in a separate ledger management system to ensure that the proceeds of the Transition Bonds are properly managed and used. The ledger system shall contain information including but not limited to: transaction information (including but not limited to issue amount, coupon, issue date and maturity date, etc.) and proceeds allocation information (including but not limited to project name, borrower description, project category, balance, release date, repayment date, exchange rate, interest rate of the loan, etc.). BOC will review and update the ledger on time. Any proceeds allocated to the projects that have been amortized, prepaid, sold or otherwise become ineligible due to other reasons shall be reallocated to newly nominated and approved projects.

3. Use of Unallocated Proceeds

Unallocated proceeds shall not be invested in greenhouse gas 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.

IV. Reporting

BOC will make disclosure in relation to the eligible projects’ proceeds allocation and environmental impacts on an annual basis on the 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:

1. 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
2. An attestation report for the annual report issued by a qualified third party
3. An attestation report for the use of proceeds issued by a qualified third

party

Moreover, BOC will also publish statement on a quarterly basis to confirm that the utilization of proceeds of the Transition Bonds complies with the Statement on the official website (<http://www.boc.cn/en/investor/ir10/>).

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