



EXTERNAL REVIEW

Sustainability Quality of the Issuer and Sustainability-Linked Loan Funding Framework

Bank of China Limited
2 November 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">▪ SLL Funding Instruments
Scope of verification	<ul style="list-style-type: none">▪ Bank of China Sustainability-Linked Loan Funding Framework (as of October 30, 2023)▪ Bank of China Sustainability-Linked Loans pool (as of August 30, 2023)
Lifecycle	<ul style="list-style-type: none">▪ Pre-issuance verification
Validity	<ul style="list-style-type: none">▪ Valid as long as the cited Framework and Sustainability-Linked Loans pool remain unchanged

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SCOPE OF WORK

Bank of China Limited (“the Issuer” or “Bank of China”) commissioned ISS Corporate Solutions (ICS) to assist with its Sustainability-Linked Loan Funding (SLLF) Framework by assessing three core elements to determine the sustainability quality of the instruments:

1. Bank of China’s SLLF Framework (as of October 30, 2023) – reviewed against market practices and guidelines¹ that enables capital and loan markets to contribute to environmental and social sustainability (see Annex 1).
2. Assessment of the sustainability credentials of the Sustainability-Linked Loans (SLLs) identified by Bank of China as eligible against Bank of China’s SLLF Framework and the sustainability credibility of the Key Performance Indicators (KPIs) selected and Sustainability Performance Target (SPTs) calibrated for those loans – whether the KPIs are material and SPTs ambitious.
3. Linking the transaction(s) to Bank of China’s overall Environmental, Social, and Governance (ESG) profile – drawing on the Bank’s overall ESG profile and strategy

BANK OF CHINA BUSINESS OVERVIEW

Bank of China Ltd. engages in the provision of banking and financial services. It is classified within the Commercial Banks & Capital Markets industry, as per ISS ESG’s sector classification.

It operates through the following business segments: Corporate Banking, Personal Banking, Treasury, Investment Banking, Insurance, and Others. The Corporate Banking segment offers services to corporate customers, government authorities, and financial institutions such as current accounts, deposits, overdrafts, loans, custody, trade related products and other credit facilities, foreign currency, and derivative products. The Personal Banking segment provides services to retail customers such as current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans, and mortgages. The Treasury segment deals in foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading, and asset and liability management. The Investment Banking segment includes debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services. The Insurance segment specializes in the underwriting of general and life insurance business and insurance agency services. The Others segment comprises of investment holding and miscellaneous activities. The company was founded on February 5, 1912, and is headquartered in Beijing, China.

¹ The assessment is based on current market practices for sustainable capital and loan markets referring to different market standards and voluntary guidelines including but not limited to the International Capital Market Association’s (ICMA) [Green, Social Bond Principles](#), and [Sustainability Bond Guidelines](#), [Sustainability-Linked Bond Principles](#), the Loan Market Association’s (LMA) [Green Loan Principles](#), [Social Loan Principles](#), and Loan Syndications and Trading Association’s (LSTA) [Sustainability-Linked Loan Principles](#) (February 2023) .

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
<p>Part 1: Assessment of Bank of China SLLF Framework against relevant market standards for Sustainable Finance</p>	<p>Bank of China’s SLLF Framework reflects markets practices. The eligible Sustainability-Linked Loans are not considered ‘Green’ UoP categories and Bank of China does not have a specific process in place that seeks to track if the Use of Proceeds are allocated to ‘Green’ projects at the ultimate borrower level.</p> <p>Bank of China’s SLLF Framework aims at refinancing General Corporate Purpose (i.e. not Use of Proceeds) Sustainability-Linked Loans through bonds following a “Use of Proceeds” structure (i.e. all proceeds being allocated to refinancing drawn amounts of Sustainability Linked Loans following eligibility criteria). To clarify, the SLLF Framework is therefore not a Sustainability-Linked Bond structure nor a Use of Proceeds structure and is not seeking alignment with the ICMA Sustainability-Linked Bond Principles and ICMA Green and Social Bond Principles.</p> <p>Bank of China has defined a formal concept for its SLLF instruments under its SLLF Framework. The framework defines a clear sustainability strategy for the group, eligible loans in line with market practices (i.e. Bank of China defines clear eligibility criteria to select the SLL to be refinanced, each SLL must align with the SLLP), clear processes for the evaluation and selection of loans, management of proceeds, and reporting. The underlying assets financed are general purpose loans and therefore do not qualify as ‘Green’ or ‘Social’ UoP instruments (nor is the issuer making such claims). For the avoidance of doubt: the Issuer’s selection and evaluation process does not track if the proceeds are allocated to ‘Green’ or ‘Social’ projects by the ultimate borrower.</p>	

² The evaluation is based on Bank of China’s Sustainability-Linked Loan Funding Framework (October 30, 2023, version), on the Sustainability-Linked Loans pool as received on August 30, 2023, and on the ISS ESG Corporate Rating updated on May 4, 2022.

<p>Part 2:</p> <p>Assessment of the SLLs' and borrowers' sustainability quality on the basis of Bank of China's eligibility criteria</p>	<p>The Sustainability-Linked loans pool is overall aligned with Bank of China's eligibility criteria.³</p> <p>Bank of China has put forth 3 sets of eligibility criteria for its Sustainability-Linked loans:</p> <ul style="list-style-type: none"> ▪ <u>Positive contribution to Climate Transition and/or Socioeconomic Advancement Impact objectives:</u> We find that the KPIs considered in the Sustainability-Linked Loans included in the pool have a positive contribution to 'Climate Transition and/or Socioeconomic Advancement' impact objectives. ▪ <u>Alignment with the SLLP:</u> ICS finds that the SLL pool is aligned with the LMA SLLP corresponding to the year of signing of the facility. ▪ <u>KPIs and SPTs are considered 'material and ambitious':</u> The KPIs and SPTs considered in each of the SLLs are deemed aligned with overall assessments of the SLLs ranging from Limited to Good. A comprehensive assessment of the sustainability quality of the SLL pool defined under the Framework can be found in Part 2.
<p>Part 3:</p> <p>Linking the transaction(s) to Bank of China's ESG profile</p>	<p>Bank of China's SLLF Framework is consistent with Bank of China's Sustainability strategy.</p> <p>The key sustainability objectives and the rationale for issuing SLL Financing Instruments are clearly described by the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>

³ Some of the SLLs may have more than one KPI that are not addressing these impact objectives.

FRAMEWORK EXTERNAL REVIEW ASSESSMENT

PART I: REVIEW OF BANK OF CHINA'S SUSTAINABLE FINANCE FRAMEWORK

The SLLF Framework of Bank of China aims at refinancing General Corporate Purpose Sustainability-Linked Loans through Funding following a “Use of Proceeds” structure (i.e. all proceeds being allocated to refinancing drawn amounts of Sustainability-Linked Loans following eligibility criteria). However, as the underlying assets financed are general purpose loans, they are specifically not considered ‘Green’ UoP category (nor is the Issuer making such claims), and the Issuer’s selection and evaluation process in place does not seek to track if the Use of Proceeds will be allocated to ‘Green’ Projects at the ultimate borrower level. As such this Framework is not specifically aligned with the ICMA Green and Social Bond Principles (nor is the Issuer making such claims). For the avoidance of doubt, the assessment below is not a review against ICMA’s Green and Social Bond principles.

We developed a tailor-made assessment methodology to provide an opinion on the robustness of this Framework referring to broadly accepted market concepts, namely ‘transparency’ relevant for Sustainable Finance and aims at Climate Change Transition and Socioeconomic Advancement (e.g., SLL Funding the Loan Syndications and Trading Association (LSTA) Sustainability-Linked Loans Principles, the ICMA Green and Social Bond Principles).

CRITERIA	SUMMARY AND OPINION
<p>1. Sustainability Strategy and Objectives</p>	<p>Bank of China has integrated the concept of sustainable development into its own development strategy and makes effort to build a new green finance system. It has set out the basic principles, strategic objectives, and incentives for the green finance development in the 14th Five-Year Plan for Green Finance of Bank of China,⁴ aiming to contribute to the realization of the dual carbon goal in China and the protection of the common home of mankind.</p> <p>The strategy includes Bank of China’s action plan to achieve its ESG targets, which focuses on (i) integrating green and low-carbon concepts into management and operation activities, (ii) scaling up green financing products, along with setting up relevant quantitative targets, (iii) implementing due diligence of the investment portfolio regarding the assessments of transition, physical, biodiversity, project management risks, and (iv) starting the operation carbon footprint identification work, strengthen carbon footprint management, and adjust the credit portfolio structure to adapt to the changed industrial policies in the country.⁵ The Issuer is a signatory of the Principles for Responsible Banking (PRB).</p> <p>Bank of China has committed to facilitating the transformation towards a low-carbon and resilient economy. To align its funding strategy with its mission and sustainability objectives, Bank of China established a SLLF Framework to refinance General Corporate Purpose (i.e. not Use of Proceeds) Sustainability-Linked Loans through bonds following a “Use of Proceeds” structure (i.e. all proceeds being allocated to refinancing drawn amounts of Sustainability-Linked Loans following</p>

⁴ Policies and systems, Page 12, [Bank of China Limited Green Finance \(TCFD\) Report.](#)

⁵ Strategy, Page 21, [Bank of China Limited Green Finance \(TCFD\) Report.](#)

	<p>eligibility criteria). The Framework enables investors to support companies that are committed to sustainability, while also promoting transparency and accountability in the use of funds for sustainability-linked loans.</p> <p>Opinion: <i>Bank of China has clearly disclosed the purpose of this SLLF Framework. It puts forth a clear definition of the sustainability objectives in line with the wider company strategy. The sustainability commitments defined by Bank of China are relevant to its sector and business model. The Bank is a member of United Nations' Principles for Responsible Banking (UN PRB).</i></p>
<p>2. Definition of the eligibility criteria for the Sustainability-Linked Loans' pool</p>	<p>An amount equal to net proceeds of the SLLF issued by Bank of China will be:</p> <ul style="list-style-type: none"> ▪ Used, in whole or in part, to finance or refinance a pool of sustainability-linked loans ("Eligible Sustainability-Linked Loan(s)" or "Eligible SLL(s)"), ▪ Eligible SLL(s) are a subset of sustainability-linked loans financed by the Financing Entity/Entities (FE) of BOC for each SLLF financing.⁶ ▪ SLLF will include but are not limited to bonds, deposits, repos, and other forms of financing instruments with structures tailored to contribute to sustainable development by application of the proceeds to finance and/or refinance a pool of eligible sustainability-linked loans. ▪ The Eligible SLLs are evaluated and selected by Bank of China, and ▪ Evaluated reviewed by an external verifier to meet the thresholds criteria outlined in this Framework. <p>It is noted that, SLLF shall not be used towards financing the following industries:</p> <ul style="list-style-type: none"> ▪ Luxury sectors ▪ Weapon ▪ Alcohol ▪ Tobacco ▪ Fossil fuel ▪ Nuclear <p><i>Criteria for inclusion in SLLF Asset portfolio:</i></p> <p>To be eligible for inclusion in the pool of Eligible SLLs, a loan must meet each of the below criteria:</p> <ul style="list-style-type: none"> ▪ At least one of the KPIs and SPTs have a positive contribution to at least one of the Impact Objectives as highlighted in the Framework. ▪ Aligned with the Sustainability Linked Loan Principles corresponding to the year of the signing of the facility. ▪ Have KPIs and SPTs that are considered 'material' and 'ambitious' as assessed by an external reviewer.

⁶ According to Bank of China, the proposed funding framework provides a platform on which overseas Bank of China branches to issue SLL Financing Instruments. Currently the FE is Sydney branch. There might be other overseas branches to issue following the establishment of the framework and will fall into the definition of FE.

With priority granted to:

- Eligible SLL(s) that are aligned with the most recent iteration of the Sustainability-Linked Loan Principles (SLLP 2023, or any further updates thereof)
- Eligible SLL(s) whose KPIs conform to the ICMA’s Illustrative KPIs Registry

Table 1 – KPI criteria for Bank of China SLL Fundings

Impact Objectives	Description of KPIs included
Climate Transition	<p>Climate Transition covers activities aimed at mitigating the effects of climate change and adapting to the consequences. KPIs considered may include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ Reduction of greenhouse gas emissions ▪ Increase of renewables generation capacity ▪ Reduction of energy consumption ▪ Reduction of energy intensity <p>Standards and methodologies considered may include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ Science Based Targets initiative ▪ Transition Pathway Initiative
Socioeconomic Advancement	<p>Socioeconomic Advancement covers activities aimed at promoting equitable access and equitable participation. KPIs considered may include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ Percentage of female in managerial positions ▪ Percentage of gender wage gap ▪ Average training hours of employees

Opinion: *The SLLF Framework presents a clear and transparent criterion for the Eligible SLLs, and refers to relevant market principles. The eligibility criteria for Eligible SLLs selection are in line with the sustainability objectives defined by Bank of China. Those criteria are clearly defined and consider positive impacts of the loans towards climate transition or socioeconomic advancement. The Bank explicitly excludes certain activities and sectors under the Framework.⁷ The Framework also clarifies the allocation per SLL will be included in the annual allocation report. However, there is no process in place that seeks to track if the Use of Proceeds are allocated to ‘Green’ or ‘Social’ projects at the ultimate borrower level. Where feasible, the eligibility criteria could be further improved by only considering alignment with the most relevant principles version.*

⁷ Please refer to Section 2.2.2 Exclusions of the Framework.

<p>3. Evaluation & Selection Process</p>	<p>Bank of China will complete the following process when selecting and evaluating financing that qualifies as Eligible SLLs:</p> <ul style="list-style-type: none"> ▪ Preliminary Screening Preliminary screening of potential SLL(s) identified by relevant business units will be conducted by the Corporate Banking and other relevant departments of FE(s) of BOC based on the loan compliance documents, and referring to the criteria in criteria 2. Definition of the eligibility criteria for the Sustainability-Linked Loans' pool, to form the list of nominated SLL(s). ▪ Review and Endorsement Approval FE(s) of BOC will go through assessment procedures to form the list of SLL(s) for external verification. For example, a special committee or team will be formed, within relevant FE(s), for undertaking the process to nominate, review and endorse approval of SLL(s). The committee or team will be comprised of representatives with market, industrial and product expertise across relevant areas in relation to the SLLF business, such as Treasury, Corporate Banking, and other related departments. The formation of this committee or team will take place during the preparation of the issuance, however, it is only a future commitment from Bank of China with no defined timeframe disclosed at the date of the External Review. ▪ External Review These approved SLL(s) then undergo an external review process by the external verifier. Once verified, the SLL(s) are included in the Eligible SLL Ledger and officially designated Eligible SLL(s). <p>Bank of China has established internal guidelines ("Bank of China Limited Customer Environmental (Climate), Social and Governance Risk Management Guidelines (2022 Edition)" or "the Guidelines") for conducting business and assessing client's ESG risk as well as ESG performance. The Guidelines divide ESG risk management into several steps: risk identification, risk measurement, risk assessment, risk monitoring and reporting, risk control and mitigation. At loan level, the Guidelines require BOC business departments to conduct pre-loan investigation, loan review and post-loan inspection.</p> <p>Opinion: <i>The process for Sustainability-Linked Loans Evaluation and Selection is transparently outlined. The bodies in charge of this process are identified and combined with relevant expertise. The steps of the decision-making process are well documented. ESG risks associated with sustainable activities to be financed are identified and managed through an appropriate process. The evaluation and selection process may be further improved by disclosing the timeframe for the creation of the committee responsible for nomination, review and endorsement of the SLLs.</i></p>
<p>4. Governance & Monitoring</p>	<p>Bank of China will allocate the net proceeds of the SLLFs to the Eligible SLL(s) across various domestic and overseas markets via BOC's global network. The proceeds will be managed on a SLLF instrument-by-SLLF instrument basis.</p> <p>The source and allocation of proceeds will be recorded in a separate ledger management system by the Treasury, Global Markets and Asset & Liability</p>

	<p>Management departments of FE(s) to ensure that all the net proceeds of the SLLFs are properly managed and used. The ledger system shall contain information including but not limited to transaction information (issue amount, coupon rate, issue date, maturity date, KPIs and SPTs features of SLL(s), etc.) and the proceeds allocation information (borrower description, loan category, balance, release date, repayment date, exchange rate, interest rate of the loan, etc.). Bank of China commits to update the ledger at least annually.</p> <p>The net proceeds will be reallocated to new Eligible SLL(s) if the allocated SLL(s) cease to fulfill the eligibility criteria listed out in Session 2.1.1 Eligible Sustainability-Linked Loans, and/or the allocated SLL(s) have been partially or fully prepaid/repaid during the life of the respective SLLFs. The eligibility of the SLL(s) is monitored annually and the ledger management system is updated accordingly. Bank of China confirms to review and update the ledger at least annually, if any SLLs are repaid or prepaid, or if there are any material changes to the KPIs/SPTs, BOC will reallocate the proceeds to new eligible SLL(s).</p> <p>Unallocated proceeds could be temporarily invested in Sustainable 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 SLL(s). Unallocated proceeds will not be invested in greenhouse gas (GHG) intensive, highly polluting, energy intensive projects nor projects with negative social impacts (including but not limited to Session 2.1.2 Exclusions of the Framework).</p> <p>The borrow will be penalized in terms of interest rate or at least lose its chance for lower rate adjustment in case an SLL is triggered.</p> <p>Opinion: <i>The proceeds of this bond will be appropriately tracked. The Issuer provides transparent information on the intended temporary investment of unallocated proceeds. However, due to the nature of the loans being for General Corporate Purposes (as opposed to a 'Green' or 'Social' use) we note that there is nothing specified as to the monitoring of ESG performance of the companies in question and how the SLLs relate to this. The Framework has an annual monitoring process to ensure that SLLs remain eligible during its life cycle. Bank of China describes its re/de-classification system transparently, yet we note that when an SLL is triggered due to not achieving the yearly SPTs, the loan will not be declassified.⁸</i></p>
5. Reporting	<p>Bank of China will annually publish on its website an Annual SLLF Report that provides:</p> <ul style="list-style-type: none"> ▪ The allocation of the proceeds ▪ When feasible, the performance of the respective SLL(s) on an aggregated basis <p>Along with the Annual Report, FE(s) of Bank of China will also publish:</p> <ul style="list-style-type: none"> ▪ An external review for the Annual Report issued by a qualified verifier

⁸ A trigger refers to event that have an impact on the financial characteristics of the loan such as a margin adjustment. The loan will not be declassified on the SLL being trigger as the stimulation and/or penalizing mechanism ensures readjustments.

	<ul style="list-style-type: none"> ▪ One or more external review report(s) for the new Eligible SLL(s) issued by the qualified verifier, where appropriate <p>Opinion: <i>The Issuer commits to report publicly on a regular basis after issuance. The level, frequency, scope, and duration of the reporting are transparently defined in the framework. The Issuer will include information on the allocation of the proceeds to eligible loans.</i></p>
<p>6. External Review</p>	<p><u>Pre-issuance:</u> BOC has engaged a qualified verifier to provide an external review on its SLLF Framework.</p> <p>After submitting the approved SLL(s), a qualified verifier will review all SLL(s) to determine their suitability for eligibility. The review process involves:</p> <ul style="list-style-type: none"> ▪ The underlying SLL is in alignment with the Sustainability-Linked Loan Principles ▪ The selected KPIs are in alignment with at least one of the Impact Objectives ▪ The verifier confirms that KPIs and SPTs in the underlying SLL are “material” and “ambitious” <p><u>Post-issuance:</u> Relevant data and information contained in the Annual Report of the SLLFs will receive an external review by a qualified verifier.</p> <p>The Annual Report and external review report will be available on the FE(s) of Bank of China’s website.</p> <p>Opinion: <i>Bank of China has sought an external review of the Sustainability Linked Loan Funding Framework at its launch, in line with best market practices. The SLLF will be publicly available on the FE’s official website. A new external review will be sought upon any subsequent update.</i></p>

PART II: ELIGIBILITY OF THE SUSTAINABILITY-LINKED LOANS AND CONTRIBUTION TO THE IMPACT OBJECTIVES

A. INTRODUCTION TO THE ASSESSMENT METHODOLOGY

To provide an opinion on the sustainability credibility of each of the three key criteria defined by Bank of China in its SLLF Framework, and thus of the sustainability quality of the Sustainability-Linked Loans complying with those, we have followed the approach below:

- Each set of criteria is firstly assessed independently but for the overall evaluation, the three sets of criteria have been assessed jointly.
 - Have KPIs and SPTs that are considered “material” and “ambitious” as assessed by an external reviewer
 - Have a positive contribution to at least one of the Impact Objectives highlighted in Table 1 of the Framework (Climate Transition and Socioeconomic Advancement)
 - Be aligned with the vintage of the Sustainability Linked Loan Principles (LMA, APLMA, LSTA) corresponding to the year of signing of the facility
- In order to be deemed eligible, a lending product needs to fulfil all of those three key criteria.
- Please note that for the SPT assessment conducted by the analyst, Bank of China has clearly defined each SPT associated with each SLL. However, for confidentiality reasons, the associated Names, KPI’s and SPTs assessed in this section will not be disclosed in the External Review.

1. Assessment methodology for the “material KPI and ambitious SPT” criteria

Building on our methodology to assess sustainability-linked loan KPI selection, the KPI quality assessment is divided into 4 factors:

- Relevant
- Core
- Material
- Benchmarkable

Based on these 4 factors, the KPI materiality assessment is classified on a 4-level scale:

KPI materiality	
4 factors	Robust
2-3 factors	Good
1 factor	Limited
0 factor	Absence

The 4 different level can be broken down as such:

- **Robust**, in case the KPI is relevant, core, material and benchmarkable.
- **Good**, in case the KPI is

- relevant, moderately core, material (and presents limitations to its ability to be benchmarked)
- relevant, core, moderately/partially material (and presents limitations to its ability to be benchmarked)
- relevant, moderately core, moderately/partially material and benchmarkable
- **Limited**, in case the KPI is relevant, moderately core, moderately/partially material and presents limitations to its ability to be benchmarked
- **Absence**, in case one (or more) of the relevant, core, and material dimensions is (are) not fulfilled, or if the KPI is not benchmarkable.

For the LSTA Sustainability-Linked Loans alignment, the KPI quality criterion should address the 4 criteria above.

Building on our methodology to assess sustainability-linked loan SPT calibration, the SPT calibration assessment has been divided into 3 dimensions:

- Ambition against past performance
- Ambition against sectorial peers
- Ambition against international targets

Based on these 3 factors, the SPT ambition assessment is classified on a 4-level scale:

SPT ambition	
3 dimension	Robust
2 dimension	Good
1 dimension	Limited
0 dimension	Absence

For the LMA Sustainability-Linked Loans alignment, the SPT ambition criterion should address at least one of the 3 factors. Based on the above, the two dimensions of the evaluation, the KPI materiality assessment, and the SPT ambition assessment, are combined as per the table below:

KPI materiality	4 factors - Robust	Absence	Good	Robust	Robust
	2/3 factors - Good	Absence	Limited	Good	Good
	1 factor - Limited	Absence	Limited	Limited	Limited
	0 factor - Absence	Absence	Absence	Absence	Absence
	0 dimension - Absence	1 dimension - Limited	2 dimensions - Good	3 dimensions - Robust	
	SPT ambition				

2. Assessment methodology of the “Impact Objective contribution” criteria.

In each SLL evaluation, the KPI contribution of each Sustainability-Linked Loans to the Climate Transition and Socioeconomic Advancement Impact objectives has been assessed.

3. Assessment methodology for the alignment with Sustainability-Linked Loan Principles criteria

Sustainability-Linked Loans included in the pool is benchmarked against the Sustainability-Linked Loan Principles. We assess if the Issuer has defined a formal concept for its SLL regarding the selection of the KPI, calibration of the SPT, financial characteristics, reporting, and verification.

Although this is not an eligibility criterion, a synthetic overall risk assessment opinion is disclosed in the summary of SLLs Assessment and SLL Pool Eligibility table.

4. Assessment methodology for the identification and management of the environmental and social risks associated with the eligible SLLs

The identification and management of the environmental and social risks associated with the eligible SLL are assessed based upon ISS ESG Corporate Rating.

Based on the rating received, the risk is classified on a 3-level scale:

Risk	
A+ - B-	Good E&S risk management
C+ - C-	Medium E&S risk management
D+ - D-	Poor E&S risk management

B. SUMMARY OF SLLs ASSESSMENT AND SLL POOL ELIGIBILITY

SLLs	Borrower 1	
KPIs	KPI 1	KPI 2
	Good	Good
SPTs	SPT 1	SPT 2
	Robust	Good
Overall Assessment (KPI and SPT)	Good	Good
Alignment with LMA SLLP	Aligned	
Risk	The identification and management of the environmental and social risks associated with the eligible SLL are considered medium based upon ISS ESG assessment.	
Overall evaluation	The SLL meets the eligibility criteria.	
Loan contribution to Impact Objectives	Climate Transition	

SLLs	Borrower 2	
KPIs	KPI 1	
	Good	
SPTs	SPT 1	
	Good	
Overall Assessment (KPI and SPT)	Good	
Alignment with LMA SLLP	Aligned	
Risk	The identification and management of the environmental and social risks associated with the eligible SLL are considered medium based upon ISS ESG assessment.	
Overall evaluation	The SLL meets the eligibility criteria.	
Loan contribution to Impact Objectives	Climate Transition	

SLLs	Borrower 3
KPIs	KPI 1
	Good
SPTs	SPT 1
	Good
Overall Assessment (KPI and SPT)	Good
Alignment with LMA SLLP	Aligned
Risk	The identification and management of the environmental and social risks associated with the eligible SLL are considered medium based upon ISS ESG assessment.
Overall evaluation	The SLL meets the eligibility criteria.
Loan contribution to Impact Objectives	Climate Transition

SLLs	Borrower 4	
KPIs	KPI 1	KPI 2
	Good	Good
SPTs	SPT 1	SPT 2
	Good	Limited
Overall Assessment (KPI and SPT)	Good	Limited
Alignment with LMA SLLP	Aligned	
Risk	The identification and management of the environmental and social risks associated with the eligible SLL are considered medium based upon ISS ESG assessment.	
Overall evaluation	The SLL meets the eligibility criteria.	
Loan contribution to Impact Objectives	Climate Transition and Socioeconomic Advancement	

SLLs	Borrower 5			
KPIs	KPI 1	KPI 2	KPI 3	KPI 4
	Limited	Good	Good	Robust
SPTs	SPT 1	SPT 2	SPT 3	SPT 4
	Limited	Limited	Limited	Limited
Overall Assessment (KPI and SPT)	Limited	Limited	Limited	Good
Alignment with LMA SLLP	Aligned			
Risk	The identification and management of the environmental and social risks associated with the eligible SLL are considered medium based upon ISS ESG assessment.			
Overall evaluation	The SLL meets the eligibility criteria.			
Loan contribution to Impact Objectives	Climate Transition and Socioeconomic Advancement			

EXTERNAL REVIEW

Sustainability Quality of the Issuer
and Sustainability-Linked Loan Funding Framework

PART III: LINKING THE TRANSACTION(S) TO BANK OF CHINA'S ESG PROFILE**A. CONSISTENCY OF SLLF FRAMEWORK WITH BANK OF CHINA'S SUSTAINABILITY STRATEGY***Key sustainability objectives and priorities defined by the Issuer*

Bank of China integrated the concept of sustainable development into the Bank's development strategy, and adopted the 14th Five-Year Plan for Green Finance as the strategic guidance to improve its "1+1+N" system through group-level green finance practices. Within the Bank's 1+1+N System, the 14th Five-Year Plan analyses the challenges and opportunities for the Bank and sets strategic goals following the principles of "sustainability", "responsibility", and "prudence" in combination with the objectives of the Government of China's national strategy and the Dual Carbon Goal Policy. Furthermore, the Bank established an Action Plan for reaching the goal of peak carbon emissions and carbon neutrality which formulates specific implementation pathways from organizational structure, business development strategy, product innovation, green operation, stress testing, international cooperation, capacity building, and technical empowerment. This commitment to sustainability is executed through four key focus strategic areas⁹:

- Implementing the green and low-carbon concept
- Increasing level of development for the green finance business,
- Managing environmental and social risks properly
- Establishing particular carbon-neutral targets and action plans for commercial bank operations and asset portfolios.

The strategy includes Bank of China's action plan to achieve its ESG targets, which focuses on (i) integrating green and low-carbon concepts into every aspect of management and operation activities, (ii) scaling up green financing products, such as green credit, green bonds, green asset management, green leasing, and green insurance, along with setting up relevant quantitative targets, (iii) implementing due diligence of the investment portfolio regarding the assessments of transition, physical, biodiversity, project management risks, and (iv) starting the operation carbon footprint identification work as soon as possible, strengthen carbon footprint management, and adjust the credit portfolio structure in a timely manner to adapt to the changed industrial policies in the country.¹⁰

To guide the Bank's sustainability strategy, the Board of Directors, the Senior Management Team in the Green Finance field, and specialists carry out the Bank's operations and are responsible for the realization of the Bank's ESG strategy, approving the main ESG-related documents, and monitoring ESG-related initiatives. Additionally, Bank of China has built three lines of business departments, risk management departments, and audit departments which specify customer ESG risk management responsibilities, implement binding requirements for environmental and social risk management in

⁹ [Bank of China Limited Green Finance \(TCFD\) Report.](#)

¹⁰ Ibid.

the Bank's credit policies, inform the treatment of transition risks and adopt the "single-vote veto system" in environmental protection for business approvals.¹¹

Bank of China discloses the defined targets and tracks their progress annually in its ESG Report, which is prepared according to the Global Reporting Initiative (GRI) standards, ESG Reporting Guide of Hong Kong Stock Exchange, Task Force on Climate-Related Financial Disclosure (TCFD) Index, and Reporting and Self-assessment Requirements for the United Nations' Principles for Responsible Banking (UN PRB). There is not a disclosed budget for specific ESG goals within the reports. Moreover, the Bank has not yet established a timeline for its commitments to the Government's Dual Carbon Goal, and the targets that are disclosed are not Greenhouse Gas Emission (GHG) based targets or verified Science-based targets (SBTi). However, it is also noted that Bank of China extends its climate-related stress tests to eight carbon-intensive industries, which are electric, iron, and steel, building materials, petrochemical engineering, chemical engineering, paper-making, civil aviation, and non-ferrous metal smelting. Through regularly conducted climate risk analysis, the Bank identifies the most important issues to its stakeholders and promotes the transformation and upgrading of carbon-intensive industries. Bank of China reported that the proportion of domestic corporate brown industries' credit continued to decrease and fall below 10% in 2022.¹²

In line with its environmental commitments, Bank of China issued ~USD 17.36 billion as of June 30, 2023, targeted at investments in renewable energy, green buildings, sustainable water, and wastewater management (waste water treatment), clean transportation, employment generation, access to essential services, the public utility industry and cement industry, terrestrial and aquatic biodiversity conservation, environmentally sustainable management of living natural resources and land use, and pollution prevention and control. In October 2021, Bank of China announced its first Sustainability Re-Linked Bond Transaction on the offshore market and the issuance in alignment with relinking mechanism with reference to ICMA and SLL Principles¹³.

Bank of China is a signatory to the United Nations' Principles for Responsible Banking (UN PRB)¹⁴.

Rationale for issuance

Bank of China has integrated the concept of sustainable development into its own development strategy and makes an effort to build a new green finance system. It has set out the basic principles, strategic objectives, and incentives for green finance development in the 14th Five-Year Plan for Green Finance of Bank of China, aiming to contribute to the realization of the dual carbon goal in China.

To align its funding strategy with its mission and sustainability objectives, Bank of China established a Sustainability-Linked Loan Funding Framework to able to refinance General Corporate Purpose (i.e. not use-of-proceeds) Sustainability-Linked Loans through bonds following a "Use of Proceeds" structure (i.e. all proceeds being allocated to refinancing drawn amounts of Sustainability-Linked Loans following eligibility criteria).

Opinion: *The key sustainability objectives and the rationale for issuing SLL Financing Instruments are clearly described by the Issuer.*

¹¹ [Bank of China Limited, ESG Report, 2022](#)

¹² [Bank of China Limited, Green Finance \(TCFD\) Report, 2022](#)

¹³ [Bank of China Statement, October 25, 2021](#)

¹⁴ Ibid.

B. BANK OF CHINA'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The Issuer is classified in the Commercial Banks & Capital Markets, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Business ethics
Labor standards and working conditions
Customer and product responsibility
Sustainability impacts of lending and other financial services/products
Sustainable investment criteria

ESG performance of the Issuer

Leveraging ISS ESG's Corporate Rating research, further information about the Issuer's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>.

Please note that the consistency between the issuance subject to this report and the Issuer's sustainability strategy is further detailed in Part III.A of the report.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Bank of China's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the company's production process.

ISS ESG determined that, based on the information provided by the Bank, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs.

Breaches of international norms and ESG controversies

At Issuer level

At the date of publication and leveraging ISS ESG Research, no severe controversy in which the Issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Commercial Banks & Capital Markets industry are as follows: Financial market irregularities, failure to mitigate climate change impacts, and failure to prevent money laundering.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

DISCLAIMER

1. Validity of the External Review ('External Review'): Valid as long as the cited Framework and Sustainability-Linked Loans pool remain unchanged.
2. ISS Corporate Solutions, Inc. ('ICS'), a wholly-owned subsidiary of Institutional Shareholder Services Inc. ("ISS"), sells/distributes External Reviews which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG's proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide. Information on ISS's methodology is available upon request.
3. External Reviews are based on data provided by the party to whom the External Review is provided ("Recipient"). ISS does not warrant that the information presented in this External Review is complete, accurate or up to date. Neither ISS or ICS will have any liability in connection with the use of these External Reviews, or any information provided therein.
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ANNEX 1: ISS ESG Corporate Rating Methodology

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

ANNEX 2: Quality management processes

SCOPE

Bank of China commissioned ICS to compile a SLLF Framework SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Loan Funding Framework aligns with the general market standards for Sustainable Finance and to assess the sustainability credentials of its Sustainability-Linked Loans' pool, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this External Review stem from key principles for transparency and non-contamination of sustainable labelled products, including:

- Loan Syndications and Trading Association's (LSTA) Sustainability Linked Loan Principles

ISSUER'S RESPONSIBILITY

Bank of China's responsibility was to provide information and documentation on:

- Framework
- Sustainability-Linked Loans' pool
- Documentation of ESG risks management at the asset level

ICS's VERIFICATION PROCESS

Since 2014, ISS Group, of which ICS is part, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent External Review of the SLLF Framework to be issued by Bank of China has been conducted based on a proprietary methodology.

The engagement with Bank of China took place from July to November 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

Companies turn to ISS Corporate Solutions (ICS) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: SPOsales@isscorporatesolutions.com

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