

Annual Report on Bank of China's July 2016 Offshore Green Bond

In July 2016, Bank of China ("BoC") issued Green Bonds in the offshore market through its Luxemburg Branch and New York Branch ("**July 2016 Offshore Green Bond**"). As stated in the *Offering Circular* as well as *Bank of China Green Bond Management Statement* ("the Management Statement")¹, we hereby provide the first Annual Report on our July 2016 Offshore Green Bond, disclosing the allocation of the bond proceeds as well as the expected environmental impacts of the Eligible Green Projects as of 31st December, 2016.

Bond Details

July 2016 Offshore Green Bond was issued with five tranches across three currencies as listed below (see Table 1). The total amount equated to CNY 20,265.15 million, assuming the respective foreign exchange rates given below as of the settlement date of the bond².

Table 1 Detailed Information of Bank of China's July 2016 Offshore Green Bond

ISIN code	Currency	Tenor (year)	Coupon type	Amount (million)	CNY Equivalent Amount (million)	FX rate
XS1437622548	USD	3	Fixed	500	3,347.50	6.6950
XS1437622621	USD	3	Floating	750	5,021.25	6.6950
XS1437622977	USD	5	Fixed	1,000	6,695.00	6.6950
XS1437623355	EUR	5	Fixed	500	3,701.40	7.4028
XS1437844100	CNH	2	Fixed	1,500	1,500.00	1.0000

Awards for the Issuance

2016 IFR Asia Regional Awards: *SRI Bond*³

2016 Global Capital: *Asia Pacific Green/SRI Bond Deal of the Year*⁴

2016 The Asset Triple A Regional Deal Awards: *Best bond / Best FIG green bond*⁵

2016 The Asset Triple A Country Awards: *Best FIG Green Bond (China)*⁶

Proceeds Allocation

After deducting the up-front costs accumulated in the course of issuance, the net proceeds of the July 2016 Offshore Green Bond equated to CNY20,224.46 million. As of December 31, 2016, all of these net proceeds had been utilized to fund the Eligible Green Projects in at least one of the following categories as set out in the Offering Circulars:

1. Renewable energy: wind power plants and solar power plants ("Renewable Energy Projects");
2. Pollution prevention and control: waste water treatment projects ("Pollution Prevention and Control Projects").

¹ available at http://www.boc.cn/en/investor/ir10/201607/t20160704_7235334.html

² refer to the central parity rate published by the People's Bank of China as of July 12, 2016

³ available at <http://www.ifrasia.com/sri-bond/21274317.article>

⁴ available at <http://www.globalcapital.com/article/zfs44lf4mwn/sustainable-and-responsible-capital-markets-awards-2016-the-winners>

⁵ available at <https://www.theasset.com/awards/regional-deals-2016-fixed-income>

⁶ available at <https://www.theasset.com/awards/country-awards-2016-deals-north-asia>

3. Clean transportation: urban trail projects (“Clean Transportation Projects”);

Further description of the Project Evaluation and Selection and the Management of Proceeds can be found in the Management Statement, which applies to all of BoC’s offshore Green Bonds.

The following tables set forth detailed information about the allocation of proceeds in terms of category (see Table 2) and location (see Table 3):

Table 2 Proceeds Allocation in Terms of Category

Category	Allocated amount (CNY million)	Proportion
Renewable energy	1,239.10	6.13%
Pollution prevention and control	500.00	2.47%
Clean transportation	18,485.36	91.40%
Total	20,224.46	100%

Table 3 Proceeds Allocation in Terms of Location

Location	Allocated amount (CNY million)	Proportion
Northern China	17,729.20	87.66%
Eastern China	1,573.36	7.78%
Western China	250.00	1.24%
Overseas	671.90	3.32%
Total	20,224.46	100%

It might be noted that the allocation of proceeds stated above was somewhat different to the *ex-ante* description in the Offering Circular. This is mainly because: (a) the total loan amount of the projects in Eligible Green Project List formulated prior to the issuance exceeded the amount of net proceeds actually raised; and (b) BoC’s loan portfolio were subject to on-going changes such as disbursements, amortization and prepayment. As of 31st December, 2016, there were no remaining unallocated proceeds in the balance.

Green Projects Examples

As of December 31, 2016, the proceeds of July 2016 Offshore Green Bond had been utilized to fund 13 Eligible Green Projects, of which 3 examples are listed below.

Project I: A wind power generation project located in the east of Inner Mongolia Autonomous Region of China, a concession project with a generation capacity of 300MW. So far, this Project has already been put into operation. It is learnt from the on-site investigation that the total installed capacity of this project is 300MW (1500kW * 200 units) with the annual generating hours of more than 1,900 hours in 2016 and the grid-connect volume of 660,050.60MWh. Equivalently, the Project could save standard coal of 0.21 million tons, and reduce CO₂ emission of 0.63 million tons.

Project II: A Water treatment project located in the eastern China, consisting of the expansion of an Urban Sewage Treatment Plant together with the laying of supporting pipeline (the “Urban Sewage Treatment Project”) and the Rural Sewage Treatment Project. So far, the Urban Sewage Treatment Plant and Rural Sewage Project have both been completed. Based on the on-site investigation, the treatment capacity of the Urban Sewage Treatment Project in 2016 is 12.72 million tons. The direct reduction of pollutants are as follows: COD : 1945 tons / year, NH₃-N : 130 tons / year.

Project III: An urban rail project locates in northern China, with an overall length of 47.3 km. The subway line has 36 stations of which 35 stations are underground and 1 elevated station above the ground. Functionally, 14 stations are transfer stations. It is estimated that the maximum volume of one-way passenger section flow during peak

hours would be 23,000 persons at the initial operating stage, 32,000 persons in the short-term and 38,000 persons in long term, respectively. The annual volume of the passenger flow is 191.4574 million persons, which reduces CO₂ emissions of 82,204 tons per year. The subway line is expected to alleviate the heavy traffic in Central Beijing, and to speed up the transportation of urban passengers.

Impact Reporting

Table 4 through Table 6 (see the next page) show the expected environmental impacts in detail. The format follows the recommendations outlined in the “*Working towards a harmonized framework for Green Bond impact reporting*”⁷. Due to the confidential considerations for our loan clients, the impact results 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 (i.e. Renewable energy, Pollution prevention and control and Clean Transportation).

Methodology

The environmental impacts are calculated in categories. The impacts of the Renewable Energy Projects refer to the UNFCCC CDM methodology ACM 0002 Grid-connected electricity generation from renewable sources (version 17.0)⁸. Noted by * in the table 4 below.

For Pollution Prevention and Control Projects, the environmental impacts are calculated based on the capacity of the pollution prevention facility and the treatment effectiveness (waste water treatment = treatment capacity of the facility * (influent quality - effluent quality)). Noted by ** in the table 5 below.

The impacts of the Clean Transportation Projects are calculated based on ACM0016 Mass rapid transit projects (version 4.0)⁹. Noted by *** in the table 6 below.

⁷ available at www.icmagroup.org/greenbonds

⁸ available at http://cdm.unfccc.int/filestorage/D/5/Y/D5YFS9I3VKBT18MQNGX0LPZ6U7AWCO/ACM0002_%28v17%200%29_clean.pdf?t=bGt8b2tiaTVfDDXvk1Kj1cAVtGwMe6a7-hX

⁹ available at http://cdm.unfccc.int/filestorage/3/J/I/3JIUSA5XE4QH127BPK0WFN6DMZVYRT/EB85_repan10_ACM0016_ver_04.0.pdf?t=Z3V8b2tiaHjkfDBMg0eSxJDh6CN RcIIWBxk

Table 4 Environmental Impacts of the Renewable Energy Projects on a Portfolio Basis

	Signed amount ¹⁰	Share of total portfolio financing ¹¹	Eligibility for green bonds	RE component	Allocated amount ¹²	Average portfolio lifetime	Annual generation	Renewable energy capacity added	Annual GHG emissions reduced*
	CNY million	%	%	%	CNY million	year	MWh	MW	tonnes of CO ₂ equivalent
Renewable Energy	1,239.10	64.56	100	100	1,239.10	20	699,850.52	639	615,948

Table 5 Environmental Impacts of the Pollution Prevention and Control Projects on a Portfolio Basis

	Signed amount	Share of total portfolio financing	Eligibility for green bonds	Allocated amount	Average portfolio lifetime	Annual pollution prevention**	
	CNY million	%	%	CNY million	year	tonnes	
Pollution prevention and control	500.00	69.07	100	500.00	20	COD ¹³	NH ₃ -N ¹⁴
						1,343	90

Table 6 Environmental Impacts of the Clean Transportation Projects on a Portfolio Basis

	Signed amount	Share of total portfolio financing	Eligibility for green bonds	Allocated amount	Average portfolio lifetime	Annual GHG emissions reduced
	CNY million	%	%	CNY million	year	tonnes of CO ₂ equivalent***
Clean Transportation	18,485.36	12.91	100	18,485.36	20	68,748

¹⁰ This represents the amount legally committed by the issuer for the project or component that is eligible for green bond financing.

¹¹ This is the share of the total project cost that is financed by the issuer.

¹² This represents the amount of green bond proceeds that has been allocated to disbursements to the project.

¹³ Chemical Oxygen Demand

¹⁴ Ammonia Nitrogen