

# SECOND PARTY OPINION

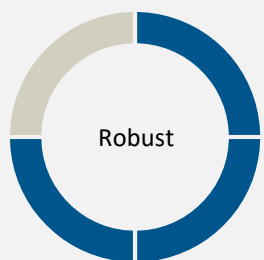
## on the sustainability of Bank of Communications Financial Leasing's Sustainable Financing Framework

V.E is of the opinion that Bank of Communications Financial Leasing's Framework is aligned with the four core components the Green Bond Principles 2018, Social Bond Principles 2020, Green Loan Principles and Social Loan Principles 2021.



### Framework

#### Contribution to Sustainability:



○ Advanced ○ Limited

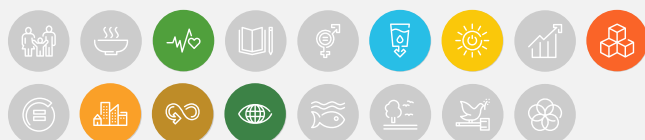
○ Robust ○ Weak

Expected impacts\*

ESG risks management

	Weak	Limited	Robust	Advanced
Expected impacts*				
ESG risks management				

#### SDG Mapping



\*V.E considers the potential positive impacts of the Eligible Projects with environmental objectives to be robust, whilst it is considered advanced for the Eligible Projects with social objectives. Overall, the potential positive impacts of the Eligible Projects on environmental and social objectives is considered to be robust, as a majority of Eligible Categories focus on environmental objectives.

#### Characteristics of the Framework

Green and Social Project Categories	Clean Transportation; Renewable Energy; Pollution Prevention and Control; Sustainable Water and Wastewater Management; Energy Efficiency; Access to Essential Services; Affordable Basic Infrastructure
Project locations	primarily China
Target Population for social categories	General public across China, or in Tier 2 cities (or lower) including Western China regions
Existence of framework	Yes
Share of refinancing	(to be disclosed in post-issuance reporting)
Look back period	Three years

### Issuer

#### Controversial Activities

The Issuer does not appear to be involved in any of the 17 controversial activities screened under our methodology:

- |   |  |   |  |
|---|--|---|--|
| <input type="checkbox"/> Alcohol              | <input type="checkbox"/> Fossil fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography             |
| <input type="checkbox"/> Animal welfare       | <input type="checkbox"/> Coal                  | <input type="checkbox"/> Human embryonic stem cells | <input type="checkbox"/> Reproductive medicine   |
| <input type="checkbox"/> Cannabis             | <input type="checkbox"/> Gambling              | <input type="checkbox"/> Military                   | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Genetic engineering   | <input type="checkbox"/> Nuclear power              | <input type="checkbox"/> Tobacco                 |
| <input type="checkbox"/> Civilian firearms    |  |   |  |

#### ESG Controversies

Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA

### Coherence

Coherent

Partially coherent

Not coherent

We are of the opinion that the Framework is coherent with Bank of Communications Financial Leasing's strategic sustainability priorities and sector issues as well as the sustainability challenges in China and that it contributes to achieving the Issuer's sustainability commitments.

## Key findings

V.E is of the opinion that Bank of Communications Financial Leasing's Framework is aligned with the four core components of the GBP, SBP, GLP and SLP.

### Use of Proceeds – aligned with GBP, SBP, GLP and SLP

- A majority of the Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures and location of Eligible Projects, as well as the target populations for Social Categories. The eligibility criteria of the Pollution Prevention and Control category could be further specified.
- The Environmental and Social Objectives are clearly defined, which are relevant for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear and precise. They are considered relevant, measurable, and will be quantified for all the Eligible Categories in the reporting.
- The Issuer has not provided information on the share of refinancing and will only disclose in post-issuance reporting. The look-back period for refinanced eligible projects will be equal or less than three years from the issuance date, in line with market practices.

### Evaluation and Selection - aligned with GBP, SBP, GLP and SLP

- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, which is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of eligible projects). The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and the herewith SPO.
- Eligibility criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for a majority of Eligible Categories. The eligibility criteria of the Pollution Prevention and Control category could be further specified.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification, and corrective measures for nearly all of projects (see detailed analysis on pages 23 - 26).

### Management of Proceeds - aligned with GBP, SBP, GLP and SLP

- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework.
- The allocation period will be 24 months or less.
- Net proceeds of the debt instruments will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the debt instrument is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project ineligibility, postponement, cancelation or divestment, and it has committed to reallocate proceeds to projects that are compliant with the framework on a best efforts basis.

### Reporting - aligned with GBP, SBP, GLP and SLP

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available.
- The reporting will cover relevant information related to the allocation of proceeds and to the expected sustainable benefits of the projects.

- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Categories will be disclosed on-demand only and only to investors.
- Tracking and allocation of funds to Eligible Categories, as well as indicators used to report on their environmental and social benefits, will be verified only internally by the Issuer.

## Contact

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# SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green, Social or Sustainability bonds (“Bonds”), loans or any other similar debt instruments<sup>1</sup> to be issued by Bank of Communications Financial Leasing (“Bocomm Leasing” or the “Issuer”) and its subsidiaries in compliance with the Sustainable Financing Framework (the “Framework”) created to govern their issuances.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Green Bond Principles (“GBP”) - edited in June 2018 - and Social Bond Principles (“SBP”) - edited in June 2020 - voluntary guidelines, as well as the Loan Market Association’s Green Loan Principles - edited in February 2021 (“GLP”) and the Social Loan Principles - edited in April 2021 (“SLP”).

Our opinion is built on the review of the following components:

- Framework: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Framework’s potential contribution to sustainability and its alignment with the four core components of the GBP 2018, SBP 2020, GLP and SLP 2021.
- Issuer: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>2</sup>.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from April 15<sup>th</sup> to May 12<sup>th</sup>, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

## Scope of External Reviews

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input type="checkbox"/>	Independent verification of impact reporting
<input type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

<sup>1</sup> The “Green”, “Social” or “Sustainability” bonds, loans or any other similar debt instruments are debt instruments to be potentially issued, subject to the discretion of the Issuer. The label “Green”, “Social” or “Sustainability” has been decided by the Issuer: it does not imply any opinion from V.E.

<sup>2</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

Coherent
Partially coherent
Not coherent

We are of the opinion that the Framework is coherent with Bocomm Leasing's strategic sustainability priorities and sector issues as well as the sustainability challenges in China and that it contributes to achieving the Issuer's sustainability commitments.

The main role of financial institutions is to enhance the social and economic development by supporting the real economy and to mitigate risks resulting from activities with negative impacts for society. Financial inclusion and the support of clients in financial distress are also a key responsibility. Meanwhile, the integration of environmental factors in the provision of financing is also relevant in diverting more resources towards environmentally beneficial sectors and project activities, especially in relation to low carbon transition and sustainable development.

In the context of China, being the world's largest CO<sub>2</sub> emitter, the national policies and commitments on decarbonisation, and the progress of the different economic sectors in terms of their environmental and carbon performance, will have significant impacts globally. According to IEA, between 2019 and 2024, China will account for 40% of global renewable capacity expansion, driven by improved system integration, lower curtailment rates and enhanced competitiveness of both solar PV and onshore wind. The policy challenge is to ensure sufficient investment in electricity networks and in a mix of generation technologies that are the best fit for power system needs.<sup>3</sup>

In September 2020, President Xi Jinping announced that China will strengthen its 2030 climate target (NDC), peak emissions before 2030 and aim to achieve carbon neutrality before 2060.<sup>4</sup> As per the latest 14<sup>th</sup> Five-Year Plan (2021-2025) issued in March 2021, targets have been set to increase the share of non-fossil energy in total energy consumption of 20% by 2025 (from 15.9% in 2020) and to reduce the CO<sub>2</sub> emissions per unit of GDP by 18% from 2020 to 2025.<sup>5</sup>

China, being the largest market for new light-duty and heavy-duty vehicles, is considered one of the world's crucial venues on clean transportation policy. The focuses on air-quality and GHG emissions reduction have helped shape and accelerate policies in promoting clean transportation.<sup>6</sup> Around 47% of electric cars on the road in 2019 were in China.<sup>7</sup>

On waste management, China's municipal solid waste reached 22.8 million tonnes in 2018, which is expected to climb up to 409 million tonnes by 2030; GHG emissions from waste management have also been growing rapidly, with 70% comprising of methane.<sup>8</sup> Specifically for sewage sludge, about 29.3% of the sludge in China was disposed via land application, followed by incineration (26.7%) and sanitary landfills (20.1%). Incineration, compost, thermal hydrolysis and anaerobic digestion were the mainstream technologies for sludge treatment.<sup>9</sup> Promoting cleaner and more efficient waste treatment will help deal with the increasing amount of waste, and also mitigate the resulting GHG emissions.

On the water front, China also faces complex challenges: in addition to the mismatch between water resources availability and population and GDP and the fact that at least 11 provinces face significant water stress, the issues are often interlinked with energy and food security, industrial water use and pollution, as well as the increasing impacts of climate change.<sup>10</sup>

On public health, a recent study published in *the Lancet Public Health* highlighted that regional and urban-rural disparities and inequalities are far too evident in China. Reform, modernisation, and investment in a prevention-focused primary care system that integrates with public health services could improve health across the country and ensure that China's trajectory of improving health continues and leaves no one behind.<sup>11</sup>

Bocomm Leasing appears to acknowledge its role in managing its investments' impacts to support society's transition to a low-carbon economy and to promote social and economic development.

Bocomm Leasing has focused its contributions towards a green economy on the following areas:

- Green Transport: providing leasing services to phase out old buses, enable the construction and maintenance of mass public transport such as railways and undergrounds across major metropolitan cities in China;

<sup>3</sup> <https://www.iea.org/countries/china>

<sup>4</sup> <https://climateactiontracker.org/countries/china/>

<sup>5</sup> <https://www.carbonbrief.org/qa-what-does-chinas-14th-five-year-plan-mean-for-climate-change>

<sup>6</sup> <https://theicct.org/china>

<sup>7</sup> <https://www.iea.org/reports/global-ev-outlook-2020>

<sup>8</sup> <https://news.cgtn.com/news/2020-08-25/It-s-time-to-improve-waste-management-in-China-TeO2TlJ0aY/index.html>

<sup>9</sup> <https://www.sciencedirect.com/science/article/pii/S0160412020320481>

<sup>10</sup> <https://www.chinawaterrisk.org/the-big-picture/chinas-water-challenge>

<sup>11</sup> [https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667\(20\)30268-1/fulltext](https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667(20)30268-1/fulltext)

- Renewable Energy: enabling the production of renewable energy such as wind, hydropower, solar across various parts of China, as well as renewable energy storage equipment and components.
- Green Operations: engaging in group-wide green operations, preferring environment-friendly products and selected suppliers with environmental management system certification and their products having environmental labelling.
- Green Syndicated Loans: expanding new financing channels to scale up green assets while demonstrating its sense of responsibility for the development of a green economy.

As regards to its commitments towards society, its financing activities also focus on the following areas:

- Urban Infrastructure: To protect the environment and improve people's livelihoods, focusing on water supply, sewage treatment and public hospitals in large provincial and second-tier cities.
- Enabling Healthcare: providing equipment to public hospitals, clinics, health care centres, which allows for the provision of free or subsidized health services, or infrastructure for the provision of emergency medical response and disease control services.

By creating a Framework to issue Green, Social or Sustainability bonds, loans or any other similar debt instruments to finance or refinance, in full or in part, Eligible Projects related to the seven Green and Social Project Categories, the Issuer coherently aligns with its sustainability strategy and commitments and addresses the main issues of the sector as well as the country in terms of sustainable development.

# FRAMEWORK

The Issuer has described the main characteristics of its debt instruments within a formalized Sustainable Financing Framework which covers the four core components of the GBP 2018, SBP 2020, GLP 2021 and SLP 2021 (the last updated version was provided to V.E on May 12<sup>th</sup>, 2021). The Issuer has committed to make this document publicly accessible on Bocomm Leasing's website<sup>12</sup>, in line with good market practices.

## Alignment with the Green and Social Bond and Loan Principles

### Use of Proceeds



The net proceeds of the debt instruments will exclusively finance or refinance, in part or in full, projects falling under five Green Project Categories and three Social Project ("Eligible Categories"), as indicated in Table 1.

- A majority of the Eligible Categories are clearly defined. The Issuer has communicated the nature of the expenditures and location of Eligible Projects, as well as the target populations for Social Categories. The eligibility criteria for the Pollution Prevention and Control category could be further specified.
- The Environmental and Social Objectives are clearly defined, which are relevant for all the Eligible Categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental and Social Benefits are clear and precise. They are considered relevant, measurable, and will be quantified for all the Eligible Categories in the reporting.
- The Issuer has not provided information on the share of refinancing and will only disclose in post-issuance reporting. The look-back period for refinanced eligible projects will be equal or less than three years from the issuance date, in line with market practices.

#### BEST PRACTICES

⇒ Relevant environmental and social benefits are identified and measurable for all project categories

<sup>12</sup> <https://www.bocommleasing.com/index.mvc>

Table 1. V.E' analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Location of Eligible Projects/Assets: primarily China

ELIGIBLE GREEN CATEGORIES	ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Clean Transportation	Investments and expenditure in low energy consuming or low emission transportation assets, systems, infrastructure, component <sup>13</sup> and financing services, including but not limited to subways, mass rapid transit and urban light rail for public transport <sup>14</sup> and electric vehicles for private vehicles. <sup>15</sup>	<u>Air pollution prevention and control</u> - Reduction of air pollution from transport  <u>Climate change mitigation</u> - Reduction of GHG emissions	<p>The Eligible Category is overall clear. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects. The category explicitly excludes internal combustion engine and hybrid vehicles for private vehicles, as well as investments linked to road construction or manufacturing of components for ineligible transport assets.</p> <p>The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.</p> <p>Areas for improvement include:</p> <ul style="list-style-type: none"> <li>- for public passenger transportation, to set a stricter emission threshold (e.g. 50gCO<sub>2</sub> per p-km) in line with international best practices as per existing standards (e.g. CBI Land Transport Criteria, EU Taxonomy). If possible, to set declining emission thresholds with target year to reach 0g CO<sub>2</sub>/km.</li> <li>- to provide more details or example projects related to "systems" and "infrastructure".</li> </ul>
Renewable Energy	Investments and expenditure including construction, operation and transmission <sup>16</sup> from renewable sources, including: <ul style="list-style-type: none"> <li>- Offshore and onshore wind</li> <li>- Solar</li> <li>- Hydropower (&lt; 25MW) including pumped storage equipment<sup>17</sup></li> </ul>	<u>Climate change mitigation</u> - Avoidance of GHG emissions	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects/Assets. The category has specified that transmission will be wholly dedicated to the transmission of energy from renewable energy sources, and explicitly excludes pump storage facilities that will be charged with fossil fuel energy.</p>

<sup>13</sup> Investments linked to road construction or manufacturing of components for ineligible transport assets are excluded.

<sup>14</sup> Light rail and mass rapid transit shall adhere to direct emissions threshold of <75gCO<sub>2</sub>/p-km (passenger trains) or <25gCO<sub>2</sub>/t-km (freight trains).

<sup>15</sup> Internal combustion engine and hybrid vehicles are excluded.

<sup>16</sup> Transmission will be wholly dedicated to the transmission of energy from renewable energy sources.

<sup>17</sup> Pump storage facilities will not be charged with fossil fuel energy OR facility is contributing to a grid which has at least 20% share of intermittent renewables.

ELIGIBLE GREEN CATEGORIES	ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
			<p>The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>
Pollution Prevention and Control	Investments and expenditure for developing and operating infrastructure and equipment for sewage and sludge treatment facilities and emission-efficient waste to energy. <sup>18</sup>	<p><u>Pollution prevention and control</u></p> <p>-</p> <p>Reduction of waste ending up in landfill</p> <p><u>Climate change mitigation</u></p> <p>-</p> <p>Reduction of methane leakage / GHG emissions</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, and the location of Eligible Projects. The category explicitly excludes projects involving treatment of hazardous waste. Although, the eligibility criteria could be further specified.</p> <p>Areas for improvement include:</p> <ul style="list-style-type: none"> <li>- For sewage sludge treatment, to require Eligible Projects to implement a monitoring plan to control potential methane leakage from relevant facilities.</li> <li>- For emission-efficient waste to energy projects: <ul style="list-style-type: none"> <li>o To set a threshold on the minimum energy recovery efficiency of the waste-to-energy facility.</li> <li>o To set requirement on no incineration of any recyclables and reusable waste.</li> <li>o To set a threshold on the minimum metal recovery rate from bottom ash.</li> </ul> </li> </ul> <p>The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.</p>
Sustainable Water and Wastewater Management	Investments and expenditures in projects and infrastructure dedicated to reduce water consumption, sustainably manage water resources, and reduce water pollution, including developing and improving water supply and management infrastructure <sup>19</sup> , urban drainage, and other flood control activities including construction of weirs.	<p><u>Sustainable water management</u></p> <p>-</p> <p>Water conservation / water saving</p> <p><u>Water pollution prevention and control</u></p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects. The category explicitly excludes long-distance water transfer projects. Although the Category has not set a minimum level of water-efficiency, the Framework indicates that the Issuer will also refer to meet relevant national requirements. In the case of China, there are both overarching and</p>

<sup>18</sup> Projects involving treatment of hazardous waste are excluded.

<sup>19</sup> Long-distance water transfer projects are excluded.

ELIGIBLE GREEN CATEGORIES	ELIGIBILITY CRITERIA	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
		- Reducing water pollution	sector-specific standard on water efficiency and design of relevant infrastructure. <sup>20</sup>  The intended environmental objectives are clearly defined and set in coherence with sustainability objectives defined in international standards.  The expected environmental benefits are clear. They are considered relevant, measurable, and will be quantified in the reporting.
Energy Efficiency	Investments and expenditure in projects that reduce energy consumption by at least 20% compared to the average of national energy consumption of an equivalent project or technology, including but not limited to modification of motor control systems, centralized district heating/cooling systems, smart grids and improved chillers. <sup>21</sup>	<u>Improving energy efficiency</u> - Energy savings	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects. The category explicitly excludes energy efficiency improvements that lead to lock-in of fossil fuel technologies.  An area for improvement is to specify the eligible sectors or technologies, in order to assess the level of the minimum 20% energy efficiency improvement against sector/technology-specific standards or other relevant benchmarking references.  The intended environmental objective is clearly defined and set in coherence with sustainability objectives defined in international standards.  The expected environmental benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.

<sup>20</sup> <http://ggjsb.mwr.gov.cn/zcfg/fl/>














<sup>21</sup> Energy efficiency improvements that lead to lock-in of fossil fuel technologies are excluded.

ELIGIBLE SOCIAL CATEGORIES	ELIGIBILITY CRITERIA	TARGET POPULATION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Access to Essential Services	<p>Investment and expenditure to provide affordable public healthcare services that bring social benefits to general public, including:</p> <ul style="list-style-type: none"> <li>- Construction or expansion of public hospitals for Tier 2 cities (or lower) including Western China regions</li> <li>- Provision of equipment to public hospitals, clinics, health care centers for the provision of free/subsidized health services or infrastructure for the provision of emergency medical response and disease control services (including COVID-19 related projects)</li> <li>- Drug development and medical device testing and investment covered by public health insurance schemes or public budget (including COVID-19 related projects)</li> </ul>	<p><i>For the first sub-category:</i></p> <p>General public in Tier 2 cities (or lower) including Western China regions</p> <p><i>For the second and third sub-categories:</i></p> <p>General public across China</p>	<p><u>Access to healthcare</u></p> <p>-</p> <p>Increasing public healthcare services</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects.</p> <p>The target population is clearly defined.</p> <p>The intended social objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>
Affordable Basic Infrastructure	<p>Investments and expenditure in infrastructure to provide clean drinking water for the general public for Tier 2 cities (or lower) including Western China regions. Infrastructure include raw water intake facilities and distribution network<sup>22</sup>.</p>	<p>General public in Tier 2 cities (or lower) including Western China regions.</p>	<p><u>Access to affordable clean drinking water</u></p> <p>-</p> <p>Improved availability of clean drinking water</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of Eligible Projects. The category explicitly excludes long-distance water transfer projects and bottled water production facilities.</p> <p>The target population is clearly defined.</p> <p>The intended social objective is clearly defined and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected social benefit is clear. It is considered relevant, measurable, and will be quantified in the reporting.</p>

<sup>22</sup> Long-distance water transfer projects and bottled water production facilities are excluded.

## SDG Contribution

The Eligible Categories are likely to contribute to seven of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Access to Essential Services	 3 Good Health and Well-Being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Sustainable Water and Wastewater Management	 6 Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Affordable Basic Infrastructure	 7 Affordable and Clean Energy	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all 6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations
Renewable Energy	 9 Industry, Innovation and Infrastructure	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	 11 Sustainable Cities and Communities	7.3 By 2030, double the global rate of improvement in energy efficiency
Energy Efficiency	 12 Responsible Production and Consumption	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	 13 Climate Action	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Pollution Prevention and Control	 13 Climate Action	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Sustainable Water and Wastewater Management	 13 Climate Action	12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Pollution Prevention and Control	 13 Climate Action	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Clean Transportation	 13 Climate Action	Take urgent action to combat climate change and its impacts
Renewable Energy	 13 Climate Action	
Energy Efficiency	 13 Climate Action	

## Evaluation and Selection of Eligible Projects



- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer, which is considered well-structured in all the evaluation and selection steps (including the proposal, selection, validation, monitoring of eligible projects). The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and the herewith SPO.
- Eligibility criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for a majority of Eligible Categories. The eligibility criteria of the Pollution Prevention and Control category could be further specified.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification, and corrective measures for nearly all of projects (see detailed analysis on pages 23 - 26).

### Process for Project Evaluation and Selection

- For the purpose of sustainable debt instruments issued under the Framework, the Bocomm Leasing Sustainable Finance Working Group (SFWG) was created. The SFWG consists of senior representatives from the following departments:
  - Financial Markets
  - Finance and Accounting
  - Legal and Compliance
  - Development and Research
- The SFWG may be supplemented from time to time, or expanded, by the inclusion of representatives from other relevant teams.
- For new issuances, Financial Markets will coordinate and compile the submission of identified projects for the SFWG's review. The identified projects' environmental and social credentials will be obtained and confirmed via liaison with relevant business partners and internal departments.
- The SFWG will consider potential projects, assess their eligibility, and approve those that qualify as eligible projects:
  - The SFWG will consider all proposed projects holistically and it will ensure that all approved projects financed under the framework have net-positive environmental and social impact for stakeholders and the wider society.
  - Where available, the SFWG will review the environmental or social assessments of the projects and their compliance with relevant policy requirements and market standards as part of the assessment process.
  - The SFWG will be responsible for the management of the Framework.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
  - The SFWG will review the eligibility of those projects every half-year throughout the life of the sustainable instruments. Should a project be considered by SFWG to be no longer meeting the criteria detailed above, projects can be removed and/or substituted on a best efforts basis.
  - ESG Controversy monitoring will be done prior to approval of the Eligible Projects, during credit assessment, and will be consequently updated on a yearly basis throughout the life of the debt instruments.
  - The decision-making process decisions will be recorded and traceable via meeting minutes.

### Eligibility Criteria

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental and social objectives defined for the Eligible Categories.

- The selection criteria are based on definitions in Eligible Categories defined Table 1 in the Use of Proceeds section. Please see the areas for improvement identified in the Use of Proceeds section.
- The list of exclusion criteria included in the Framework are clear and relevant for the Eligible Categories. In particular, the list refers to International Finance Corporation (“IFC”) Exclusion List (2007)<sup>23</sup> and also explicitly excludes financing of assets/projects in production, generation or trade of fossil fuels.

#### BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected projects with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument and has provided details on content, frequency, duration and on procedure adopted in case of non-compliance

<sup>23</sup> [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/company-resources/ifcexclusionlist](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist)

## Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework.
- The allocation period will be 24 months or less.
- Net proceeds of the debt instruments will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the debt instrument is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project ineligibility, postponement, cancelation or divestment, and it has committed to reallocate proceeds to projects that are compliant with the framework on a best efforts basis.

## Management Process

- The proceeds from each sustainable debt instrument issued will be credited to the Issuer's general account and managed by the Financial Markets with oversight by the SFWG. The Issuer will track the allocation of proceeds to eligible projects within its internal management system including descriptions of the projects, the regions in which the projects are located, and the amount of proceeds allocated to the projects.
- The Issuer has committed to review the eligibility of projects every half-year, to ensure the full amount of proceeds are allocated to Eligible Projects.
- The selected Eligible Projects will be clearly earmarked with respect to the specific sustainable debt instrument to avoid double counting.
- Pending allocation, net proceeds from the sale of the notes will be invested in cash, cash equivalents or deposits, subject to exclusions criteria, which include generation or trade in fossil fuel or several types of controversial activities
- In case of projects ineligibility, postponement, cancelation or divestment, the Issuer has committed to remove and/or substitute the projects on a best efforts basis.

### BEST PRACTICES

- ⇒ The allocation period is 24 months or less
- ⇒ The Issuer has committed not to invest temporarily unallocated net proceeds in production, generation or trade in fossil fuel or several types of controversial activities.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 24 months.

## Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available.
- The reporting will cover relevant information related to the allocation of proceeds and to the expected sustainable benefits of the projects.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Categories will be disclosed on-demand only and only to investors.
- Tracking and allocation of funds to Eligible Categories, as well as indicators used to report on their environmental and social benefits, will be verified only internally by the Issuer.

### Indicators

The Issuer has committed to transparently communicate instrument by instrument at Eligible Category level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are clear and relevant.

REPORTING INDICATORS
<ul style="list-style-type: none"> <li>⇒ Allocation amount by eligible project category, and clearly indicating the SDG(s) of which such allocation supports</li> <li>⇒ Allocation amount by geographical distribution</li> <li>⇒ Proportion between financing and refinancing</li> <li>⇒ Project examples, subject to confidentiality</li> <li>⇒ Amount of unallocated proceeds and its temporary treatment</li> </ul>

- Environmental/social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are clear and relevant. The Issuer also commits that in case of any co-financing of Eligible Projects, it will only claim and report the impact proportionate to the company's financing amount.

ELIGIBLE CATEGORIES	ENVIRONMENTAL AND SOCIAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Clean Transportation	- Number of electric vehicles/charging stations built	- Annual GHG emissions reduced/avoided (tonnes of CO <sub>2</sub> equivalent)
Renewable Energy	- Annual renewable energy generation (MWh for electricity) (GJ for other energy)	- Annual GHG emissions reduced/avoided (tonnes of CO <sub>2</sub> equivalent)
Pollution Prevention and Control	- Waste reduced/avoided (tonnes)	- Annual GHG emissions reduced/avoided (tonnes of CO <sub>2</sub> equivalent)

ELIGIBLE CATEGORIES	ENVIRONMENTAL AND SOCIAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Sustainable Water and Wastewater Management		<ul style="list-style-type: none"> <li>- Annual amount of fresh water conserved</li> <li>- Annual amount of water pollution avoided</li> </ul>
Energy Efficiency		<ul style="list-style-type: none"> <li>- Annual energy savings in (MWh for electricity) (GJ for other energy)</li> <li>- Annual GHG emissions reduced/avoided (tonnes of CO<sub>2</sub> equivalent)</li> </ul>
Access to Essential Services	<ul style="list-style-type: none"> <li>- Number of healthcare devices/facilities deployed</li> </ul>	<ul style="list-style-type: none"> <li>- Number of individuals/households benefitted</li> </ul>
Affordable Basic Infrastructure	<ul style="list-style-type: none"> <li>- Number of new household water/sanitation connections</li> </ul>	<ul style="list-style-type: none"> <li>- Number of people with access to connectivity</li> </ul>

Areas for improvement include:

- to commit to disclose the methodology and assumptions used to report on environmental and social benefits of the Eligible Categories at least to investors-bondholders;
- to commit to an external verification of the tracking and allocation of funds to Eligible Categories, as well as the indicators used to report on environmental and social benefits of the eligible projects.

#### BEST PRACTICES

- ⇒ The issuer report will be publicly available
- ⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting
- ⇒ The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Categories

## Contribution to sustainability

### Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be robust. The potential positive Impact of the eligible projects with environmental objectives is considered robust, whilst it is considered advanced for the eligible projects with social objectives.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Clean Transportation	ADVANCED	<p>Promoting clean transportation can help tackle air pollution and GHG emissions, both of which are amongst the biggest environmental issues in China. Although China is already leading in EV adoption and public transportation infrastructure globally, the Eligible Projects are expected to help further promote the wider adoption of EVs and also the expansion of low-emission public transportation modes. This is also one area where the Issuer is specialised in in terms of financial leasing services and one of the priority areas in the Group-level <i>Green Finance Policy</i>.</p> <p>For public transportation, the issuer has set emission thresholds: the threshold for freight trains (i.e. 25gCO<sub>2</sub>/p-km) is in line with that of CBI/EU taxonomy threshold for 2020, whilst the threshold for passenger trains (i.e. 75gCO<sub>2</sub>/p-km) being less ambitious (CBI/EU taxonomy threshold for 2020 is 50gCO<sub>2</sub>/p-km). Nevertheless, the threshold for passenger trains is still in line with IEA 2DS Passenger Activity threshold in 2020.<sup>24</sup> The category also explicitly excludes internal combustion engine and hybrid vehicles for private vehicles, as well as investments linked to road construction or manufacturing of components for ineligible transport assets.</p> <p>Areas for improvement include to set a stricter emission threshold (e.g. 50gCO<sub>2</sub> per p-km) for public passenger transportation, in line with international best practices as per existing standards (e.g. CBI Land Transport Criteria, EU Taxonomy), and also to provide more details or example of projects related to “systems” and “infrastructure”.</p>
Renewable Energy	ROBUST	<p>Developing renewable energy is key for the decarbonisation of the country’s energy mix and reducing its GHG emissions in order to achieve the national net zero carbon goal by 2060. This is also one of the priority areas in the Group-level <i>Green Finance Policy</i>.</p> <p>Although the category does not include specific technical performance criteria (e.g. energy efficiency of solar projects), it has at least clearly specified that transmission will be wholly dedicated to the transmission of energy from renewable energy sources, and explicitly excludes pump storage facilities that will be charged with fossil fuel energy.</p>
Pollution Prevention and Control	LIMITED	<p>The Eligible Projects could help promote better waste management. The category explicitly excludes projects involving treatment of hazardous waste.</p> <p>For sludge treatment, in case of anaerobic digestion, the level of expected impacts depends on whether there is proper monitoring and control of potential methane leakage from relevant facilities (e.g. for biogas production and storage, energy generation, digestate storage), and how the produced biogas will be utilised.</p> <p>For waste-to-energy (WtE), it is ranked low in the waste hierarchy. The Eligible Projects could potentially reduce the amount of waste ending in landfills and hence reduce associated environmental impacts (e.g. methane emission from landfill, groundwater pollution, etc.). However, it is worth noting that WtE projects will not completely abate GHG emissions and do not remove the need for landfills; and some projects may not be able to eliminate unsafe emissions, despite advanced emission control technologies.<sup>25</sup> In addition, investing in waste-to-energy could lead to lock-in such facilities, diverting necessary investment needed for promoting waste recycling and reuse.</p> <p>As highlighted in the Use of Proceeds section earlier, areas for improvement include setting more specific criteria or thresholds for sludge treatment facilities and waste to energy projects.</p>
Sustainable Water and Wastewater Management	ROBUST	<p>The Eligible Projects could help improve water and wastewater infrastructure and promote water efficiency and water pollution control. Although the definition of the category is overall broad and it has not set a minimum level of water efficiency, the Framework indicates that the Issuer will also refer to relevant national requirements. In</p>

<sup>24</sup> [https://www.climatebonds.net/files/files/CBI\\_Background%20Doc\\_Transport\\_Jan2020%20.pdf](https://www.climatebonds.net/files/files/CBI_Background%20Doc_Transport_Jan2020%20.pdf)

<sup>25</sup> <https://www.unenvironment.org/ietc/resources/publication/waste-energy-considerations-informed-decision-making>

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
		<p>the case of China, there are both overarching and sector-specific standard on water efficiency and design of relevant infrastructure.<sup>26</sup></p> <p>The category explicitly excludes long-distance water transfer projects.</p>
Energy Efficiency	ROBUST	<p>Promoting energy efficiency improvement is a crucial step to manage energy consumption and reduce air and GHG emissions from energy usage in China. The Issuer has set the criteria of minimum energy consumption reduction by at least 20% compared to the average of national energy consumption of an equivalent project or technology. The category also explicitly excludes energy efficiency improvements that lead to lock-in of fossil fuel technologies. An area for improvement is to specify the eligible sectors or technologies, in order to assess the level of the minimum 20% energy efficiency improvement against sector/technology-specific standards or other relevant benchmarking references</p>
Access to Essential Services	ADVANCED	<p>China still face significant challenges in terms of SDG 3 “Good health and well-being”.<sup>27</sup> Regional and urban-rural disparities and inequalities are also evident.<sup>28</sup> According to one ranking from Fudan University, top 100 hospitals in China are concentrated in only 21 cities, nearly half of which are in three of Tier 1 cities (Beijing, Shanghai, Guangzhou).<sup>29</sup> As of 2019, 16.3% of hospitals at county level and 27.7% in impoverished counties had not yet met basic national standards according to official evaluation.<sup>30</sup></p> <p>The Eligible Projects could help improve the infrastructure and needs for better healthcare and education, and help bridge the gaps in Tier 2 cities (or lower) including Western China regions, where the first subcategory specifically targets.</p> <p>For all three sub-categories, the eligibility criteria also focus on the “public” nature of the projects, either targeting public hospitals, clinics, health care centers that provide free/subsidised health services, or infrastructure for the provision of emergency medical response and disease control services, or investments on drug development and medical device that are covered by public health insurance schemes or public budget.</p>
Affordable Basic Infrastructure	ADVANCED	<p>The right to safe and clean drinking water and sanitation was recognized by the United Nations General Assembly in 2010 as a human right that is essential for the full enjoyment of life. Globally speaking, the investments in improving access to safe and clean drinking water and sanitation could bring a significant positive return in most regions.<sup>31</sup></p> <p>China still face significant challenges in terms of SDG 3 “Clean water and sanitation”. Despite improvement in providing access to safe drinking water in recent years, challenges still remain.<sup>27</sup> Improving drinking water safety and security and protecting water sources have been a key task, especially since the release of the national Action Plan on Water Pollution Prevention and Control in 2015.<sup>32</sup></p> <p>The Eligible Projects could help support further efforts in ensuring both safety and security of clean drinking water. The category specifically targets general public in Tier 2 cities (or lower) including Western China regions, where such investments and financing support are more needed.</p> <p>The category has explicitly excluded long-distance water transfer projects and bottled water production facilities.</p>
OVERALL ASSESSMENT	ROBUST	

<sup>26</sup> <http://ggjsb.mwr.gov.cn/zcfg/fl/>

<sup>27</sup> <https://dashboards.sdindex.org/profiles/CHN>

<sup>28</sup> [https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667\(20\)30268-1/fulltext](https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667(20)30268-1/fulltext)

<sup>29</sup> <https://www.yicai.com/news/100838075.html>

<sup>30</sup> <http://www.nhc.gov.cn/yzygj/s3593g/202007/f124d3fe0ba64b408741f30a38e71dbf.shtml>

<sup>31</sup> <https://unesdoc.unesco.org/ark:/48223/pf0000375724>

<sup>32</sup> [http://www.gov.cn/xinwen/2020-05/17/content\\_5512338.htm](http://www.gov.cn/xinwen/2020-05/17/content_5512338.htm)

## ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental and social risks associated with the Eligible Projects are considered robust.

Overall, Bocomm Leasing has established its ESG risks management processes (identification, monitoring, and mitigation/prevention) by following both Group and company-level policies, as well as relevant national regulations/guidelines:

- As a wholly-owned subsidiary of Bank of Communications, Bocomm Leasing is subject to the overall ESG policies of Bocomm Group, including *Bank of Communications Co Ltd Green Finance Policy (J.Y.F. [2021] No. 5)* issued on February 2<sup>nd</sup>, 2021 (an update of an earlier Group-level green credit policy back in 2012) and the *Social Responsibility Policy*.<sup>33</sup>
- The Group-level *Green Finance Policy* is established in accordance with national policies on green credit and climate finance, and defines the scope of green credits following the national guidelines such as *Guiding Catalogue for the Green Industry (2019)*<sup>34</sup>. The Policy has identified key areas such as environmental protection, energy saving, clean energy, clean transportation, green building, climate change mitigation and adaptation.
- At the Group level, the Social Responsibility (ESG) and Consumer Protection Committee is established at the Board level, which is responsible for setting ESG policies, and monitoring and evaluating performance. The Committee is also responsible for reviewing green credit reports on an annual basis.
- Across the Group, Measures for Green Credit Management include: 1) serving the new national energy security strategy; 2) strictly implementing the green credit access system; 3) actively evaluating customers' environmental and social performance; 4) ensuring front offices fulfil green credit operation evaluation responsibilities; and 5) identifying training on green credit.

### Risk identification

The Group-level *Green Finance Policy* explicitly requires integration of environmental and social risks into comprehensive risk management and the credit granting process. It also highlights environmental and social risks as important aspects of the due diligence process, which will be determined based on the sector of the clients and the projects, as well as regional characteristics. Based on the risks identified, checklists of compliance documents and risk assessment will be created to check the compliance, validity and completeness of documents and procedures presented by the client.

This is one of the Measures for Green Credit Management mentioned above:

- *Strictly implementing the green credit access system: include environmental and social risks into the project evaluation & review and contract approval process, and carry out the "one-vote veto" system for green credit to ensure targeted allocation of funds as well as safe and compliant use of credit loans.*

Bocomm Leasing reports that projects that are inconsistent with national industrial policies, or violate industry supervision and environmental protection requirements are strictly prohibited; and for any matters not covered within internal policies, the projects will be subject to minimum requirements in relevant national regulation/policies.

Moreover, as per the *Green Finance Policy*, overseas projects are required to comply with relevant laws and regulations on environmental protection, land use, health and safety; and for those publicly committing to adopt international practices or principles, their operations are required to be aligned with international best practices.

### Risk monitoring

The Group-level *Green Finance Policy* explicitly requires active monitoring of clients' environmental and social risks, which will serve as important evidence for business engagement, management or termination/exit. This is also one of the Measures for Green Credit Management mentioned above:

- *Actively evaluating customers' environmental and social performance: Closely track external information such as environment and production safety accidents, improve the accuracy of green credit classification identification, and*

<sup>33</sup> <http://www.bankcomm.com/BankCommSite/shtml/jvir/cn/7768/7802/7854/2634740.shtml>

<sup>34</sup> [https://www.ndrc.gov.cn/gzdt/201903/t20190305\\_930083.html](https://www.ndrc.gov.cn/gzdt/201903/t20190305_930083.html) (Chinese only)

*adopt timely measures against enterprises that fail to meet environmental protection emission standards or that severely pollute the environment to help fight the battle against pollution.*

Clients' environmental and social risks are also monitored as part of post-credit management: those with major risks will enter a specific list, with identification or implementation of specific mitigation measures. The Group also requires relevant departments to report major environmental and social events (i.e. ESG controversies) of clients/projects to corresponding departments at the headquarter, and assess potential impacts on those clients' operations.

According to internal document provided by Bocomm Leasing, its internal performance evaluation includes indicators related to green/social financing towards prioritised sectors/projects; however, based on the presented evidence, there is limited information on specific risk factors considered.

#### Risk mitigation/preventive measures

The *Green Finance Policy* suggests using contract clauses to push clients to strengthen environmental and social risks management, and also checking clients' ESG performance as key evidence for the disbursement of credit funds. For clients with major risks, it should suspend until termination of fund disbursement.

In addition to making a list of clients which are involved in major environmental and/or social risks, future risk prevention is also done through internal training and internal performance review:

- As part of the Measures for Green Credit Management, online courses will be held on green credit including *Guide on Credit Granting and Prevention of High-risk Industries and Green Finance*, to help credit personnel across the Bank to obtain full knowledge of green credit business, ensuring compliant and stable business operations. It is reported that during the 2020 reporting period, 128 online courses were held across the whole Group.
- In case of any risk events, relevant departments will face deduction of scores in their annual performance evaluation; in case of major risk events or violation, the department will be disqualified from performance award.

In addition the general process above, the following part provides further assessment for each specific risk relevant to the Eligible Projects. For some of the risks, as highlighted below, there is insufficient information/evidence on whether the existing process will definitely cover those risks, and if yes, how Bocomm Leasing will assess and monitor potential negative impacts, and in case such risks occur, require their clients to implement mitigation/corrective measures.

In the meantime, it is noted that although Bocomm Leasing, as a financial leasing company, may be the legal owner of the assets/projects for the duration of the lease, it does not have direct operating control over the assets/projects. As a result, it would have a limited role in forcing its clients (i.e. the operators of the Eligible Projects) to implement mitigation or corrective measures.

#### Environmental management system and environmental impact assessment

According to the Group-level CSR report 2020, as part of its future plan, "*the Bank will carry out environmental risk assessment, refine environmental risk management requirements, and effectively increase the contribution of green finance to climate change*". Such commitments also apply to Bocomm Leasing.

Although no specific requirement is found for financed projects to an EMS or ISO140001 certification, based on the overall ESG risks management process described above, the Eligible Projects will follow national regulations on environmental impact assessment (EIA), and if required, are expected to provide EIA report and approval as evidence.

#### Eco-design and life cycle impacts

There is insufficient information nor evidence whether/how Bocomm Leasing will require the Eligible Projects to have an eco-design approach or life cycle impact assessment. The risk identification, monitoring and mitigation process may capture events related to this risk.

#### Protection of biodiversity and ecosystems

There is insufficient information nor evidence whether/how Bocomm Leasing will assess and monitor potential negative impacts of the Eligible Projects on biodiversity and ecosystems. As a result, the risk management process of the Eligible Projects are expected to follow relevant national regulations. The risk identification, monitoring and mitigation process may capture events related to this risk.

### Energy use and GHG emissions

In accordance the Group-level *Green Finance Policy* and the *Social Responsibility Policy*, Bocomm Leasing's credit policies are required to contribute to the national goals of "hitting peak carbon emissions before 2030 and reaching carbon neutrality by 2060". Bocomm Leasing commits to improve its green credit management system, give priority to low carbon and environment-friendly industries, such as clean energy. In addition, the Group has formulated requirements related to green credit in energy conservation and environmental protection industry.

However, there is limited evidence on whether/how Bocomm Leasing will assess and monitor energy performance and GHG emissions for a majority of the Eligible Projects, and minimise/mitigate negative impacts from energy use and GHG emissions.

### Adapting to climate change impacts

There is insufficient information nor evidence on whether Bocomm Leasing will assess and monitor the Eligible Projects' risks in adapting to climate change impacts (e.g. extreme weathers, sea level rise, etc.).

### Pollution prevention and control, prevention and mitigation of environmental/industrial accidents and inconveniences

The Group-level Measures for Green Credit Management include to "*adopt timely measures against enterprises that fail to meet environmental protection emission standards or that severely pollute the environment to help fight the battle against pollution*". For specific pollution or environmental/industrial accidents and inconveniences, Bocomm Leasing is expected to follow relevant national regulations and standards, depending on the sector of the clients and the type of the Eligible Projects.

### Fundamental human and labour rights

In accordance with the Group-level Measures for Green Credit Management, Bocomm Leasing is required to actively evaluate customers' social performance. The risk identification, monitoring and mitigation process may capture events related to this risk.

However, there is insufficient information or evidence on how specific factors on human and labour rights will be integrated in assessing and monitoring the Eligible Projects.

### Health and safety of workers and local stakeholders

In accordance with the Group-level Measures for Green Credit Management, Bocomm Leasing is required to actively evaluate customers' social performance. "Production safety accidents" is explicitly mentioned as part of "actively evaluating customers' environmental and social performance", one of the Measures for Green Credit Management. The risk identification, monitoring and mitigation process may capture events related to this risk.

However, there is insufficient information or evidence on the extent/scope of risks covered by the existing process in relation to health and safety of workers and local stakeholders associated with the Eligible Projects.

### Promote dialogue with local stakeholders and communities

In accordance with the Group-level Measures for Green Credit Management, Bocomm Leasing is required to actively evaluate customers' social performance. The risk identification, monitoring and mitigation process may capture events related to this risk. Moreover, according to the Group-level *Social Responsibility Policy*, annual reporting and disclosure on performance in social impacts from the financing activities will be conducted.

However, there is insufficient information on what specific evidence that Bocomm Leasing may check, in particular related to grievance mechanism for the financed projects.

### Requirements on the integration of environmental and social factors in supply chain

In accordance with the Group-level Measures for Green Credit Management, Bocomm Leasing is required to actively evaluate customers' environmental and social performance. There is no specific requirement on its clients to manage environmental and social factors along the supply chain; however, some factors may still be covered during the risk identification and monitoring process, especially if a major event occurs.

In addition, Bocomm Leasing commits to improve its green credit management system, give priority to low carbon and environment-friendly industries

### Business ethics

Bocomm Leasing follows the Group-level policies on business conduct and social responsibilities, in particular the *Social Responsibility Policy*.

In accordance with the latest regulation from the People's Bank of China<sup>35</sup>, Bocomm Leasing has established its own Money Laundering Risk Assessment Policy (2021) which provides principles and guidelines that cover all geographies, clients, projects and departments, including the financed Eligible Projects.

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<sup>35</sup> <http://www.pbc.gov.cn/fanxiqianju/135153/135163/135169/4178278/index.html>

# ISSUER

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Bocomm Leasing is a wholly owned subsidiary of Bank of Communications. Established in 2007, Bocomm Leasing is headquartered in Shanghai. It is one of the leaders in aircraft and shipping leasing in China.<sup>36</sup>

## Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against Bocomm Leasing over the last four years.

## Involvement in Controversial Activities

The Issuer appears to be not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

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<sup>36</sup> <https://www.moodys.com/credit-ratings/Bank-of-Communications-Financial-Leasing-credit-rating-824291210/summary>

# METHODOLOGY

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In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

## FRAMEWORK

### Alignment with the Green and Social Bond and Loan Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2018 ("GBP") and the Social Bond Principles - June 2020 ("SBP"), and the Loan Market Association's Green Loan Principles – February 2021 ("GLP") and the Social Loan Principles – April 2021 ("SLP"), and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

#### Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

#### Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

#### Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

#### Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;<sup>37</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

### Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

### Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

<sup>37</sup> The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

## V.E'S ASSESSMENT SCALES

Scale of assessment of financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

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