

**BOC Hong Kong (Holdings) Limited**  
**ESG Sensitive Sector Strategy Statement**

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# 1 Purpose

In order to foster the implementation of sustainability strategies and targets of BOC Hong Kong (Holdings) Group (the Group), enhance the resilience of our portfolio to climate change, and fully demonstrate the Group's commitment to sustainability in the ordinary course of business, this “ESG Sensitive Sector Strategy Statement” is formulated to specify our mid-term strategies towards ESG sensitive sectors during the provision of financial services, with an aim to support the Group’s long term sustainability plan.

Taking into consideration of the implementation progress of the Group’s sustainability targets and changes in sustainability-related international standards, regulatory requirements and market developments, this Strategy Statement will be subject to review when appropriate.

## **2 Scope of Application**

This Strategy Statement is applicable to the Group's credit business (include all loans, overdrafts, trade finance, etc.), financial market business (e.g. bond and equity investments, underwriting of financial instruments), while this is not applicable to asset management business.

## 3 Policy and Principle

### 3.1 General Principle<sup>1</sup>

In order to implement the requirements of “*BOC Hong Kong (Holdings) Limited Sustainability Policy*” to operate its business in a sustainable and responsible manner while balancing its stakeholders’ interests, this Strategy Statement aims to specify that the Group adopts a prudent appetite and strategy for industries that may pose significant adverse impacts towards climate, environment and biodiversity, society and requires customers to strictly comply with the laws and regulations in the respective industries and countries/regions where they operate. The following general strategies and principles are implemented in all applicable financial services stipulated in this Strategy Statement.

#### 3.1.1 Climate change-related

Climate change is one of the most pressing and widely concerned sustainability issues in the world and the Group places great emphasis on the impact of climate change. For those industries with high carbon emissions that pose significant impacts to climate change such as energy, coal-fired power generation, coal mining, oil and gas industries, etc., taking into account the needs for securing stable energy supply, the Group will promote customers’ low-carbon transition in an orderly manner and avoid blind suspensions or withdrawals of loans, and adopt the following strategies:

- Financing will be prioritized to green or decarbonization/transition purpose;
- Project financing for certain industries are restricted;
- Apply differentiated business strategies<sup>2</sup> for customers who fail to provide low-carbon transition plans which is consistent

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<sup>1</sup> The “customer” stated in this Strategy Statement refers to the customer that our Group directly provide financial services, but not refers to the group that the customer belongs.

<sup>2</sup> Relevant control measures do not apply to business which involve development of renewable energy or clean technology, supporting customers' low-carbon transition or non-coal related activities.

with our Group's sustainability targets and the local requirements of the countries/regions where customers operate<sup>3</sup>.

### **3.1.2 Environment and biodiversity-related**

Over-exploitation of land, pollution, climate change and other issues are currently threatening the natural environment and biodiversity. In order to promote the conservation of environment and biodiversity, the Group requires customers to strictly comply with the laws on the protection of environment and biodiversity and pays close attention to the impacts on environment and natural ecosystem (including biodiversity) caused by the customers' operating activities and understands whether appropriate mitigation measures have been adopted to minimize the impacts. For customers or projects involving the following behavior which induce adverse impacts on environment and natural ecosystem that cannot be readily eliminated, the Group will not provide financial services that fall within the scope of application and existing businesses involved will be exited as soon as feasible:

- Illegal logging; or
- Severely damage High Conservation Value (HCV) or High Carbon Stock (HCS) forests; or
- Severely damage critical habitats, significant biodiversity areas or national nature reserves (e.g. Ramsar wetlands); or
- Transaction involve trading of species regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

### **3.1.3 Social related**

The impact on society is also one of the key considerations when the Group provides financial services. The Group pays close attention to the harm and impact on society that may be caused by

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<sup>3</sup> Including the carbon neutrality target and other nationally determined contributions made by the countries as being one of the parties to the Paris Agreement.

customers or projects during their course of operations (e.g. labor, safety of product and service, resettlement of indigenous community or local residents, conservation of cultures and customs, etc.) and understands whether appropriate mitigation measures have been adopted to minimize the impacts. For the following behavior that induce significant harm or impact to society, the Group will not provide financial services that fall within the scope of application:

- Project which directly damage the UNESCO World Heritage Sites; or
- Customer involve human trafficking, forced labor or child labor; or
- Transaction involve manufacturing, sales and purchase of lethal arms and weapons; or
- Transaction involve financing and investment for gambling purpose (legal and charitable organization is exempted); or
- Directly engaged in pornography.

In addition, for those industries that are more likely to induce significant adverse impacts on climate, environment and biodiversity, society, the Group has also specified corresponding concerns and principles, in order to ensure that customers or projects will not induce significant adverse impacts towards climate, environment and biodiversity, society.

## 3.2 Sector Requirements

### 3.2.1 Energy

Energy sector is one of the major sources of the world's greenhouse gas emissions. While facing pressure of emission reduction, the sector is now on its path to achieve low carbon transition. On the other hand, the development and operation of energy use or facilities may also have varying level of impacts on the surrounding environment, natural ecosystem and local communities. The Group will:

- Specify certain strategies and measures (refer to the requirements stipulated in Section 3.2.3 and 3.2.4) for those highly concerned energy industries with high carbon emissions (include: coal-fired power generation and oil and gas);
- Prioritize financing to green or decarbonization/transition purpose and promote and support customers' low-carbon transition in an orderly manner;
- Pay attention to the impacts on climate change caused by customers during the course of operation and the corresponding plans and measures (e.g. management of the greenhouse gas emission, compliance with the local energy policy and regulations etc.);
- Pay attention to the negative impacts arising from the projects/facilities on the environment, biodiversity and local residents, the communication between customers and the local government and communities, and whether appropriate mitigation measures are adopted etc.;
- Pay attention to the potential safety concerns arising from the projects, such as nuclear accidents and the disposal of radioactive wastes etc., and the customer's mechanisms to handle and deal with the occurrence of major incidents. Moreover, nuclear operation shall also be complied with the safety standards issued by International Atomic Energy Agency (IAEA) and the relevant local laws and regulations in



relation to nuclear power.

### **3.2.2 Mining**

The mining industry produces a wide variety of basic raw materials or resources to other industries, such as fuels, metals, minerals etc., which plays an important role in supporting the social and economic development. Nevertheless, improper site selection for mining project may damage the natural ecosystem and biodiversity, and the pollutants and noise generated during the mining process may also pose negative impacts on the surrounding environment and residents (e.g. groundwater pollution, soil erosion, community health, etc.). In order to promote customers in the mining industry to operate with accordance to good international practices and avoid causing significant environmental pollution and even threatening the surrounding communities and wildlife, the Group will not provide financial services that fall within the scope of application to customers or projects which involve:

- Customer which involve direct marine or riverine tailings disposal; or
- Project which involve asbestos mine; or
- Mining process involve severely damage critical habitats, significant biodiversity areas or national nature reserves (e.g. Ramsar wetlands).

Existing businesses involving the above prohibited scope should be exited as soon as feasible. For coal mining and oil and gas extraction, the requirements stipulated in Section 3.2.3 and 3.2.4 shall also be complied with.

Furthermore, the Group will pay close attention to the impacts on the environment, natural ecosystem and society due to the operation of our customers in the mining industry and the corresponding mitigation measures adopted by customers (e.g. whether proper mechanism for handling the pollutants and waste disposal are established, resettlement and compensation measures of local residents), and the communication with the local

government and communities etc. In addition, where feasible, customers are encouraged to compensate the losses of natural ecological environment (e.g. mine reclamation or ecological restoration).

### 3.2.3 Coal-fired power generation and Coal mining

In order to facilitate the implementation of the Paris Agreement, each party to the Paris Agreement have already formulated or will formulate their own carbon neutrality target and strive to achieve commitments of different level of greenhouse gas emission reduction (depending on the nationally determined contribution targets of each party) by 2030. Considering coal combustion is one of the major sources of the world's greenhouse gas emissions, coal-related sectors are the main focus of low-carbon transition, therefore the Group targets to exit the financial services that fall within the scope of application involving coal-fired power generation and coal mining where customers fail to meet the requirements stipulated in the General Principle by 2040 or before. Prior to fully exit, the Group will:

- Not provide **project financing** (except for those already contracted) to the following projects<sup>4</sup>:
  - ✧ New (including expansion of existing) coal-fired power generation and coal mining projects; or
  - ✧ The development of infrastructure dedicated to support the operation of the new (including expansion of existing) coal-fired power generation and coal mining projects mentioned above.
- Stop onboarding any **new customers** who do not have existing credit relationship with our Group at the customer group level, fail to provide transition plan which is consistent with the sustainability targets of our Group and the

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<sup>4</sup> Since Oct 2023, BOCHK Group has no longer provided project financing to new coal-fired power generation and coal mining projects, the prohibited scope now extends to project financing to the development of infrastructure dedicated to support the operation of new coal-fired power generation and coal mining projects.

country/region where customer operate and derive more than or equal to 25% of revenue from coal-fired power generation and coal mining.

- Require **existing customers** to provide their transition plans and complete transition plan assessments by the end of 2025. Based on the transition plan assessment result, the Group will cease providing new financing for coal-fired power generation and coal mining (Existing financing will be terminated according to contractual arrangements) to customers who do not have a transition plan consistent with the sustainability targets of our Group and the country/region where customer operate.

### 3.2.4 Oil and Gas

During the process of energy transition and achieving the carbon neutrality target, oil and gas still play a critical role as a transitional energy, therefore the Group will continue to provide financing for the oil and gas sector. However, working towards carbon neutrality in the long run, some of the unconventional oil and gas projects will produce more greenhouse gas emissions or have significant adverse impacts to the natural environment during the extraction process. Therefore, the Group will:

- Not provide **project financing** to projects which involve the exploration or extraction of oil and gas in the Arctic and Amazon region;
- Not provide **project financing** to projects which involve the exploration or extraction of oil sands and extra heavy oil<sup>5</sup>;
- Pay attention to the customer's management of the greenhouse gas emission (especially methane emission) and understand whether customers have formulated plan for emission reduction, carbon capture or reuse measures. Credit strategy will be adjusted if applicable and financing will be prioritized to green or decarbonization/transition purpose;

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<sup>5</sup> Extra heavy oil is defined as American Petroleum Institute (API) gravity scale below 10°.

- Pay attention to the customer's management on the environmental protection, operational safety and the handling of the occurrence of major incidents (e.g. oil leakage) in the oil and gas sector and understand whether appropriate mitigation mechanisms have been formulated.

### **3.2.5 Forestry**

Forests contain wide variety of natural resources and are also the habitats for most of the animals and plants. They also play an importance role in water circulation, mitigating climate change and maintaining the sustainability of the ecosystem. However, excessive deforestation and over-exploitation of land may threaten the natural environment and biodiversity, while may also exacerbating global warming. Therefore, the Group pays close attention to the impacts on the environment and natural ecosystem due to the operation of our customers in the forestry industry, and understands whether appropriate mitigation measures have been adopted to minimize the impacts. In order to ensure that customers in the forestry industry comply with good international practices and avoid damaging natural forest environments or affecting indigenous communities and biological species that depend on the associated forests, the Group will not provide financial services that fall within the scope of application to customers which involve below behavior:

- Illegal logging; or
- Logging in High Conservation Value (HCV) or High Carbon Stock (HCS) forests; or
- Deforestation that pose significant adverse impact on biodiversity or natural habitats.

Existing businesses involving the above prohibited scope should be exited as soon as feasible.

### **3.2.6 Agriculture**

According to the “Global Forest Resources Assessment 2020 Remote Sensing Survey” published by the Food and Agriculture Organization of the United Nations (FAO), agricultural related expansion (including cropland, livestock grazing and palm oil) are the main driver of deforestation. In addition, improper use of pesticides may also affect the surrounding soil and ecological environment as well as the health of biological species. Therefore, the Group pays close attention to the impacts on the environment and natural ecosystem due to the operation of our customers in the agricultural industry and understands whether appropriate mitigation measures have been adopted to minimize the impacts. In order to avoid customer’s operation or behavior induce significant adverse impacts on environment and biodiversity, the Group will not provide financial services that fall within the scope of application to customers which involve below behavior:

- Plantation involve severely damage High Conservation Value (HCV) or High Carbon Stock (HCS) forests; or
- Plantation involve severely damage critical habitats, significant biodiversity areas or national nature reserves (e.g. Ramsar wetlands).

Existing businesses involving the above prohibited scope should be exited as soon as feasible.

#### **3.2.6.1 Palm Oil**

Since palm oil is widely used (such as food manufacturing, biofuel, cleaning supplies, etc.) and the economic value is relatively high, some practitioners may operate through inappropriate practices (such as burning forest or deforestation) or develop palm oil plantations on peatlands which act as high carbon sinks. In order to ensure that customers comply with the sustainability principles in the palm oil industry, the Group will not provide financial services that fall within the scope of application to customers

which involve below behavior:

- Illegal operations; or
- Failure to commit<sup>6</sup> and implement the principles of “No Deforestation, No Peat and No Exploitation” (NDPE).

Existing businesses involving the above prohibited scope should be exited as soon as feasible.

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<sup>6</sup> Customers are required to obtain certification from internationally or locally recognized sustainable palm oil certification programmes, such as: Roundtable on Sustainable Palm Oil (RSPO) or Malaysian Sustainable Palm Oil (MSPO) or Indonesian Sustainable Palm Oil (ISPO) certification, etc., so as to ensure that customers comply with relevant sustainability principles. For customers who may be unable to obtain relevant certification immediately due to new development or acquisition of plantations, the customers must also commit to comply with the NDPE principles during the provision of financial services by the Group and should establish an action plan to obtain relevant certification within a reasonable timeframe.