

Management Discussion and Analysis

Financial Review	20	Economic and Financial Environment
	21	Income Statement Analysis Net Interest Income and Net Interest Margin Non-interest Income Operating Expenses Impairment Losses on Assets Income Tax Expense
	27	Financial Position Analysis Loans and Advances to Customers Investments Due to Customers Equity
	32	Off-balance Sheet Items
	32	Cash Flow Analysis
	33	Segment Reporting by Geography
	34	Critical Accounting Estimates and Judgements
	34	Fair Value Measurement
	34	Other Financial Information

Management Discussion and Analysis — Financial Review

Economic and Financial Environment

In 2020, affected by the COVID-19 pandemic, the global economy situation has become more complex and uncertain amid serious recession, with international trade and investment plunging. Major economies experienced divergent growth patterns. The US, the EU and Japan were mired in a deep economic recession, with Brexit exacerbating Europe's economic woes. By contrast, a number of emerging economies led the recovery.

Global monetary policy entered an easing cycle. The US Federal Reserve slashed interest rates twice in succession. The European Central Bank and Bank of Japan continued to adopt negative interest rates. The balance sheets of major economies' central banks remained at high levels as central banks conducted large-scale asset purchases, while interest rate cuts occurred in most emerging economies. As a result, global liquidity remained relatively abundant. International financial markets gradually stabilised after drastic fluctuations. Stock markets around the world experienced a robust rebound after languishing at low levels, and bond markets saw declining yields. Commodity prices fluctuated within a broader band, and the gold price reached a record high. The US dollar index trended downwards. The exchange rates of major emerging economies began to diverge. Currencies of Latin American countries depreciated, while those of Asian emerging economies appreciated slightly.

The Chinese government carried out COVID-19 pandemic prevention and control and promoted economic and social development, making the utmost efforts to ensure stability on the six fronts (namely, employment, financial sector, foreign trade, foreign investment, domestic investment, and expectations) and security in the six areas (namely, employment, the people's basic livelihood, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments), thus driving positive economic growth across the whole year. The economic structure continued to be optimised, high-tech industries maintained rapid growth, and new patterns

and new models of the digital economy constantly emerged. New achievements were made in high-level opening-up. The *Master Plan for the Hainan Free Trade Port* was released and implemented, and the Regional Comprehensive Economic Partnership (RCEP) Agreement was officially signed. The structure of export products continued to improve. In 2020, China's gross domestic product (GDP) increased by 2.3%. Total retail sales of consumer goods (TRSCG) dropped by 3.9%, total fixed asset investments (TFAI) grew by 2.9%, exports rose by 4.0%, value added of high-tech manufacturing climbed by 7.1%, and the consumer price index (CPI) went up by 2.5%.

The People's Bank of China adopted a sound monetary policy in a more flexible, more appropriate and better targeted manner, so as to create a favourable monetary and financial environment for stabilising market entities and securing employment, and to provide strong support for pandemic prevention and control and economic recovery. Market-oriented financial reform continued to gather pace, the new *Securities Law of the People's Republic of China* was implemented, the *Measures for Assessment of Systemically Important Banks* was released, and the supervision of internet finance was continuously enhanced. Overall, financial markets operated smoothly, liquidity was maintained at an adequate and reasonable level, and RMB exchange rates became more flexible. The outstanding broad money supply (M2) grew by 10.1% year-on-year. Outstanding RMB loans increased by RMB19.6 trillion, RMB2.8 trillion more than the increase amount of the prior year. The outstanding all-system financing aggregates amount was RMB284.83 trillion, an increase of 13.3% compared with the previous year. The cumulative value of bond issuances expanded to a total of RMB56.9 trillion, an increase of 26% compared with the prior year. The central parity rate of RMB against USD was up by 6.92% compared with the prior year-end. The SSE Composite Index increased 423 points compared with the end of the prior year. The combined market capitalisation of the Shanghai and Shenzhen Stock Exchanges stood at RMB64.36 trillion, an increase of 33.12% year-on-year.

Management Discussion and Analysis — Financial Review

China's banking institutions dedicated more efforts to serving the real economy and adopted various measures to address the difficulties of micro, small and medium-sized businesses and private enterprises, improving the service quality and efficiency. The banking sector actively supported major state strategies and key national projects, and bolstered technological innovation and advanced manufacturing. Banking institutions actively realised the concept of green development and facilitated the development of energy-saving and environmental protection industry chains. They continuously pushed forward China's two-way opening-up and accelerated technological empowerment. The banking industry improved financial risk management, replenished capital through multiple channels and safeguarded the bottom line that no systemic risk should occur. As at the end of 2020, the total assets of China's banking industry grew by 10.1% from the prior year-end to RMB319.7 trillion, while total liabilities increased by 10.2% to RMB293.1 trillion. Commercial banking institutions recorded an aggregate profit after tax of RMB1.94 trillion. Outstanding non-performing loans (NPLs) stood at RMB2.7 trillion at the year-end, with an NPL ratio of 1.84%.

Income Statement Analysis

In line with the designated "Year of Enhanced Implementation", the Bank made continuous efforts to build an enhanced version of the Group's development strategy. It coordinated each aspect of its work with the fight against COVID-19 and the pursuit of reform and development, stimulated vitality, made agile response, and achieved breakthroughs in key areas, and maintained sound momentum towards making progress while ensuring stability in operations and management. In 2020, the Group achieved a profit for the year of RMB205.096 billion, an increase of RMB3.205 billion or 1.59% compared with the prior year. It realised a profit attributable to equity holders of the Bank of RMB192.870 billion, an increase of RMB5.465 billion or 2.92% compared with the prior year. Return on average total assets (ROA) was 0.87%, and return on average equity (ROE) was 10.61%.

The principal components and changes of the Group's consolidated income statement are set out below:

Unit: RMB million, except percentages

Items	2020	2019	Change	Change (%)
Net interest income	415,918	390,050	25,868	6.63%
Non-interest income	151,729	159,960	(8,231)	(5.15%)
Including: net fee and commission income	75,522	73,812	1,710	2.32%
Operating income	567,647	550,010	17,637	3.21%
Operating expenses	(202,411)	(198,269)	(4,142)	2.09%
Impairment losses on assets	(119,016)	(102,153)	(16,863)	16.51%
Operating profit	246,220	249,588	(3,368)	(1.35%)
Profit before income tax	246,378	250,645	(4,267)	(1.70%)
Income tax expense	(41,282)	(48,754)	7,472	(15.33%)
Profit for the year	205,096	201,891	3,205	1.59%
Profit attributable to equity holders of the Bank	192,870	187,405	5,465	2.92%

A detailed review of the Group's principal items in each quarter of 2020 is summarised in the following table:

Unit: RMB million

Items	For the three-month period ended			
	31 December 2020	30 September 2020	30 June 2020	31 March 2020
Operating income	137,345	143,319	138,440	148,543
Profit attributable to equity holders of the Bank	47,159	44,794	48,334	52,583
Net cash flow from operating activities	23,184	(87,513)	(296,989)	434,346

Management Discussion and Analysis — Financial Review

Net Interest Income and Net Interest Margin

In 2020, the Group achieved a net interest income of RMB415.918 billion, an increase of RMB25.868 billion or 6.63% compared with the prior year. Specifically, interest income grew by RMB2.063 billion or 0.27% to RMB760.070 billion, and interest expense reached RMB344.152 billion, a decrease of RMB23.805 billion or 6.47% compared with the prior year.

Interest Income

In 2020, interest income on loans was RMB550.354 billion, an increase of RMB16.989 billion or 3.19% compared with the prior year, which was primarily attributable to an increase in loan scale.

Interest income on investments amounted to RMB150.553 billion, a decrease of RMB4.573 billion or 2.95% compared with the prior year, mainly due to a decrease in investment yield.

Interest income on balances with central banks and due from and placements with banks and other financial institutions was RMB59.163 billion, a decrease of RMB10.353 billion or 14.89% compared with the prior year, mainly due to a decrease in yield of balances with central banks and due from and placements with banks and other financial institutions.

Interest Expense

In 2020, interest expense on due to customers was RMB258.439 billion, a decrease of RMB10.885 billion or 4.04% compared with the prior year, principally due to a decrease in the interest rate of deposits.

Interest expense on due to and placements from banks and other financial institutions was RMB49.994 billion, a decrease of RMB17.697 billion or 26.14% compared with the prior year, primarily attributable to a decrease in the interest rate of due to and placements from banks and other financial institutions.

Interest expense on bonds issued was RMB35.719 billion, an increase of RMB4.777 billion or 15.44% compared with the prior year, mainly attributable to an increase in the scale of bonds issued.

Net Interest Margin

In 2020, the Group's net interest margin was 1.85%, a decrease of 4 basis points compared with the prior year. This was mainly due to a decrease in asset yields caused by cuts to both the loan prime rate (LPR) and US dollar interest rates. The Bank continuously optimised its assets and liabilities structure. It strengthened control over debt costs and actively reduced high-cost deposits, with the average interest rate of Group's interest-bearing liabilities falling by 27 basis points compared with the prior year. In addition, the Bank allocated more credit facilities to medium- and long-term loans in an effort to mitigate downward pressures on asset returns. In 2020, the proportion of the average balance of RMB medium- and long-term loans to RMB loan business in the Chinese mainland increased by 1.43 percentage points compared with the prior year.

Management Discussion and Analysis — Financial Review

The average balances¹ and average interest rates of the major interest-earning assets and interest-bearing liabilities of the Group, as well as the impact on interest income/expense of variances in the volume factor and the interest rate factor², are summarised in the following table:

Unit: RMB million, except percentages

Items	2020			2019			Analysis of changes in interest income/expense		
	Average balance	Interest income/expense	Average interest rate	Average balance	Interest income/expense	Average interest rate	Volume factor	Interest rate factor	Total
Interest-earning assets									
Loans	13,883,933	550,354	3.96%	12,435,000	533,365	4.29%	62,159	(45,170)	16,989
Investments	4,850,972	150,553	3.10%	4,852,547	155,126	3.20%	(50)	(4,523)	(4,573)
Balances with central banks and due from and placements with banks and other financial institutions	3,726,838	59,163	1.59%	3,333,123	69,516	2.09%	8,229	(18,582)	(10,353)
Total	22,461,743	760,070	3.38%	20,620,670	758,007	3.68%	70,338	(68,275)	2,063
Interest-bearing liabilities									
Due to customers	16,351,229	258,439	1.58%	15,140,952	269,324	1.78%	21,543	(32,428)	(10,885)
Due to and placements from banks and other financial institutions	3,247,899	49,994	1.54%	3,031,768	67,691	2.23%	4,820	(22,517)	(17,697)
Bonds issued	1,129,581	35,719	3.16%	852,620	30,942	3.63%	10,054	(5,277)	4,777
Total	20,728,709	344,152	1.66%	19,025,340	367,957	1.93%	36,417	(60,222)	(23,805)
Net interest income		415,918			390,050		33,921	(8,053)	25,868
Net interest margin			1.85%			1.89%			(4)Bps

Notes:

- Investments include debt securities at fair value through other comprehensive income, debt securities at amortised cost, investment trusts and asset management plans, etc.
- Balances with central banks and due from and placements with banks and other financial institutions include mandatory reserves, surplus reserves, other placements with central banks and due from and placements with banks and other financial institutions.
- Due to and placements from banks and other financial institutions include due to and placements from banks, due to central banks and other funds.

¹ Average balances are average daily balances derived from the Group's management accounts (unaudited).

² The impact on interest income/expense of variances in the volume factor is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact on interest income/expense of variances in interest rate factor is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both the volume factor and the interest rate factor has been classified as changes in interest rate factor.

Management Discussion and Analysis — Financial Review

The average balances and average interest rates of loans and due to customers in the Chinese mainland, classified by business type, are summarised in the following table:

Unit: RMB million, except percentages

Items	2020		2019		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
RMB businesses in the Chinese mainland						
Loans						
Corporate loans	5,632,658	4.27%	5,115,971	4.45%	516,687	(18)Bps
Personal loans	4,710,348	4.88%	4,200,695	4.84%	509,653	4 Bps
Trade bills	334,182	2.65%	260,026	3.22%	74,156	(57)Bps
Total	10,677,188	4.49%	9,576,692	4.59%	1,100,496	(10)Bps
Including:						
Medium- and long-term loans	7,887,644	4.83%	6,937,809	4.80%	949,835	3 Bps
Short-term loans within 1 year and others	2,789,544	3.52%	2,638,883	4.05%	150,661	(53)Bps
Due to customers						
Corporate demand deposits	3,469,983	0.75%	3,221,912	0.70%	248,071	5 Bps
Corporate time deposits	2,417,325	2.82%	2,364,226	2.81%	53,099	1 Bp
Personal demand deposits	2,266,307	0.39%	2,372,681	1.07%	(106,374)	(68)Bps
Personal time deposits	3,092,794	3.00%	2,682,371	2.85%	410,423	15 Bps
Other	816,731	3.40%	629,277	3.83%	187,454	(43)Bps
Total	12,063,140	1.85%	11,270,467	1.91%	792,673	(6)Bps
Foreign currency businesses in the Chinese mainland						
Loans	43,182	1.69%	38,574	3.15%	4,608	(146)Bps
Due to customers						
Corporate demand deposits	52,111	0.46%	43,777	0.73%	8,334	(27)Bps
Corporate time deposits	31,931	1.76%	29,067	2.61%	2,864	(85)Bps
Personal demand deposits	26,516	0.02%	24,717	0.04%	1,799	(2)Bps
Personal time deposits	17,835	0.69%	17,782	0.73%	53	(4)Bps
Other	1,799	2.06%	1,614	2.29%	185	(23)Bps
Total	130,192	0.74%	116,957	1.07%	13,235	(33)Bps

Note: "Due to customers — Other" includes structured deposits.

Non-interest Income

In 2020, the Group reported a non-interest income of RMB151.729 billion, a decrease of RMB8.231 billion or 5.15% compared with the prior year. Non-interest income represented 26.73% of operating income.

Net Fee and Commission Income

The Group earned a net fee and commission income of RMB75.522 billion, an increase of RMB1.710 billion or 2.32% compared with the prior year. Net fee and commission income represented 13.30% of operating income. This was mainly due to the Bank actively seizing opportunities arising from the rapid development of capital markets. As a result, the Bank's fee and commission income from agency distribution of funds and custodian business recorded sound growth.

Management Discussion and Analysis — Financial Review

Unit: RMB million, except percentages

Items	2020	2019	Change	Change (%)
Group				
Agency commissions	25,367	20,320	5,047	24.84%
Bank card fees	13,825	16,013	(2,188)	(13.66%)
Settlement and clearing fees	14,383	14,713	(330)	(2.24%)
Credit commitment fees	11,912	12,746	(834)	(6.54%)
Consultancy and advisory fees	3,535	4,446	(911)	(20.49%)
Spread income from foreign exchange business	5,871	7,154	(1,283)	(17.93%)
Custodian and other fiduciary service fees	4,831	4,120	711	17.26%
Other	8,916	8,587	329	3.83%
Fee and commission income	88,640	88,099	541	0.61%
Fee and commission expense	(13,118)	(14,287)	1,169	(8.18%)
Net fee and commission income	75,522	73,812	1,710	2.32%
Chinese mainland				
Agency commissions	18,289	14,233	4,056	28.50%
Bank card fees	11,772	12,740	(968)	(7.60%)
Settlement and clearing fees	12,913	13,077	(164)	(1.25%)
Credit commitment fees	5,779	6,141	(362)	(5.89%)
Consultancy and advisory fees	3,320	4,021	(701)	(17.43%)
Spread income from foreign exchange business	5,556	6,489	(933)	(14.38%)
Custodian and other fiduciary service fees	4,675	3,970	705	17.76%
Other	4,883	4,573	310	6.78%
Fee and commission income	67,187	65,244	1,943	2.98%
Fee and commission expense	(9,030)	(8,860)	(170)	1.92%
Net fee and commission income	58,157	56,384	1,773	3.14%

Other Non-interest Income

The Group realised other non-interest income of RMB76.207 billion, a decrease of RMB9.941 billion or 11.54% compared with the prior year. This was primarily attributable to a decrease in net trading gains compared with the prior year as a result of market price fluctuations and other aspects. Please refer to Notes V.3, 4, 5 to the Consolidated Financial Statements for detailed information.

Unit: RMB million, except percentages

Items	2020	2019	Change	Change (%)
Net trading gains	8,055	28,563	(20,508)	(71.80%)
Net gains on transfers of financial asset	9,547	3,477	6,070	174.58%
Other operating income	58,605	54,108	4,497	8.31%
Total	76,207	86,148	(9,941)	(11.54%)

Management Discussion and Analysis — Financial Review

Operating Expenses

The Bank continued to operate its business in a prudent manner. It optimised its cost structure, increased investment in technological innovation, and allocated greater resources to key products, areas and regions, thus further improving input and output efficiency. In 2020, the Group recorded operating expenses of RMB202.411 billion, an increase of RMB4.142 billion or 2.09% compared with the prior year. The Group's cost to income ratio (calculated in accordance with regulations in the Chinese mainland) was 26.73%, a decrease of 1.27 percentage points compared with the prior year. Please refer to Notes V.6, 7 to the Consolidated Financial Statements for detailed information.

Unit: RMB million, except percentages

Items	2020	2019	Change	Change (%)
Staff costs	89,334	90,762	(1,428)	(1.57%)
General operating and administrative expenses	38,944	41,845	(2,901)	(6.93%)
Depreciation and amortisation	22,871	21,175	1,696	8.01%
Taxes and surcharges	5,465	4,984	481	9.65%
Insurance benefits and claims	30,581	26,037	4,544	17.45%
Other	15,216	13,466	1,750	13.00%
Total	202,411	198,269	4,142	2.09%

Impairment Losses on Assets

The Bank continued to improve its comprehensive risk management system and adopted a proactive and forward-looking risk management approach, thus ensuring generally stable credit asset quality. It stringently implemented a prudent and solid risk provisioning policy and maintained adequate capacity for risk mitigation. In 2020, the Group's impairment losses on assets totalled RMB119.016 billion, an increase of RMB16.863 billion or 16.51% compared with the prior year. Please refer to the section "Risk Management — Credit Risk Management" and Notes V.9, 17, VI.3 to the Consolidated Financial Statements for more information on loan quality and allowance for loan impairment losses.

Income Tax Expense

In 2020, the Group incurred income tax of RMB41.282 billion, a decrease of RMB7.472 billion or 15.33% compared with the prior year. The Group's effective tax rate was 16.76%. Please refer to Note V.10 to the Consolidated Financial Statements for the reconciliation of statutory income tax expense to effective income tax expense.

Management Discussion and Analysis — Financial Review

Financial Position Analysis

The Bank committed itself to the nation's new development philosophy, vigorously supported the real economy and improved its business structure, thus achieving steady growth in asset and liability scale. As at the end of 2020, the Group's total assets amounted to RMB24,402.659 billion, an increase of RMB1,632.915 billion or 7.17% compared with the prior year-end. The Group's total liabilities amounted to RMB22,239.822 billion, an increase of RMB1,446.774 billion or 6.96% compared with the prior year-end.

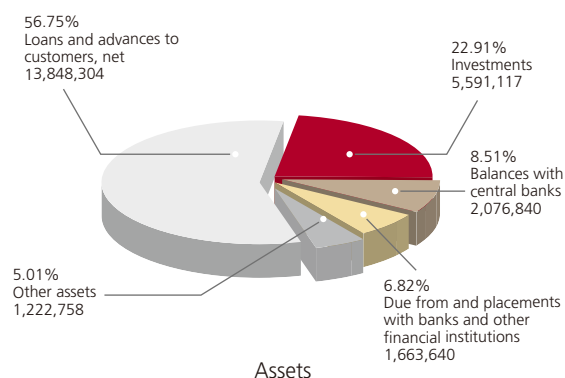
The principal components of the Group's consolidated statement of financial position are set out below:

Unit: RMB million, except percentages

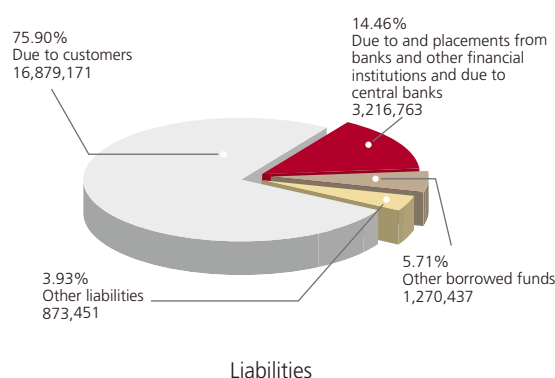
Items	As at 31 December 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Assets				
Loans and advances to customers, net	13,848,304	56.75%	12,743,425	55.97%
Investments	5,591,117	22.91%	5,514,062	24.22%
Balances with central banks	2,076,840	8.51%	2,078,809	9.13%
Due from and placements with banks and other financial institutions	1,663,640	6.82%	1,399,519	6.15%
Other assets	1,222,758	5.01%	1,033,929	4.53%
Total assets	24,402,659	100.00%	22,769,744	100.00%
Liabilities				
Due to customers	16,879,171	75.90%	15,817,548	76.07%
Due to and placements from banks and other financial institutions and due to central banks	3,216,763	14.46%	3,153,998	15.17%
Other borrowed funds	1,270,437	5.71%	1,124,098	5.41%
Other liabilities	873,451	3.93%	697,404	3.35%
Total liabilities	22,239,822	100.00%	20,793,048	100.00%

Note: "Other borrowed funds" includes bonds issued and other borrowings.

Unit: RMB million, except percentages



Unit: RMB million, except percentages



Management Discussion and Analysis — Financial Review

Loans and Advances to Customers

The Bank earnestly fulfilled its responsibilities as a large state-owned bank, scaled up support for business expansion in such key areas as inclusive finance, private enterprises, high-end manufacturing, green finance, strategic emerging industries, and rural revitalisation, and maintained steady growth in lending scale while effectively preventing credit risk. It continued to strictly control credit facilities granted to industries characterised by high pollution, high energy consumption and overcapacity. It also earnestly implemented the requirements of national real estate control policies, strengthened concentration management and strictly controlled financial risks. As at the end of 2020, the Group's loans and advances to customers amounted to RMB14,216.477 billion, an increase of RMB1,147.692 billion or 8.78% compared with the prior year-end. Specifically, the Group's RMB loans and advances to customers totalled RMB11,338.990 billion, an increase of RMB1,189.645

billion or 11.72% compared with the prior year-end, while its foreign currency loans amounted to USD441.001 billion, an increase of USD22.515 billion or 5.38% compared with the prior year-end. Please refer to Note V.17 to the Consolidated Financial Statements for detailed information.

The Bank further improved its risk management system, paid close attention to changes in the macroeconomic situation, strengthened risk identification and management in key areas and made greater efforts in the disposal of non-performing assets, thus maintaining a relatively stable asset quality. As at the end of 2020, the balance of the Group's allowance for loan impairment losses amounted to RMB368.619 billion, an increase of RMB42.696 billion compared with the prior year-end. The balance of the Group's restructured loans amounted to RMB21.692 billion, an increase of RMB9.314 billion compared with the prior year-end.

Unit: RMB million, except percentages

Items	As at 31 December 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Corporate Loans	8,600,090	60.50%	7,986,380	61.11%
Personal Loans	5,583,295	39.27%	5,047,809	38.62%
Accrued interest	33,092	0.23%	34,596	0.27%
Total Loans	14,216,477	100.00%	13,068,785	100.00%

Investments

The Bank closely tracked financial market dynamics, maintained investment activity at a reasonable pace and continuously improved its investment structure. As at the end of 2020, the Group held investments of RMB5,591.117 billion, an increase of RMB77.055 billion or 1.40% compared with the prior year-end. Specifically, the Group's RMB investments totalled RMB4,366.310 billion, an increase of RMB139.926 billion or 3.31% compared with the prior year-end, while foreign currency investments totalled USD187.713 billion, an increase of USD3.131 billion or 1.70% compared with the prior year-end.

The classification of the Group's financial investment portfolio is shown below:

Unit: RMB million, except percentages

Items	As at 31 December 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	504,549	9.02%	518,250	9.40%
Financial assets at fair value through other comprehensive income	2,107,790	37.70%	2,218,129	40.23%
Financial assets at amortised cost	2,978,778	53.28%	2,777,683	50.37%
Total	5,591,117	100.00%	5,514,062	100.00%

Management Discussion and Analysis — Financial Review

Investments by Issuer Type

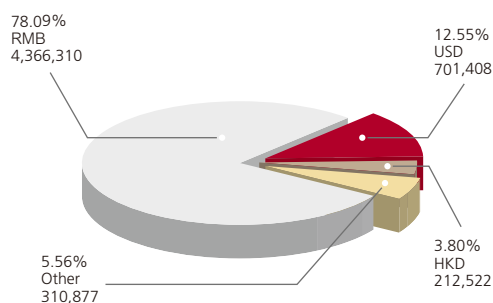
Unit: RMB million, except percentages

Items	As at 31 December 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Debt securities				
Issuers in the Chinese mainland				
Government	3,033,111	54.25%	2,861,756	51.90%
Public sector and quasi-governments	130,695	2.34%	109,923	1.99%
Policy banks	447,037	7.99%	435,212	7.89%
Financial institutions	424,672	7.59%	521,077	9.45%
Corporates	216,751	3.88%	212,509	3.86%
China Orient Asset Management Corporation	152,433	2.73%	152,433	2.76%
Subtotal	4,404,699	78.78%	4,292,910	77.85%
Issuers in Hong Kong, Macao, Taiwan and other countries and regions				
Governments	556,612	9.95%	524,874	9.52%
Public sector and quasi-governments	65,825	1.18%	119,221	2.16%
Financial institutions	172,107	3.08%	160,840	2.92%
Corporates	141,476	2.53%	174,135	3.16%
Subtotal	936,020	16.74%	979,070	17.76%
Equity instruments and others	250,398	4.48%	242,082	4.39%
Total	5,591,117	100.00%	5,514,062	100.00%

Note: "Equity instruments and others" includes accrual interest.

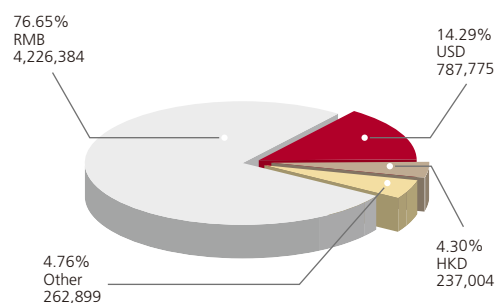
Investments by Currency

Unit: RMB million, except percentages



As at 31 December 2020

Unit: RMB million, except percentages



As at 31 December 2019

Management Discussion and Analysis — Financial Review

Top Ten Financial Bonds by Value Held by the Group

Unit: RMB million, except percentages

Bond Name	Par Value	Annual Rate	Maturity Date	Impairment Allowance
Bond issued by policy banks in 2018	13,370	4.98%	2025-01-12	–
Bond issued by policy banks in 2020	12,160	2.96%	2030-04-17	–
Bond issued by policy banks in 2017	11,800	4.39%	2027-09-08	–
Bond issued by policy banks in 2018	11,089	4.88%	2028-02-09	–
Bond issued by financial institutions in 2020	10,880	4.20%	2030-09-14	–
Bond issued by policy banks in 2018	10,730	4.73%	2025-04-02	–
Bond issued by policy banks in 2020	9,215	3.23%	2030-03-23	–
Bond issued by policy banks in 2019	8,837	3.48%	2029-01-08	–
Bond issued by financial institutions in 2019	7,400	4.28%	2029-03-19	–
Bond issued by policy banks in 2017	7,330	4.30%	2024-08-21	–

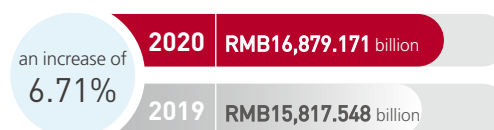
Note: Financial bonds refer to debt securities issued by financial institutions in the bond market, including the bonds issued by policy banks, other banks and non-bank financial institutions, but excluding restructured bonds and PBOC bills.

Due to Customers

The Bank continuously accelerated product and service innovation, enhanced its financial services offering and expanded the scale of customers' financial assets, thus promoting the steady growth of its liability business. It actively expanded upstream businesses such as salary payment agency, third-party custody, cash management and social security card, and improved the management modes for liability business such as certificates of deposit (CDs), structured deposits and negotiated deposits. It effectively controlled interest payment costs, leading to continuous improvement in the development quality of its deposit business. As at the end of 2020, the Group's due to customers amounted to RMB16,879.171 billion, an increase of RMB1,061.623 billion or 6.71% compared with the

prior year-end. Specifically, the Group's RMB due to customers totalled RMB13,003.027 billion, an increase of RMB1,077.104 billion or 9.03% compared with the prior year-end, while its foreign currency due to customers stood at USD594.054 billion, an increase of USD36.211 billion or 6.49% compared with the prior year-end.

The Group's due to customers



RMB due to customers



Foreign currency due to customers



Management Discussion and Analysis — Financial Review

The principal components of due to customers of the Group and its institutions in the Chinese mainland are set out below:

Unit: RMB million, except percentages

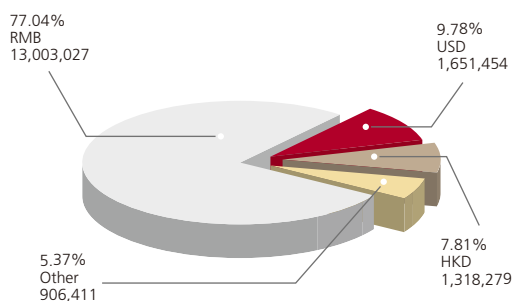
Items	As at 31 December 2020		As at 31 December 2019	
	Amount	% of total	Amount	% of total
Group				
Corporate deposits				
Demand deposits	4,956,751	29.37%	4,434,051	28.03%
Time deposits	3,621,775	21.46%	3,619,512	22.88%
Structured deposits	254,553	1.50%	247,906	1.57%
Subtotal	8,833,079	52.33%	8,301,469	52.48%
Personal deposits				
Demand deposits	3,355,893	19.88%	3,147,889	19.90%
Time deposits	3,854,531	22.84%	3,416,862	21.60%
Structured deposits	379,680	2.25%	424,897	2.69%
Subtotal	7,590,104	44.97%	6,989,648	44.19%
Certificates of deposit	206,146	1.22%	283,193	1.79%
Others	249,842	1.48%	243,238	1.54%
Total	16,879,171	100.00%	15,817,548	100.00%
Chinese mainland				
Corporate deposits				
Demand deposits	4,165,682	30.43%	3,778,828	29.92%
Time deposits	2,616,098	19.11%	2,559,842	20.27%
Structured deposits	232,736	1.70%	233,235	1.85%
Subtotal	7,014,516	51.24%	6,571,905	52.04%
Personal deposits				
Demand deposits	2,597,483	18.97%	2,516,976	19.93%
Time deposits	3,463,984	25.30%	2,894,407	22.92%
Structured deposits	375,812	2.75%	421,614	3.34%
Subtotal	6,437,279	47.02%	5,832,997	46.19%
Others	238,943	1.74%	224,554	1.77%
Total	13,690,738	100.00%	12,629,456	100.00%

Note: "Others" is inclusive of accrued interest.

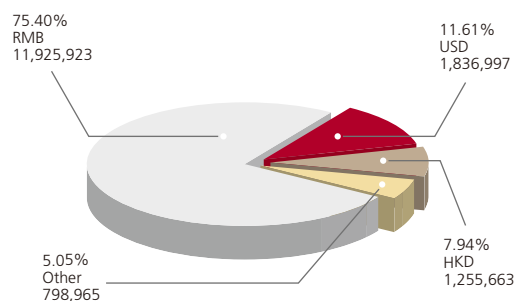
Due to Customers by Currency

Unit: RMB million, except percentages

Unit: RMB million, except percentages



As at 31 December 2020



As at 31 December 2019

Management Discussion and Analysis — Financial Review

Equity

As at the end of 2020, the Group's total equity stood at RMB2,162.837 billion, an increase of RMB186.141 billion or 9.42% compared with the prior year-end. This was primarily attributable to the following factors: (1) In 2020, the Group realised a profit for the year of RMB205.096 billion, among which profit attributable to equity holders of the Bank amounted to RMB192.870 billion. (2) The Bank pushed forward its external capital replenishment projects in a proactive and prudent manner, successfully issuing RMB90.0 billion of undated capital bonds and USD2.820 billion of offshore preference shares. (3) As per the 2019 dividends distribution plan approved at the Annual General Meeting, a cash dividend of RMB56.228 billion was paid out on ordinary shares. (4) The Bank paid a dividend on its preference shares of RMB10.2295 billion. Please refer to the "Consolidated Statement of Changes in Equity" in the Consolidated Financial Statements for detailed information.

Off-balance Sheet Items

Off-balance sheet items include derivative financial instruments, contingent liabilities and commitments, etc.

The Group entered into various derivative financial instruments relating to foreign currency exchange rates, interest rates, equity, credit, precious metals and other commodities for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note V.16 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments include legal proceedings and arbitrations, assets pledged, collateral accepted, capital commitments, operating leases, Treasury bond redemption commitments, credit commitments and underwriting obligations, etc. Please refer to Note V.41 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

Cash Flow Analysis

As at the end of 2020, the balance of the Group's cash and cash equivalents was RMB1,494.868 billion, an increase of RMB148.976 billion compared with the prior year-end.

In 2020, net cash flow from operating activities was an inflow of RMB73.028 billion, as compared to an outflow of RMB484.266 billion in the prior year. This was mainly attributable to a net increase in due to banks and other financial institutions whereas it was a net decrease in the prior year, and a larger net increase of due to customers compared to the prior year.

Net cash flow from investing activities was an outflow of RMB17.066 billion, a decrease of RMB148.612 billion compared with the prior year. This was mainly attributable to an increase in proceeds from financial investments compared with the prior year.

Net cash flow from financing activities was an inflow of RMB126.617 billion, a decrease of RMB166.494 billion compared with the prior year. This was mainly attributable to an increase in repayments of debts issued compared with the prior year.

Management Discussion and Analysis — Financial Review

Segment Reporting by Geography

The Group conducts its business activities in the Chinese mainland, Hong Kong, Macao, Taiwan and other countries and regions. A geographical analysis of profit contribution and related assets and liabilities is set forth in the following table:

Unit: RMB million

Items	Chinese mainland		Hong Kong, Macao and Taiwan		Other countries and regions		Elimination		Group	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	362,993	334,665	37,560	39,835	15,365	15,485	–	65	415,918	390,050
Non-interest income	73,641	85,604	73,807	68,767	6,637	7,680	(2,356)	(2,091)	151,729	159,960
Including: net fee and commission income	58,157	56,384	14,662	14,308	4,135	4,474	(1,432)	(1,354)	75,522	73,812
Operating expenses	(140,087)	(140,920)	(56,479)	(51,388)	(8,201)	(7,686)	2,356	1,725	(202,411)	(198,269)
Impairment losses on assets	(107,622)	(101,010)	(4,981)	(1,429)	(6,413)	286	–	–	(119,016)	(102,153)
Profit before income tax	188,740	178,338	50,250	56,843	7,388	15,765	–	(301)	246,378	250,645
As at the year-end										
Assets	19,454,269	17,923,536	4,306,679	4,217,013	2,090,165	2,062,659	(1,448,454)	(1,433,464)	24,402,659	22,769,744
Liabilities	17,753,122	16,413,115	3,917,100	3,825,613	2,017,915	1,987,643	(1,448,315)	(1,433,323)	22,239,822	20,793,048

As at the end of 2020, total assets³ of the Bank's Chinese mainland segment amounted to RMB19,454.269 billion, an increase of RMB1,530.733 billion or 8.54% compared with the prior year-end, representing 75.26% of the Group's total assets. In 2020, this segment recorded a profit before income tax of RMB188.740 billion, an increase of RMB10.402 billion or 5.83% compared with the prior year, representing 76.60% of the Group's profit before income tax.

Total assets of the Hong Kong, Macao and Taiwan segment amounted to RMB4,306.679 billion, an increase of RMB89.666 billion or 2.13% compared with the prior year-end, representing 16.66% of the Group's total assets. In 2020, this segment recorded a profit before income tax of RMB50.250 billion, a decrease of RMB6.593 billion or 11.60% compared with the prior year, representing 20.40% of the Group's profit before income tax.

Total assets of the other countries and regions segment amounted to RMB2,090.165 billion, an increase of RMB27.506 billion or 1.33% compared with the prior year-end, representing 8.08% of the Group's total assets. In 2020, this segment recorded a profit before income tax of RMB7.388 billion, a decrease of RMB8.377 billion or 53.14% compared with the prior year, representing 3.00% of the Group's profit before income tax.

Please refer to the section "Business Review" for more detailed information on the Group's business segments.

³ The figures for segment assets, segment profit before income tax and their respective proportions are prior to intragroup elimination.

Management Discussion and Analysis — Financial Review

Critical Accounting Estimates and Judgements

The Bank makes accounting estimates and judgements that affect the reported amounts of assets and liabilities of the next financial year. These estimates and judgements are continually evaluated and are based on historical experience, expectations of future events that are believed to be reasonable under the circumstances and other factors. The management believes that the accounting estimates and judgements have properly reflected the Bank's operating environment. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Bank's accounting policies and accounting estimates.

Fair Value Measurement

Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

Items	As at 31 December 2020	As at 31 December 2019	Change in the year	Impact on profit for the year
Financial assets at fair value through profit or loss				
Debt securities	347,243	371,232	(23,989)	
Equity instruments	88,025	79,456	8,569	2,339
Fund investments and other	69,281	67,562	1,719	
Loans and advances to customers at fair value	362,658	339,687	22,971	243
Financial assets at fair value through other comprehensive income				
Debt securities	2,086,362	2,196,352	(109,990)	(4,244)
Equity instruments and other	21,428	21,777	(349)	
Derivative financial assets	171,738	93,335	78,403	409
Derivative financial liabilities	(212,052)	(90,060)	(121,992)	
Due to and placements from banks and other financial institutions at fair value	(3,831)	(14,767)	10,936	(30)
Due to customers at fair value	(25,742)	(17,969)	(7,773)	–
Bonds issued at fair value	(6,162)	(26,113)	19,951	(9)
Short position in debt securities	(17,912)	(19,475)	1,563	(7)

The Bank has put in place a sound internal control mechanism for fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks*, the *Regulatory Guidelines on Valuation of Financial Instruments in Commercial Banks*, CAS and IFRS, with reference to the New Basel Capital Accord, and drawing on the best practices of leading international banks regarding valuations, the Bank formulated the *Valuation Policy of Financial Instrument Fair Values of Bank of China Limited* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure. Please refer to Note VI.6 to the Consolidated Financial Statements for more detailed information related to the fair value measurement.

Other Financial Information

There are no differences in the equity and profit for the year of the Group prepared in accordance with IFRS to those prepared in accordance with CAS. Please refer to Supplementary Information I to the Consolidated Financial Statements for detailed information.