

# Management Discussion and Analysis — Financial Review

## Economic and Financial Environment

In 2019, the global economy slowed down and international trade and investment weakened. US economic growth softened, the Eurozone economy remained sluggish, Japan's economy was relatively stable and the UK economy remained exposed to the uncertainties of the UK's exit from the EU. Emerging economies experienced subdued growth momentum, with some facing pressures from trade protectionism and debt risk.

International financial markets remained relatively stable amid fluctuations, while global monetary policy re-entered an easing cycle. The US Federal Reserve cut interest rates three times in succession and resumed its Treasury bond purchasing programme, the European Central Bank further lowered its negative interest rates, and the central banks of many emerging economies also made rate cuts. As a result, global liquidity increased. In addition, the US Dollar Index rose slightly, the Euro fell against the US dollar, and the currencies of major emerging economies generally stabilised, following fluctuations. Global stock markets finished the year performing well, while the prices of crude oil, gold and other commodities trended upwards amid volatility.

The Chinese economy remained stable, while its structure continued to be optimised. Domestic demand became an increasingly strong driver of economic growth, and high-tech industries continued to grow rapidly. Employment was stable and the balance of payments was generally balanced. In 2019, China's gross domestic product (GDP) increased by 6.1%. Total retail sales of consumer goods (TRSCG) increased by 8.0%, total fixed asset investments (TFAI) grew by 5.4%, and the consumer price index (CPI) rose by 2.9%.

The Chinese government implemented a sound monetary policy and strengthened structural adjustments to support the development of private enterprises and micro and small-sized businesses. Financial supply-side structural reform was deepened and high-level financial opening-up was accelerated. Overall, financial markets operated smoothly and market liquidity was maintained at a reasonable and adequate level. RMB exchange rates remained generally stable while becoming more flexible. The outstanding broad money supply (M2) grew by 8.7% year-on-year. Outstanding RMB loans increased by RMB16.81 trillion, RMB0.64 trillion more than the increase amount of the prior year. The outstanding all-system financing aggregates amount was RMB251.31 trillion, an increase of 10.7% compared with the previous year. Bond issuance expanded to a total of RMB45.2 trillion, an increase of 4.9% compared with the prior year. The central parity rate of RMB against USD fell by 1.62% compared with the prior year-end.

China's banking sector continued to operate in a sound manner. Banking institutions dedicated themselves to serving the real economy so as to improve its quality and performance. They continued to improve services for micro and small-sized businesses and private enterprises, actively supported major state strategies and key national projects, and supported technological innovation and advanced manufacturing. Banking institutions continuously advanced China's two-way opening-up and accelerated technological empowerment, which yielded positive results. The banking industry improved financial risk management, acted with determination to win the critical battle against financial risks and to forestall systemic risks. As at the end of 2019, the total assets of China's banking industry grew by 8.14% from the prior year-end to RMB290.00 trillion, while total liabilities increased by 7.71% to RMB265.54 trillion. Commercial banking institutions recorded an aggregate profit after tax of RMB1.99 trillion. Outstanding non-performing loans (NPLs) stood at RMB2.41 trillion at the year-end, with an NPL ratio of 1.86%.

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### Income Statement Analysis

In 2019, the Group achieved a profit for the year of RMB201.891 billion, an increase of RMB9.456 billion or 4.91% compared with the prior year. It realised a profit attributable to equity holders of the Bank of RMB187.405 billion, an increase of RMB7.319 billion or 4.06% compared with the prior year. Return on average total assets (ROA) was 0.92%, and return on average equity (ROE) was 11.45%.

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

Unit: RMB million, except percentages

Items	2019	2018	Change	Change (%)
Net interest income	<b>374,250</b>	359,706	14,544	4.04%
Non-interest income	<b>175,760</b>	144,100	31,660	21.97%
Including: net fee and commission income	<b>89,612</b>	87,208	2,404	2.76%
Operating income	<b>550,010</b>	503,806	46,204	9.17%
Operating expenses	<b>(198,269)</b>	(176,979)	(21,290)	12.03%
Impairment losses on assets	<b>(102,153)</b>	(99,294)	(2,859)	2.88%
Operating profit	<b>249,588</b>	227,533	22,055	9.69%
Profit before income tax	<b>250,645</b>	229,643	21,002	9.15%
Income tax expense	<b>(48,754)</b>	(37,208)	(11,546)	31.03%
Profit for the year	<b>201,891</b>	192,435	9,456	4.91%
Profit attributable to equity holders of the Bank	<b>187,405</b>	180,086	7,319	4.06%

A detailed review of the Group's principal items in each quarter of 2019 is summarised in the following table:

Unit: RMB million

Items	For the three-month period ended			
	31 December 2019	30 September 2019	30 June 2019	31 March 2019
Operating income	133,153	140,169	135,682	141,006
Profit attributable to equity holders of the Bank	27,826	45,531	63,083	50,965
Net cash flow from operating activities	76,461	(469,833)	144,262	(235,156)

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### Net Interest Income and Net Interest Margin

In 2019, the Group achieved a net interest income of RMB374.250 billion, an increase of RMB14.544 billion or 4.04% compared with the prior year. The average balances<sup>1</sup> 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 factor<sup>2</sup>, are summarised in the following table:

Unit: RMB million, except percentages

Items	2019			2018			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
<b>Interest-earning assets</b>									
Loans	12,141,412	517,565	4.26%	11,107,013	469,098	4.22%	43,652	4,815	48,467
Investments	4,852,547	155,126	3.20%	4,497,016	144,326	3.21%	11,413	(613)	10,800
Balances with central banks and due from and placements with banks and other financial institutions	3,333,123	69,516	2.09%	3,282,457	74,476	2.27%	1,150	(6,110)	(4,960)
<b>Total</b>	<b>20,327,082</b>	<b>742,207</b>	<b>3.65%</b>	<b>18,886,486</b>	<b>687,900</b>	<b>3.64%</b>	<b>56,215</b>	<b>(1,908)</b>	<b>54,307</b>
<b>Interest-bearing liabilities</b>									
Due to customers	15,140,952	269,324	1.78%	14,072,677	229,998	1.63%	17,413	21,913	39,326
Due to and placements from banks and other financial institutions	3,031,768	67,691	2.23%	3,042,646	76,478	2.51%	(273)	(8,514)	(8,787)
Bonds issued	852,620	30,942	3.63%	580,755	21,718	3.74%	10,168	(944)	9,224
<b>Total</b>	<b>19,025,340</b>	<b>367,957</b>	<b>1.93%</b>	<b>17,696,078</b>	<b>328,194</b>	<b>1.85%</b>	<b>27,308</b>	<b>12,455</b>	<b>39,763</b>
<b>Net interest income</b>		<b>374,250</b>			<b>359,706</b>		<b>28,907</b>	<b>(14,363)</b>	<b>14,544</b>
<b>Net interest margin</b>			<b>1.84%</b>			<b>1.90%</b>			<b>(6)Bps</b>

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 and other financial institutions, due to central banks and other funds.

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

<sup>2</sup> 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.

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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	2019		2018		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
<b>RMB businesses in the Chinese mainland</b>						
<b>Loans</b>						
Corporate loans	5,115,971	4.45%	4,754,363	4.47%	361,608	(2) Bps
Personal loans	3,907,107	4.80%	3,448,247	4.67%	458,860	13 Bps
Trade bills	260,026	3.22%	165,797	4.47%	94,229	(125) Bps
<b>Total</b>	<b>9,283,104</b>	<b>4.57%</b>	<b>8,368,407</b>	<b>4.55%</b>	<b>914,697</b>	<b>2 Bps</b>
Including:						
Medium- and long-term loans	6,725,120	4.77%	5,828,652	4.77%	896,468	–
Short-term loans within 1 year and others	2,557,984	4.03%	2,539,755	4.06%	18,229	(3) Bps
<b>Due to customers</b>						
Corporate demand deposits	3,221,912	0.70%	3,097,595	0.65%	124,317	5 Bps
Corporate time deposits	2,364,226	2.81%	2,254,006	2.77%	110,220	4 Bps
Personal demand deposits	2,372,681	1.07%	1,948,774	0.66%	423,907	41 Bps
Personal time deposits	2,682,371	2.85%	2,575,439	2.68%	106,932	17 Bps
Other	629,277	3.83%	528,899	4.19%	100,378	(36) Bps
<b>Total</b>	<b>11,270,467</b>	<b>1.91%</b>	<b>10,404,713</b>	<b>1.79%</b>	<b>865,754</b>	<b>12 Bps</b>
<b>Foreign currency businesses in the Chinese mainland</b>						
Unit: USD million, except percentages						
<b>Loans</b>	<b>38,574</b>	<b>3.15%</b>	<b>49,355</b>	<b>3.08%</b>	<b>(10,781)</b>	<b>7 Bps</b>
<b>Due to customers</b>						
Corporate demand deposits	43,777	0.73%	45,065	0.62%	(1,288)	11 Bps
Corporate time deposits	29,067	2.61%	29,668	1.89%	(601)	72 Bps
Personal demand deposits	24,717	0.04%	27,047	0.05%	(2,330)	(1) Bp
Personal time deposits	17,782	0.73%	19,125	0.63%	(1,343)	10 Bps
Other	1,614	2.29%	2,002	2.30%	(388)	(1) Bp
<b>Total</b>	<b>116,957</b>	<b>1.07%</b>	<b>122,907</b>	<b>0.83%</b>	<b>(5,950)</b>	<b>24 Bps</b>

Note: “Due to customers — Other” includes structured deposits.

In 2019, the Group’s net interest margin was 1.84%, a decrease of 6 basis points compared with the prior year. This was mainly due to an increase in deposit costs. To mitigate the impact of this cost increase, the Bank continuously optimised its assets and liabilities structure, proactively adjusted its existing assets and liabilities, and efficiently allocated their increments. In 2019, the proportion of the average balance of RMB medium- and long-term loans to RMB loan business in the Chinese mainland increased by 2.79 percentage points compared with the prior year.

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### *Non-interest Income*

In 2019, the Group reported a non-interest income of RMB175.760 billion, an increase of RMB31.660 billion or 21.97% compared with the prior year. Non-interest income represented 31.96% of operating income.

### **Net Fee and Commission Income**

The Group earned a net fee and commission income of RMB89.612 billion, an increase of RMB2.404 billion or 2.76% compared with the prior year. Net fee and commission income represented 16.29% of operating income. This was mainly due to the Bank actively seizing opportunities arising from the rapid development of consumer finance, and expanding its business in credit cards, internet payment and insurance agency. As a result, the Bank's fee and commission income from bank card business, settlement and clearing business and insurance agency business recorded sound growth.

Unit: RMB million, except percentages

Items	2019	2018	Change	Change (%)
<b>Group</b>				
Agency commissions	<b>20,320</b>	20,212	108	0.53%
Bank card fees	<b>32,831</b>	29,943	2,888	9.64%
Settlement and clearing fees	<b>14,713</b>	13,670	1,043	7.63%
Credit commitment fees	<b>12,746</b>	13,181	(435)	(3.30%)
Consultancy and advisory fees	<b>4,446</b>	3,534	912	25.81%
Spread income from foreign exchange business	<b>7,154</b>	7,740	(586)	(7.57%)
Custodian and other fiduciary service fees	<b>4,120</b>	3,597	523	14.54%
Other	<b>8,587</b>	8,120	467	5.75%
<b>Fee and commission income</b>	<b>104,917</b>	99,997	4,920	4.92%
<b>Fee and commission expense</b>	<b>(15,305)</b>	(12,789)	(2,516)	19.67%
<b>Net fee and commission income</b>	<b>89,612</b>	87,208	2,404	2.76%
<b>Chinese mainland</b>				
Agency commissions	<b>14,233</b>	14,353	(120)	(0.84%)
Bank card fees	<b>29,558</b>	26,364	3,194	12.12%
Settlement and clearing fees	<b>13,077</b>	12,082	995	8.24%
Credit commitment fees	<b>6,141</b>	6,760	(619)	(9.16%)
Consultancy and advisory fees	<b>4,021</b>	3,331	690	20.71%
Spread income from foreign exchange business	<b>6,489</b>	7,088	(599)	(8.45%)
Custodian and other fiduciary service fees	<b>3,970</b>	3,474	496	14.28%
Other	<b>4,573</b>	4,384	189	4.31%
<b>Fee and commission income</b>	<b>82,062</b>	77,836	4,226	5.43%
<b>Fee and commission expense</b>	<b>(9,878)</b>	(7,642)	(2,236)	29.26%
<b>Net fee and commission income</b>	<b>72,184</b>	70,194	1,990	2.84%

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### Other Non-interest Income

The Group realised other non-interest income of RMB86.148 billion, an increase of RMB29.256 billion or 51.42% compared with the prior year. This was primarily attributable to an increase in net gains from foreign exchange derivatives trading compared with the same period of the prior year, as the result of market price fluctuations. Please refer to Notes V.3, 4, 5 to the Consolidated Financial Statements for detailed information.

### 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. In 2019, the Group recorded operating expenses of RMB198.269 billion, an increase of RMB21.290 billion or 12.03% compared with the prior year. The Group's cost to income ratio (calculated in accordance with regulations in the Chinese mainland) was 28.00%, a decrease of 0.09 percentage point 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	2019	2018	Change	Change (%)
Staff costs	<b>90,762</b>	85,391	5,371	6.29%
General operating and administrative expenses	<b>41,845</b>	42,768	(923)	(2.16%)
Depreciation and amortisation	<b>21,175</b>	13,451	7,724	57.42%
Taxes and surcharges	<b>4,984</b>	4,744	240	5.06%
Insurance benefits and claims	<b>26,037</b>	17,008	9,029	53.09%
Other	<b>13,466</b>	13,617	(151)	(1.11%)
<b>Total</b>	<b>198,269</b>	176,979	21,290	12.03%

### 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 a relatively stable credit asset quality. It stringently implemented a prudent and solid risk provisioning policy and maintained adequate capacity for risk mitigation. In 2019, the Group's impairment losses on assets totalled RMB102.153 billion, an increase of RMB2.859 billion or 2.88% 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 2019, the Group incurred income tax of RMB48.754 billion, an increase of RMB11.546 billion or 31.03% compared with the prior year. The Group's effective tax rate was 19.45%. Please refer to Note V.10 to the Consolidated Financial Statements for the reconciliation of statutory income tax expense to effective income tax expense.

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### Financial Position Analysis

As at the end of 2019, the Group's total assets amounted to RMB22,769.744 billion, an increase of RMB1,502.469 billion or 7.06% compared with the prior year-end. The Group's total liabilities amounted to RMB20,793.048 billion, an increase of RMB1,251.170 billion or 6.40% 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 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
<b>Assets</b>				
Loans and advances to customers, net	<b>12,743,425</b>	<b>55.97%</b>	11,515,764	54.15%
Investments	<b>5,514,062</b>	<b>24.22%</b>	5,054,551	23.77%
Balances with central banks	<b>2,078,809</b>	<b>9.13%</b>	2,331,053	10.96%
Due from and placements with banks and other financial institutions	<b>1,399,519</b>	<b>6.15%</b>	1,405,534	6.61%
Other assets	<b>1,033,929</b>	<b>4.53%</b>	960,373	4.51%
<b>Total assets</b>	<b>22,769,744</b>	<b>100.00%</b>	21,267,275	100.00%
<b>Liabilities</b>				
Due to customers	<b>15,817,548</b>	<b>76.07%</b>	14,883,596	76.16%
Due to and placements from banks and other financial institutions and due to central banks	<b>3,153,998</b>	<b>15.17%</b>	3,250,997	16.64%
Other borrowed funds	<b>1,124,098</b>	<b>5.41%</b>	814,888	4.17%
Other liabilities	<b>697,404</b>	<b>3.35%</b>	592,397	3.03%
<b>Total liabilities</b>	<b>20,793,048</b>	<b>100.00%</b>	19,541,878	100.00%

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

### Loans and Advances to Customers

In line with China's macroeconomic policies and the financial demands of the real economy, the Bank rationally allocated credit extension and expanded its lending scale at a stable and moderate pace. It continuously improved its credit structure and proactively supported the credit needs of key areas and industries. The Bank strictly controlled credit facilities granted to industries characterised by high pollution, high energy consumption and overcapacity. It also continued to implement a differentiated residential mortgage loan policy and steadily expanded its personal loan business. As at the end of 2019, the Group's loans and advances to customers amounted to RMB13,068.785 billion, an increase of RMB1,249.513 billion or 10.57% compared with the prior year-end. Specifically, the Group's RMB loans and advances to customers totalled RMB10,149.345 billion, an increase of RMB1,053.783 billion or 11.59% compared with the prior year-end, while its foreign currency loans amounted to USD418.486 billion, an increase of USD21.629 billion or 5.45% compared with the prior year-end. Please refer to Note V.17 to the Consolidated Financial Statements for detailed information.

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The Bank continuously 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 2019, the balance of the Group's allowance for loan impairment losses amounted to RMB325.923 billion, an increase of RMB22.142 billion compared with the prior year-end. The balance of the Group's restructured loans amounted to RMB12.378 billion, an increase of RMB2.376 billion compared with the prior year-end.

Unit: RMB million, except percentages

Items	As at 31 December 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Corporate Loans	7,986,380	61.11%	7,347,598	62.17%
Personal Loans	5,047,809	38.62%	4,440,085	37.57%
Accrued interest	34,596	0.27%	31,589	0.26%
<b>Total Loans</b>	<b>13,068,785</b>	<b>100.00%</b>	<b>11,819,272</b>	<b>100.00%</b>

### Investments

The Bank tracked financial market dynamics, increased its bond investments and continuously improved its investment structure. As at the end of 2019, the Group held investments of RMB5,514.062 billion, an increase of RMB459.511 billion or 9.09% compared with the prior year-end. Specifically, the Group's RMB investments totalled RMB4,226.384 billion, an increase of RMB247.748 billion or 6.23% compared with the prior year-end, while foreign currency investments totalled USD184.582 billion, an increase of USD27.816 billion or 17.74% 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 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	518,250	9.40%	370,491	7.33%
Financial assets at fair value through other comprehensive income	2,218,129	40.23%	1,879,759	37.19%
Financial assets at amortised cost	2,777,683	50.37%	2,804,301	55.48%
<b>Total</b>	<b>5,514,062</b>	<b>100.00%</b>	<b>5,054,551</b>	<b>100.00%</b>

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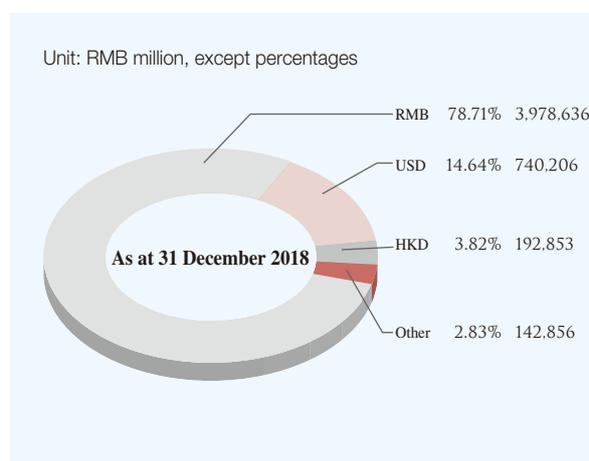
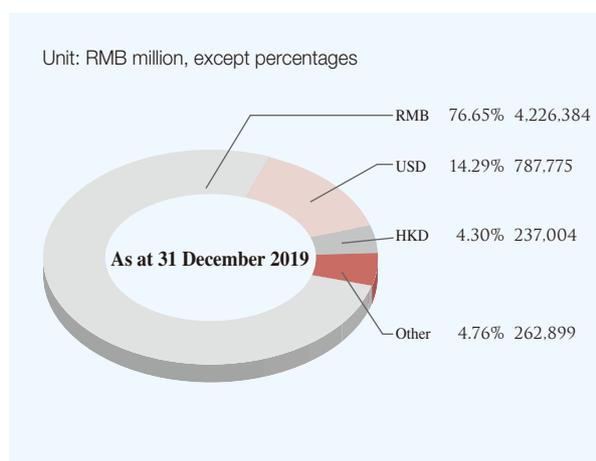
## Investments by Issuer Type

Unit: RMB million, except percentages

Items	As at 31 December 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
<b>Debt securities</b>				
<b>Issuers in the Chinese mainland</b>				
Government	2,861,756	51.90%	2,654,129	52.51%
Public sector and quasi-governments	109,923	1.99%	84,364	1.67%
Policy banks	435,212	7.89%	484,992	9.59%
Financial institutions	521,077	9.45%	496,675	9.83%
Corporates	212,509	3.86%	191,690	3.79%
China Orient Asset Management Corporation	152,433	2.76%	153,627	3.04%
<b>Subtotal</b>	<b>4,292,910</b>	<b>77.85%</b>	<b>4,065,477</b>	<b>80.43%</b>
<b>Issuers in Hong Kong, Macao, Taiwan and other countries and regions</b>				
Governments	524,874	9.52%	366,602	7.25%
Public sector and quasi-governments	119,221	2.16%	108,739	2.15%
Financial institutions	160,840	2.92%	174,719	3.46%
Corporates	174,135	3.16%	153,056	3.03%
<b>Subtotal</b>	<b>979,070</b>	<b>17.76%</b>	<b>803,116</b>	<b>15.89%</b>
<b>Equity instruments and others</b>	<b>242,082</b>	<b>4.39%</b>	<b>185,958</b>	<b>3.68%</b>
<b>Total</b>	<b>5,514,062</b>	<b>100.00%</b>	<b>5,054,551</b>	<b>100.00%</b>

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

## Investments by Currency



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### 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 financial institutions in 2019	20,000	3.16%	2020-02-12	–
Bond issued by policy banks in 2018	13,880	4.98%	2025-01-12	–
Bond issued by policy banks in 2017	13,067	3.88%	2020-04-19	–
Bond issued by policy banks in 2017	11,200	4.39%	2027-09-08	–
Bond issued by policy banks in 2018	9,760	4.73%	2025-04-02	–
Bond issued by policy banks in 2017	8,890	3.54%	2020-01-06	–
Bond issued by policy banks in 2018	8,730	4.99%	2023-01-24	–
Bond issued by policy banks in 2017	8,450	3.98%	2020-04-19	–
Bond issued by policy banks in 2018	7,782	4.88%	2028-02-09	–
Bond issued by policy banks in 2017	7,450	3.80%	2020-02-27	–

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 aligned itself with the trend towards interest rate liberalisation and accelerated product and service innovation, thus enhancing its financial services offering. As a result, its liability business grew steadily. It further improved salary payment agency, payment collection and other basic services, optimised the functions of personal certificates of deposit (CDs), steadily expanded its administrative institution customer base and solidified its relationships with basic settlement and cash management customers. This led to steady growth in customer deposits. As at the end of 2019, the Group's due to customers amounted to RMB15,817.548 billion, an increase of RMB933.952 billion or 6.28% compared with the prior year-end. Specifically, the Group's RMB due to customers totalled RMB11,925.923 billion, an increase of RMB669.469 billion or 5.95% compared with the prior year-end, while its foreign currency due to customers stood at USD557.843 billion, an increase of USD29.352 billion or 5.55% compared with the prior year-end.

## Management Discussion and Analysis — Financial Review

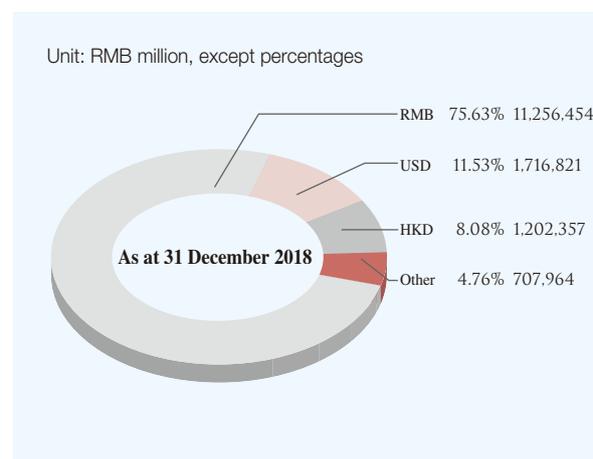
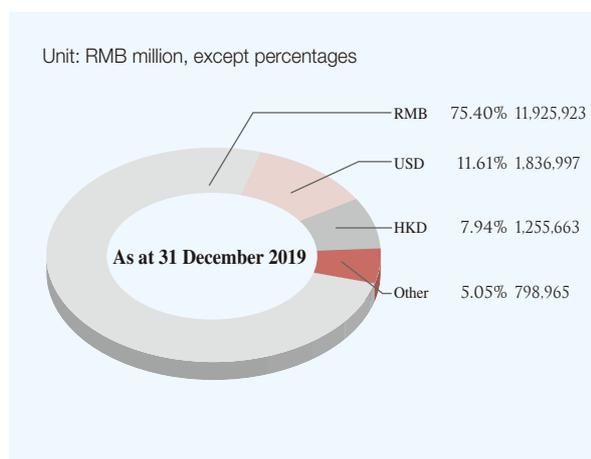
The principal components of due to customers of the Group and its institutions in the Chinese mainland are set out below:

Unit: RMB million, except percentages

Items	As at 31 December 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
<b>Group</b>				
<b>Corporate deposits</b>				
Demand deposits	4,434,051	28.03%	4,178,962	28.08%
Time deposits	3,619,512	22.88%	3,507,071	23.56%
Structured deposits	247,906	1.57%	246,380	1.66%
<b>Subtotal</b>	<b>8,301,469</b>	<b>52.48%</b>	<b>7,932,413</b>	<b>53.30%</b>
<b>Personal deposits</b>				
Demand deposits	3,147,889	19.90%	2,935,661	19.72%
Time deposits	3,416,862	21.60%	3,148,265	21.15%
Structured deposits	424,897	2.69%	338,544	2.28%
<b>Subtotal</b>	<b>6,989,648</b>	<b>44.19%</b>	<b>6,422,470</b>	<b>43.15%</b>
<b>Certificates of deposit</b>	<b>283,193</b>	<b>1.79%</b>	<b>287,808</b>	<b>1.93%</b>
<b>Others</b>	<b>243,238</b>	<b>1.54%</b>	<b>240,905</b>	<b>1.62%</b>
<b>Total</b>	<b>15,817,548</b>	<b>100.00%</b>	<b>14,883,596</b>	<b>100.00%</b>
<b>Chinese mainland</b>				
<b>Corporate deposits</b>				
Demand deposits	3,778,828	29.92%	3,588,353	30.19%
Time deposits	2,559,842	20.27%	2,520,127	21.20%
Structured deposits	233,235	1.85%	229,768	1.93%
<b>Subtotal</b>	<b>6,571,905</b>	<b>52.04%</b>	<b>6,338,248</b>	<b>53.32%</b>
<b>Personal deposits</b>				
Demand deposits	2,516,976	19.93%	2,312,488	19.45%
Time deposits	2,894,407	22.92%	2,685,026	22.59%
Structured deposits	421,614	3.34%	331,064	2.79%
<b>Subtotal</b>	<b>5,832,997</b>	<b>46.19%</b>	<b>5,328,578</b>	<b>44.83%</b>
<b>Others</b>	<b>224,554</b>	<b>1.77%</b>	<b>219,969</b>	<b>1.85%</b>
<b>Total</b>	<b>12,629,456</b>	<b>100.00%</b>	<b>11,886,795</b>	<b>100.00%</b>

Note: "Others" is inclusive of accrued interest.

### Due to Customers by Currency



## Management Discussion and Analysis — Financial Review

### **Equity**

As at the end of 2019, the Group's total equity stood at RMB1,976.696 billion, an increase of RMB251.299 billion or 14.56% compared with the prior year-end. This was primarily attributable to the following factors: (1) In 2019, the Group realised a profit for the year of RMB201.891 billion, among which profit attributable to equity holders of the Bank amounted to RMB187.405 billion. (2) The Bank pushed forward its external capital replenishment projects in a proactive and prudent manner, successfully issuing RMB40.0 billion of undated capital bonds and RMB100.0 billion of preference shares in the domestic market. (3) As per the 2018 dividends distribution plan approved at the Annual General Meeting, a cash dividend for ordinary shares of RMB54.167 billion was paid out on ordinary shares. (4) The Bank paid a dividend on its preference shares of RMB6.826 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 2019, the balance of the Group's cash and cash equivalents was RMB1,345.892 billion, a decrease of RMB342.708 billion compared with the prior year-end.

In 2019, net cash flow from operating activities was an outflow of RMB484.266 billion, whereas it was an inflow of RMB662.358 billion in the prior year. This was mainly attributable to the increase in the net increase of loans to customers and placements with and loans to banks and other financial institutions compared with the prior year, and the net decrease in due to banks and other financial institutions whereas it was a net increase in the prior year.

Net cash flow from investing activities was an outflow of RMB165.678 billion, a decrease of RMB16.815 billion compared with the prior year. This was mainly attributable to the increase in proceeds from financial investments compared with the prior year.

Net cash flow from financing activities was an inflow of RMB293.111 billion, an increase of RMB63.774 billion compared with the prior year. This was mainly attributable to the increase in proceeds from issuance of bonds 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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	<b>318,865</b>	303,945	<b>39,835</b>	38,831	<b>15,485</b>	16,930	<b>65</b>	–	<b>374,250</b>	359,706
Non-interest income	<b>101,404</b>	89,099	<b>68,767</b>	51,143	<b>7,680</b>	6,647	<b>(2,091)</b>	(2,789)	<b>175,760</b>	144,100
Including:										
net fee and commission income	<b>72,184</b>	70,194	<b>14,308</b>	14,083	<b>4,474</b>	4,367	<b>(1,354)</b>	(1,436)	<b>89,612</b>	87,208
Operating expenses	<b>(140,920)</b>	(131,958)	<b>(51,388)</b>	(39,956)	<b>(7,686)</b>	(6,967)	<b>1,725</b>	1,902	<b>(198,269)</b>	(176,979)
Impairment losses on assets	<b>(101,010)</b>	(98,872)	<b>(1,429)</b>	(1,114)	<b>286</b>	692	–	–	<b>(102,153)</b>	(99,294)
Profit before income tax	<b>178,338</b>	162,224	<b>56,843</b>	51,004	<b>15,765</b>	17,302	<b>(301)</b>	(887)	<b>250,645</b>	229,643
<b>As at the year-end</b>										
Assets	<b>17,923,536</b>	16,932,306	<b>4,217,013</b>	4,197,031	<b>2,062,659</b>	2,009,680	<b>(1,433,464)</b>	(1,871,742)	<b>22,769,744</b>	21,267,275
Liabilities	<b>16,413,115</b>	15,625,811	<b>3,825,613</b>	3,844,519	<b>1,987,643</b>	1,943,129	<b>(1,433,323)</b>	(1,871,581)	<b>20,793,048</b>	19,541,878

As at the end of 2019, total assets<sup>3</sup> of the Bank's Chinese mainland segment amounted to RMB17,923.536 billion, an increase of RMB991.230 billion or 5.85% compared with the prior year-end, representing 74.05% of the Group's total assets. In 2019, this segment recorded a profit before income tax of RMB178.338 billion, an increase of RMB16.114 billion or 9.93% compared with the prior year, representing 71.07% of the Group's profit before income tax.

Total assets of the Hong Kong, Macao and Taiwan segment amounted to RMB4,217.013 billion, an increase of RMB19.982 billion or 0.48% compared with the prior year-end, representing 17.43% of the Group's total assets. In 2019, this segment recorded a profit before income tax of RMB56.843 billion, an increase of RMB5.839 billion or 11.45% compared with the prior year, representing 22.65% of the Group's profit before income tax.

Total assets of the other countries and regions segment amounted to RMB2,062.659 billion, an increase of RMB52.979 billion or 2.64% compared with the prior year-end, representing 8.52% of the Group's total assets. In 2019, this segment recorded a profit before income tax of RMB15.765 billion, a decrease of RMB1.537 billion or 8.88% compared with the prior year, representing 6.28% 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.

## 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.

<sup>3</sup> 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

## Fair Value Measurement

### Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

Items	As at 31 December 2019	As at 31 December 2018	Change in the year	Impact on profit for the year
Financial assets at fair value through profit or loss				
Debt securities	<b>371,232</b>	273,447	97,785	
Equity instruments	<b>79,456</b>	47,061	32,395	7,608
Fund investments and other	<b>67,562</b>	49,983	17,579	
Loans and advances to customers at fair value	<b>339,687</b>	227,643	112,044	(199)
Financial assets at fair value through other comprehensive income				
Debt securities	<b>2,196,352</b>	1,862,232	334,120	(387)
Equity instruments and other	<b>21,777</b>	17,527	4,250	
Derivative financial assets	<b>93,335</b>	124,126	(30,791)	
Derivative financial liabilities	<b>(90,060)</b>	(99,254)	9,194	(3,853)
Due to and placements from banks and other financial institutions at fair value	<b>(14,767)</b>	(876)	(13,891)	29
Due to customers at fair value	<b>(17,969)</b>	(24,141)	6,172	–
Bonds issued at fair value	<b>(26,113)</b>	(20,517)	(5,596)	38
Short position in debt securities	<b>(19,475)</b>	(14,327)	(5,148)	(12)

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.