

Independent Auditor's Report



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the shareholders of Bank of China Limited

(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 164 to 318, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment of loans and advances to customers</i>	
<p>The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:</p>	<p>We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan grading system, collateral monitoring, loans with deferred principal and interest payments as well as loan impairment assessment, including relevant data quality and information systems.</p>
<ul style="list-style-type: none"> Significant increase in credit risk — The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity. 	<p>We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p>
<ul style="list-style-type: none"> Models and parameters — Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions. 	<p>With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:</p>
<ul style="list-style-type: none"> Forward-looking information — Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights. 	<p>1. Expected credit loss model:</p>
<ul style="list-style-type: none"> Individual impairment assessment — Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. 	<ul style="list-style-type: none"> In response to the macroeconomic changes, the COVID-19 pandemic implications and the supporting policies from government authorities, we assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, exposure at default, and significant increase in credit risk.
<p>Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2020, gross loans and advances to customers amounted to RMB14,216,477 million, representing 58% of total assets, and impairment allowance for loans and advances to customers amounted to RMB368,619 million), impairment of loans and advances is considered a key audit matter.</p>	<ul style="list-style-type: none"> Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios.
<p>Relevant disclosures are included in Note II.4, Note III.1, Note V.17 and Note VI.3 to the consolidated financial statements.</p>	<ul style="list-style-type: none"> Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

Independent Auditor's Report

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
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Impairment assessment of loans and advances to customers (Continued)

2. Design and operating effectiveness of key controls:

- Evaluated and tested the data and key controls used to determine expected credit losses, including loan business data, internal credit rating data, macroeconomic data, as well as impairment system computational logic, inputs and interfaces among relevant systems.
- Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration.

We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

Valuation of financial instruments

The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets including bonds, funds, equity investments and over-the-counter derivatives. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve subjective judgement and assumptions. Valuation results can vary significantly when different valuation techniques and assumptions are applied.

As at 31 December 2020, financial instruments measured at fair value of the Group mainly included RMB2,612,339 million in financial investments, representing 11% of total assets. Financial instruments which require significant unobservable inputs in estimating fair value, and hence categorised within level 3 of the fair value hierarchy, involve higher uncertainty in their valuation. As at 31 December 2020, 5% of financial investments measured at fair value were categorised within level 3. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation involving significant judgement for unlisted equity and fund investments as well as illiquid asset-backed securities, valuation of these financial instruments is considered a key audit matter.

Relevant disclosures are included in Note III.2 and Note VI.6 to the consolidated financial statements.

We evaluated and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, independent price verification, and independent model validation and approval.

We evaluated the valuation techniques, inputs and assumptions through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.

For valuations which used significant unobservable inputs, such as unlisted equity investments and private equity fund investments, we involved our internal valuation specialists in assessing the models used, re-performing independent valuations, and analysing the sensitivities of valuation results to key inputs and assumptions.

We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of fair value.

Independent Auditor's Report

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Structured entities</p> <p>The Group has interests in various structured entities, such as bank wealth management products, funds and trust plans, in conducting financial investments, asset management business and credit assets transfers. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control taking into consideration the power arising from rights, variable returns, and the link between power and returns.</p> <p>The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, consolidation or non-consolidation of structured entities is considered a key audit matter.</p> <p>Relevant disclosures are included in Note III.7 and Note V.46 to the consolidated financial statements.</p>	<p>We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it controls a structured entity.</p> <p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities, and the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group has legal or constructive obligation to absorb any loss of structured entities by reviewing relevant term sheets, and whether the Group has provided liquidity support or credit enhancement to structured entities, as well as the fairness of transactions between the Group and structured entities.</p> <p>We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of unconsolidated structured entities.</p>

Independent Auditor's Report

Other Information included in the Annual Report

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Shing Kit.

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2021