

Management Discussion and Analysis | Key Issues of Concern to the Capital Market

I. Serve the Real Economy

The financial industry is responsible for providing high-quality financial services to support economic and social development as well as people's productivity and livelihoods. Closely aligning with prevailing trends, the Bank has given full play to its financial strengths as a major state-owned bank in terms of serving national strategies and supporting the development of the real economy. In 2021, the Bank took multiple measures to earnestly implement the requirements of "ensuring stability on six fronts and security in six areas", made comprehensive efforts to serve the real economy, and enhanced support to key areas such as inclusive finance, green finance, strategic emerging industries and manufacturing. Upholding the concept of "innovation, coordination, green development, opening up and sharing", it supported the development of major projects, key regions, and new infrastructure and new urbanisation initiatives; assisted in building a new development pattern of "dual circulations reinforcing each other", and applied its professional strengths to "financing" and "intelligence".

As at the end of 2021, the balance of domestic RMB corporate loans was RMB7,161.416 billion, up RMB895.085 billion or 14.28% from the beginning

of the year. Both the increment and the growth rate achieved a record high compared to previous years. The balance of inclusive loans granted to micro and small enterprises under the CBIRC target of "two no-less-than and two control" amounted to RMB881.5 billion, up RMB305.9 billion or 53.15% compared with the prior year-end, ranking first among the four major domestic banks. Specifically, the balance of inclusive loans granted to micro and small enterprises was RMB516.2 billion, an increase of RMB207.5 billion or 67.2% from the prior year-end.

In terms of industry, the Bank actively supported the high-quality development of key areas such as green finance, strategic emerging industries, manufacturing and private enterprises. The balance of new green loans granted to corporate customers⁸ grew by RMB419.7 billion or 45.86% from the beginning of the year, ranking first among the four major peers. The balance of financial instruments used for carbon emission reduction was RMB27.1 billion and the balance of loans granted for clean and efficient utilisation of coal was RMB2.5 billion. In addition, according to CBIRC statistics, compared with the beginning of the year, the balance of loans granted to strategic emerging industries grew by RMB299.3 billion or 135%, and medium and long-

⁸ According to the PBOC statistics

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term loans to manufacturing industries increasing by RMB129.1 billion or 28.8%. The balance of loans granted to private enterprises was RMB2.44 trillion, up RMB326.8 billion or 15.46% over the prior year-end. The accumulated total of new private enterprise loans was RMB2.69 trillion, accounting for 41.57% of total accumulated new corporate loans, an increase of 1.44 percentage points compared with the prior year-end.

In 2022, the Bank will continue to implement the requirements of the national 14th Five-Year Plan, focus on serving the real economy, seize business opportunities in key areas, and maintain reasonable growth in loans while preventing credit risks. It will serve national strategies by continuously improving its corporate credit structure and strengthening its support for key areas such as green credit, strategic emerging industries, manufacturing, private enterprises and rural revitalisation. Moreover, it will increase inclusive finance support for micro and small enterprises, vigorously develop technology finance, and step up its support for “specialised, refined, featured and innovative” enterprises within the advanced manufacturing industries, as well as micro and small enterprises engaged in scientific and technological innovation. It will put in place improved industry policies and supporting resources, further enhance its credit

selection and allocation capabilities for industries, regions, customers and projects, strengthen its market competitiveness in corporate banking and build a high-quality development model for its corporate banking business, thus continuously stimulating the vitality of a wide range of market players.

II. Asset Quality

In recent years, the Bank has actively responded to the changes in internal and external situations and taken multiple measures to effectively prevent and defuse risks, with its asset quality remaining at a high level among its peers. As at the end of 2021, the Group’s outstanding non-performing loans (NPLs) stood at RMB208.792 billion, an increase of RMB1.519 billion compared with the prior year-end; while its NPL ratio was 1.33%, down 0.13 percentage point compared with the prior year-end. Outstanding special mention loans registered RMB210.813 billion, a decrease of RMB53.781 billion compared with the prior year-end; the special mention loans accounted for 1.35% of the total, a decrease of 0.52 percentage point compared with the prior year-end. Overdue loans were RMB167.737 billion, down RMB11.647 billion compared with the prior year-end; the overdue rate was 1.07%, a decrease of 0.19 percentage point

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compared with the prior year-end. The main risk indicators improved stably, and the asset quality remained healthy and steady.

Looking into 2022, the international political and economic landscapes are undergoing profound evolution. Spillover effects of the US Federal Reserve's policy of shrinking the balance sheet and raising interest rates will exacerbate turbulence in the global financial market, and emerging market countries are facing the impact of overlapping factors such as heavy debt burden, high external dependence and recurring pandemic. Uncertainties in the external environment will persist for a long time to come. From the domestic perspective, the general principle of prioritising stability while pursuing progress and the long-term positive fundamentals will remain unchanged. At the same time, however, the economy is still facing certain downward pressure, and uncertainties affecting the quality of bank assets still exist. The Bank will continue to better integrate the prevention and diffusion of financial risks with serving the real economy, intensify risk identification and control in key areas, and make

forward-looking judgement and take multiple measures to do its best in credit risk control. The asset quality of the Group is expected to remain relatively stable.

III. Digital Transformation

As the tide of digitalisation surges forward, now is the time for transformation and change. In 2021, the Bank released the Group's 14th Five-Year Plan, which made digital transformation central to how its business development mode will evolve during the current period. It also formulated two important action plans for fintech and data strategy, respectively. The Financial Digitalisation Committee has carried out its routine responsibilities for coordinating and advancing the Group's digitalised development, financial technology and data governance. By innovating its service models, enriching customer experience and reducing operating costs, the comprehensive digital transformation of the Bank has been continuously deepened across a number of aspects.

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First, the Bank's online business system continued to mature, driving improvement in service quality and efficiency. In transaction banking, an integrated financial service platform for corporate customers was launched, with services such as cross-border remittance and supply chain financing now available online. Online inclusive financial products such as mortgage loans, foreign trade loans and preferential loans for farmers were released. The E-Cooperation global enterprise ecosystem provided all-round and 24/7 cross-border matchmaking services for global enterprises. The Bank launched Mobile Banking Version 7.0 and promoted the iteration of basic and frequently-used functions as well as improved accessibility for the elderly, so as to provide customers with a frictionless, 360-degree convenient banking experience. The "Cyber Defence" smart risk control and prevention system was refined, and artificial intelligence models were applied to enhance the safety of online financial services.

Second, the Bank's diversified scenario ecosystem highlighted BOC's core strengths and gave full play

to the value of opening-up and sharing. The basic platform for strategic scenarios was further developed, and the promotion of innovation application across the Bank's businesses was steadily accelerated. The Bank launched the "BOC Cross-Border Go" app and "BOC Compass" mini-programme to serve crossborder customers. It built platforms themed on "smart campus" and alumni public welfare, and launched "Baby Money Box" to help children develop good saving habits. It connected into nearly 1,500 sports stadiums, and its "Winter Sports with BOC" campaign became increasingly popular. The BOC University for the Elderly and the public service platform of mutual aid for the elderly helped make the lives of the elderly more colourful. E-CNY payment allowed customers to meet a variety of daily needs such as ordering takeaway meals, paying electricity bills, charging public transport cards and buying licensed products of the Beijing 2022 Winter Olympic Games.

Third, digital operation and management was integrated into the Bank's day-to-day routines to improve the efficiency of organisational synergies. The Bank created digital management tools directly

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penetrating to outlets, put into operation a digital management platform and a unified staff channel for outlets, and launched smart screens in outlet halls. It built a comprehensive operations platform to promote electronic flows, an “assembly line” approach to operations and standardised management, thus enhancing business processing efficiency by more than 60%. A total of 217 mobile office platform applications were made available to employees, promoting online communication, processes and management, and enhancing the Bank’s agile response capabilities.

Fourth, the Bank’s digital infrastructure capacity was continuously consolidated to promote technological data empowerment. The Oasis project, a next-generation enterprise-level technology platform, was successfully put into operation. The Bank’s data governance framework was basically completed, and its data assets continued to realise greater value. Emerging technology platforms continued to be iterated and upgraded, injecting new momentum for business development. Furthermore, the Bank improved its mechanism for tackling key innovation problems and promoted the application and R&D of new technologies, the replication and scaling of key achievements, and the securing of a leading position in industry rankings. A total of six awards for fintech development and 194 patents were granted in 2021, all of which exceeded the previous years’ level.

In 2022, guided by the Group’s 14th Five-Year Plan, centered on the driver of comprehensive digital transformation, the Bank will focus on building the “two pillars” of enterprise-level business architecture and enterprise-level IT architecture, and strive for breakthroughs in the “three main lines” of empowering business development, consolidating basic support, and planning for future capabilities. Centring on changes in customer demand and industrial upgrading and transformation. It will enhance the competitiveness of key products, promote the green and efficient operation of financial technology, and accelerate the scaled integration and application of new technologies, thus writing a new chapter for the “SMART BOC+” brand, building up momentum and energy towards the high-quality development of the Group, and contributing to the development of a digital China.

IV. Globalised Development

In 2021, the Bank embraced the new development stage and delivered on the “One Mainstay, Two Engines” strategy through more efficient policy execution and further advancement in globalised operations. In serving China’s new development paradigm and higher-level opening up, the Bank tapped into new business opportunities and improved our capacity to offer financial services around the world. As a result, the Bank’s development plan during the 14th Five-Year period was set off to a good start.

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The Bank continued to optimise its global network, expanding overseas presence to 62 countries and regions outside Chinese mainland, including 41 Belt and Road members. Last year witnessed the opening of the Yangon Branch in Myanmar, Hanoi Representative Office in Vietnam and Geneva Branch in Switzerland. In managing its international network, the Bank further improved the matrix-based approach combining Regionalised Management and Integrated Operation. BOCHK, boasting network in nine Southeast Asian countries, worked to take regional integration further with fruitful results, as testified by the rising market influence of these branches and subsidiaries and their growing capacity to serve customers and support local economies. Institutions in Europe, Africa and the Middle East also advanced Regionalised Management and business consolidation as planned, leading to greater synergy, higher quality and efficiency in this region. Integrated Operation was steadily carried out, and our competence and capacity to serve global clients continued to grow.

To drive business growth, the Bank recognised and acted on opportunities in cross-border trade and investment, such as those emerged in the nation's high-quality "Bringing In" and "Going Global" initiatives. In addition, we rode the trend of China's two-way opening up of the financial sector, the development of financial factor market. The Bank also

promoted green finance, cross-border finance, wealth management and supply chain finance in overseas markets, thus elevating our ability to provide global services. The Bank categorised its overseas institutions strategically based on their historical status and market positions, and adopted a market-by-market strategy to reflect their respective business goals and operational priorities. In line with the Group's new "One Mainstay, Two Engines" strategy, the Bank further coordinated its services at home and abroad to better support our clients in their globalised endeavours. Taking it a bottom line to ensure workplace safety, the Bank did its best to protect the physical and psychological well-being of its employees and keep its institutions safe, thus maintaining business continuity around the world.

Looking into 2022, the global economic situation is becoming more complex and severe and our overseas operations face both opportunities and challenges. It is all the more important for our overseas network to place greater emphasis on stability while pursuing growth. While positioning themselves to better address risks in the financial markets, overseas institutions will bolster their balance sheets through proper and timely asset and liability management, to seize opportunities for growth and maintain steady improvement in operating efficiency.