

Independent Auditor's Report



羅兵咸永道

To the Shareholders of Bank of China Limited

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

Opinion

What we have audited

The consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (the "Group"), which are set out on pages 199 to 354, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include principal accounting policies and other explanatory information.

Our Opinion

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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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.

Key audit matters identified in our audit are summarised as follows:

- Measurement of expected credit loss ("ECL") for loans and advances to customers
- Valuation of financial investments measured at fair value
- Consolidation of structured entities

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p data-bbox="172 405 1134 433">Measurement of expected credit loss ("ECL") for loans and advances to customers</p> <p data-bbox="172 448 799 513">Refer to Note II 4.6, Note III 1, Note V 9, 17, 23 and Note VI 2.3 of the consolidated financial statements.</p> <p data-bbox="172 556 799 1030">As at 31 December 2021, the carrying amount of loans and advances to customers in BOC's consolidated statement of financial position was RMB15,322,484 million. Of these balances, the loans and advances to customers measured at amortised cost of RMB15,319,394 million and loans and advances to customers measured at fair value through other comprehensive income of RMB351,795 million, together with accrued interest were subject to ECL measurement, and an impairment allowance of RMB390,541 million was recognised by management as at 31 December 2021. The impairment losses on loans and advances to customers recognised in the Group's consolidated income statement for the year ended 31 December 2021 amounted to RMB98,298 million.</p> <p data-bbox="172 1073 799 1584">The Group assessed whether the credit risk of loans and advances to customers had increased significantly since their initial recognition, and applied a three-stage impairment model approach to calculate the ECL. For loans and advances to customers that are classified as stage 1 or stage 2, and those classified as stage 3 (impaired) with individual amount that are relatively insignificant, the Group assessed the ECL using the risk parameter modelling approach that incorporated relevant key risk parameters, including probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For loans and advances to customers classified as stage 3 with individual amount that are relatively significant, the Group assessed ECL for each loan by estimating the future cash flows from the loans.</p>	<p data-bbox="858 448 1433 793">We understood and evaluated management's internal controls and assessment process for the measurement of ECL for loans and advances to customers. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of estimation models used, the subjectivity of significant management judgements and assumptions, and susceptibility to management bias.</p> <p data-bbox="858 836 1433 998">We assessed the design and tested the operating effectiveness of the key internal controls over the measurement of ECL for loans and advances to customers. These included periodic assessment and approval controls, which primarily include:</p> <ol data-bbox="858 1041 1433 1554" style="list-style-type: none"><li data-bbox="858 1041 1433 1209">(1) internal controls over the ECL model management, including continuous monitoring of the selection of modelling methodologies, model optimisation, approval and application of changes in key parameters, and model back-testing;<li data-bbox="858 1252 1433 1554">(2) internal controls over significant management judgements and assumptions, including portfolio segmentation, parameter estimation, determination and application of criteria to identify significant increases in credit risk, default and credit-impaired assets, as well as economic indicators, economic scenarios and weightings used in forward-looking measurement;

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit loss ("ECL") for loans and advances to customers (Continued)	
<p>The measurement of ECL for loans and advances to customers involves significant management judgements and assumptions, mainly on:</p>	
(1) Segmentation of portfolios based on credit risk characteristics, selection of appropriate models and determination of relevant key parameters;	(3) internal controls over the estimated future cash flows and calculation of present value with respect to loans and advances to customers classified as stage 3 with individual amount that are relatively significant;
(2) Determination and application of criteria to identify significant increase in credit risks and default or credit-impaired assets;	(4) internal controls over the accuracy and completeness of key data used by the models;
(3) Economic indicators, economic scenarios and weightings used in the forward-looking measurement;	(5) internal controls over the information technology ("IT") systems for ECL measurement, including information technology general controls ("ITGCs"), data interfaces, application of model parameters and automated IT controls over impairment calculations.
(4) Estimation of future cash flows for stage 3 loans and advances to customers with individual amount that are relatively significant.	
<p>We have identified the measurement of ECL for loans and advances to customers as a key audit matter due to the material balance of the Group's loss allowances for loans and advances to customers and high inherent risk given the uncertainty of estimates, adoption of complex models, involvement of significant management judgements and assumptions and use of numerous parameters and data inputs in such measurement.</p>	<p>We involved our credit risk experts in evaluating the model methodologies, significant judgements and assumptions, data and key parameters used in the ECL measurement for loans and advances to customers. The substantive audit procedures performed by us were mainly as follows:</p> <p>(1) we assessed the appropriateness of portfolio segmentation and the models adopted for the measurement of ECL in respect of different portfolios with consideration given to the risk characteristics of loans and advances to customers, the Group's risk management practices and industry practices. We selected samples of ECL calculations and examined whether the models' calculation engines are consistent with the Group's methodologies.</p>

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Measurement of expected credit loss ("ECL") for loans and advances to customers (Continued)</i>	<ul style="list-style-type: none">(2) we examined the accuracy and completeness of historical and measurement date data used in the ECL models on a sampling basis, including:<ul style="list-style-type: none">(i) in respect of PD: financial and non-financial information for determining borrowers' credit rating, overdue repayment status, etc.;(ii) in respect of LGD: types of guarantees and collateral, historical actual loss rates, etc.;(iii) in respect of EAD: borrowers' outstanding loan balances, interest rates, maturity dates, repayment methods, etc. by agreeing them to loan contracts and other relevant documents. We also agreed the total credit risk exposure in the ECL models to data from other information systems.(3) in respect of PD and LGD, we assessed the reasonableness of the parameters by comparing the historical expected default and loss given default with the subsequent actual default and loss given default for significant exposures through independent back-testing.(4) we selected samples and assessed the appropriateness of management's staging classifications and judgements used in determining significant increases in credit risk and identification of default or credit-impaired assets based on the borrower's financial and non-financial information and other external evidence provided by management. We took into consideration the credit risk profile of borrowers and the Group's risk management practices in such assessment.

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Measurement of expected credit loss ("ECL") for loans and advances to customers (Continued)</i>	<p>(5) for forward-looking measurements, we evaluated management's selection methodology for economic indicators, economic scenarios and weightings assigned based on statistical analysis and expert judgements. We assessed the reasonableness of the forecasted economic indicators by performing back-testing and comparing with publicly available forecasts from third-party institutions. We performed sensitivity analysis on the economic indicators and weightings under different economic scenarios.</p> <p>(6) for individual loans and advances to customers classified as stage 3 which were relatively significant, we examined on a sample basis, the forecasted cash flows prepared by management based on the financial information of borrowers and guarantors, latest collateral valuations and other available information and factors together with discount rates used to support the computation of loss allowances.</p> <p>We checked and evaluated the financial statement disclosures in relation to the measurement of ECL.</p> <p>Based on procedures performed, we considered that the models, significant judgements and assumptions, as well as relevant data and parameters used by management in measuring ECL for loans and advances to customers were supported by the available evidence.</p>

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p data-bbox="164 403 837 433">Valuation of financial investments measured at fair value</p> <p data-bbox="164 437 837 498">Refer to Note II, 4.4, Note III, 2, Note V, 18 and Note VI, 5.1 of the consolidated financial statements.</p> <p data-bbox="164 536 837 1131">As at 31 December 2021, financial investments measured at fair value through profit or loss and financial investments measured at fair value through other comprehensive income of the Group were RMB561,642 million and RMB2,389,830 million respectively, representing 11.04% of total assets. Of these financial investments measured at fair value, (1) financial investments classified as Level 1 fair value, measured using quoted prices (unadjusted) in active markets accounted for 15.47%; (2) financial investments classified as Level 2 fair value, measured using valuation techniques for which inputs are observable for the financial investments, accounted for 79.24%; (3) financial investments classified as Level 3 fair value, measured using valuation techniques using unobservable inputs that have a significant impact on the valuation accounted for 5.29%. Level 3 financial investments mainly include unlisted equity and fund investments held by the Group.</p> <p data-bbox="164 1170 837 1360">We have identified this as a key audit matter due to the material balance of the financial investments measured at fair value and significant management judgement and assumptions are required, including selection and determination of unobservable inputs, in valuing the financial investments in Level 3.</p>	<p data-bbox="850 437 1441 799">We understood and evaluated management's internal controls and assessment process over the valuation of financial investments measured at fair value. We assessed the inherent risk of material misstatement by considering the inherent risk factors of the different fair value levels such as the degree of estimation uncertainty, the complexity of valuation techniques and models, the subjectivity of management's judgements and assumptions in selecting valuation techniques, models and inputs and susceptibility to management bias.</p> <p data-bbox="850 838 1441 1162">We assessed the design and tested the operating effectiveness of the key internal controls over the valuation of financial investments measured at fair value. These included controls over independent price verification, model validation and approval, review and approval of valuation results, and the information technology general controls ("ITGCs") of related systems, systems interfaces of inputs such as market data and automated calculations within the valuation system.</p> <p data-bbox="850 1200 1441 1300">We performed the following substantive procedures over the valuation of financial investments measured at fair value, on a sample basis:</p> <ol data-bbox="850 1338 1441 1429" style="list-style-type: none"><li data-bbox="850 1338 1441 1429">(1) for Level 1 financial investments, we tested their valuations by comparing to quoted prices in active markets.

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
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Valuation of financial investments measured at fair value (Continued)

- (2) for Level 2 and Level 3 financial investments:
- (i) we assessed the appropriateness of the Group's valuation models and benchmarked against common market models, taking into consideration the product characteristics and industry practice;
 - (ii) for inputs used for valuation of Level 2 financial investments, we tested the accuracy of inputs to the valuation model by comparing to market observable data;
 - (iii) for unobservable inputs used for the valuation of Level 3 financial investments, we obtained an understanding of management's methodology for the selection of inputs such as liquidity discounts, discount rates, expected dividend, etc. and assessed the reasonableness and appropriateness of such inputs by examining supporting information and comparing to alternatives in the market with involvement of our internal valuation experts. We also performed sensitivity analysis on the unobservable inputs;
 - (iv) we engaged internal valuation experts to perform independent valuation testing.

We checked and evaluated the financial statement disclosures in relation to the fair value of financial investments.

Based on the procedures performed, we considered that the judgements and assumptions used by management in valuing financial investments measured at fair value were supported by the available evidence.

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Consolidation of structured entities</p> <p>Refer to Note II, 2.1, Note III, 7 and Note V, 45 of the consolidated financial statements.</p> <p>The Group is principally involved with structured entities through sponsoring, managing and/or investing in wealth management products, asset securitisation products, funds, investment trust plans and asset management plans in Chinese Mainland. As at 31 December 2021, the Group's interests in unconsolidated structured entities mainly included (1) the balance of unconsolidated wealth management products and publicly offered funds/asset management plans sponsored by the Group amounted to RMB1,710,750 million and RMB487,438 million, respectively; (2) the balances of interest in unconsolidated structured entities held by the Group through direct investments in fund investments, investment trusts and asset management plans, and asset-backed securitisations sponsored by other financial institutions were RMB68,914 million, RMB12,268 million, and RMB125,081 million, respectively.</p> <p>The Group determines whether to consolidate structured entities based on management's assessment of the Group's control over the structured entities, taking into consideration its power over the structured entities, its exposure or rights to variable returns from its involvement with the structured entities, and its ability to use its power to affect the amount of returns from the structured entities.</p> <p>We have identified this as a key audit matter due to the material balance of structured entities and significant judgements were involved in assessing the Group's control over the structured entities.</p>	<p>We assessed and tested the design and operating effectiveness of the key internal controls over the Group's consolidation of structured entities. These included controls over management's assessment of the transaction structures and contractual terms, calculations of variable returns, as well as review and approval of the consolidation assessments.</p> <p>We performed the following substantive procedures on a sample basis:</p> <ol style="list-style-type: none">(1) we inspected the contractual terms of structured entities, understood the purpose of establishment, examined the transaction structure and identified the decision-making mechanism of related activities to assess the rights and obligations of the Group and other investors, as well as the Group's power over the structured entities.(2) we examined the arrangements for investment income, fee income, assets management fees and retained residual income from the structured entities based on the contractual terms including whether liquidity support or other arrangements were provided by the Group to the structured entities, and performed independent analysis and testing to assess the Group's exposure or rights to variable returns from its involvement in related activities with the structured entities.

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Consolidation of structured entities (Continued)</i>	<p>(3) we analysed the extent of the Group's decision-making power, the level of returns and the risk of variable returns due to holding other interests in the structured entities to assess whether the Group has the ability to use their power to influence the amount of returns from the structured entities. We also analysed the substantive rights held by other investors to assess whether the Group acted as a principal or an agent in structured entities related transactions.</p> <p>We checked and assessed the financial statement disclosures in relation to the consolidation of structured entities.</p> <p>Based on the procedures performed, we considered that management's judgements on the consolidation of structured entities were supported by the available evidence.</p>

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of 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.

Independent Auditor's Report (Continued)

Responsibilities of Directors and Those Charged with Governance 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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. We report our opinion 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.
- 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.

Independent Auditor's Report (Continued)

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

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 Ho Shuk Ching, Margarita.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2022