

# **Bank of China**

## **In-depth Report**

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# Company Overview

The Bank of China was established in February 1912 and has played significant roles as the central bank, international exchange bank, and specialized international trade bank in the country. Since 1949, it has been responsible for managing China's foreign exchange operations and providing services such as international trade settlement, overseas fund transfer, and non-trade foreign exchange services.

Being the most international and diversified bank in China, the Bank of China offers a wide range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan, and 31 other countries and regions. Its primary focus is on commercial banking, which includes corporate banking, personal banking, and financial markets services.

# Business Segment

The Bank of China engages in the provision of banking and financial services. It operates through the following business segments: Corporate Banking, Personal Banking, Treasury Operations, Investment Banking, Insurance, and Others.

## 1. Commercial Banking:

- a. Overview: Commercial banking is the Bank of China's core business segment, providing a wide range of financial services to corporate clients, small and medium-sized enterprises (SMEs), and individuals.
- b. Financial Performance: The commercial banking segment generates a significant portion of the bank's revenue through various lending activities, deposit services, trade finance, and other banking products.
- c. Risk Profile: The risk profile of commercial banking is associated with credit risk, as loans and advances form a significant part of the bank's assets. Additionally, market risk and liquidity risk are also relevant factors to consider.
- d. Contribution to Total Revenue: Commercial banking contributes a substantial portion of the Bank of China's total revenue.

## 2. Personal Banking:

- a. Overview: The personal banking segment focuses on providing financial services to individual customers, including retail banking, wealth management, and consumer lending.
- b. Financial Performance: Personal banking activities, such as deposits, consumer loans, mortgages, and investment products, contribute to the bank's overall revenue stream. These services cater to the financial needs of individual customers.
- c. Risk Profile: The risk profile of personal banking involves credit risk, as the bank extends loans and credit facilities to individual customers. Additionally, market risk, operational risk, and compliance risk are also relevant considerations.
- d. Contribution to Total Revenue: The personal banking segment contributes a notable share to the bank's total revenue.

## 3. Financial Markets Services:

- a. Overview: Financial markets services involve activities such as trading in foreign exchange, bonds, derivatives, and other capital market instruments.
- b. Financial Performance: Revenue in this segment is generated through brokerage commissions, trading income, and fees from investment banking services, including underwriting and advisory activities.
- c. Risk Profile: Financial markets services are exposed to market risk, liquidity risk, credit risk (in cases of counterparty exposure), and regulatory risk. These risks arise due to the volatile nature of financial markets.

- d. Contribution to Total Revenue: The financial markets services segment's contribution to total revenue may vary depending on market conditions, but it can be a significant income generator for the bank.

Other branches include Business of Bank of China (Hong Kong) Limited, Bank of China Group Insurance Company Limited, Bank of China Group Investment Limited, BOC Aviation Pte. Ltd, and Bank of China Investment Management Co., Ltd. All these branches provide a huge profit to BOC.

# Financial Statement Analysis

## 1. Income Statement

- a. Based on the annual report of 2022, the Bank of China achieved a profit for the year of RMB 237.504 billion, which represents an increase of RMB 10.165 billion or 4.47% compared to the previous year. The profit attributable to equity holders of the bank amounted to RMB 227.439 billion, showing an increase of RMB 10.880 billion or 5.02% compared to the prior year. The return on average total assets (ROA) for the Bank of China in 2022 was 0.85%. The return on average equity (ROE) for the bank in 2022 was 10.81%. These financial indicators reflect the bank's ability to generate profits from its assets and equity, **indicating a relatively positive financial performance in 2022.**

## 2. Balance Sheet

- a. As of the end of 2022, the Bank of China's total assets amounted to RMB 28,913.857 billion, which represents an increase of RMB 2,191.449 billion or 8.20% compared to the previous year-end. The bank's total liabilities amounted to RMB 26,346.286 billion, showing an increase of RMB 1,974.431 billion or 8.10% compared to the prior year-end. **The increase in both total assets and total liabilities indicates growth in the Bank of China's financial operations and activities over the course of the year.** It suggests that the bank has expanded its balance sheet by acquiring additional assets and taking on additional liabilities.

## 3. Cash Flow statement

- a. As at the end of 2022, the balance of the Group's cash and cash equivalents was RMB2,091.466 billion, **an increase of RMB 115.835 billion compared with the prior year-end.**
- b. In 2022, the Bank of China reported a net cash flow from operating activities of RMB -11.337 billion, indicating an outflow of cash. **This represents a significant decrease compared to the prior year** when there was a net inflow of RMB 843.258 billion. The change in cash flow was primarily due to a net decrease in amounts due from banks and other financial institutions, in contrast to a net increase in the prior year.
- c. The net cash flow from investing activities in 2022 was an outflow of RMB -22.242 billion, which represents **a decrease of RMB 373.319 billion compared to the previous year.** The change was mainly attributed to an increase in proceeds from the disposal or maturity of financial investments when compared to the prior year.

# Asset Quality Analysis

The Bank of China focused on enhancing its comprehensive risk management system and adopted a proactive and forward-looking approach to risk management. This approach resulted in generally stable credit asset quality. The bank implemented a strict and robust risk provisioning policy and maintained sufficient capacity to mitigate risks effectively.

In 2022, the bank reported impairment losses on assets amounting to RMB 103.993 billion. This represents a decrease of RMB 0.227 billion or 0.22% compared to the previous year. This indicates the bank's efforts to manage and mitigate potential losses from impaired assets, resulting in a relatively stable financial position.

Overall, the Bank of China's emphasis on risk management, including proactive measures, prudent provisioning, and maintaining risk mitigation capabilities, contributed to maintaining **a stable credit asset quality and minimizing potential losses**.

During the year, the Bank of China's domestic branches disposed of non-performing loans through various methods, including write-offs, transfers of creditor's rights, and loans to equity conversion. The total amount of these disposals in 2022 was RMB 53,303 million, which represents a decrease compared to the previous year's amount of RMB 75,152 million.

As a result of these disposals, the bank experienced a corresponding reduction in the impairment allowance for Stage 3 loans. The reduction amounted to RMB 47,718 million in 2022, compared to a reduction of RMB 72,016 million in 2021. This reduction in the impairment allowance indicates the bank's **success in addressing non-performing loans and improving the quality of its loan portfolio**.

The disposal of non-performing loans through various means allows the bank to manage and mitigate the impact of such loans on its overall asset quality. It helps to reduce the potential losses associated with non-performing loans and contributes to maintaining a healthier loan portfolio.

# Liquidity Profile

The Bank of China considers liquidity risk management as a crucial aspect of its overall asset-liability management strategy. The bank ensures that the size, structure, and duration of its assets and liabilities are aligned to maintain a balanced position between them.

To mitigate liquidity risk, the bank establishes a liquidity portfolio that aims to minimize any gaps in funding sources and uses of funds. This helps ensure that the bank has sufficient liquidity to meet its obligations as they arise.

The bank continually refines its financing strategy, taking into account factors such as customer risk sensitivity, financing costs, and concentration of funding sources. It prioritizes the development of customer deposits, as these serve as a stable and reliable source of funding. Additionally, the bank dynamically adjusts the structure of its funding sources by utilizing market-oriented financing methods. This includes obtaining funds from other banks and financial institutions, engaging in inter-bank borrowings, and issuing bonds.

By diversifying its financing sources, the bank aims to improve the stability and diversity of its funding. This helps reduce its reliance on a single source and enhances its ability to manage liquidity risk effectively.

As at the end of 2022, the Group's liquidity risk indicator met regulatory requirements. **The Group's liquidity ratio is shown to be 49.0%**

					Unit: %
		Regulatory standard	As at 31 December 2022	As at 31 December 2021	As at 31 December 2020
Ratio					
Liquidity ratio	RMB	≥25	49.0	49.6	54.5
	Foreign currency	≥25	72.6	69.9	58.6



# Capital Management

## Capital structure:

- The Bank of China implemented its 14th Five-Year Capital Management Plan, which focused on the "One Mainstay, Two Engines" strategy and the "Eight Priority Areas for Enhancing Financial Services Capabilities." These initiatives were aimed at improving the bank's capital management practices.
- The bank regularly conducted internal capital adequacy assessments and continuously optimized its assessment process. By enhancing its risk assessment methods and optimizing its capital management governance structure, the bank aimed to ensure effective and efficient capital allocation.
- As part of its capital management efforts, the bank improved its economic capital budget and assessment mechanism. It also strengthened the application of value creation indicators in resource allocation. These measures allowed the bank to allocate its capital resources based on the potential value creation opportunities, thereby optimizing its capital utilization.
- Furthermore, the Bank of China heightened its awareness of capital saving and value creation. By focusing on endogenous capital accumulation, the bank aimed to enhance its capability to generate capital internally. This approach enables the bank to retain earnings and increase its capital base, thus improving its overall financial strength and resilience.

## Capital Adequacy Ratios:

- As at the end of 2022, the Group's capital adequacy ratio reached 17.52%, an increase of 0.99 percentage points compared with the prior year-end, remaining at a robust and reasonable level in compliance with the objectives of the Group's 14th Five-Year Plan.

## Dividend Policy:

- The Board of Directors of the Bank of China has proposed a final dividend on ordinary shares for the year 2022. The recommended dividend amount is RMB 2.32 per 10 shares (before tax). However, the approval of shareholders is required, and this approval will be sought at the 2022 Annual General Meeting.
- Once the shareholders approve the proposed final dividend, eligible shareholders will be entitled to receive the dividend payment. The dividend amount per share and the total dividend payment will be determined based on the number of shares held by each shareholder.

# Credit Rating

- Credit Rating (Long Term, Foreign Currency)
- S&P Global Ratings: A Moody's Investors Service: A1
- Fitch Ratings: A

The Bank of China consistently maintained the highest level among its domestic peers in terms of its external credit ratings. This achievement had several positive impacts on the bank's operations. It not only lowered the bank's financing costs but also improved its market image, contributing to its overall financial performance and competitiveness in the banking industry.

# Stock Performance

The Shanghai Stock Exchange Composite Index stood at 3,089, down 15.1% from the prior year-end. The central parity rate of RMB against USD was 6.9646, a depreciation of 8.5% compared with the prior year end.

\$0.38

↓ 27.60% -0.15 5Y

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# Current Update

According to the BOC 2022Q4 Economics and Financial Outlook, China's economy showed signs of recovery in the third quarter of 2022. This was attributed to the improved COVID-19 policy, persistent pro-growth measures, mild inflation allowing for flexible macro policy operations, and strong exports. However, the economic recovery fell short of expectations due to weaker domestic demand caused by factors such as a resurgence of COVID-19 cases, heatwaves, droughts, and challenges in the property market.

In terms of GDP growth, it is estimated that China's economy grew by around 3.8% in the third quarter, representing a significant improvement compared to the second quarter. Looking ahead to the fourth quarter, it is anticipated that China's exports may weaken, and the impacts of COVID-19 will continue to be felt in the country. The recovery of domestic demand will depend on the effectiveness of the pro-growth policies and the improvement of the COVID-19 situation.

The Outlook projects a GDP growth rate of approximately 5% for the fourth quarter, with an overall growth rate of around 3.5% for the year. It emphasizes the need for the pro-growth policy to focus on stabilizing domestic demand and expectations, while also ensuring a balance between stable growth and fiscal sustainability.

These projections and recommendations highlight the challenges faced by China's economy, including the ongoing impact of the COVID-19 pandemic and the need for targeted policies to support economic stability and growth.

# Conclusion

In 2022, the Bank of China achieved positive financial results, with a profit for the year of RMB 237.504 billion, representing a 4.47% increase compared to the previous year. The bank's capital adequacy ratio also increased to 17.52%, indicating a strong financial position. Furthermore, the bank focused on risk management, ensuring stable credit asset quality and implementing measures to dispose of non-performing loans.

The bank demonstrated resilience and adaptability in a challenging economic environment. China's economy experienced a recovery in the third quarter of 2022, supported by improved COVID-19 policies, persistent pro-growth measures, and strong exports. However, the recovery fell short of expectations due to weaker domestic demand caused by factors such as COVID-19 resurgence, heatwaves, droughts, and challenges in the property market.

Looking ahead, China's economy is expected to face continued challenges in the fourth quarter, including weakened exports and persistent fallout from COVID-19. The recovery of domestic demand will depend on sustained pro-growth policies and improvements in the COVID-19 situation. GDP growth is projected to be around 5% for the fourth quarter and approximately 3.5% for the year.

The Bank of China's strong credit ratings among domestic peers have helped lower financing costs and enhance its market image. The bank maintained a focus on liquidity risk management, ensuring a balance between funding sources and uses of funds. It also implemented its 14th Five-Year Capital Management Plan, improving capital management practices and endogenous capital accumulation.

In conclusion, the Bank of China has demonstrated resilience and achieved positive financial results in 2022, despite challenges in the economic and financial landscape. The bank's focus on risk management, capital adequacy, liquidity risk management, and pro-growth policies have contributed to its stability and success. However, uncertainties remain, and the bank will need to continue adapting and implementing strategic measures to navigate the ongoing economic challenges and opportunities.

