

# Report of the Board of Supervisors

## Meetings of the Board of Supervisors

In 2018, the Bank convened four on-site meetings of the Board of Supervisors on 29 March, 27 April, 28 August and 29 October. At these meetings, the Board of Supervisors reviewed and approved 16 proposals regarding the Bank's 2017 Annual Report, 2017 profit distribution plan, 2017 internal control assessment report, 2017 corporate social responsibility report, 2017 work report of the Board of Supervisors, 2018 work plan of the Board of Supervisors, evaluation opinions of the Board of Supervisors on the duty performance of directors and senior management members for 2017, nomination of Mr. CHEN Yuhua to be re-appointed as candidate for external supervisor of the Bank, Report for the First Quarter ended 31 March 2018, 2018 Interim Report, Report for the Third Quarter ended 30 September 2018, performance evaluation results for the Chairman of the Board of Supervisors for 2017, 2016 remuneration distribution plan for Chairman of the Board of Supervisors and shareholder supervisors, 2017 remuneration distribution plan for the Chairman of the Board of Supervisors and shareholder supervisors, performance management measures for the Chairman of the Board of Supervisors and shareholder supervisors (2018 version), implementation plan on performance management for the Chairman of the Board of Supervisors and shareholder supervisors in 2018, among others.

In 2018, the attendance rate of each supervisor of the meetings of the Board of Supervisors is given below:

Supervisors	Number of meetings attended in person/Number of meetings convened during term of office
<b>Incumbent Supervisors</b>	
WANG Xiquan	3/4
LIU Wanming	4/4
WANG Zhiheng	0/0
LI Changlin	0/0
LENG Jie	0/0
CHEN Yuhua	4/4
<b>Former Supervisors</b>	
WANG Xueqiang	1/1
DENG Zhiying	4/4
GAO Zhaogang	4/4
XIANG Xi	3/4

Notes:

- 1 Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for changes in supervisors.
- 2 Supervisors who did not attend the meetings of the Board of Supervisors have authorised other supervisors to attend and vote at the meetings as their proxy.

In 2018, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held three on-site meetings and one meeting by written resolution, at which it reviewed and approved the proposals on the evaluation opinions of the Board of Supervisors on the duty performance of directors and senior management members for 2017, the nomination of Mr. CHEN Yuhua to be re-appointed as candidate for external supervisor of the Bank, the 2017 remuneration distribution plan for the Chairman of the Board of Supervisors and shareholder supervisors, performance management measures for the Chairman of the Board of Supervisors and shareholder supervisors (2018 version), and the implementation plan on performance management for the Chairman of the Board of Supervisors and shareholder supervisors in 2018, among others. It also heard reports on the Bank's remuneration management policy and remuneration plan for senior management members and the Bank's liquidity risk management. The Finance and Internal Control Supervision Committee of the Board of Supervisors held four on-site meetings, at which it reviewed and approved the proposals regarding the Bank's 2017 Annual Report, 2017 profit distribution plan, 2017 internal control assessment report, 2017 corporate social responsibility report, Report for the First Quarter ended 31 March 2018, 2018 Interim Report and Report for the Third Quarter ended 30 September 2018, among others.

## Performance of Supervision and Inspection by the Board of Supervisors

In 2018, guided by the strategic goal of building BOC into a world-class bank in the new era, the Board of Supervisors implemented new strategies and planned new moves with a fresh mind-set and solid work style,

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in compliance with relevant laws and regulations, regulatory requirements and the Articles of Association of the Bank, and in alignment with the Bank's overall reform and development, as well as strategy implementation. It diligently supervised the duty performance, financial management, internal control and risk management, added a great deal of insight and perspective to its work and played a constructive supervisory role for the Bank's sound development.

**Performed the supervision and assessment of duty performance of directors and senior management members in an orderly fashion.** First, the Board of Supervisors strictly supervised day-to-day duty performance. Supervisors attended the shareholders' meetings, and attended the meetings of the Board of Directors and its special committees and meetings of the Senior Management as non-voting attendees, as well as hearing reports from related departments. This allowed supervisors to stay informed regarding the duty performance of directors and senior management members, and to share supervisory opinions and suggestions on major concerns in a timely fashion. Supervisors continued to collect and analyse information on the routine duty performance of directors and senior management members, centred on the overall strategic focus of the Bank, summarised and analysed the duty performance of senior management members on a monthly basis, and issued reminders on matters requiring particular attention. Second, it earnestly launched annual duty performance assessment. The Board of Supervisors organised interviews with directors and senior management members on their duty performance, and formulated annual duty performance assessment opinions on the Board of Directors, the Senior Management and their members with due regards to routine supervision information. Through review and approval at the meeting of the Board of Supervisors, it reported annual assessment results to the Annual General Meeting, in addition to duly filing duty performance assessment opinions of the Board of Directors, the Senior Management and their members with the CBIRC. The duty performance supervision and assessment helped to urge and guide the directors and senior management

members to fulfil their duties diligently and also enhance the overall level of corporate governance.

**Solidified the efforts in the supervision of strategy and finance.** Taking routine finance supervision as its basis, the Board of Supervisors conducted regular reporting and review, and developed an in-depth understanding of the economic and financial conditions of China and the world at large including emerging characteristics of and new developments. Through deep analysis, it drilled down into the Bank's updates on business, management and strategy implementation, while attaching importance to forethought in supervision. First, the Board of Supervisors strengthened the routine supervision of strategy and finance. By attending the meetings of the Board of Directors and the Senior Management as non-voting attendees, it followed up on the overall implementation progress of the development strategy and business management, put forward concerns on related significant issues and offered independent, objective comments and suggestions regarding the strategy implementation, thus earnestly performing its strategy and finance supervision and assessment function. The Board of Supervisors summarised and analysed the Bank's financial and accounting data on a monthly basis, combining this with the analyses and study of the macro-economic situation and regulatory policies so as to strengthen the forward-looking judgment and early warning regarding its financial position. Second, the Board of Supervisors deepened the review and supervision of regular reports. The Board of Supervisors and its special committees earnestly held meetings, communicated on special issues with related departments and external auditors, heard reports regarding the preparation and audit of regular reports, and compared the Bank's regular reports with those of other banks for researches. It put forward four letters of supervisory recommendations and outlined 18 concerns to the Board of Directors and the Senior Management, which were related to the supervision of the progress of strategy implementation, profitability enhancement, risk compensation capability strengthening, asset quality control improvement, resolving of difficulties in customer bases and funding sources, attending

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to regional risks, increasing the efforts in NPA disposal, shoring up of the deficiencies in credit risk management, cultivating new growth points in fee income, promoting bankcard business development and advancing the Bank's globalisation strategy. The Board of Directors, the Senior Management and related departments paid much attention to the above-mentioned issues, carefully referred to and adopted the suggestions by the Board of Supervisors, actively remedied the defects and continued to enhance the management level.

### **Deepened the supervision of risk management and internal control.**

First, the Board of Supervisors strengthened the supervision and guidance of risk management, and accelerated the improvement of risk control capability. In response to the profound changes in the external environment, the Board of Supervisors adhered to its risk supervision duty, stepped up the efforts in closely watching, analysing and warning risks, helped the Board of Directors and the Senior Management to fulfil their risk management and control responsibilities, and held the bottom line of preventing any systematic risk. The Board of Supervisors tracked the Bank's regional, industrial and policy risk exposures, stayed abreast of key NPA mitigation, including arrangements and implementation, summarised and analysed risk management information on a monthly basis, and strengthened the forward-looking analysis, judgment and warning of the risk status. Second, the Board of Supervisors strengthened the internal control supervision and assessment, and accelerated the improvement of internal control fraud prevention capability. It reviewed the Bank's internal control self-assessment report, heard the external auditor's report on the Bank's internal control and related management proposals, timely tracked and investigated the internal control frauds at the Bank, and reminded the Board of Directors and the Senior Management of actively analyse and anticipate the new situations, new circumstances and new issues in internal control fraud prevention so as to ensure that the governance of internal control fraud prevention becomes more targeted and effective.

**Launched special in-depth surveys.** The Board of Supervisors supplemented its day-to-day supervision with special surveys. Taking an issue-oriented approach, it organised and launched four special surveys on topics of domestic branches RMB deposits, corporate credit risk management, integration and development of the Bank's Southeast Asian institutions, and IT supporting capacity, thus targeting key points in the Bank's major work arrangements and strategy implementation process. The survey teams were led by supervisors and consisted of directors and personnel from relevant departments of the Head Office. They held many discussion with Head Office departments and the external auditor, visited a number of branch offices in order to streamline existing problems, dig into their causes, and widely solicit proposed countermeasures, and submitted survey reports. This provided the Board of Directors and the Senior Management with an all-round analysis of problems and forward-looking suggestions. The Board of Directors and the Senior Management fully recognised the value of the survey reports, and mandated management members and relevant departments to carefully study them and earnestly rectify the issued identified. The surveys carried out by the Board of Supervisors yielded more tangible outcomes in supervision, and further improved the Bank's operations and management.

### **Actively improved the coordination in supervision.**

First, the Board of Supervisors created innovative methods for interaction between directors and supervisors. It invited directors to participate in its surveys, held talks with directors, followed up on the implementation of survey results in cooperation with the Board of Directors, held exchange meetings with the Board of Directors and the Senior Management and shared training opportunities with each other, thereby further strengthening the communication with the Board of Directors and the Senior Management and pooling the efforts of the entire governance system. Second, it deepened supervision coordination, information sharing and training interaction with the audit and inspection departments in order to reduce supervision costs and improve efficiency.

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**Strengthened self-improvement.** The Board of Supervisors comprehensively fulfilled the requirement of strict governance over the Party organisations, consolidated the foundation of supervision function, and completed tasks related to the selection, appointment and resignation of some of its members. It earnestly carried out, followed up, oversaw and urged the remediation of issues identified by the CBIRC in its inspection notifications. A special seminar was held to review, discuss the work of the Board of Supervisors and the method to further improve and strengthen the work of the Board of Supervisors in light of the current situation and strategy implementation of the Bank. The Board of Supervisors organised and completed annual duty performance assessments of itself and its members, and urged all its members to earnestly perform the duties delegated by the Articles of Association. Special training courses were held to improve the supervisors' expertise and duty performance capability. All supervisors performed their duties faithfully and diligently, made efforts to sharpen their policy competence and duty performance capability, actively attended meetings, earnestly reviewed proposals, heard working reports, undertook special surveys and expressed opinions professionally, rigorously and independently, thus conscientiously carrying out their supervisory function.

The Board of Directors and the Senior Management placed great importance on and offered great support to the work of the Board of Supervisors. By holding Executive Committee meetings and special meetings or in other forms, they earnestly studied the supervisory reminders of the Board of Supervisors, steadfastly pushed forward remediation measures and continually improved the overall level of corporate governance.

In accordance with the regulatory requirements, the Board of Supervisors has put forward the following supervision and assessment opinions regarding the duty performance related to remuneration management by the Board of Directors and the Senior Management of the Bank. During the

reporting period, the Bank remained committed to deepening the reform of its remuneration distribution mechanism, improved the allocation of resources, developed annual remuneration plan in strict accordance with the regulatory requirements and corporate governance requirements, strengthened the linkage of remuneration distribution with value creation, business transformation and risk management, and promoted the overall coordinated and sustainable development. The Bank continued to improve the employee remuneration distribution measures, incentivised performance contribution and enhance long-term incentives. The Bank optimised its welfare and security system, stepped up remuneration incentives for key posts and core personnel, and facilitated talent growth. Remuneration resources were skewed towards outlets by putting in place a minimum pay protection system for outlet employees and further strengthening employee welfare and security, so as to earnestly enhance employees' sense of ownership, happiness and safety.

In accordance with the regulatory requirements, the Board of Supervisors issued the following supervision and assessment opinions regarding duty performance regarding liquidity risk management by the Board of Directors and the Senior Management of the Bank. During the reporting period, the Bank adhered to the operating principle of balancing safety, liquidity and profitability, attached great importance to the liquidity risk management, and constructed and continuously optimised the liquidity risk identification, measurement, monitoring and control system that is compatible with the scale, nature and complexity of the Bank's businesses. In compliance with the requirements of regulatory policies, the Bank revised its liquidity risk management policy, reviewed its liquidity risk limits, improved stress testing and emergency plans, reinforced liquidity risks management across its domestic and overseas, on-balance sheet and off-balance sheet, and domestic and foreign-currency operations, and continuously improved its liquidity risk management system. Thanks to these efforts, the Bank's key liquidity risk indicators

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met the requirements of external regulators and the Board of Directors, and its liquidity risk prevention capability was enhanced.

During the reporting period, the Board of Supervisors held no objection to such matters under its supervision regarding the Bank's operational and legal compliance, financial position, use of raised funds, purchase and sale of assets, connected transactions, internal control and corporate information disclosure.

### **Working Performance of the External Supervisor**

During the reporting period, Mr. CHEN Yuhua, the external supervisor of the Bank, performed his supervisory duty in strict accordance with the provisions of the Articles of Association of the Bank. Mr. CHEN personally attended the 2017 Annual General Meeting and the 2018 First Extraordinary General Meeting, attended all four meetings of the Board of Supervisors, attended and chaired four meetings of the Finance and Internal Control

Supervision Committee of the Board of Supervisors, and attended meetings of the Board of Directors, the Risk Policy Committee, the US Risk and Management Committee, and the Audit Committee as a non-voting attendee. Mr. CHEN led a special survey regarding RMB deposits of the Bank's domestic branches, participated in a special survey regarding corporate credit risk management, visited a number of branch offices to learn about the local situation, and guided the completion of high-quality survey reports. Mr. CHEN expressed opinions independently and objectively, and put forward suggestions for improving profitability, enhancing asset quality control, addressing difficulties related to customer bases and funding sources, grasping opportunities from the construction of the Hainan free trade port and strengthening the communication between the Head Office/branches and outlets, thus playing an active role in promoting the improvement of the Bank's corporate governance and management. During the reporting period, Mr. CHEN Yuhua worked at the Bank for more than 15 working days.