

Partnering with SMEs



The launch and promotion of “Zhanyetong” (“展業通”) brought along the development of financial services for small enterprises. As at the end of 2006, our loan balance to small enterprises amounted to RMB102.1 billion, representing an increase of RMB22.2 billion as compared to the beginning of the year, and accounted for an increase of 0.33 percentage points in the asset structure.

Report of the Board of Supervisors

In strict compliance with the Company Law of the People's Republic of China and Articles of Association of the Bank of Communications Co., Ltd, the Board of Supervisors in 2006 monitored the Board's implementation of resolutions approved by shareholders' general meetings, ensured that decisions were made within the Board's scope of duties, monitored the organization of shareholders' general meeting by senior management and the senior management's implementation of resolutions passed at shareholders' general meetings and board meetings, ensured that operational activities were carried out within the relevant scope of duties. The Board of Supervisors is also responsible for monitoring the performance of the Directors and senior management, and for investigating the Bank's financial condition.

1 MAJOR SUPERVISION WORK OF THE BOARD OF SUPERVISORS

The Board of Supervisors performs regular monitoring by attending shareholders' general meetings, sitting on the Board and on special committees, reviewing internal and external investigation reports, obtaining information from internal and external information systems such as enterprise credit information database and credit information management system (CIMS), investigating and sampling of relevant financial data.

1. On 17 March 2006, the Board of Supervisors conducted a survey on performance of a total of 34 Directors, Supervisors and senior management. Feedback was submitted to the Board and senior management in a report entitled "Summary Report of Performance Survey on Directors and senior management of the Bank of Communications Co., Ltd. for 2005".
2. On 22 June 2006, the Board of Supervisors made inquiries to senior management regarding issues arising from the transformation of retail business.
3. On 8 March 2006, the Board of Supervisors issued the "Notice on Activation of E-mail Account Specifically for Board of Supervisors" and an e-mail account exclusively for the Board of Supervisors was officially set up. On 11 August 2006, the Board of Supervisors prepared a report entitled "Summary of Recommendations regarding the Board of Supervisors Email Account", which was later issued to the relevant departments. Relevant departments carefully reviewed those suggestions, worked out remedies and reported back to the Board of Supervisors timely.
4. The Board of Supervisors supervised the auditors by attending the briefing of the auditors, reviewing annual (interim) reports, and examining the sampling process.
5. In connection with the proposed resignation of President Zhang Jianguo and proposed appointment of then Vice President Li Jun, the Board of Supervisors, in addition to the regular supervision, submitted to the CBRC "The Report on Zhang Jianguo's Performance During his Term as the President of Bank of Communications Co., Ltd." on 6 September 2006 and "The Report on Li Jun's Performance During his Term as the Vice President of Bank of Communications Co., Ltd" on 25 September 2006, respectively.

1 MAJOR SUPERVISION WORK OF THE BOARD OF SUPERVISORS *(Continued)*

6. In 2006, the Board of Supervisors issued six reports including “Letter of Supervision Recommendation” and “Supervisory Note of Internal Control Management”. The Board of Supervisors submitted to senior management “Suggestions to Strengthen Management of Overdue Loans and Roll-over Loans” regarding the issues present in overdue loans and roll-over loans. The Board of Supervisors also submitted to the Audit Department “Suggestions on Issuing Inspection Report In a Timely Manner to Audited Departments” regarding the issues present in risk management and timely improvement caused by the delayed delivery time of inspection reports after completion of on-site investigation. The Board of Supervisors also submitted to the relevant departments “Review Opinions of Submission Documents to China Banking Regulatory Commission” regarding the issues present in submission documents to CBRC. The Board of Supervisors submitted to senior management “Suggestions of Enhancing Management and Application of the Bank’s Information System” regarding the issues present in the Bank’s management of information. Concerning the Bank’s policy that customers’ accounts would be cancelled within 7 days of the cancellation of their Pacific debit cards, the Board of Supervisors pointed out that the policy was contrary to the Bank’s management concept of customers being the top priority and made suggestions to the relevant departments timely. The Board of Supervisors submitted to senior management “Suggestions to Substantiate Audit Findings and Enhance Responsibility Scheme” regarding the issues present in responsibility system of the Bank. In the aspects of operational efficiency, assets quality, and integrity of financial information, execution efficiency and system building, the Board of Supervisors gave its opinion and made various suggestions.

In addition, the Board of Supervisors provided suggestions to the CBRC regarding the industry-wide common practice of using proceeds instead of guarantee for issuance of bank’s acceptance bills.

2 MEETINGS OF THE BOARD OF SUPERVISORS AND ITS COMMITTEES

In 2006, the Board of Supervisors held four regular meetings, four meetings of the Supervisory Committee, and two meetings of the Nomination Committee.

1. On 27 March 2006, the 11th Session of the Board of Supervisors, the 6th Session of the Supervisory Committee and the 5th Session of the Nomination Committee were held in Shenzhen. At the meeting, the Board of Supervisors approved the 2005 Annual Report of the Bank, the 2005 Report of the Board of Supervisors and the 2006 Work Plan for the Board of Supervisors. The committees were briefed by PricewaterhouseCoopers on the 2005 audit results. At the meeting, the committees considered that the Bank had adequate understanding over its credit risk and operational risk. However, the Bank’s awareness of market risk still needed to be strengthened. An accountability system in respect of the increase in non-performing loans was proposed at the meeting. The meeting approved the 2006 Work Plan, and reviewed the performance of the Supervisors for 2005.
2. On June 22 2006, the 12th Session of the Board of Supervisors and the 7th Session of the Supervisory Committee were held in Shanghai. At the meeting, the Board of Supervisors was briefed on the summary report of 2005 performance survey on Directors and senior management and the Board of Supervisors considered the Directors and senior management to have fulfilled their responsibilities, to have complied with relevant regulations, to have cooperated with the supervision of the Board of Supervisors, and to have fulfilled their responsibilities prudently, earnestly and diligently. At the meeting, Vice-President of the Bank, Mr. Dicky Peter Yip, representing senior management, responded to the Board of Supervisors’ inquiry regarding the retail business. The Board of Supervisors considered the Bank to have reached a consensus that retail business development is the lynchpin of the Bank’s strategic transformation and the Bank had been in the process of achieving its objective for the retail business and enhancing its retail business. On the issue that senior management should acknowledge the obstacles and issues encountered in the retail business, the Board of Supervisors suggested that the senior management should be steadily moving towards the Bank’s goal as the best domestic retail bank in mainland China.

Report of the Board of Supervisors

2 MEETINGS OF THE BOARD OF SUPERVISORS AND ITS COMMITTEES *(Continued)*

3. On 21 August 2006, the 13th Session of the Board of Supervisors and 8th Session of the Supervisory Committee were held in Zhuhai. At the meeting, the 2006 Interim Report of the Bank was approved. Both committees also considered that the Bank had actively followed the macro economic policy in the first half of 2006 and the business performance has improved compared with the previous year. The committees were briefed by PricewaterhouseCoopers on the 2006 Interim Report of the Bank and was also briefed on the "Summary of Recommendations regarding the Board of Supervisors Email Account". It was noted that certain issues had not been adequately dealt with. Relevant departments also responded to the recommendations regarding the Board of Supervisors Email Account.
4. On 15 November, 2006, the 14th Session of the Board of Supervisors, the 9th Session of the Supervisory Committee, and the 6th Session of the Nomination Committee were held in Shanghai. At the meeting, the proposals for amendments to the Articles of Association and amendments to the Procedural Rules of the Board of Supervisors' were approved to be presented to the first extraordinary shareholders' general meeting in 2007 for consideration. The committees considered the progress of the Bank's internal grading system project. Although this project took into account the prospective requirements and reflected the unique features of the Bank, the committees emphasized that the accuracy and completeness of the raw data should be ensured in the implementation process. At the meeting, it was also noted that the staff who will be responsible for carrying out the internal grading should be well-trained. This was to ensure the proper adoption of the internal grading model and accuracy of the grading results. The committees were also briefed by the Audit Department on the audit result of the Bank by National Audit Office. The Board of Supervisors was satisfied with the standard of the management. However, the Board of Supervisors pointed out that improvement measures should be taken timely and seriously and more attention should be given to new issues, so that the Bank may develop at a sustainable rate.

3 INDEPENDENT OPINION GIVEN BY THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

(1) Compliance with Law

During the reporting period, the Bank strictly followed the state's macro-economic policy and adhered to its legal operation. The Bank also submitted itself to supervision by supervisory authorities and domestic and overseas investors. Information disclosure was made in a timely fashion. The Bank enhanced its internal control system, diligently implemented its systems and organized several internal control reviews and inspections. It took the initiative to combat commercial bribery and handle special cases in accordance with the instructions of the central government and the CBRC. The Bank's decision-making procedures complied with the relevant laws and regulations. The Directors and senior management fulfilled their responsibilities. During the reporting period, no material breach of laws and regulations or any actions against the interest of the Bank and shareholders were found.

3 INDEPENDENT OPINION GIVEN BY THE BOARD OF SUPERVISORS ON RELEVANT MATTERS *(Continued)*

(2) Accuracy and Correctness of Financial Reports

The financial statements reflected the financial condition and operating results of the Bank fairly and truly.

(3) Use of Proceeds

During the reporting period, the Bank did not raise any funds for itself other than the proper and compliance operation of its asset and liability business.

(4) Acquisition and Disposal of Assets

During the reporting period, the Bank did not make any acquisition or disposal of assets that would damage the shareholders' interest or result in a loss of the Bank's assets.

(5) Connected Transactions

During the reporting period, the Bank did not have any connected transactions that could damage the interest of the Bank or its shareholders.

(6) Review of Auditors' Report

The Board of Supervisors reviewed the unqualified report issued by PricewaterhouseCoopers on the financial condition and operating results of the Bank in 2006 and had no objection to the report.

(7) The Execution of Resolutions approved by the Shareholders' General Meeting

The Board of Supervisors considered the Board of Directors to have effectively executed the resolutions approved at the shareholders' general meetings during the reporting period.

(8) Improvement in Operation and Management

During the reporting period, the Bank achieved steady business development and remarkable operational results by further strengthening its corporate governance, enhancing internal control, risk management and incentive scheme, improving technological applications and enhancing the corporate culture and brand awareness. However, the Bank still needs to make further improvements, in order to achieve its objective of strategic transformation. The Bank needs to improve the profit contribution of its fee-based business and retail business. Implementation of certain systems have not been executed effectively. There are also weaknesses in the areas of risk management and internal control. The Bank should adhere to its strategic objective of becoming a first-class publicly held bank. It should enhance its service quality and optimize its business process, in order to achieve sustainable development.