

Terms of Reference of the Audit Committee of Shanghai Commercial Bank Limited

Membership

The members of the Committee shall be appointed by the Board from amongst the non-executive directors of the Bank and shall consist of not less than three members, the majority of whom should be independent non-executive directors and at least one of whom should be a representative from the majority shareholder. A quorum shall be two members.

The Chairman of the Committee shall be an independent non-executive director of the Bank and shall be appointed by the Board.

Attendance at meetings

The Chief Executive, the Chief Financial Controller, the Chief Auditor, and representative(s) of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance. However, at least once a year, the Committee shall meet with the external auditors without executive Board members present.

The Corporate Secretary shall be the secretary of the Committee.

Frequency of meetings

Meetings shall be held quarterly. The external auditors may request a meeting if they consider it necessary.

Authority

The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

The duties of the Committee shall be:

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination when more than one audit firm is involved;
- (c) to decide on the engagement of an external auditor to supply non-audit services. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (d) to monitor integrity of the interim and annual financial statements before submission to the Board, and to review significant financial reporting judgments contained in them, focusing particularly on:-
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;

- (v) compliance with accounting standards; and
 - (vi) compliance with legal requirements in relation to financial reporting;
- (e) In regard to (d) above:-
- (i) members of the Committee must liaise with the Board of Directors, the Chief Executive, the Chief Financial Controller and the Chief Auditor and the Committee must meet, at least once a year, with the Bank's external auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Chief of Legal, Compliance & Risk Management, the Chief Financial Controller, the Chief Auditor, or external auditors;
- (f) to be primarily responsible for making recommendations to the Board on the appointment of the Chief Auditor;
- (g) to approve the audit charter and the audit policy and procedures drawn up and updated periodically by the Chief Auditor;
- (h) to approve, periodically, the annual audit plan as well as the manpower and financial resources required by the Chief Auditor;
- (i) to review significant recommendations made by the Chief Auditor and management plans for their implementation;
- (j) to review the Bank's financial controls, internal control and risk management systems, and to discuss with the Chief Executive, the Chief Financial Controller and the Chief Auditor, as well as the Chief of Legal, Compliance & Risk Management whenever needed, the system of internal control and to ensure that the management has discharged its duties to have an effective

internal control system including the adequacy of resources, qualifications and experience of staff of the Bank's accounting and financial reporting function, and their training programmes, budget and etc.;

- (k) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (l) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Bank, and to review and monitor the effectiveness of the internal audit function;
- (m) to review the effectiveness of the Bank's internal control systems and procedures at least once a year;
- (n) to review the Group's financial and accounting policies and practices;
- (o) to review the external auditors' management letter, any material queries raised by the auditors to the management in respect of the accounting records, financial accounts or systems of control and management's response;
- (p) to ensure that the management will provide a timely response to the issues raised in the external auditors' management letter;
- (q) to act as the key representative body for overseeing the Bank's relation with the external auditors;
- (r) to consider other topics, as defined by the Board.

Reporting procedures

The secretary shall send the minutes of meetings of the Committee to all members of the Board.