

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

**1 Objective**

The Audit Committee (the “Committee”), established by the Board of Directors (the “Board”) of Shanghai Commercial Bank Limited (the “Bank”), is responsible for assisting the Board in ensuring the adequacy and effectiveness of financial reporting and internal control systems, reinforcing the work of internal and external auditors, overseeing the corporate governance functions, and reviewing the integrity of the financial statements of the Bank and all of its subsidiaries (together, the “Group”), within the framework of the Bank’s policies, its terms of reference and such other directives as the Board may determine from time to time.

**2 Composition**

- 2.1 The Chair and members of the Committee shall be appointed by the Board. All Committee members shall be Independent Non-executive Directors and/or Non-executive Directors.
- 2.2 The Committee shall consist of not less than three members, the majority of whom shall be Independent Non-executive Directors and at least one of whom shall be a representative of the majority shareholder.
- 2.3 The Committee shall be chaired by an Independent Non-executive Director with a background in accounting, banking or relevant financial industry, and not being Chair of the Board or of any other committees of the Bank.

2.4 The Committee as a whole should have adequate experience in audit practices, financial reporting and accounting and should possess a collective balance of skills and expertise which is commensurate with the complexity of the Bank and its business and risk profile in order to ensure it is in a position to discharge its responsibilities effectively.

2.5 The tenure limit of Committee member for serving on the Committee shall be the tenure of office of that member serving as Director on the Board unless otherwise decided by the Board.

### **3 Secretary**

The Corporate Secretary of the Bank shall be the secretary to the Committee.

### **4 Attendance at meetings**

4.1 The Chief Financial Controller, the Chief Auditor and representative(s) of the external auditor shall attend the Committee meetings. In the absence of any of the members named in this section, the designee(s) as invited by the Chair of the Committee shall attend the meeting.

4.2 The Chair may invite other persons, including other Directors who are not Committee members, senior management and other staff of the Bank, and/or external advisors, to attend all or part of the Committee meetings from time to time upon such conditions as are deemed necessary and desirable.

4.3 All Committee members should be prepared to attend all meetings in person save in exceptional circumstances with reasons being provided and documented where the concerned Committee member may be allowed to attend and participate in a meeting by means of telephone,

videoconferencing or any other electronic means. In the event that a Committee member is not able to attend the meeting via any means, he/she may submit written views on items to be discussed ahead of the meeting.

- 4.4 A member's attendance by means of telephone, videoconferencing or any other electronic means is deemed as attendance at the physical meeting and shall be entitled to vote and be counted in a quorum accordingly.

## **5 Frequency of meetings and quorum**

- 5.1 The Committee shall meet at least 4 times a year at approximately quarterly intervals or more frequently as the Chair of the Committee may determine.
- 5.2 The external auditor may request a meeting if necessary.
- 5.3 A majority of members who are Independent Non-executive Directors and including the Chair are required for a quorum at any meeting.
- 5.4 If the Chair of the Committee is not present at a Committee meeting, he/she shall delegate a member who is also an Independent Non-executive Director of the Bank to be the Chair of such meeting.

## **6 Proceedings of Meetings**

- 6.1 The meetings and proceedings of the Committee shall be governed by the provisions for regulating the meetings of the Board as stipulated in the Articles of Association of the Bank insofar as those provisions are applicable and are not replaced by any regulations imposed on the Committee by the Board.
- 6.2 Only the Chair and members of the Committee shall be entitled to vote at

the Committee meetings.

6.3 Questions arising at any meeting of the Committee shall be decided by a majority of votes, and in the case of equality of votes, the Chair shall have a second or casting vote, and this power shall be exercised at the Chair's own discretion.

6.4 A written resolution signed by all the Committee members shall be as valid and effectual as a resolution passed at a meeting of the Committee duly convened and held.

## **7 Authority**

7.1 The Committee is authorized by the Board to investigate any activity within the scope of 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, and to instruct the Internal Audit Department to conduct special review and/or investigation as considered necessary.

7.2 The Committee shall be provided with sufficient resources to perform its duties. It is authorized by the Board to obtain external legal or other independent professional advice at the Group's expense to discharge its responsibilities as deemed appropriate.

## **8 Duties and Responsibilities**

The objectives and roles of the Committee cover the Group and the duties and responsibilities of the Committee are:

### *Relationship with the external auditor*

8.1 to make recommendations to the Board on the appointment,

- reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and consider any questions of its resignation or dismissal;
- 8.2 to ensure the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 8.3 to approve (i) non-audit services according to the Policy on Non-audit Services of the Bank and (ii) the policy on governing the engagement of professional consultants (including the external auditor of the Group) in supplying non-audit services, to review such services from time to time, but at least on a semi-annual basis, and to report to the Board, after 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;
- 8.4 to act as the key representative body for overseeing the relationship with the external auditor of the Group;
- 8.5 to review and approve the guiding principles and control mechanisms on hiring employees or former employees of external auditor involved in the Group's audit engagement and to approve/ratify any exception of such hiring;

*Oversight of internal audit function*

- 8.6 to make recommendations to the Nomination and Remuneration Committee and the Board on the appointment or termination of the Chief Auditor;
- 8.7 to approve the audit charter, annual audit plan, audit policy and procedures drawn up and updated periodically by the Chief Auditor;

- 8.8 to review and approve the overall annual budgeted manpower and financial resources of the internal audit function;
- 8.9 to review the performance of the Chief Auditor and the effectiveness of the internal audit function of the Bank;

*Review of financial information*

- 8.10 to monitor, review, endorse or approve (i) the financial statements, interim and annual reports (including Report of the Directors, Message to Shareholders, and Review of Operations), (ii) the quarterly, half-year and annual Consolidated Reporting Package (“CRP”) of the Group for submission to the Board and the parent company, The Shanghai Commercial & Savings Bank, Ltd. as appropriate, and to review significant financial reporting judgements contained therein, focusing particularly on:-
- (i) any changes in accounting policies and practices;
  - (ii) major judgemental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with regulatory and legal requirements in relation to financial reporting;
- 8.11 in regard to 8.10 above:-
- (i) members of the Committee shall liaise with the Board, the Chief Executive, Chief Risk Officer, Chief Financial Controller, Chief of Legal & Compliance and Chief Auditor (or designated representatives in charge of the relative functions), and the Committee must meet, at least twice a year, with the Group’s external auditor, and at least one of the meetings in the absence of the senior management;

- (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and shall give due consideration to any matters that have been raised by any member(s) of the senior management named in section 8.11(i) or the external auditor; and
- (iii) to review reports from the senior management-level committees established under the Board, including the Asset and Liability Committee, Credit Committee and Compliance and Operational Risk Management Committee;

*Oversight of financial reporting system and internal control system*

- 8.12 to review reports made by the Chief Auditor regarding the results of internal audit's work, significant findings and recommendations for the responsible management to take appropriate and effective remedial/follow-up actions in addressing control weakness, non-compliance with policies, laws and regulations or other issues as identified by the auditors and regulators;
- 8.13 to review the Group's financial controls and internal control systems, to discuss with the Chief Executive, Chief Risk Officer, Chief Financial Controller, Chief Auditor and Chief of Legal & Compliance whenever needed, the system of internal control, and to ensure that the management has discharged its duty to have an effective internal control system in place including reviewing the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, their training programmes, budget, making recommendations to the Nomination and Remuneration Committee and the Board on the appointment or termination of the Chief Financial Controller (if appropriate), and etc.;
- 8.14 to consider major investigations and findings on internal control matters

as delegated by the Board or on its own initiative and management's response to these findings;

- 8.15 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 Group, and to review and monitor its effectiveness;
- 8.16 to review the Group's financial and accounting policies and practices, particularly on provisions for impairment and recommending the writing off of bad debts for approval by the Executive Committee;
- 8.17 to approve the annual compliance plan;
- 8.18 to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response;
- 8.19 to ensure timely response be provided to the issues raised in the external auditor's management letter;
- 8.20 to monitor and review matters related to possible improprieties as follows:
  - (i) to approve any material changes to the Whistleblowing Policy and discharge the responsibilities stated in the policy; and
  - (ii) to review arrangements that employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 8.21 to review the on-site examination reports and/or off-site review reports of the Hong Kong Monetary Authority as well as management's actions in

implementing the regulator's recommendations and bring major findings to the attention of the Board;

*Oversight of corporate governance functions*

- 8.22 to review and endorse the disclosure in the Corporate Governance Report to ensure compliance with Appendix C1 "Corporate Governance Code" to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and
- 8.23 to review and endorse the Bank's policies, practices and disclosure on corporate governance in relation to internal control, compliance and risk management and make recommendations to the Board;

*Others*

- 8.24 to work closely with the Nomination and Remuneration Committee on matters in relation to the remuneration system of the Bank, and to consider other topics, as defined and assigned to the Committee by the Board.

## **9 Reporting procedures**

- 9.1 The Committee shall report regularly to the Board on its decisions and recommendations, and at least on a half-yearly basis on salient matters handled by the Committee.
- 9.2 Minutes of the Committee meetings shall be sent to all members of the Board.

## **10 Frequency of review**

These Terms of Reference shall be reviewed by the Committee at least

annually and as and when required, and the Committee shall recommend to the Board the changes, if any, for approval.