

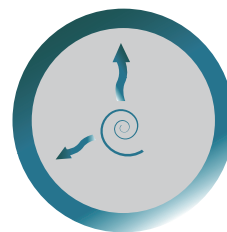
 上海农商银行 SRCB

**2008年年度报告**

**ANNUAL REPORT**



## 2008 ANNUAL REPORT



# Content

2008年年度报告

ANNUAL REPORT

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# Important Statements

The Company and the Directors assume several and joint responsibilities for any false records, misleading statements or significant omissions of information contained in this report.

Content of the "Shanghai Rural Commercial Bank Company Limited 2008 Annual Report" has been approved by the first Board of Directors at the Fourteenth Company Board Meeting and by the first Supervisory Board of Directors at the Fourteenth Supervisory Board Meeting.

The financial reports have been audited and opinioned by the Wan Long Certified Public Accountants Co.,Ltd.

SRCB Board of Directors  
27th March 2009

## Directors' Signatures

| Li Xiulun |

| Hou Funing |

| Shen Xunfang |

| Shen Xingbao |

| Pan Longqing |

| Shi Derong |

| Chen Shaochang |

| Robert John Edgar |

| Alexander Vincent Thursby |

| Chen Wenjun |

| Zhang yuliang |

| Jia Chunrong |

| Mei Zhe |

| Zhang Wei |

| Lu Wenzhong |

| Tang Wenxin |

| Li Rong |

| Wu Xing |

| Yan Qifen |

# Chairman's Address

**In 2008**, SRCB, responding the call from the Central Government, with the background of the nation experiencing severe natural disaster, holding Olympic Games successfully and encountering global economic and financial crisis, implemented the state macroeconomic and financial regulation policy, participated proactively in the construction of Shanghai international financial centre, managed various operational and internal risks appropriately, launched the business innovation prudentially, settled the accidents properly, further perfected the construction of various mechanisms and accelerated the construction of retail bank with the theme of Retail, Profit and Harmony, and achieved excellent economical and social benefits.

We further defined the market positioning of community-based retail bank serving farmers, countryside and agriculture and suburb economic organizations, and launched strategy transformation of retail bank. We further enhanced the strategy management and risk control, emphasized the market expansion, advanced financial innovation steadily and achieved encouraging development in the retail banking businesses. At the end of 2008, the outstanding loans, under RMB 20 million for each item, secured by real estate of small enterprises increased by RMB 3.657 billion to RMB 17.475 billion, up 26.47%, accounting for 36.50% of the increased loans. The balance of savings deposits was 72.247 billion, an increase of RMB 15.635 billion or 27.62%. The granted sole personal housing reserve fund loans amounted to 4.3 billion, accounting for 42% of the total sole personal housing reserve fund loans granted in Shanghai city. Additionally, the total pension fund and social insurance granted, financing products and fund distribution totalled to RMB 4.385 billion, RMB 1.702 billion and RMB 8.841 million respectively. We recognized that the Bank was based on community and that the competition advantage was retail banking. We will, based on the changes

of market and needs of clients, continue to develop innovation products, to improve the service ways and to perfect community retail banking service system.

We strengthened the operation concept of settling the various contradictions and problems arising from reform and development by the improved outcome, and explored the market expansion in various business fields with the controllable risk. One hand, while consolidating traditional advantages in suburb markets and traditional businesses, SRCB advanced the expansion strategy in urban central district, accelerated the process of perfecting products line, expanded and extended the business scope and service fields. The other hand, SRCB allocated and operated assets appropriately, improved assets quality, and enhanced assets profitability effectively. The average yield rate of loans reached 7.67%, increased by 0.94 percentage points. Meanwhile, SRCB optimized income structure, and recorded the volume of treasury transaction of 6.3 trillion, 2.5 times of that of previous year, and recorded intermediary business income and pre tax profit of RMB 0.23 billion and RMB 0.966 billion, up by 81.1% and 33.61% respectively.

We holds the principal of reaching agreements between and developing harmoniously with employees, clients, shareholders, communities and other interest parties, and settles the reform and development issues appropriately. We, respecting the history of the Bank, based on the objective analysis and proactive research over the current human resources conditions, launched a series of professional training and conduction education at different levels in accordance with the importance. SRCB, with the Olympic Games, launched various and healthy cultural and physical activities, delivered excellent financial services, and provided more standard and excellent service to customers. SRCB proactively and appropriately settled various accidents, protected the interest of clients, stimulated the employees'

# Chairman's Address

activities and safeguarded shareholders' interest and image of the Bank. We also proactively participated in the disaster relief work, made generous donations, finished supporting work for Olympic Games and supported farmers, countryside and villages to establish village and town bank, reflecting the social responsibility of the Bank.

Since the transformation three years ago, thanks to the help and instructions of communities, SRCB implemented scientific outlook on development, and, in accordance with the operational requirement of commercial banks, advanced the construction of systems and mechanisms steadily, launched retail bank development strategy, accelerated innovation, consolidated and expanded the development base and scale. Moreover, SRCB wrote off historical non performing assets with the support of governments and supervision authorities and operational results, exempting the bank from high risky conditions and leading the Bank to normal development ways.

Looking ahead to 2009, SRCB will, based on the operational results of three years from establishment, formulate a new three year development strategy scheme, and will further perfect corporate governance, enhance the market expansion, implement risk precaution measures, accelerate financial innovation pace, extend financial service districts, make core competition capability and improve the market image of the Bank. SRCB will pursue the goal of building the Bank into a modern commercial bank.

In 2009, in response to the possibly worsen international economy and financial crisis, the slowing down domestic economy after 30 years' high speed extensive development and periodical difficulties of the Bank in the development, SRCB recognize the challenges and opportunities. In responding the call of Maintaining sustainable growth, Expanding domestic demand and

Promoting restructuring, in process of preparing for the World Expo 2010, Shanghai and participating in constructing Shanghai into an international financial centre, SRCB hope to receive the consistent help from communities. SRCB will continue to analyse carefully and explore bravely, seize the historical opportunity by holding the sense of mission and responsibility, progress proactively, overcome the difficulties and strive for the development of SRCB and all the interest related parties.

Chairman: Li Xiulun



# President's Address

**In 2008**, SRCB, facing significant changes of economic and financial conditions at home and abroad, implemented faithfully development strategy stipulated by Central Government, Shanghai CPC Committee and Shanghai Municipal Government, adhered to the scientific outlook on development to guide the work, studied the macro conditions carefully, took the whole situation, responded proactively, advanced the construction of retail bank and accelerated the development of businesses, and therefore impressive business achievements resulted.

## Steady growth in operating profit and scale expansion

SRCB recorded a profit, before provisions, with irregular income and expense deducted, of RMB 3.057 billion, up by 22% over the previous year. The profit before tax stood at RMB 0.966 billion with the provision for bad debts of RMB 2.091 billion, and the income from intermediary businesses saw an increase of 115%. As at the end of 2008, the total deposit grew RMB 18.7 billion to RMB 147.1 billion, with the average daily deposit of RMB 138.4 billion, an increase of 15.3 billion. At the end of 2008, the outstanding loans totalled to RMB 92.7 billion, increased by 10 billion. The average daily fund operation amounted to 51 billion with the fund transaction of RMB 6.3 trillion, and the bond settlement volume reached 6 trillion, ranking 7th in the inter-bank market. The total assets of SRCB amounted to RMB 173.3 billion, representing an increase of RMB 15.9 billion.

## Rapid development of agriculture supporting business and retail business

SRCB explored proactively the cooperation approach of multi parties, strengthened the agriculture support by credit granting, and the various farmer professional cooperative loans amounted to 0.329 billion, as well as the outstanding loans to agricultural leader enterprises reaching 0.67 billion. In some counties and districts, SRCB was licensed to accept agriculture insurance accounts opening, and the system of Payment Card of Agriculture Insurance was developed and put into production. In 2008, SRCB made great efforts to establish the first village and town bank, named Chongming Changjiang Village and Town Bank. Moreover, SRCB supported the development of small enterprises greatly,

and the outstanding loans secured by real estate of small enterprise reached 17.5 billion, accounting for 21% of self operating loans. Corporate settlement volume via internet banking reached 43.6 billion and tax payment volume via banking-taxation linkage amounted to 4.2 billion. In addition, SRCB developed new businesses proactively, named personal financing, fund distribution, credit card, etc., and enhanced the favourable image of the Bank. Personal housing accumulation fund loans granted by SRCB was developed remarkably in 2008, accounting for 42% of the whole personal housing accumulation fund loans in Shanghai, and the Bank was licensed to supervise the second handed house fund. SRCB also advanced channel construction, put self established customer service centre into production and established 2 additional financial convenience stores.

## Strengthening risk management

SRCB promoted the cooperation with ANZ proactively and the cooperation projects of the small enterprise electronic examination and approval system and professional risk manager school made periodical achievements. The outstanding non-performing loans at the end of the year was RMB 2.126 billion, accounting for 2.29% of the total loans, down 0.05 percentage point over the previous year. The collection of non-performing loans achieved effective progress, and an amount of 0.2 billion non performing loans off balance was collected. Supported and directed by the superior administrative authority and financial supervision authority, SRCB completed the cashing application of special central bills, and an amount of RMB 2.12 billion was successfully processed.

2009 will be a year of reinforcing confidence and overcoming difficulties. The strategy of accelerating constructing Shanghai into a financial and shipping center by Central Government greatly enhanced our confidence of overcoming difficulties and developing rapidly and healthy. SRCB will uphold the scientific outlook on development, insist on developing healthily and steadily, ensure the development and control the risk effectively, eliminate the crisis and seek the opportunity, reinforce the base and plan the future carefully, insist on reform and solve the problem in effect, and, with the background of supporting social economic development, meet the challenges, seize the opportunity and strive to advance the construction of modern commercial bank.

# President's Address

We will implement faithfully the strategy of Maintaining sustainable growth, Expanding domestic demand and Promoting restructuring of Central Government, Shanghai CPC Committee and Shanghai Municipal Government, accelerate the development of businesses and adjustment of structure, and strive to fully play the role of supporting and serving the local economic development as a Shanghai local bank. SRCB will also support the development of small and medium enterprises, and attach more importance to support the development of small and medium enterprises providing service to advanced manufacturing industry, modern service industry and major projects. Operational management mechanism and innovation will be further developed and encouraged, and SRCB will also explore to establish technological financing platform for small and medium enterprises. Moreover, SRCB will support the infrastructure construction, industrial development, energy saving & environment protecting projects, social livelihood projects etc. In addition, SRCB will proactively develop personal consumption & credit products and promote to expand the consumption of citizens. Besides, SRCB will endeavour to combine the electronic marketing service channels, advance the development of finance convenience stores, build community-based financial service centre, optimize structure of treasury businesses, enhance the bond investment proportion of high credit graded enterprises, implement trade financing development strategy and promote the foreign exchange business scale and levels.

SRCB will proactively implement the spirit of 3<sup>rd</sup> Plenary Session of 17<sup>th</sup> Central Committee of CPC, broaden the thoughts, develop innovation products, participate in the construction of socialist new countryside, and play the main role in supporting agriculture. SRCB will grant credit loans to agriculture industrialization, agriculture related industries, countryside infrastructure construction and biological environment construction, to promote the upgrade of industrial structure in countryside and suburb. Besides, SRCB will strive to develop financial products tailored for demand characteristic and risk appetite of citizens in countryside and suburb, sharing the outcome of international financial centre. SRCB will also endeavour to support the initiation and development of Chongming Changjiang Village and Town Bank, and proactively launch the pilot program of village and town bank in other districts.

SRCB will earnestly implement the 600 Days Action Program for Expo 2010 and provide excellent financial service, to enhance the service quality and the bank's image. SRCB will also accelerate the standardization of operation outlet, improve the operation outlets, regulate the business procedures and service standards, accelerate the positioning of self service machines, perfect the functions of bank cards and optimize the card environment.

We will reinforce the management base, further improve the operation management levels, enhance the construction of risk management system and improve the effectiveness of internal control management. In accordance with the requirement of supervision authority, SRCB will launch accident preventing program, implement information system construction, and advance the construction of new generation core accounting system, database, and data exchange platform. In addition, we will, holding the concept of IT governance, strengthen the security management of information system; advance the construction of cash centre and business settlement centre to improve the operational level of SRCB. Moreover, SRCB will further develop the cooperation of technology and business with ANZ, and enhance the cooperation extent.

Though there is a tough road ahead, we are confident to overcome any difficulties. Based on the fifty years of experience, SRCB starts a new era of reform, since the transformation three years before. SRCB will, led and instructed by Shanghai municipal CPC committee, Shanghai municipal government, Shanghai municipal financial committee of CPC, Shanghai municipal financial service office and financial supervision authority, and supported by social communities, further emancipate the mind, exploit and develop, work steadily, innovate and endeavour to develop the new era of constructing modern commercial bank.

President: Hou Funing



# Company Information

3.1 **Legal Name in Chinese:** 上海农村商业银行股份有限公司

**Legal name in English:** Shanghai Rural Commercial Bank Co., Ltd.

('Shanghai Rural Commercial Bank', referred to as 'the Company' or 'SRCB')

3.2 **Legal Representative:** Li Xiulun

3.3 **Board Secretary:** Zhao Deyuan

**Mailing Address:** Secretariat, Level 26, No.728, Yan'an Road West, Shanghai, China

(The office will be moved to Level 23 No.8 Middle Yincheng Road, Pudong New Area, Shanghai PRC since May of 2009)

**Telephone:** 0086-21-52381111-8031, 0086-21-52381799

**Facsimile:** 0086-21-52381839

**Email:** zhaody@shrcb.com

3.4 **Registered Address:** No.981 Pudong Avenue, Shanghai, China

**Office Address:** Level 25 - 26 No.728 Huamin Empire Building, Yan'an Road West, Shanghai, China, Post Code: 200050

(The office will be moved to Level 15 - 23 No. 8 Middle Yincheng Road, Pudong New Area, Shanghai PRC since May of 2009.)

**Website:** <http://www.shrcb.com>

**Email:** webmaster@shrcb.com

3.5 **Annual Report published on:** <http://www.shrcb.com>

Copies of Annual Report available at the Company Secretary's Office

3.6 **Other Information:**

Date of first registration: 23 August 2005

Registration Number of Legal Entity License: 310000000088142

Tax Registration Number: Shanghai 310043779347314

Auditor: Wan Long Certified Public Accountants Co., Ltd.

3.7 The Report is prepared in both Chinese and English. The Chinese version prevails.

# Summary of Accounting Data and Financial Performance

## 4.1 Highlight of Financial Results in the Period of the Report

Unit: thousand RMB

Items	
Profit before taxation	966,313
Net profit	740,805
Profit after taxation and extraordinary items	76,556
Profit from principle operations	88,672
Investment income	1,094,048
Subsidy	-
Non-operating net income	877,640
Net cash flow from operating activities	5,992,832
Net Increase in cash and cash equivalents	1,708,228

## 4.2 Highlight of Financial Results and Ratios of the Last Three Years

Unit: thousand RMB

Items	2008	2007	2006
Income from principle operations	8,612,457	6,734,862	5,304,547
Net profit	740,805	370,572	357,591
Total assets	173,327,345	157,474,437	136,108,749
Deposit balance	147,043,235	128,317,458	115,908,805
Loan balance	92,732,082	82,713,857	73,726,494
Shareholder's equity	11,643,112	11,159,485	6,446,112
Fully diluted earnings per share	0.20	0.10	0.12
Weighted average earnings per share	0.20	0.12	0.12
Earnings per share after extraordinary item	0.02	0.10	0.09
Net assets per share	3.11	2.98	2.15
Adjusted net assets per share	3.11	2.98	2.15
Net cash flow from operating activities per share	1.60	0.96	2.61
Cost to Income ratio (%)	35.95	38.27	47.55
Return on equity (%)	6.50	4.21	5.68
Weighted average return on equity after extraordinary items (%)	0.67	3.69	4.28

# Summary of Accounting Data and Financial Performance

## 4.3 Non-Performing Loan Provision of the Last Three Years

Unit: thousand RMB

Items	2008	2007	2006
Opening balance	1,398,633	1,206,313	1,169,715
Current year provision charge	3,000,000	1,800,000	1,250,544
Other transfer-in	393,772	3,000	2,000
Recovery	18,899	11,393	32,015
Other transfer-out			
Write-off	3,335,425	1,622,073	1,247,961
Closing balance	1,475,879	1,398,633	1,206,313

## 4.4 Supplementary Financial Data of the Last Three Years

Unit: thousand RMB

Items	2008	2007	2006
Total liabilities	161,684,233	148,846,214	129,662,638
Total deposits	147,043,235	128,317,458	115,908,805
Including: Long term deposit	15,925,730	14,859,666	18,393,554
Interbank borrowing			
Total loans	92,732,082	82,713,857	73,726,493
Including: Short term loans	30,878,402	31,020,948	27,500,534
Import & export negotiations	26,849	10,385	17,600
Biu Discounting	9,488,946	3,275,718	5,558,646
Medium-long term loans	50,637,230	47,324,035	39,442,552
Overdue loans	173,198	98,642	117,985
Bad loans	1,534,230	932,984	1,103,041
Loss loans	20,077	61,530	3,735

# Summary of Accounting Data and Financial Performance

## 4.5 Supplementary Statement to Income Statement of the Last Three Years

Unit: thousand RMB

Items	2008	2007	2006
Profit from principle operations	88,672	677,535	347,265
Operating profit	(1,005,375)	(265,087)	(391,687)
Net profit	740,805	370,572	357,591
Profit after extraordinary items	76,556	325,146	270,445

## 4.6 Supplementary Financial Indicator of the Last Three Years

Items	Standard Value	2008	2007	2006
Capital adequacy ratio	>=8	11.80%	9.16%	7.32%
Core capital adequacy ratio	>=4	12.02%	9.65%	7.61%
Liquid ratio				
	RMB	61.08%	42.43%	53.24%
	Foreign currency	205.79%	1224.21%	852.54%
Deposit-loan ratio				
	RMB	63.06%	62.15%	58.89%
	Foreign currency	50.18%	63.73%	107.62%
Interbank funding ratio				
	borrowing ratio	0.10%	2.68%	0.35%
	lending ratio	4.20%	5.36%	5.57%
Intl commercial borrowing ratio		-	-	-
NPL ratio		2.29%	2.34%	2.91%
Interest repayment ratio		99.99%	99.83%	98.29%
Single largest customer loan ratio		5.53%	7.86%	8.52%
Top ten customer loan ratio		46.31%	59.92%	71.44%

# Summary of Accounting Data and Financial Performance

## 4.7 Capital Composition and Change at the End of the Reported Period

Unit: thousand RMB

	2008-12-31	2007-12-31	2006-12-31
Net capital	10,858,445	7,635,591	5,866,169
Net core capital	11,061,147	8,048,113	6,101,588
Total risk-weighted assets	92,048,502	83,365,661	80,137,677
Capital adequacy ratio	11.80%	9.16%	7.32%

## 4.8 Changes of the Shareholders Equity in the Reported Period

Unit: thousand RMB

Items	Paid-up capital	Capital surplus	Surplus reserve	General reserves	Retained profit	Total equity
As at 1 Jan 2008	3,745,686	1,241,923	377,241	2,636,510	3,158,125	11,159,485
Increase			354,349		740,805	1,095,154
Decrease					611,527	611,527
As at 31 Dec 2008	3,745,686	1,241,923	731,590	2,636,510	3,287,403	11,643,112

# Changes of Share Capital and Shareholders Profile

## 5.1 Changes in Share Capital

### 5.1.1 Share Capital Structure

Class	Number of Shares	Unit: share
		Percentage
Legal person share	2,974,241,470	79.40%
Natural person share	771,227,000	20.59%
Grouped shareholder	217,306	0.01%
Total	3,745,685,776	100%

*Grouped shareholder: in accordance with the requirements of the YJJ (2004) No.61 document, as for share capital of the original rural credit cooperative, of which the shareholder is not known, it will be taken as the Grouped shareholder for further disposal after the shareholders' identities are confirmed.*

### 5.1.2 Share Issuance

None during the reporting period.

## 5.2 Shareholders' Profile

### 5.2.1 Number of Shareholders

At the end of the Period, the Company's total number of shareholders is 24,430, among which 218 are legal person shareholders, 24,211 are natural person shareholders and 1 grouped shareholder.

# Changes of Share Capital and Shareholders Profile

## 5.2.2 Top Ten Shareholders as at the end of the Period (unit: ten thousand shares)

No.	Name	Shares as at Jan 1 2008	Shares as at Dec 31 2008	Percentage of total shares
1	ANZ Banking (Group) Co., Ltd.	74,539.147	74,539.147	19.9%
2	Shanghai International (Group) Co., Ltd	30,000	30,000	8.01%
3	Shanghai Dragon Investment Co., Ltd	30,000	30,000	8.01%
4	Shanghai State-owned Assets management Co., Ltd	30,000	30,000	8.01%
5	Shanghai Greenland (Group) Co., Ltd	20,000	20,000	5.34%
6	Jin jiang International (Group) Co., Ltd	15,000	15,000	4.00%
7	Shanghai SITICO Investment Mngt Co., Ltd	15,000	15,000	4.00%
8	Shanghai Shan Xin Property Co., Ltd	6,000	6,500	1.73%
9	Oriental Intl (Group) Co., Ltd	6,000	6,000	1.60%
10	Shanghai Qingpu Asset Mngt Co.,Ltd	5,000	5,000	1.33%
	Total	231,539.147	232,039.147	61.94%

## 5.3 Shareholders Holding More than 5% of SRCB's Shares

1. Australia and New Zealand Banking Group Limited holds 19.9% of SRCB's shares. Established in 1835, Australia and New Zealand Banking Group Limited ('ANZ'), is headquartered in Melbourne, Australia and is the 3<sup>rd</sup> largest bank in Australia and the largest bank in New Zealand. ANZ operates 1,190 branches in 27 countries. As at 31<sup>st</sup> December, 2008, ANZ had assets of AUD\$ 471 billion, and its market value ranked it 50th amongst the world's commercial banks.

2. Shanghai International Group Co. has approximately 8.01% shares of the company. Shanghai International Group was set up in April 2000 under the approval of Shanghai Municipal Government following the standardization of the administration of state-owned assets. It has registered capital of RMB 10.56 billion. The company plays three roles of equity investment for acquisition, capital operation and state-owned assets management. Licensed by Shanghai government authority, the company's business scope covers investment, majority in financial sector with supplementary investment in non financial sector, capital operation, assets management, finance study and business consultancy.

3. Shanghai Dragon Investment Co., Ltd has approximately 8.01% shares of the company. Shanghai Dragon Investment Co., Ltd, which was set up in November 2002 is a wholly state-owned entity. It has registered capital of RMB 3 billion. Its business scope covers investment and consulting. Investment covers investment business, real estate and related activities and infrastructure development, consulting service covers investment consulting, financial consulting, advisory and agency service for corporate M&A and corporate financial advisor.

4. Shanghai State-owned Asset Management Co., Ltd has approximately 8.01% shares of the company. Shanghai State-owned Asset Management Co., Ltd, which was set up in October 1999 under the approval of Shanghai Municipal

## Changes of Share Capital and Shareholders Profile

Government has registered capital of RMB 5 billion. Its main business scope is investment, equity restructure and acquisition, re-packaging and transfer of assets.

5. Shanghai Green Land (Group) Co., Ltd has approximately 5.34% shares of the company. Shanghai Green Land (Group) Co., Ltd, a domestic Joint Venture set up in July 1992, has a registered capital of RMB 0.702 billion. It provides gardening service and is involved mainly in real estate development industry but diversifies into other related industries.

### 5.4 Top Ten Shareholders' Correlation and Disclosure on Frozen Shares

Shanghai State-owned Asset Management Co., Ltd and Shanghai SITICO Investment Management Co., Ltd are subsidiary companies of Shanghai International (Group) Co., Ltd.

During the period none of the ten largest shareholders have had any shares frozen.



# Profiles of Directors, Supervisors, Senior Management and Staff

## 6.1 Directors, Supervisors and Senior Management

### 6.1.1 Directors

Title	Name	Gender	Year of Birth	Tenure	Position	Salary(*)	Share Holding (share)
Chairman	Li Xiulun	Male	1948	2005.8.25-2008.8.24	Party Secretary, SRCB	*	500,000
Vice Chairman	Hou Funing	Male	1964	2005.8.25-2008.8.24	Deputy Party Secretary and President, SRCB	*	500,000
Director	Shen Xunfang	Male	1958	2005.8.25-2008.8.24	Deputy Party Secretary and Secretary of Discipline Committee, SRCB	*	500,000
Director	Shen Xingbao	Male	1958	2005.8.25-2008.8.24	Vice President, SRCB	*	500,000
Director	Pan Longqing	Male	1949	2005.8.25-2008.8.24	Party Secretary and General Manager, Shanghai International (Group) Co., Ltd		
Director	Shi Derong	Male	1948	2005.8.25-2008.8.24	Party Secretary and President, Shanghai Dragon Investment Co., Ltd		
Director	Chen Shaochang	Male	1948	2005.8.25-2008.8.24	Vice President, Shanghai State-owned Assets Management Co., Ltd		
Director	Robert John Edgar	Male	1946	2008.3.26-2008.8.24	ANZ Banking (Group) Co., Ltd. Vice CEO		
Director	Alexander Vincent Thursby	Male	1960	2008.3.26-2008.8.24	CEO of Asia-Pacific at ANZ Banking (Group) Co., Ltd. and Acting Group Managing Director of Institutional Division at ANZ Banking (Group) Co., Ltd.		
Director	Chen Wenjun	Female	1955	2005.8.25-2008.8.24	Director and Vice President, Jin jiang International Group Co., Ltd		
Director	Zhang Yuliang	Male	1956	2005.8.25-2008.8.24	Party Secretary, Chairman and President, Shanghai Greenland (Group) Co., Ltd		

## Profiles of Directors, Supervisors, Senior Management and Staff

### 6.1.1 Directors (continued)

Title	Name	Gender	Year of Birth	Tenure	Position	Salary(*)	Share Holding (share)
Director	Jia Chunrong	Male	1948	2005.8.25-2008.8.24	Chairman, Shanghai SITICO Investment Management Co.,Ltd		
Director	Mei Zhe	Female	1965	2005.8.25-2008.8.24	Deputy Party Secretary and Vice President, Shanghai Social Welfare Development (Group)		50,000
Director	Zhang Wei	Male	1945	2005.8.25-2008.8.24	Former secretary of Supervisory Board, Bank of Shanghai		50,000
Director	Lu Wenzhong	Male	1947	2005.8.25-2008.8.24	Party Secretary of Ying Dong Village, Chenjia Town, Chongming County		300,000
Director	Tang Wenxin	Male	1948	2005.8.25-2008.8.24	Chairman of Labour Union, SRCB	*	500,000
Director	Li Rong	Female	1959	2005.8.25-2008.8.24	Deputy General Manager, Putuo Sub-branch, SRCB	*	250,000
Independent Director	Wu Xing	Male	1945	2005.8.25-2008.8.24	Former Head of Internal Audit, Industrial & Commercial Bank of China	*	
Independent Director	Yan Qifen	Male	1941	2005.8.25-2008.8.24	Chairman, Shanghai Da'an Value Document Delivery Co.,Ltd	*	100,000

# Profiles of Directors, Supervisors, Senior Management and Staff

## 6.1.2 Supervisors

Title	Name	Gender	Year of Birth	Tenure	Position	Salary(*)	Share Holding (share)
Chairman (External Supervisor)	Shen Huiqi	Male	1950	2006.4.28-2008.8.24	Supervisor of the Party Construction, SRCB		
Supervisor	Cai Hongsheng	Male	1949	2005.8.25-2008.8.24	Party Secretary & Chairman, Oriental International (Group) Co., Ltd		
Supervisor	Lou Jinjiang	Male	1951	2005.8.25-2008.8.24	Deputy Secretary, Discipline Committee, SRCB	*	500,000
Supervisor	Wu Zhenlai	Male	1950	2005.8.25-2008.8.24	Chairman, Shanghai Shan Xin Property Co.,Ltd		50,000
Supervisor	Lu Changsheng	Male	1959	2005.8.25-2008.8.24	General Manager, Support Advisory Division, Shanghai Qingpu Asset Management Co.,Ltd		30,000
Supervisor	Zhang Tiangao	Male	1945	2005.8.25-2008.8.24	Vice Chairman, South Eastern Suburb Express Ring Road Co.,Ltd	*	250,000
Supervisor	Feng Baolong	Male	1951	2007.2.1-2008.8.24	Deputy General Manager, Pudong Branch, SRCB	*	150,000
Supervisor	Zhang Zuyu	Male	1957	2005.8.25-2008.8.24	General Manager, Jin Shan Sub-branch, SRCB	*	100,000
External Supervisor	Liu Hongzhong	Male	1965	2005.8.25-2008.8.24	Director, International Faculty, Fudan University	*	

# Profiles of Directors, Supervisors, Senior Management and Staff

## 6.1.3 Senior Management

Title	Name	Gender	Year of birth	Financial Experience	Tenure	Salary(*)	Share Holding (share)
President	Hou Funing	Male	1964	17	2005.8.25-2008.8.24	*	500,000
Vice President	Shen Xingbao	Male	1958	11	2005.8.25-2008.8.24	*	500,000
Vice President	Ye Guorong	Male	1957	27	2005.8.25-2008.8.24	*	500,000
Assistant President	Qiao Zhongxing	Male	1957	9	2005.8.25-2008.8.24	*	500,000
Assistant President	Wu Guohua	Male	1964	13	2005.8.25-2008.8.24	*	500,000
Board Secretary	Zhao Deyuan	Male	1964	21	2006.3.23-2008.8.24	*	300,000

## 6.1.4 Directors and Senior Management's Working Experience and Positions Held

### 6.1.4.1 Directors

Li Xiulun, Male, born in October 1948, graduated from the Distance Education College of the Central Party School with a Bachelor's Degree, major in economics. Mr. Li is Party Secretary and Chairman of SRCB. Previous positions held include Assistant General Manager, ICBC Shanghai Branch and Party Secretary and President, Shanghai Finance School for Vocational Education, Chief Inspector and Auditor, ICBC Shanghai Branch, Party Secretary and Chairman, Shanghai Rural Credit Cooperatives Union.

Hou Funing, Male, born in February 1964, graduated from Fudan University with a Masters Degree, major in Economics. Mr. Hou is Deputy Party Secretary, Vice Chairman and President of SRCB. Previous positions held with Bank of Shanghai include General Manager, Treasury and Finance, Head of President's Office, Assistant President and Head of President's Office, Assistant President and General Manager Head office Branch, Vice President. He was also Deputy Party Secretary and President of Shanghai Rural Credit Cooperatives Union.

Shen Xunfang, Male, born in April 1958, graduated from Fudan University with a Doctor's Degree major in International Politics. He is Deputy Party Secretary, Party Secretary of the Discipline Committee and Director of SRCB. He has previously held positions in General Office and Secretariat of Shanghai Municipal Government and was Deputy Party Secretary and Secretary of the Discipline Committee of Shanghai Rural Credit Cooperatives Union.

Shen Xingbao, Male, born in August 1958, graduated from Central Party School with a master degree major in Politics. Mr. Shen is Director and Vice President of SRCB. Previous positions held include Party Secretary and Chief of YangPu Environmental Protection Bureau, Party Secretary and General Manager, YangPu Administrative Department, Bank of Shanghai, General Manager, SME Service Centre, Bank of Shanghai, Head of President's Office, Bank of Shanghai,

## Profiles of Directors, Supervisors, Senior Management and Staff

Deputy Party Secretary and Secretary of Discipline Committee, Da Zhong Insurance Co., Ltd, Vice President, Shanghai Rural Credit Cooperatives Union.

Pan Longqing, Male, born in February 1949, graduated from the PLA Aviation Engineering Institute with a Bachelor's Degree, major in Information Management. Mr. Pan is Party Secretary and General Manager of Shanghai Intl Group and Party Secretary and Chairman of Shanghai Intl Trust & Investment Corp. Previous positions held include Deputy Party Secretary and Party Secretary and Head of Song Jiang District. He has also been Party Secretary of MOFTEC Shanghai.

Shi Derong, Male, born in November 1948, graduated from Tongji University with a Doctors Degree major in Engineering. Mr. Shi is Party Secretary and Chairman of Shanghai Dragon Investment Co., Ltd and President of Shanghai Building Material (Group) Corp. Previous positions held include Deputy Party Secretary of Lu Wan District, Party Secretary and Director, Shanghai Bureau of Civil Administration.

Chen Shaochang, Male, born in February 1948, graduated from Shanghai No.2 Industrial University with a Bachelor's Degree, major in Automation of Machinery. Mr. Chen is Vice-president of Shanghai State-owned Assets Mngt Co., Ltd. Previous positions held include Deputy Director of General Office, Shanghai Municipal Party Committee, Senior Manager Syndication Dept, Bank of China, London Branch.

Robert John Edgar, male, a Senior Economist, born in May 1946, holding a PhD from Ohio State University, USA, serves as Deputy Chief Executive Officer of Australia and New Zealand Banking Group Limited. Mr. Edgar held various positions in ANZ, including Senior Managing Director, Chief Operating Officer, Managing Director, Institutional Financial Service, Managing Director, Corporate & Institutional Banking, Managing Director, Business Banking.

Alexander Vincent Thursby, male, born in March 1960, completed his BBA from Kuring-Gai College of Education, serves as Chief Executive Officer of Asia-Pacific at Australia and New Zealand Banking Group Limited and Acting Group Managing Director of Institutional Division at Australia and New Zealand Banking Group Limited. Mr Thursby served as Senior Managing Director and Group Head of Corporate & Institutional Client Relationships, Head of Corporate and Institutional Client Relationships, North East Asia, Head of Corporate and Institutional Client Relationships, Great China.

Chen Wenjun, Female, born in November 1955, graduated from Shanghai University of Finance and Economics with a Master's degree major in Monetary and Banking Study. Ms. Chen is Director and Senior Vice-president of JinJiang Group Ltd. Co. Previous positions held with JinJiang Group include Vice-president, Director and Assistant to President and Head of Finance.

Zhang Yuliang, Male, born in December 1956, graduated from Shanghai Agronomy College with a Bachelor's Degree major in Rural Economics. Mr. Zhang is Party Secretary, President and Chairman of Shanghai Green Land (Group) Co.,Ltd. Previous positions held include Director, Planning Department, Shanghai Agricultural Committee, Deputy Director, Housing Office and Party Secretary and General Manager, Shanghai Green Land Development Company.

## Profiles of Directors, Supervisors, Senior Management and Staff

Jia Chunrong, Male, born in July 1948, graduated from Lixin Accounting Institute with a diploma major in Accounting. Mr. Jia is Chairman of Shanghai Investment and Management Co., Ltd. Previous positions held include Deputy General Manager and Head of Finance & Planning, Shanghai Industrial Investment Co., Deputy General Manager and General Manager of Shanghai SITICO Investment Corp.

Mei Zhe, Female, born in June 1965, graduated from Jiaotong University with a Master's Degree major in Electronic Materials and Devices. Ms Mei is Party Secretary and General Manager of Shanghai Welfare Development Group. Previous positions held include Deputy Director, Shanghai Aging Population Affairs Development Centre, Legal Representative, Shanghai Qian He Hotel, Deputy Party Secretary and Acting General Manager, Shanghai Social Welfare Development (Group) Co., Ltd.

Zhang Wei, Male, born in August 1945, graduated from Shanghai TV University with a diploma, major in Management. Mr. Zhang was formerly Director of Finance and Trade Office of Lu Wan District Government and Party Secretary and General Manager of Luwan Administrative Division, Shanghai City Credit Cooperatives. Previous positions held with Bank of Shanghai include General Manager, Southern Region, Director of Administration and Secretary of Supervisory Board.

Lu Wenzhong, Male, born in February 1947, is Chairman and Party Secretary of Yingdong Village, Chenjia Town, Chongming County. He was formerly Accountant and heads the local militia company and the farming labour group.

Tang Wenxin, Male, born in June 1949, graduated from Shanghai Min Li Middle School. Mr. Tang is Chairman of SRCB Labour Union. Previous positions held include Director of Credit Cooperatives Department, Agriculture Bank of China, Shanghai Branch, Deputy Director, Shanghai Rural Financial Reform Leadership Group's Office, Director, Credit Cooperatives Department, PBOC Shanghai, Section Chief and Director of Cooperation Finance Administration Department of PBOC, Shanghai Branch, Vice President, Shanghai Rural Credit Cooperatives Union and Director of SRCB Labour Union Working Committee.

Li Rong, Female, born in December 1959, graduated from Shanghai Television School major in International Accounting. Ms Li has an accounting qualification. She is Deputy General Manager SRCB Putuo Sub-branch. She was previously Assistant General Manager and Deputy General Manager, Putuo Rural Credit Cooperatives.

Wu Xing, Male, born in June 1945, Junior College, graduated from An Hui Finance and Trade College with a diploma major in Financial Management. Mr. Wu was formerly Vice President of ICBC, An Hui Provincial Branch, Commissioner of ICBC Internal Audit and Supervision Bureau, Wuhan, General Manager, Audit and Supervision Bureau and Head of Internal Audit, ICBC.

Yan Qifen, Male, born in October 1941, graduated from Shanghai University of Finance and Economics with a Degree major in Finance. Mr. Yan is Chairman of Shanghai Da An Value Document Delivery Co., Ltd. Previous positions held with Agricultural Bank of China, Shanghai Branch include Director of Industrial and Commercial Credit, Sector, Chief Economist, Vice President, Party Secretary, President and Senior Analyst.

# Profiles of Directors, Supervisors, Senior Management and Staff

## 6.1.4.2 Supervisors

Shen Huiqi, Male, born in October 1950, graduated from Shanghai University of Finance and Economics with a Bachelor's Degree major in Finance. Mr. Shen is Chairman of Supervisory Board, SRCB. He was formerly members of the Party's Standing Committee of Jiading District, Shanghai and Deputy Party Secretary and Deputy Director of Fengxian District Government.

Cai Hongsheng, Male, born in April 1949, graduated from the Management School of Fudan University with a Bachelor's Degree, major in Management. Mr. Cai is President and Party Secretary, Oriental International (Group) Co., Ltd. Previous positions held include Secretary-General and Deputy Director of the Shanghai Government's Finance and Trade Office, Director and Deputy Party Secretary, Shanghai Municipal Commerce Committee.

Lou Jinjiang, Male, born in August 1951, graduated from PLA Nanjing Institute of Politics. Mr. Lou is Deputy Secretary of Discipline Committee, SRCB. He was formerly Deputy Director of Communications, Shanghai Finance Bureau, Deputy Director, HR Department and Deputy Director, Communications Department, Shanghai General Economic Committee.

Wu Zhenlai, Male, born in September 1950, graduated from the Adult Education Colleague of Tongji University with a diploma. Mr. Wu is the Chairman of Shanghai Shan Xin Property Co., Ltd. He was previously Manager, Shanghai Wenhua Architectural Design Firm.

Lu Changsheng, Male, born in July 1959, graduated from the Economics and Management Institute of the PLA Air force College of Politics. Mr. Lu is Manager of the Support Advisory Division of Shanghai Qingpu Asset Management Co., Ltd and Manager of Shanghai Qingpu Grain and Oil Warehouse Management Company. He was previously Manager of Shanghai Qingpu Grain Oil and Foodstuff Company.

Zhang Tiangao, Male, born in January 1945, graduated from middle school, Economist, was previously General Manager, Xuhui Credit cooperatives Union and Vice President, South East Suburb Express Ring Road Company.

Feng Baolong, Male, born in April 1951, graduated from Shanghai University of Finance and Economics with a Diploma major in Accounting. He is Deputy General Manager SRCB Pudong Branch. He was previously Deputy General Manager, Pudong Rural Credit Cooperatives Union.

Zhang Zuyu, Male, born in December 1957, graduated from college, Economist, is Business Manager of Jinshan Sub-branch, SRCB. He was formerly General Manager of Zhang Yan Credit Cooperatives, President of Zhangyan Sub-branch, SRCB and Manager of Compliance and Supervision of Jinshan Sub-branch, SRCB.

Liu Hongzhong, Male, born in June 1965, graduated from Fudan University with a PhD, major in Finance. Mr. Liu is Director and Professor of International Finance Faculty and Deputy Director of International Finance Research Centre of Fudan University. He was formerly Associate Professor and Deputy Head of International Finance College of Fudan University.

# Profiles of Directors, Supervisors, Senior Management and Staff

## 6.1.4.3 Senior Management

Ye Guorong, Male, born in November 1957, graduated from Shanghai University of Finance and Economics with a diploma major in Finance. Previous positions held with Bank of Shanghai include General Manager, Huanlong Sub-branch, General Manager, Zha Bei Regional Branch and General Manager, Accounting and Settlement Dept.

Qiao Zhongxing, Male, born in October 1957, graduated from Shanghai Normal University with a Bachelor's Degree in Chinese Language and Literature. Mr. Qiao is Assistant President of SRCB and General Manager, Pudong Branch, SRCB. He was formerly Deputy General Manager, Pudong Branch, Bank of Shanghai, Assistant Director, Shanghai Rural Credit Cooperatives Union and General Manager, Pudong Credit Cooperative Union.

Wu Guohua Male, born in February 1964, graduated from Shanghai University of Finance and Economics with a Master's Degree, major in Monetary and Banking Study. Mr. Wu is Assistant President, SRCB. He was formerly General Manager, Corporate Banking Dept., China Minsheng Bank, Shanghai Branch and Assistant Director, Shanghai Rural Credit Cooperatives Union.

Zhao Deyuan Male, born in October 1964, graduated from Shanghai University of Finance and Economics with a Master's Degree, major in Fiscal Policy and Treasury. Mr. Zhao is Secretary to SRCB Board of Directors and Head of Presidents' Office. Previous positions held include Assistant General Manager, ICBC Pudong Branch, Deputy General Manager, ICBC Bund Sub-branch, Deputy General Manager, Finance Department, ICBC Shanghai Branch, Deputy General Manager, No.2 Business Dept., ICBC, Shanghai Branch and General Manager ICBC Waigaoqiao Sub-branch.

## 6.2 Changes in SRCB's Directors, Supervisors and Senior Management during the Reported Period

On March 26, 2008, two foreign directors, named Robert John Edgar and Alexander Vincent Thursby, were appointed, approved in advance by Shanghai Office, China Banking Regulatory Commission (HYJF No.207 (2008)), to the Board on the 2<sup>nd</sup> Extraordinary Shareholders' Meeting of 2007. During the reporting period, no Supervisor or senior management member changes.

## 6.3 Workforce

As at the end of the Period, SRCB has 4,489 employees on its register, consisting of 800 management executives, 3,588 business staff and 101 other staff. 111 employees have a Master's Degree or PhD, accounting for 2.47% of total headcounts. 3,111 employees have Bachelor's Degree or Diploma, accounting for 69.3% of total headcounts. 1,267 employees graduated from Technical Secondary School or below, accounting for 28.22% of total headcounts.



# Corporate Governance Structure

## 7.1 Corporate Governance

In 2008, the company implemented state policies and requirements arising from a series of major events of Beijing Olympic Games, Earthquake Relief Work and Coordinated Support, and made proactive efforts to address the challenges arising from the changes of the financial and economic situations at home and abroad. The company, in accordance with the Articles of Association, continued its efforts to promote sound corporate governance framework, improve the construction of various mechanisms, further define the responsibilities and rights of the Board of Directors, the Board of Supervisors and Senior Management, optimize the policy decision structures and strengthen the governance framework of the Board of Directors, the Board of Supervisors, the Shareholders' Meeting and Senior Management and the special committees thereunder effectively, in compliance with the PRC Company Law, the PRC Commercial Banking Law, the PRC Provisional Regulation of Rural Commercial Bank, the Guidelines for Corporate Governance of Joint-stock Commercial Banks, and the Guidelines on Performance of Boards of Directors of Joint-Stock Commercial Banks with Due Diligence. The company therefore enhanced the corporate governance effectively, delivered a powerful policy decision procedure and execution mechanism, and safeguarded the interest of shareholders, depositors and other related parties, reflecting the social responsibility of the company.

### 7.1.1 Enhancement of a sound Corporate Governance System

In 2008, the company revised, based on the corporate governance regulations system built up in the past two years, some current regulations in line with the development of businesses and practical conditions, including Measures of Equity Administration of SRCB, Working Rules of Credit Risk Management Committee of SRCB, Working Rules of Operational Risk Management Committee of SRCB, Working Rules of Loans Approval Committee of SRCB, Working Rules of Marketing Committee of SRCB, and formulated some necessary regulations including Provisional Administration Rules of Donation of SRCB, Working Rules of Information Security Committee of SRCB.

### 7.1.2 Shareholders and Shareholders' Meeting

During the reported Period, SRCB has held one General Meetings of Shareholders according to the requirements stated by the Articles of Association and Rules of Procedure for Shareholders' General Meeting. The meetings has acted in full accordance with relevant regulations. Shareholders' right to access information, to participate and to vote were respected. A legal opinion was issued by Jun He Law Firm.

### 7.1.3 Shareholder and the Company

The Shareholding structure complies with relevant banking regulations and rules. The top five shareholders did not bypass the Shareholders Meeting to intervene with the Company's operation and decision-making, directly or indirectly. The Company is completely independent from the top five shareholders in terms of personnel, asset, finance,

# Corporate Governance Structure

organizational structure and business operation. The Company's Board of Directors, Board of Supervisors and its internal organizations were able to operate independently.

## **7.1.4 Directors, the Board of Directors and Special Committee**

The Board of Directors currently comprises 19 members, including four executive directors, nine directors from legal-person shareholders, two natural person directors, two employee directors and two independent directors. All board members fulfilled their duties earnestly, expressed opinions independently, and safeguarded the interests of the company and shareholders. During the reported period, the Board of Directors held four regular meetings and three extraordinary meetings, with 46 various proposals and reports heard or deliberated. These proposals or reports related mainly to capital programming, business operation plan, financial budget, profit distribution, risk exposure, internal control management, auditor's report, technology cooperation, branches/outlets adjustments, initiation of new short name of the company, adjustment of accounting system, disposal of NPL, implementation of regulatory opinions, major accident resolution, major project construction, major investment, major related party transactions, regulation formulation, donation, and coordinated support. The Board of Directors set up five special committees, namely, Strategic Development Committee, Related-Party Transaction Committee, Risk Management Committee, Audit Committee, and Nomination and Remuneration Committee. In the reported period, the special committees held 14 meetings, with 39 proposals heard or deliberated, and fulfilled the responsibilities of policy decision within the scope of duties and assistant decision making without the scope of duties properly.

## **7.1.5 Supervisors, the Board of Supervisors and Special Committees**

The Board of Supervisors comprises nine members, including three supervisors from legal-person shareholders, one natural person supervisor, three employee supervisors, two external supervisors. The supervisors diligently discharged their responsibilities and expressed opinions independently by overseeing the Board of Directors and Senior Management, with focus on duty performance, and corporate finance. During the reported period, the Board of Supervisors held four regular meetings and one extraordinary meeting, with 10 proposals heard or deliberated. These proposals related mainly to supervision evaluation, operating risk supervision, auditor's report and accident resolution supervision. The Board of Supervisors set up two special committees, namely, Audit Committee and Nomination Committee. The special committees held two meetings, with two proposals heard or deliberated, and fulfilled the supervision functions properly.

## **7.1.6 Information Disclosure and Transparency**

According to the relevant PBOC regulation, the Company established the 'Management Rules on SRCB's information Disclosure' and disclosed information accordingly. Secretary of Board of Directors is in charge of news disclosure and the company board office is responsible for shareholders' visits and consultancy. During the reported period, other than the published annual report, an enterprise social responsibility report was prepared and released for the first time.

# Corporate Governance Structure

## 7.2 Independent Directors and External Supervisors

The company set up independent directors and external supervisors. Currently, there are two independent directors and two external supervisors (including Chairman of Supervisory Board). During the reported period, the independent directors and external supervisors, being responsible to the shareholders, safeguarded the interest of the company and related parties faithfully and diligently, and played active roles in implementing the policy of the Board of Directors and supervision functions of the Board of Supervisors.

### 7.2.1 Independent Directors' Attendance of the Meetings of Board of Directors

Name	Attendance	Attendance in person	Attendance by authorized Deputy	Absence
Wu Xing	7	6	1	-
Yan Qifen	7	6	1	-

### 7.2.2 Attendance of the Meetings of Board of Supervisors by the external supervisors

Name	Attendance	Attendance in person	Attendance by authorized Deputy	Absence
Shen Huiqi (Chairman of Board of Supervisors)	5	5	-	-
Liu Hongzhong	5	5	-	-

### 7.2.3 Disputes Proposed by Independent Directors Concerning Corporate Affairs

During the reported period, no such disputes are proposed by the independent directors.

## 7.3 Five-separations from the Holding Shareholder

There are no controlling shareholders. SRCB was wholly incorporated and is completely independent from large shareholders in terms of business operation, personnel, assets, organizations and finance. The board of directors, the board of supervisors and the various internal departments all operated independently.

## 7.4 The Company's Management and Decision Process

Shareholders' Meeting have the ultimate discretion and have commissioned the Company's Board of Directors to make decisions and ensure appropriate satisfactory management of the Company. The Supervisory Board plays a supervisory role as required by regulation. The President, who is appointed by the Board of Directors, has overall responsibility for day to day management and operation of the Company. The Company operates under a single legal

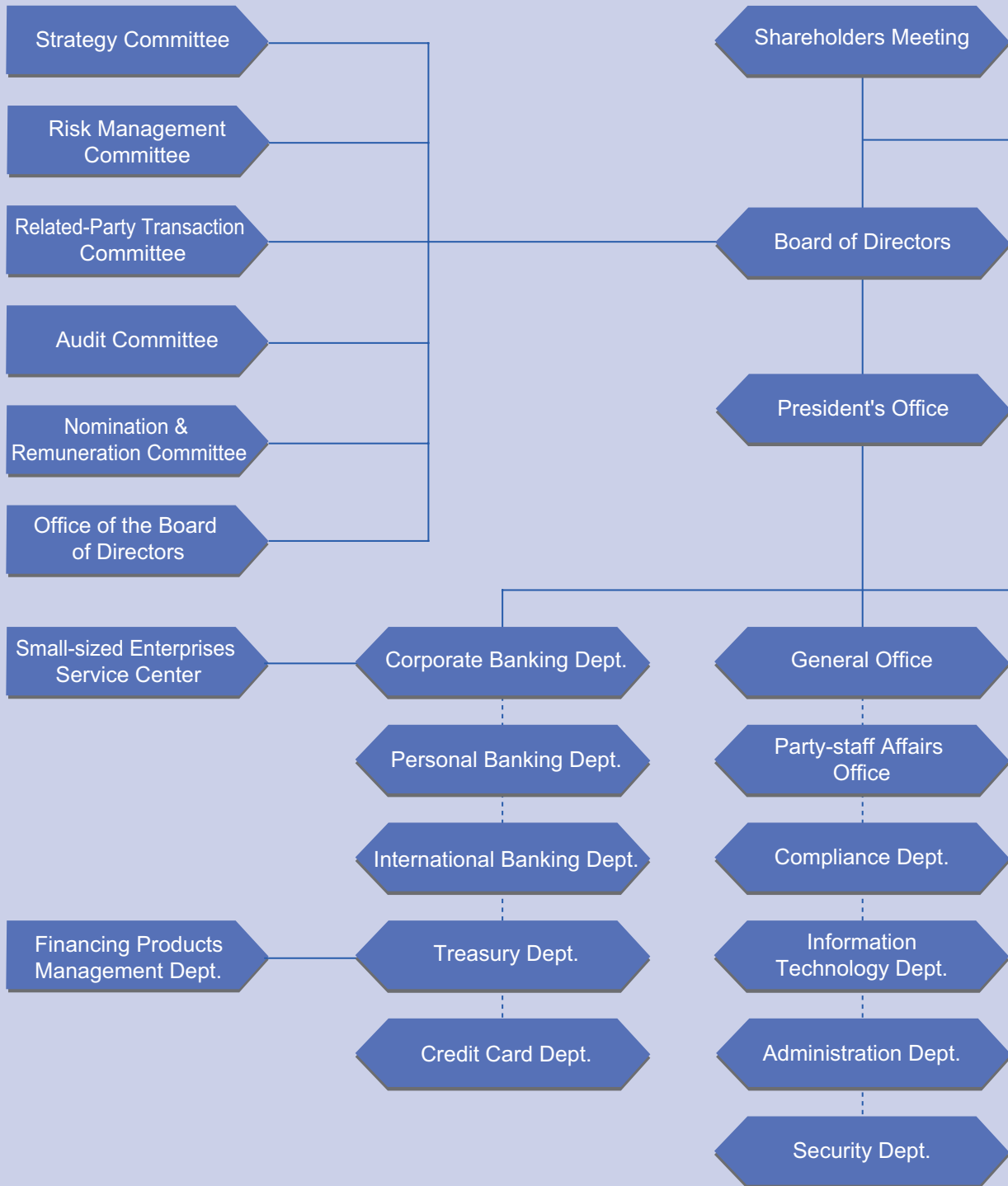
## Corporate Governance Structure

entity structure with a centralized accounting system, a tiered management model and a delegation of discretion policy. None of the branches are independent entities in an accounting sense. They operate under the discretion delegated by, and report through to, the head office.

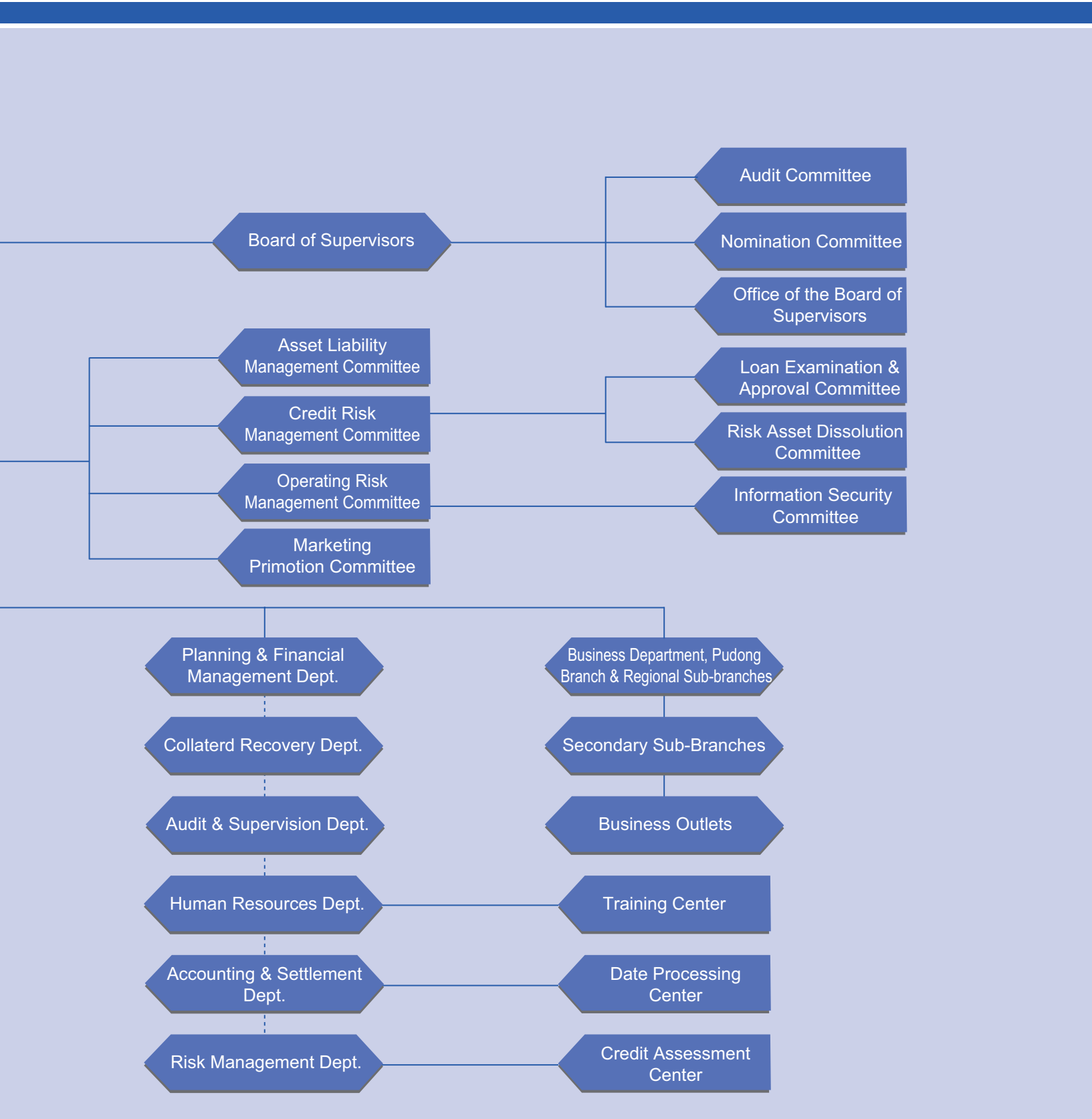
In order to set up major decision system, SRCB establishes 4 special committees on assets and debts, sales-promoting, credit risk and operation risk.

# Corporate Governance Structure

## 7.5 Organizational Chart



# Corporate Governance Structure



# Shareholders' Meeting

## 8.1 General Meeting of Shareholders

On April 28, 2008, the company held the 2007 Annual Shareholders' General Meeting, and 47 shareholders and their representatives, representing 2681.59747million shares, accounting for 71.5916% of the total share capital, attended the meeting. The following proposals were deliberated and passed on the meeting:

2007 Report of the Board of Directors of SRCB

2007 Report of the Board of Supervisors of SRCB

Report of 2007 Financial Results and 2008 Financial Budget of SRCB

Report of 2007 Profit Distribution Plan of SRCB

The meeting also heard:

2007 Annual Auditor's Report of SRCB

2007 Report of Related Party Transactions of SRCB

## 8.2 Election and Changes of Directors and Supervisors

Refer to Directors, Supervisors, Senior Management and staff for detail.

# Report of the Board of Directors

## 9.1 Analysis on Overall Performance during the Period of the Report

### 9.1.1 Operating Income, Operating Profit, Net Profit, Cash and Cash Equivalent

Unit: thousand RMB

Items	Current Period	Last period	Variance
Operating income	8,612,457	6,734,862	27.88%
Operating profit	88,672	677,535	-86.91%
Net profit	740,805	370,572	99.91%
Increase in Cash and Equivalent	1,708,228	5,061,146	-66.25%

#### Key Reasons for Change

(1) Increase in Operating Income is mainly due to the increase in the scale of the business and return on lending assets.

(2) Decrease in Operating Profit is mainly due to the increase of provision for asset impairment to cover the historical burden.

(3) Increase in Net Profit is mainly due to business development.

### 9.1.2 Comparison of Total Assets, Shareholders' Equity as at the end of the Period to that as at the beginning of the Period

Unit: thousand RMB

Items	Current Period	Last Period	Variance
Total Assets	173,327,345	157,474,437	10.07%
Shareholders' Equity	11,643,112	11,159,4858	4.33%

#### Key Reasons for Change

(1) Increase in Total Assets is mainly due to the increase in the deposits, loans and investment.

(2) Increase in Shareholders' Equity is mainly due to the increase of the undistributed profits.



# Report of the Board of Directors

## 9.2 Performance of the Company

### 9.2.1 Scope of Business and Performance

#### 9.2.1.1 Scope of Business

The Company's scope of business approved by PBoC and CBRC include general deposits, short-term, medium-term and Long-term loans, domestic and international settlements, draft acceptance and discount, distributing, purchasing and underwriting government bonds, trading government bonds and bank notes, inter-banking financing, cards business, foreign currency deposits, foreign currency loans, foreign currency remittance, international payments, inter-bank foreign currency financing, credit investigation, consultancy and verification service, payment and insurance distribution, safe box service and other business approved by CBRC.

#### 9.2.1.2 An Overview of SRCB's Business Operation

##### Key indicators

During the reporting period, the company continued to develop in alignment with the scientific outlook on development and carried out as a whole, insisted on implementing the state macro economic policy and took proactive measures to address the changes of economic and financial situations at home and abroad, to further the construction of the retail bank. Besides, business innovation was accelerated, operational benefit was further increased and various operational and administrative goals for the year were achieved. The financial conditions and operation results are detailed as follows:

----By Dec 31<sup>st</sup>, 2008, total assets of SRCB increased by 10.07% or 15.853 billion to RMB 173.327 billion.

----Total balance of deposits increased by 14.59% or RMB 18.726 billion to RMB 147.043 billion .

----Total outstanding balance of loans increased by 12.11% or RMB 10.018 billion to RMB 92.732 billion.

----By the end of reporting year, SRCB's Non-performing Loan (including Sub-standard, Doubtful and Loss) as defined by the five-category loan classification system stood at RMB 2.126 billion, being a increase of RMB 0.191 billion, or 9.87%. The NPL ratio has thus decreased by 0.05 percentage points as opposed to that of previous year to 2.29%.

----In accordance with China Banking Regulatory Commission, the Company's net core capital and net capital are reported as RMB 11.061 billion and RMB 10.858 billion respectively. Core capital adequacy ratio and capital adequacy ratio are presented at 12.02% and 11.80%, an increase of 2.37 percentage points and 2.64 percentage points versus the prior year.

----The profit before taxation increased by 0.234 billion, or 33.61%, to 0.966 billion. The net profit realized increased by 0.370 billion, or 99.91%, to 0.741 billion.

# Report of the Board of Directors

## Development of Corporate Banking

The company focused on the business transformation to speed up the adjustment of structure and to implement the strategy of retail business development. The liability business, assets business and intermediary business of the company witnessed steady growth, and the system client marketing, credit planning management, credit scale management and the small enterprise business progressed significantly. The company promoted the innovation in supporting agriculture credit granting, and developed two products of the Farmers Professional Cooperation Loans under An Xin Nong Bao and the Farmers Professional Cooperation Credit Loans. The business platforms were constructed and developed remarkably, especially the Internet Banking for Enterprises and the companying-Taxation Link, and the Nong Bao Payment Card system were put into production successfully. The development of the EDI electronic payment system, treasury centralized payment system and government payment card system were launched. The functions of products were conformed, and a series of products of supply system financing, cash management, bills, current loans were developed.

## Development of Personal Banking

During the reporting period, deposit volumes showed solid growth. Savings deposits stood at RMB72.247 billion, an increase of RMB 15.635 billion, or 27.62% over the previous year. Personal lending volumes declined against a background of slower real estate market in Shanghai, with year-end balances declining by RMB0.481 billion to RMB11.339 billion. In the year, aside from RMB3 billion in personal lending, personal housing accumulation fund loans totalled RMB4.3 billion, accounting for 42% of all such loans in Shanghai. SRCB was also licensed to supervise the second-hand house fund. In the reporting year, circulation of SRCB's debit card (Ruyi Card) increased by 530k to 3.46 million. These cards are widely accepted in 34 foreign countries and districts. Retirement pension and social insurance funds granted via the company totalled RMB 4.385 billion. A total of 15 financing products were sold and the amount involved grew up to RMB1.702 billion. On February 22<sup>nd</sup>, the bank was licensed to sell mutual funds, and totally RMB8.841 million were sold. The bank has in service 3,920 POS machines, an increase of 939 over the previous year, and 443 ATMs along with 5 self service banking outlets. 3 new Financial Convenience Stores were opened. There were 18 new innovative products launched in areas such as personal liability, personal assets, bank cards and agency business.

Additionally, business management compliance was strengthened and new operational management measures for agency business were introduced. POS business and personal loans were published. A customer service centre was established and all work related to this was brought in-house and a personal internet banking service has been developed with initial successful testing completed.

# Report of the Board of Directors

## International Business Development

In the reporting period, the total settlement volume of international businesses amounted to USD1.107 billion, an increase of 119%. Corporate customer foreign exchange accounts now exceed 1,000, and foreign exchange deposits, loans and trade financing business volumes all achieved the significant growth targets set for the year. The company has been permitted to issue uaromtec business and has selected some pilot branches with larger volumes and mature clients with the intention of being able to provide key FX products in all 1<sup>st</sup> tier branches. Taking advantage of the Beijing Olympic Games, the company also implemented various demonstration service and supervision requirements, so as to further modernise and improve the service quality. Multi levels and various forms of business training were adopted, to help ensure development of a high quality professional service team.

## Credit Card Business Development

In the reporting period (from Sep 22<sup>nd</sup> - Dec 31<sup>st</sup> 2008), the company formally joined China Unionpay to issue standard credit cards, including China Unionpay standard credit cards and jointly signed credit cards. In total almost 23k cards were issued in the final 3 months of 2008 and the transaction volumes amounted to RMB148.4758 million, including card spend of RMB134.1406 million and cash withdrawal of RMB14.3352 million. No accounts or balance were classified into any of the sub-standards, doubtful and loss categories.

## Development of Treasury Business

Turnover in the domestic treasury totalled RMB6.3 trillion, an increase of 149%, and the accumulated underwriting of bonds amounted to RMB154.9 billion (an increase of 54% in the reporting year), ranking SRCB 7<sup>th</sup> nationwide in the inter-bank market and 4<sup>th</sup> in spot bond transactions. The company further increased the management capacity of fund operation, and reasonably allocated the financial assets, with the hope of improving the fund operation income and effectively controlling and preventing fund business risk by establishing qualified risk assessment model. In the reporting period, the personal financing products were developed and 15 products, characterized by different terms and categories and steady investment, were sold well.

## Risk Management

As a priority the company took measures to proactively address the economic conditions and policy changes, continuously adjust its credit policy and strengthened risk controls in key areas.. The company also strengthened management over real estate mortgages, closely monitoring values and insurance requirements, established information communication processes and coordination mechanism with relevant agencies, and strictly controlled credit risk associated with customers in the natural resources sector. The 2<sup>nd</sup> phase of the credit management information system has been put into production, which helps regulate credit business operation and risk control procedures, and provides real-time information exchange between the credit management system and core business loan approval

# Report of the Board of Directors

system and allowing centralization of loans granting by branches at a regional level. Matching with the information management system, 10 grade credit risk classification and customer evaluating system was established, which accurately reflected the quality of the underlying credit assets.

The bank strengthened credit management of its inter-bank treasury business, and greatly improved the loan-to-value ratio of its bond repurchase system and the credit limit management system of bonds. The company paid close attention to the credit conditions of counterparties and bond issuers, so as to ensure the security of the transaction and the safe return of maturing funds.

## Internal Control Management

Firstly, the company further perfected three levels operational risk management system of the Board, the Board risk management committee, senior management and the bank's operational risk management committee, branches and the operational risk working committee, by revising the Working Rules of SRCB Operational Risk Control Committee. We further defined operational risk management and departmental responsibilities. Secondly, the company revised the internal control performance examination indicator for 2008 and worked with branches to strengthen their internal control management processes. Thirdly, the company formulated Measures of Administration of SRCB Internal Control Error Correction and improved error correction mechanisms. Fourthly, the company reviewed relevant cases and strengthened operational risk examination and case study reviews. The company launched the internal control transformation of Risk Orientation, regulated internal control procedures, and organized various comprehensive and focused evaluations. Lastly, the bank closely reviewed all internal control processes within the bank and provided detailed recommendations for strengthening internal control systems and reforming same.

## Compliance

As a priority the company organized multi dimension training and compliance knowledge programmes, and also set up professional compliance roles in some regional level branches to ensure compliance awareness. Secondly, the bank formulated Measures of Administration of SRCB Internal Control Error Correction, established error correction and supervision evaluation mechanisms in the company, defined internal controls for key phases of innovative products, improved working procedures, revised Ideas on Certain Issues of Regulating Rules Interpretation, and improved the quality of the compliance regulations within the company. Thirdly, the company compiled 122 business procedure documents, which provided the foundation for solid operational risk recognition, and updated the 2<sup>nd</sup> course of GRC procedure management. Fourthly, the company published Legal Consultancy Manual of Commercial Bank Compliance Staff, 2008 revision edition, Legal Questions and Typical Case Study of Commercial Bank, Compliance Manual, 2008 revision edition, and further regulated the operation to effectively manage the risk.

# Report of the Board of Directors

## IT Construction

In the reporting year, the company strengthened information technological risk management, promoted IT governance capability, strengthened technological platform construction, and ensured the steady operation of information systems. The company also developed and optimized the credit card system, customer service system, fund distribution platform, internet banking system and message platform, which delivered richer financial products and more convenient financial services to clients. The development of credit management information system (2<sup>nd</sup> course), financial management system, office system, HR management system further enhanced operational management and risk control. By appropriately combining business and management, improving system errors and centralized internet login operational risk was lowered and this enhanced the bank's IT governance.

## Intermediary Business

In the reporting period, the intermediary business developed strongly. Annual fee income totalled RMB229.85 million, an increase of 81%, including settlement commission fee (93.03 million), up 95%, consignment commission fee (136.82 million), up 73%, financing business commission fee (3.57 million), up 175%. The net income from intermediary business in 2008 totalled to RMB178.35 million, an increase of 149% on the year-to-year base.

## Corporate Culture Construction

The company, following the operational principals of Compliance, Steady Operations, Characteristic Cultivation, Innovation and Long Term Vision, worked hard to construct a unique corporate culture, while developing its businesses in a healthy and strong manner, and looked to build a culture around the themes of Harmony, Generosity, Humility and Opportunity. In 2008, for the purpose of bringing staff together in a healthy manner, the company held the 2nd sports game for the Olympics, advanced the work of helping the less advantaged, improved employee schemes and health checks so as to increase employee well-being and overall aimed to advance the construction of organisation that cared for its people, customers and those in the community.

## Awards and Recognition

The company ranked, in terms of tier one capital, 414<sup>th</sup> among the world's top 1000 banks by The Banker magazine, UK, being one of Global 500, and ranked 18th in the commercial banks in the China National 500.

The company was awarded the First Prize Of ATM Service Cross Banks by PBOC ,Shanghai branch, in the Shanghai Olympic payment facility competition.

The company was awarded the Second Prize Of Credit Promotion Competition, Third Prize Of Poster Design by PBOC ,Shanghai branch.

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The company was awarded the Elite Prize Of Commercial Banks Promoting China Unionpay Standard Debit Card in 2008.

The company was awarded the Excellent Member in national inter bank bond market in 2008.

The company was awarded the Excellent Chinese Bond Evaluation Member by Central Treasury Registry & Settlement Co., Ltd in 2008.

The company was awarded the Excellent Supervising Point In Shanghai Commercial Bank by CBRC, Shanghai Office, in 2008.

## 9.2.1.3 Operating Income and Type

	Unit: thousand RMB
Business type	Income
Loans	6,216,348
Interbanking lending and deposit	1,055,600
Investment income	1,094,048
Others	246,462
Total	8,612,457

## 9.2.1.4 Market Share of Major Product or Service

Deposit balances reached RMB 147 billion at the end of 2008, of which SRCB had a Shanghai market share of 4.61%. SRCB ranked the 8<sup>th</sup> in the Shanghai market among commercial banks in terms of deposits. Loan balances stood at RMB 92.7 billion, of which SRCB accounted for 4.88% of market share in Shanghai. SRCB ranked the 8<sup>th</sup> in Shanghai among commercial banks in terms of loan balances. Personal loans reached RMB 8.231 billion, of which SRCB had a Shanghai market share of 2.62% ranking SRCB at number 12 among commercial banks.

The company ranked within the top 30 in the national book-entry treasury bonds underwriting ranking and in the RMB financial bond was accorded status as an excellent underwriter by China Development Bank, ranked the 6<sup>th</sup> in the import & export financial bonds underwriting, the 9<sup>th</sup> in the financial bonds underwriting by China Agricultural Development Bank. The volume of settlement in inter-bank bonds market amounted to RMB6 billion, thus ranking the 7<sup>th</sup> in the national inter-bank bonds market. The trade volume in inter-bank bonds market amounted to RMB3.8929 billion, ranking the 4<sup>th</sup> in inter-bank bonds market.

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## 9.2.1.5 Top 5 Industry Exposures

No.	Industry	Year-end balanceRMB thousand	Percentage(%)
1	Manufacturing	1,918,505	20.69
2	Real estate	1,649,544	17.79
3	Leasing and commercial service	1,117,733	12.05
4	Wholesale and retail	603,526	6.51
5	Water, Environment and Public utilities	503,246	5.43

Note: Total loan balance is about RMB 92,732,080,000.

## 9.2.1.6 Major off-balance Sheet Items and Status

Unit: thousand RMB

Item	Balance in the end of 2008	Balance in the end of 2007	Balance in the end of 2006
Interest receivable	679,737	544,252	492,190
Guarantee issued	165,550	84,860	165,038

The Company formulated administration measures, operation procedures, authorization limit for and required security money or guarantee for exposure for the guarantee issuance, clearance of bank's acceptance bill, L/C opening etc, so as to reduce the risk of aforementioned businesses.

## 9.2.2 Major Equity Investments

Unit: thousand RMB

Company name	Term of Investment	Shareholding percentage	Amount of Investment as at the end of Period
China Union Pay	Open	0.18%	3,000
Rural Credit Bank Funds Clearing Centre	Open	6%	6,000
Shanghai Hu Yang Highway Development Co., Ltd.	Open	35%	163,400
Shanghai Southeast Suburb Ring Highway Development Co., Ltd.	Open	45%	161,476
Shanghai Jingyi Industry Development Co., Ltd.	Open	20.45%	367,000

## 9.2.3 Challenges and Strategies

In the reporting period, the international financial crisis worsened, and all major industries were seriously impacted to varying degrees. China was not immune and some clients of the company were affected thus adversely impacting the company. In consideration of this, firstly, the company further strengthened risk management for current loans granted, and launched the credit risk evaluation scheme for corporate clients. Secondly, the company cancelled some projects and closely monitored those it was supporting, adjusting the structure of the loans, and selected the new projects prudentially. Thirdly, the company strengthened the management and control over the credit system risk, based on the practical operational risk.

In consideration of a more adverse market risk climate along with the increased uncertainty within financial markets, the company adjusted its investment structure taking into account interest rates and product risk, and increased the proportion of treasury bonds and central bank's bill. Secondly, the company selected financial products prudentially, closely analysed counterparty credit conditions, watched closely the conditions of the capital markets and other banks, and placed strict controls on the credit risk of its treasury business. Thirdly, the company strengthened audit processes around credit assets, and worked hard to ensure symmetry between credit and operational risk exposures.

In consideration of the unstable global financial conditions, uncertain economic outlook, the narrower spread of deposit and loan rates, and the consequent decline in profit margins, the company worked hard to reform legacy processes, improve mechanisms, and to solidify its business base. The company adjusted its operational framework, rearranged and optimized business procedures and looked closely at the way the bank was organised. Secondly, the company insisted on emphasizing internal control, improved its risk management systems and operational risk management policies, and continued to implement the internal control performance examination. Thirdly, the company formalised its IT governance structure, accelerated infrastructure construction, strengthened the operational management capability, established a clear supervisory management system, and improved its BCP and risk prevention capabilities.

## 9.2.4 Risk Management Goal of Capital Adequacy Ratio and Policies

The core capital management of the company is its capital adequacy and capital return ratios. The bank's capital management strategy aims to satisfy both external supervisory and shareholder return requirements, and to promote appropriate asset scale expansion in line with risk management parameters established by the company. In the reporting period, the company set a goal of prudent capital adequacy taking into consideration regulatory requirements and its asset structure, and ensured it reached this goal in taking into account its risk weighted assets management.

In recent years, as the company developed its various businesses lines at a steady pace, its capital requirements increased. To ensure its capital adequacy ratio meet the regulatory requirements whilst delivering optimal returns to shareholders taking into account risk parameters, the company firstly supplied capital internally by improving its capital profit ratio, and secondly has plans to issue long term bonds.



# Report of the Board of Directors

## 9.3 Summary of Bank Business Data

### 9.3.1 Branches

No.	Name	Address	Number of Outlets
1	HQ Branch	728 West Yan'an Rd	1
2	Pudong Branch	1500 Century Avenue Pudong New Area	47
3	Minhang Sub-branch	61 Xinjian Rd, Xinzhuang Town, Minhang District	25
4	Jiading Sub-branch	386 Tacheng Rd, Jiading District	23
5	Baoshan Sub-branch	1198 Mudanjiang Rd, Baoshan District	23
6	Nanhui Sub-branch	5 Shaonian Rd, Huinan Town, Nanhui District	27
7	Fengxian Sub-branch	9780 Nanfeng Highway, Nanqiao Town, Fengxian District	24
8	Songjiang Sub-branch	405 North Renmin Rd, Songjiang District	26
9	Jinshan Sub-branch	505 West Weiqing Rd, Jinshan District	24
10	Qingpu Sub-branch	399 Gongyuan Rd, Qingpu District	26
11	Chongming Sub-branch	188 Beimen Rd, Chengqiao Town, Chongming District	32
12	Xuhui Sub-branch	No.3-7, Lane No. 9 Zhaojiabang Rd	11
13	Putuo Sub-branch	599 Xincun Road, Putuo District	12
14	Wujiaochang Sub-branch	2721 Songhua jiang Rd, HongKou District	13
15	Changning Sub-branch	No.8 Lane No. 555 Gubei Rd	6
16	Huangpu Sub-branch	1 <sup>st</sup> Floor, 500 Guangdong Rd	1

### 9.3.2 Five-category Classification of Credit Assets

Unit: RMB ten thousand

Type	Beginning of the year		End of the year	
	Amount	Percentage	Amount	Percentage
Pass	6,823,573	82.5	7,947,137	85.70
Special mention	1,254,342	15.16	1,113,470	12.01
Substandard	131,429	1.59	144,130	1.55
Doubtful	55,839	0.68	66,738	0.72
Loss	6,203	0.07	1,733	0.02
Total	8,271,386	100	9,273,208	100.00

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## 9.3.3 Provisions

Loan loss provisions have been accrued in accordance with PBOC's 'Notice of Publishing the Guidelines on Loan Loss Provisioning', MOF's 'Notice Publishing the Management Rules on Loan Loss Provisions of Financial Institutions' and MOF's 'Notice of the Issues on Loan Loss Provision'. Details of the Company's provisions are as follows.

(1) Credit assets provisions include short-term loans, medium to long-term loans, overdue loans, doubtful loans, bad loans, discounted notes and discounted import and export drafts.

(2) Percentage of provision to credit assets: 2% for Special-mention Loans, 25% for Sub-standard Loans, 50% for Doubtful Loans and 100% for Loss Loans.

(3) As at 31 December 2008, the balance of total provisions was RMB 4,112.388 million (including general provision of RMB2,636.510 million and special provisions appeared as a deduction of credit assets on balance sheet of RMB1,475.879 million).

## 9.3.4 Top 10 Loan Customers and Their Percentage of Total Loans

Unit: thousand RMB

Customer Name	Loan Balance(RMB 10 thousand)	Total Loan (%)
Shanghai Dragon Investment Co., Ltd	60,000	0.65
Shanghai Jinshan Land Storing Centre	50,000	0.54
Shanghai Yangpu City Construction Investment Co., Ltd	50,000	0.54
Shanghai Lingang Economic Development Group	50,000	0.54
Shanghai Industrial Investment Holdings Co., Ltd	50,000	0.54
Shanghai Huilv Investment Co., Ltd	50,000	0.54
Shanghai Beitong Investment Development Co., Ltd	50,000	0.54
Shanghai Nanhui City Construction Investment Co., Ltd	49,800	0.54
Shanghai Fengxian Construction Investment Co., Ltd	48,000	0.52
Shanghai Fengxian Land Storing Centre	45,000	0.48
China Jin Mao Group Co., Ltd	45,000	0.48
Total	547,800	5.91

Note: Total loan is RMB 92,732,080,000

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## 9.3.5 Credit Management of Group Customers

The company managed group clients and granted credit within relevant regulations, and supervised credit provided to group clients so as to prevent duplication or overly-excessive lending at a group level. At the end of the reported period, the loan balance of private business group clients amounted to RMB 4.8 billion, accounting for 5.27% of the total loan balance.

## 9.3.6 Subsidized loans accounting for over 20% of total loans as at the end of year

None during the Period.

## 9.3.7 Restructured and Overdue Loan Balance as at the End of the Year

Balance of restructured loans is RMB 12.63 million as at the end of the Period, including RMB 2.46 million restructured loans overdue for more than 90 days.

## 9.3.8 Average Monthly Balance and Interest Rates of Deposits and Loans

Unit: RMB thousand

Type	Average Balance(10 thousand)	Average Interest Rate
All Loans	81,077,208	7.67%
All Deposits	138,401,867	2.21%

## 9.3.9 Major Treasury Bonds Holding Status during the Reported Period

Type of Treasury Bonds	Face Value(ten thousand Yuan)	Maturity	Coupon Rate (%)
2001 Book-entry treasury bond	15,000	2011.03-2021.10	3.85-4.71
2002 Book-entry treasury bond	109,000	2009.06-2012.07	2.00-2.93
2003 Book-entry treasury bond	125,000	2010.02-2018.10	2.66-4.18
2004 Book-entry treasury bond	35,000	2009.04-2014.08	4.42-4.89
2005 Book-entry treasury bond	87,000	2010.10-2012.11	2.14-3.01
2006 Book-entry treasury bond	288,000	2009.04-2016.03	2.12-2.89
2007 Book-entry treasury bond	449,000	2010.04-2017.09	2.77-4.46
2008 certificated treasury bond	284,000	2011.04-2038.05	2.64-4.50
2006 certificated treasury bond	1,995	2009.11-2011.11	3.39-3.81
2007 certificated treasury bond	23,007	2010.03-2012.12	3.39-6.34
2008 certificated treasury bond	656	2011.03-2013.11	5.17-6.34
Total	1,417,658		

# Report of the Board of Directors

## 9.3.10 Non-performing Loans as at the End of the Year and Actions Taken

At the end of 2008, total loans outstanding were RMB 92.732 billion.

Based on Five-category loan classification pass loans totalled RMB79.471 billion, accounting for 85.70% of the total loans, special-mention loans amounted to 11.135 billion, accounting for 12.01%. The non-performing loans (sub-standard, doubtful and loss) totalled to 2.126 billion, accounting for 2.29%, an increase of RMB191 million being a decline of 0.05 percentage points. The non-performing loans reflected the characteristic of volume increase and proportion decrease, where the sub-standard and the doubtful increased by 0.127 billion and 0.109 billion respectively, and the loss decreased by 45 million.

As at the end of 2008, foreclosed assets across the company is RMB730.59 million in total, representing an RMB 78.92 million decrease from the previous year.

RMB107.74 million NPL was written off during the year of 2008.

The following actions have been taken to tackle the NPL problem and reduce NPL's:

The first, the company adjusted the supervision scale in accordance with the feedback from the supervisory authority, specified the responsible branch and responsible employees in accordance with the retreating program formulated at the beginning of the year, and monitored the implementation of risk solution scheme of non-performing loans. The second, the company, took the opportunity to revise measures of non performing loans written off in financial institution, prepared in advance, selected strictly, accelerated to compile and apply for the non-performing loans that met write off criteria and wrote off the non performing loans in timely manner. The third, the company, via the information management system, gathered non performing loan information and monitored this closely thus improving the base of risk elimination work. The fourth, the company strengthened its basic management and regulation construction, regulated the non performing loans management and ensured the compliance, high efficiency and order of loans collection.

## 9.3.11 Debt Assets

Type	Balance (in RMB ten thousand)	Proportion
Immovable Asset	69,775.05	95.51%
Movable Asset	383.55	0.52%
Equity	2,900.33	3.97%
Total	73,058.93	100%

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## 9.3.12 Overdue payments have occurred during the Period of the Report.

None.

## 9.3.13 Risks and Countermeasures

The company faced the following risks: credit risk, liquidity risk, market risk, operational risk and compliance risk.

Credit risk countermeasures. The first, the company produced 2008 Credit Orientation and Risk Policy, adjusted credit risk policy properly, defined credit orientation sequence of priority granting, prudential granting, limited granting and prohibited granting and risk management policy. The second, the company, taking advantage of the 2<sup>nd</sup> course development of CMIS, compiled the credit operational procedure and regulations, including regulating and implementing the new corporate client 10 grade risk classification, client appraisal and risk pre-caution system. The third, the company improved the loans granting work by three examinations to effectively manage the credit asset quality. The fourth, the company took various measures to manage the mortgage risk arising from the real estate. The fifth, the company implemented the management measures and controlled the whole risk of the credit granting of steel trading enterprise. The sixth, the company promoted the control of branches over the credit risk by strengthening the management of agency. The seventh, the company organized Professional Risk Manager Study Course and cultivated the professional risk manager.

Liquidity risk countermeasures. The company formulated the measures of liquidity risk management, so as to monitor, manage and prevent the liquidity risk effectively. The company monitored the liquidity risk periodically and continuously, formulated the large amount inflow and outflow reporting system, and monitored the inflow and outflow of the money.

Market risk countermeasures. The company formulated the measures of market risk management and built the market risk management framework and basic system. The company also controlled market risk by establishing market risk positions and risk limit management, and the personnel for the market risk management was further enriched.

Operational risk countermeasures. The first, the company revised the Working Rules of Operational Risk Management Committee of SRCB, and further defined the operational risk management responsibility. The second, the company compiled the operational risk point in the business operation. The third, the company published Notice on Ingeminating Strengthening Operational Risk Responsibility, established and perfected five management systems, including the periodical shift system of key occupation, examination of employee mistakes. The fourth, the company launched the special internal control researches, including corporate governance, customer resources, organs setting, departmental functions, occupation duties, and internal control system. The fifth, the company launched the internal control examination in the whole bank, in accordance with the requirement of case special settlement. The sixth, the company compiled the development of some businesses. The seventh, the company developed professional ethics and business skill training to staff, and strived to improve the staff's prevention awareness. The eighth, the company continued to

# Report of the Board of Directors

strengthen the independence of internal audit personnel, and orderly advanced the risk controlling orientation audit project. The ninth, the company established effective mistake correction mechanism.

Compliance risk countermeasures. The first, the company advanced business compilation in schedule and compiled 122 business procedure documents. The second, the company further regulated the compliance documents of Examination Measures of Legal Documents, Working Instruction of Professional Compliance Manager, Working Instruction of Compliance Report. The third, the company upgraded the 2<sup>nd</sup> course of GRC procedure management system. The fourth, the company introduced in quality management concept, and regulated and controlled the management object precisely, exactly and rapidly.

## 9.4 External Equity Investment during the Period of Report

None addition.

## 9.5 Financial Position and Operation Result

### 9.5.1 Major Financial Index Variance

Item	31 Dec 2008	31 Dec 2007	Variation %	Key Reason
Total assets	173,327,345	157,474,437	10.07	Increase in Business Scale
Long term equity investment	711,699	749,013	-4.98	Investment Loss
Long term bond investment	31,858,441	29,624,876	7.54	Increase in long term bond holdings
Fixed assets	1,518,168	1,391,356	9.11	Increase in investment of fixed assets
Total liabilities	161,684,233	146,314,952	10.50	Increase in deposit
Long term liabilities	16,743,488	15,945,072	5.01	Increase in long term savings deposit
Shareholders Equity	11,643,112	11,159,485	4.33	Increase in undistributed profits
Operating profit	88,672	677,535	-86.91	Increase in write-off of bad account loans
Investment income	1,094,048	942,621	16.06	Increase in investment scale and market profit rate
Net profit	740,805	370,572	99.91	Increase in Business Scale and interest difference

9.6 The company has incurred no major loss due to joint liabilities incurred by issuing guarantees to external parties

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## 9.7 Change of Operating Environment, Macro Economic Policy and Impact

In 2008, the economy slowed down and the CPI index declined significantly. The central bank changed the tight monetary policy for the first half year to easing monetary policy for the second half year. In the second half year, the central bank lowered the base deposit rate and lending rate 5 times successively, with reduction of 1.89 percentage points and 2.16 percentage points for deposit rate and lending rate respectively. The deposit reserve ratio was deducted 4 times in the second half year, amounting to 4 percentage points.

According to the rate adjustment policy of PBOC, the company adjusted the underlying deposit and lending rate for the clients and the internal interest rate pricing policy. The successive reduction of the interest rate resulted in the remarkable decrease of lending income and deposit interest payment, with the former declining larger than the latter.

Facing the rapid changes of monetary policy and market, the company adopted countermeasures proactively, adjusted the credit orientation and assets term structure and minimized the negative impact of policy.

## 9.8 Business Development Plan For The New Year

### 9.8.1 Guidance For Business Development In The New Year

The company will continue to develop in alignment with the scientific outlook on development and carry out as a whole, and will also insist on implementing the state macro economic policy. The company will emancipate the mind, exploit and develop, attach great importance to the efficiency and stabilization, ensure the development and control the risk effectively, eliminate the crisis and seek the opportunity, reinforce the base and plan the future, insist on reform and solve the problem, and strive to advance the development of modern commercial bank.

### 9.8.2 Operational Goal For The New Year

- The profit before the allowance for impaired loan loss reaches 2.8 billion, and the allowance limits to 1.45 billion;
- According to the five risk classification, the non performing loans (sub-standard, doubtful and loss) do not exceed 2.3 billion with the non performing ratio not exceeding 2.5%;
- The average daily deposit is not less than 155 billion, and the ending balance of deposit is not less than 168 billion, with the savings deposit not less than 82 billion;
- The loan-to-deposit ratio does not exceed 67%, and the personal lending amounts to not less than 12 billion;
- The intermediary income is not less than 0.25 billion;
- The capital adequacy ratio is not less than 11%.

## 9.8.3 Development in The New Year

### Corporate Banking Business

SRCB will establish a comprehensive sales network to maintain a close relationship with its major customers. Through consolidating and fostering good-quality client groups, it will set its market position as a comprehensive and diversified corporate banking player; in addition, SRCB will follow national policies and business development strategy to strengthen its credit management and optimize its structure through giving priority to farmers and well run SMEs to achieve satisfactory profit and income structure. In accordance with SRCB's requirement to develop its corporate banking offering, it will make preparation for launch and management of SRCB Corporate Finance Products.

### Personal Banking Business

SRCB will establish a comprehensive sales network to maintain a close relationship with its major customers. Through consolidating and fostering good-quality client groups, it will set its market position as a comprehensive and diversified corporate banking player; in addition, SRCB will follow national policies and business development strategy to strengthen its credit management and optimize its structure through giving priority to farmers and well run SMEs to achieve satisfactory profit and income structure. In accordance with SRCB's requirement to develop its corporate banking offering, it will make preparation for launch and management of SRCB Corporate Finance Products.

### International Banking Business

SRCB will strengthen its Foreign Exchange business structure at branch level and improve overall operation efficiency by increasing the number of personnel and giving subordinates more right to operate the daily business. SRCB will continue efforts to increase its international settlement volume strengthen the marketing of intermediary business and improve the profit structure of its foreign exchange business. SRCB will also introduce various currencies to increase FX volumes and improve overall service delivery. SRCB, in taking the opportunity of World Expo in Shanghai in 2010, will expand the number of branches permitted to conduct foreign currency business for individuals and improve service delivery. SRCB will comprehensively review and inspect its foreign exchange business and underlying risk control measures and conduct performance reviews. It will strive for the sustained development and compliance operation of the foreign exchange business.

### Credit Card Business

SRCB will further strengthen the business foundation and develop its branding to ensure a sustainable business. SRCB will develop new and various credit cards, i.e. Office card, Business card, and Foreign exchange card, and continue to promote and increase the cards' issuance and quantity for the Xin Card standard credit card and Qing Lian link card. SRCB will also improve the contracting management of card issuance, approval, clearance, develop credit card management system, and improve the credit card business operation platform.



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## Treasury Business

With a slow down of the domestic macro economy and with lower market yields, the money operation business is encountering great difficulty. SRCB will continue to implement its strategy, pay close attention to underlying credit risk and market risk and improve overall risk management. While developing its traditional business, the company will also make efforts to identify new opportunities for trading and to overcome the obstacles of money business development and to further develop its treasury product suite offering. In regards to financing products, SRCB will continue to bear the concept of stabilization and improve the core competition capacity of financing products to satisfy the financing requirement of the customers by optimizing the pricing system and establishing and improving the assets pool.

## Intermediary Business

SRCB will accelerate the development of its intermediary business by developing its assets business, optimize the intermediary commission charges schedule and develop new intermediary products. In accordance with the client's requirement and the bank's practice, SRCB will, not only develop the potential of RMB settlement business and increase business income, but also will develop high value added products /services, i.e. agency business, information consultancy business, credit card business, guarantee and commitment business, electronic business. Income will be increased, via calculating the intermediary business cost and establishing a favourable price schedule and by strengthening management of intermediary business risk.

## Risk Management

Firstly, SRCB will pay close attention to the domestic and international economy and underlying economic policy guidance. SRCB will take advantage of the state macro economic policy of stimulating the economy and of expanding domestic demand, and identify and develop suitable opportunities for SRCB's capital and business direction. Strengthening of the credit discretion management and improve the credit structure will be a priority. Secondly, SRCB will strengthen management of its loan structure. From a banking industry perspective, SRCB will strictly control the loan centralization in order to prevent from its systematic risks. Thirdly, SRCB will strengthen the post loan management and control the credit quality. Fourthly, based on different lines of business, SRCB will make great efforts to establish credit risk management procedures. Fifthly, SRCB will continue to develop the electronic credit management system. Sixthly, SRCB will strengthen the risk prevention from the inter banks.

## Compliance Management

In 2009, SRCB with the support from compliance, will identify legal and operational risks, and continue to improve compliance, law and operational risk management procedures to effectively improve risk management effectiveness. In accordance with SRCB basic requirement, SRCB will focus on the optimization of business procedures, continue to improve the development and compilation of procedures and risk management of the company in accordance with the

# Report of the Board of Directors

new capital agreement, improve the manual control, technical control and system control to prevent the occurrence of significant operational risk .

## Internal Control

SRCB will further improve its internal control management system, to assist in the rollout of its retail banking strategy; in addition it will also improve rectification measures set by departments to establish a unified system of job scope and performance review so as to cultivate a superior and standardised internal control structure. SRCB will also perfect the system and procedure of identification, evaluation, supervision and management, monitor and establish an alarm trigger for identifying risk, further improve internal control systems and procedure management systems so as to improve the implementation of the system. SRCB will assign responsibilities of high-level executives to further improve the channel for communication and feedback; In addition, SRCB will actively try to set up credit risk management mechanism through assigning head of risk to some sub-branches to intensify direct management between overall credit risk and large-scale risk. SRCB will pilot direct management of internal control to improve its independence and efficiency. Also, SRCB will further carry out the evaluation system to establish an effective rectification system so as to prevent from major risk events happening again.

## Technology

SRCB will further advance the implementation of its existing three-year IT strategy, with emphasize on IT governance, information security management, project management and production change management, optimize the technology platform so as to enhance the development of the bank's business and improvement of operational management. Simultaneously, SRCB will maintain efforts to strengthen the risk control of technology and establish long-term technological risk management mechanism. Additionally, the company will focus on improving the new core accounting system construction, as well as construction of information warehouse, data exchange platform, image flow platform, fee-based business IT platform, payment settlement platform, and retail internet banking system; improve IT governance framework, and prepare the 2<sup>nd</sup> three-year IT strategy.

## Business Outlets

To prepare for the coming SH World Expo, SRCB will focus on business outlets construction in SH downtown area and World Expo exhibition district. SRCB will implement business outlets VI standardization and reinforce its strategy of serving community, city citizens, rural areas and serving medium and small enterprises(SMEs); enhance construction of financial convenience kiosks which provide financial services to nearby communities; accelerate e-banking business marketing channel construction and increase the number of ATM, POS, Multi-media self service machines.

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## Talent Management

SRCB will establish a new HR management system which all roles have its own belonged grade and group. This is to better reflect each role responsibility and its according value in the bank; meanwhile to strengthen performance evaluation and establish a sound performance evaluation system; accelerate the remuneration reform and establish a remuneration system which is based on role responsibility and performance; focus on talent management and strengthen core competitiveness of senior management; in addition, enhance HR MIS(2<sup>nd</sup> Course) system building and organize more staff training to improve their service skills.

## 9.9 Routine Work of the Board of Directors

1. On February 1, 2008, the following five proposals were deliberated and passed on the 10<sup>th</sup> session of 1<sup>st</sup> board of directors' meeting of SRCB:

Report of Business Operation in 2007 and Plan & Working Point for 2008 of SRCB

Proposal on Agreement on the Three Self Evaluation Report of the Corporate Governance etc of SRCB

Report of Activities of the Board of Directors of SRCB in 2007

Report of SRCB Directors Duty Performing in 2007

Report of Performance Assessment for Chairman of the Board and Senior Management in 2007

The meeting also heard two proposals of Report of SRCB's Claim on the Credit Right over Nong kai Series Enterprises and Report of Opinions of CBRC Shanghai Office from Site Inspection and the Mistake Correction Measures of SRCB.

2. On March 27, 2008, the following nine proposals were deliberated and passed on the 11<sup>th</sup> session of 1<sup>st</sup> board of directors' meeting of SRCB:

Report of 2007 Budget Execution and 2008 Financial Draft Budget of SRCB

Report of Profit Distribution Plan of SRCB for 2007

Report of Capital Management Plan for 2008 & Medium-Long Capital Allocation Plan

Report of Market Risk Management of SRCB in 2007 and the Market Risk Analysis of SRCB in 2008

2007 Annual Auditor's Report of SRCB

2007 Annual Report of SRCB

Report of Outlets Rearrangement of SRCB in 2008

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Report of Revision of Equity Management Measures of SRCB

Report of Holding the 2007 Shareholders' Meeting of SRCB

The meeting also heard the following five proposals:

Report of the Technology Cooperation between the SRCB and ANZ

Report of Internal Control Management of SRCB in 2007 and Working Points in 2008

Report of Supplementary Explanation of 2007 Annual Report of SRCB

Report of 2007 Related Transactions of SRCB

Report of Auditor's Opinion on the Related Transactions of SRCB in 2007

3. On August 1, 2008, the following six proposals were deliberated and passed on the 12<sup>th</sup> session of 1<sup>st</sup> board of directors' meeting of SRCB:

Report of Business Operation in the First Half of 2008 and Plan & Working Point for the Second Half of 2008 of SRCB

Report of Loss from Disposal of Non Performing Loans and Debt Assets in the First Half Year of 2008

Report of Reappointing Wan Long (Shanghai) Certified Public Accountants as the Auditor for the 2008 Accounting Year of SRCB

Report of the Donation of SRCB for the 5.12 Sichuan Wenchuan Earthquake and the Provision Measures of Donation

Report of the Remuneration Standard of Chairman of the Board and Senior Management for the 2007 Accounting Year

Report of the Remuneration Standard of Chairman of the Board and Senior Management for the 2008 Accounting Year

The meeting also heard the following six proposals:

Report of Implementing the Supervision Opinions of CBRC Shanghai Office and the Mistake Correction

Report of 5.28 Case Settlement of SRCB

Periodical Report of the Internal Control Examination after the 5.28 Case

Report of Treasury Investment Collection of SRCB

Report of the New Generation Core Business System Pattern and Suppliers

Report of Appointing PwC to Conduct Trail Audit on 2007 Financial Statements of SRCB

# Report of the Board of Directors

4. On September 18, 2008, 1<sup>st</sup> extraordinary board of directors meeting, held by correspondence, deliberated and passed the Proposal of Framework of Coordinated Support with Sichuan Rural Credit Cooperation on Supporting Dujiangyan Rural Credit Cooperation Destroyed in 5.12 Earthquake

5. On October 7, 2008, 2<sup>nd</sup> extraordinary board of directors meeting, held by correspondence, deliberated and passed the Proposal of Approving Shanghai Greenland Group Ltd to Impawn the Shares of SRCB of its Holding

6. On November 13, 2008, the following eight proposals were deliberated and passed on the 13<sup>th</sup> session of 1<sup>st</sup> board of directors' meeting:

Agreements on Senior Management Launching the Issuance of Financial Sub Prime Bond

Report of Adopting New Enterprise Accounting Standards from 2009

Report of Reappointing PwC to Conduct Trail Audit on 2008 Financial Statements of SRCB

Report of Starting the Name of Shanghai Rural Commercial Bank

Report of Conducting Trust Business with Shanghai International Trust Co., Ltd

Report of Subjoining Members to Some Special Committees of the Board of Directors

Report of Authorizing the Chairman of the Board of Directors Approving the Share Mortgage Application During the Close Period of the Board of Directors

Report of Writing off of the Non Performing Assets and Debt Assets for the Second Half Year of 2008

The meeting also heard two proposals of Report of Operation Conditions of SRCB between January to September of 2008 and Report of Operational Risk Management of SRCB

7. On December 3, 2008, the 3<sup>rd</sup> extraordinary meeting of 1<sup>st</sup> board of directors' deliberated and passed the Report of Contributing to Establish College and Town Bank in Chongming County.

## 9.10 Board's Execution of Resolutions Approved by Shareholders Meeting

According to the resolution approved by the shareholders meeting, the Board has executed the 2007 profit distribution scheme.

# Report of the Board of Directors

## 9.11 Preliminary Proposal on Profit Distribution and Transfer of Capital Surplus to Share Capital

The Company plans for profit distribution based on audited financial statements. According to the financial statements verified by an unqualified opinion from Wan Long Certified Public Accountants, the Company's 2008 annual profit after taxation is RMB740.805 million. Accumulated unappropriated profit from previous year is RMB2546.599 million. Total profit available for distribution to shareholders is RMB 3213.323 million.

The proposed profit distribution in 2008 is as follows:

- (1) Transfer 10% of current year profit after taxation of RMB74.08 million to compulsory surplus reserve
- (2) Transfer 10% of total profit available to shareholders of RMB321.332 million to discretionary surplus reserve.
- (3) Make dividend payment of RMB 299.655 million (including tax) at 8% of Registered Share Capital.

After these allocations, surplus unappropriated profit is distributed in later half of 2008.

The above plan shall be reviewed by the Shareholders Meeting and executed upon approval.

# Report of the Board of Supervisors

## 10.1 Activities of the Board of Supervisors during the Period of the Report

### 10.1.1 Meetings held by the Board of Supervisors

1. On February 1, 2008, the 10<sup>th</sup> session of 1<sup>st</sup> board of supervisors meeting deliberated and passed 2007 Report of the Board of Supervisors of SRCB, 2007 Plan for the Board of Supervisors of SRCB
2. On February 29, 2008, the 1<sup>st</sup> extraordinary board of supervisors' meeting deliberated and passed the 2007 Report of Working Monitoring and Evaluation Report of SRCB
3. On March 27, 2008, the 11<sup>th</sup> session of 1<sup>st</sup> board of supervisors' meeting deliberated and passed Supervision Report of Business Operation and Financial Conditions in 2007 of SRCB, Approval Report of 2007 Annual Auditor's Report of SRCB, Approval Report of 2007 Annual Report of SRCB
4. On August 1, 2008, the 12<sup>th</sup> session of 1<sup>st</sup> board of supervisors' meeting deliberated and passed three proposals, including:

Supervision Report of Operation and Financial Conditions of SRCB in the First Half Year of 2008

Working Report of the Board of Supervisors in the First Half Year of 2008 of SRCB

Scheme of Supervision and Examination over the Senior Management in Settling the 5.28 Case

5. On November 13, 2008, the 13<sup>th</sup> session of 1<sup>st</sup> board of supervisors' meeting deliberated and passed the Report of Special Inspection of Senior Management Settling 5.28 Case and the Internal Control

### 10.1.2 Attendance of Shareholders Meeting

Supervisors have attended the Shareholders Meetings

### 10.1.3 Supervision on Duty Execution of the Board and Senior Management

#### 10.1.3.1 Attendance on the Board of Directors Meeting

In the reporting period, the supervisors attended the 10<sup>th</sup> session to 13<sup>th</sup> session of the 1<sup>st</sup> the board of directors' meeting and 3<sup>rd</sup> extraordinary of 1<sup>st</sup> board of directors' meeting in 2008, and supervised the performance of the board of directors and directors.

#### 10.1.3.2 Financial Examination and Financial Analysis

The board of supervisors conducted dynamic supervision over the operation and financial conditions of 2007 and the first half year of 2008. From the supervision results, the board of supervisors considered that, from the reformation of the company, the senior management made great efforts in the aspect of business development, risk control and

# Report of the Board of Supervisors

basic management, that the businesses developed steadily, the characteristic of retail bank emerged, the assets quality increased stably, the internal control was strengthened, the operational profit and financial conditions increased significantly, and that the company developed harmoniously and rapidly. Simultaneously, the board of supervisors put forward opinions and suggestions in the aspect of expanding capital supplementary channels and optimizing the assets-liability structure.

### 10.1.3.3 Special Inspection and Follow-up Inspection

1. The company launched a special inspection on the financial annual report of 2007. In March, 2008, the board of supervisors conducted special inspection over the 2007 annual report and annual accounting settlement. By inspection, the board of supervisors appraised highly of the achievement of 2007 operation and management goal of senior management, and also put forward the suggestions in the aspect of strengthening the management of fix assets, nonperforming debt allowance recognition, non credit assets and financial expenses.

2. The company conducted special inspection on the implementation of internal control inspection, and conducted an off site inspection in June, 2008. By inspection, the board of supervisors considered that the senior management of the company settled the accidental event rapidly and effectively and employed effective measures in the aspect of case pre-caution, risk examination, loophole plugging and responsibility investigation system and that the senior management were able to settle the problems in similar conditions and addressing both symptoms and root cause. Simultaneously, the board of supervisors put forward suggestions in the aspect of further strengthening internal control management and employees educations.

3. The company launched a special inspection in the following-up in the management of the personal operational housing loans. In October, 2008, the board of supervisors conducted special inspection in the following-up management of the personal operational housing loans up to the end of September of 2008. The board of supervisors inspected the business management system, policy and procedures of risk management department and personal finance of the head office, and conducted spot check over some loans of two district branches. By the spot check, the board of supervisors gave the positive opinion on the work of senior management in the aspect of strengthening centralization management of credit risk, perfecting management framework and procedure and increasing the assets quality, and put forward the mistake correction measures concerning the problems detected.

4. The company launched follow-up inspection. This was conducted by the board of supervisors to observe the correction results and examine the recommended changes by the Board of Supervisors were implemented. By the follow-up inspection, the senior management of the company adopted measures to implement the correction opinions to achieve the requirement of the board of supervisors.

5. The company launched the performance review. The board of supervisors of the company appraised the performance of the board of directors and senior management, the meeting of the board of directors and development



# Report of the Board of Supervisors

strategy management, annual working plan formulation and plan executing, financial innovation, risk management and internal control construction, implementation of supervision or correction opinion of supervision authority or audit department, implementing the major policy of Municipal Party Committee and the requirement of superior authority.

6. The board of supervisors oversaw the operational management and major decision making of the company, assigned the member of the board of supervisors to branches for supervision and grasped the foundation condition. Additionally, the board of supervisors classified and compiled the opinions and suggestions from the basic branches and reported them to the senior management and related departments. The board of supervisors therefore played the role of information communication.

## 10.2 Independent Opinion of the Board Of Supervisors on Some Issues

### 10.2.1 The Operation of the Company

In the reporting period, the company operated in compliance and developed steadily, the businesses developed orderly, the assets quality improved step by step, the risk management and internal control strengthened continuously, and the operational results improved significantly. The policy decision mechanism was scientific and the procedure was legal. The corporate governance was further perfected, and no illegal activities or activities against regulations or rules or shareholder's interest in performing duties of directors and other senior management were detected.

### 10.2.2 The Reality of Financial Report

In the reporting period, the financial report reflected the truth of the financial conditions and operation results of the company. The annual financial report was audited by Wan Long (Shanghai) Certified Public Accountants, and an auditor's report without reservation was issued.

### 10.2.3 The Use of the Money Raised

In the reporting period, no additional money was raised

### 10.2.4 The Purchase and Disposal of Assets

In the reporting period, the company disposed of the legal share investment held previously and gained an investment profit of 1.294 million. According to the investment policy of the company, the company will not purchase the legal shares, and the legal shares being held at present are the legal shares purchased by cooperation of different counties and districts before the establishment of the company. In 2008, with equity division reform, most of the legal shares held by the company went public and the company has sold the shares of circulation. The legal shares held by the company will continue to periodically decrease

# Report of the Board of Supervisors

## **10.2.5 Related Parties Transaction**

In the reporting year, related parties transaction were found to be fair and reasonable, and no transactions was found that infringed on the interests of shareholders or SRCB.

## **10.2.6 Internal Control**

In the reporting period, the company continued to strengthen the system construction of internal control, further improved the integrity, reasonability and effectiveness of internal control system.

## **10.2.7 Execution of Resolutions of the Shareholders Meeting**

Members of Board of Supervisors attended the Company Board Meeting and Shareholders' Meeting, and agreed with reports and proposals submitted at these meetings.

The Board of Supervisors has monitored the execution of all resolutions of the Shareholders Meeting.

# Significant Events

## 11.1 Top Ten Shareholders and Changes during the Period

Refer to '5.2.2 Top Ten Shareholders as at the end of Period'

## 11.2 Significant Litigation and Arbitration Events

### 11.2.1 Non-Credit Litigation or Arbitration

In the reporting period, the lawsuits and arbitration issues, which do not relate to the credit loans and in which the company was defendant, amounted to 14, with 3.2 billion involved. The number of lawsuits decreased by 11, down 44%, however, the amount involved increased remarkably in comparison with that of 2007, which was mainly due to the treasury bond compensation recourse lawsuit with the amount occupying 99.4%, in which the Pudong branch has recovered.

### 11.2.2 Lawsuits and Arbitration Issues Concerning Credit

At the end of the reporting period, SRCB had filed 300 lawsuits concerning the loans to relevant courts that had jurisdiction, concerning loans in the amount of RMB 493,644,700. During the period, verdicts were passed enabling the collection of monies amounting to RMB 202,083,500 by lawsuit.

By the end of the reporting period, SRCB had filed 397 lawsuits concerning loans to courts that had not yet reached a verdict, involving loans in the amount of RMB 1,550,565,100. During the period however monies were collected on these cases amounting to RMB 82,951,100.

In 2008, the top 10 lawsuits that had no verdict are listed as follows, ranked by amounts.

No.	Borrower	Warrantor	Loan Granting Date	Overdue Date	Amount of lawsuit (million)	Loans retrieved (million)	Lawsuit Date
1	Yihe Longbai Hotel, Shanghai	--	2003/04/29	2004/06/28	350	9	2004/06/28
2	Hongxing Real Estate Development Company, Shanghai	--	2003/05/13	2004/03/26	300	0	2004/06/28
3	Shanghai Huaxia Culture Tourism District Development Company, Shanghai	--	2004/12/16	2007/12/28	82.40	6.3189	2007/12/28

## Significant Events

In 2008, the top 10 lawsuits that had no verdict are listed as follows, ranked by amounts.(continued)

No.	Borrower	Warrantor	Loan Granting Date	Overdue Date	Amount of lawsuit (million)	Loans retrieved (million)	Lawsuit Date
4	Shanghai Jiubang Chemicals Company Limited	Shanghai Liantong Industry Company Limited	2008/05/23	2008/07/01	39	0	2008/07/01
5	Shanghai Ziwang Real Estate Company Limited	--	2005/06/29	2007/05/15	35	13.21	2007/10/18
6	Shanghai Pudong Huaxia Industry Company, Real Estate Development Company	Shanghai Huaxia Culture Tourism District Development Company, Shanghai	2004/12/16	2007/12/28	33.50	9	2007/12/28
7	Shanghai Huaxia Culture Tourism District Development Company, Shanghai	--	2004/12/16	2007/12/28	30	0	2007/12/28
8	Shanghai Shengfeng Industry Company Limited	Shanghai Tianting Hotel, Shanghai Chenfeng Trading Company Limited	2003/05/28	2005/11/25	30	0	2005/12/20
9	Shanghai Huaxia Culture Tourism District Development Company, Shanghai	--	2004/12/16	2007/12/28	26	0	2007/12/28
10	Kunshan Joint Operation Factory, Shanghai Plastic Line Factory	--	1997/05/22	1997/11/17	17.70	0	1997/11/17

### 11.3 Increase and Decrease of Registered Capital, Separation and Merger

None.

# Significant Events

## 11.4 Related Party Transaction

At the end of the reporting year, there were two types of related party transactions, namely, related credit and other related party transactions. The balance for related party transaction saw RMB 1168.01 million, among which, related credit balance represents RMB 1126.31 million, including 5 related corporations (RMB 1113 million) and 17 entities (RMB 13.31 million) and 2 other related party transactions (RMB 41.7 million).

All related transaction volume accounting for 10.76% the net capital and the related party of largest amount relates to two related legal entities, namely Shanghai Shengrong Investment Company Ltd. And Shanghai Shenghui Investment Management Company Limited, with the related credit limit of 870 million, occupying 8.01% of the net capital.

SRCB's Legal Entity Related Party Transactions

Unit: RMB ten thousand

Customer	Loan at end of 2007	Classification	Guarantee
Shanghai Dragon Investment Co., Ltd	60000	Normal	Guaranty
Shanghai Shenghui Investment Management Co.,Ltd	27000	Normal	Pledge
Shanghai Shanxin Housing Co.,Ltd	11300	Normal	Pledge
Shanghai Greenland Car Service (Group)	7000	Normal	Pledge
Shanghai Greenland Commercial (Group)	6000	Normal	Pledge

## 11.5 Shareholders' Loans

### 11.5.1 Shareholders with a single loan balance exceeding 1% of net equity and total loan balance to single borrower exceeding 5% of net equity

Unit: RMB ten thousand

Customer	Loan at end of 2007	Classification	Guarantee
Shanghai Dragon Investment Co., Ltd	60000	Normal	Guaranty
Shanghai Hui Xin Investment Operation Co.,Ltd	30000	Normal	Guaranty
Shanghai Fengxian Construction Investment Co., Ltd	25000	Normal	Guaranty
Shanghai Fengxian Construction Investment Co., Ltd	23000	Normal	Guaranty

## Significant Events

### 11.5.2 Status of loans to shareholders with the outstanding balance RMB 30 million or above as at the end of the year

(unit: RMB ten thousand)

Client Name	Outstanding Loans by the End of 2008	Product Type	Five-grade Classification	Guarantee
Shanghai Dragon Investment Co., Ltd	60000	Short-term Operating Capital Loan	Pass	Guaranty
Shanghai Hui Xin Investment Operation Co.,Ltd	30000	Mid-term Operating Capital Loan	Pass	Guaranty
Shanghai Fengxian Construction Investment Co., Ltd	25000	Infrastructure Loan	Pass	Guaranty
Shanghai Fengxian Construction Investment Co., Ltd	23000	Infrastructure Loan	Pass	Guaranty
Shanghai Zhezhong (Group) Co., Ltd	7000	Short-term Operating Capital Loan	Pass	Guaranty
Shanghai Zhezhong (Group) Co., Ltd	6000	Short-term Operating Capital Loan	Pass	Pledge
Shanghai Zhezhong (Group) Co., Ltd	5500	Short-term Operating Capital Loan	Pass	Guaranty
Shanghai Shanxin Housing Co., Ltd	6000	Real Estate Development Loan	Pass	Pledge
Shanghai Shanxin Housing Co., Ltd	4000	Operative Property Pledge Loan	Pass	Pledge
Shanghai Gaodong Asset Management Co., Ltd	5000	Operative Property Pledge Loan	Pass	Pledge
Shanghai Xinqiao Economic Cooperative General Company	4000	Short-term Operating Capital Loan	Pass	Guaranty
Shanghai Sanlin Collectivity Assets Investment Operation Co., Ltd	3850	Legal Person Operative Housing Mortgage	Pass	Pledge

### 11.5.3 NPL by shareholders in accordance with the five-category classification system

None of the loans borrowed by shareholders is classified as NPL

### 11.5.4 NPL by related parties in accordance with the five-category classification system

None of the loans borrowed by related parties is classified as NPL

# Significant Events

## 11.6 Major Contracts and Implementation

There were no major trusteeship, contract or lease issues during the reporting period. Apart from the financial guarantee business which falls within SRCB's business scope as approved by the People's Bank of China within the reporting period, SRCB had no other major guarantee issues requiring disclosure. SRCB had no entrusted any party to manage its cash during the reporting period.

SRCB's various business contracts were implemented normally during the reporting period, and no dispute over any major contracts occurred, excluding the lawsuits aforementioned.

## 11.7 Appointment or Dismission of Auditors

SRCB appointed Wan Long (Shanghai) Certified Public Accountants Co.,Ltd. as the domestic auditor

## 11.8 Other Matters to be Publicized

### 11.8.1 The Business License Acquired

In February 22, 2008, the company was licensed to sell the fund.

The company received Reply on Licensing SRCB to Sell Open Fund of Security Investment (ZJXK [2008]288), which licensed SRCB to sell open fund.

In the mid of May, 2008, the company was licensed to open guarantee business (including standby L/C), after recording in Shanghai Office, CBRC.

In September 22, 2008, the first credit card of the company, named Xin Card, was issued formally.

### 11.8.2 The Change of Directors and Supervisors

Refer to 'Changes of Directors, Supervisors and Senior Management in the Reporting Period' for detail

### 11.8.3 Post-date Event

None

## 11.9 Change of Corporation Name

None

# Financial Report and Appendix

## 12.1 Financial Report (refer to the attachment)

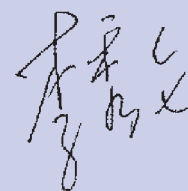
### 12.1.1 Auditor's Report (refer to the attachment)

### 12.1.2 Financial Statement (refer to the attachment)

## 12.2 Documents Available for Inspection

1. The financial statement duly signed by legal representative, the President and the director of the accounting department.
2. The original copy of auditor's report duly signed and stamped by the certified public accountants company and certified accountants.
3. The annual report duly signed by the Chairman of the board of directors
4. The original copy of disclosed announcements and documents of the company in the reporting period.
5. The Articles of Association

Chairman: Li Xiulun



Board of Directors of  
Shanghai Rural Commercial Bank Co., Ltd

March 27, 2008



# Financial Report and Appendix

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## 2008 Financial Report and Appendix

66. Auditors' Report

67. Balance Sheet

71. Income Statement

72. Statement of Changes in the Owners' or Shareholders' Equity

74. Cash Flow Statement

77. Notes to the Financial Statement

# Financial Statements

## AUDITORS' REPORT

WAN LONG (2009) No.644

### To: All shareholders of Shanghai Rural Commercial Bank:

We have audited the attached consolidated financial statements of Shanghai Rural Commercial Bank (referred as SRCB), which comprise the Consolidated Balance Sheet as at 31 December 2008, the Income Statement and Statement of Changes in the owners' or Shareholders' Equity as well as Cash flow Statement for the year ended and notes to the consolidated financial statements.

### I. Responsibility of the Senior Management for the Financial Statements

SRCB management is responsible for the preparation of these consolidated financial statements in accordance with "Accounting Standards for Business Enterprises" and "Implementation Rules for Financial Management of Rural Credit Cooperatives". The responsibility includes designing, implementing and maintaining internal control related to preparation of financial statements to avoid material misstatements due to fraud or error, choosing and adopting proper accounting policy and making reasonable accounting evaluation.

### II. Responsibility of the Certified Public Accountants

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### III. Audit Opinion

In our opinion, the combined financial statements present fairly, in all material aspects, the financial position of SRCB as at 31<sup>st</sup> December 2008 and the results of its operations and its cash flows for the year then ended in accordance with "Accounting Standards for Business Enterprises" and "Implementing Rules for Financial Management of Rural Credit Cooperatives".

WAN LONG CPA Co., Ltd

Beijing, China

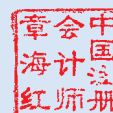


Certified Public Accountants

Registered in the People's Republic of China

19th March 2009

徐欣然  
章会海



# Financial Statements

## Balance Sheet

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2008-12-31	2007-12-31
Liquid assets			
Cash in hand	VI.1	1,183,140,532.84	1,284,735,020.35
Due from the Central Bank	VI.2	24,760,043,026.49	21,461,311,994.75
Special notes from the Central Bank	VI.3	0.00	2,121,850,000.00
Special Subsidies from			
the Central Bank	VI.4	2,121,850,000.00	
Placement with Financial Institutions	VI.5	5,217,982,292.90	3,481,621,083.99
Intra-bank deposit receivable		5,564,103.37	17,268,839.27
Due from other banks	VI.6	415,000,000.00	5,181,282,850.63
Due from financial institutions			
Purchase of resale assets	VI.7	5,767,734,000.00	1,696,040,000.00
Short-term loans	VI.8	30,878,401,597.96	31,020,947,616.29
Foreclosed assets in suspense	VI.9	730,589,296.27	809,506,765.27
Accounts receivables		14,857,692.58	14,046,050.28
Funds distributed from Working Capital			
Other accounts receivables	VI.10	283,970,176.44	61,179,185.76
Discounted bills	VI.11	9,488,946,054.10	3,275,718,278.37
Short-term investments	VI.12	2,034,689,072.76	2,700,253,357.60
Net loss of current assets in suspense			
Long-term investments			
maturing within one year		3,360,899,687.69	2,410,174,988.60
Expected assets		1,443,072,841.63	1,662,453,178.01
<b>Total Current Assets</b>		<b>87,706,740,375.03</b>	<b>77,198,389,209.17</b>

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Balance Sheet (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2008-12-31	2007-12-31
Long-term assets			
Medium and long-term loans	VI.8	50,637,229,705.77	47,324,035,196.60
Overdue loans	VI.8	173,198,029.66	98,641,956.20
Dull loans	VI.8	1,534,229,674.45	932,983,759.57
Bad loans	VI.8	20,077,377.32	61,530,372.32
Less: provision for loan losses	VI.13	1,475,878,815.45	1,398,632,958.67
Long-term placement in banks			
Long-term investments	VI.14	29,209,240,303.12	27,963,713,774.14
Original value of fixed assets	VI.15	1,518,167,657.22	1,391,355,680.77
Less: accumulated depreciation	VI.15	666,247,380.32	594,430,696.83
Net value of fixed assets		851,920,276.90	796,924,983.94
Disposal of fixed assets			-24,071,506.84
Construction in progress	VI.16	356,603,000.07	141,365,650.13
Net loss of fixed assets in suspense			
Total Long-term assets		81,306,619,551.84	75,896,491,227.39
Intangible and deferred assets			
Intangible assets	VI.17	4,248,134,201.69	4,328,130,724.95
Deferred assets		65,851,284.69	51,426,294.05
Total intangible and deferred assets		4,313,985,486.38	4,379,557,019.00
Total assets		173,327,345,413.25	157,474,437,455.56

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Balance Sheet (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2008-12-31	2007-12-31
<b>Current liabilities</b>			
Short-term deposits	VI.18	65,354,681,632.66	64,124,673,914.36
Short-term savings deposits	VI.18	12,976,176,683.76	10,318,094,040.53
Public finance deposit	VI.18	42,991,905.55	96,871,018.73
Loans from Central Bank			
Special purpose notes from Central Bank		2,121,850,000.00	
Due to other banks	VI.19	405,402,200.11	3,053,561,204.77
Intra-bank deposits			
Money market takings			
Sale of repurchase assets		142,180,000.00	3,440,000,000.00
<b>Due to financial companies</b>			
Remittance payable		586,226,111.32	718,948,410.39
Outward remittance		7,445,526,433.73	6,270,260,041.15
Accounts payable	VI.20	2,338,879,508.20	1,496,549,961.36
Funds distributed into working capitals			
Other accounts payable	VI.22	553,677,054.88	1,618,102,887.36
Salary payables		87,533,743.81	89,892,867.24
Withholding interest tax payable		11,540,533.99	17,150,362.36
Welfare payable		289,006.67	4,139,006.67
Tax payable	VI.21	41,681,393.60	242,547,068.00
Profit payable	VI.23	66,863.95	51,059.47
Accrued expenses			
Short-term bonds			
Long-term liabilities maturing within one year	VI.18	51,388,969,292.35	37,216,585,121.41
Expected liabilities		1,443,072,841.63	1,662,453,178.01
<b>Total Current Liabilities</b>		<b>144,940,745,206.21</b>	<b>130,369,880,141.81</b>

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Balance Sheet (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2008-12-31	2007-12-31
Long-term Liabilities			
Long-term deposits	VI.18	972,208,904.26	464,768,053.82
Long-term savings deposits	VI.18	14,953,521,369.41	14,394,898,218.13
Margin deposit		811,450,520.23	1,079,490,379.75
Long-term bonds			
Long-term borrowing			
Long-term accounts payable		6,307,397.69	5,915,606.61
Pending changeover assets value			
<b>Total Long-term Liabilities</b>		<b>16,743,488,191.59</b>	<b>15,945,072,258.31</b>
<b>Total Liabilities</b>		<b>161,684,233,397.80</b>	<b>146,314,952,400.12</b>
Shareholder's equity			
Paid-in capital	VI.24	3,745,685,776.00	3,745,685,776.00
Capital reserve	VI.25	1,241,923,196.68	1,241,923,196.68
Surplus reserve	VI.26	731,590,094.13	377,241,304.90
Including: public welfare fund			
General provision	VI.27	2,636,509,628.67	2,636,509,628.67
Retained profits	VI.28	3,287,403,319.97	3,158,125,149.19
Less: accumulated net Losses			
from previous years			0.00
<b>Total Shareholders' Equity</b>		<b>11,643,112,015.45</b>	<b>11,159,485,055.44</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>173,327,345,413.25</b>	<b>157,474,437,455.56</b>

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Income Statement

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	Notes	2008	2007
I. Operating Income		7,518,409,080.74	5,792,240,747.37
Interest income		6,216,347,549.28	4,774,252,213.77
Income from financial institutions		1,055,599,739.83	880,747,372.55
Fee and commission income		229,852,190.52	126,761,197.54
Other operating income		16,609,601.11	10,479,963.51
II. Operating Expenses		8,314,035,829.14	5,897,643,561.30
Interest expense		3,052,611,473.31	2,109,714,232.27
Expense paid to financial institutions		337,841,984.01	215,227,861.89
Fee and Commission expense		51,520,147.05	55,100,771.80
Administrative expense		1,774,944,934.10	1,555,633,558.57
Other operating expense		3,097,117,290.67	1,961,967,136.77
III. Business Tax and Surcharges		209,748,673.84	159,684,121.53
IV. Operation profit		-1,005,375,422.24	-265,086,935.46
Plus: Investment Income	VI.29	1,094,047,684.80	942,621,449.83
Plus: Non-operating income	VI.30	881,507,079.51	76,548,976.28
Less: Non-operating expense	VI.31	3,866,582.19	31,122,787.87
Plus: Previous years adjustment			
V. Profit before Tax		966,312,759.88	722,960,702.78
Less: Profit tax		225,508,040.74	352,388,917.07
VI. Net Profit		740,804,719.14	370,571,785.71

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei



# Financial Statements

## Statement of Changes in Owners'(or Shareholders')Equity

Produced by: Shanghai Rural Commercial Bank

2,008

Unit: RMB

Items	Line	Paid-in Capital	Capital Reserve	Surplus Reserve
		1	2	3
I. Balance as at end of 2007	1	3,745,685,776.00	1,241,923,196.68	377,241,304.90
Plus: Change of accounting policy	2			
Error correction for previous period	3			
Others	4			
II. Balance as at beginning of 2008	5	3,745,685,776.00	1,241,923,196.68	377,241,304.90
III. Variation amount for 2008 ("-" for reduce)	6			101,054,116.85
i. Net profit	7			
ii. Profit and Loss recognized directly in owners' equity	8			
1. Net changes in fair value of available-for-sale financial assets	9			
2. Impact of other owners' equity changes of invested enterprise under equity method	10			
3. Impact of income tax related to items recognized in owners' equity	11			
4. Others	12			
Net profit and gain/loss recognized directly in owners' equity	13			
iii. Shareholders' capital input and withdrawal	14			
1. Capital input of shareholders	15			
2. Share-based payment recognized in owners' equity	16			
3. Others	17			
iv. Profit Distribution	18			354,348,789.23
1. Extraction of surplus reserve	19			354,348,789.23
Including: Statutory surplus reserve	20			290,510,346.69
Discretionary surplus reserve	21			63,838,442.54
2. Extraction of general risk provision(reported by financial institution)	22			
3. Owners' (or Shareholders') distribution	23			
Including: Common shres dividends	25			
Ordinary shares dividends converted to shares (capital)	26			
4. Others	27			
IV. Balance as at end of 2008	28	3,745,685,776.00	1,241,923,196.68	731,590,094.13

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Statement of Changes in Owners'(or Shareholders')Equity(continued)

Produced by: Shanghai Rural Commercial Bank

2,008

Unit: RMB

Items	Line	General Provision 4	Retained Profit 5	Total Shareholders' Equity 6
I. Balance as at end of 2007	1	2,636,509,628.67	3,156,540,191.83	11,157,900,098.08
Plus: Change of accounting policy	2			
Error correction for previous period	3		1,584,957.36	1,584,957.36
Others	4			
II. Balance as at beginning of 2008	5	2,636,509,628.67	3,158,125,149.19	11,159,485,055.44
III. Variation amount for 2008 ("-" for reduce)	6		740,804,719.14	841,858,835.99
i. Net profit	7		740,804,719.14	740,804,719.14
ii. Profit and Loss recognized directly in owners' equity	8			
1. Net changes in fair value of available-for-sale financial assets	9			
2. Impact of other owners' equity changes of invested enterprise under equity method	10			
3. Impact of income tax related to items recognized in owners' equity	11			
4. Others	12			
Net profit and gain/loss recognized directly in owners' equity	13		740,804,719.14	740,804,719.14
iii. Shareholders' capital input and withdrawal	14			
1. Capital input of shareholders	15			
2. Share-based payment recognized in owners' equity	16			
3. Others	17			
iv. Profit Distribution	18		-611,526,548.36	-257,177,759.13
1. Extraction of surplus reserve	19		-354,348,789.23	
Including: Statutory surplus reserve	20		-290,510,346.69	
Discretionary surplus reserve	21		-63,838,442.54	
2. Extraction of general risk provision(reported by financial institution)	22			
3. Owners' (or Shareholders') distribution	23		-257,177,759.13	-257,177,759.13
Including: Common shres dividends	25		-257,177,759.13	-257,177,759.13
Ordinary shares dividends converted to shares (capital)	26			
4. Others	27			
IV. Balance as at end of 2008	28	2,636,509,628.67	3,287,403,319.97	11,643,112,015.45

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Cash Flow Statements

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	2008
I.Cash flows from operating activities	
Interests income	7,271,142,694.71
Fees and commissions income	229,852,190.52
Net demand deposits increase	1,970,867,521.42
Term deposits increase	81,106,830,819.74
Withdrawal of medium and long-term loans	16,421,992,223.01
Net deposits due to banks	-4,400,681,228.90
Net intra-bank deposits	1,186,755,803.45
Borrowing from Central Bank	
Net borrowing from other financial institutions	2,348,682,850.63
Net cash inflow from trust deposits and loans	2,928,758.46
Recovery from loans Written-off previously	20,661,835.77
Cash received from financial leases	
Cash received from other operating activities	140,189,202.92
Sub-total of Cash Inflows	106,299,222,671.73
Interest expenses	2,548,117,584.73
Fee and commission expenses	229,852,190.52
Net increase of short-term loans	-161,290,666.86
Medium-long term loans drawn	19,575,652,305.52
Net bills discounting	6,213,227,775.73
Net import-export bills purchase	17,135,549.22
Term deposit principal paid	64,404,356,268.50
Net statutory deposits with the Central Bank	2,236,813,862.41
Repayment to Central Bank	
Cash paid to and on behalf of employees	1,062,843,264.57
Business tax paid	208,419,606.97
Income tax paid	183,268,906.98
Other taxes paid expect business tax and income tax	11,726,180.97
Other operating cash outflow	3,776,268,226.21
Sub-total of cash outflows	100,306,391,055.47
Net Cash Flows from operating activities	5,992,831,616.26

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Cash Flow Statements (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	2008
<b>II. Cash flows from investing activities</b>	
Cash received from investment return	1,891,229,771,070.92
Cash received from distribution of dividends or profits	2,109,076.32
Cash received from interest income of bond	670,402,158.76
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	45,338,067.76
Other cash received relating to investing activities	536,227.49
<b>Sub-total of Cash Inflows</b>	<b>1,891,948,156,651.25</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	416,767,780.35
Cash paid for equity investment	0.00
Cash paid for debt investment	1,895,550,042,074.67
Other cash payments relating to investing activities	0.00
<b>Sub-total of Cash Outflows</b>	<b>1,895,966,809,855.02</b>
<b>Net Cash Flows from investing activities</b>	<b>-4,018,653,203.77</b>
<b>III. Cash flows from financing activities</b>	
Cash received from issuing shares	
Cash received from issuing bonds	
Other cash received relating to financing activities	
<b>Sub-total of Cash Inflows</b>	<b>0.00</b>
Cash repayments of amounts borrowed	
Cash payments for financing expenses	
Cash payments for distribution of dividends and profits	257,161,954.65
Cash payments for interest expenses	
Other cash payments relating to financing activities	
<b>Sub-total of Cash Outflows</b>	<b>257,161,954.65</b>
<b>Net cash flows from financing activities</b>	<b>-257,161,954.65</b>
<b>IV. Effect of foreign exchange rate changes on cash flow</b>	<b>-8,788,906.68</b>
<b>V. Net increase/(decrease) in cash and cash equivalents</b>	<b>1,708,227,551.16</b>

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

# Financial Statements

## Cash Flow Statements (continued)

Produced by: Shanghai Rural Commercial Bank

Unit: RMB

Items	2008
1. Non-cash investing and financing activities	
Investment in the form of fixed assets	
Share converted from debt	
Non-cash donation received	
2. Reconciliation of net profit/(loss) to cash flows from operating activities	
Net profit	740,804,719.14
Plus: Provision for bad debt or bad debt write-off	3,000,000,000.00
Depreciation of fixed assets	83,619,884.99
Amortization of deferred assets	16,870,986.65
Amortization of intangible assets	94,003,033.26
Decrease in deferred expenses (deduct: increase)	0.00
Increase in prepaid expenses (deduct: decrease)	0.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (deduct: gains)	-28,341,824.30
Losses on scrapping of fixed assets	
Financing expenses	
Losses arising from investments (deduct: gains)	-1,094,047,684.80
Deferred tax credit (deduct: debit)	
Decrease in loans (deduct: increase)	-3,866,779,403.96
Increase in deposits(deduct: decrease)	16,023,738,257.76
Decrease in deposit reserves(deduct: increase)	-2,236,813,862.41
Decrease in discount(deduct: increase)	-6,213,227,775.73
Decrease in import-export bill purchase (deduct: increase)	-17,135,549.22
Net balance with banks and other financial institutions (deduct: decrease)	2,348,682,850.63
Decrease in operating receivables (deduct: increase)	-302,302,895.00
Increase in operating payables (deduct: decrease)	-434,389,120.76
Others	-2,121,850,000.00
Net cash flows from operating activities	5,992,831,616.26
3. Net increase/(decrease) in cash and Cash equivalents	
Cash balance at end of year	8,251,867,725.15
Less: Cash at beginning of year	8,498,733,903.99
Plus: Cash equivalents at end of year	6,025,203,730.00
Less: Cash equivalents at beginning of year	4,070,110,000.00
Net increase/(decrease) in cash and cash equivalents	1,708,227,551.16

Legal Representative: Li Xiulun

President: Hou Funing

Chief Accountant: Cheng Yihua

Accountant: Zhu Shengpei

## 1. General Information

Shanghai Rural Commercial Bank Company Limited (hereinafter refer to as "SRCB"), a joint-stock commercial bank, was reconstructed from former Shanghai Rural Credit Cooperatives, including its 1 municipal cooperative agency, 14 county-level cooperative agencies and 219 credit cooperatives sub-agencies. SRCB was licensed (No. G10312900H0001) as a financial institution by China Banking Regulatory Commission on 22 August, 2005 and was registered as a business enterprise (No. 3100001007291) with Shanghai Administration of Industry and Commerce on 23 August, 2005. The registered capital of RMB 3,000,294,306.00 has been audited by Wan Long (Shanghai) Certified Public Accountants and a Capital Verification Report WKYZ (2005) No.1738 has been provided.

In accordance with YJF (2007) No. 356, "Approval on Shanghai Rural Commercial Bank Company Limited Absorbing Shareholding Investment from Australia and New Zealand Banking Group Limited" issued by China Banking Regulatory Commission, the registered capital of SRCB was increased to RMB 3,745,685,776.00, which has been audited by Wan Long (Shanghai) Certified Public Accountants and a Capital Verification Report WKYZ (2007) No. 1149 has been provided. A replaced Corporate Business License (No. 310000000088142) was issued by Shanghai Administration of Industry and Commerce on 14 January 2008, with the legal representative Li Xiulun, corporate type joint stock limited (not listed) and registered address No. 981 Pudong Avenue, Pudong, Shanghai stated.

SRCB's business scope covers absorbing general deposits, short-term, medium-term and long-term loans advancing, domestic and abroad settlements, draft acceptance and discount, floatation, redemption and underwriting of government bonds, trading government bonds and banking notes, inter-bank borrowing/lending, cards business, foreign currency deposits, loans and remittance, international settlements, inter-bank foreign currency borrowing/lending, credit investigation, consultancy and verification service, receipt and payment by proxy, safe cabinet service, sale and purchase of foreign currency (versus RMB) and other businesses approved by China Banking Regulatory Commission.

As at December 31, 2008, besides the head office and Banking Department, SRCB manages Pudong Branch, 14 regional branches and 230 sub-branches.

## 2. Basis of Financial Statements Preparation

### 2.1 Accounting System

SRCB follows the Accounting Standards for Business Enterprises, Accounting Basic System for Rural Credit Cooperatives, Implementation Measures of Rural Credit Cooperatives Financial Management and refers to the Accounting System for Financial Institutions and other accounting stipulations.

# Financial Statements

## 2.2 Basis of Consolidation

The individual financial statements of Financial & Planning Department, Clearing Centre, International Banking Department, Credit Card Department and Banking Department of Head Office, Pudong Branch and County-Level Branches and other financial materials are consolidated, during which the internal significant transactions and their balances have been offset.

## 3. Principle Accounting Policies and Accounting Estimates

### 3.1 Accounting Year

The accounting year of SRCB is from 1 January to 31 December.

### 3.2 Recording Currency and Presentation Currency

The financial statements are recorded and presented in Renminbi ("RMB").

### 3.3 Recording Basis and Accounting Principles

Unless otherwise stated, the recording is on accrual basis and follows the historical cost convention.

### 3.4 Foreign Currency Business Accounting and Translation of Financial Statements in Foreign Currency

SRCB sets separate accounts for businesses denominated by different currencies, and the accounting documents, account books and financial statements are recorded in original currency. At the end of period, the balances denominated in foreign currencies are translated into US Dollar at the exchange rates promulgated by the People's Bank of China or other exchange rates accepted by the national authority, and financial statements denominated in USD are consolidated and prepared, which are then translated into RMB to form consolidated financial statements denominated in RMB with the financial statements originally denominated in RMB by the end. The differences arising from translation are recognized as exchange gains or losses in the profit and loss accounts.

### 3.5 Cash and Cash Equivalents

The cash recognized in cash flow statements comprises cash in stock and bank deposit ready for payment. Cash equivalents refer to the highly liquid investments which have a short term, generally maturing within three months when acquired, which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, including reserves with central bank, current deposits in other banks, and other monetary assets like time deposits in other banks, short investments with original maturity less than 3 months and Reverse repos.

## 3.6 Loans

a. Loans originated by SRCB are initially recorded at the amount granted. On the interest settlement date, the interest is calculated by principle and applicable interest rate. Principal and interest of loans are accounted respectively.

The priority loans and entrusted loans of SRCB are accounted respectively. The priority loans are those loans granted by SRCB on its own. The risk of these loans rests with SRCB, and SRCB is entitled to recover the principal of such loans and collect interests accrued thereon. Entrusted loans are those loans granted on behalf of the clients. Rather than by SRCB, the terms and conditions of such loans, such as borrower(s), use of funds, amount, term of borrowing, interest rates etc., are specified by the clients. The use of entrusted loans by the borrower(s) shall be monitored by SRCB, and SRCB shall assist the clients in the recovery and collection of such loans. For entrusted loans granted, SRCB is only entitled to commissions from clients, and shall not make any advances therefore. The net value of assets and liabilities arising from entrusted loans and entrusted investments shall be recognized in the consolidated Balance Sheet.

b. Classification of loans

i. Short, medium and long-term loans

Loans originated by SRCB are divided by loan term. The loan, with a maturity of no more than 1 year, is classified as short term loan. Otherwise, the loans are recognized as the medium-long term ones.

ii. Overdue loans

Overdue loans refer to any loans which fail to repay on due day, including the extension case, which is agreed upon the contract; or the forced advance made by SRCB resulting from the acceptor failing to pay the discounted bill on a timely manner due to the insufficiency of fund at the acceptor's account, or the forced advance made by SRCB resulting from the applicant's deposit with SRCB failing to cover on the due day of Bank Acceptance; These loans or advances are all recognized as overdue loans from the due day. Those being overdue for more than 90 days are recognized idle loans.

iii. Idle loans

The loans being overdue for more than 90 days

iv. Bad loans

After all possible measures have been resorted to and all necessary procedures have been performed, the loans that yet cannot be recovered as scheduled by SRCB, in accordance with Stipulations on Financial Institutions Writing-off Bad Loans released by the State Ministry of Finance of the People's Republic of China (CJ [2005] No.50), are reported as bad loans.



# Financial Statements

## 3.7 Accounting Method of Provisions for Loan Losses

- a. Allowance method is adopted for accounting for bad debts. Provisions is made to the following credit assets: short-term loans, medium-long term loans, overdue loans, idle loans, discounting of bills etc, import & export advances, etc.
- b. Provisions for above credit assets are made in accordance with The People's Bank of China draws up The Guidance on Provisioning for Loan Losses [YF (2002) No.98], Notice of Ministry of Finance People's Republic of China on Administration of Provisioning for Bad Loans by Financial Institutions [CJ (2005) No.49], Notice of Ministry of Finance People's Republic of China on Issues of Provisioning for Bad Loans [CJ (2005) No. 90].
- c. Credit assets of SRCB are classified into following five categories: Pass, Special Mention, Sub-standard, Doubtful and Loss. Pass refers to loans where borrowers are current in meeting commitments and full and timely repayment of interest and principal is not in doubt. Special Mention refers to loans where repayment of principal or interest may be adversely affected by specific factors, although borrowers are capable of repaying principal and interest currently. Sub-standard refers to loans where borrowers are displaying an obvious weakness that is likely to jeopardize repayment and full repayment of principal and interest is improbable if solely relying on available business revenue, and some loss of principal or interest is possible even taking account of the collateral. Doubtful refers to loans where collection in full is definitely improbable, and significant losses will be incurred even taking account of the collateral. Loss refers to loans where principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and exhausting necessary legal proceedings.

SRCB assesses the possible loss for each loan according to the credit assets risk classification, with enough consideration of borrower's repayment ability, repayment records, valuation of collateral, guarantor's support. Appropriate provisions are then made.

Loan losses are written off against provisions already made. And if the bad loans written off are recovered later, the related credit losses provision written off will be restored accordingly.

No special provision for loan losses is made, since there is no such conditions occurred.

## 3.8 Bills Discounting

Discounted bills are presented as their par values. Interest income, representing the difference between the amounts of cash advanced and the par value is recognized into the current income statement.

## 3.9 Investment

- a. Short-term investment
  - i. Short-term investment is recorded at the initial investment cost on acquisition.

ii. The difference between book value and cash received is recognized in current investment profit/loss at the disposal of short-term investment.

b. Long-term bond investment

i. The long-term bond investment is recorded at the purchase cost net of surcharges such as taxation, commission fee and the interest accrued over the period from the bond issue date to the purchase date included therein. Interest income is recognized on accrual basis, and the premium/discount paid for the long-term bond investment is amortized by using straight-line method within holding period.

ii. Interest from long-term bond investment is recognized on an accrual basis.

iii. The difference between par value and cash received is recognized in current investment profit/loss at the disposal of long-term bond investment.

c. Long-term equity investment

Equity method is used to account for long-term equity investments when SRCB can control, jointly control or has significant influence over the invested enterprise. In this case, long-term equity investment is recorded at its initial cost on acquisition, and adjustment will be made in line with the investment in the invested enterprise's equity proportionately.

Cost method is used to account for long-term equity investments when SRCB does not have control, joint control or significant influence over the invested enterprise. In this case, long-term equity investment is recorded at its initial cost on acquisition, and the investment income is recognized when the invested enterprise announces distribution of dividends.

### 3.10 Fixed Assets Accounting Method

a. Recognition criteria of fixed assets

Fixed assets are defined as tangible assets of which the useful lives are not less than 1 year or of which the unit value exceed RMB 2,000. Fixed assets are classified into the following categories: buildings and constructions, electronic equipments, transportation facilities, machinery and other equipments. Low-value consumables, including minicomputers and printers, are excluded.

# Financial Statements

b. The fixed assets are depreciated on straight-line basis over their estimated useful lives, and the depreciation rates for each category are calculated based on the original cost less estimated residual value and estimated useful lives. Other fixed assets are recognized in the current fees account on acquisition. The depreciation rates for each category of fixed assets are set out as follows:

Asset category	Service years	Annual depreciation rate	Residual rate
Buildings	20years	4.8%	4%
Machinery	10years	9.5%	5%
Electronic equipments	5years	19.4%	3%
Transportation equipment	5years	19.4%	3%
Other equipments	5years	19.4%	3%

## 3.11 Construction in Progress Accounting Method

Construction in progress refer to the capital assets that are being built or installed, including those being in preparation period, or being constructed, or having been completed but not delivered for use yet. The construction in progress is recognized by the actual cost, including cost of direct construction and purchase cost of relevant assets, foreign currency gains or losses and interest expenditure of financing for the project during construction, instalment and test. Construction in progress is recognized at the cost incurred. Total construction cost is capitalized as fixed assets and other relevant assets upon the construction in progress reaching its expected usable condition.

## 3.12 Long-term Deferred Charges

Long-term deferred charges refer to those expenses that have been paid out, but will be amortized more than 1 year. The deferred charges are recognized at the actual cost, and amortized as follows:

- Rental is amortized on straight-line basis over actual duration of lease.
- Other expenses are amortized on straight-line basis over beneficial life.

When the project of long-term amortization can not bring economic benefits to SRCB in the future any more, the un-amortized balance shall be transferred to the income statement of that period.

## 3.13 Valuation and Amortization for Intangible Assets

- Intangible assets shall be recorded at the actual purchase price paid.
- The cost of an intangible asset shall be amortized on straight-line basis. The details are as follows:

- i. Land use rights are amortized over 50 years starting from the acquisition month.
- ii. Computer software is amortized over 5 years starting from the acquisition month.

### **3.14 Accounting Method for Foreclosed Assets in Suspense**

- a. Foreclosed assets in suspense shall be recorded at the aggregate of principal with the actual foreclosed amount and accrued interest which has been recognized.
- b. At disposal, the surplus of the recoverable amount over the carrying amount of the assets shall be recognized in the non-operation income. The difference by which the recoverable amount is lower than the carrying amount of the assets shall be recognized NPL and offset against the provision for bad loans, and the difference between the principal of loans and the carrying amount of the assets shall be offset against the current interest income. Custody fee arisen shall be recognized as the non-operation expenditure. Expenses arising from the disposal shall be deducted from disposal revenue.

### **3.15 Valuation and Accounting Method for Purchase of Resale Assets and Sale of Repurchase Assets**

Agreements to resale ("Reserve repos") refer to the inter-banking lending involving debt securities and bills purchased from counter-party with an obligation to resale to the counter-party at a pre-determined price on a specified future date under a resale agreement. Repurchase agreements ("Repos") refer to the inter-banking borrowing involving debt securities and bills sold to counter-party with an obligation to repurchase them at a pre-determined price on a specific future date under a repurchase agreements.

Reserve repos and Repos are recognized at the actual amount paid or received, which are recorded Reserve repos and Repos. Discounted bills and debts under Repos are presented under relevant accounts under Assets.

### **3.16 The Principle of Revenue Recognition**

- a. Interest revenue
  - i. Interest revenue for loans shall be measured based on outstanding principal and applicable interest rate, with reference to the residual time length of the loan, on accrual basis, with an exemption of loans for farmers, where the interest are repaid with the principal on the due day. For the case where loans are overdue more than 90 days, the recognition of interest on such loans shall be terminated, and accounting shall be transferred to off balance sheet. In the case of principal being overdue for more than 90 days or interest receivable being overdue for more than 90 days, interests already accrued thereon shall be written off, and be transferred to off balance sheet account. The interest revenue thereon is recognized when it is actually received.

# Financial Statements

ii. The interests for inter-banking lending shall be recognized along with the principal.

b. Commission income

Revenue from commission income is recognized when the amounts are received actually.

c. Other operating revenue

Other operating revenue, including income on purchase and sale of debentures, income on guarantee and other income, is recognized upon the receipt of the fund by SRCB.

### 3.17 Recognition of Interest Expenses

Accrual basis is adopted. For current deposits and inter-banking borrowing/lending, the interests are settled quarterly; for current savings, the interests are accrued quarterly; for time deposits, the interests are accrued quarterly at the interest rate prevailing on the deposit day; for time savings and negotiation deposits, the interests are accrued quarterly at the interest rates stated on the deposit receipt and the deposit contracts respectively; the interests on interest-bearing-liabilities such as Repos are accrued quarterly at the contract interest rates.

### 3.18 Accounting for Income Taxes: adopting taxes payable method

**3.19 At the end of this year, no enterprise is controlled, joint controlled or significantly influenced by SRCB, therefore no consolidated financial statements are prepared.**

### 3.20 Profit Distribution

In accordance with the Companies Law of PRC and Articles of Association, SRCB appropriates 10% of net profit to statutory surplus reserve, until the reserve reaches 50% of the registered capital of SRCB, and to statutory welfare reserve respectively.

In accordance with the Accounting System for Financial Institutions and Notice of Ministry of Finance People's Republic of China on Administration of Provisioning for Bad Loans by Financial Enterprises [CJ (2005) No.49], SRCB is required to set aside a general reserve of at least 1% of its total risk-weighted assets at year end from net profit and the general reserve shall form part of the Shareholder's equity. Discretionary surplus reserve and dividends distribution shall then be drawn up upon the profit net of general reserve.

The general reserve of SRCB is not lower than 1% of total risk-weighted assets by the end of year; therefore, no general reserve for 2008 is required to set aside.

The distribution of profit shall be subject to the approval of Boards and General Meeting of Shareholders.

## 4. Taxation

The taxes and surcharges applicable to SRCB and their applicable rates are as follows:

Taxes/surcharges	Basis of tax and surcharge	Rates
Business tax	Taxable operating revenue	3%
City maintenance and Construction tax	Business tax payable	1%, or 5%, or 7%
Education surcharge	Business tax payable	3%
River channel construction maintenance cost	Business tax payable	1%
Corporate income tax	Taxable income	25%

## 5. Rectification on Accounting Policy, Accounting Evaluation and Accounting Error

The major accounting errors mainly took place in May 2008. After Shanghai Financial Ombudsman Office carried out accounting quality check, SRCB conducted rectification and adjustment.

- RMB 2,515,285,500 of account payable (interest payable) at the end of 2007 is categorized as interest payable balance before restructuring, which is include in undistributed profit at the beginning of 2007
- Savings subsidy from Ministry of Finance. in 2006 and 2007 is categorized as "General Provision" instead of the income. The income tax is RMB 2,714,250 less than before.
- In 2007, Changning Sub-branch received RMB 1,685,511.40 of bond interest revenue from Hualong Securities Co., Ltd directly offset by debt, which is adjusted in the investment income of 2007.
- In 2005, SRCB Pudong Branch received RMB 23,385,223.50 written-off loan principal and interest to put into "Other account payables". According to regulation, SRCB took RMB 13,206,000 loan principal into General Provision; RMB 10,179,233.50 Interest and its business tax and additions are included into Undistributed Profits.

SRCB previous major accounting error is RMB 1,584,957.36 at the beginning of 2008, of which the adjustment is as follows:

- Increase balance of RMB 3,270,468.76 in "taxation payable-income tax"
- Increase balance of RMB 1,685,511.40 in "long-term investment"

# Financial Statements

RMB 2,521,325,681.19 influenced on undistributed profits at the beginning of 2007, of which the adjustment is as follows:

- Decrease balance of RMB 23,385,233.50 in "other account payable"
- Increase balance of RMB 13,206,000 in "general provision"
- Increase balance of RMB 4,139,052.31 in "tax payable"
- Decrease balance of RMB 2,515,285,500 in "accounts payable"

## 6. Notes to the Financial Statements

(Amounts in the tables are presented in thousands of RMB)

### 6.1 Cash and Revolving Fund

Category	2008-12-31	2007-12-31
Cash	1,183,141	1,284,735
Total	1,183,141	1,284,735

### 6.2 Due from Central Bank

a. SRCB is required to place a general statutory deposit reserve, which is not permitted to operate business use, with the central bank. Deposit reserve shall cover deposit from government units & social organizations, deposit from fiscal off-budget, individual deposit, enterprise's deposit, the credit balance of entrusted business net of assets items, and other deposits. The statutory reserve ratio for deposits denominated in RMB was 15% on 25th January, 2008, and the ratio was adjusted to 15.5%, 16%, 16.5%, 17.5%, 16.5%, 16%, 14%, 13.5% on 25 March, 25 April, 20 May, 7 June, 25 September, 15 October, 26 November, 22 December, 2008. The statutory reserve ratio for deposits denominated in foreign currency in 2008 is 5%.

b. General deposit with the central bank refer to the fund paid in by SRCB to ensure withdrawal of customers' deposit and business operation, with the statutory deposit reserve excluded.

Category	2008-12-31	2007-12-31
General statutory deposit reserve	19,689,546	17,725,050
General deposit with the Central Bank	4,007,826	3,735,964
Special deposit with the Central Bank	1,060,925	
Financial deposit with the Central Bank	1,746	298
Total	24,760,043	21,461,312

## 6.3 Special Notes of Central Bank

Category	2008-12-31	2007-12-31
Central bank notes		2,121,850
Total		2,121,850

## 6.4 Special Subsidies from Central Bank

Category	2008-12-31	2007-12-31
Special subsidies from Central Bank	2,121,850	
Total	2,121,850	

## 6.5 Placement with Financial Institutions

Category	2008-12-31	2007-12-31
Deposits with Intra-banks		18,470
Deposits with other banks	5,122,383	3,384,568
Deposits with foreign banks	76,937	78,583
Margin deposit	18,662	
Total	5,217,982	3,481,621

## 6.6 Due from Other Banks

Category	2008-12-31	2007-12-31
Due from commercial banks	415,000	810,000
Rediscounting of resale bills		4,371,283
Total	415,000	5,181,283

As of <sup>31</sup>st December 2008, no inter-bank placements were extended to the shareholders holding 5% or more of SRCB shares.



# Financial Statements

## 6.7 Purchase of Resale Assets

Category	2008-12-31	2007-12-31
Other commercial banks	2,420,970	1,240,700
Insurance companies	1,034,500	
Other companies	1,067,000	
Security companies		155,100
Fund companies	1,245,264	
Credit cooperatives		300,240
Total	5,767,734	1,696,040

## 6.8 Loans

Category	2008-12-31	2007-12-31
Short-term loans	30,878,402	31,020,948
Medium-long term loans	50,637,230	47,324,035
Overdue loans	173,198	98,642
Idle loans	1,534,230	932,984
Bad loans	20,077	61,530
Total	83,243,137	79,438,139

As at 31 December, 2008, the balance of loans to shareholders holding 5% or more of SRCB's share amounted to RMB 1,000,000,000. Refer to 7.2 for details

## 6.9 Foreclosed Assets in Suspense

Category	2008-12-31	2007-12-31
Foreclosed assets in suspense	730,589	809,507
Total	730,589	809,507

## 6.10 Other Account Receivables

### a. Classification by account aging

Category	2008-12-31	2007-12-31
Less than 1 year	273,415	46,309
1-2 years	1,689	5,982
2-3 years	8,866	8,888
Total	283,970	61,179

### b. Classification by use

Category	2008-12-31	2007-12-31
Advance for litigation and attorney fees	1,737	4,949
Disposal fee of NPL replacement		4,678
Prepayment for houses and land	6,687	6,687
Transferable intra-city bills	37,944	28,584
Prepaid printing fees	2,070	2,278
Temporary payment to company and individual	170,758	8,989
Security for housing renting	4,080	3,498
Other receivables	29,341	1,516
Prepaid settlement	31,353	
Total	283,970	61,179

## 6.11 Discounting

Category	2008-12-31	2007-12-31
Bills purchased	926,812	316,934
Bank's acceptance bill	19,331	826
Commercial acceptance bill	2,752	9,812
Total	948,895	327,572

# Financial Statements

## 6.12 Short-term Investment

Category	2008-12-31	2007-12-31
Treasury bills		693,148
Central bank bills	1,795,236	194,560
Financial bonds		1,213,446
Enterprise bonds	239,453	599,099
Total	2,034,689	2,700,253

## 6.13 Provisions for Bad Loans

2007-12-31	1,398,633
Provision made in the reporting year	3,000,000
Other funds transferred in the reporting year	393,772
Writing-offs in the reporting year	3,335,425
Recovery in the reporting year	18,899
2008-12-31	1,475,879

Note: Refer to 13.1 for other transferred in

## 6.14 Long-term Investments

Category	2008-12-31	2007-12-31
Legal person shares investment	4,066	4,387
Other long-term equity investment	707,633	744,626
Other bond investment	15,037,834	17,503,464
Long-term treasury bill investment	16,820,607	12,121,412
Total	32,570,140	30,373,889

Note1: As at 31 December, 2008, an amount of RMB 98,910 thousand long-term treasury bill investment entrusted in Nanfang Security Co., Ltd, of RMB 150,000 thousand treasury bill investment entrusted in Fuyou Security Co., Ltd, and of RMB 36,200 thousand treasury bill investment entrusted in Dapeng Security Co., Ltd, which aggregates to RMB 285,110 thousand, are risking possible loss, since these security companies are declared to be cancelled or closed by China Securities Regulatory Commission.

Collection of the Treasury bill investment entrusted in Yinhe Security Co., Ltd (RMB 942,410 thousand). Hua Xing Security Co., Ltd (RMB 1,209,330 thousand), which aggregates to RMB 2,151,740 thousand, in full are representing significant uncertainty, since all of these treasury bills have been sold by the aforesaid securities.

Note2: The long-term investment maturing within one year:

# Financial Statements

Category	2008-12-31	2007-12-31
Other bond investment	1,317,048	1,253,283
Long-term treasury bill investment	2,043,852	1,156,892
Total	3,360,900	2,410,175

## 6.15 Fixed Assets and Accumulated Depreciation

### 6.15.1 Original value of fixed assets

	Buildings	Transportation facilities	Electronic equipments	Machinery equipments	Other equipments	Total
2007-12-31	1,047,509	43,454	209,420	81,354	9,619	1,391,356
Additions in the reported year	69,936	4,228	50,032	14,316	2,048	140,560
Reduction in the reported year	1,138	3,602	1,406	7,099	503	13,748
2008-12-31	1,116,307	44,080	258,046	88,571	11,164	1,518,168

### 6.15.2 Accumulated depreciation

	Buildings	Machinery equipments	Electronic equipments	Transportation facilities	Other equipments	Total
2007-12-31	373,313	27,760	134,582	53,234	5,542	594,431
2008-12-31	419,259	31,177	156,154	53,467	6,190	666,247

## 6.16 Construction in Progress

2007-12-31	141,366
Additions in the reported year	371,465
Deductions in the reported year	156,228
2008-12-31	356,603

# Financial Statements

## 6.17 Intangible Assets

Category	Land-use right	Software	Total
Method of acquisition	Replacement of asset(*)	Purchase	
Original cost	4,521,417	26,181	4,547,598
2007-12-31	4,318,870	9,261	4,338,131
Additions in the reported year		13,024	13,024
Amortization and transfer out in the reported year	90,429	2,592	93,021
Accumulated amortization and transfer out	292,976	6,488	299,464
2008-12-31	4,228,441	19,693	4,248,134

\* Land use rights, amounting to RMB 4,510,576,623.00, were appropriated by Shanghai Government to replace NPL of SRCB, in order to support the reform of Shanghai Rural Credit Cooperatives. The aggregate of land use rights, amounting to RMB 4,510,576,623.00, and evaluation expenses of land use rights, amounting to RMB 10,840,000.00, are recognized as the intangible assets.

## 6.18 Deposits

Deposit category	2008-12-31	2007-12-31
Short-term deposits	65,354,682	64,124,674
Short-term savings deposits	12,976,177	10,318,094
Fiscal deposits	42,992	96,871
Long-term liabilities due within one year	51,388,969	37,216,585
Long-term deposits	972,209	464,768
Long-term savings deposits	14,953,521	14,394,898
Total	145,688,550	126,615,890

## 6.19 Due to Financial Institutions

Category	2008-12-31	2007-12-31
Due to domestic bank	405,402	3,053,561
Total	405,402	3,053,561

## 6.20 Accounts Payable

Category	2008-12-31	2007-12-31
Interest payable accrued from time savings deposit	2,127,812	1,388,103
Interest payable accrued from time deposit	211,068	108,447
Total	2,338,880	1,496,550

## 6.21 Taxes Payable

Category	2008-12-31	2007-12-31
Business tax payable	48,326	39,828
Income tax payable	-11,997	199,545
City construction tax payable	3,935	1,491
Other tax payable	1,417	1,683
Total	41,681	242,547

## 6.22 Other Account Payables

Category	2008-12-31	2007-12-31
Receipt of principal and interest of replaced NPLs		1,010,412
Other payables	36,697	17,969
Salary payable for prior years		92,916
Educational and training fees payable	39,803	39,803
Return remittance in suspense and collection	64,388	135,234
Unclaimed deposits in long suspense	30,083	33,837
Custody of fund	737	
Cashier discrepancy to be settled		42
Clearing fund to be transferred	10,970	100,317
Temporary receipt of foreclosed assets	12,022	31,285
Social insurance premium payable	11,226	16,385
Withholding personal income tax	37,717	6,086
Interest of rediscounted bills for the next year	93,518	54,104
Withholding interest tax for 2007		20,000

# Financial Statements

## 6.22 Other Account Payables(continued)

Category	2008-12-31	2007-12-31
ANZ technology cooperation fund	28,056	39,147
Provisional receipt fund		13,170
Entrust and proxy business	10,325	7,396
Retirement funding	178,135	
Total	553,677	1,618,103

## 6.23 Profit Payable

Category	2008-12-31	2007-12-31
Dividends to shareholders	67	51
Total	67	51

## 6.24 Paid-in Capital

Category	2007-12-31	Increase in the reported year	Decrease in the reported year	2008-12-31
Share capital	3,745,686			3,745,686
Total	3,745,686			3,745,686

## 6.25 Capital Reserve

Category	2007-12-31	Increase in the reported year	Decrease in the reported year	2008-12-31
Tax refund from sub-branches	4,573			4,573
Share capital premium	1,237,350			1,237,350
Total	1,241,923			1,241,923

## 6.26 Surplus Reserve

Category	2007-12-31	Increase in the reported year	Decrease in the reported year	2008-12-31
Statutory surplus reserve	72,600	290,511		363,111
Discretionary surplus reserve	304,641	63,838		368,479
Total	377,241	354,349		731,590

## 6.27 General Provision

Category	2007-12-31	Increase in the reported year	Decrease in the reported year	2008-12-31
General provision	2,636,510			2,636,510
Total	2,636,510			2,636,510

## 6.28 Undistributed Profit

Category	2008-12-31
Balance of undistributed profits at the beginning of the year	3,156,540
Add: Change of accounting policy	
Adjustment of accounting error	1,585
Other adjustment factors	
Opening balance of this year	3,158,125
Net profit for this year	740,805
Less: Extraction of statutory surplus reserve	290,511
Extraction of discretionary surplus reserve	63,838
Dividends to shareholders	257,178
Undistributed profits at the end of the year	3,287,403

Notes1: In accordance with the resolution of General Meeting of Shareholders 2007, SRCB appropriated an amount of RMB 37,216 thousand and RMB 63,838 thousand to the statutory surplus reserve and the discretionary surplus reserve respectively, and declare a cash dividend distribution of RMB 257,178 thousand.

Notes2: Shanghai Financial Ombudsman Office carried out accounting information quality check and given out their opinions. SRCB conducted relevant adjustment to take additional RMB 253,295,000 statutory surplus reserve in 2008.



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## 6.29 Investment Income

Category	Year of 2008	Year of 2007
Interest income from bonds	859,440	561,865
Investment profit (income from equity investment)	-34,883	25,300
Interest income from treasury bills	423,625	312,202
Income from asset-backed securities		13,965
Other investment income	-154,134	29,289
Total	1,094,048	942,621

## 6.30 Non-operating Incomes

Category	Year of 2008	Year of 2007
Income from fixed assets, inventory surplus and disposal	28,640	19,321
Lease income	13,468	16,330
Net income from disposal of foreclosed assets	17,833	30,473
Other non-operating income	821,566	10,425
Total	881,507	76,549

## 6.31 Non-operating Expenses

Category	Year of 2008	Year of 2007
Loss from fixed assets, inventory shortage and disposal	298	2,062
Penalty from cashier	15	10
Net loss from disposal of foreclosed assets	44	22,579
Other non-operating expenses	3,510	6,472
Total	3,867	31,123

## 7. Disclosure of related parties and transactions

### 7.1 Related Parties without Effective Control

Name of enterprises	Relationship	Share Ratio
Shanghai Dragon Investment Co., Ltd	Shareholder	8.01%
Shanghai International Group	Shareholder	8.01%
Shanghai Greenland Group	Shareholder	5.34%
Jinjiang International Co., Ltd	Shareholder	4.00%
Shanghai SITICO Investment Management Co., Ltd	Shareholder	4.00%
Orient International (Holding) Co., Ltd	Shareholder	1.60%
Shanghai Shanxin Property Co., Ltd	Shareholder	1.60%
Shanghai Qingpu Assets Operation Co., Ltd	Shareholder	1.33%
Shanghai Social Welfare (Group) Co., Ltd	Shareholder	0.53%
Shanghai International Trust Co., Ltd	Related party	-
Shanghai Guoxing Investment Co., Ltd	Related party	-
Shanghai Da'an Bill Transmission Co., Ltd	Related party	-

### 7.2 Transactions with Related Parties without Effective Control

Name of enterprises	2008-12-31		2007-12-31		Notes
	Balance of loans	Balance of Bank's acceptance bills	Balance of loans	Balance of Bank's acceptance bills	
Shanghai Dragon Investment Co., Ltd	600,000				Shareholder company
Shanghai Shenghui Investment Co., Ltd	270,000		270,000		Subordinate company of Shanghai Dragon Investment Co., Ltd
Shanghai Greenland Auto Service(Group) Co., Ltd	70,000		70,000		Subsidiary company of Greenland Group
Shanghai Greenland Commercial(Group) Co., Ltd	60,000		60,000		Subsidiary company of Greenland Group
Shanghai Shanxin Property Co., Ltd	113,000		98,000		The legal representative is the supervisor of SRCB
Total	1,113,000		498,000		

# Financial Statements

## 8. Contingent Items

Category	2008-12-31	2007-12-31
Guarantee issuance	165,550	84,860
Total	165,550	84,860

## 9. Non-adjust Post balance sheet events

As at the date of the balance sheet, there exists no significant post balance sheet date event that needs disclosure.

## 10. Debt restructuring

As at the date of the balance sheet, there exists no significant debt restructuring that needs disclosure.

## 11. Non-monetary transaction events

As at the date of the balance sheet, there exists no significant non-monetary transaction that needs disclosure.

## 12. Significant litigation or arbitration issues

### 12.1 Lawsuits and Arbitration Issues Concerning Credit

By the end of the reporting period, SRCB had filed 300 lawsuits concerning the loans to court that had verdict, involving a total amount of RMB 493,644.7 thousand. During the period, the collected loans amounted to RMB 202,083.5 thousand by lawsuit.

By the end of the reporting period, SRCB had filed 397 lawsuits concerning the loans to court that had no verdict, involving RMB 1,550,565.1 thousand. During the period, the collected loans amounted to RMB 82,951.1 thousand by lawsuit

### 12.2 Litigation or Arbitration Issues Concerning Non-credit

By the end of the reported period, the lawsuits that had no verdict amounted to 14, involving RMB 3.2 billion. Compared to 2007 the lawsuits drop by 11 with a decrease ratio of 44%, but the amount has been dramatically increased. There was 1 treasury-bill compensation case of pudong branch and its amount reached 99.4% of total non-loan cases.

## 13. Other significant matters

**13.1 Special loss provision for loan is RMB 360,350,000 and loss provision for long-term investment is RMB 33,420,000. The total amount is RMB 393,770,000.**

**13.2 In accordance with the resolutions passed by the 12th Session of the 1st Board of Directors meeting, the assets which have suffered loss were written off in 2008, involving the amount of 3,335,420,000. The written-offs have been submitted to taxation authority for approval.**

**13.3 The corporate income tax for 2008 has not been settled ultimately, since the taxable is subject to the approval by taxation authority.**

Shanghai Rural Commercial Bank

19 Mar 2009

# Financial Statements

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