

SPD SILICON VALLEY BANK CO.,LTD.

**FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2014) No. 23263
(Page 1 of 2)

To the Board of Directors of SPD Silicon Valley Bank Co.,Ltd.,

We have audited the accompanying financial statements of SPD Silicon Valley Bank Co., Ltd. (hereinafter "the Bank"), which comprise the balance sheet as at 31 December 2013, the income statement, the cash flow statement and the statement of changes in equity for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 judgment, 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 and fair presentation 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 entity'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.

[English Transition for Reference Only]

PwC ZT Shen Zi (2014) No. 23263
(Page 2 of 2)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and cash flows for the year then ended , in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

15 May 2014

SPD SILICON VALLEY BANK CO., LTD.

BALANCE SHEET

AS AT 31 DECEMBER 2013

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

ASSETS	Notes	31 December 2013	31 December 2012
Cash and deposits with the central bank	6(1)	3,328,861	-
Deposits with other banks	6(2)	204,405,875	168,280,721
Interest receivable	6(3)	876,876	352,485
Loans and advances	6(4)	10,048,866	-
Fixed assets	6(5)	375,839	148,885
Intangible assets	6(6)	668,501	758,937
Long-term prepaid expenses	6(7)	1,006,418	1,443,891
Deferred tax assets	6(8)	1,031,654	707,462
Other assets	6(9)	742,696	643,315
TOTAL ASSETS		222,485,586	172,335,696
LIABILITIES			
Customer deposits	6(10)	58,772,512	11,354,001
Payroll and welfare payable	6(11)	1,789,180	176,652
Taxes payable	6(12)	630,592	273,970
Interest payable	6(13)	91,740	362
Other liabilities	6(14)	2,081,448	2,975,928
TOTAL LIABILITIES		63,365,472	14,780,913
OWNERS' EQUITY			
Paid-in capital	6(22)	159,362,376	159,362,376
Accumulated loss		(242,262)	(1,807,593)
TOTAL OWNERS' EQUITY		159,120,114	157,554,783
TOTAL LIABILITIES AND OWNER'S EQUITY		222,485,586	172,335,696

The accompanying notes form an integral part of these financial statements.

President
Dave Jones

Chief Finance Officer
Maggie Shao

SPD SILICON VALLEY BANK CO., LTD.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

		For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
	Notes		
Interest income	6(15)	6,552,764	2,984,173
Interest expense	6(15)	(263,590)	(363)
Net interest income		6,289,174	2,983,810
Fee and commission income	6(16)	951,545	81,271
Fee and commission expenses	6(16)	(40,506)	(217)
Net fee and commission income		911,039	81,054
Net gains or losses from foreign exchange		1,425,192	(179,174)
Operating income		8,625,405	2,885,690
Business tax and levies		34,001	(166,849)
General and administrative Expenses	6(17)	(11,871,531)	(6,145,596)
Asset impairment losses	6(18)	(110,187)	-
Operating expense		(11,947,717)	(6,312,445)
Operating profit		(3,322,312)	(3,426,755)
Non-operating income	6(19)	5,457,427	1,018,496
Total profit/(loss)		2,135,115	(2,408,259)
Income tax	6(20)	(569,784)	600,666
Net profit/(loss)		1,565,331	(1,807,593)
Other comprehensive income		-	-
Total comprehensive income		1,565,331	(1,807,593)

The accompanying notes form an integral part of these financial statements.

President
Dave Jones

Chief Finance Officer
Maggie Shao

SPD SILICON VALLEY BANK CO., LTD.

**STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

		For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
	Notes		
1	Cash flows from operating activities		
Net increase in customer deposit		47,418,511	11,354,001
Interest received		6,028,373	2,631,688
Fee and commission received		951,545	3,971
Cash received relating to other operating activities		5,948,435	3,357,885
Sub-total of cash inflow		60,346,864	17,347,545
Net increase in statutory deposit reserve with the central bank		(2,900,000)	-
Net increase in loans and advances		(10,159,053)	-
Net increase in deposits with other banks		(28,141,307)	(30,558,943)
Interest paid		(172,212)	-
Fee and commission paid		(40,506)	(217)
Cash paid to employees or on behalf of employees		(4,675,873)	(882,609)
Payment of taxes		(503,353)	-
Cash paid relating to other operating Activities		(5,927,778)	(4,939,760)
Sub-total of cash outflow		(52,520,082)	(36,381,529)
Net cash flows from /(used in) operating activities	6(21)	7,826,782	(19,033,984)
2	Cash flows from investing activities		
Cash paid for purchase of fixed assets and other long-term assets		(348,259)	(2,682,471)
Net cash used in investing activities		(348,259)	(2,682,471)

SPD SILICON VALLEY BANK CO., LTD.

**STATEMENT OF CASH FLOW (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

	Notes	For the year ended 31 December 2013	For the Period from 10 August 2012 (Date of establishment) to 31 December 2012
3 Net cash flows from financing activities			
Received Paid-in capital		-	159,362,376
Net cash flows from financing activities		-	159,362,376
4 Effect of foreign exchange rate changes on cash and cash equivalents		934,185	75,857
5 Net increase in cash and cash equivalents		8,412,708	137,721,778
Add: Cash and cash equivalents at beginning of year		137,721,778	-
6 Cash and cash equivalents at year end	6(21)	146,134,486	137,721,778

The accompanying notes form an integral part of these financial statements.

President
Dave Jones

Chief Finance Officer
Maggie Shao

SPD SILICON VALLEY BANK CO., LTD.**STATEMENT OF CHANGES IN OWNERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

	Paid-in Capital	Accumulated loss	Total
Balance at 10 August 2012	-	-	-
Paid-in Capital	159,362,376	-	159,362,376
Net Loss	-	(1,807,593)	(1,807,593)
Balance at 31 December 2012	159,362,376	(1,807,593)	157,554,783
Balance at 31 December 2012	159,362,376	(1,807,593)	157,554,783
Net Profit	-	1,565,331	1,565,331
Balance at 31 December 2013	159,362,376	(242,262)	159,120,114

The accompanying notes form an integral part of these financial statements.

President
Dave Jones

Chief Finance officer
Maggie Shao

SPD SILICON VALLEY BANK CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

1 GENERAL INFORMATION

SPD SILICON VALLEY BANK (hereinafter referred to as the "SPDSVB" or the "Bank") was established as a joint Chinese-foreign bank by SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD. (hereinafter referred to as the "SPD") and SILICON VALLEY BANK CO., LTD. (hereinafter referred to as the "SVB") in the People's Republic of China.

China Banking Regulatory Commission (hereinafter referred to as the "CBRC") approved the opening of the Bank on 30 July 2012 with Yin Jian Fu [2012] No 415. The registered capital of the Bank is RMB 1 billion. The Bank is to conduct business under the scope of the business set in Article 29 of the Regulation of the People's Republic of China on the Administration of Foreign Owned Banks (hereinafter referred to as "the Administration Regulations") to provide foreign currency services to a variety of customers. The Bank later obtained Financial License from CBRC and obtained Business License from Shanghai Administration for Industry and Commerce on 10 August 2012.

The financial statements were authorized for issue by the Board of the Bank on 15 May 2014.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises - Basic Standard" and 38 specific standards promulgated by the Ministry of Finance of the People's Republic of China ("MOF") on 15 February 2006, the application guidance and interpretations issued up to date, and other relevant requirements (here after collectively referred to as "Accounting Standards for Business Enterprises").

3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARD FOR BUSINESS ENTERPRISES

The financial statements are in compliance with the Accounting Standard for Business Enterprises and presented truly and completely, the financial position of the Bank as of 31 December 2013, and of its financial performance and cash flow for the year then ended.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

4.1 PRINCIPAL ACCOUNTING POLICIES

(1) Accounting period

The accounting period starts on 1 January and ends on 31 December.

(2) Functional currency

The Bank uses United State Dollar ("USD") as its functional currency.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(3) Foreign currency translation

Foreign currency transactions are translated into USD at the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are translated into USD at the spot exchange rates at the balance sheet date and exchange differences are recorded in the income statement.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into USD using the spot exchange rates at the date of transactions.

The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(4) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise cash and balances with original maturities of three months or less including deposits with other banks, placements with other banks and excess reserve with the Central Bank.

(5) Financial assets and financial liabilities

Classification, recognition and measurement of financial assets and financial liabilities

Financial assets are classified into following categories at initial recognition: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets.

The financial liabilities are classified into following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The classification of financial assets and liabilities depends on the intention and ability to hold the financial assets.

(a) Financial assets and financial liabilities at fair value through profit or loss

This category includes: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or a financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling, repurchasing or redemption in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(5) Financial assets and financial liabilities (continued)

(a) Financial assets and financial liabilities at fair value through profit or loss (continued)

Financial assets or financial liabilities meeting the following conditions are designated at fair value through profit or loss when:

- Doing so significantly reduces the inconsistencies of the gain and losses recognized in the income statements which resulted from the different measurement basis of these financial assets & liabilities.
- Certain financial assets or financial liabilities portfolios that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value at the initial recognition and subsequently, and changes in fair value are recorded in the income statement. Interest, cash dividends and disposal gain or loss of the assets in the holding period are reported in income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including deposits with the central bank, deposits with other banks, placements with other banks, and loans and advances. When the Bank provides funds or services directly to customers and does not intend to sell the receivables, the Bank classifies such financial assets as loans and receivables and recognizes them at fair value plus transaction costs at initial recognition. Subsequently, such assets are measured at amortized cost using effective interest method.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has both the positive intention and the ability to hold to maturity. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition. Subsequently, such assets are measured at amortized cost using effective interest method.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Bank fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Bank shall reclassify the entire held-to-maturity portfolio into available-for-sale investments at fair value and the Bank is further prohibited to designate any investments as held-to-maturity during the following two financial years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(5) Financial assets and financial liabilities (continued)

(d) Available-for-sale financial assets

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value at balance sheet dates. Gains and losses arising from changes in the fair value of financial assets classified as available-for-sale financial assets are recognized directly in owner's equity after except for arising from impairment and foreign exchange gain and loss impact. Until the financial assets are derecognized, the cumulative gain or loss previously recognized in owner's equity should be recognized in the income statement. The interests calculated by effective interest method in debt instrument and cash dividends declared from available-for-sale investment in equity instruments are recorded into profit or loss.

(e) Other financial liabilities

Other financial liabilities are recognized initially at fair value, being their issuance proceeds net of transaction costs incurred. They are subsequently stated at amortized cost using effective interest method in the balance sheet.

De-recognition of financial assets and financial liabilities

The financial assets were derecognized when: (1) the rights to receive cash flows from the financial assets have expired; (2) the financial assets are transferred and the Bank has transferred substantially all risks and rewards of ownership; (3) the Bank does not transfer or retain nearly all the risks and rewards relating to the ownership of the financial asset, but the Bank waives its control over the financial assets.

Financial liabilities are derecognized when they are extinguished - that is, when the obligation is discharged, canceled or expires.

When derecognized, the difference between carrying amount and received amount was booked into profit or loss.

Fair value of financial assets

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of quoted investments in active markets are based on current bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(6) Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The major criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. In practice, the Bank will also determine the fair value of the financial assets with the observed market value and assessed the impairment loss with that fair value.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(6) Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of the portfolio's future cash flow should reflect changes related to the observed data of the phase change with the changes in direction and consistency. Expected to reduce differences between estimated losses and the actual losses, the Bank performs periodic review of the theory and hypothesis of the expected future cash flow.

When a loan is unrecoverable, it is written off against the related allowance on impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses for loans and advances in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

(b) Assets classified as available-for-sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from owner's equity and recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(7) Fixed assets

Fixed assets comprise office equipment and furniture, electronic equipment and computers, whose useful life is over 1 year and the unit value is over RMB10,000. Non-operation-related equipments with unit value over RMB 10,000 and useful life over 2 years are also accounted for as fixed assets.

Fixed assets purchased or constructed by the Bank are initially measured at cost at the time of acquisition and are presented at cost net of accumulated depreciation. Acquisition cost includes direct cost relating to purchase of such fixed assets.

Subsequent costs are included in the carrying amount of the fixed assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. However, the carrying amount of any parts of fixed assets that are being replaced shall be derecognized and all related subsequent costs are recognized in profit and loss when incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For impaired fixed assets, depreciation is calculated based on carrying amounts after deducting the provision for impairment over their estimated remaining useful lives.

Estimated useful lives, estimated residual value and annual depreciation rates are as follows:

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Office equipment and furniture	5 years	5%	19%
Electronic equipment and computers	5 years	5%	19%

The Bank reviews the estimated residual value, useful lives and depreciation method of fixed assets and makes appropriate adjustments on an annual basis.

When the Bank disposes or ceases to use the fixed assets, or does not expect to further benefit from fixed assets, the Bank derecognizes the assets. Proceeds from sale, transfer or disposal of fixed assets are recorded in the income statement after deducting carrying value and related taxes.

(8) Intangible assets

Intangible asset comprises software, and it is measured according to the initial cost when obtained. Intangible assets are amortized over their estimated useful lives of 5 years on the straight-line basis.

(9) Long-term prepaid expenses

Long-term prepaid expenses include leasehold improvements and other prepayment that should be amortized over more than one year. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial periods and are presented at cost net of accumulated amortization.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(10) Impairment of non-financial assets

Fixed assets or other non-financial assets are reviewed for impairment if there are indications of impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognized as an impairment loss. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Provision for impairment is determined on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Once an impairment loss is recognized, it shall not be reversed to the extent of recovery in value in subsequent periods.

(11) Financial guarantee contracts

The Bank has the following types of financial guarantee contracts: letters of credit and standby letters of credit provide for specified payments to be made to reimburse the holder for losses incurred when the guaranteed parties default under the original or modified terms of the specified debt instruments.

The Bank initially recognizes all financial guarantee contracts at fair value in the balance sheet, which is amortized into profit and loss account ratably over the guarantee period. Subsequently, they are carried at the higher of amortized carrying value or the provision required to meet the Bank's guarantee obligation. The changes in carrying value are recorded in the profit and loss account under fee and commission income.

The contractual amounts of financial guarantee contracts are disclosed as off-balance sheet items in Note 7(1).

(12) Employee benefits

Employee benefits mainly include salary, bonus, severance payment and subsidy, welfare, insurance, housing fund, and expense related to service provided by employees.

Employee benefits are recognized in the period of services rendered, and are recognized in general and administrative expenses of income statement.

The Chinese employees of the Bank participate in employee social security plans set by government, including pension and medical insurance, housing fund, and other plans of social insurance. The Bank also provides additional housing fund for the employees. Besides the obligations of social insurance mentioned above, the Bank has no other substantial commitment to employees.

According to relevant regulations, the premiums and welfare benefit contributions that should be borne by the Bank are calculated based on percentage of the total salary of employees, subject to a certain ceiling, and are paid to the labor and social security authority or commercial insurance companies. Contributions to the plans are charged to the profit and loss account as incurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(13) Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using its effective interest rate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment options, call/put options and similar options) but should not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, such as transaction costs and all other premiums or discounts. If the cash flows cannot be estimated, the Bank shall use contractual cash flows in the entire contract period.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(14) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the related service has been provided.

(15) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets shall be recognized for deductible losses or tax credits that can be carried forward to subsequent years. The deferred tax assets and deferred tax liabilities at the balance sheet date shall be measured at the tax rates that, according to the requirements of tax laws, are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets shall be recognized to the extent that it is probable that future taxable profit will be available against which the deductible losses and tax credits can be utilized.

Deferred income tax related to fair value changes of available-for-sale investments is recognized in owner's equity and is subsequently recognized in the income statement with de-recognition of investments.

Net amount of deferred income taxes assets and deferred income taxes liabilities both satisfying conditions below:

- Deferred income tax assets and deferred income taxes liabilities are related to income tax of the same subject of tax payment levied by the same tax administration;
- The Bank's deferred income tax assets and liabilities are netted as the amounts are recoverable from or due to the same tax authority.

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4.1 PRINCIPAL ACCOUNTING POLICIES (continued)

(16) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the leases.

(17) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

(18) Segment Reporting

The Bank identifies operating segments based on the internal organization structure, management requirement and internal reporting, then disclose segment information of reportable segment which is based on operating segment.

An operating segment is a component of the Bank: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions); b) whose operating results are regularly reviewed by the Bank's senior management to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information, including the operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and fulfil certain criteria.

The Bank was established in year 2012. The Bank is considered and managed as one operation segment, thus no need to disclose segment information for the year ended 31 December 2013.

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4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes critical estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgments, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to the critical estimates and key assumptions discussed below. It is possible that actual results may require material adjustments to the estimates referred to below.

(1) Allowance for impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment except that there are known situation demonstrates impairment losses have occurred on quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(2) Income taxes

Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in the People's Republic of China is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

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5 TAXATION

The Bank's business activities are mainly subject to following major taxes:

Tax	Tax rate	Tax basis
Corporate income tax	25%	Taxable profit
Business tax	5%	Taxable operating income
River-way administrative toll	1%	Business Tax
Urban maintenance and construction tax	7%	Business Tax
Educational surcharge	3%	Business Tax
Local educational surcharge	2%	Business Tax

6 NOTES TO FINANCIAL STATEMENTS ITEMS

(1) CASH AND DEPOSITS WITH THE CENTRAL BANK

	31 December 2013	31 December 2012
Statutory deposit reserve with the central bank	2,900,000	-
Excessive deposit reserve with the central bank	428,861	-
	3,328,861	-

According to the relevant provisions of the People's Bank of China ("PBOC"), the statutory reserve ratio for customer deposits denominated in foreign currencies was 5% at 31 December 2013. (No statutory deposit with the central bank was required as of 31 December 2012). Such reserve is non-interest-bearing.

Statutory reserve deposits are not available to fund the Bank's day-to-day operations.

(2) DEPOSITS WITH OTHER BANKS

	31 December 2013	31 December 2012
Deposits with domestic banks	30,038,307	-
Deposits with overseas banks	10,978,675	10,000,391
Deposits with related parties	8(3)(c)(i) 163,388,893	158,280,330
	204,405,875	168,280,721

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(3) INTEREST RECEIVABLE

		31 December 2013	31 December 2012
Interest receivable from:			
Loans and advances		12,427	-
Deposits with related parties	8(3)(c)(ii)	707,933	352,485
Deposits with the central bank		94	-
Deposits with other banks		156,422	-
		876,876	352,485

(4) LOANS AND ADVANCES

		31 December 2013	31 December 2012
Loans		<u>10,159,053</u>	<u>-</u>
Individual impairment allowance		-	-
Collective impairment allowance		<u>(110,187)</u>	<u>-</u>
Total impairment allowance		<u>(110,187)</u>	<u>-</u>
Loans and advances, net		<u>10,048,866</u>	<u>-</u>

(a) By Industry sector

		31 December 2013
	Amount	%
Information and technology	4,041,281	40
Manufacturing	3,781,791	37
Science research and Technical services	1,997,000	20
Resident services and other services	338,981	3
Loans and advances, total	<u>10,159,053</u>	<u>100</u>

SPD SILICON VALLEY BANK CO., LTD.

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(4) LOANS AND ADVANCES (Continued)

(b) By geographic sector

	31 December 2013	31 December 2012
Suzhou	2,908,500	-
Shanghai	2,566,823	-
Chendu	2,000,000	-
Overseas	1,960,029	-
Beijing	379,850	-
Changzhou	343,851	-
Loans and advances , total	10,159,053	-

(c) By type of security

	31 December 2013	31 December 2012
With collateral only	4,955,202	-
Unsecured loans	2,500,000	-
With guarantee only	2,360,000	-
With both collateral and guarantee	343,851	-
Loans and advances , total	10,159,053	-

(d) Allowance for impairment losses

	2013		
	Individually assessed	Collectively assessed	Total
At 01 January 2013	-	-	-
Impairment losses	-	110,187	110,187
At 31 December 2013	-	110,187	110,187

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(5) Fixed assets

	Office equipment and furniture	Computers and other equipment	Total
Cost			
1 January 2013	52,139	103,320	155,459
Additions	-	270,517	270,517
31 December 2013	52,139	373,837	425,976
Accumulated Depreciation			
1 January 2013	(3,302)	(3,272)	(6,574)
Additions	(9,907)	(33,656)	(43,563)
31 December 2013	(13,209)	(36,928)	(50,137)
Net book value			
31 December 2013	38,930	336,909	375,839
31 December 2012	48,837	100,048	148,885

(6) Intangible assets

	31 December 2012	Addition	Disposal	31 December 2013
Cost	827,931	77,742	-	905,673
Accumulated amortization	(68,994)	(168,178)	-	(237,172)
Net book value	758,937	(90,436)	-	668,501

(7) Long-term prepaid expenses

	31 December 2012	Addition	Disposal	31 December 2013
Cost	1,699,081	-	-	1,699,081
Accumulated amortization	(255,190)	(437,473)	-	(692,663)
Net value	1,443,891	(437,473)	-	1,006,418

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(8) Deferred taxes

Movement of deferred tax assets:

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Balance at the beginning of the period	707,462	-
Deferred tax expenses	324,192	707,462
Balance at the end of the year	1,031,654	707,462

Deferred tax assets and deferred tax liabilities without taking into consideration the offsetting of balances:

(a) Deferred tax assets

	31 December 2013		31 December 2012	
	Deferred tax Assets	Deductible temporary differences	Deferred tax Assets	Deductible temporary differences
Accrued bonus	447,295	1,789,180	44,163	176,652
Non tax-exempt government subsidy	269,602	1,078,410	615,309	2,461,238
Tax differences on fixed assets	58,862	235,448	56,262	225,046
Accrued expenses	228,214	912,856	-	-
Non-deductible employee education expense	30,372	121,488	-	-
Total	1,034,345	4,137,382	715,734	2,862,936

(b) Deferred tax liabilities

	31 December 2013		31 December 2012	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax Liabilities	Taxable temporary differences
Depreciation and amortization	(2,691)	(10,765)	(8,272)	(33,089)

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(8) Deferred tax assets

(c) Net deferred assets	31 December 2013	31 December 2012
Net deferred assets	<u>1,031,654</u>	<u>707,462</u>

(9) Other assets

	31 December 2013	31 December 2012
Prepaid expenses	486,726	557,519
Fee and commission receivables from related parties	8(3)(c) (iii) 218,000	77,300
Deposits receivables	11,858	8,496
Employees receivables	26,112	-
	<u>742,696</u>	<u>643,315</u>

(10) Customer deposits

	31 December 2013	31 December 2012
Corporate current deposits	11,239,907	10,902,001
Corporate fixed deposits	47,532,605	452,000
	<u>58,772,512</u>	<u>11,354,001</u>

(11) Payroll and welfare payable

	1 January 2013	Accrual	Payment	31 December 2013
Salary and bonus	176,652	5,764,819	(4,152,291)	1,789,180
Social insurance and housing fund	-	689,359	(689,359)	-
Employees welfare benefits	-	68,025	(68,025)	-
	<u>176,652</u>	<u>6,522,203</u>	<u>(4,909,675)</u>	<u>1,789,180</u>

(12) Taxes payable

	31 December 2013	31 December 2012
Corporate Income tax payable	598,911	106,796
Business tax and levies payable	31,681	167,174
	<u>630,592</u>	<u>273,970</u>

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(13) Interest payable

	31 December 2013	31 December 2012
Interest payable to customer deposits	<u>91,740</u>	<u>362</u>

(14) Other liabilities

	31 December 2013	31 December 2012
Deferred income of government subsidy	1,080,852	1,367,291
Suspense account of government subsidy	-	1,093,303
Accrued expense	912,856	381,833
Project fee payable	19,200	88,404
Others	68,540	45,097
	<u>2,081,448</u>	<u>2,975,928</u>

(22) Paid-in capital

As of 19 June 2012, the Bank has received a paid-in capital of RMB 327,000,000 and USD 27,458,138.25 from Shanghai Pudong Development Bank Co., Ltd, which was equivalent to RMB 500 million (total USD equivalent to 79,613,744) . The Bank has received a paid-in capital of USD 79,748,632.32, equivalent to RMB 500 million.

(15) Net interest income

		For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Interest Income			
Deposits with related parties	8(3)(b)(i)	6,164,858	2,984,173
Deposits with other banks		346,494	-
Deposits with central bank		2,569	-
Loans		38,843	-
		<u>6,552,764</u>	<u>2,984,173</u>
Interest Expense:			
Customer deposit		<u>(263,590)</u>	<u>(363)</u>
Net interest income		<u>6,289,174</u>	<u>2,983,810</u>

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(16) Net fee and commission income

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Fee and commission income		
Credit related fees and commissions	48,550	-
Fee and commission income from related parties	865,139	77,300
Financial consulting fee	21,516	3,971
Settlement and clearing fees	16,317	-
Others	23	-
	<u>951,545</u>	<u>81,271</u>
Fee and commission expense	<u>(40,506)</u>	<u>(217)</u>
Net fee and commission income	<u>911,039</u>	<u>81,054</u>

(17) General and administrative expense

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Salaries and bonus	5,764,819	871,908
Telecommunications and computers expense	1,467,567	971,396
Rental and utilities	1,377,753	764,194
Social insurance and housing fund	689,359	187,353
Professional service expenses	492,676	216,227
Long-term amortized expense	437,473	255,190
Stationery expenses	177,764	59,266
Intangible assets amortization	168,178	68,994
Travelling expenses	111,550	20,598
Entertainment expenses	83,546	13,994
Promotion expenses	53,739	261,701
Insurance	43,918	-
Depreciation	43,563	6,574
Low value consumables	31,942	339,435
Pre-opening expenses	-	1,911,579
Others	927,684	197,187
	<u>11,871,531</u>	<u>6,145,596</u>

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(18) Impairment losses on loans and advances

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Impairment losses on loans and advances	<u>110,187</u>	<u>-</u>

(19) Non-operation income

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Government subsidy income	5,442,234	1,018,496
Commission fee return for individual Income Tax	<u>15,193</u>	<u>-</u>
	<u>5,457,427</u>	<u>1,018,496</u>

(20) Income tax

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Current income tax	893,976	106,796
Deferred income tax	<u>(324,192)</u>	<u>(707,462)</u>
	<u>569,784</u>	<u>(600,666)</u>

Reconciliation between income tax and which calculated using applicable tax rate:

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Profit /Loss before income tax	<u>2,135,115</u>	<u>(2,408,259)</u>
Provision for income tax calculated at 25%	533,779	(602,065)
Tax Filing Differences in previous year	20,730	-
Expenses not deductible for tax purposes	<u>15,275</u>	<u>1,399</u>
	<u>569,784</u>	<u>(600,666)</u>

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6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(21) Notes to the statement of cash flows

(a) Cash and cash equivalents

	31 December 2013	31 December 2012
Excessive deposit reserve with the central bank	428,861	-
Deposits with other banks with maturity less than three months from acquisition date	145,705,625	137,721,778
Total	146,134,486	137,721,778

(b) Cash flows from operating activities

	Note	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Net profit/(loss):		1,565,331	(1,807,593)
Adjusted by:			
Depreciation and amortization	6(17)	649,214	330,758
Gain or loss on exchange		(934,185)	(75,857)
Deferred tax assets		(324,192)	(707,462)
Increase in operating receivables		(41,713,946)	(31,554,743)
Increase in operating payables		48,584,560	14,780,913
Net cash generated from/(used in) operating activities		7,826,782	(19,033,984)

(c) Net change in cash and cash equivalents

Cash and cash equivalents at end of the year	146,134,486	137,721,778
Less: cash and cash equivalents at beginning of year	(137,721,778)	-
Net increase in cash and cash equivalents	8,412,708	137,721,778

SPD SILICON VALLEY BANK CO., LTD.**NOTES TO THE FINANCIAL STATEMENTS
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7 CONTINGENT LIABILITIES AND COMMITMENTS**(1) Off-balance sheet items**

	31 December 2013	31 December 2012
Irrevocable loan commitment	11,253,146	-
Standby letter of credit	2,000,000	-
Letters of credit issued	19,240	-
Total	13,272,386	-

(2) Operating lease commitments

Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2013	31 December 2012
Within 1 year	1,106,531	1,073,329
Over 1 year less than 2 years	1,089,848	1,073,329
Over 2 years less than 3 years	165,472	671,930
Over 3 years	-	545,723
	2,361,851	3,364,311

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**(1) Related party who control the Bank**

Name of entity	Registered location	Main business	Relations with the Bank	Economic nature
Shanghai Pudong Development Bank Co., Ltd.	Shanghai China	Banking	Joint control	Joint-equity commercial bank
Silicon Valley Bank.	Santa Clara USA	Banking	Joint control	Foreign enterprise

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(2) Share of interest of related parties

Name of entity	31 December 2013	
	Amount	%
Shanghai Pudong Development Bank Co., Ltd.	79,613,744	50
Silicon Valley Bank	79,748,632	50
	<u>159,362,376</u>	<u>100</u>

(3) Related party transactions

(a) Pricing policy

The major transactions entered into by the Bank with its related parties are inter-bank borrowing and lending. The terms of inter-bank borrowing and lending with related parties follow commercial terms arranged in the ordinary course of the Bank's business.

(b) Significant related party transactions

	For the year ended 31 December 2013	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
(i) Inter-banking financing		
Interest income from financial institutions	<u>6,164,858</u>	<u>2,984,173</u>

(ii) Services rendering

Fees and commission income	<u>865,139</u>	<u>77,300</u>
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(c) Balance with related parties

	31 December 2013	31 December 2012
(i) Deposits with other banks		
Shanghai Pudong Development Bank Co., Ltd.	162,914,143	157,640,433
Silicon Valley Bank	<u>474,750</u>	<u>639,897</u>
	<u>163,388,893</u>	<u>158,280,330</u>

	31 December 2013	31 December 2012
(ii) Interest receivable	<u>707,933</u>	<u>352,485</u>

	31 December 2013	31 December 2012
(iii) Commission receivable	<u>218,000</u>	<u>77,300</u>

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9 FINANCIAL RISK MANAGEMENT

(1) Overview

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of these risks or combination of risks. Risk management is core to financial business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems.

The main business risks are credit risks that the Bank is exposed to are credit risk, market risk and liquidity risk. Market risk includes foreign exchange risk and interest rate risk.

(2) Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty may fail to discharge an obligation, resulting in financial losses to the Bank. Significant changes in the economy, or in a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. If the counterparties of the transaction are focused on the same industries or geographic region, the credit concentration risk increases. Credit exposures arise principally in loans and advances, and due from banks and other financial institutions. Management closely monitors its exposure to credit risk. In terms of credit business and credit risk management, the Bank adopts the organisation structure where front office, middle office and back office are segregated. The Board of Directors ("BOD") has the ultimate decision-making power over all the matters in relation to credit business and credit risk management. The BOD, and assigned by the BOD, the Risk Management Committee (RMC), the Related-Party Transactions Control Committee (RTCC), the President, the Head of Risk Management Department, the Supervisor of Credit Risk team (SCO), and the Supervisor of Client Advisory Services (SCAS) have been delegated with certain authorities and responsibilities in relation to credit business and credit risk management. Risk management department centrally coordinates the credit risk management functions and communicates with the Bank's senior management.

(a) Measurement of credit risk

(i) *Deposits with other banks and financial institutions*

The Risk management department reviews and monitors the credit risk of individual financial institutions on regular basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Bank.

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9 FINANCIAL RISK MANAGEMENT(Continued)

(2) Credit risk (Continued)

(a) Measurement of credit risk (Continued)

(ii) *Loans and advances and off balance exposures*

The Bank uses internal rating system consistent with the methodology applied by Silicon Valley Bank to measure, out of the 10 ratings in the system, the risk rating of the borrowers. At the same time, the Bank also assigns loan grade to each facility under a five grade asset classification system to manager Credit Risk Classification”(“the Guidance”) issued by CBRC. Under the Bank’s own system and the CBRC Guidance, the Bank classifies its credit assets and off-balance sheet credit exposure into five categories, which are namely pass, special mention, substandard, doubtful and loss. The last categories are also classified as “non-performing credit assets”.

The core definition of the Bank’s credit asset classification is as follows:

Pass: The borrower is able to fulfil the contractual obligations, and there is no uncertainty that principal and interest can be paid on time.

Special Mention: The borrowers is able to make current due payments, but there exist some indications that may have negative impact on the borrower’s future payments.

Substandard: The borrower’s repayment ability has been in doubt and its normal income cannot repay the loan principal and interest in full. Losses may be incurred by the Bank, even with the enforcement of guarantees and collateral.

Doubtful: The borrower cannot repay the principal and the interest in full. Significant losses will be incurred even with the enforcements of guarantees and collateral.

Loss: After taking into consideration all possible recovery actions and necessary legal procedures, the principal and interest cannot be collected or only a very small portion of principal and interest can be collected.

(b) Risk limit control and mitigation measurements

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risks accepted in relation to single borrower and groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, where necessary.

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9 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

(c) Credit risk impairment analysis and provision policies

According to the accounting policies, if there is objective evidence that a financial asset is impaired and the impairment can be reasonably assessed, the Bank recognises such impairment and impairment loss is provided for.

The objective evidences of impairment are as follows:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of financial covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position.

The Bank's policy requires review of impairment for individual material financial assets at least quarterly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified.

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

31 December 2013

On-balance-sheet items:

Deposits with other banks	204,405,875
Interest receivable	876,876
Loans and advances	10,048,866
Other receivables	255,970
	<hr/>
	215,587,587
	<hr/>

Off-balance sheet items

Letters of credit issued	19,240
Standby letter of credit	2,000,000
Irrevocable loan commitment	11,253,146
	<hr/>
	13,272,386
	<hr/>

The above table represents a worst case scenario of credit exposure to the Bank at 31 December 2013, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 94.81% of the total on-balance maximum exposure is derived from deposits with other banks.

SPD SILICON VALLEY BANK CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

Loans and advances

	31 December 2013
Neither past due nor impaired	10,159,053
Past due but not impaired	-
Total	10,159,053
Less: allowance for impairment losses	(110,187)
Loans and advances, net	10,048,866

**Loans and advances neither past due
nor impaired**

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the five rating classification system adopted by the Bank

	31 December 2013
Pass	9,815,202
Special mention	343,851
	10,159,053

(3) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, etc.

The Bank separates exposures to market risk into either trading or non-trading portfolios. The trading portfolio consists of positions in financial instruments held with trading intent in the market. The non-trading portfolio consists of interest rate risk management of assets and liabilities, and foreign currency of financial instruments which are held to maturity and available for sale.

At present, the Market Risk Management Department takes responsibility of monitoring and controlling the market risk. The Bank has established the reporting system for market risk, monitoring and analysing market risk changes and limits, and these reports are presented to the senior management on a regular basis.

(a) Market Risk measurement approaches

In response to the changes in benchmark interest rates, the primary tool for evaluating current and expected risk is Net Interest Income (NII) Sensitivity Analysis, i.e. regularly calculating the gaps between interest bearing assets and liabilities by maturity or repricing and analysing the sensitivity based on the gaps and the rate changes. The Bank has established the reporting procedure for NII sensitivity, and these reports are presented to the senior management regularly.

SPD SILICON VALLEY BANK CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(b) Currency Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of exchange rate on its financial position and cash flows.

The Bank's principle in controlling exchange rate risk is to match its assets and liabilities in each currency and to maintain exchange rate risk within established limits. The Bank has set risk limits for exposure of each currency and monitors it on regular basis. The Bank has set risk limits according to the guidelines established by the Risk Management Committee, the relevant regulatory requirements, and management's assessment of the current market condition. The Bank also manages its foreign capital sources and usage of foreign currencies to minimize potential currency mismatches.

31 December 2013	USD	RMB in USD	Other currencies in USD	Total
ASSETS				
Cash and deposits with central bank	2,900,000	428,861	-	3,328,861
Deposits with other banks	159,516,466	44,875,824	13,585	204,405,875
Interest receivable	323,660	553,216	-	876,876
Loans and advances	10,048,866	-	-	10,048,866
Fixed assets	375,839	-	-	375,839
Intangible assets	668,501	-	-	668,501
Long-term prepaid expenses	1,006,418	-	-	1,006,418
Deferred tax assets	1,031,654	-	-	1,031,654
Other assets	-	742,696	-	742,696
TOTAL ASSETS	175,871,404	46,600,597	13,585	222,485,586
LIABILITIES				
Customer deposits	58,771,245	-	1,267	58,772,512
Payroll and welfare payable	-	1,789,180	-	1,789,180
Taxes payable	-	630,592	-	630,592
Interest payable	91,740	-	-	91,740
Other liabilities	-	2,081,448	-	2,081,448
TOTAL LIABILITIES	58,862,985	4,501,220	1,267	63,365,472
Net on-balance sheet position	117,008,419	42,099,377	12,318	159,120,114
Financial guarantee & credit commitment	11,253,146	-	-	11,253,146

SPD SILICON VALLEY BANK CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(b) Currency Risk (continued)

31 December 2012	USD	RMB in USD	Total
ASSETS			
Deposits with other banks	120,882,017	47,398,704	168,280,721
Interest receivable	114,651	237,834	352,485
Fixed assets	148,885	-	148,885
Intangible assets	758,937	-	758,937
Long-term prepaid expenses	1,443,891	-	1,443,891
Deferred tax assets	707,462	-	707,462
Other assets	77,301	566,014	643,315
TOTAL ASSETS	124,133,144	48,202,552	172,335,696
LIABILITIES			
Customer deposits	11,354,001	-	11,354,001
Payroll and welfare payable	-	176,652	176,652
Taxes payable	-	273,970	273,970
Interest payable	362	-	362
Other liabilities	-	2,975,928	2,975,928
TOTAL LIABILITIES	11,354,363	3,426,550	14,780,913
Net on-balance sheet position	112,778,781	44,776,002	157,554,783
Financial guarantee & credit commitment	-	-	-

(c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Bank operates its business predominantly in mainland China under the interest rate scheme regulated by the PBOC.

The table below summarizes the Bank's exposures to interest rate risks. The table presents the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates:

SPD SILICON VALLEY BANK CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

31 December 2013	Within 3 months	3-12 months	1-5 years	Non-interest bearing	Total
Financial asset:					
Cash and deposits with central bank	2,900,000	-	-	428,861	3,328,861
Deposits with other banks	158,205,626	46,200,249	-	-	204,405,875
Interest receivable	-	-	-	876,876	876,876
Loans and advances	5,791,192	3,382,060	875,614	-	10,048,866
Other receivables	-	-	-	218,000	218,000
Total	166,896,818	49,582,309	875,614	1,523,737	218,660,478
Financial liabilities					
Customer deposits	50,269,812	8,502,700	-	-	58,772,512
Interest payable	-	-	-	91,740	91,740
Total	50,269,812	8,502,700	-	91,740	58,864,252
Net interest re-pricing gap	116,627,006	41,079,609	875,614	1,213,997	159,796,226

SPD SILICON VALLEY BANK CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

31 December 2012	Within 3 months	3-12 months	1-5 years	Non-interest bearing	Total
Financial asset:					
Deposits with other banks	137,734,225	30,546,496	-	-	168,280,721
Interest receivable	-	-	-	352,485	352,485
Other receivables	-	-	-	77,300	77,300
Total	137,734,225	30,546,496	-	429,785	168,710,506
Financial liabilities					
Customer deposits	10,902,001	452,000	-	-	11,354,001
Interest payable	-	-	-	362	362
Total	10,902,001	452,000	-	362	11,354,363
Net interest re-pricing gap	126,832,224	30,094,496	-	429,423	157,356,143

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT(continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

The table below illustrates the potential impact from a simple 100 basis point move of interest rate to the financial position of the Bank on the Bank's reported net interest income in the coming year:

	31 December 2013	31 December 2012
+ 100 basis point parallel move in all yield curves	1,174,535	1,222,636
- 100 basis point parallel move in all yield curves	(1,174,535)	(1,222,636)

In performing the above analysis, the Bank has made following assumptions:

- i. There are no significant changes in business operations after balance sheet date;
- ii. The impacts on different assets and liabilities are the same;
- iii. Interest rates are re-priced in the middle of each specified time period;
- iv. Customers' responses to interest rate movement are not considered;
- v. Impact from interest rate movement on market prices of assets and liabilities are not considered;
- vi. Impact from interest rate movement on off-balance sheet items are not considered;
- vii. The necessary actions to be taken by the Bank in response to the interest rate movements are not considered.

Due to these limitations to the Bank's approach, actual impact from interest rate fluctuation may vary from the analysis above.

(4) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a reasonably high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)**(4) Liquidity risk (continued)****(a) Non-derivative cash flows of financial assets and liabilities**

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Within 1 month	Within 3 months	3-12 months	1-5 years	Total
31 December 2013					
Financial liabilities:					
Customer deposits	11,239,907	39,089,989	8,536,854	-	58,866,750
Financial Assets:					
Cash and deposits with the central bank	3,328,861	-	-	-	3,328,861
Deposits with other banks	136,471,313	21,820,721	48,022,050	-	206,314,084
Loan and advances	44,823	85,308	9,602,414	936,513	10,669,058
Other receivable	218,000	-	-	-	218,000
	140,062,997	21,906,029	57,624,464	936,513	220,530,003
Net cash flows	128,823,090	(17,183,960)	49,087,610	936,513	161,663,253

SPD SILICON VALLEY BANK CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk (continued)

(a) Non-derivative cash flows of financial assets and liabilities (continued)

	Within 1 month	Within 3 months	3-12 months	1-5 years	Total
31 December 2012					
Financial liabilities:					
Customer deposits	10,902,001	-	453,548	-	11,355,549
Financial asset:					
Deposits with other banks	137,794,276	-	31,736,628	-	169,530,904
Other receivables	-	77,300	-	-	77,300
	137,794,276	77,300	31,736,628	-	169,608,204
Net cash flows	126,892,275	77,300	31,283,080	-	158,252,655

SPD SILICON VALLEY BANK CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk(continued)

(b) Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
31 December 2013				
Standby letter of credit	2,000,000	-	-	2,000,000
Letters of credit issued	14,000	-	-	14,000
Irrevocable loan commitment	5,734,089	5,519,057	-	11,253,146
	<u>7,748,089</u>	<u>5,519,057</u>	<u>-</u>	<u>13,267,146</u>

At 31 December 2012, there were no off-balance sheet items.

(5) Fair Value of financial assets and financial liabilities

Fair values estimation is made in accordance with information of market and financial instruments in some specific point. Estimation is based on following methods and supposition:

- (a) Cash and deposits with the central bank, Deposits with other banks, Interest receivable, Interest payable, Other assets.

Given that maturities of these financial assets and liabilities are either short-term or re-priced more than once every year; the carrying amount approximates the fair value.

- (b) Loans and advances

Because all loans of the bank are dominated in USD and interest rates for loans denominated in foreign exchange are generally floating rates, fair value of loans is close to carrying value.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

9 FINANCIAL RISK MANAGEMENT(continued)
(5) Fair Value of financial assets and financial liabilities (continued)
(c) Customer deposits

The fair value of current, savings and money market accounts is the amount payable on demand at the reporting date. The carrying value of fixed interest-bearing deposits and placements approximates to its fair value because the maturity dates of all term deposits are within 1 year.

(6) Capital management

The Bank's capital management focuses on monitoring of the capital adequacy ratio, aiming to comply with the regulatory requirements and support the business expansion.

(a)To ensure the Bank's continuous compliance with the regulatory CAR requirements and have sufficient capital to support the internally assessed capital demand;

(b)To ensure the Bank's capital is adequate to support the business strategy and growth;

(c)To optimize the return to shareholders while maintaining a prudent level of capital in relation to the underlying risks of the business.

The Bank calculates and discloses Capital Adequacy Ratio in accordance with "Capital Rules for Commercial Banks (Provisional)" and other regulatory requirements issued by the CBRC. As requested, the Bank uses Regulatory Weighting Approach for credit risk, the standardized measurement method for market risk, and the Basic Indicator Approach for operational risk in the reporting period.

The table below provides the analysis of regulatory capital and the ratios of the Bank.

	31 December 2013
Core Tier 1 capital adequacy ratio	258.82%
Tier 1 capital adequacy ratio	258.82%
Capital adequacy ratio	258.99%
Core Tier 1 capital	159,120,114
Regulatory Deductions for Core Tier 1 capital	668,501
Net core Tier 1 capital	158,451,613
Other Tier 1 capital	-
Net Tier 1 capital	158,451,613
Tier 2 capital	101,593
Total regulatory capital	158,553,206
Total risk-weighted assets	61,220,187

SPD SILICON VALLEY BANK CO.,LTD.

APPENDIXES

Appendices consist of financial statements expressed in RMB. Except for paid-in capital, balance sheet items and income statement items denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates stipulated by the People's Bank of China at the balance sheet date.

SPD SILICON VALLEY BANK CO.,LTD.

BALANCE SHEET

AS AT 31 DECEMBER 2013

[English Translation for Reference Only]

In RMB Yuan

	31 December 2013	31 December 2012
ASSETS		
Cash and deposits with the central bank	20,295,733	-
Deposits with other banks	1,246,242,179	1,057,728,472
Interest receivable	5,346,225	2,215,544
Loans and advances	61,266,931	-
Fixed assets	2,291,453	935,817
Intangible assets	4,075,784	4,770,299
Deferred tax assets	6,289,891	4,446,752
Lease-hold improvement	6,136,030	9,075,577
Other assets	4,528,143	4,043,556
TOTAL ASSETS	1,356,472,369	1,083,216,017
LIABILITIES		
Customers deposits	358,330,128	71,365,573
Payroll and welfare payable	10,908,452	1,110,346
Taxes payable	3,844,656	1,722,038
Interest payable	559,330	2,275
Other liabilities	12,690,380	18,705,196
TOTAL LIABILITIES	386,332,946	92,905,428
OWNERS' EQUITY		
Paid-in capital	1,000,000,000	1,000,000,000
Foreign currency translation differences	(27,994,357)	1,720,477
Accumulated Loss	(1,866,220)	(11,409,888)
Total OWNERS' EQUITY	970,139,423	990,310,589
TOTAL LIABILITIES AND OWNERS' EQUITY	1,356,472,369	1,083,216,017

Note: Exchange rates

31 December 2013: USD1: RMB: 6.0969

31 December 2012: USD1: RMB: 6.2855

SPD SILICON VALLEY BANK CO.,LTD.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

[English Translation for Reference Only]

In RMB Yuan

	For the year ended 31 December 2013	For the period from Aug 10 2012 to 31 Dec 2012
Interest income	39,951,547	18,836,697
Interest expense	(1,607,234)	(2,291)
Net interest income	38,344,313	18,834,406
Fee and commission income	5,801,475	512,999
Fee and commission expenses	(246,809)	(1,370)
Net fee and commission income	5,554,666	511,629
Exchange gains/(losses)	8,689,253	(1,130,982)
Operating income	52,588,232	18,215,053
Business tax and levies	207,301	(1,053,184)
General and administrative expenses	(72,379,537)	(38,792,231)
Impairment charge for credit losses	(671,799)	-
Operating expense	(72,844,035)	(39,845,415)
Operating loss	(20,255,803)	(21,630,362)
Non-operating income	33,273,387	6,428,950
Total profit/(loss)	13,017,584	(15,201,412)
Income tax	(3,473,916)	3,791,524
Net profit/(loss)	9,543,668	(11,409,888)
Other comprehensive income	-	-
Total comprehensive income	9,543,668	(11,409,888)

Note: Exchange rates

31 December 2013: USD1: RMB: 6.0969

31 December 2012: USD1: RMB: 6.2855

SPD SILICON VALLEY BANK CO.,LTD.

**SUPPLEMENTARY INFORMATION PROVIDED BY MANAGEMENT
(ENGLISH TRANSLATION FOR REFERENCE ONLY)**

2013 TAXABLE INCOME CALCULATION

(All amounts expressed in RMB unless otherwise stated)

	Amount
Profit before tax for the year ended 31 December 2013	<u>13,017,584</u>
Add: Accrued salary and bonus in 2013	9,831,422
Tax differences on fixed assets	63,418
Tax differences of depreciation and amortization	136,110
Non-deductible entertainment expenses	237,160
Non-deductible employee education expense that can be reversed in the future	740,698
Accrued unpaid expenses	3,164,432
Non-deductible commercial insurance	158,653
Less: Government subsidy with tax paid in previous year	<u>(8,430,963)</u>
Taxable income for the year ended 31 December 2013	18,918,514
Tax rate	<u>25%</u>
Income tax for the year ended 31 December 2013	4,729,628
Additional tax based on tax filing of year 2012	<u>600,290</u>
Total income tax	<u>5,329,918</u>

Note: The taxable income is subject to the local tax bureau's final review.