

**SPD SILICON VALLEY BANK CO.,LTD.**

**FINANCIAL STATEMENTS AND  
REPORT OF THE AUDITORS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

[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 (2015) No. 23880

(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 2014, 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 (2015) No. 23880  
(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 2014, 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

XX XX 2015

**SPD SILICON VALLEY BANK CO., LTD.**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2014**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

<b>ASSETS</b>	<b>Note 7</b>	31 December 2014	31 December 2013
Cash and deposits with the central bank	(1)	6,097,293	3,328,861
Deposits with other banks	(2)	189,153,412	204,405,875
Loans to other banks	(3)	27,692,308	-
Interest receivable	(4)	5,297,893	876,876
Loans and advances	(5)	52,809,711	10,048,866
Fixed assets	(6)	926,852	375,839
Intangible assets	(7)	647,309	668,501
Long-term prepaid expenses	(8)	568,925	1,006,418
Deferred tax assets	(9)	1,136,289	1,031,654
Other assets	(10)	1,054,764	742,696
<b>TOTAL ASSETS</b>		<b>285,384,756</b>	<b>222,485,586</b>
<b>LIABILITIES</b>			
Deposits from other banks	(11)	8,000,000	-
Customer deposits	(12)	111,630,948	58,772,512
Payroll and welfare payable	(13)	2,085,258	1,789,180
Taxes payable	(14)	197,818	630,592
Interest payable	(15)	407,150	91,740
Other liabilities	(16)	3,762,647	2,081,448
<b>TOTAL LIABILITIES</b>		<b>126,083,821</b>	<b>63,365,472</b>
<b>OWNERS' EQUITY</b>			
Paid-in capital	(17)	159,362,376	159,362,376
Accumulated loss		(61,441)	(242,262)
<b>TOTAL OWNERS' EQUITY</b>		<b>159,300,935</b>	<b>159,120,114</b>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>285,384,756</b>	<b>222,485,586</b>

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 2014**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

	<b>Note 7</b>	For the year ended 31 December 2014	For the year ended 31 December 2013
Interest income	(18)	10,003,469	6,552,764
Interest expense	(18)	(728,714)	(263,590)
<b>Net interest income</b>		<b>9,274,755</b>	<b>6,289,174</b>
Fee and commission income	(19)	2,117,530	951,545
Fee and commission expenses	(19)	(52,317)	(40,506)
<b>Net fee and commission income</b>		<b>2,065,213</b>	<b>911,039</b>
Net gains from foreign exchange		<b>292,815</b>	<b>1,425,192</b>
<b>Operating income</b>		<b>11,632,783</b>	<b>8,625,405</b>
Business tax and levies(expense) benefit		(232,621)	34,001
General and administrative expenses	(20)	(13,134,456)	(11,871,531)
Asset impairment losses	(21)	(703,877)	(110,187)
<b>Operating expense</b>		<b>(14,070,954)</b>	<b>(11,947,717)</b>
<b>Net Operating loss</b>		<b>(2,438,171)</b>	<b>(3,322,312)</b>
Non-operating income	(22)	2,671,576	5,457,427
<b>Total profit/(loss)</b>		<b>233,405</b>	<b>2,135,115</b>
Income tax expense	(23)	(52,584)	(569,784)
<b>Net profit</b>		<b>180,821</b>	<b>1,565,331</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>180,821</b>	<b>1,565,331</b>

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 2014**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

	<b>Note</b>	For the year ended 31 December 2014	For the year ended 31 December 2013
<b>1 Cash flows from operating activities</b>			
Net increase in customer deposit		52,858,436	47,418,511
Placements received from other banks received		8,000,000	-
Deposit with other banks received		31,081,358	-
Interest received		5,582,452	6,028,373
Fee and commission received		2,117,530	951,545
Cash received relating to other operating activities		3,121,228	5,948,435
<b>Sub-total of cash inflow</b>		<b>102,761,004</b>	<b>60,346,864</b>
Net increase in statutory deposit reserve with the central bank		(2,049,000)	(2,900,000)
Net increase in loans and advances		(43,464,722)	(10,159,053)
Net increase in placement with other banks		(27,692,308)	(28,141,307)
Interest paid		(413,304)	(172,212)
Fee and commission paid		(52,317)	(40,506)
Cash paid to employees or on behalf of employees		(7,424,790)	(4,675,873)
Payment of taxes		(822,614)	(503,353)
Cash paid relating to other operating Activities		(3,324,354)	(5,927,778)
<b>Sub-total of cash outflow</b>		<b>(85,243,409)</b>	<b>(52,520,082)</b>
<b>Net cash flows from operating activities</b>	7(24)	<b>17,517,595</b>	<b>7,826,782</b>
<b>2 Cash flows from investing activities</b>			
Cash paid for purchase of fixed assets and other long-term intangible assets		(812,432)	(348,259)
<b>Net cash (used in) investing activities</b>		<b>(812,432)</b>	<b>(348,259)</b>

**SPD SILICON VALLEY BANK CO., LTD.**

**STATEMENT OF CASH FLOW (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

(All amounts expressed in USD unless otherwise stated)

[English translation for reference only]

	<b>Note</b>	
	For the year ended 31 December 2014	For the year ended 31 December 2013
<b>3 Net cash flows from financing activities</b>		
Received Paid-in capital	-	-
<b>Net cash flows from financing activities</b>	-	-
<b>4 Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>(156,836)</b>	<b>934,185</b>
<b>5 Net increase in cash and cash equivalents</b>	<b>16,548,327</b>	<b>8,412,708</b>
Add: Cash and cash equivalents at beginning of year	146,134,486	137,721,778
<b>6 Cash and cash equivalents at year end</b>	<b>162,682,813</b>	<b>146,134,486</b>

7(24)

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 2014**

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

	Paid-in capital	Accumulated loss	Total
Balance at 31 December 2012	159,362,376	(1,807,593)	157,554,783
Net profit (loss)	-	1,565,331	1,565,331
Balance at 31 December 2013	<b>159,362,376</b>	<b>(242,262)</b>	<b>159,120,114</b>

Balance at 31 December 2013	159,362,376	(242,262)	159,120,114
Net profit (loss)	-	180,821	180,821
Balance at 31 December 2014	<b>159,362,376</b>	<b>(61,441)</b>	<b>159,300,935</b>

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 2014**

(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 (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 XX XX 2015.

### **2 BASIS OF PREPARATION**

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises - Basic Standard", and other relevant requirements (here after collectively referred to as "Accounting Standards for Business Enterprises") issued by the ministry of Finance on 15 February 2006 and thereafter.

These financial statements are prepared based on going concern.

### **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 2014, 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 2014**

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

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(3) Foreign currency translation**

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 2014**

(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 2014**

(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

Financial assets are 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 2014**

(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 2014**

(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 2014**

(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 assets comprises of 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 2014**

(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 8(1).

**(12) Employee benefits**

Employee benefits mainly include short-term employee salary and other long-term employment benefits incurred in exchange for service rendered by employees or various forms of rewards or compensation due to severance of labour relation.

**(a) Short-term employee benefits**

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, medical insurance, work injury insurance, maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefits are recognised in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable. Employee benefits which are non-monetary benefits shall be measured at fair value.

**(b) Basic pension insurance**

The Bank's employees participate in the defined basic pension insurance plan set up and administered by local labour and social protection authorities. Basic pensions are provided for monthly according to stipulated bases and proportions to local labour and social security institutions. When employees retire, local labour and social security institutions have a duty to pay the basic pension insurance to them. The amounts payable are recognised as liabilities based on the above provisions in the accounting period in which the service has been rendered by the employees, and as costs of assets or expenses to whichever the employee service is attributable.



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**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 tax assets and deferred income tax liabilities both satisfying conditions below:

- Deferred income tax assets and deferred income tax 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 2014.

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**4.1 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)**

**(19) 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.

**(a) 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.

**(b) 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.

## SPD SILICON VALLEY BANK CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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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 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

In 2014, the Ministry of Finance of the PRC issued CAS 39 "Fair Value Measurement", CAS 40 "Joint arrangement", CAS 41 "Disclosure of Interests in Other Entities", and CAS 2 "Long-Term Equity Investments"(revised), CAS 9 "Employee Benefits" (revised), CAS 30 "Presentation of Financial Statements" (revised), CAS 33 "Consolidated Financial Statements" (revised) and CAS 37 "Presentation of Financial Instrument" (revised), requiring that apart from the CAS 37 "Presentation of Financial Instrument" (revised) which should be implemented for financial statements starting from 2014, all other standards should be applied from 1 July 2014.

The accounting policies adopted by the Bank has been disclosed in Note 4.

The Bank has evaluated the impact on the financial statements from the above implementation. CAS 40 "Joint arrangement", CAS 41 "Disclosure of Interests in Other Entities", revised CAS 2 "Long-Term Equity Investments", revised CAS 30 "Presentation of Financial Statements" and revised CAS 33 "Consolidated Financial Statements" are not applicable to the Bank. CAS 39 "Fair Value Measurement", revised CAS 9 "Employee Benefits" and revised CAS 37 "Presentation of Financial Instrument" have no significant impact over the Bank other than disclosure requirements. The related disclosure pursuant to revised CAS 9 "Employee Benefits" has been included in Note 7(13) and the disclosure made pursuant to CAS 39 "Fair Value Measurement" is in Note 10(5).

**SPD SILICON VALLEY BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**7 NOTES TO FINANCIAL STATEMENTS ITEMS**

**(1) CASH AND DEPOSITS WITH THE CENTRAL BANK**

	31 December 2014	31 December 2013
Statutory deposit reserve with the central bank	4,949,000	2,900,000
Excessive deposit reserve with the central bank	1,148,293	428,861
	<b>6,097,293</b>	<b>3,328,861</b>

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 2014. 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**

	Note	31 December 2014	31 December 2013
Deposits with domestic banks		10,002,691	30,038,307
Deposits with overseas banks		13,537,040	10,978,675
Deposits with related parties	9(3)(c)(i)	165,613,681	163,388,893
		<b>189,153,412</b>	<b>204,405,875</b>

**(3) LOANS TO OTHER BANKS**

	31 December 2014	31 December 2013
Deposits with domestic banks	<b>27,692,308</b>	-

**SPD SILICON VALLEY BANK CO., LTD.**

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(4) INTEREST RECEIVABLE**

	Note	31 December 2014	31 December 2013
Interest receivable from:			
Deposits with related parties	9(3)(c)(ii)	4,887,750	707,933
Deposits with other banks		267,029	156,422
Loans and advances		100,462	12,427
Loans to other banks		42,399	-
Deposits with the central bank		253	94
		<b>5,297,893</b>	<b>876,876</b>

**(5) LOANS AND ADVANCES**

	31 December 2014	31 December 2013
Loans	51,798,582	10,159,053
Negotiating bills	1,825,193	-
<b>Loans and advances, Total</b>	<b>53,623,775</b>	<b>10,159,053</b>
Collective impairment allowance	(814,064)	(110,187)
Total impairment allowance	(814,064)	(110,187)
<b>Loans and advances, net</b>	<b>52,809,711</b>	<b>10,048,866</b>

**(a) By Industry sector**

	31 December 2014	
	Amount	%
Manufacturing	24,156,793	45
Information and technology	23,934,103	45
Science research and technical services	1,997,000	4
Resident services and other services	1,721,942	3
Petroleum and natural gas exploitation	1,166,667	2
Wholesale and retail trading	647,270	1
<b>Loans and advances, gross</b>	<b>53,623,775</b>	<b>100</b>

  

	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
<b>Loans and advances, gross</b>	<b>10,159,053</b>	<b>100</b>

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(5) LOANS AND ADVANCES (Continued)**

**(b) By geographic sector**

	31 December 2014	31 December 2013
Shanghai	18,881,403	2,566,823
Shandong	10,000,000	-
Beijing	7,527,186	379,850
Suzhou	5,324,872	2,908,500
Chengdu	4,000,000	2,000,000
Chongqing	1,855,916	-
Changzhou	471,898	343,851
Overseas	5,562,500	1,960,029
<b>Loans and advances gross</b>	<b>53,623,775</b>	<b>10,159,053</b>

**(c) By type of security**

	31 December 2014	31 December 2013
Unsecured loans	11,932,020	2,500,000
With guarantee only	17,548,550	2,360,000
With collateral only	24,143,205	4,955,202
With both collateral and guarantee	-	343,851
<b>Loans and advances gross</b>	<b>53,623,775</b>	<b>10,159,053</b>

**(d) Allowance for impairment losses**

		2014		
	Note	Individually assessed	Collectively assessed	Total
<b>At 01 January 2014</b>		-	110,187	110,187
Impairment losses	7(21)	-	703,877	703,877
<b>At 31 December 2014</b>		-	<b>814,064</b>	<b>814,064</b>
		2013		
	Note	Individually assessed	Collectively assessed	Total
<b>At 01 January 2013</b>		-	-	-
Impairment losses	7(21)	-	110,187	110,187
<b>At 31 December 2013</b>		-	<b>110,187</b>	<b>110,187</b>

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(6) Fixed assets**

	Office equipment and furniture	Computers and other equipment	Total
<b>Cost</b>			
1 January 2014	52,139	373,837	425,976
Additions	-	649,779	649,779
31 December 2014	<b>52,139</b>	<b>1,023,616</b>	<b>1,075,755</b>
<b>Accumulated Depreciation</b>			
1 January 2014	(13,209)	(36,928)	(50,137)
Additions	(9,906)	(88,860)	(98,766)
31 December 2014	<b>(23,115)</b>	<b>(125,788)</b>	<b>(148,903)</b>
<b>Net book value</b>			
31 December 2014	<b>29,024</b>	<b>897,828</b>	<b>926,852</b>
31 December 2013	<b>38,930</b>	<b>336,909</b>	<b>375,839</b>

**(7) Intangible assets**

	31 December 2013	Addition	Disposal	31 December 2014
Cost	905,673	162,653	-	1,068,326
Accumulated amortization	(237,172)	(183,845)	-	(421,017)
<b>Net book value</b>	<b>668,501</b>	<b>(21,192)</b>	<b>-</b>	<b>647,309</b>

**(8) Long-term prepaid expenses**

	31 December 2013	Addition	Disposal	31 December 2014
Cost	1,699,081	-	-	1,699,081
Accumulated amortization	(692,663)	(437,493)	-	(1,130,156)
<b>Net book value</b>	<b>1,006,418</b>	<b>(437,493)</b>	<b>-</b>	<b>568,925</b>



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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(9) Deferred taxes**

Movement of deferred tax assets:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Balance at the beginning of the period	1,031,654	707,462
Deferred tax expenses Note 7(23)	104,635	324,192
Balance at the end of the year	<b>1,136,289</b>	<b>1,031,654</b>

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

**(a) Deferred tax assets**

	31 December 2014		31 December 2013	
	Deferred tax Assets	Deductible temporary differences	Deferred tax Assets	Deductible temporary differences
Accrued bonus	521,315	2,085,258	447,295	1,789,180
Non tax-exempt government subsidy	196,041	784,162	269,602	1,078,410
Tax differences on fixed assets	114,913	459,653	58,862	235,448
Accrued expenses	250,419	1,001,674	228,214	912,856
Non-deductible employee education expense	30,371	121,488	30,372	121,488
Impairment allowance	64,316	257,263	30,372	121,488
Total	<b>1,177,375</b>	<b>4,709,498</b>	<b>1,034,345</b>	<b>4,137,382</b>

**(b) Deferred tax liabilities**

	31 December 2014		31 December 2013	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax Liabilities	Taxable temporary differences
Depreciation and amortization	(41,086)	(164,341)	(2,691)	(10,765)

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(9) Deferred tax assets (Continued)**

<b>(c) Net deferred tax assets</b>	31 December 2014	31 December 2013
Net deferred tax assets	<u>1,136,289</u>	<u>1,031,654</u>

**(10) Other assets**

	Note	31 December 2014	31 December 2013
Prepaid expenses		523,232	486,726
Fee and commission receivables from related parties	9(3)(c) (iii)	403,500	218,000
Deposits receivables		86,369	11,858
Reimbursement receivables from related parties		1,720	-
Receivables from employees		817	26,112
Others		39,126	-
		<u>1,054,764</u>	<u>742,696</u>

**(11) Placements from other banks**

	31 December 2014	31 December 2013
Placements from domestic banks	<u>8,000,000</u>	<u>-</u>

**(12) Customer deposits**

	31 December 2014	31 December 2013
Corporate current deposits	33,576,791	11,239,907
Corporate fixed deposits	<u>78,054,157</u>	<u>47,532,605</u>
	<u>111,630,948</u>	<u>58,772,512</u>

**(13) Payroll and welfare payable**

	31 December 2014	31 December 2013
Short term payroll and welfare payable	<u>2,085,258</u>	<u>1,789,180</u>

Short term payroll and welfare payable of the Bank are salary, bonus and subsidy at 31 December 2014 (31 December 2013: same)

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(14) Taxes payable**

	31 December 2014	31 December 2013
Corporate Income tax payable	107,479	598,911
Business tax and levies payable	88,951	31,681
Withholding income tax	1,388	-
	<b>197,818</b>	<b>630,592</b>

**(15) Interest payable**

	31 December 2014	31 December 2013
Interest payable to customer deposits	403,239	91,740
Interest payable to placements from other banks	3,911	-
	<b>407,150</b>	<b>91,740</b>

**(16) Other liabilities**

	31 December 2014	31 December 2013
Accrued expense	1,001,674	912,856
Deferred income of government subsidy	786,604	1,080,852
Suspense account of individual income tax return	730,512	-
Deferred income of arrangement fee	657,638	-
Project fee payable	19,230	19,200
Others	566,989	68,540
	<b>3,762,647</b>	<b>2,081,448</b>

**(17) Paid-in capital**

As of 19 June 2012, the Bank has received a paid-in capital of RMB 327,000,000.00 and USD 27,458,138.25 from SPD, equivalent to RMB 500 million (or USD 79,613,744) . The Bank has received a paid-in capital of USD 79,748,632 from SVB, equivalent to RMB 500 million. The Bank has received accumulative paid-in capital amounted to RMB 1 billion.

There is no change for paid-in capital in 2014 (2013:same).

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(18) Net interest income**

Interest Income	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
Deposits with related parties	9(3)(b)(i)	7,709,445	6,164,858
Loans		1,540,315	38,843
Deposits with other banks		505,667	346,494
Placements with other banks		217,068	-
Negotiated bills		24,540	-
Deposits with central bank		6,434	2,569
		<b>10,003,469</b>	<b>6,552,764</b>
Interest Expense:			
Placements from other banks		(3,919)	-
Customer deposit		(724,795)	(263,590)
		<b>(728,714)</b>	<b>(263,590)</b>
Net interest income		<b>9,274,755</b>	<b>6,289,174</b>

**(19) Net fee and commission income**

	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
Fee and commission income from related parties	9(3)(b)(ii)	1,826,563	865,139
Credit related fees and commissions		153,761	48,550
Settlement and clearing fees		52,562	16,317
Financial consulting fee		12,748	21,516
Others		71,896	23
Fee and commission income		<b>2,117,530</b>	<b>951,545</b>
Fee and commission expense		<b>(52,317)</b>	<b>(40,506)</b>
Net fee and commission income		<b>2,065,213</b>	<b>911,039</b>

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(20) General and administrative expenses**

	For the year ended 31 December 2014	For the year ended 31 December 2013
Payroll	7,720,868	6,496,190
Rental and utilities	1,489,791	1,377,753
Telecommunications and computers expense	1,253,159	1,467,567
Promotion expenses	41,556	53,739
Professional service expenses	577,131	492,676
Long-term amortized expense	437,493	437,473
Stationery expenses	207,048	177,764
Intangible assets amortization	183,845	168,178
Traveling expenses	147,978	111,550
Entertainment expenses	87,985	83,546
Low value consumables	121,085	31,942
Depreciation of fixed assets	98,766	43,563
Insurance	62,279	43,918
Others	705,472	885,672
	<b>13,134,456</b>	<b>11,871,531</b>

Payroll includes:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Salaries and bonuses	6,820,642	5,764,819
Social insurance	526,173	458,955
Housing funds	273,158	230,404
Employment welfares	100,895	42,012
	<b>7,720,868</b>	<b>6,496,190</b>

**(21) Impairment losses on loans and advances**

	For the year ended 31 December 2014	For the year ended 31 December 2013
<b>Impairment allowance on loans and advances</b>	<b>703,877</b>	<b>110,187</b>

**SPD SILICON VALLEY BANK CO., LTD.**

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(22) Non-operating income**

	For the year ended 31 December 2014	For the year ended 31 December 2013
Government subsidy income	2,671,576	5,442,234
Commission fee return for individual Income Tax	-	15,193
	<u>2,671,576</u>	<u>5,457,427</u>

**(23) Income tax**

	For the year ended 31 December 2014	For the year ended 31 December 2013
Current income tax	157,219	893,976
Deferred income tax	(104,635)	(324,192)
	<u>52,584</u>	<u>569,784</u>

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

	For the year ended 31 December 2014	For the year ended 31 December 2013
Profit before income tax	<u>233,405</u>	<u>2,135,115</u>
Provision for income tax calculated at 25%	58,351	533,779
Tax filing differences in previous year	(25,978)	20,730
Expenses not deductible for tax purposes	20,211	15,275
	<u>52,584</u>	<u>569,784</u>

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**7 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)**

**(24) Notes to the statement of cash flows**

**(a) Cash and cash equivalents**

	31 December 2014	31 December 2013
Excessive deposit reserve with the central bank	1,148,293	428,861
Deposits with other banks with maturity less than three months from acquisition date	161,534,520	145,705,625
<b>Total</b>	<b>162,682,813</b>	<b>146,134,486</b>

**(b) Reconciliation from net profit to cash flows from operating activities**

	For the year ended 31 December 2014	For the year ended 31 December 2013
Net profit:	180,821	1,565,331
Adjusted by:		
Depreciation and amortization	720,104	649,214
Gain or loss on exchange	156,836	(934,185)
Deferred tax assets	(104,635)	(324,192)
Increase in operating receivables	(46,153,881)	(41,713,946)
Increase in operating payables	62,718,350	48,584,560
<b>Net cash generated from operating activities</b>	<b>17,517,595</b>	<b>7,826,782</b>

**(c) Net change in cash and cash equivalents**

Cash and cash equivalents at end of the year	162,682,813	146,134,486
Less: cash and cash equivalents at beginning of year	(146,134,486)	(137,721,778)
<b>Net increase in cash and cash equivalents</b>	<b>16,548,327</b>	<b>137,721,778</b>

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**8 CONTINGENT LIABILITIES AND COMMITMENTS****(1) Off-balance sheet items**

	31 December 2014	31 December 2013
Irrevocable loan commitment	2,025,128	11,253,146
Standby letter of credit	500,000	2,000,000
Letters of credit issued	144,589	19,240
<b>Total</b>	<b>2,669,717</b>	<b>13,272,386</b>

**(2) Operating lease commitments**

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

	31 December 2014	31 December 2013
Within 1 year	942,689	1,106,531
Over 1 year less than 2 years	1,321,293	1,089,848
Over 2 years less than 3 years	925,595	165,472
Over 3 years	385,664	-
	<b>3,575,241</b>	<b>2,361,851</b>

**9 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
("SPD")	Shanghai China	Banking	Joint control	Joint-equity commercial bank
("SVB")	Santa Clara USA	Banking	Joint control	Foreign enterprise



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**9 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)**

**(2) Share of interest of related parties**

	<b>31 December 2014</b>		<b>31 December 2013</b>	
	Amount	%	Amount	%
SPD	79,613,744	50	79,613,744	50
SVB	79,748,632	50	79,748,632	50
	<u>159,362,376</u>	<u>100</u>	<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 2014	For the year ended 31 December 2013
(i) Inter-banking financing		
Interest income from financial institutions	<u>7,709,445</u>	<u>6,164,858</u>
(ii) Services rendered		
Fees and commission income		
SVB	1,681,712	785,500
SPD	144,851	79,639
	<u>1,826,563</u>	<u>865,139</u>

**(c) Balance with related parties**

	31 December 2014	31 December 2013
(i) Deposits with other banks		
SPD	155,056,481	162,914,143
SVB	10,557,200	474,750
	<u>165,613,681</u>	<u>163,388,893</u>
(ii) Interest receivable from SPD	<u>4,887,750</u>	<u>707,933</u>
(iii) Fee and commission receivable from SVB	<u>403,500</u>	<u>218,000</u>

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**10 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 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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**10 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 CRR10 to evaluate credit risk of the borrowers. At the same time, the Bank also assigns loan grade to each facility under a five grade asset classification system according to the “a” 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 three categories are also classified as “non-performing credit assets”.

The core definition from the Guidance 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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**10 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 2014	31 December 2013
Balance-sheet items:		
Deposits with other banks	189,153,412	204,405,875
Placements with other banks	27,692,308	-
Interest receivable	5,297,893	876,876
Loans and advances	52,809,711	10,048,866
Other receivables	531,532	255,970
	<u>275,484,856</u>	<u>215,587,587</u>

The below table represents a worst case scenario of credit exposure to the Bank at 31 December 2014, without taking account of any collateral held or other credit enhancements attached. For balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 68.66% of the total on-balance maximum exposure (31 December 2013: 94.81%) is derived from deposits with other banks.

Off-balance sheet items

Irrevocable loan commitment	2,025,128	11,253,146
Standby letter of credit	500,000	2,000,000
Letters of credit issued	144,589	19,240
	<u>2,669,717</u>	<u>13,272,386</u>

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**10 FINANCIAL RISK MANAGEMENT (Continued)****(2) Credit risk (Continued)****Loans and advances**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Neither past due nor impaired	53,623,775	10,159,053
Past due but not impaired	-	-
<b>Total</b>	<b>53,623,775</b>	<b>10,159,053</b>
Less: allowance for impairment losses	(814,064)	(110,187)
<b>Loans and advances, net</b>	<b>52,809,711</b>	<b>10,048,866</b>

As of 31 December 2014, the loans and advances held by the Bank are neither past due nor impaired. (31 December 2013: same)

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 of CBRC adopted by the Bank.

	<b>31 December 2014</b>	<b>31 December 2013</b>
Pass	50,408,928	9,815,202
Special mention	3,214,847	343,851
	<b>53,623,775</b>	<b>10,159,053</b>

**(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.

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**10 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.

<b>31 December 2014</b>	<b>USD</b>	<b>RMB in USD</b>	<b>Other currencies in USD</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and deposits with central bank	4,949,000	1,148,293	-	6,097,293
Deposits with other banks	152,031,744	37,034,694	86,974	189,153,412
Placements with other banks	27,692,308	-	-	27,692,308
Interest receivable	5,033,499	264,394	-	5,297,893
Loans and advances	52,777,969	-	31,742	52,809,711
Fixed assets	926,852	-	-	926,852
Intangible assets	647,309	-	-	647,309
Long-term prepaid expenses	568,925	-	-	568,925
Deferred tax assets	-	1,136,289	-	1,136,289
Other assets	-	1,054,764	-	1,054,764
<b>TOTAL ASSETS</b>	<b>244,627,606</b>	<b>40,638,434</b>	<b>118,716</b>	<b>285,384,756</b>
<b>LIABILITIES</b>				
Placements from other banks	8,000,000	-	-	8,000,000
Customer deposits	111,572,248	-	58,700	111,630,948
Payroll and welfare payable	-	2,085,258	-	2,085,258
Taxes payable	-	197,818	-	197,818
Interest payable	407,150	-	-	407,150
Other liabilities	-	3,762,647	-	3,762,647
<b>TOTAL LIABILITIES</b>	<b>119,979,398</b>	<b>6,045,723</b>	<b>58,700</b>	<b>126,083,821</b>
<b>Net balance sheet position</b>	<b>132,648,208</b>	<b>34,592,711</b>	<b>60,016</b>	<b>159,300,935</b>
<b>Financial guarantee &amp; credit commitment</b>	<b>2,669,717</b>	<b>-</b>	<b>-</b>	<b>2,669,717</b>

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**10 FINANCIAL RISK MANAGEMENT (Continued)**

**(3) Market risk (Continued)**

**(b) Currency Risk (Continued)**

<b>31 December 2013</b>	<b>USD</b>	<b>RMB in USD</b>	<b>Other currencies in USD</b>	<b>Total</b>
<b>ASSETS</b>				
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
<b>TOTAL ASSETS</b>	<b>175,871,404</b>	<b>46,600,597</b>	<b>13,585</b>	<b>222,485,586</b>
<b>LIABILITIES</b>				
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
<b>TOTAL LIABILITIES</b>	<b>58,862,985</b>	<b>4,501,220</b>	<b>1,267</b>	<b>63,365,472</b>
<b>Net balance sheet position</b>	<b>117,008,419</b>	<b>42,099,377</b>	<b>12,318</b>	<b>159,120,114</b>
<b>Financial guarantee &amp; credit commitment</b>	<b>13,272,386</b>	<b>-</b>	<b>-</b>	<b>13,272,386</b>

**(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:

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**10 FINANCIAL RISK MANAGEMENT (continued)**

**(3) Market risk (Continued)**

**(c) Interest rate risk (continued)**

31 December 2014	Within 3 months	3-12 months	1-5 years	Non-interest bearing	Total
<b>Financial asset:</b>					
Cash and deposits with central bank	4,949,000	-	-	1,148,293	6,097,293
Deposits with other banks	161,534,520	27,618,892	-	-	189,153,412
Interest receivable	-	-	-	5,297,893	5,297,893
Placements with other banks	-	-	27,692,308	-	27,692,308
Loans and advances	4,822,193	10,622,322	38,179,260	-	53,623,775
Other receivables	-	-	-	531,532	531,532
<b>Total</b>	<b>171,305,713</b>	<b>38,241,214</b>	<b>65,871,568</b>	<b>6,977,718</b>	<b>282,396,213</b>
<b>Financial liabilities:</b>					
Customer deposits	91,430,948	20,200,000	-	-	111,630,948
Placements from other banks	8,000,000	-	-	-	8,000,000
Interest payable	-	-	-	407,150	407,150
<b>Total</b>	<b>99,430,948</b>	<b>20,200,000</b>	<b>-</b>	<b>407,150</b>	<b>120,038,098</b>
<b>Net interest re-pricing gap</b>	<b>71,874,765</b>	<b>18,041,214</b>	<b>65,871,568</b>	<b>6,570,568</b>	<b>162,358,115</b>



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**10 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
<b>Total</b>	<b>166,896,818</b>	<b>49,582,309</b>	<b>875,614</b>	<b>1,523,737</b>	<b>218,660,478</b>
Financial liabilities:					
Customer deposits	50,269,812	8,502,700	-	-	58,772,512
Interest payable	-	-	-	91,740	91,740
<b>Total</b>	<b>50,269,812</b>	<b>8,502,700</b>	<b>-</b>	<b>91,740</b>	<b>58,864,252</b>
<b>Net interest re-pricing gap</b>	<b>116,627,006</b>	<b>41,079,609</b>	<b>875,614</b>	<b>1,213,997</b>	<b>159,796,226</b>

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**10 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 rates to the financial position of the Bank on the Bank's reported net interest income in the coming year:

	31 December 2014	31 December 2013
+ 100 basis point parallel move in all yield curves	696,559	1,174,535
- 100 basis point parallel move in all yield curves	(696,559)	(1,174,535)

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 and calls and 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.

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**10 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 2014					
Financial liabilities:					
Placements from other banks	-	8,012,267	-	-	8,012,267
Customer deposits	59,926,093	31,594,760	20,402,392	-	111,923,245
	<b>59,926,093</b>	<b>39,607,027</b>	<b>20,402,392</b>	<b>-</b>	<b>119,935,512</b>
Financial assets:					
Cash and deposits with the central bank	6,097,293	-	-	-	6,097,293
Deposits with other banks	29,412,976	133,303,125	28,516,131	-	191,232,232
Placements with other banks	-	-	-	29,796,523	29,796,523
Loan and advances	237,665	455,517	1,936,132	7,763,167	10,392,481
Other receivable	531,532	-	-	-	531,532
	<b>36,279,466</b>	<b>133,758,642</b>	<b>30,452,263</b>	<b>37,559,690</b>	<b>238,050,061</b>
<b>Net cash flows</b>	<b>(23,646,627)</b>	<b>94,151,615</b>	<b>10,049,871</b>	<b>37,559,690</b>	<b>118,114,549</b>

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**10 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 2013					
Financial liabilities:					
Customer deposits	11,239,907	39,089,989	8,536,854	-	58,866,750
Financial asset:					
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 receivables	218,000	-	-	-	218,000
	<b>140,062,997</b>	<b>21,906,029</b>	<b>57,624,464</b>	<b>936,513</b>	<b>220,530,003</b>
<b>Net cash flows</b>	<b>128,823,090</b>	<b>(17,183,960)</b>	<b>49,087,610</b>	<b>936,513</b>	<b>161,663,253</b>

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

**10 FINANCIAL RISK MANAGEMENT (Continued)**

**(4) Liquidity risk (Continued)**

**(b) Off-balance sheet items**

	<b>Within 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 December 2014</b>				
Standby letter of credit	500,000	-	-	500,000
Letters of credit issued	144,589	-	-	144,589
Irrevocable loan commitment	772,980	1,252,148	-	2,025,128
Operating lease commitments	942,689	2,632,552	-	3,575,241
	<u>2,360,258</u>	<u>3,884,700</u>	<u>-</u>	<u>6,244,958</u>

	<b>Within 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 December 2013</b>				
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
Operating lease commitments	1,106,531	1,255,320	-	2,361,851
	<u>8,854,620</u>	<u>6,774,377</u>	<u>-</u>	<u>15,628,997</u>

**(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.

**SPD SILICON VALLEY BANK CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

(All amounts expressed in USD unless otherwise stated)  
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**10 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 ("CAR"), 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.

	<b>31 December 2014</b>
Core Tier 1 capital adequacy ratio	102.00%
Tier 1 capital adequacy ratio	102.00%
Capital adequacy ratio	102.47%
Core Tier 1 capital	159,423,817
Regulatory Deductions for Core Tier 1 capital	647,309
Net core Tier 1 capital	158,776,508
Other Tier 1 capital	-
Net Tier 1 capital	158,776,508
Tier 2 capital	733,698
Total regulatory capital	159,510,206
Total risk-weighted assets	155,658,605

