

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

**FINANCIAL STATEMENTS AND  
REPORT OF THE AUDITORS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

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

**FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

[English translation for reference only]

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[English Translation for Reference Only]

## **Auditor's Report**

PwC ZT Shen Zi (2021) No.30067  
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To the Board of Directors of SPD Silicon Valley Bank Co., Ltd.,

### **Opinion**

#### *What we have audited*

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 2020;
- the income statement for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in owners' equity for the year then ended; and
- notes to the financial statements.

#### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

### **Basis for Opinion**

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

### **Other Information**

Management of the Bank is responsible for the other information. The other information comprises all of the information included in 2020 annual report of the Bank other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

### **Other Information (Continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, 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.

In preparing these financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.

**Auditor’s Responsibilities for the Audit of the Financial Statements (Continued)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Zhong Tian LLP

Signing CPA Zhou Zhang

Shanghai, the People’s Republic of China  
26 April 2021

Signing CPA Ren Jia

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

**BALANCE SHEET**

**AS AT 31 DECEMBER 2020**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

| <b>ASSETS</b>  | <b>Note</b> | 31 December 2020      | 31 December 2019      |
|--|-------------|-----------------------|-----------------------|
| Cash and deposits with the central bank                | 6(1)        | 2,026,706,164         | 3,530,245,090         |
| Deposits with banks                                    | 6(2)        | 2,467,762,055         | 2,877,870,693         |
| Placements with banks and other financial institutions | 6(3)        | 6,054,187,539         | 3,941,875,240         |
| Interest receivable                                    | 6(4)        | 52,623,781            | 36,417,735            |
| Loans and advances                                     | 6(5)        | 8,657,846,967         | 6,245,357,796         |
| Available-for-sale financial assets                    | 6(6)        | 1,500,928,400         | 293,743,430           |
| Fixed assets   | 6(7)        | 14,582,326            | 11,981,250            |
| Research and development expenditures                  | 6(8)        | 17,210,595            | 3,767,573             |
| Intangible assets                                      | 6(9)        | 42,546,641            | 38,968,229            |
| Long-term prepaid expenses                             | 6(10)       | 5,370,858             | 6,845,179             |
| Deferred tax assets                                    | 6(11)       | 65,263,406            | 44,459,267            |
| Other assets   | 6(12)       | 10,962,679            | 8,114,834             |
| <b>TOTAL ASSETS</b>                                    |             | <b>20,915,991,411</b> | <b>17,039,646,316</b> |
| <b>LIABILITIES</b>                                     |             |                       |                       |
| Deposits from banks and other financial institutions   | 6(13)       | 169,400,000           | 859,768,820           |
| Derivative financial liabilities                       | 6(14)       | 3,207,035             | -                     |
| Customer deposits                                      | 6(15)       | 19,092,362,985        | 15,012,062,506        |
| Employee benefits payable                              | 6(16)       | 45,363,775            | 40,027,834            |
| Taxes payable  | 6(17)       | 9,929,931             | 27,733,615            |
| Interest payable                                       | 6(18)       | 25,564,965            | 37,100,006            |
| Other liabilities                                      | 6(19)       | 58,965,777            | 32,527,476            |
| <b>TOTAL LIABILITIES</b>                               |             | <b>19,404,794,468</b> | <b>16,009,220,257</b> |
| <b>OWNERS' EQUITY</b>                                  |             |                       |                       |
| Paid-in capital  | 6(20)       | 1,500,000,000         | 1,000,000,000         |
| Capital reserve  |             | 34,777,987            | 34,777,987            |
| Other comprehensive income                             | 6(21)       | (17,863,501)          | 3,585,920             |
| Surplus reserve  | 6(22)       | 814,760               | 814,760               |
| General reserve  | 6(23)       | 7,332,838             | 7,332,838             |
| Accumulated losses                                     | 6(24)       | (13,865,141)          | (16,085,446)          |
| <b>TOTAL OWNERS' EQUITY</b>                            |             | <b>1,511,196,943</b>  | <b>1,030,426,059</b>  |
| <b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>            |             | <b>20,915,991,411</b> | <b>17,039,646,316</b> |

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

President  
Jade Lu

Chief Finance Officer  
Grace Guo

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

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

|  | <b>Note</b> | For the year ended 31<br>December 2020 | For the year ended 31<br>December 2019 |
|--|-------------|--|--|
| Interest income  | 6(25)       | 457,035,568                            | 453,443,979                            |
| Interest expense   | 6(25)       | <u>(112,317,775)</u>                   | <u>(187,412,544)</u>                   |
| <b>Net interest income</b>   |             | 344,717,793                            | 266,031,435                            |
| Fee and commission income  | 6(26)       | 33,398,854                             | 26,591,314                             |
| Fee and commission expense   | 6(26)       | <u>(3,314,082)</u>                     | <u>(2,128,814)</u>                     |
| <b>Net fee and commission income</b>                                   |             | 30,084,772                             | 24,462,500                             |
| Losses from investment   | 6(27)       | (122,742,318)                          | (41,079,502)                           |
| Losses on changes in fair value  | 6(28)       | 2,102,257                              | (37,123,802)                           |
| Net gains from foreign exchange  |             | 64,397,912                             | 59,720,146                             |
| Other operating income   | 6(29)       | <u>13,542,048</u>                      | <u>13,343,128</u>                      |
| <b>Operating income</b>  |             | <u>332,102,464</u>                     | <u>285,353,905</u>                     |
| Taxes and surcharges   |             | (3,255,585)                            | (2,707,580)                            |
| General and administrative expenses                                    | 6(30)       | (222,140,262)                          | (193,189,536)                          |
| Impairment losses on assets  | 6(31)       | <u>(115,571,892)</u>                   | <u>(112,715,923)</u>                   |
| <b>Operating expense</b>   |             | <u>(340,967,739)</u>                   | <u>(308,613,039)</u>                   |
| <b>Net operating loss</b>  |             | <u>(8,865,275)</u>                     | <u>(23,259,134)</u>                    |
| Non-operating income   | 6(32)       | 3,505,516                              | 3,090,118                              |
| Non-operating expense  |             | <u>(72,000)</u>                        | <u>-</u>                               |
| <b>Loss before income tax</b>  |             | <u>(5,431,759)</u>                     | <u>(20,169,016)</u>                    |
| Income tax expense   | 6(33)       | <u>7,652,064</u>                       | <u>6,682,655</u>                       |
| <b>Net profit/(loss)</b>   |             | <u>2,220,305</u>                       | <u>(13,486,361)</u>                    |
| <b>Other comprehensive income, net of tax</b>                          | 6(34)       | (21,449,421)                           | 1,138,115                              |
| Other comprehensive income that will be reclassified to profit or loss |             |  |  |
| <i>Changes in fair value of available-for-sale financial assets</i>    |             | (21,449,421)                           | 1,138,115                              |
| <b>Total comprehensive income</b>                                      |             | <u>(19,229,116)</u>                    | <u>(12,348,246)</u>                    |

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

President  
Jade Lu

Chief Finance Officer  
Grace Guo

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

**STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

|   | Note  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---|-------|--|--|
| <b>1 Cash flows from operating activities</b>   |       |  |  |
| Net increase in customer deposits   |       | 4,079,078,672                          | 4,465,229,912                          |
| Net decrease in deposits and placements with banks and other financial institutions                                 |       | -                                      | 208,678,620                            |
| Interest received   |       | 482,525,583                            | 469,584,245                            |
| Fee and commission and other operating income received  |       | 49,118,084                             | 38,748,449                             |
| Cash received relating to other operating activities  |       | 178,320,534                            | 3,090,118                              |
| <b>Sub-total of cash inflow</b>   |       | <b><u>4,789,042,873</u></b>            | <b><u>5,185,331,344</u></b>            |
| Net increase in deposits with the central bank  |       | (313,761,121)                          | (101,327,364)                          |
| Net increase in loans and advances  |       | (2,527,139,793)                        | (1,893,275,608)                        |
| Net increase in deposits and placements with banks and other financial institutions                                 |       | (450,070,518)                          | (37,406,240)                           |
| Net decrease in deposits and placements from other banks  |       | (690,120,120)                          | (88,581,180)                           |
| Interest paid   |       | (123,852,816)                          | (204,610,862)                          |
| Fee and commission paid   |       | (3,314,082)                            | (2,128,814)                            |
| Cash paid to employees or on behalf of employees  |       | (135,147,391)                          | (114,916,105)                          |
| Tax paid  |       | (53,007,570)                           | (18,590,888)                           |
| Cash paid relating to other operating activities  |       | (154,004,105)                          | (163,629,765)                          |
| <b>Sub-total of cash outflow</b>  |       | <b><u>(4,450,417,516)</u></b>          | <b><u>(2,624,466,826)</u></b>          |
| <b>Net cash flows from operating activities</b>   | 6(35) | <b><u>338,625,357</u></b>              | <b><u>2,560,864,518</u></b>            |
| <b>2 Cash flows from investing activities</b>   |       |  |  |
| Cash paid for purchase of bonds   |       | (1,250,058,124)                        | (142,245,854)                          |
| Cash paid for purchase of fixed assets, research and development expenditures and other long-term intangible assets |       | (42,147,064)                           | (34,921,951)                           |
| <b>Net cash used in investing activities</b>  |       | <b><u>(1,292,205,188)</u></b>          | <b><u>(177,167,805)</u></b>            |
| <b>3 Cash flows from financing activities</b>   |       |  |  |
| Capital increase from shareholders  |       | 500,000,000                            | -                                      |
| Proceeds from issuance of inter-bank certificates of deposit  |       | 99,751,300                             | -                                      |
| <b>Sub-total of cash inflow</b>   |       | <b><u>599,751,300</u></b>              | <b><u>-</u></b>                        |
| Cash paid to redeem matured liabilities   |       | (99,751,300)                           | -                                      |
| Interest paid in relation to financing activities   |       | (248,700)                              | -                                      |
| <b>Sub-total of cash outflow</b>  |       | <b><u>(100,000,000)</u></b>            | <b><u>-</u></b>                        |
| <b>Net cash flows from financing activities</b>   |       | <b><u>499,751,300</u></b>              | <b><u>-</u></b>                        |

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

President  
Jade Lu

Chief Finance Officer  
Grace Guo

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

**STATEMENT OF CASH FLOW (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

|          | <b>Note</b>   | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|----------|---|--|--|
| <b>4</b> | <b>Effect of foreign exchange rate<br/>changes on cash and cash<br/>equivalents</b> | <u><b>(111,338,373)</b></u>            | <u><b>69,736,613</b></u>               |
| <b>5</b> | <b>Net (decrease)/increase in cash<br/>and cash equivalents</b>                     | <u><b>(565,166,904)</b></u>            | <u><b>2,453,433,326</b></u>            |
|          | Add: Cash and cash equivalents at<br>the beginning of year                          | <u>8,963,796,522</u>                   | <u>6,510,363,196</u>                   |
| <b>6</b> | <b>Cash and cash equivalents at the<br/>year end</b>                                | 6(35) <u><b>8,398,629,618</b></u>      | <u><b>8,963,796,522</b></u>            |

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

President  
Jade Lu

Chief Finance Officer  
Grace Guo

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

**STATEMENT OF CHANGES IN OWNERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

|                                       | Paid-in capital<br>6(20) | Capital Reserve   | Other comprehensive<br>income<br>6(21) | Surplus reserve<br>6(22) | General reserve<br>6(23) | Accumulated losses<br>6(24) | Total                |
|---------------------------------------|--------------------------|-------------------|--|--------------------------|--------------------------|-----------------------------|----------------------|
| Balance at 31 December 2018           | 1,000,000,000            | 34,777,987        | 2,447,805                              | 814,760                  | 7,332,838                | (2,599,085)                 | 1,042,774,305        |
| Net loss for the year                 | -                        | -                 | -                                      | -                        | -                        | (13,486,361)                | (13,486,361)         |
| Other comprehensive income            | -                        | -                 | 1,138,115                              | -                        | -                        | -                           | 1,138,115            |
| Appropriation to surplus reserve      | -                        | -                 | -                                      | -                        | -                        | -                           | -                    |
| Appropriation to general reserve      | -                        | -                 | -                                      | -                        | -                        | -                           | -                    |
| Balance at 31 December 2019           | <b>1,000,000,000</b>     | <b>34,777,987</b> | <b>3,585,920</b>                       | <b>814,760</b>           | <b>7,332,838</b>         | <b>(16,085,446)</b>         | <b>1,030,426,059</b> |
|                                       | Paid-in capital<br>6(20) | Capital Reserve   | Other comprehensive<br>income<br>6(21) | Surplus reserve<br>6(22) | General reserve<br>6(23) | Accumulated losses<br>6(24) | Total                |
| Balance at 31 December 2019           | 1,000,000,000            | 34,777,987        | 3,585,920                              | 814,760                  | 7,332,838                | (16,085,446)                | 1,030,426,059        |
| Net gain for the year                 | -                        | -                 | -                                      | -                        | -                        | 2,220,305                   | 2,220,305            |
| Other comprehensive income            | -                        | -                 | (21,449,421)                           | -                        | -                        | -                           | (21,449,421)         |
| Appropriation to surplus reserve      | -                        | -                 | -                                      | -                        | -                        | -                           | -                    |
| Appropriation to general reserve      | -                        | -                 | -                                      | -                        | -                        | -                           | -                    |
| Capital increase from<br>shareholders | 500,000,000              | -                 | -                                      | -                        | -                        | -                           | 500,000,000          |
| Balance at 31 December 2020           | <b>1,500,000,000</b>     | <b>34,777,987</b> | <b>(17,863,501)</b>                    | <b>814,760</b>           | <b>7,332,838</b>         | <b>(13,865,141)</b>         | <b>1,511,196,943</b> |

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

President  
Jade Lu

Chief Finance officer  
Grace Guo

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

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts expressed in RMB 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 a variety of businesses. The Bank later obtained Financial License from CBRC, and obtained Business License from Shanghai Administration for Industry and Commerce on 10 August 2012.

According to the provisions of the business license of the Bank, the term of its operation is unlimited. The Bank mainly operates foreign exchange business and RMB business with the approval from relevant regulatory agencies.

SPDSVB Beijing Branch was approved to be established by CBRC Beijing with Jing Yin Jian Fu [2016] No.349 on 28 June 2016 and was established officially in March 2017. SPDSVB Shenzhen Branch was approved to be established by CBRC Shenzhen with Shen Yin Jian Fu [2018] No.201 on 24 August 2018 and was established officially in September 2018.

On 15 June 2020, SPD and SVB each remitted a paid-in capital of RMB 250,000,000. As at 31 December 2020, a total of RMB 1.5 billion paid-in capital has been received from investors.

The financial statements were authorized for issue by the Board of the Bank on 26 April 2021.

#### **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 (hereinafter collectively referred to as "Accounting Standards for Business Enterprises") issued by the Ministry of Finance on 15 February 2006.

These financial statements are prepared on a going concern basis.

#### **3 STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARD FOR BUSINESS ENTERPRISES**

The financial statements are in accordance with the Accounting Standard for Business Enterprises and presented truly and completely, the financial position of the Bank as at 31 December 2020, and the financial performance and cash flow of the bank 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 RMB as its functional currency.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

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

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(3) Foreign currency translation**

When the Bank receives capital invested in foreign currencies from investors, it is converted into the functional currency at the spot exchange rate on the day. Other foreign currency transactions are converted into the functional currency at the spot exchange rate on the transaction date.

The spot exchange rate is the RMB exchange rate announced by the People's Bank of China or the exchange rate calculated based on the announced exchange rate. The approximate exchange rate of the spot exchange rate is the average exchange rate of the current period that is determined according to a systematic and reasonable method and is similar to the spot exchange rate on the transaction date.

Monetary items denominated in foreign currencies are translated into RMB at the spot exchange rates at the balance sheet date and translation adjustments are recorded in the income statement. For non-monetary items in foreign currency measured at historical cost, the amount in the functional currency shall not be changed. Foreign currency non-monetary items measured at fair value are converted at the spot exchange rate on the date when the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale, are included in capital reserve. Translation differences on non-monetary financial items held at fair value through profit or loss are recognised in profit or loss.

**(4) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(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.

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.

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

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

**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)

- 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; or
- Certain financial assets and 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 banks, placements with banks and other financial institutions, 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.

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#### **4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)**

##### **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 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. The difference between the net amount of the actually received amount after deducting the transaction expenses and the amount due should be amortized within the borrowing period by the effective interest method.

###### 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.

When a financial asset is derecognized, the difference between its book value and the sum of the consideration received and the accumulated amount of changes in the fair value (involving the transfer of available for sale financial assets) originally included in the owner's equity should be included in the current profits and losses.

When all or part of the current obligation of a financial liability has been relieved, the financial liability or part of the obligation that has been relieved shall be derecognized. The difference between the book value of the derecognized part and the consideration paid shall be included in the current profit and 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.

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

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(5) Financial assets and financial liabilities (Continued)**

Fair value of financial assets (Continued)

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.

**(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, grants to the borrower a concession that the Bank would not otherwise consider;
- (iv) it becomes 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 assess 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.

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#### **4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)**

##### **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.

The Bank will compare the loan loss provision based on individual and combination with the loan loss provision based on local regulations such as the five-level classification impairment provision of the China Banking Insurance Regulatory Commission (CBRC). The bank will also consider the loan loss elements from "the Management of Commercial Bank Loan Loss Reserve" and "the Essentials for the Regulation of Commercial Bank Loan Loss Reserve Adjustment". The Request Notice evaluates the adequacy of loan loss provision, which will be calculated individually and in combination.

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.

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

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(7) Derivative financial instruments**

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Some derivatives are embedded in hybrid contracts. If a hybrid contract contains a host that is a financial asset, the embedded derivative is classified and measured together with the host. If a hybrid contract contains a host that is not a financial asset, an embedded derivative shall be separated from the host and accounted for as a derivative if, and only if:

- (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- (ii) separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

For the above assets, the Bank may bifurcate the embedded derivative and measure it at fair value through profit or loss, or designate the entire hybrid instrument to be measured at fair value through profit or loss.

**(8) Fixed assets and construction in progress**

Fixed assets comprise office equipment and furniture, and computers and other equipment, whose useful life is over 1 year and the unit value is over RMB10,000. Fixed assets that do not belong to operating equipment, with unit value of over RMB10,000 (excluding) and useful life of over two years, shall also be accounted 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.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use. No depreciation is charged for construction in progress.

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.

## SPD SILICON VALLEY BANK CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### 4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

###### (8) Fixed assets and construction in progress (Continued)

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

|                                | Estimated<br>useful lives | Estimated<br>residual value | Annual<br>depreciation rate |
|--------------------------------|---------------------------|-----------------------------|-----------------------------|
| Office equipment and furniture | 5 years                   | 0%~5%                       | 19%~20%                     |
| Computers and other equipment  | 3~5 years                 | 0%~5%                       | 19%~33%                     |

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.

###### (9) Intangible assets

Intangible assets comprise software, and are 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.

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature. Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- (1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) management intends to complete the intangible asset, and use or sell it;
- (3) the way in which the intangible asset will generate probable future economic benefits, including the entity must be able to demonstrate the existence of a market for the intangible asset's output or for the intangible asset itself; or, if the asset is to be used internally, it must be able to demonstrate the usefulness of the intangible asset;
- (4) there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- (5) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

###### (10) 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.

###### (11) 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.

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

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(11) Impairment of non-financial assets (Continued)**

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.

**(12) Financial guarantee contracts**

A financial guarantee contract refers to a contract whereby the guarantor and the creditor agree that when the debtor fails to perform the debt, the guarantor shall perform the debt or bear the liability in accordance with the agreement. Financial guarantee contracts are measured at fair value when they are initially recognized as liabilities.

For financial guarantee contracts not designated as financial liabilities measured at fair value through profit and loss, after initial recognition, the amount determined according to the current best estimate of the expenditure required to perform relevant current obligations on the balance sheet date or the balance after deducting the accumulated amortization determined according to the revenue recognition principle from the initially recognized amount, whichever is higher for the subsequent measurement.

**(13) 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 compensations 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, and short-term paid absences. The employee benefits are recognized 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 and unemployment 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 pension and unemployment insurances 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 recognized 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 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)**

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(14) Deferred income tax assets and liabilities**

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.

The amount of deferred income tax assets and deferred income tax liabilities can be offset when satisfying both 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.

**(15) Interest income and expense**

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.

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

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(16) Fee and commission income**

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

**(17) Government grants**

Government grants refer to the monetary or non-monetary assets obtained by the Bank from the government, including tax return, financial subsidy and etc.

Government grants are recognized when the grants can be received and the Bank can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Bank for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current period. The Bank applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

**(18) 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.

**(19) 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 which is not probable because 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.

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

**4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(20) 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: (1) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions); (2) 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 (3) 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.

In 2020, the management of the bank evaluates the results of its business lines regularly. At present, the main business of the bank is corporate loan so there is no need to disclose segment information.

**(22) Critical accounting estimates and judgements 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.

## SPD SILICON VALLEY BANK CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### 4.1 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (22) Critical accounting estimates and judgements in applying accounting policies (Continued)

##### (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. 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 tax provisions in the period in which such determination is made.

#### 5 TAXATION

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

| Tax                                    | Tax rate | Tax basis   |
|--|----------|---|
| Corporate income tax(a)                | 25%      | Taxable income  |
| Value added tax ("VAT")                | 6%       | Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period) |
| Urban maintenance and construction tax | 7%       | The payment amount of VAT   |
| Educational surcharge                  | 3%       | The payment amount of VAT   |
| Local educational surcharge            | 2%、1%    | The payment amount of VAT   |

(a) According to the Income Tax Law, the tax rate is 25% this year (2019: 25%).

Pursuant to the "Circular on Enterprise Income Tax Policy concerning Deductions for Equipment and Appliances" (Cai Shui [2018] 54) issued by the State Administration of Taxation, during the period from 1 January 2018 to 31 December 2020, the cost of newly purchased equipment with the original cost less than RMB 5 million can be fully deducted against taxable profit in the next month after the asset is put into use, instead of being depreciated annually for tax filing.

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**6 NOTES TO FINANCIAL STATEMENTS ITEMS**

**(1) Cash and deposits with the central bank**

|  | 31 December 2020     | 31 December 2019     |
|--|----------------------|----------------------|
| Mandatory reserve deposits with the central bank | 1,210,924,002        | 897,162,881          |
| Surplus reserve deposits with the central bank   | 815,782,162          | 2,633,082,209        |
|  | <u>2,026,706,164</u> | <u>3,530,245,090</u> |

According to the relevant provisions of the People's Bank of China ("PBOC"), as at 31 December 2020, the mandatory reserve rate for customer deposits denominated in RMB currencies was 10% (31 December 2019: 10.5%), and for customer deposits denominated in foreign currencies, that was 5% (31 December 2019: 5%).

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

**(2) Deposits with banks**

|                               | Note       | 31 December 2020     | 31 December 2019     |
|-------------------------------|------------|----------------------|----------------------|
| Deposits with related parties | 8(4)(c)(i) | 1,391,804,832        | 1,129,269,383        |
| Deposits with domestic banks  |            | 726,897,522          | 1,150,375,106        |
| Deposits with overseas banks  |            | 349,059,701          | 598,226,204          |
|                               |            | <u>2,467,762,055</u> | <u>2,877,870,693</u> |

**(3) Placements with banks and other financial institutions**

|  | 31 December 2020     | 31 December 2019     |
|--|----------------------|----------------------|
| Placements with domestic banks                           | 5,965,448,899        | 3,835,837,000        |
| Placements with domestic non-bank financial institutions | 88,738,640           | 106,038,240          |
|  | <u>6,054,187,539</u> | <u>3,941,875,240</u> |

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

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

**(4) Interest receivable**

|  | Note        | 31 December 2020  | 31 December 2019  |
|--|-------------|-------------------|-------------------|
| Available-for-sale bonds                               |             | 24,052,803        | 5,666,560         |
| Loans and advances                                     |             | 22,228,644        | 17,099,998        |
| Deposits with banks                                    |             | 3,473,457         | 7,535,367         |
| Placements with banks and other financial institutions |             | 1,560,233         | 1,866,580         |
| Deposits with related banks                            | 8(4)(c)(ii) | 1,308,644         | 4,249,230         |
|  |             | <b>52,623,781</b> | <b>36,417,735</b> |

**(5) Loans and advances**

|                                   | 31 December 2020     | 31 December 2019     |
|-----------------------------------|----------------------|----------------------|
| Corporate loans                   | 8,816,544,773        | 6,379,334,304        |
| <b>Loans and advances, gross</b>  | <b>8,816,544,773</b> | <b>6,379,334,304</b> |
| Individually impairment allowance | (73,973,717)         | (50,158,406)         |
| Collectively impairment allowance | (84,724,089)         | (83,818,102)         |
| Total impairment allowance        | (158,697,806)        | (133,976,508)        |
| <b>Loans and advances, net</b>    | <b>8,657,846,967</b> | <b>6,245,357,796</b> |

**(a) Analysis by industry sector**

|  | 31 December 2020     |               | 31 December 2019     |               |
|--|----------------------|---------------|----------------------|---------------|
|  | Amount               | %             | Amount               | %             |
| Information transmission, software and information technology services | 2,829,208,970        | 32.07         | 2,526,694,625        | 39.60         |
| Manufacturing  | 1,772,800,787        | 20.11         | 1,095,817,802        | 17.18         |
| Wholesale and retail   | 1,383,773,426        | 15.70         | 653,588,534          | 10.24         |
| Leasing and commercial services  | 1,209,422,768        | 13.72         | 549,035,323          | 8.61          |
| Financing  | 699,123,849          | 7.93          | 562,364,831          | 8.82          |
| Scientific research and technology services                            | 492,697,924          | 5.59          | 559,087,624          | 8.76          |
| Education  | 168,342,420          | 1.91          | 83,714,400           | 1.31          |
| Transportation, storage and postal service                             | 138,298,108          | 1.57          | 197,704,912          | 3.10          |
| Household services and other services                                  | 98,671,375           | 1.12          | 128,659,550          | 2.02          |
| Accommodation and catering   | 21,647,059           | 0.25          | 483,933              | 0.01          |
| Construction   | 2,558,087            | 0.03          | 22,182,770           | 0.35          |
| <b>Loans and advances, gross</b>                                       | <b>8,816,544,773</b> | <b>100.00</b> | <b>6,379,334,304</b> | <b>100.00</b> |

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

**(5) Loans and advances (Continued)**

(b) Analysis by geographic sector

|                                  | 31 December 2020            | 31 December 2019            |
|----------------------------------|-----------------------------|-----------------------------|
| Shanghai                         | 2,913,490,798               | 2,535,290,997               |
| Beijing                          | 2,779,099,228               | 1,939,731,569               |
| Guangdong                        | 922,390,119                 | 810,526,859                 |
| Jiangsu                          | 615,700,507                 | 430,898,852                 |
| Zhejiang                         | 522,026,125                 | 483,208,408                 |
| Hongkong                         | 399,989,073                 | 34,874,082                  |
| Overseas                         | 340,926,025                 | 26,858,370                  |
| Hubei                            | 102,558,087                 | 8,940,737                   |
| Sichuan                          | 83,224,044                  | 10,941,167                  |
| Liaoning                         | 42,434,021                  | 7,565,979                   |
| Jiangxi                          | 32,498,457                  | 14,000,000                  |
| Henan                            | 27,190,645                  | -                           |
| Shanxi                           | 20,384,439                  | 26,484,507                  |
| Shandong                         | 10,682,247                  | 6,918,039                   |
| Hebei                            | 2,390,788                   | 214,889                     |
| Chongqing                        | 1,560,170                   | 4,034,899                   |
| Tianjin                          | -                           | 848,537                     |
| Anhui                            | -                           | 37,996,413                  |
| <b>Loans and advances, gross</b> | <b><u>8,816,544,773</u></b> | <b><u>6,379,334,304</u></b> |

(c) Analysis by collateral type

|                                  | 31 December 2020            | 31 December 2019            |
|----------------------------------|-----------------------------|-----------------------------|
| Pledged loans                    | 3,751,752,227               | 3,787,857,304               |
| Guaranteed loans                 | 2,944,611,985               | 1,572,817,464               |
| Unsecured loans                  | 1,670,118,473               | 625,702,910                 |
| Mortgaged loans                  | 450,062,088                 | 392,956,626                 |
| <b>Loans and advances, gross</b> | <b><u>8,816,544,773</u></b> | <b><u>6,379,334,304</u></b> |

(d) Allowance for impairment losses

|  | 2020                     |                          | Total                     |
|--|--------------------------|--------------------------|---------------------------|
|  | Individually assessed    | Collectively assessed    |                           |
| <b>31 December 2019</b>                      | 50,158,406               | 83,818,102               | 133,976,508               |
| Impairment allowance charged<br>(Note 6(31)) | 114,174,066              | 1,397,826                | 115,571,892               |
| Impairment allowance written off             | (89,929,324)             | -                        | (89,929,324)              |
| Foreign exchange difference                  | (429,431)                | (491,839)                | (921,270)                 |
| <b>31 December 2020</b>                      | <b><u>73,973,717</u></b> | <b><u>84,724,089</u></b> | <b><u>158,697,806</u></b> |

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

**(5) Loans and advances (Continued)**

(d) Allowance for impairment losses (Continued)

|  | 2019                  |                       | Total              |
|--|-----------------------|-----------------------|--------------------|
|  | Individually assessed | Collectively assessed |                    |
| <b>At 31 December 2018</b>                   | 17,490,616            | 76,716,617            | 94,207,233         |
| Impairment allowance charged<br>(Note 6(31)) | 107,420,748           | 5,295,175             | 112,715,923        |
| Impairment allowance written off             | (74,752,958)          | -                     | (74,752,958)       |
| Foreign exchange difference                  | -                     | 1,806,310             | 1,806,310          |
| <b>At 31 December 2019</b>                   | <b>50,158,406</b>     | <b>83,818,102</b>     | <b>133,976,508</b> |

**(6) Available-for-sale financial assets**

|   | 31 December 2020     | 31 December 2019   |
|---|----------------------|--------------------|
| Measured at fair value<br>-National bonds | <b>1,500,928,400</b> | <b>293,743,430</b> |

**(7) Fixed assets**

|                                 | Office equipment and furniture | Computers and other equipment | Total             |
|---------------------------------|--------------------------------|-------------------------------|-------------------|
| <b>Cost</b>                     |                                |                               |                   |
| 31 December 2019                | 2,359,663                      | 25,747,231                    | 28,106,894        |
| Additions                       | 203,002                        | 7,143,817                     | 7,346,819         |
| 31 December 2020                | 2,562,665                      | 32,891,048                    | 35,453,713        |
| <b>Accumulated Depreciation</b> |                                |                               |                   |
| 31 December 2019                | (915,573)                      | (15,210,071)                  | (16,125,644)      |
| Additions                       | (369,748)                      | (4,375,995)                   | (4,745,743)       |
| 31 December 2020                | (1,285,321)                    | (19,586,066)                  | (20,871,387)      |
| <b>Net book value</b>           |                                |                               |                   |
| 31 December 2020                | <b>1,277,344</b>               | <b>13,304,982</b>             | <b>14,582,326</b> |
| 31 December 2019                | <b>1,444,090</b>               | <b>10,537,160</b>             | <b>11,981,250</b> |

**(8) Research and development expenditures**

|                                       | 31 December 2019 | Additions         | Transfer to intangible and other assets | 31 December 2020  |
|---------------------------------------|------------------|-------------------|---|-------------------|
| Research and development expenditures | <b>3,767,573</b> | <b>31,123,625</b> | <b>(17,680,603)</b>                     | <b>17,210,595</b> |

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

**(9) Intangible assets**

|                          | 31 December 2019         | Addition                | 31 December 2020         |
|--------------------------|--------------------------|-------------------------|--------------------------|
| Cost                     | 65,882,160               | 16,776,437              | 82,658,597               |
| Accumulated amortization | <u>(26,913,931)</u>      | <u>(13,198,025)</u>     | <u>(40,111,956)</u>      |
| <b>Net book value</b>    | <b><u>38,968,229</u></b> | <b><u>3,578,412</u></b> | <b><u>42,546,641</u></b> |

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

|                          | 31 December 2019        | Addition                  | 31 December 2020        |
|--------------------------|-------------------------|---------------------------|-------------------------|
| Cost                     | 24,709,202              | 1,100,750                 | 25,809,952              |
| Accumulated amortization | <u>(17,864,023)</u>     | <u>(2,575,071)</u>        | <u>(20,439,094)</u>     |
| <b>Net book value</b>    | <b><u>6,845,179</u></b> | <b><u>(1,474,321)</u></b> | <b><u>5,370,858</u></b> |

**(11) Deferred tax assets**

Movement of deferred tax assets:

|  | Note  | For the year ended 31<br>December 2020 | For the year ended 31<br>December 2019 |
|--|-------|--|--|
| Balance at the beginning of the period |       | 44,459,267                             | 11,896,507                             |
| Charge to profit or loss               | 6(33) | 13,654,331                             | 32,942,132                             |
| Charge to other comprehensive income   |       | 7,149,808                              | <u>(379,372)</u>                       |
| <b>Balance at the end of the year</b>  |       | <b><u>65,263,406</u></b>               | <b><u>44,459,267</u></b>               |

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

**(11) Deferred tax assets (Continued)**

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

**(a) Deferred tax assets**

|  | 31 December 2020    |                                  | 31 December 2019    |                                  |
|--|---------------------|----------------------------------|---------------------|----------------------------------|
|  | Deferred tax assets | Deductible temporary differences | Deferred tax assets | Deductible temporary differences |
| Impairment allowance   | 39,577,580          | 158,310,322                      | 28,052,892          | 112,211,569                      |
| Gains or loss on changes in fair value                           | 8,755,386           | 35,021,545                       | 9,280,951           | 37,123,802                       |
| The difference between accrued and actually paid salaries        | 5,101,424           | 20,405,694                       | 5,036,675           | 20,146,699                       |
| Tax differences on intangible assets amortization                | 4,501,411           | 18,005,644                       | 3,020,541           | 12,082,164                       |
| Accrued expenses   | 3,086,717           | 12,346,867                       | 2,274,481           | 9,097,923                        |
| Tax differences on low-value consumption fixed assets            | 22,064              | 88,255                           | 112,929             | 451,717                          |
| Changes in the fair value of available-for-sale financial assets | 5,954,500           | 23,818,000                       | -                   | -                                |
| <b>Total</b>   | <b>66,999,082</b>   | <b>267,996,327</b>               | <b>47,778,469</b>   | <b>191,113,874</b>               |

**(b) Deferred tax liabilities**

|  | 31 December 2020         |                               | 31 December 2019         |                               |
|--|--------------------------|-------------------------------|--------------------------|-------------------------------|
|  | Deferred tax liabilities | Taxable temporary differences | Deferred tax liabilities | Taxable temporary differences |
| One-time amortization of fixed assets tax adjustment         | (1,735,676)              | (6,942,705)                   | (2,123,894)              | (8,495,575)                   |
| Changes in fair value of available-for-sale financial assets | -                        | -                             | (1,195,308)              | (4,781,229)                   |
|  | <b>(1,735,676)</b>       | <b>(6,942,705)</b>            | <b>(3,319,202)</b>       | <b>(13,276,804)</b>           |

**(c) The net balances of deferred tax assets and liabilities after offsetting are as follows:**

|                          | 31 December 2020  | 31 December 2019  |
|--------------------------|-------------------|-------------------|
| Deferred tax assets, net | <b>65,263,406</b> | <b>44,459,267</b> |

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

**(12) Other assets**

|  | Note         | 31 December 2020  | 31 December 2019 |
|--|--------------|-------------------|------------------|
| Deposits receivable                                    |              | 3,578,416         | 1,693,532        |
| Prepaid expenses                                       |              | 3,559,362         | 2,933,912        |
| Fee and commission receivables<br>from related parties | 8(4)(c)(iii) | 3,263,332         | 3,436,583        |
| Others   |              | 561,569           | 50,807           |
|  |              | <u>10,962,679</u> | <u>8,114,834</u> |

**(13) Deposits from banks and other financial institutions**

|  | 31 December 2020   | 31 December 2019   |
|--|--------------------|--------------------|
| Deposits from domestic banks                           | 69,400,000         | 739,768,820        |
| Deposits from other domestic<br>financial institutions | 100,000,000        | 120,000,000        |
|  | <u>169,400,000</u> | <u>859,768,820</u> |

**(14) Derivative financial liabilities**

|  | Nominal<br>amount    | Fair Value |                  |
|--|----------------------|------------|------------------|
|  |                      | Assets     | Liabilities      |
| <b>31 December 2020</b>                                |                      |            |                  |
| Foreign exchange swap contracts                        | 1,324,554,700        | -          | 1,702,070        |
| Forex interval cumulative options<br>(Note 8(4)(c)(v)) | 3,969,800,000        | -          | 1,504,965        |
|  | <u>5,294,354,700</u> | <u>-</u>   | <u>3,207,035</u> |

As at 31 December 2019, the Bank had no derivative financial liabilities.

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

**(15) Customer deposits**

|  | 31 December 2020      | 31 December 2019      |
|--|-----------------------|-----------------------|
| Deposits measured at amortized cost        |                       |                       |
| Corporate time deposits                    | 9,114,612,117         | 7,157,597,856         |
| Corporate demand deposits                  | 5,976,136,328         | 4,770,760,848         |
|  | <b>15,090,748,445</b> | <b>11,928,358,704</b> |
| Structured deposits measured at fair value | 4,001,614,540         | 3,083,703,802         |
|  | <b>19,092,362,985</b> | <b>15,012,062,506</b> |

**(16) Employee benefits payable**

|   | 31 December 2020  | 31 December 2019  |
|---|-------------------|-------------------|
| Short term payroll and welfare payable(a) | 45,363,775        | 40,027,834        |
| Defined contribution plans payable(b)     | -                 | -                 |
|   | <b>45,363,775</b> | <b>40,027,834</b> |

As at 31 December 2020, short term payroll and welfare payable of the Bank included bonuses, allowances and subsidies (31 December 2019: the same).

**(a) Short term payroll and welfare payable**

|                               | 31 December<br>2019 | Increase in the<br>current year | Decrease in the<br>current year | 31 December<br>2020 |
|-------------------------------|---------------------|---------------------------------|---------------------------------|---------------------|
| Salaries and bonus            | 40,027,834          | 123,664,399                     | (118,328,458)                   | 45,363,775          |
| Employee welfare and benefits | -                   | 3,512,515                       | (3,512,515)                     | -                   |
| Social insurance              | -                   | 3,898,020                       | (3,898,020)                     | -                   |
| Include:                      |                     |                                 |                                 |                     |
| Medical insurance             | -                   | 3,551,864                       | (3,551,864)                     | -                   |
| Industrial injury insurance   | -                   | 4,546                           | (4,546)                         | -                   |
| Maternity insurance           | -                   | 341,610                         | (341,610)                       | -                   |
| Housing fund                  | -                   | 8,893,944                       | (8,893,944)                     | -                   |
|                               | <b>40,027,834</b>   | <b>139,968,878</b>              | <b>(134,632,937)</b>            | <b>45,363,775</b>   |

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

**(16) Employee benefits payable (Continued)**

**(b) Defined contribution plans payable**

|                           | 31 December<br>2019 | Net Increase   | Net Decrease     | 31 December<br>2020 |
|---------------------------|---------------------|----------------|------------------|---------------------|
| Basic endowment insurance | -                   | 497,412        | (497,412)        | -                   |
| Unemployment insurance    | -                   | 17,042         | (17,042)         | -                   |
|                           | <u>-</u>            | <u>514,454</u> | <u>(514,454)</u> | <u>-</u>            |

**(17) Taxes payable**

|                              | 31 December 2020 | 31 December 2019  |
|------------------------------|------------------|-------------------|
| Corporate income tax payable | 3,497,971        | 20,754,395        |
| VAT payable                  | 5,671,672        | 6,185,865         |
| Taxes and surcharges payable | 760,288          | 793,355           |
|                              | <u>9,929,931</u> | <u>27,733,615</u> |

**(18) Interest payable**

|  | 31 December 2020  | 31 December 2019  |
|--|-------------------|-------------------|
| Customer deposits                                    | 22,952,042        | 31,494,712        |
| Deposits from banks and other financial institutions | 2,612,923         | 5,605,294         |
|  | <u>25,564,965</u> | <u>37,100,006</u> |

**(19) Other liabilities**

|                              | 31 December 2020  | 31 December 2019  |
|------------------------------|-------------------|-------------------|
| Funds to be settled          | 32,914,235        | 3,869,584         |
| Accrued expense              | 12,425,908        | 9,142,072         |
| Deferred fee income on loans | 8,615,397         | 10,048,202        |
| Project fee payable          | 4,372,214         | 5,039,110         |
| Other                        | 638,023           | 4,428,508         |
|                              | <u>58,965,777</u> | <u>32,527,476</u> |

**(20) Paid-in capital**

In the paid-in capital account, the exchange rate used when the foreign currency is converted into RMB is the exchange rate published by the PBOC on the day when the capital contribution is received.

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

**(20) Paid-in capital (Continued)**

On 19 June 2012, the Bank received paid-in capital of RMB 327,000,000 and USD 27,458,138 from SPD, equivalent to RMB 500 million (or USD 79,613,744). And the Bank received paid-in capital of USD 79,748,632 from SVB, equivalent to RMB 500 million.

On 15 June 2020, SPD and SVB each remitted a paid-in capital of RMB250,000,000. As at 31 December 2020, the Bank has received a total of RMB1.5 billion paid-in capital from investors.

**(21) Other comprehensive income**

|  | 31 December 2019 | Addition            | 31 December 2020    |
|--|------------------|---------------------|---------------------|
| Gains or losses arising from changes in fair value of available-for-sale financial assets (Note 6(34)) | <u>3,585,920</u> | <u>(21,449,421)</u> | <u>(17,863,501)</u> |

**(22) Surplus reserve**

|                           | 31 December 2019 | Addition | 31 December 2020 |
|---------------------------|------------------|----------|------------------|
| Statutory surplus reserve | <u>814,760</u>   | -        | <u>814,760</u>   |

In accordance with relevant regulations, after making up the accumulated losses, the Bank is required to appropriate 10% of its net profit in statutory financial statements to non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserves has reached 50% of the registered capital. The Bank can appropriate to the discretionary surplus reserve after statutory surplus reserve has been made.

**(23) General reserve**

|                 | 31 December<br>2019 | Additions | 31 December<br>2020 |
|-----------------|---------------------|-----------|---------------------|
| General reserve | <u>7,332,838</u>    | -         | <u>7,332,838</u>    |

The Bank appropriates general reserve pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "requirement") issued by Ministry of Finance since 31 December 2016. According to the requirement, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold should be accumulated over a period of no more than five years.

**(24) Accumulated losses**

|                        | 31 December 2020    | 31 December 2019    |
|------------------------|---------------------|---------------------|
| Opening balance        | (16,085,446)        | (2,599,085)         |
| Add: Net profit/(loss) | 2,220,305           | (13,486,361)        |
| Less: Surplus reserve  | -                   | -                   |
| General reserve        | -                   | -                   |
| Ending balance         | <u>(13,865,141)</u> | <u>(16,085,446)</u> |

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

**(25) Net interest income**

| Interest Income   | Note       | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---|------------|--|--|
| Loans   |            | 362,855,399                            | 296,115,707                            |
| Placements with banks and other<br>financial institutions |            | 33,150,738                             | 80,754,292                             |
| National bonds  |            | 27,042,316                             | 8,782,883                              |
| Deposits with banks                                       |            | 14,768,996                             | 49,185,780                             |
| Deposits with central bank                                |            | 13,162,333                             | 10,387,568                             |
| Deposits with related banks                               | 8(4)(b)(i) | 6,055,786                              | 8,217,749                              |
|   |            | <b><u>457,035,568</u></b>              | <b><u>453,443,979</u></b>              |
| <br>Interest expense                                      |            |  |  |
| Customer deposits   |            | (99,916,663)                           | (152,022,061)                          |
| Deposits from banks and other<br>financial institutions   |            | (12,087,798)                           | (34,137,039)                           |
| Placements from banks and<br>other financial institutions |            | (4,048)                                | (1,251,458)                            |
| Issuance of inter-bank certificates<br>of deposit         |            | (248,700)                              | -                                      |
| Other   |            | (60,566)                               | (1,986)                                |
|   |            | <b><u>(112,317,775)</u></b>            | <b><u>(187,412,544)</u></b>            |
| Net interest income                                       |            | <b><u>344,717,793</u></b>              | <b><u>266,031,435</u></b>              |

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

|                                    | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|------------------------------------|--|--|
| Loans related fees and commissions | 29,641,099                             | 23,715,280                             |
| Settlement and clearing fees       | 3,306,044                              | 2,819,309                              |
| Other                              | 451,711                                | 56,725                                 |
| Fee and commission income          | <b><u>33,398,854</u></b>               | <b><u>26,591,314</u></b>               |
| Fee and commission expense         | <b><u>(3,314,082)</u></b>              | <b><u>(2,128,814)</u></b>              |
| Net fee and commission income      | <b><u>30,084,772</u></b>               | <b><u>24,462,500</u></b>               |

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

**(27) Losses from investment**

|  | 31 December 2020            | 31 December 2019           |
|--|-----------------------------|----------------------------|
| Realized losses on structured deposits | <u><b>(122,742,318)</b></u> | <u><b>(41,079,502)</b></u> |

**(28) Losses on changes in fair value**

|  | For the year ended<br>31 December 2020 | For the year ended 31<br>December 2019 |
|--|--|--|
| Fair value losses on foreign exchange swap                                 | (1,702,041)                            | -                                      |
| Unrealized gains or losses on structured deposits                          | 5,309,263                              | (37,123,802)                           |
| Fair value losses on forex interval cumulative options (Note 8(4)(b)(iii)) | <u>(1,504,965)</u>                     | <u>-</u>                               |
|  | <u><b>2,102,257</b></u>                | <u><b>(37,123,802)</b></u>             |

**(29) Other operating income**

|   | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---|--|--|
| Advisory service income from related parties (Note 8(4)(b)(ii)) | 13,542,048                             | 12,743,128                             |
| Other   | -                                      | 600,000                                |
|   | <u><b>13,542,048</b></u>               | <u><b>13,343,128</b></u>               |

**(30) General and administrative expenses**

|   | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---|--|--|
| Payroll   | 140,483,332                            | 120,030,568                            |
| Telecommunications and computers maintenance expenses | 19,854,383                             | 16,792,816                             |
| Rental and utilities                                  | 17,385,881                             | 16,009,309                             |
| Intangible assets amortization                        | 13,198,025                             | 8,843,611                              |
| Professional service expenses                         | 7,258,083                              | 7,174,731                              |
| Depreciation of fixed assets                          | 4,745,743                              | 3,939,254                              |
| Insurance   | 3,953,254                              | 3,776,046                              |
| Long-term amortized expenses                          | 2,575,071                              | 1,949,522                              |
| Traveling expenses                                    | 1,460,152                              | 2,527,353                              |
| Marketing expenses                                    | 1,092,782                              | 1,247,925                              |
| Low value consumables                                 | 585,003                                | 318,551                                |
| Entertainment expenses                                | 584,614                                | 883,278                                |
| Stationery expenses                                   | 300,856                                | 412,342                                |
| Other   | 8,663,083                              | 9,284,230                              |
|   | <u><b>222,140,262</b></u>              | <u><b>193,189,536</b></u>              |

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

**(30) General and administrative expenses (Continued)**

Payroll includes:

|                             | For the year ended<br>31 December 2020 | For the year ended 31<br>December 2019 |
|-----------------------------|--|--|
| Salaries and bonuses        | 123,664,399                            | 101,296,733                            |
| Housing funds               | 8,893,944                              | 6,587,415                              |
| Social insurance            | 4,412,474                              | 9,982,468                              |
| Employment welfare expenses | 3,512,515                              | 2,163,952                              |
|                             | <b><u>140,483,332</u></b>              | <b><u>120,030,568</u></b>              |

**(31) Impairment losses on assets**

|   | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---|--|--|
| Impairment losses on loans and advances<br>(Note 6(5)(d)) | <b><u>115,571,892</u></b>              | <b><u>112,715,923</u></b>              |

**(32) Non-operating income**

|                           | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---------------------------|--|--|
| Government subsidy income | 3,504,375                              | 3,057,466                              |
| Other                     | 1,141                                  | 32,652                                 |
|                           | <b><u>3,505,516</u></b>                | <b><u>3,090,118</u></b>                |

**(33) Income tax expense**

|                     | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---------------------|--|--|
| Current income tax  | 6,002,267                              | 26,259,477                             |
| Deferred income tax | (13,654,331)                           | (32,942,132)                           |
|                     | <b><u>(7,652,064)</u></b>              | <b><u>(6,682,655)</u></b>              |

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

|  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|--|--|--|
| Loss before income tax   | <u>(5,431,759)</u>                     | <u>(20,169,016)</u>                    |
| Income tax calculated at 25%                                       | (1,357,940)                            | (5,042,255)                            |
| Tax effect of expenses that are not deductible<br>for tax purposes | 466,455                                | 555,321                                |
| Tax effect arising from non-taxable income                         | (6,760,579)                            | (2,195,721)                            |
|  | <b><u>(7,652,064)</u></b>              | <b><u>(6,682,655)</u></b>              |

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

**(34) Other comprehensive income**

|  | For the year ended 31 December 2020 |                         |                            |
|--|-------------------------------------|-------------------------|----------------------------|
|  | Amount before<br>tax                | Income tax              | Net amount<br>after tax    |
| Other comprehensive income items which will be reclassified subsequently to profit or loss | (28,599,229)                        | 7,149,808               | (21,449,421)               |
| Gains or losses arising from changes in fair value of available-for-sale financial assets  |                                     |                         |                            |
| Less: Reclassification of previous other comprehensive income to profit or loss            | -                                   | -                       | -                          |
| <b>Total other comprehensive income</b>  | <b><u>(28,599,229)</u></b>          | <b><u>7,149,808</u></b> | <b><u>(21,449,421)</u></b> |

|  | For the year ended 31 December 2019 |                         |                         |
|--|-------------------------------------|-------------------------|-------------------------|
|  | Amount before<br>tax                | Income tax              | Net amount<br>after tax |
| Other comprehensive income items which will be reclassified subsequently to profit or loss |                                     |                         |                         |
| Gains or losses arising from changes in fair value of available-for-sale financial assets  | 1,517,487                           | (379,372)               | 1,138,115               |
| Less: Reclassification of previous other comprehensive income to profit or loss            | -                                   | -                       | -                       |
| <b>Total other comprehensive income</b>  | <b><u>1,517,487</u></b>             | <b><u>(379,372)</u></b> | <b><u>1,138,115</u></b> |

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

**(a) Cash and cash equivalents**

|   | 31 December 2020            | 31 December 2019            |
|---|-----------------------------|-----------------------------|
| Placements with banks and other financial institutions with maturity less than three months from acquisition date | 5,671,828,400               | 3,835,837,000               |
| Deposits with banks with maturity less than three months from acquisition date                                    | 1,911,019,056               | 2,494,877,313               |
| Surplus reserve deposits with the central bank which can be used for payment                                      | 815,782,162                 | 2,633,082,209               |
| <b>Cash and cash equivalents at the end of the year</b>   | <b><u>8,398,629,618</u></b> | <b><u>8,963,796,522</u></b> |

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

**(35) Notes to the statement of cash flows (Continued)**

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

|  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|--|--|--|
| Net profit/(loss):                           | 2,220,305                              | (13,486,361)                           |
| Adjusted by:                                 |  |  |
| Provision for asset impairment               | 115,571,892                            | 112,715,923                            |
| Depreciation and amortization                | 20,518,839                             | 14,732,387                             |
| Fair value gains                             | (2,102,257)                            | (37,123,802)                           |
| Losses/(gains) on foreign exchange           | 111,338,373                            | (69,736,613)                           |
| Increase in deferred tax assets              | (13,654,331)                           | (32,942,132)                           |
| Increase in operating receivables            | (3,296,672,667)                        | (1,891,568,905)                        |
| Increase in operating payables               | 3,401,405,203                          | 4,478,274,021                          |
| Net cash generated from operating activities | <u><b>338,625,357</b></u>              | <u><b>2,560,864,518</b></u>            |

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

|   |                             |                             |
|---|-----------------------------|-----------------------------|
| Cash and cash equivalents at end of the year                | 8,398,629,618               | 8,963,796,522               |
| Less: Cash and cash equivalents at<br>beginning of the year | <u>(8,963,796,522)</u>      | <u>(6,510,363,196)</u>      |
| Net (decrease)/increase in cash and cash<br>equivalents     | <u><b>(565,166,904)</b></u> | <u><b>2,453,433,326</b></u> |

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**7 CONTINGENT LIABILITIES AND COMMITMENTS**

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

|                                  | 31 December 2020         | 31 December 2019          |
|----------------------------------|--------------------------|---------------------------|
| Irrevocable loan commitment      | 64,272,024               | 111,506,830               |
| Standby letters of credit issued | 6,198,655                | 12,557,160                |
| Letters of credit issued         | -                        | 6,851,391                 |
|                                  | <u><b>70,470,679</b></u> | <u><b>130,915,381</b></u> |

**(2) Operating lease commitments**

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

|                               | 31 December 2020         | 31 December 2019         |
|-------------------------------|--------------------------|--------------------------|
| Within 1 year                 | 11,853,820               | 8,698,896                |
| Over 1 year less than 2 years | 7,815,225                | 7,534,193                |
| Over 2 year less than 3 years | 1,988,974                | -                        |
|                               | <u><b>21,658,019</b></u> | <u><b>16,233,089</b></u> |

**(3) Capital commitments**

Capital expenditures contracted for by the Bank but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

|                                       | 31 December 2020         | 31 December 2019 |
|---------------------------------------|--------------------------|------------------|
| Research and development expenditures | <u><b>19,049,128</b></u> | <u><b>-</b></u>  |

**8 RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS**

**(1) Related parties with controlling relationship**

| Name of entity | Registered location | Main business | Relations with the Bank | Economic nature                 |
|----------------|---------------------|---------------|-------------------------|---------------------------------|
| SPD            | Shanghai<br>China   | Banking       | Joint control           | Joint-equity<br>commercial bank |
| SVB            | Santa Clara<br>USA  | Banking       | Joint control           | Foreign enterprise              |

**(2) Shareholdings of related parties with controlling relationship**

|     | 31 December 2020            |                    | 31 December 2019            |                    |
|-----|-----------------------------|--------------------|-----------------------------|--------------------|
|     | Amount                      | Percentage         | Amount                      | Percentage         |
| SPD | 750,000,000                 | 50%                | 500,000,000                 | 50%                |
| SVB | 750,000,000                 | 50%                | 500,000,000                 | 50%                |
|     | <u><b>1,500,000,000</b></u> | <u><b>100%</b></u> | <u><b>1,000,000,000</b></u> | <u><b>100%</b></u> |

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**8 RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (Continued)**

**(3) Nature of related parties without controlling relationship**

Related legal entities

| Name of related party                    | Relations with the Bank            |
|--|------------------------------------|
| SVB Capital (Shanghai) Co., Ltd.         | Related party of major shareholder |
| SVB Business Partners (Beijing) Co. Ltd. | Related party of major shareholder |

**(4) Related party transactions**

(a) Pricing policy

The major related party transactions of the Bank are interbank borrowing and lending. All transactions of the Bank with related parties follow the general commercial terms and are arranged in the ordinary business course of the Bank. The pricing policy is consistent with that of independent third-party transactions.

(b) Amount of related party transactions

(i) Interbank financing

|  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|--|--|--|
| Interest income from deposits with SPD | 6,055,786                              | 8,217,749                              |
| Interest income from deposits with SVB | -                                      | -                                      |
|  | <b>6,055,786</b>                       | <b>8,217,749</b>                       |

(ii) Services rendered and received

|  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|--|--|--|
| Advisory service income from SVB                                 | 11,061,106                             | 11,175,927                             |
| SVB Business Partners (Beijing) Co. Ltd.                         | 1,886,792                              | 1,482,295                              |
| Advisory service income from SPD                                 | -                                      | 84,906                                 |
| Advisory service income from SVB Capital<br>(Shanghai) Co., Ltd. | 594,150                                | -                                      |
|  | <b>13,542,048</b>                      | <b>12,743,128</b>                      |

(iii) Forex interval cumulative options trading with SPD

|   | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|---|--|--|
| Gains or losses from changes in the fair value<br>of cumulative options in the forex interval | (1,504,965)                            | -                                      |
|   | <b>(1,504,965)</b>                     | <b>-</b>                               |

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**8 RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (Continued)**

(b) Amount of related party transactions (Continued)

(iv) Fees arising from forex interval cumulative options trading with SPD

|  | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|--|--|--|
| Fee expense of forex interval cumulative options trading | (1,809,142)                            | (1,027,682)                            |

(v) Fee charged for settlement and clearing with SPD

|                              | For the year ended<br>31 December 2020 | For the year ended<br>31 December 2019 |
|------------------------------|--|--|
| Settlement and clearing fees | (152,294)                              | (136,133)                              |

(c) Balance of related party transactions

(i) Deposits in related banks

|                   | 31 December 2020     | 31 December 2019     |
|-------------------|----------------------|----------------------|
| Deposits with SPD | 1,331,524,538        | 966,030,389          |
| Deposits with SVB | 60,280,294           | 163,238,994          |
|                   | <b>1,391,804,832</b> | <b>1,129,269,383</b> |

(ii) Interest receivable

|                   | 31 December 2020 | 31 December 2019 |
|-------------------|------------------|------------------|
| Deposits with SPD | 1,308,644        | 4,231,661        |
| Deposits with SVB | -                | 17,569           |
|                   | <b>1,308,644</b> | <b>4,249,230</b> |

(iii) Other assets

|  | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Advisory fee receivable from SVB         | 2,791,634        | 3,436,583        |
| SVB Business Partners (Beijing) Co. Ltd. | 471,698          | -                |
|  | <b>3,263,332</b> | <b>3,436,583</b> |

(iv) Other liabilities

|  | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| SVB Business Partners (Beijing) Co. Ltd. | 1,525,794        | -                |

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**8 RELATED PARTIES RELATIONSHIPS AND TRANSACTIONS (Continued)**

(c) Balance of related party transactions (Continued)

(v) Derivative financial liabilities

The nominal principal and fair value of forex interval cumulative options trading with SPD as at 31 December 2020 are as follows:

|                                  | 31 December 2020  |            |
|----------------------------------|-------------------|------------|
|                                  | Nominal principal | Fair value |
| Derivative financial liabilities | 3,969,800,000     | 1,504,965  |

As at 31 December 2019, the Bank had no derivative financial liabilities.

(d) Transactions with key management personnel

Key management personnel refer to persons who have the authority and responsibility to plan, direct and control the business of the Bank directly or indirectly, including directors, supervisors and senior management personnel. The remuneration of key management personnel is as follow:

|                          | 31 December 2020 | 31 December 2019 |
|--------------------------|------------------|------------------|
| Salary and other welfare | 29,881,407       | 26,231,749       |

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## **9 FINANCIAL RISK MANAGEMENT**

### **(1) Overview**

The Bank's business activities are exposed to a variety of risks, and thus the Bank analyse, evaluate, accept and manage these risks or combination of risks. Risk management is core to the financial industry, and business operations will definitely bring about operating risks. The Bank's goal is to achieve an appropriate balance between risk and return while minimising potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse related risks, to set appropriate risk limits and control procedures, and to monitor the risks and risk limits with the support of reliable information systems.

The Bank is exposed to major business risks including credit risk, market risk and liquidity risk. Market risk includes foreign exchange risk and interest rate risk.

### **(2) Credit risk**

The Bank is exposed to credit risk, which is the risk that may lead to financial losses due to counterparty's failure in repaying all the debts. Significant changes in the economic environment, or in the credit quality of a particular industry segment of the Bank's asset portfolio, could result in losses that are different from those provided for at the balance sheet date. If the counterparties of the transaction are concentrated in similar industries or geographic regions, the credit concentration risk increases. Credit risk exposures arise principally in loans and advances, as well as due to and from banks and other financial institutions. Management of the Bank closely monitors its exposure to credit risk. In terms of credit business and credit risk management, the Bank adopts the following 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 related 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, Chief Credit Officer, Senior Credit Officer, Senior Credit Manager and Senior Client Manager assigned by the BOD have been delegated with certain authorities and responsibilities in relation to credit business and credit risk management. The Credit Management Department and the Risk Management Department are responsible for the credit risk management of the Bank, and keep regular communication and negotiation with Senior Management of the Bank.

#### **(a) Measurement of credit risk**

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

The Risk Management Department reviews and manages the credit risk of individual financial institutions on a regular basis. Limits are set for each bank or non-banking financial institution which maintains financial relationship with the Bank. At the level of large-amount risk exposure, the risk exposure of inter-bank groups is monitored to ensure that the regulatory requirements are met.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

**(2) Credit risk (Continued)**

**(a) Measurement of credit risk (Continued)**

**(ii) *Loans and advances and credit commitment***

The Bank adopts an internal rating system CRR10 to evaluate the credit risk of the borrowers. At the same time, the Bank also designed a five-grade credit asset classification system according to the *Guidelines on Credit Risk Classification* issued by CBIRC, so as to evaluate and manage the credit asset quality of the Bank. Under the Bank's own rating system and the *Guidelines on Credit Risk Classification*, on- and off-balance sheet credit assets should be classified into five categories, namely pass, special mention, sub-standard, doubtful, and loss. The last three categories are also classified as non-performing credit assets.

In the *Guidelines on Credit Risk Classification*, the core definitions of the credit asset classification are as follows:

Pass: The borrower is able to fulfil the contractual obligations, and there is no enough reasons to suspect that the principal and interest cannot be paid in full amount on time.

Special mention: The borrower is able to make current due payments, but there are some indications that may have negative impact on the borrower's future payments.

Sub-standard: The borrower's repayment ability has been in doubt obviously and the loan principal and interest cannot be paid in full based on its normal income. The Bank may suffer from significant losses even with the enforcement of guarantees and collateral.

Doubtful: The borrower cannot repay the principal and interest in full. The Bank may suffer from significant losses even with the enforcement of guarantees and collateral.

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

**(b) Risk exposure limit management and measures of mitigation**

The Bank manages, restricts and controls the identified credit risk concentration, especially on individual borrower, group, industry and region.

The Bank sets limit to the same individual borrower or group borrower to optimize credit risk structures. Such risks are monitored on a regular basis and are subject to an annual or more frequent review when 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 any objective evidence that the expected future cash flow of a financial asset is impaired and the impairment amount can be reasonably assessed, the Bank recognises such impairment and the impairment loss is provided for.

The standards of the Bank in recognising objective evidences of impairment are as follows:

- Breach of contract or overdue in payments of principal or interest;
- Financial difficulties experienced by the borrower;
- Breach of financial covenants or conditions of the debtor;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position.

The Bank reviews the asset quality of single financial asset with material amount at least quarterly. For assets separately provided for provisions, the Bank evaluates the losses case by case on the balance sheet date to determine the amount of provisions provided for. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the expected recoverable amount of the single asset.

Based on historical data, experienced judgement and statistical techniques, the Bank prepares provisions for the following asset portfolios: (i) portfolios with immaterial amount of each transaction and similar credit risk characteristics; and (ii) assets with losses incurred but not identified.

**(d) Maximum exposure to credit risk before collaterals held and other credit enhancement measures**

Exposures to credit risk of on-balance sheet items include:

|  | 31 December 2020      | 31 December 2019      |
|--|-----------------------|-----------------------|
| Deposits with banks                                    | 2,467,762,055         | 2,877,870,693         |
| Placements with banks and other financial institutions | 6,054,187,539         | 3,941,875,240         |
| Interest receivable                                    | 52,623,781            | 36,417,735            |
| Loans and advances                                     | 8,657,846,967         | 6,245,357,796         |
| Available-for-sale financial assets                    | 1,500,928,400         | 293,743,430           |
| Other receivables                                      | 7,403,317             | 5,180,922             |
|  | <b>18,740,752,059</b> | <b>13,400,445,816</b> |

The above table represents the maximum exposure to credit risk before collaterals held and other credit enhancement measures as at 31 December 2020. For the balance sheet items, the above amounts of risk exposure are the net amounts on the balance sheet date. As is shown above, 91.67% of the total on-balance maximum exposure (31 December 2019: 97.50%) is derived from deposits with banks, placements with banks and other financial institutions and loans and advances.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

**(2) Credit risk (Continued)**

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

Exposure to credit risk of off-balance sheet items include:

|                                  | 31 December 2020         | 31 December 2019          |
|----------------------------------|--------------------------|---------------------------|
| Irrevocable loan commitment      | 64,272,024               | 111,506,830               |
| Standby letters of credit issued | 6,198,655                | 12,557,160                |
| Letters of credit issued         | -                        | 6,851,391                 |
|                                  | <b><u>70,470,679</u></b> | <b><u>130,915,381</u></b> |

**(e) Loans and advances**

|                                       | 31 December 2020            | 31 December 2019            |
|---------------------------------------|-----------------------------|-----------------------------|
| Neither past due nor impaired(i)      | 8,659,067,420               | 6,259,163,359               |
| Past due but not impaired(ii)         | 41,419,007                  | 26,858,370                  |
| Impaired(iii)                         | 116,058,346                 | 93,312,575                  |
| <b>Total</b>                          | <b><u>8,816,544,773</u></b> | <b><u>6,379,334,304</u></b> |
| Less: Allowance for impairment losses | (158,697,806)               | (133,976,508)               |
| <b>Loans and advances, net</b>        | <b><u>8,657,846,967</u></b> | <b><u>6,245,357,796</u></b> |

(i) The credit risks of loans and advances neither past due nor impaired can be assessed in reference to the Bank's classification according to the five-grade classification standard issued by CBIRC.

|                 | 31 December 2020            | 31 December 2019            |
|-----------------|-----------------------------|-----------------------------|
| Pass            | 8,634,308,538               | 6,258,164,319               |
| Special mention | 24,758,882                  | 999,040                     |
|                 | <b><u>8,659,067,420</u></b> | <b><u>6,259,163,359</u></b> |

(ii) Loans and advances past due but not impaired

Analysis on days overdue of loans and advances past due but not impaired is as follows:

|                  | Up to 30 days            | 30-60 days               | 60-90 days | Total                    |
|------------------|--------------------------|--------------------------|------------|--------------------------|
| 31 December 2020 | <b><u>3,916,467</u></b>  | <b><u>37,502,540</u></b> | -          | <b><u>41,419,007</u></b> |
|                  | Up to 30days             | 30-60 days               | 60-90 days | Total                    |
| 31 December 2019 | <b><u>26,858,370</u></b> | -                        | -          | <b><u>26,858,370</u></b> |

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

**(2) Credit risk (Continued)**

**(e) Loans and advances (Continued)**

(iii) Impaired loans and advances

|                                       | 31 December 2020         | 31 December 2019         |
|---------------------------------------|--------------------------|--------------------------|
| Corporate impaired loans and advances | 116,058,346              | 93,312,575               |
| Less: Allowance for impairment losses | <u>(73,973,717)</u>      | <u>(50,158,406)</u>      |
| Impaired loans and advances, Net      | <b><u>42,084,629</u></b> | <b><u>43,154,169</u></b> |

Analysis on days overdue of impaired loans and advances is as follows:

|                  | Up to 3 months | 3 months to 1 year | 1 year or above  | Total              |
|------------------|----------------|--------------------|------------------|--------------------|
| 31 December 2020 | -              | <b>116,058,346</b> | -                | <b>116,058,346</b> |
| 31 December 2019 | -              | <b>88,550,670</b>  | <b>4,761,905</b> | <b>93,312,575</b>  |

**(3) Market risk**

The Bank is exposed to market risk, which is the risk that the fair value or future cash flow of the financial instrument exposures held by the Bank may fluctuate due to the fluctuation of market prices. Market risks arise from the circumstances where the positions of exposure in interest rate and currency products are affected by the general or specific changes of market interest rates and foreign exchange rates.

The Bank divides market risk exposures into trading or non-trading investment portfolios. The trading portfolio consists of positions generated from transactions of the Bank with customers or entities of transactions in the market, which is the market maker. The non-trading portfolio consists of interest rate risk management of assets and liabilities in commercial banks.

The Market Risk Management Department of the Bank is in charge of overall market risk management, which takes responsibility of monitoring and analysing market risk changes and implementation of credit limits, with regular report to the senior management.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(a) Currency risk**

The Bank is exposed to exchange rate risks, which is the risk that the positions and cash flow of foreign exchange exposures held by the Bank may be affected by the fluctuation of the foreign exchange rate.

The Bank's principle in controlling currency risk is to match its assets and liabilities in each currency and to restrict currency risk within the designated limits. The Bank has set limits to the exposure of each currency and conducted regular monitoring. The Bank has set risk limits according to the guidelines established by the Risk Management Committee, the relevant regulatory requirements, and management's assessment on the current market environment. The Bank also manages the sources and uses of capitals in foreign currencies to minimize potential currency mismatches of assets and liabilities.

| 31 December 2020                                       | RMB                   | USD(RMB<br>equivalent) | HKD(RMB<br>equivalent) | Other<br>currencies<br>(RMB<br>equivalent) | Total                 |
|--|-----------------------|------------------------|------------------------|--|-----------------------|
| <b>Financial assets:</b>                               |                       |                        |                        |  |                       |
| Cash and deposits with the central bank                | 1,601,993,033         | 424,157,649            | 555,482                | -  | 2,026,706,164         |
| Deposits with banks                                    | 927,243,299           | 1,490,270,239          | 14,487,017             | 35,761,500                                 | 2,467,762,055         |
| Placements with banks and other financial institutions | 1,000,000,000         | 5,054,187,539          | -                      | -  | 6,054,187,539         |
| Interest receivable                                    | 43,133,945            | 9,383,250              | 106,586                | -  | 52,623,781            |
| Loans and advances                                     | 6,797,583,259         | 1,776,276,452          | 83,987,256             | -  | 8,657,846,967         |
| Available-for-sale financial assets                    | 1,500,928,400         | -                      | -                      | -  | 1,500,928,400         |
| Other receivables                                      | 4,538,336             | 2,864,981              | -                      | -  | 7,403,317             |
| <b>Total</b>   | <b>11,875,420,272</b> | <b>8,757,140,110</b>   | <b>99,136,341</b>      | <b>35,761,500</b>                          | <b>20,767,458,223</b> |
| <b>Financial liabilities:</b>                          |                       |                        |                        |  |                       |
| Deposits from banks and other financial institutions   | 169,400,000           | -                      | -                      | -  | 169,400,000           |
| Customer deposits                                      | 9,017,818,730         | 10,038,099,855         | 16,505,023             | 19,939,377                                 | 19,092,362,985        |
| Interest payable                                       | 5,568,769             | 19,996,196             | -                      | -  | 25,564,965            |
| Derivative financial liabilities                       | 1,504,965             | 1,702,070              | -                      | -  | 3,207,035             |
| Other payables   | -                     | 19,812,781             | -                      | 13,101,454                                 | 32,914,235            |
| <b>Total</b>   | <b>9,194,292,464</b>  | <b>10,079,610,902</b>  | <b>16,505,023</b>      | <b>33,040,831</b>                          | <b>19,323,449,220</b> |
| <b>Net balance sheet position</b>                      | <b>2,681,127,808</b>  | <b>(1,322,470,792)</b> | <b>82,631,318</b>      | <b>2,720,669</b>                           | <b>1,444,009,003</b>  |
| <b>Financial guarantee and credit commitment</b>       | <b>-</b>              | <b>70,470,679</b>      | <b>-</b>               | <b>-</b>                                   | <b>70,470,679</b>     |

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(b) Currency risk (Continued)**

| 31 December 2019  | RMB                   | USD(RMB<br>equivalent) | HKD(RMB<br>equivalent) | Other<br>currencies<br>(RMB<br>equivalent) | Total                 |
|---|-----------------------|------------------------|------------------------|--|-----------------------|
| <b>Financial assets:</b>                                  |                       |                        |                        |  |                       |
| Cash and deposits with the<br>central bank                | 3,217,517,028         | 312,701,189            | 26,873                 | -  | 3,530,245,090         |
| Deposits with banks                                       | 579,216,943           | 2,241,414,718          | 2,615,094              | 54,623,938                                 | 2,877,870,693         |
| Placements with banks and<br>other financial institutions | 1,150,000,000         | 2,791,875,240          | -                      | -  | 3,941,875,240         |
| Interest receivable                                       | 18,249,716            | 18,161,846             | 282                    | 5,891                                      | 36,417,735            |
| Loans and advances  | 4,766,814,896         | 1,478,542,900          | -                      | -  | 6,245,357,796         |
| Available-for-sale financial<br>assets                    | 293,743,430           | -                      | -                      | -  | 293,743,430           |
| Other receivables   | -                     | 5,180,922              | -                      | -  | 5,180,922             |
| <b>Total</b>  | <b>10,025,542,013</b> | <b>6,847,876,815</b>   | <b>2,642,249</b>       | <b>54,629,829</b>                          | <b>16,930,690,906</b> |
| <b>Financial liabilities:</b>                             |                       |                        |                        |  |                       |
| Deposits from banks and<br>other financial institutions   | 859,768,820           | -                      | -                      | -  | 859,768,820           |
| Customer deposits   | 8,225,550,028         | 6,732,035,656          | 1,306,516              | 53,170,306                                 | 15,012,062,506        |
| Interest payable  | 11,124,767            | 25,975,224             | 6                      | 9  | 37,100,006            |
| Other payables  | 3,869,584             | -                      | -                      | -  | 3,869,584             |
| <b>Total</b>  | <b>9,100,313,199</b>  | <b>6,758,010,880</b>   | <b>1,306,522</b>       | <b>53,170,315</b>                          | <b>15,912,800,916</b> |
| <b>Net balance sheet</b>                                  | <b>925,228,814</b>    | <b>89,865,935</b>      | <b>1,335,727</b>       | <b>1,459,514</b>                           | <b>1,017,889,990</b>  |
| <b>Financial guarantee and<br/>credit commitment</b>      | <b>50,000,000</b>     | <b>74,063,990</b>      | <b>-</b>               | <b>6,851,391</b>                           | <b>130,915,381</b>    |

**(b) Interest rate risk**

In response to the influences caused by future interest rate changes, the Bank adopts sensitivity analysis on net interest income as the major instrument for assessing current and expected risks. The difference between interest-bearing asset that will be due in a certain period or requires repricing and interest-bearing liabilities is calculated on a regular basis, and the data is used for sensitivity analysis under changes of benchmark interest rate. The Bank has established a reporting framework for the sensitivity analysis, the results of which are regularly summarized and reported to senior management, Asset and Liability Management Committee and Risk Management Committee.

The table below summarizes the interest rate risks of the Bank. The on-balance sheet asset and liability items are categorized by the earlier of the contractual repricing date and the maturity date, and are listed at the carrying amounts.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(c) Interest rate risk (Continued)**

| 31 December 2020                                       | Within 3 months        | 3-12 months          | 1-5 years            | Non-interest bearing | Total                 |
|--|------------------------|----------------------|----------------------|----------------------|-----------------------|
| <b>Financial asset:</b>                                |                        |                      |                      |                      |                       |
| Cash and deposits with the central bank                | 2,026,706,164          | -                    | -                    | -                    | 2,026,706,164         |
| Deposits with banks                                    | 2,337,264,055          | 130,498,000          | -                    | -                    | 2,467,762,055         |
| Interest receivable                                    | -                      | -                    | -                    | 52,623,781           | 52,623,781            |
| Placements with banks and other financial institutions | 5,834,950,899          | 130,498,000          | 88,738,640           | -                    | 6,054,187,539         |
| Loans and advances                                     | 2,473,795,251          | 4,697,870,044        | 1,486,181,672        | -                    | 8,657,846,967         |
| Available-for-sale financial assets                    | -                      | -                    | 1,500,928,400        | -                    | 1,500,928,400         |
| Other receivables                                      | -                      | -                    | -                    | 7,403,317            | 7,403,317             |
| <b>Total</b>   | <b>12,672,716,369</b>  | <b>4,958,866,044</b> | <b>3,075,848,712</b> | <b>60,027,098</b>    | <b>20,767,458,223</b> |
| <b>Financial liabilities:</b>                          |                        |                      |                      |                      |                       |
| Deposits from banks and other financial institutions   | 89,400,000             | 80,000,000           | -                    | -                    | 169,400,000           |
| Customer deposits                                      | 15,682,747,440         | 3,322,543,588        | 87,071,957           | -                    | 19,092,362,985        |
| Interest payable                                       | -                      | -                    | -                    | 25,564,965           | 25,564,965            |
| Derivative financial liabilities                       | -                      | -                    | -                    | 3,207,035            | 3,207,035             |
| Other payables   | -                      | -                    | -                    | 32,914,235           | 32,914,235            |
| <b>Total</b>   | <b>15,772,147,440</b>  | <b>3,402,543,588</b> | <b>87,071,957</b>    | <b>61,686,235</b>    | <b>19,323,449,220</b> |
| <b>Net interest re-pricing gap</b>                     | <b>(3,099,431,071)</b> | <b>1,556,322,456</b> | <b>2,988,776,755</b> | <b>(1,659,137)</b>   | <b>1,444,009,003</b>  |

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(c) Interest rate risk (Continued)**

| 31 December 2019                                       | Within 3 months       | 3-12 months            | 1-5 years          | Non-interest bearing | Total                 |
|--|-----------------------|------------------------|--------------------|----------------------|-----------------------|
| <b>Financial asset:</b>                                |                       |                        |                    |                      |                       |
| Cash and deposits with the central bank                | 3,530,245,090         | -                      | -                  | -                    | 3,530,245,090         |
| Deposits with banks                                    | 2,494,877,313         | 382,993,380            | -                  | -                    | 2,877,870,693         |
| Interest receivable                                    | -                     | -                      | -                  | 36,417,735           | 36,417,735            |
| Placements with banks and other financial institutions | 3,835,837,000         | -                      | 106,038,240        | -                    | 3,941,875,240         |
| Loans and advances                                     | 6,099,024,430         | 146,333,366            | -                  | -                    | 6,245,357,796         |
| Available-for-sale financial assets                    | -                     | -                      | 293,743,430        | -                    | 293,743,430           |
| Other receivables                                      | -                     | -                      | -                  | 5,180,922            | 5,180,922             |
| <b>Total</b>   | <b>15,959,983,833</b> | <b>529,326,746</b>     | <b>399,781,670</b> | <b>41,598,657</b>    | <b>16,930,690,906</b> |
| <b>Financial liabilities:</b>                          |                       |                        |                    |                      |                       |
| Deposits from banks and other financial institutions   | 353,221,820           | 506,547,000            | -                  | -                    | 859,768,820           |
| Customer deposits                                      | 12,506,672,415        | 2,505,390,091          | -                  | -                    | 15,012,062,506        |
| Interest payable                                       | -                     | -                      | -                  | 37,100,006           | 37,100,006            |
| Other payables   | -                     | -                      | -                  | 3,869,584            | 3,869,584             |
| <b>Total</b>   | <b>12,859,894,235</b> | <b>3,011,937,091</b>   | <b>-</b>           | <b>40,969,590</b>    | <b>15,912,800,916</b> |
| <b>Net interest re-pricing gap</b>                     | <b>3,100,089,598</b>  | <b>(2,482,610,345)</b> | <b>399,781,670</b> | <b>629,067</b>       | <b>1,017,889,990</b>  |

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(b) Interest rate risk (Continued)**

The table below illustrates the potential impact to the fiscal year after the balance sheet date of the Bank when the yield curve shifts by 100 basis points:

|   | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| the yield curve shifts up by 100 basis points   | (21,283,813)     | 17,815,995       |
| the yield curve shifts down by 100 basis points | 21,283,813       | (17,815,995)     |

In performing sensitivity analysis, the Bank has made the following assumptions in deciding the commercial conditions and financial parameters:

- i. Business changes after the balance sheet date are not considered, and the analysis is based on the static gap on the balance sheet date;
- ii. All assets and liabilities repriced are supposed to be repriced in the middle of the related period;
- iii. Impacts of interest rate changes to market prices are not considered;
- iv. Impacts of interest rate changes to off-balance sheet items are not considered;
- v. The necessary actions to be taken by the Bank in response to the interest rate changes are not considered.

Considering the above restrictions, the actual changes in the net interest income of the Bank due to interest rate changes may be different from the results of this sensitivity analysis.

**(4) Liquidity risk**

The Bank receives various day-to-day requests for cash withdrawal, including payment demands of overnight deposits, demand deposits and term deposits. Based on past experience, a considerable amount of deposits will not be withdrawn immediately on the maturity date, but is still kept in the Bank. However, in response to unexpected capital needs, the Bank regulates the standard of minimum capital reserve and a minimum limit to placement from banks and other financial institutions and other borrowings, so as to meet various demands of withdrawal.

The matching and effective control on mismatching of the structure of maturity date between assets and liabilities is extremely significant to the management of the Bank. It is unusual for banks to completely match the items of assets and liabilities since business transactions are often of uncertain terms and different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The matching of structure of maturity date between assets and liabilities and the ability to replace interest-bearing liabilities at an acceptable cost as they mature are both important factors in assessing the liquidity risk of the Bank.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(a) Cash flows of non-derivative financial assets and liabilities**

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

|  | Within 1 month         | 1 - 3 months         | 3-12 months          | 1-5 years            | Overdue            | Indefinite           | Total                 |
|--|------------------------|----------------------|----------------------|----------------------|--------------------|----------------------|-----------------------|
| 31 December 2020                                       |                        |                      |                      |                      |                    |                      |                       |
| <b>Financial assets:</b>                               |                        |                      |                      |                      |                    |                      |                       |
| Cash and deposits with the central bank                | 815,782,162            | -                    | -                    | -                    | -                  | 1,210,924,002        | 2,026,706,164         |
| Deposits with banks                                    | 2,272,641,174          | 65,449,097           | 131,106,039          | -                    | -                  | -                    | 2,469,196,310         |
| Placements with banks and other financial institutions | 3,388,584,075          | 2,448,559,167        | 131,685,532          | 91,625,599           | -                  | -                    | 6,060,454,373         |
| Loan and advances                                      | 1,186,797,878          | 1,349,491,249        | 4,892,298,297        | 1,562,267,557        | 157,477,353        | -                    | 9,148,332,334         |
| Available-for-sale financial assets                    | -                      | -                    | 40,064,000           | 1,644,616,000        | -                  | -                    | 1,684,680,000         |
| Other receivables                                      | 3,263,332              | -                    | -                    | -                    | -                  | 4,139,985            | 7,403,317             |
| <b>Total</b>   | <b>7,667,068,621</b>   | <b>3,863,499,513</b> | <b>5,195,153,868</b> | <b>3,298,509,156</b> | <b>157,477,353</b> | <b>1,215,063,987</b> | <b>21,396,772,498</b> |
| <b>Financial liabilities:</b>                          |                        |                      |                      |                      |                    |                      |                       |
| Deposits from banks and other financial institutions   | -                      | 89,875,754           | 81,945,222           | -                    | -                  | -                    | 171,820,976           |
| Customer deposits                                      | 13,116,726,303         | 2,594,754,015        | 3,348,453,856        | 88,524,152           | -                  | -                    | 19,148,458,326        |
| Other payables   | 32,914,235             | -                    | -                    | -                    | -                  | 4,981,437            | 37,895,672            |
| <b>Total</b>   | <b>13,149,640,538</b>  | <b>2,684,629,769</b> | <b>3,430,399,078</b> | <b>88,524,152</b>    | <b>-</b>           | <b>4,981,437</b>     | <b>19,358,174,974</b> |
| <b>Net cashflow</b>                                    | <b>(5,482,571,917)</b> | <b>1,178,869,744</b> | <b>1,764,754,790</b> | <b>3,209,985,004</b> | <b>157,477,353</b> | <b>1,210,082,550</b> | <b>2,038,597,524</b>  |

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(a) Cash flows of non-derivative financial assets and liabilities (Continued)**

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

|  | Within 1 month       | Within 3 months        | 3-12 months          | 1-5 years            | Overdue            | Indefinite         | Total                 |
|--|----------------------|------------------------|----------------------|----------------------|--------------------|--------------------|-----------------------|
| 31 December 2019                                       |                      |                        |                      |                      |                    |                    |                       |
| <b>Financial assets:</b>                               |                      |                        |                      |                      |                    |                    |                       |
| Cash and deposits with the central bank                | 2,633,082,209        | -                      | -                    | -                    | -                  | 897,162,881        | 3,530,245,090         |
| Deposits with banks                                    | 2,356,035,116        | 139,941,802            | 387,969,852          | -                    | -                  | -                  | 2,883,946,770         |
| Placements with banks and other financial institutions | 3,837,677,029        | -                      | -                    | 113,306,826          | -                  | -                  | 3,950,983,855         |
| Loan and advances                                      | 263,244,517          | 446,251,853            | 3,336,463,467        | 2,614,008,113        | 120,170,945        | -                  | 6,780,138,895         |
| Available-for-sale financial assets                    | -                    | -                      | 9,760,000            | 320,352,000          | -                  | -                  | 330,112,000           |
| Other receivables                                      | 5,180,922            | -                      | -                    | -                    | -                  | -                  | 5,180,922             |
| <b>Total</b>   | <b>9,095,219,793</b> | <b>586,193,655</b>     | <b>3,734,193,319</b> | <b>3,047,666,939</b> | <b>120,170,945</b> | <b>897,162,881</b> | <b>17,480,607,532</b> |
| <b>Financial liabilities:</b>                          |                      |                        |                      |                      |                    |                    |                       |
| Deposits from banks and other financial institutions   | 353,784,595          | -                      | 514,948,492          | -                    | -                  | -                  | 868,733,087           |
| Customer deposits                                      | 9,576,843,899        | 2,940,499,875          | 2,542,992,903        | -                    | -                  | -                  | 15,060,336,677        |
| Other payables   | 3,869,584            | 6,323,963              | 20,770,000           | -                    | -                  | -                  | 30,963,547            |
| <b>Total</b>   | <b>9,934,498,078</b> | <b>2,946,823,838</b>   | <b>3,078,711,395</b> | <b>-</b>             | <b>-</b>           | <b>-</b>           | <b>15,960,033,311</b> |
| <b>Net cashflow</b>                                    | <b>(839,278,285)</b> | <b>(2,360,630,183)</b> | <b>655,481,924</b>   | <b>3,047,666,939</b> | <b>120,170,945</b> | <b>897,162,881</b> | <b>1,520,574,221</b>  |

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

**(b) Analysis on cash flows of derivative financial instruments**

The derivative financial instruments of the Bank at the end of the year include foreign exchange swaps and forex interval cumulative options.

| 31 December 2020 | Within 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Total         |
|------------------|----------------|------------|--------------------|-----------|---------------|
| Outflow          | 1,347,315,374  | 13,844,345 | 13,286,506         | -         | 1,374,446,225 |
| Inflow           | 1,336,083,495  | 6,728,098  | 6,160,810          | -         | 1,348,972,403 |

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

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

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

|                                  | Within 1 year     | 1-5 years         | Total             |
|----------------------------------|-------------------|-------------------|-------------------|
| 31 December 2020                 |                   |                   |                   |
| Standby letters of credit issued | 5,219,920         | 978,735           | 6,198,655         |
| Irrevocable loan commitment      | -                 | 64,272,024        | 64,272,024        |
| Operating lease commitments      | 11,853,820        | 9,804,199         | 21,658,019        |
| <b>Total</b>                     | <b>17,073,740</b> | <b>75,054,958</b> | <b>92,128,698</b> |

|                                  | Within 1 year      | 1-5 years         | Total              |
|----------------------------------|--------------------|-------------------|--------------------|
| 31 December 2019                 |                    |                   |                    |
| Letters of credit issued         | 6,851,391          | -                 | 6,851,391          |
| Standby letters of credit issued | 12,557,160         | -                 | 12,557,160         |
| Irrevocable loan commitment      | 99,879,830         | 11,627,000        | 111,506,830        |
| Operating lease commitments      | 8,698,896          | 7,534,193         | 16,233,089         |
| <b>Total</b>                     | <b>127,987,277</b> | <b>19,161,193</b> | <b>147,148,470</b> |

**(5) Fair Value of financial assets and financial liabilities**

The level in which fair value measurement is categorised is determined by the lowest level of the input value which is crucial to the overall fair value measurement:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Directly or indirectly observable input values of related assets or liabilities other than input values of Level 1.

Level 3: Unobservable input values of related assets or liabilities.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

**(5) Fair Value of financial assets and financial liabilities (Continued)**

**(a) Assets measured at fair value on a recurring basis (Continued)**

As at 31 December 2020, the financial instruments measured at fair value on a recurring basis are listed below by the above three levels:

|  | Level 1  | Level 2              | Level 3  | Total                |
|--|----------|----------------------|----------|----------------------|
| Financial assets                             |          |                      |          |                      |
| Available-for-sale financial assets          |          |                      |          |                      |
| - National bonds                             | <u>-</u> | <u>1,500,928,400</u> | <u>-</u> | <u>1,500,928,400</u> |
| Financial liabilities                        |          |                      |          |                      |
| Customer deposits                            |          |                      |          |                      |
| - Structured deposits measured at fair value | <u>-</u> | <u>4,001,614,540</u> | <u>-</u> | <u>4,001,614,540</u> |

As at 31 December 2019, the financial instruments measured at fair value on a recurring basis are listed below by the above three levels:

|  | Level 1  | Level 2              | Level 3  | Total                |
|--|----------|----------------------|----------|----------------------|
| Financial assets                             |          |                      |          |                      |
| Available-for-sale financial assets          |          |                      |          |                      |
| - National bonds                             | <u>-</u> | <u>293,743,430</u>   | <u>-</u> | <u>293,743,430</u>   |
| Financial liabilities                        |          |                      |          |                      |
| Customer deposits                            |          |                      |          |                      |
| - Structured deposits measured at fair value | <u>-</u> | <u>3,083,703,802</u> | <u>-</u> | <u>3,083,703,802</u> |

The Bank takes the date on which events causing transfers between levels take place as the timing specific for recognising the transfers. There is no transfer between Level 1 and Level 2 for the current year.

For the financial instruments traded in an active market, the Bank determines their fair values upon its quoted prices in the active market. For those not traded in an active market, the Bank determines their fair values with valuation techniques. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include risk-free interest rate, benchmark interest rate, exchange rate, credit spread, liquidity premium, EBITDA multiplier and lack of liquidity discount etc.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

**(5) Fair Value of financial assets and financial liabilities (Continued)**

**(b) Assets and liabilities not measured at fair value**

- (i) Cash and deposits with the central bank, deposits with banks, placements with banks and other financial institutions, interest receivable, deposits from banks and other financial institutions, interest payable, other receivables and other payables.

Given that the above financial assets and liabilities are either with maturity dates of less than one year or with floating rates, their carrying amounts are approximate to their fair values.

- (ii) Loans and advances

Loans and advances are listed at amortised costs less allowances for impairment losses. As the interest rates of loans and advances are mainly adjusted along with the trend of LPR or market interest rates, and the impaired loans have deducted the impairment allowances to reflect their recoverable amounts, the fair values of loans and advances are approximate to their carrying amounts.

- (iii) Customer deposits

The fair values of check account, savings account and short-term capital market deposit are the amounts payable to the customers on the due date. Their fair values are approximate to their carrying amounts as most fixed interest rate deposits mature within one year.

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**9 FINANCIAL RISK MANAGEMENT (Continued)**

**(6) Capital management**

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

The Bank adheres to an active capital management policy to achieve the following goals:

(i) To ensure the Bank is in compliance with the regulatory requirements on CAR and has sufficient capital to support the capital demand of internal assessment;

(ii) To ensure the Bank has adequate capital to support the implementation of business strategy and business development;

(iii) To optimize the return to shareholders while maintaining a prudent level of capital depending on the underlying business risks.

The Bank calculates capital adequacy ratio in accordance with *Capital Management Rules for Commercial Banks (Provisional)* and other regulatory requirements issued by the CBIRC. As requested, the Bank adopts weighted approach for measurement of credit risk weighted assets, standard approach for the measurement of market risk weighted assets, and basic indicator approach for the operation risk weighted assets.

The capital adequacy ratios calculated according to the *Capital Management Rules for Commercial Banks (Provisional)* and other regulatory requirements issued by the CBIRC are as follows:

|  | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| Core Tier 1 capital adequacy ratio                     | 15.48%           | 13.67%           |
| Tier 1 capital adequacy ratio                          | 15.48%           | 13.67%           |
| Capital adequacy ratio                                 | 15.93%           | 14.23%           |
| Core Tier 1 capital                                    | 1,511,196,943    | 1,030,426,059    |
| Less: Regulatory Deductions for<br>Core Tier 1 capital | 42,546,641       | 38,968,229       |
| Net core Tier 1 capital                                | 1,468,650,302    | 991,457,830      |
| Other Tier 1 capital                                   | -                | -                |
| Net Tier 1 capital                                     | 1,468,650,302    | 991,457,830      |
| Tier 2 capital   | 42,639,459       | 40,664,008       |
| Total regulatory capital                               | 1,511,289,761    | 1,032,121,838    |
| Total risk-weighted assets                             | 9,487,195,018    | 7,252,513,943    |

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**10 Subsequent Events**

In 2017, the Ministry of Finance revised and issued the *Accounting Standard for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments*, *Accounting Standard for Business Enterprises No. 23—Transfer of Financial Assets*, *Accounting Standard for Business Enterprises No. 24—Hedging* and *Accounting Standard for Business Enterprises No. 37—Presentation of Financial Instruments* (the above-mentioned standards are collectively referred to as the “New Financial Instruments Standards”), requiring non-listed companies that implement the Accounting Standard for Business Enterprises to carry out the new standards from 1 January 2021. According to the convergence provisions of the new financial instrument standards, companies do not need to restate the comparables in the previous period, but should make retrospective adjustments to the retained earnings or other comprehensive income at the beginning of the period. Therefore, from the year 2021, the Bank discloses accounting statements in accordance with the requirements of the new accounting standards, without restating the data for the comparison period in 2020, and adjusts the retained earnings at the beginning of 2021 in light of the impact of the conversion from the old to the new accounting standards.