浦发硅谷银行
SPD SILICON VALLEY BANK

SPD SILICON VALLEY BANK 2012 ANNUAL REPORT AND ACCOUNTING STATEMENT

Contents

This Annual Report is the SPD Silicon Valley Bank 2012 Annual Report and Accounting Statement. According to the Commercial Bank Information Disclosure Policy issued by China Banking Regulatory Commission, this Report shall include a BOD report, a financial report, an independent audit report and other information.

This Annual Report and Accounting Statement is prepared in both Chinese and English. The English is a translation version for reference purposes only. In case of any discrepancy between the Chinese version and the English version, the Chinese version shall prevail.

Bank Briefing and Financial Abstract

Financial Abstract
(USD MM)

	2012
Yearly	
Operating Income	2.89
Operating Expense	6.31
Operating Profit	-3.42
Total Loss	-2.41
Net Loss	-1.81
Balance Sheet as of Dec. 31	
Loan	0
Total Assets	172.34
Customer Deposits	11.35
Total Liabilities	14.78
Total Owner's Equity	157.56
Capital Adequacy Ratio	1394.15%

PS Operating Income = Net Interest Income + Net Fee and Commission Income + Net Losses on FX and Derivative Transactions
Operating Expense = Business Tax and Levies + General and Administrative Expenses
Operating Profit = Operating Income - Operating Expense
Total Loss = Operating Profit + Non-Operating Income
Net Loss = Total Loss + Income Tax

SPD Silicon Valley Bank ("SSVB" or the "Bank") is a Sino-foreign joint venture bank held 50%-50% by Shanghai Pudong Development Bank ("SPDB") and Silicon Valley Bank ("SVB"). SSVB has a registered capital of RMB 1 billion.

Our Chinese shareholder SPDB plays a leading role in domestic corporate banking business. As a listed joint-stock bank with business across the country, after over a decade's rapid development, SPDB has established a strong nationwide network and gained comparative edge in corporate banking business.

Our foreign shareholder SVB is the California bank subsidiary and the commercial banking operation of SVB Financial Group. SVB is headquartered in Santa Clara, California, the heart of Silicon Valley and is established with the approval of the California Department of Financial Institutions. SVB is focused on providing financial services to technology companies. In the U.S. or even worldwide, SVB is almost the only commercial bank that has consistently and exclusively focused on serving the technology space.

On October 14, 2011, CBRC approved the preparation of SPD Silicon Valley Bank (Yin Jian Han [2011] No. 278). After nearly ten months' preparation and efforts, SSVB formally opened on July 30, 2012 as approved by CBRC (Yin Jian Fu [2012] No. 415).

Except for the head office, the Bank had no branch.

SPD Silicon Valley Bank Co., Ltd.

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Tel: (8621) 35159088/89   Fax: (8621) 35159070/71

As approved by CBRC, the Bank will engage in foreign exchange business for all clients within the following scope: accepting public deposits, making short-term, medium-term and long-term loans, acceptance and discount of negotiable instruments, buying and selling government bonds and financial bonds, buying and selling non-stock negotiable securities denominated in a foreign currency, providing L/C services and guarantee, domestic and international settlements, buying and selling foreign exchange for itself or on an agency basis, inter-bank funding, bank card business, safe deposit box, providing credit-standing investigation and consultation services, and other business approved by CBRC.

The Bank will leverage the advantages of its two shareholders and focus on providing commercial banking services for China's technology and innovation companies. The strategic goal of the Bank is to become the model for China's banking industry in serving China's rapidly developing technology and innovation companies as well as risk management, and become an active driver of China's innovation ecosystem.

BOD Report – Corporate Governance

BOD

As of December 31, 2012, the BOD of SSVB consisted of the following members:

Fu Jianhua	Chairman
Ken Wilcox	President, Executive Director
Liu Xinyi	Non-executive Director
Ge Yufei	Non-executive Director
Michael Descheneaux	Non-executive Director
Bruce Wallace	Non-executive Director
Guo Guangchang	Independent Director
Gary Rieschel	Independent Director

The BOD shall be responsible to and report to the Shareholders Meeting, and shall perform duties according to the Articles of Association of SPD Silicon Valley Bank.

The BOD duly performed the duties of trusteeship and custody this year. In 2012, the BOD and its sub-committees (including the Strategy Committee, the Risk Management Committee, the Related-Party Transaction Control Committee, the Audit Committee and the Remuneration and Evaluation Committee) complied with applicable laws and regulations, regulatory requirements and the Articles of Association, duly performed their duties under the Bank's corporate governance structure and mechanism, and approved important matters within their authorities. The BOD and its sub-committees also conducted risk monitoring and oversight on the senior management's performance through hearing the reports made by senior management, reviewing reports on the performance of internal control and risk management, etc.

The directors were diligent and responsible, and actively attended BOD and sub-committee meetings. The directors actively participated in discussions and proposed professional opinions and advice based on their expertise and experience.

The Bank had two independent directors: Mr. Guo Guangchang and Mr. Gary Rieschel. As approved by the BOD, Mr. Guo Guangchang also served as Chairman of the Audit Committee and the Related-Party Transaction Control Committee, and Mr. Gary Rieschel also served as Chairman of the Risk Management Committee and the Remuneration and Evaluation Committee. The two independent directors diligently and duly performed their duties as independent director and convener of BOD committees. They actively attended BOD meetings, proposed independent opinions and advice on the Bank's major business issues based on their expertise and experience, and played an active role in the establishment of the BOD and its sub-committees, the preparation of business development strategy plan, the appointment of senior management members, internal and external audit, risk management, etc.

The BOD held a preparatory meeting and its 1st meeting on May 3, 2012 and September 4, 2012, respectively. The BOD deliberated and adopted the election of Chairman, the appointment of Senior Management, the setup of internal management organizations, the composition and establishment of BOD committees, the business development strategy plan, the internal management policies and risk management policies and other important resolutions.

The Strategy Committee, the Risk Management Committee and the Remuneration and Evaluation Committee each held a meeting in 2012. The Audit Committee and the Related-Party Transaction Committee did hot hold meetings due to certain reasons.

Supervisor

As of December 31, 2012, the Bank had one supervisor, assumed by Mr. Lu Xiongwen. The supervisor is appointed by the Shareholders Meeting, and shall be responsible to the Shareholders Meeting and report to the shareholders. The supervisor was diligent and responsible, and effectively performed his duties. The supervisor attended BOD and sub-committee meetings (as non-voting delegate), reviewed BOD documents, heard reports made by senior management at BOD meetings, actively participated in discussions from the supervisor's perspective, inspected the Bank's financial conditions, supervised the performance of directors and senior management, conducted performance evaluation and reported the evaluation results to the Shareholders Meeting.

Senior Management

As appointed by the BOD and approved by the regulator, as of December 31, 2012, the senior management of SSVB consisted of the following members:

KEN WILCOX	President
MIKE YAHNG	Vice President Head of Corporate Banking Department
TIM HARDIN	Vice President Chief Risk Officer and Head of Risk Management
Ke Pei	Vice President Chief Compliance Officer and Head of Strategy and Compliance
Maggie Shao	Vice President Chief Financial Officer and Head of Finance and Treasury

Shareholders' Meeting

The Bank held a shareholders meeting on May 3, 2012, the shareholders' representatives deliberated and adopted the election of directors/supervisor, the Articles of Association, the Rules of Procedure of the Shareholders Meeting, the Rules of Procedure of the Board of Directors, BOD and Director Performance Evaluation Management Policy and other important resolutions. The Shareholders Meeting approved, via written special resolutions, the appointment of external auditor, the remuneration for directors/supervisor and other related matters.

External Auditor

As approved by the Shareholders Meeting, the Bank appointed PricewaterhouseCoopers Zhongtian Certified Public Accountants as its external auditor for 2012 fiscal year.

Capital Adequacy

As of December 31, 2012, SSVB had US$ 158 million (RMB 990 million equivalent) of net core Tier 1 capital, with $159 million of paid-in capital (equivalent to RMB 1 billion). The audited net loss was US$ 1.81 million (RMB 11.36 million equivalent). The foreign currency translation difference was US$ 270,000 (RMB 1.67 million equivalent). SSVB did not use any other capital instrument in 2012, so the core Tier 1 capital, Tier 1 capital and total capital were the same.

The calculation of SSVB's capital adequacy ratio covered credit risk, market risk and operational risk, and the weight approach, standardized approach and basic indicator approach were adopted respectively to calculate related risk-weighted assets.

As of December 31, 2012, SSVB had no domestic or international branches or directly or indirectly held financial institutions. As a result, the calculation of both consolidated and unconsolidated capital adequacy ratios covered only the head office.

As of December 31, 2012, all of the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of SSVB were 304.65%, well above regulatory requirements.

Financial Snapshot

As of the end of 2012, audited total assets of SSVB reached to US$ 172 million (RMB 1.08 billion equivalent), and the outstanding deposits were US$ 11.35 million (RMB 71.37 million equivalent). The Bank had no lending business yet, the outstanding loan was zero.

As of the end of December 2012, the treasury business of our bank is confined to interbank savings, including USD and RMB interbank savings. As of the end of December 2012, the interbank balance was US$ 168 million (RMB 1058 million equivalent), and the treasury business revenue was US$ 2.98 million (RMB 18.76 million equivalent).

The 2012 EBIT was a loss of US$ 1.81 million (RMB 11.38 million equivalent). The total operating expense of 2012 was US$ 6.31 million (RMB 38.63 million equivalent), which was mainly made up of setup fee, office rent/decoration, systems and staff payments. Total revenue was US$ 3.90 million (RMB 24.54 million equivalent), which was mainly generated by interbank deposits and government subsidies. Income tax revenue was US$ 0.6 million, caused by deferred income tax assets.

Risk Management

Risk management of the Bank has three broad objectives:

- To align risk management with the Bank's vision, values, mission and overall business strategy;
- To instill ownership of risk management throughout the Bank, from individual employees in each business unit to the executives on Steering Committee; and

- To continuously improve risk management by identifying, developing and managing risk measures in an economically efficient manner via business plans, risk controls and supporting technology.

The Bank implements enterprise-wide risk management so as to identify various risks that the Bank may have and to monitor them from the top management and based on a unified risk management framework. The risks identified include: credit risk, market risk, liquidity risk, operational risk, compliance risk, reputational risk and strategy risk.

The BOD provides general risk oversight, with its sub-committees (the Audit Committee, the Strategy Committee, the Risk management Committee, the Remuneration and Evaluation Committee, and the Related-Party Transaction Control Committee) focusing on specific risk categories. In addition, the Audit Committee provides oversight for enterprise-wide risk management.

The BOD has reviewed and approved the enterprise-wide risk management policy. The BOD has also approved the Bank's internal organizational structure and reporting line, and defined the risk management duties of the senior management, to ensure the independence of the Risk Management Department. At quarterly board meetings, RMC provides the risk assessment report to BOD for awareness and discussion of risk management strategies.

The Chief Risk Officer and other management personnel shall ensure the establishment and implementation of enterprise-wide risk management policies and strategies governing key factors related to credit, market, liquidity, operational/technology, legal/compliance and strategic/reputational risk, and shall report to the Risk Management Committees on a quarterly basis. The Risk Management Committee and Risk Management Department will be responsible for carrying out enterprise-wide risk management on the Bank. The Bank carried out the following risk management activities in 2012: working out various risk management policies, establishing enterprise-wide risk assessment framework and implementation plan, and overseeing the implementation of various risk management measures.

Internal audit, as a 3rd line of defense for risk management, evaluates the adequacy and effectiveness of the Bank's risk management processes for identifying, measuring, monitoring and controlling risk, reports their findings to the Audit Committee and follows up with the corrections. To maintain independence, the Head of Internal Audit reports directly to the Chair of the Audit Committee.

Credit Risk

We have a knowledgeable and experienced credit risk management team and an established the Credit Business and Credit Risk Management Policy to ensure that the Bank extends and manages credit in a manner consistent with the focus on credit quality. As the Bank did not make any loan or inter-bank loan in 2012, the credit risk may be basically ignored.

Market Risk

The Bank will conduct full identification, accurate measurement, ongoing monitoring and appropriate control of the market risks involved in transaction and non-transaction business, so as to operate continuously and stably within the acceptable scope of risks.

The Bank takes into full consideration the correlation between market risk and other risks (such as credit risk, liquidity risk, operational risk, legal risk and reputational risk), and ensures the market risk management policies and procedures to be consistent with the policies and procedures for the management of other risks.

For the exchange rate risk exposure of the Bank's capital due to RMB/USD exchange rate fluctuations and the interest rate risk associated with overnight inter-bank deposits, the Asset and Liability Committee will closely monitor the trends of interest rate risk and take measures if necessary.

Liquidity Risk

Active liquidity risk management is a fundamental aspect of managing risk in our Bank as we intend to fund long-term loans with largely short-term deposits.

Assets and Liabilities Team of the Finance and Treasury Department shall conduct liquidity stress testing with the assistance of Risk Management Department. We have established the framework and procedure for cash flow management, so as to provide visibility and control to our management of our liquidity position. Moreover, we have established a liquidity stress test model, including several scenarios. We also calculate LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) and ensure that they remain compliant with regulatory requirements by means of arranging treasury business based on forecast.

As of December 31, 2012, the liquidity risk of the Bank was low, as the liquidity of the Bank's balance sheet was very good, and various liquidity indicators and liquidity gaps were under effective control.

Operational Risk

We completed the design and the standardization of internal operational workflows in the opening preparation period, and established the procedure manuals, and organized staff to carry out pertinent training.

As a start-up institution, all of our systems and processes have been tested in a testing environment but many have not yet been tested in a production environment or at volume. This operational risk is mitigated by the manageable volume we experience while we verify and continuously look to enhance our processes. On the other hand, our employees are at storming stage of team formation, and we try to ensure the internal information sharing and transparency and to improve the cooperation efficiency by means of trainings and a variety of formal or informal communication channels.

Compliance Risk

We have established the Compliance Management Policy, which has been approved by the BOD. The framework of compliance management has been established and will be improved with implementation and training to ensure our future compliance. Compliance Team under Strategy and Compliance Department is responsible for keeping contact with regulators to ensure the Bank's compliance with all rules and requirements. Compliance Team regularly assesses the level of compliance risk and the management situation which are reported to Risk Management Department to incorporate into EWRM.

Reputational Risk

We are proactively managing our reputational risk in the process of educating the media, our client base and other external constituencies. Our media surveys indicate that we have been successful in many aspects.

We have established the Media Management Policy". In order to ensure that information is conveyed to the media and general public in an accurate, appropriate and consistent manner, we have designated relevant department and spokespersons to deal with the media or make statement on behalf of the Bank.

Our reputational risk was low as of the end of 2012, with our efforts around our license approval and opening yielding a great deal of positive sentiment.

We have generated over 600 pieces of media publicities since our launch and all of them are positive to date. We have built up a network and keep regular communications with more than 50 media participants

Media, especially key media are now looking at us as an icon of China's financial innovation and have very positive attitude toward us. Recently, Xin Hua News Agency selected the "Top 10 Events of Building Shanghai into an International Financial Center in 2012". The official opening of SPD Silicon Valley Bank ranked No 7.

Strategy Risk

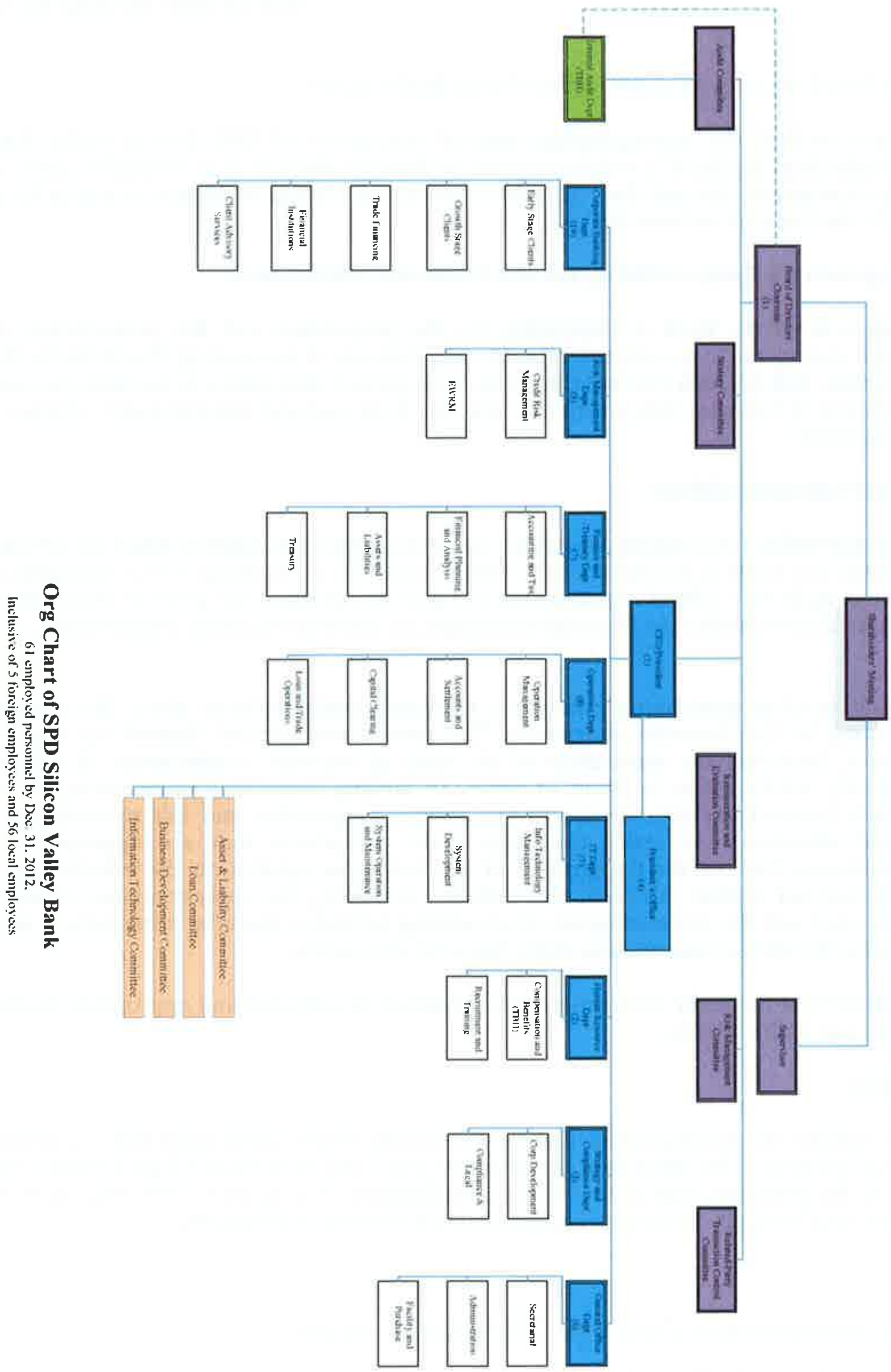
We have established our three-year (2012-2012) business development strategy plan, which has been approved by the BOD. The BOD and its subordinate Strategy Committee will here reports made by senior management, and review the performance of business and financial objectives on a quarterly basis.

Due to current regulatory restrictions, we can only provide foreign exchange business for our target clients. We haven't obtained RMB license. Though our ability to carry out RMB business is restricted, we will still focus our efforts on serving technology and innovation companies, actively make independent innovations, actively expand our client base, and, through our business model and product innovation and service innovation, provide better services for our target clients, help China's technology and innovation companies succeed, and explore a feasible way for the combination of technology and finance.

傅建华

傅建华(Fu Jianhua) Chairman
Shanghai, May 8, 2013

Organization Chart (ended on December,31th, 2012)



Auditor's Report
[English Translation for Reference Only]

PwC ZT Shen Zi (2013) No. 23579

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

We have audited the accompanying financial statements of SPD Silicon Valley Bank Co., Ltd(hereinafter "the Bank"), which comprise the balance sheet as at 31 December 2012, and the income statements, the cash flow statements and the statements of changes in equity for and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and their financial performance and cash flows for the period 10 August 2012 (date of establishment) to 31 December 2012, in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

8 May 2013

SPD SILICON VALLEY BANK CO.,LTD.

FINANCIAL STATEMENTS TOGETHER WITH REPORT OF THE AUDITORS FOR THE PERIOD FROM 10 AUGUST 2012(DATE OF ESTABLISHMENT) TO 31 DECEMBER 2012

[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

BALANCE SHEET
As of 31 DECEMBER 2012
(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2012
Deposits with other banks	6(1)	168,280,721
Interest receivable	6(2)	352,485
Fixed assets	6(3)	148,885
Intangible assets	6(4)	758,937
Long-term prepaid expenses	6(5)	1,443,891
Deferred income tax assets	6(6)	707,462
Other assets	6(7)	643,315
TOTAL ASSETS		**172,335,696**
LIABILITIES		
Customer deposits	6(8)	11,354,001
Payroll and welfare payable	6(9)	176,652
Taxes payable	6(10)	273,970
Interest payable	6(11)	362
Other liabilities	6(12)	2,975,928
TOTAL LIABILITIES		**14,780,913**
OWNER'S EQUITY		
Paid-in capital	6(13)	159,362,376
Accumulated loss	6(14)	(1,807,593)
TOTAL OWNER'S EQUITY		**157,554,783**
TOTAL LIABILITIES AND OWNER'SEQUITY		**172,335,696**

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

President
Ken Wilcox

Chief Finance Officer
Maggie Shao

SPD SILICON VALLEY BANK CO., LTD

INCOME STATEMENT
FOR THE PERIOD FROM 10 AUGUST 2012(DATE OF ESTABLISHMENT) TO 31 DECEMBER 2012

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

	Notes	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
Interest income	6(15)	2,984,173
Interest expense	6(15)	(363)
Net interest income		2,983,810
Fee and commission income	6(16)	81,271
Fee and commission expenses	6(16)	(217)
Net fee and commission income		81,054
Net losses from foreign exchange and derivative transactions		(179,174)
Operating income		2,885,690
Business tax and levies		(166,849)
General and administrative Expenses	6(17)	(6,145,596)
Operating expense		(6,312,445)
Operating profit		(3,426,755)
Non-operating income	6(18)	1,018,496
Total loss		(2,408,259)
Add: Income tax	6(19)	600,666
Net loss		(1,807,593)
Other comprehensive income		-
Total comprehensive loss		(1,807,593)

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

President
Ken Wilcox

Chief Finance Officer
Maggie Shao

SPD SILICON VALLEY BANK CO., LTD

STATEMENT OF CASH FLOW
FOR THE PERIOD FROM 10 AUGUST 2012(DATE OF ESTABLISHMENT) TO 31 DECEMBER 2012

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

		Notes	For the period from 10 August 2012 (Date of establishment) to 31 December 2012
1	**Cash flows from operating activities**		
	Net increase in customer deposit		11,354,001
	Interest received		2,631,688
	Fee and commission received		3,971
	Cash received relating to other operating activities		3,357,885
	Sub-total of cash inflow		17,347,545
	Net increase in deposits with other banks		(30,558,943)
	Fee and commission paid		(217)
	Cash paid to employees or on behalf of employees		(882,609)
	Cash paid relating to other operating Activities		(4,939,760)
	Sub-total of cash outflow		(36,381,529)
	Net cash used in operating activities	6(20)	(19,033,984)
2	**Cash flows from investing activities**		
	Cash paid for purchase of fixed assets and other long-term assets		(2,682,471)
	Net cash used in investing activities		(2,682,471)

SPD SILICON VALLEY BANK CO., LTD

STATEMENT OF CASH FLOW (CONTINUED)
FOR THE PERIOD FROM 10 AUGUST2012 (DATE OF ESTABLISHMENT) TO 31 DECEMBER 2012
(All amounts expressed in USD unless otherwise stated)
[English translation for reference only]

	Notes	2012
3 Net cash flows from financing activities		
Received Paid-in capital		159,362,376
Net cash provided by financing activities		159,362,376
4 Effect of foreign exchange rate changes on cash and cash equivalents		75,857
5 Net increase in cash and cash equivalents		137,721,778
Add: Cash and cash equivalents at beginning of the period		-
6 Cash and cash equivalents at end of the period		137,721,778

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

President
Ken Wilcox

Chief Finance Officer
Maggie Shao

SPD SILICON VALLEY BANK CO., LTD

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE PERIOD FROM 10 AUGUST2012 (DATE OF ESTABLISHMENT) TO 31 DECEMBER 2012

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

	Paid-in Capital	Accumulated loss	Total
Balance at 10 August 2012	-	-	-
Paid-in Capital	159,362,376	-	159,362,376
Net Loss	-	(1,807,593)	(1,807,593)
Balance at 31 December 2012	159,362,376	(1,807,593)	157,554,783

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

President	Chief Finance officer
Ken Wilcox	Maggie Shao

1 GENERAL INFORMATION

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

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

The financial statements were authorized for issue by the Board of the Bank on 8th May 2013.

2 BASIS OF PREPARATION

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

3 ASSERTION OF ACCORDANCE WITH ACCOUNTING STANDARD FOR BUSINESS ENTERPRISES

The financial statements were prepared in accordance with the Accounting Standard for Business Enterprises and presented truly and completely, the financial position of the Bank as of 31 December 2012, and of its financial performance and its cash flow for the period from 10 August 2012(date of establishment) to 31 December 2012.

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. The actual period for the financial statements prepared was from 10 August 2012 to 31 December 2012.

(2) Functional currency

The Bank uses dollar ("USD") as its functional currency.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(3) Foreign currency translation

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

Monetary items denominated in foreign currencies are translated into USD at the spot exchange rates at the balance sheet date and exchange differences are recorded in the income statement. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into USD on balance sheet date at the spot exchange rates prevailing on transaction dates. Contributions to paid-in capital made in foreign currencies are translated into USD at the stipulated exchange rates at the contribution dates. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(4) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise cash and balances with less than three months' maturity from the date of acquisition including deposits with other banks, placements with other banks and excess reserve with the central bank.

(5) Financial assets and financial liabilities

Classification, recognition and measurement of financial assets and financial liabilities

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

The financial liabilities at initial recognition are classified as: financial liabilities at fair value through profit or loss and other financial liabilities. The classification of financial assets and liabilities depends on the holding purpose and capability of the bank. Management determines the classification of its financial assets and financial liabilities according to its intention and ability of holding.

(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.

4 PRINCIPAL ACCOUNTING POLICIES(continued)

(5) Financial assets and financial liabilities(continued)

Classification, recognition and measurement of financial assets and financial liabilities (continued)

If satisfying conditions below, the financial assets and liabilities can be recognized as financial assets and liabilities at fair value through profit or loss:

- This recognition can be eliminated or decreased evidently because the difference between the calculation basis of financial assets and financial liabilities causes the difference between recognition of related gains or losses;

- The formal written document of risk management or investment strategy has specified that the combination of the financial assets or the combination of financial liabilities should be managed and evaluated on basis of fair value and reported to key managers.

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 booked into profit or loss.

(b) Loans and receivables

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

(c) Held-to-maturity financial assets

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

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

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(5) Financial assets and financial liabilities (continued)

Classification, recognition and measurement of financial assets and financial liabilities (continued)

(d) Available-for-sale financial assets

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

(e) Other financial liabilities

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

De-recognition of financial assets and financial liabilities

The financial assets were derecognized when: (1) the rights to receive cash flows from the financial assets have expired; (2) the financial assets are transferred and the Bank has transferred substantially all risks and rewards of ownership; (3) although the Bank neither transfer the assets nor give up substantially all risks and rewards of ownership, the control of the financial assets has been given up.

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

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

Fair value of financial assets

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

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

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(6) Impairment of financial assets

(a) Assets carried at amortized cost

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

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties of the issuer; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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

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

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

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(6) Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

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

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

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

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

(b) Assets classified as available-for-sale

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

4 PRINCIPAL ACCOUNTING POLICIES(continued)

(7) Fixed assets

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

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

Subsequent costs are included in the asset's carrying amount, 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 expensed when incurred.

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

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

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

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

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

(8) Intangible assets

Intangible asset comprises software, and it is calculated based on the cost. Intangible assets are amortized over their estimated useful lives of 5 years on the straight-line basis.

(9) Long-term prepaid expenses

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

4 PRINCIPAL ACCOUNTING POLICIES(continued)

(10) Impairment of non-financial assets

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

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

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

(11) Payroll and Welfare payable

Payroll is composed of salary, bonus, severance payment and subsidy, welfare ,insurance, housing fund, and expense related to service provided by employees.

The payroll, which was recognized during the period of employees providing services, are recognized in general and administrative expenses.

The Bank joins the plan of social insurance set by government, including pension and medical insurance, housing fund, and other plans of social insurance. The Bank also provides additional housing fund for the employees. Besides the obligations of social insurance mentioned above, the Bank does not have significant welfare commitment.

According to related provision and contracts, the percent of total amount of insurance and reserve fund, which does not surpass the upper limit , should be paid to Social Labor Security Institution or commercial insurance company, and related expenses should be allocated in current profits and losses.

(12) Interest income and expenses

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

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

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(12) Interest income and expenses (continued)

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.

(13) Fee and commission income

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

(14) Deferred income taxes

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

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

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

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

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

(15) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the leaser 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.

4 PRINCIPAL ACCOUNTING POLICIES (continued)

(16) Contingent liabilities

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

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

4.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

(1) Income taxes

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

5 TAXATION

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

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

6 NOTES TO FINANCIAL STATEMENTS ITEMS

(1) DEPOSITS WITH OTHER BANKS

	Note	31 December 2012
Deposits with overseas banks		10,000,391
Deposits with related parties	8(3)(c)(i)	158,280,330
		168,280,721

(2) INTEREST RECEIVABLE

	Note	31 December 2012
Interest receivables from deposits with related parties	8(3)(c)(ii)	352,485

(All amounts expressed in USD unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(3) Fixed assets

	Office equipment and furniture	Computers and other equipments	Total
Original value			
10 August 2012	-	-	-
Additions in current period	52,139	103,320	155,459
31 December 2012	52,139	103,320	155,459
Accumulated Depreciation			
10 August 2012	-	-	-
Accruals in current period	(3,302)	(3,272)	(6,574)
31 December 2012	(3,302)	(3,272)	(6,574)
Net value			
31 December 2012	48,837	100,048	148,885

(4) Intangible assets

	10 August 2012	Newly Increased in current period	Newly decreased in current period	31 December 2012
Original value	-	827,931	-	827,931
Accumulated amortizition	-	(68,994)	-	(68,994)
Net value	-	758,937	-	758,937

(5) Long-term prepaid expenses

	10 August 2012	Newly Increased in current period	Newly decreased in current period	31 December 2012
Original value	-	1,699,081	-	1,699,081
Accumulated amortizition	-	(255,190)	-	(255,190)
Net value	-	1,443,891	-	1,443,891

(All amounts expressed in USD unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(6) Deferred income tax assets/liabilities

Deferred income tax is provided in full, using the liability method. Temporary differences are measured at the tax rate of 25%, which is the expected rate to apply to the period when the asset is realized or the liability is settled.

Movement of deferred income tax assets is as following:

	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Balance at the beginning of the period	-
Charge to the income statement	707,462
Balance at the end of the period	707,462

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

(a) Deferred income tax assets

	31 December 2012	
	Deferred tax Assets	Deductable temporary differences
Accrued bonus	44,163	176,652
Non tax-exempt government subsidy	615,309	2,461,238
Article of consumption that recognized as Fixed Assets by tax	56,262	225,046
Total	715,734	2,862,936

(b) Deferred income tax

	31 December 2012	
	Deferred tax liabilities	Deductable temporary differences
Depreciation and amortization	(8,272)	(33,089)

(c) Net deferred assets

	31 December 2012
Net deferred assets	707,462

(All amounts expressed in USD unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(7) Other assets

		31 December 2012
Prepaid expenses		557,519
Fee and commission receivables from related parties	8(3)(c)(iii)	77,300
Deposits receivables		8,496
		643,315

(8) Customer deposits

	31 December 2012
Corporate current deposits	10,902,001
Corporate fixed deposits	452,000
	11,354,001

(9) Payroll and welfare payable

	10 August 2012	Accrual	Payment	31 December 2012
Salary and bonus	-	871,908	(695,256)	176,652
Employees welfare benefits	-	187,353	(187,353)	-
	-	1,059,261	(882,609)	176,652

(10) Taxes payable

	31 December 2012
Corporate Income tax payable	106,796
Business tax and levies payable	167,174
	273,970

(All amounts expressed in USD unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(11) Interest payable

	31 December 2012
Interest payable to customer deposits	362

(12) Other liabilities

	31 December 2012
Deferred income of government subsidy	1,367,291
Suspense account of government subsidy	1,093,303
Accrued system maintenance fee	358,507
Project fee payable	88,404
Accrued internal activity fee	23,326
Others	45,097
	2,975,928

(13) Paid in capital

As of 19 June 2012, the Bank has received a paid-in capital of RMB 327,000,000 and USD 27,458,138.25 from Shanghai Pudong Development Bank Co., Ltd, which was equivalent to RMB 500 million. The Bank has received a paid-in capital of USD 79,748,632.32, equivalent to RMB 500 million. The total amount received from the investors amounted to RMB 1 billion and was verified by the capital verification report KPMG-B(2012)CR No56 issued by KPMG Hua Zhen CPA Firm, Shanghai Branch.

(14) Accumulated loss

	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Balance at 10 August 2012	-
Loss of the period	(1,807,593)
Balance at 31 December 2012	(1,807,593)

(All amounts expressed in USD unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(15) Net interest income

	Note	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Interest income-deposits with related parties	8(3)(b)(i)	2,984,173
Interest expense-customer deposit		(363)
Net interest income		2,983,810

(16) Net fee and commission income

	Note	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Fee and commission income:		
Fee and commission income from related parties	8(3)(b)(ii)	77,300
Financial consulting fee		3,971
		81,271
Fee and commission expense		(217)
Net fee and commission income		81,054

(All amounts expressed in USD unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(17) General and administrative expense

	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Organization expenses	1,911,579
Telecommunications and computers expense	971,396
Salaries and bonus	871,908
Rental and utilities	764,194
Article of consumption amortisation	339,435
Promotion expenses	261,701
Long-term amortized expense	255,190
Professional service expenses	216,227
Social insurance and housing fund	187,353
Intangible assets amortization	68,994
Stationery expenses	59,266
Travelling expenses	20,598
Entertainment expenses	13,994
Depreciation	6,574
Others	197,187
	6,145,596

(18) Non-operation income

	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Government subsidy income	1,018,496

(All amounts expressed in USD unless otherwise stated)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(19) Income tax

	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Current income tax	106,796
Deferred income tax	(707,462)
	(600,666)

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

	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Loss before income tax	(2,408,259)
Income tax calculated using 25% tax rate	(602,065)
Expenses not deductible for tax purposes	1,399
	(600,666)

(20) Notes to the statement of cash flows

(a) Cash and cash equivalents

	31 December 2012
Deposits with other banks with maturity less than three months from acquisition date	137,721,778
Total	137,721,778

(b) Cash flows from operating activities

	Note	Period from 10 August 2012 (Date of establishment) to 31 December 2012
Net loss:		(1,807,593)
Adjusted by:		
Depreciation and amortization	6(17)	330,758
Gain or loss on exchange		(75,857)
Deferred tax income assets		(707,462)
Increase in operating receivables		(31,554,743)
Increase in operating payables		14,780,913

(All amounts expressed in USD unless otherwise stated)

Net cash used in operating activities	(19,033,984)

6 NOTES TO FINANCIAL STATEMENTS ITEMS (Continued)

(20) Notes to the statement of cash flows (continued)

(c) Net change in cash and cash equivalents

Cash and cash equivalents at end of the period	137,721,778
Less: cash and cash equivalents at beginning of period	-
Net increase in cash and cash equivalents	137,721,778

7 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Operating lease commitments

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

	31 December 2012
Within 1 year	1,073,329
Over 1 year less than 2 years	1,073,329
Over 2 years less than 3 years	671,930
Over 3 years	545,723
	3,364,311

(2) Legal proceedings

At 31 December 2012, there was no legal proceeding against the Bank.

(3) Capital commitments

At 31 December 2012, there was no significant capital commitment.

(4) Events after balance sheet date

There were no significant post-balance sheet events which are required to be disclosed in the financial statements.

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Related party who control the Bank

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

(All amounts expressed in USD unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(2) Share of interest of related parties

Name of entity	31 December 2012	
	Amount	%
Shanghai Pudong Development Bank Co., Ltd	79,681,188	50
Silicon Valley Bank Co., Ltd.	79,681,188	50
	159,362,376	100

(3) Related party transactions

(a) Pricing policy

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

(b) Significant related party transactions

	Period from 10 August 2012 (Date of establishment) to 31 December 2012
(i) Inter-banking financing	
Interest income from financial institutions	2,984,173
(ii) Services rendering	
Fees and commission income	77,300

(c) Balance with related parties

	31 December 2012
(i) Deposits with other banks	
Shanghai Pudong Development Bank Co., Ltd	157,640,433
Silicon Valley Bank Co., Ltd.	639,897
	158,280,330

	31 December 2012
(ii) Interest receivable	352,485

	31 December 2012
(iii) Commission receivable	77,300

9 FINANCIAL RISK MANAGEMENT

(1) Overview

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the inherent risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

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

The most important types of business risk are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

(2) Credit risk

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

(a) Measurement of credit risk

Deposits in other banks and financial institutions

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

(b) Risk limit control and mitigation measurements

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

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

9 FINANCIAL RISK MANAGEMENT (continued)

(2) Credit risk (continued)

(c) Credit risk impairment analysis and provision policies

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

The objective evidences of impairment are as follows:

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

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

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

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

	31 December 2012
On-balance-sheet items:	
Deposits with other banks	168,280,721
Interest receivable	352,485
Other receivables	85,796
	168,719,002

As of 31 December 2012, there has been no off-balance-sheet items exposed to credit risk.

The exposures set out above are based on net carrying amounts as reported in the balance sheet.

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk

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

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

Currently, the Market Risk Management Department takes responsibility of monitoring and controlling the market risk of both the trading and non-trading accounts. The Bank has established the reporting system for market risk, monitoring and analyzing market risk changes and limits, and these reports are presented to the senior management on a daily basis.

(a) Risk management approaches

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

(b) Currency Risk

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

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

(All amounts expressed in USD unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(b) Currency Risk (continued)

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

9 FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk

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

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

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

(All amounts expressed in USD unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

31 December 2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial asset:						
Deposits with other banks	137,734,225	30,546,496	-	-	-	168,280,721
Interest receivable	-	-	-	-	352,485	352,485
Other receivables	-	-	-	-	77,300	77,300
Total	137,734,225	30,546,496	-	-	429,785	168,710,506

31 December 2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Financial liabilities						
Customer deposits	10,902,001	452,000	-	-	-	11,354,001
Interest payable	-	-	-	-	362	362
Total	10,902,001	452,000	-	-	362	11,354,363
Net interest re-pricing gap	126,832,224	30,094,496	-	-	429,423	157,356,143

9 FINANCIAL RISK MANAGEMENT (continued)

(3) Market risk (continued)

(c) Interest rate risk (continued)

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

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

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

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

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

(4) Liquidity risk

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

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

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

(All amounts expressed in USD unless otherwise stated)

9 FINANCIAL RISK MANAGEMENT (continued)

(4) Liquidity risk (continued)

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

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

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

9 FINANCIAL RISK MANAGEMENT (continued)

5 Capital management

	31 December 2012
Tier 1 capital	
Paid-in capital	159,362,376
Capital surplus	-
Surplus reserve	-
General reserve	-
Undistributed profits	(1,807,593)
Net Tier 1 Capital	157,554,783
Tier 2 capital	
General provision for loan and advances	-
Net Tier 2 capital	-
Net regulatory capital	157,554,783
Total risk-weighted assets	11,301,168
Market risk capital	-
Core capital adequacy ratio	1394.15%
Capital adequacy ratio	1394.15%