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# **SPD SILICON VALLEY BANK 2013 ANNUAL REPORT AND ACCOUNTING STATEMENT**

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This Annual Report is the SPD Silicon Valley Bank 2013 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)

	2013	2012
Yearly		
Operating Income	8.63	2.89
Operating Expense	11.95	6.31
Operating Profit	-3.32	-3.42
Total Profit (Loss)	2.14	-2.41
Net Profit (Loss)	1.57	-1.81
Balance Sheet as of Dec. 31		
Loan	10.05	0
Total Assets	222.49	172.34
Customer Deposits	58.77	11.35
Total Liabilities	63.37	14.78
Total Owner's Equity	159.12	157.56
Capital Adequacy Ratio	258.99%	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 Profit (Loss) = Operating Profit + Non-Operating Income  
      Net Profit (Loss) = Total Profit - 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.  
2-3 Floor, Block A, North America Plaza, No. 518, Kunming Road, Yangpu  
District, Shanghai, 200082  
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, 2013, 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
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 2013, 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 one independent director: Mr. Gary Rieschel. Another independent director is temporarily vacant after the resignation of Mr. Guo Guangchang. As approved by the BOD, Mr. Gary Rieschel served as Chairman of the Risk Management Committee and the Remuneration and Evaluation Committee. The independent directors diligently and duly performed his duties as independent director and convener of BOD committees. Mr. Gary Rieschel 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 five meetings on February 5, May 6, May 16, August 6 and November 6 in 2013, within which the one held on May 16 is an interim meeting. The BOD deliberated and adopted the business development strategy plan, the budget plan, capital adequacy plan, audit plan, remuneration proposal and the appointment of the Senior Management and other important resolutions.

The Risk Management Committee held four meetings in 2013. The Strategy Committee, the Audit Committee and the Remuneration and Evaluation Committee each held two meetings in 2013. The Related-Party Transaction Committee did not hold meetings due to certain reasons.

### **Supervisor**

As of December 31, 2013, 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, 2013, the senior management of SSVB consisted of the following members:

Ken Wilcox	President
Oscar Jazdowski	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 7, 2013, the shareholders' representatives deliberated and adopted the 2012 final account plan, 2013 budget plan, 2012 BOD report, 2012 BOD and Director Performance Evaluation Report, the resignation of independent director Mr. Guo Guangchang and other important resolutions.

### **External Auditor**

As approved by the Shareholders Meeting, the Bank appointed PricewaterhouseCoopers Zhongtian Certified Public Accountants as its external auditor for 2013 fiscal year.

### **Capital Adequacy**

As of December 31, 2013, SSVB had US\$ 157 million (RMB 957 million equivalent) of net core Tier 1 capital, with \$159 million of paid-in capital (equivalent to RMB 1 billion). The audited net profit was US\$ 1.57 million (RMB 9.57 million equivalent). The foreign currency translation difference was US\$ 270,000 (RMB 1.67 million equivalent).

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, 2013, 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, 2013, all of the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of SSVB were well above regulatory requirements.

### **Financial Snapshot**

By the end of 2013, total assets of SSVB reach to US\$ 222 million (RMB 1.36 billion equivalent), which is 30% more than 2012. The outstanding deposit is US\$ 58.77 million (RMB 358 million equivalent), 418% more than 2012. The average outstanding balance is US\$ 44.46 million (RMB 271 million), 683% more than 2012. By the end of 2013, the outstanding loan is US\$ 10.16 million (RMB 62 million); the average outstanding loan for 2013 is about US\$ 0.88 million (RMB 5.34 million). There are total 106 customers have opened 147 accounts in our bank. Among which 82 are non-resident accounts and 65 are domestic accounts.

The 2013 net income is a profit of US\$ 1.56 million (RMB 9.51 million equivalents). The total operating expense of 2013 is US\$ 11.91 million (RMB 72.63 million equivalent), which is 88% more than 2012. Among them: the total compensation and benefits is 6.52 million USD (RMB 39.75 million Yuan), 515% increased from 2012; The Premises, facilities, furniture and office equipment in total is 1.65 million USD (RMB 10 million Yuan), 26% more than 2012; the technology and communications cost about 1.03 million USD (RMB 6.3 million), almost the same with 2012; The other operation expense is 1.62 million (RMB 9.88 million Yuan), 44% less than 2012; The PMO expense in 2013 cost 0.87 million USD (RMB 5.3 million Yuan). The total revenue is US\$14.12 million (RMB 84.09 million equivalent), 262% more than 2012. Among them: the net interest income is 6.29 million USD (RMB 38.32 million Yuan), 111% more than 2012; Non-interest income is 7.83 million USD (RMB 47.76 million Yuan), considerably more than 2012 by 751%.

### **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.

At quarterly board meetings, RMC provides the risk assessment report to BOD for awareness and discussion of risk management strategies.

The Risk Management Committee (RMC) provides the last round of feedback to the business unit, ensuring that all possible risks and risk mitigants have been identified and documented. The RMC also elevates any key risks, if appropriate, to the Board of Directors.

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. In 2013, we have completed the first risk assessment for credit risk, market risk, liquidity risk, operational risk, compliance risk, reputation risk and strategy risk. The results are as follows:

	Rating	Remark	Trend	Remark
Credit Risk	Low	Controllable in 2013, localizing the business model	Stable	Foreseeable fast loan growth in 2014, but still be selective
Market Risk	Medium	Loan portfolio slightly moderates our interest rate sensitivity	Stable	Growth will moderate our rate sensitivity and provide more flexibility in risk management.



	Rating	Remark	Trend	Remark
Liquidity Risk	Low	Highly Liquid	Stable	Maintaining Liquidity
Operational Risk	Medium	Focused on refining process and controls in 2013	Stable	Updating IT system and refining process
Compliance Risk	Low	Overall satisfactory, no significant violation or control gap	Stable	Continued training to avoid inadvertent mistakes
Reputation Risk	Low	Maintaining brand equity	Stable	Proactive and active communication
Strategy Risk	Medium	USD restriction puts stress on our focus	Stable	Commitment to follow the course

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**

The potential risk areas identified during our business in 2013 are as follows: currently, our loan loss forecast and provision calculation is based on the historical data from SVB since we have limited local lending history and loss data; meanwhile, as the bank focuses on certain industry niches, the portfolio shows higher concentration in industry; on the other hand, the bank's portfolio is experiencing fast growth, thus a single borrower may contribute to higher portion of our portfolio, leading to higher borrower concentration.

The bank has mitigations for the risks mentioned above via: leveraging experienced senior relationship managers and credit officers for loan approvals; monthly portfolio review meeting to closely monitor borrower's performance and financial status, to ensure to make credit action/decision in a timely manner.

Moreover, ongoing trainings for credit decision mindset have been conveyed to the lenders.

So far, SSVB has grown the loan portfolio in a risk-controllable manner and continued localizing our unique financing model. Moreover, we have developed syndication loan program with our parent bank-SPDB to jointly monitor credit risk and industry risk. On the other hand, we are faced with several restrictions especially the regulatory restriction on our business scope which curbs the growth of loan portfolios. Before the bank obtaining the RMB license, the bank may not be able to adequately grow the loan portfolio as expected in the business segment it operates.

### **Market Risk**

Our FX trading transactions are mainly comprised of client initiated RMB spot foreign exchange transactions and interbank transactions to square positions generated by clients' deals. FX exposures were well managed within the established limits. As a start-up bank, the scale of customer deposits is much larger than customer loans, generating commercial surplus which is invested in interbank deposits according to matching with the tenor of customer term deposits. The growth of loan portfolio has also slightly decreased the NII sensitivity. Moreover, we have reduced the sensitivity of our capital investment to fluctuations in short-term interest rates through the cooperation with SPDB. We conduct regular NII sensitivity analysis and use conservative method to manage assets and liabilities by matching duration as far as possible.

### **Liquidity Risk**

Since SSVB was open for business, we always follow conservative principal to manage liquidity risk. As a start-up bank, the loan portfolio is limited so loan to deposit ratio and liquidity ratio far exceed the regulatory requirements. Our liquidity risk is low

According to the liquidity maturity gap analysis based on the financial positions as of December 31, 2013, the cumulative net cash flows projected per the contractual maturity are positive for all time buckets up to 1 year.

<b>Liquidity Risk Metric</b>	<b>Tolerance Levels</b>			<b>Result</b>
	<b>Warning</b>	<b>Trigger</b>	<b>Limit</b>	<b>2013-12-31</b>
Loans/Deposits Ratio	70%	72%	75%	17%
Liquidity Ratio	50%	30%	25%	506%

Liquidity Coverage Ratio	150%	125%	100%	32%
Net Stable Funding Ratio	150%	125%	100%	1604%

Note: Liquidity Coverage Ratio is currently 32% as we do not hold enough assets that qualify as “Highly Liquid Assets” according to the current definition. With the expansion of our business, we are trying to increase the proportion of highly liquid assets.

### **Operational Risk**

As a start-up institution, we are refining the established internal operation processes and the operation manuals according to the real cases encountered by balancing customer needs and regulatory requirements, and continue organizing employees to carry out specific trainings and discussions. Our operational risk is effectively mitigated by the manageable volume we experience while we verify and continuously look to enhance our processes. Moreover, we enrolled experienced staff to develop and enhance the process maturity level and security standard for IT projects. We allocated dedicated resources to business transformation, e.g. New Product Committee. We have cultivated strong company culture to ensure the internal information sharing and transparency and to improve the cooperation efficiency.

### **Compliance Risk**

Our current compliance risk profile is low as we have knowledgeable and experienced compliance management, manageable activity levels and processes in place to maintain adherence.

In 2013, we completed all business and work in compliance with laws and rules. No violation occurred. The compliance risk management of SSVB is timely and effective. As required by new regulations, the Strategy and Compliance Department has led relevant departments to revise the operating procedures and provide trainings for relevant employees, classified the compliance risk points based on business and operations, and regularly conducted compliance self-examination and examination, so as to ensure the compliance risk of SSVB remains at a low level.

### **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 2013, since we kept opening communication to maintain brand equity..

We have built up a media network of more than 50 contacts, and maintained a good relationship with them through regular communications. In 2013, we have

attracted mainstream media's attention from a series of hosted events, such as technology salon and entrepreneurs seminars. We also have cooperated with SPDB, Re-guarantee Company and Minhang government and launched the Minhang "3+1" Innovative Financing model, which has generated over 200 pieces of media coverage. 21st Century Business Herald, one of the top business media, has published an in-depth report on the Minhang project. Meanwhile, we have drove public's awareness of our bank to by attending external events, such as forums and exhibitions, which also earned positive publicities from the media.

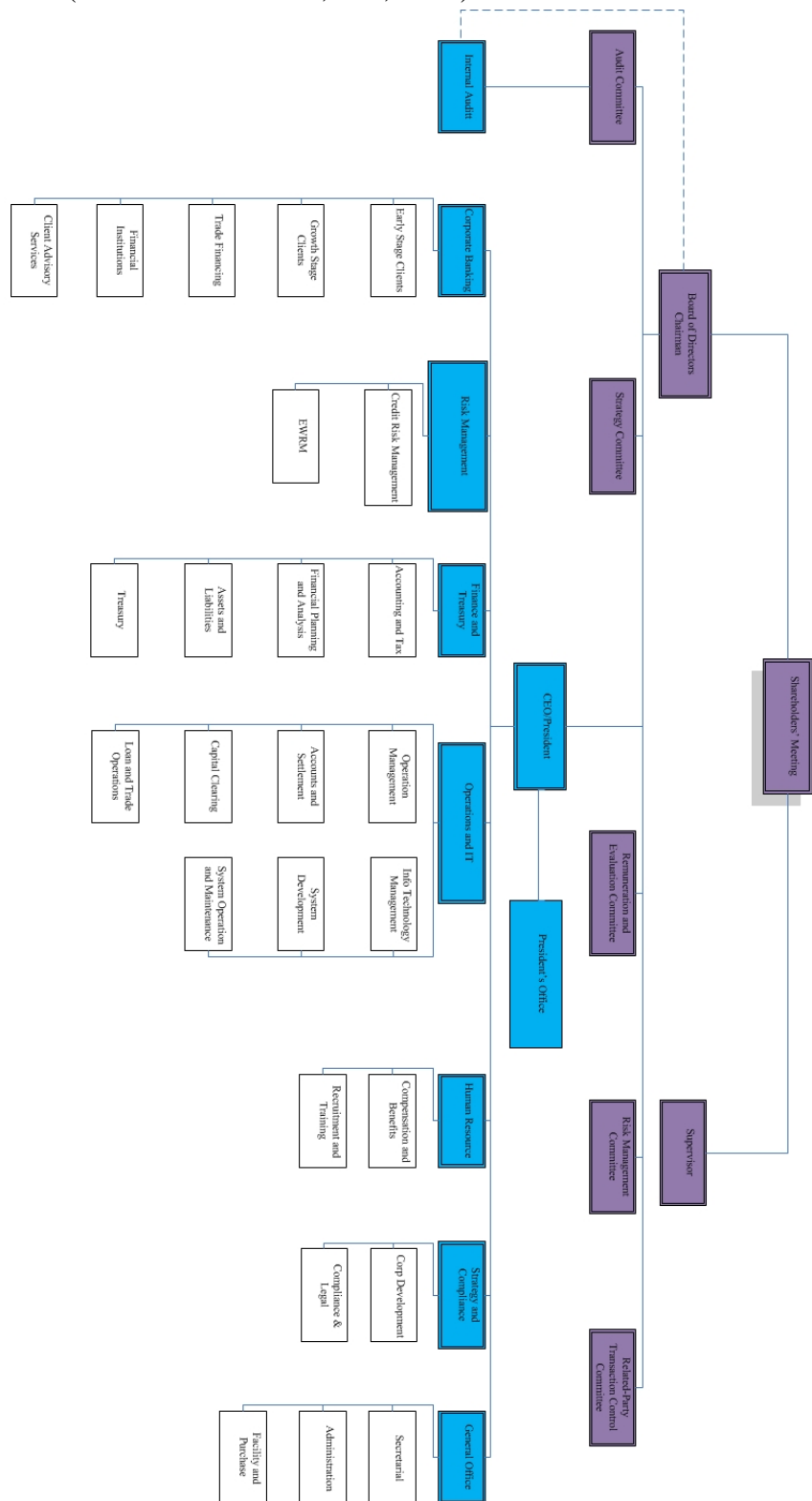
### **Strategy Risk**

Our strategic risk is medium given the difficulty inherent in the combination of our USD limitation, our requirement to be profitable and our desire to stay focused on the innovation space. In order to mitigate this risk, we initiated syndication loan business with financial institutions in the last quarter of 2013.

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傅建华(Fu Jianhua) Chairman  
Shanghai, May 15, 2014

Organization Chart (ended on December,31th, 2013)



Org Chart of SPD Silicon Valley Bank

66 formal employees as of 12/31/2013

2013 Financial Statement and the Report of the Auditors Attached Separately