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**SPD SILICON VALLEY BANK  
2016 ANNUAL REPORT AND  
ACCOUNTING STATEMENT**

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This Annual Report is the SPD Silicon Valley Bank 2016 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)

	2016 年	2015
Yearly		
Operating Income	138.17	77.92
Operating Expense	123.67	93.58
Operating Profit	14.50	-15.66
Total Profit (Loss)	17.00	-4.75
Net Profit (Loss)	12.54	-3.68
Balance Sheet as of Dec. 31		
Loan	1,310.52	579.00
Total Assets	4,437.26	2608.94
Customer Deposits	3,080.73	1553.44
Total Liabilities	3,394.33	1578.56
Total Owner's Equity	1,042.93	1030.38
Capital Adequacy Ratio	49.63%	82.54%

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 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). SSVB formally opened on July 30, 2012 as approved by CBRC (Yin Jian Fu [2012] No. 415).

Besides the head office, the Bank got the formal approval of opening the Beijing Branch from CBRC Beijing on 30 Dec 2016 (Jing Yin Jian Fu [2016] No. 733).

SPD Silicon Valley Bank Co., Ltd.

21-22 Floor, Tower B of Baoland Plaza, No. 558, Dalian Road, Yangpu District.

Tel: (8621) 35159088/89 Fax: (8621) 35963099/35963199

The Bank moved to the address on May 25, 2015: from 2-3 Floor, Block A, North America Plaza, No. 518, Kunming Road, Yangpu District, Shanghai

On March 19, 2015, CBRC approved the Bank to provide RMB services to clients other than citizens inside the territory of China. After the Bank completing legal process according to the relevant laws and regulations, the business will be extended to foreign exchange business for all clients and RMB business to clients other than citizens inside the territory of China within the above scope.

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, forex sale and purchase business, and other business approved by CBRC.

On March 19, 2015, CBRC approved the Bank to provide RMB services to clients other than citizens inside the territory of China. According to the relevant laws and regulations, the business is extended to foreign exchange business for all clients and RMB business to clients other than citizens inside the territory of China within the above scope.

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, 2014, the BOD of SSVB consisted of the following members:

Liu Xinyi	Chairman
Dave Jones	Executive Director, President
Ken Wilcox	Non-executive Director
Jiang Mingsheng	Non-executive Director
Yuan Rui	Non-executive Director
Michael Descheneaux	Non-executive Director
Liu Xiaodong	Independent Director
Deng Feng	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 2016, 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.

CBRC Shanghai approved the appointment of Mr. Deng Feng as the independent director on August 5, 2016. As approved by the BOD, Mr. Deng Feng served as Chairman of the Remuneration and Evaluation Committee. The independent directors diligently and duly performed his duties as independent director and convener of BOD committees. Mr. Deng Feng 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 four meetings on February 18, May 12, August 11 and November 16 in 2016. The BOD deliberated and adopted the business development strategy plan, the budget plan, audit plan, remuneration proposal and other important resolutions.

The Risk Management Committee held four meetings in 2016. The Strategy Committee held three meetings in 2016. The Audit Committee held four meetings in 2016. The Remuneration and Evaluation Committee held three meetings in 2016. The Related-Party Transaction Committee held one meeting in 2016.

### **Supervisor**

As of December 31, 2016, 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, 2016, the senior management of SSVB consisted of the following members:

Dave Jones	President
Oscar Jazdowski	Vice President
	Head of Corporate Banking Department
Harvey Lum	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
Bradley Gao	Chief Operation Office and Head of the Operation
Sharon Yang	Head of the Human Resource

### **Shareholders' Meeting**

The Bank held a shareholders meeting on May 12, 2016, the shareholders' representatives deliberated and adopted the 2015 final account plan, 2015 profit distribution plan, 2016 budget plan, 2015 BOD report, 2015 BOD and Director Performance Evaluation Report, 2016-2020 strategy plan and other important resolutions.

### **External Auditor**

As approved by the Shareholders Meeting, the Bank appointed Price waterhouse Coopers Zhongtian Certified Public Accountants as its external auditor for 2016 fiscal year.

## **Capital Adequacy**

As of December 31, 2016, SSVB had CNY 1043 million of net core Tier 1 capital, with CNY 1000 million of paid-in capital, CNY 35 million of capital reserve, CNY 0 million of retained earnings, CNY 1 million of surplus reserve, CNY 7 million of statutory general reserve.

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, 2016, 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, 2016, 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.

## **Remuneration Policy**

Remuneration policies in SSVB are designed to support the Bank's business strategies and goals, to improve the risk management efficiency, to provide flexibility to respond dynamic business needs, and to promote the Bank's core value of "CHENGGONG".

The Remuneration and Evaluation Committee ("the Committee") is a committee of the Board of Directors of SSVB. The Committee members are appointed by the Board, and have at least three members and one convening person. The convening person of the Remuneration and Evaluation Committee is the independent director nominated by shareholders.

The Remuneration and Evaluation Committee mainly have the following duties and responsibilities: drafting appropriate standards for evaluating directors and senior management, performing the evaluation and submitting the comments to the Board; conducting research regarding the evaluation and salary policy and scheme of directors and senior management; supervising the implementation of the Bank's remuneration schemes and material incentive programs; other matters prescribed by the laws, regulations and rules or matters otherwise authorized by the Board of directors.

The major components of remuneration comprise fixed pay, variable pay such as performance-based incentives or bonuses, and employee benefits. The remuneration data may differ across different job grades and departments according to established industry norms. The Bank believes the principle of "pay-for-performance" so the variable pay is linked with the Bank's overall business performance as well as

individual staff's performance. The budget for the performance-based incentive is reviewed by the Remuneration & Evaluation Committee and approved by SSVB Board.

In SSVB, certain portion of the performance-based incentive compensation to all senior executives as well as other employees who have a material impact on the risks in the bank is paid under deferral arrangement. This is to get individual staff's compensation and risk control aligned. In the case of abnormal exposure of risks or fraud or other policy violations of the senior executives or relevant employees within the prescribed time period, the Bank has the right to require refund of all the performance-based incentive within the corresponding time period, and cease all the outstanding compensation.

The Bank believes that the organizational culture and employees' behaviours are the critical factors in helping to achieve the Bank's corporate goals and maximize the business performance. Therefore, SSVB employees overall performance are measured based on both the employee's goal achievements and also the employee's citizenship behaviour in demonstrating the Bank's Core Value and Standards. The performance management process is transparent, fair, and applied consistently to all employees.

The Bank aligns remuneration with prudent risk-taking and responsibilities. If any employee, who breaches the Banking laws and regulations, or the Bank's internal policies and standards, will be no or less considered for the incentive reward for that year, depending on the seriousness of his misconduct.

In 2016 there was no exception case that exceeding the annual budget. The Bank will continuously review our remuneration policies in order to support the Bank's stable operations and continued business growth.

### **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 inoculate the ownership conscious of risk management throughout the Bank, from individual employee 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 mitigates 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 2016, we have completed the 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	Medium	Continued watch for macro and micro-economic impact to portfolio. Currently, no noticeable issues. Portfolio risk is satisfactory. Only one loan substantially at risk for loss approximating RMB 1.1MM. Portfolio is concentrated in software, which includes digital content, e-Commerce and advertising.	Stable	Portfolio remains in satisfactory condition. Some longer cycles of Company fundraising as entrepreneurs and investors adjust to slowing or reduced valuation growth. Fundraising environment is still satisfactory and opportunities are plentiful, but investors are still selective.

Market Risk	Medium	Loan growth and deposit campaign lower the net interest income sensitivity. Continued RMB depreciation.	Stable	Remains within the tolerance aligned with our business strategy. However, more volatility in the market is expected in the future.
Liquidity Risk	Medium	Liquidity overall is good due to capital base, however RMB Loan to Deposit ratio continues to have volatility due to competitive nature for deposits. The deposit campaign has helped to lower the concentration in the deposit base to the historically lowest level. The growth in loans has kept pressure on the liquidity.	Increasing	Expect continued pressure on RMB Loan to Deposit ratio. Healthy pipeline of loan opportunities will necessitate continued deposit focus. Other opportunities to seek deposits are being explored, but will require some infrastructure development. Plan to convert portion of USD capital to RMB to provide cushion.
Operational Risk	Medium	Operational was stable during the year with no material issues. Increased transaction volume requires the need for a balanced risk approach. Bank continues to rely on outside vendors and vendor management, primarily in the area of IT, however this is closely managed.	Increasing	Constant evaluation of systems and operational processes will be focused for future business growth. Processes are in review and being conducted at an inter-department level.

Compliance Risk	Medium	<p>Overall satisfactory, no significant violation or control gap. However, at end of year, there was an inadvertent violation of the single borrower concentration limit of 10% (actual of 10.65%).</p> <p>Remediation plan for controlling ratio violations are already underway. Recent audit results in AML Compliance risk yielded fewer overall issues, but concluded with a Needs Improvement rating due to weaknesses in monitoring, KYC processes and the scalability of the existing sanctions screening solution.</p>	Stable	Continued training and self-inspection to avoid inadvertent mistakes
Reputation Risk	Low	Maintaining brand equity, leveraging new media	Increasing	The more customers, products and channels we have, the harder we have to work in order to meet the expectation and demands of our clients in an ever-changing environment.

Strategy Risk	Medium	Stage of development still requires flexibility in managing business growth. Competitors continue to emerge for core elements of business, but none have the capability to provide the global platform, nor understand the positioning of the platform. Continue to interact with governmental authorities to stay abreast of changes and influence change to better serve the innovation ecosystem.	Stable	Continue to stay the course, but stay mindful and disciplined with constant changes.
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Internal audit, as a 3rd line of defence 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**

Credit risk refers to the risk of loss caused to the Bank due to client or counterparty's failure to perform contractual obligations. It arises principally from lending, trade finance and Treasury activities.

The Bank's BOD is ultimately responsible for credit risk management. It is responsible for approving the Bank's credit risk management framework, strategy and profile; reviewing and approving the credit risk management reports submitted by the Bank's Senior Management; determining the Delegated Credit Approval Authority Matrix and any changes thereof.

The Risk Management Committee is responsible for ensure, with management assistance, that the Bank maintains credit policies and practices that conform to applicable laws and regulations, and monitors the Bank's adherence to credit policies through comprehensive credit portfolio reports and credit review reports.

Loan Committee is responsible for reviewing and approving credit applications, charge-offs and write-downs above individual delegated authority.

The Bank adopts the organization structure where front office, middle office and back office are segregated. Credit Front Office, including Relationship Management team and Treasury team, is responsible for managing customer relationships, structuring the loan facility and submitting credit applications, monitoring customers' performance and recommending timely necessary credit actions to ensure the accuracy of credit risk ratings and timely follow-up of issues. The Credit Risk Management team, as the middle office, is in charge of monitoring and controlling credit risks involved in the Bank's businesses and activities. The Loan and Trade Operations team of Operations Department is responsible for examining the completeness and validity of customer materials/credit approval materials and credit agreements; examine the completeness and validity of drawdown materials to process loan disbursement; filing legal documents, i.e. loan agreement, collateral pledge contract and guaranty contract and other supporting documents; the entry and maintenance of core system.

The Bank managed the credit quality proactively and carefully, the lending strategy is to leverage SVB's over 30 years lending experience in technology innovation companies, focus on core niches and work with well-known VCs. The Bank reviewed each borrower in loan portfolio on monthly basis, to track the financial, funding and business performance of the company.

With the increasing knowledge of local market and borrowers, the bank will focus on the credit operations, to smooth the process and refine the procedures. The bank revised the credit policy with emphasis on portfolio management procedure; we aim to ensure the lending team conducts robust portfolio management to get ready for potential rapid business bloom.

### **--Market Risk**

Market risks refer to the risks of loss to off-or on-balance sheet business due to any adverse change to the market price or rate (such as exchange rate, interest rate, stock price and commodity price). The main market risks to the Bank are interest rate risk and foreign exchange 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. The increased FX transaction volume provided enhanced profitability without taking more risks. The customer deposits and loans achieved balanced growth in 2016, generating commercial surplus which is invested in interbank deposits according to matching with the tenor of customer term deposits. 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 principles to manage liquidity risk. The main difficulty for liquidity management is high deposit concentration. The bank achieved a well balanced growth of deposits and loans with the development of our business, so loan to deposit ratio and liquidity ratio complied with the regulatory requirements. Our liquidity risk remains at acceptable level.

According to the liquidity maturity gap analysis based on the financial positions as of December 31, 2016, the liquidity gap ratio was 44.55% compliant with regulatory requirement.

Liquidity Risk Metric	Tolerance Levels			Result
	Warning	Trigger	Limit	2016-12-31
Loans/Deposits Ratio (RMB)	60%	70%	75%	54%
Loans/Deposits Ratio (FCY)	75%	75%	90%	23%
Liquidity Ratio	50%	40%	25%	83%
Liquidity Coverage Ratio	150%	125%	100%	41%
Net Stable Funding Ratio	150%	125%	100%	159%

Note: Liquidity Coverage Ratio is currently 41% 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**

Operational risks refer to the risk of loss or lost income opportunities resulting from inadequate or ineffective internal processes, people and systems, or from external events.

The Bank establishes effective internal control policies and operating procedures and reduce business interruption at all levels within the organization, so as to identify, assess, monitor, mitigate and control key operational risks. All departments are faced with different levels of operational risks, so all business lines and employees of the Bank shall carry out business and management according to the policies and operating procedures of the Bank.

The BOD considers operational risk as one of major risks faced by the Bank, and is ultimately responsible for the efficiency of operational risk management. The Senior Management of the Bank shall be responsible for implementing the strategies and policies on operational risk management and the framework as approved by the BOD. The RMD is responsible for the consistency and efficiency of the operational risk management throughout the Bank. Other departments, in particular, Corporate Banking Department, Finance and Treasury Department, Operations Department, Strategy and Compliance Department, HR Department, IT Department, etc., are responsible for the management of operational risks attached to their respective business/activity area.

The Bank adopts various tools for operational risk management including RSA, operational risk event collection and reporting, and KRI.

In 2016, we have set out to establish Key Risk Indicators (KRIs) and the relevant monitoring mechanism. Moreover, we have established the mechanism to collect risk events and risk loss events. Risk Management Department organized trainings to all staff about operational risk and risk events. According to collected risk events, relevant departments continue refining the internal procedures and manuals. Additionally, we have reviewed all existing outsourcing activities and completed the risk assessments. RMD reviewed and refined the process of outsourcing, rolled out the new template of risk assessment for individual outsourcing activity, put the risk assessment in the front of the whole process to ensure the effectiveness of risk management and conducted trainings to relevant departments. Up to the end of 2016, no operational loss event happened. Overall, the operational risk maintains at acceptable level in the context of business rapid growth.

Since the first quarter of 2016, Information Technology Department has arranged quarterly IT committee meetings, involving senior managers from Corporate Banking, Finance, Risk Management, Strategy and Compliance, HR, General Office, Operations and Project Management Office (PMO). To maintain an effective 3 lines of defence environment, in year 2016 Operation and Technology Risk Management (OTRM) continued enhancing the alignment and communication with RMD and IA, having fixed the control gaps and IA findings identified. IT department has optimized overall IT infrastructure, enhanced Information Technology Infrastructure Library (ITIL) information service management and strength our information security controls. Chief Information Officer has been appointed. The process of Loss Data Collection and important risk indicator thresholds has been established and monitored, and the qualification of IT risk measurement has been initiated in the risk self-assessment. Information Technology Department remediated the risk areas, e.g. standardizing incident management, enhancing the quality control in software development projects, outsourcing risk assessment, etc.

### **--Compliance Risk**

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

In 2016, the single borrower limit of 10.65% of the Bank exceeded the regulatory threshold of 10%. The main reason is that there was a misunderstanding that cash security can be deducted in the calculation. Therefore, there was a drawdown of RMB78M on Dec 29, 2016. The Bank took immediate action to ask the customer to fully prepay the loan on Jan 3, 2017.

For single borrower limit:

- (1) Compliance will deliver a series of training on regulation to improve our understanding on regulatory threshold;
- (2) Risk will enhance the control on credit approval and loan drawdown to keep the facility and outstanding under regulatory threshold.

Through the on-site inspection by the regulators and self-check by the compliance department, identified compliance defects exist in following sections:

- (1) Interbank credit approval policy, Liquidity Risk Management and Contingency Plan and Outsourcing Risk Management Policy are not sound;
- (2) Opening of settlement account procedure is not sound;
- (3) Examination of loan purpose needs to be improved;
- (4) Disconnection exists between policies and execution in terms of Operational Risk Management, Liquidity Risk Management and Contingency Plan and Business and Service Outsourcing Management Policy.

For regulatory onsite inspection and compliance self-check:

- (1) Departments are required to complete the yearly review of each policy, issuing internal policy and procedure management policy by the first quarter;
- (2) Issuing the Offsite Account Opening Operational Management Procedure;
- (3) Enhancing the approval for loan purpose, and the lender will have to provide the additional supporting files based on the specific situation;
- (4) Further expanding the scope of internal audit coverage.

SSVB has established its elementary compliance management framework, which is to be refined in implementation. The major compliance risk lies in the imperfect policy and procedure of the business and risk management, and disconnection between procedure and implementation. Innovation is SSVB's business model. The major compliance risk faced by SSVB is the review on the compliance of innovative products and services, and the review on the compliance of the improvement of internal operation procedure. As SSVB's business is still under development and the existing business products are relatively simple, the compliance risk is under control.

### **--Reputational Risk**

The Bank's media relation and brand are managed by our Head of Marketing and Public Relation, who maintains the Bank's reputational risk at a low level. Given the bank's niche focus on tech companies in certain industries, and with our limited product offering and relatively small client base, the bank is not exposed widely to the general public and mass media. We keep maintaining media relation and fully leveraging the new media platforms to communicate with target audience, and have good relationship with key financial media in Shanghai and Beijing as well, to positively position the bank as the key facilitator for China's innovation ecosystem.

### **--Strategy Risk**

Our strategic risk is medium given the difficulty inherent in the target market of innovation. Although much progress has been made, our strategic risk is medium given the existing infrastructure is not yet in alignment with the needs of the innovation sector. In 2016, we achieved significant business growth by means of flexible business strategy.

## **Social Responsibility**



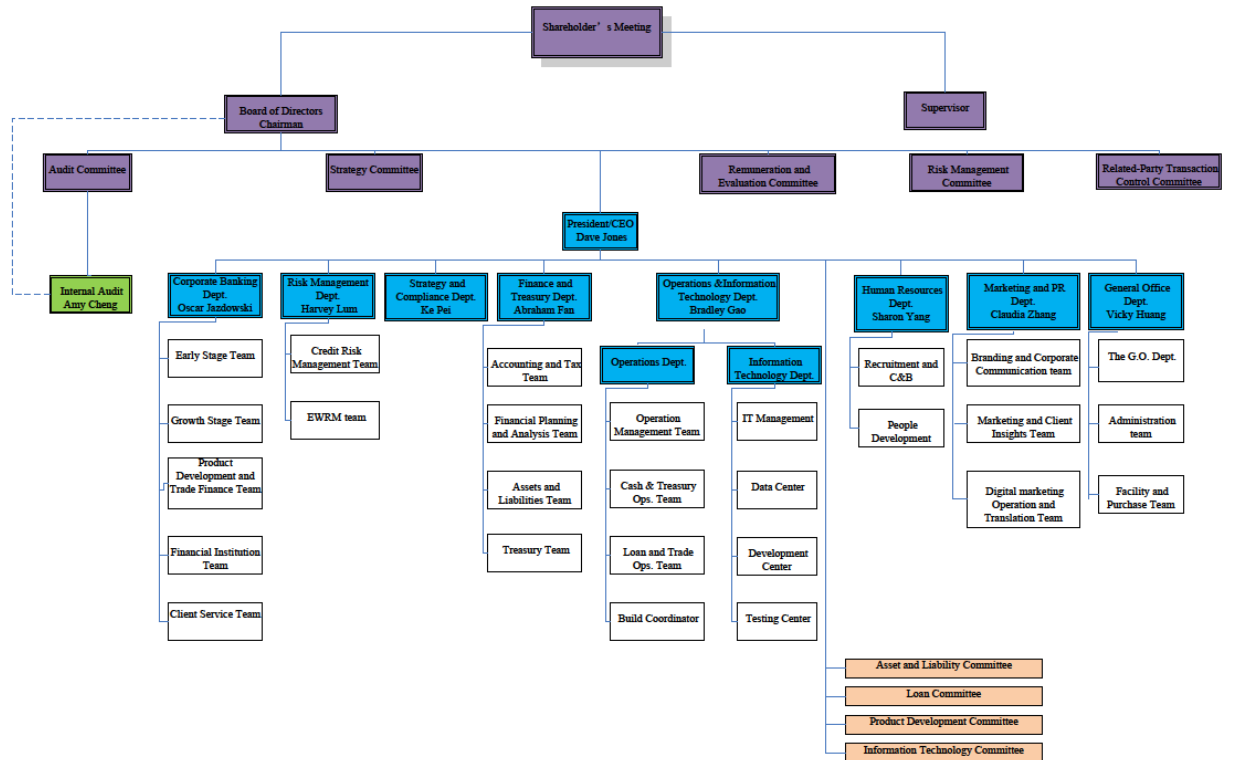
SPD Silicon Valley Bank pays great attention on corporate social responsibility and always encourages employees to participate in charity activities. SSVB provides employees one day for charity leave each year. The Charity Leave is part of the bank's commitment to corporate social responsibility, and allows our staff act more proactively for the benefit of society at large.

In 2016, four of our bank employees participated in the Oxfam Trail, a worldwide known charity that organized by Oxfam. The members of Oxfam Trail team not only had challenged their personal limit and overcame this difficult trail, but also leveraged this event to raise money for poverty. Oxfam Trail had full support from all bank's staff and eventually raised a charity fund of over RMB 50,000.

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Liu Xinyi 刘信义  
Chairman  
Shanghai, April 21th, 2017

## Organization Chart (ended on December,31th, 2016)



Org Chart of SPD Silicon Valley Bank  
93 employees as of 2016/12/31

## 2016 Financial Statement and the Report of the Auditors ( Attached Separately )