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## **SPD SILICON VALLEY BANK 2017 ANNUAL REPORT AND ACCOUNTING STATEMENT**

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This Annual Report is the SPD Silicon Valley Bank 2017 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)

	2017	2016
Yearly		
Operating Income	97.53	138.17
Operating Expense	160.72	123.67
Operating Profit	-63.19	14.50
Total Profit (Loss)	-59.48	17.00
Net Profit (Loss)	-44.76	12.54
Balance Sheet as of Dec. 31		
Loan	2,472.32	1,310.52
Total Assets	7,119.54	4,437.26
Customer Deposits	5,854.41	3,080.73
Total Liabilities	6,121.25	3,394.33
Total Owner's Equity	998.28	1,042.93
Capital Adequacy Ratio	30.37%	49.63%

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

Besides the head office, Beijing Branch got the formal approval of opening from CBRC Beijing on Dec 30, 2016 (Jing Yin Jian Fu [2016] No. 733) and was officially opened in March 1, 2017.

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.

## Corporate Governance

### **Shareholders' Meeting**

The Bank held a shareholders meeting on May 15, 2017, the shareholders' representatives deliberated and adopted the 2016 BOD report, 2016 final account plan, 2016 profit distribution plan, 2017 budget plan, 2016 BOD and Director Performance Evaluation Report and other important resolutions.

### **BOD**

As of December 31, 2017, the BOD of SSVB consisted of the following members:

Liu Xinyi	Chairman
Dave Jones	Executive Director, President
Ken Wilcox	Non-executive Director
Michael Descheneaux	Non-executive Director
Cui Bingwen	Non-executive Director
Yuan Rui	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 2017, 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.

CBRC Shanghai approved the appointment of Mr. Cui Bingwen as the vice chairman on May 3, 2017. As approved by the BOD, Mr. Cui Bingwen served as Chairman of the Risk Management Committee. 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, 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 22, May 16, August 10 and November 21 in 2017. 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 2017. The Strategy Committee held three meetings in 2017. The Audit Committee held four meetings in 2017. The Remuneration and Evaluation Committee held two meetings in 2017. The Related-Party Transaction Committee held three meetings in 2017.

### **Supervisor**

As of December 31, 2017, 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, 2017, the senior management of SSVB consisted of the following members:

Dave Jones	President
Tim Hardin	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
Abraham Fan	Vice President
	Chief Financial Officer and Head of Finance and Treasury
Bradley Gao	Chief Operation Officer
Sharon Yang	Head of Human Resource
Amy Cheng	Head of Internal Audit

\* Due to work needs, Ms Jade Lu will take over as Vice President and Chief Risk Officer, and the relevant qualification needs to be approved by the regulatory authorities.

### **External Auditor**

As approved by the Shareholders Meeting, the Bank appointed Price waterhouse Coopers Zhongtian Certified Public Accountants as its external auditor for 2017 fiscal year.

### **Capital Adequacy**

As of December 31, 2017, SSVB had CNY 998 million of net core Tier 1 capital, with CNY 1000 million of paid-in capital, CNY 35 million of capital reserve, CNY - 45 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, 2017, 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, 2017, all of the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio of SSVB were all 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 2017 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 main duties and responsibilities of the Risk Management Committee shall include:

- (1) Supervising the control over the matters of credit risk, market risk, implementation risk by the Bank's senior management
- (2) Periodically evaluating the Bank's risk and management status and its ability to sustain risk at current levels;
- (3) Proposing comments on ways to improve the Bank's risk management and internal control; and
- (4) Other matters prescribed by the laws, regulations and rules or otherwise authorized by 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.

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 ensuring, 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 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.

The credit portfolio of the bank grew steadily in the year 2017. The loan balance as of 31 December 2017 was CNY 2.535 billion which represented an 89.53% year to year growth. As of 2017 year-end, credit portfolio continues to be of good quality with Non-Performing Loan (NPL) Ratio at 0.75%.

## **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.

The BOD's responsibilities in relation to market risk management include: 1) to examine and approve the market risk management strategies and policy; 2) to determine the market risk level that the Bank may tolerate; 3) to urge Senior Management to adopt necessary measures for the identification, measurement, monitoring and control of market risk; 4) to periodically obtain and review reports on the nature and level of the market risk, and conduct supervision and control from Risk Management Committee; 5) to evaluate the completeness and effectiveness of the market risk management system and the performance of market risk management duties by Senior Management; 6) to examine and approve the market risk crisis management plan prepared by Senior Management.

The Risk Management Committee is responsible for reviewing risk strategy and policy of the Bank and addressing issues relating to market risk management and trading strategy within the Bank.

The main market risks to the Bank are interest rate risk and foreign exchange risk. FX exposures were well managed within the established limits with daily FX exposure monitoring; meanwhile, we conduct regular interest sensitivity test to monitor interest rate risk.

## **Liquidity Risk**

Liquidity risk is the risk faced by the bank in case of its inability to timely obtain sufficient funds in order to repay debts, fulfil other obligations of payment, and to keep the business development.

SSVB has developed a comprehensive liquidity management framework and always follow conservative principles to manage liquidity risk:

The Board is responsible to review and approve the liquidity risk management system of the Bank, and assumes the final responsibility of liquidity risk management, which including review and approve the liquidity risk appetite and liquidity risk tolerance, risk policies, procedures, risk limit and contingency plan of the Bank;

In 2017, overall liquidity position was acceptable. For the first three quarters of the year the fast growing loan has outpaced the growth of deposit hence a few monitoring ratios had been subdued, however largely improved again in Q4, thanks to actions taken by the management team, such as successful launch of Structured Deposit which attracted stable term deposit, investment in HQLA qualified bonds, and increase in customer's deposit due to collection of A/R towards the year end.

As of December 31, 2017, the liquidity ratio was 89.93% compliant with regulatory requirement (above 25%)

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

Operational risk exposure was stable throughout the year with no operational loss. In 2017, the bank conducted Disaster Recovery and Call Tree tests successfully, and enhanced Online Banking fraud monitoring mechanism.

## **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.

In 2017, the bank has increased its brand value and leveraged new media platform effectively. The bank has arranged content driven events such as Healthcare Capital and Connection Summit, State of Market Launch event and also leveraging external speaking opportunities, we raised our brand awareness and enhanced our influence in the eco-system.

### **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 2017, our bank employees participated in the Oxfam Trail, a worldwide known charity that organized by Oxfam. The 4 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-stricken area and family. Oxfam Trail had full support from all bank's staff and successfully raised a charity fund of over RMB 50,000.

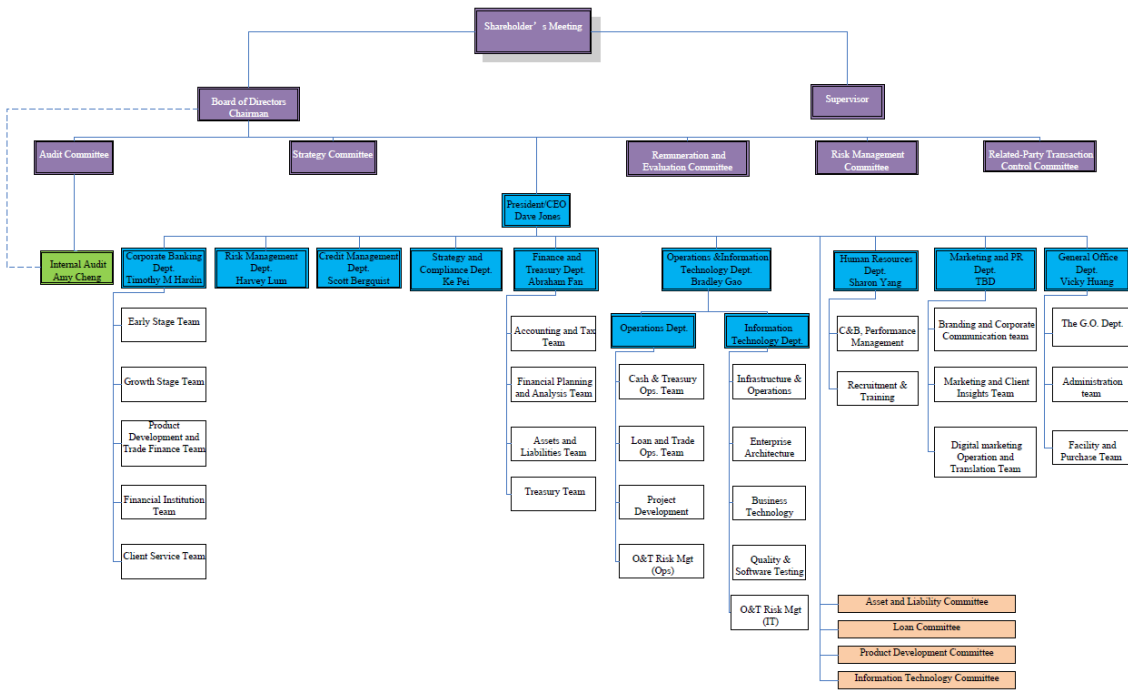
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Liu Xinyi 刘信义

Chairman

Shanghai, April 26th, 2018

# Organization Chart (ended on December, 31th, 2017)



Org Chart of SPD Silicon Valley Bank  
98 employees as of Dec. 2017

## 2017 Financial Statement and the Report of the Auditors ( Attached Separately )