



**SPD SILICON VALLEY BANK
2018 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)

	2018	2017
Yearly		
Operating Income	237.02	97.53
Operating Expense	193.29	160.72
Operating Profit	43.74	-63.19
Total Profit	55.21	-59.48
Net Profit	42.16	-44.76
Balance Sheet as of Dec. 31		
Loan	4,391.85	2,472.32
Total Assets	12,648.48	7,119.54
Customer Deposits	10,509.71	5,854.41
Total Liabilities	11,605.70	6,121.25
Total Owner's Equity	1,042.77	998.28
Capital Adequacy Ratio	18.98%	30.37%

Regulatory Indicator	Regulatory Tolerance Levels	Actual result
Loan provision rate	2.10%	2.10%
Loan provision coverage ratio	140%	269.31%

- 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, 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. And Shenzhen Branch got the formal approval of opening from CBRC Shenzhen on Aug 24, 2018 (Shen Yin Jian Fu [2018] No. 201) and was officially opened in Nov 1, 2018.

SPD Silicon Valley Bank Co., Ltd.

Floor 21 (which is the nominal floor number, the actual floor is 18) and Unit 01, 06B , Floor 22 (which is the nominal floor number, the actual floor is 19) , Tower B of Baoland Plaza, No. 558, Dalian Road, Yangpu District. (Post code: 200082)

Tel: (8621) 35159088 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.

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 23, 2018, the shareholders' representatives deliberated and adopted the 2017 BOD report, 2017 Final Financial Report, 2017 profit distribution plan, 2018 budget plan, 2017 BOD and Director Performance Evaluation Report and other important resolutions.

BOD

As of December 31, 2018, the BOD of SSVB consisted of the following members:

Liu Xinyi	Chairman
Dave Jones	Executive Director, President
Ken Wilcox	Non-executive Director
Wang Xinhao	Non-executive Director
Katherine Andersen	Non-executive Director
Yuan Rui	Non-executive Director
Li Jiaqing	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 2018, 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. Wang Xinhao as the vice chairman, Ms. Katherine Andersen as the Non-executive Director and Mr. Li Jiaqing as the Independent Director on Oct 12, 2018. As approved by the BOD, Mr. Wang Xinhao served as the Chairman of the Risk Management Committee and the member of Strategy Committee and Audit Committee; Ms. Katherine Andersen served as the member of the Risk Management Committee, the Related Party Transaction Control Committee and the Audit Committee; Mr. Li Jiaqing served as the Chairman of the Related Party Transaction Control Committee, the Audit Committee and the Remuneration and Evaluation 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 March 8, May 24, August 9 and November 15 in 2018. 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 three meetings in 2018. The Strategy Committee held two meetings in 2018. The Audit Committee held three meetings in 2018. The Remuneration and Evaluation Committee held two meetings in 2018. The Related-Party Transaction Committee held two meetings in 2018.

Supervisor

As of December 31, 2018, the Bank had one supervisor, assumed by Mr. Hua Renchang, the Chairman of Shanghai Liansheng Venture Capital Co., Ltd., replaced Mr. Lu Xiongwen, the former supervisor who has expired his term of office in Nov 2018. 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, 2018, the senior management of SSVB consisted of the following members:

Dave Jones	President
Jade Lu	Vice President Head of Corporate Banking Department
Amy Cheng	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
Kaelyn Huang	Head of Internal Audit to be appointed

* Due to work needs, Ms Jade Lu took over as Vice President and Head of Corporate Banking Department from Mr Tim Hardin, Ms Amy Cheng took over as Vice

President and Chief Risk Officer and Head of Risk Management from Jade Lu, and the relevant qualification was approved by CBRC. Ms Kaelyn Huang took over as the Head of Internal Audit and the relevant qualification was under the approval process 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 2018 fiscal year.

Capital Adequacy

As of December 31, 2018, SSVB had CNY 1.02 billion of net core Tier 1 capital, with CNY 1 billion of paid-in capital, CNY 34.78 million of capital reserve, CNY -2.6 million of retained earnings, CNY 0.81 million of surplus reserve, CNY 7.33 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, 2018, 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, 2018, 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 2018 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 perspectives. At quarterly board meetings, RMC provides the EWRM assessment report to BOD for awareness and discussion of risk management strategies. RMC is responsible to review, approve and examine senior management's responsibilities, authorities, and reporting channels relating to risk management, ensuring their adoption of necessary activities to continuously, effectively monitor, control and reporting all the risk issues, and timely respond to any risk events. 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/Information 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 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 2018. The loan balance as of 31 December 2018 was CNY 4.486 billion which represented a 76.96% year to year growth. As of 2018 year-end, credit portfolio continues to be of good quality with Non-Performing Loan (NPL) Ratio at 0.78%.

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, and 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.

SSVB has built up the market risk management framework, and review/revise market risk management policy annually. Specific role is set up to manage market risk, ensuring the risk exposure is controlled within acceptable risk preference (e.g. through setting up market risk exposure limit). 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 net interest income (NII) 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;

SSVB's liquidity indicators fully satisfied with regulatory requirements during 2018. According to newly released "Liquidity Risk Management Guideline for Commercial Bank" by CBIRC (effective on July 1st 2018), SSVB has obtained regulatory approval to apply Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Liquidity Ratio and Liquidity Matching Ratio as mandatory indicators. As the end of 2018, we have met the regulatory requirement of above ratios: LCR reached 231.68% (above 100%), NSFR at 156.91% (above 100%), Liquidity Matching Ratio at 159.89% (above 100%) and Liquidity Ratio reached 95.65% (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 RCSA, operational risk event collection and reporting, and KRI.

Operational risk exposure was stable throughout the year with no operational loss. In 2018, SSVB further enhanced the overall risk governance framework, risk culture building, risk training, risk policy system and risk management report which includes operational risk. In terms of operational risk, SSVB revised "Operational Risk Policy", "Business and Service Outsourcing Policy"; Crisis management plan set is initiated and liquidity emergency exercise is arranged; the branch risk management framework is initiated; Critical internal process in branch level and department level is reviewed.

SSVB revised RCSA approach, identified and evaluated key risk indicators and respective controlling effectiveness under operational risk confines. The following up enhancement is also planned. According to “Critical operational risk area and reactive measures for banking financial institutions (Version 3.0)”, SSVB also conducted self-training and inspection to take reference from industry best practice and follow the regulatory requirements.

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, Beijing and Shenzhen as well, to positively position the bank as the key facilitator for China’s innovation ecosystem.

In 2018, the bank has increased its brand value and leveraged new media platform effectively. The bank has arranged content driven events such as China Start-up Outlook Report, Healthcare Capital and Connection Summit, State of Market Launch event. We leveraged external opportunities as many as possible to grow our brand awareness and kept building up our influence in the eco-system. Also, we enhanced our internal management by refreshing our reputation risk management policy and crisis communication plan.

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.

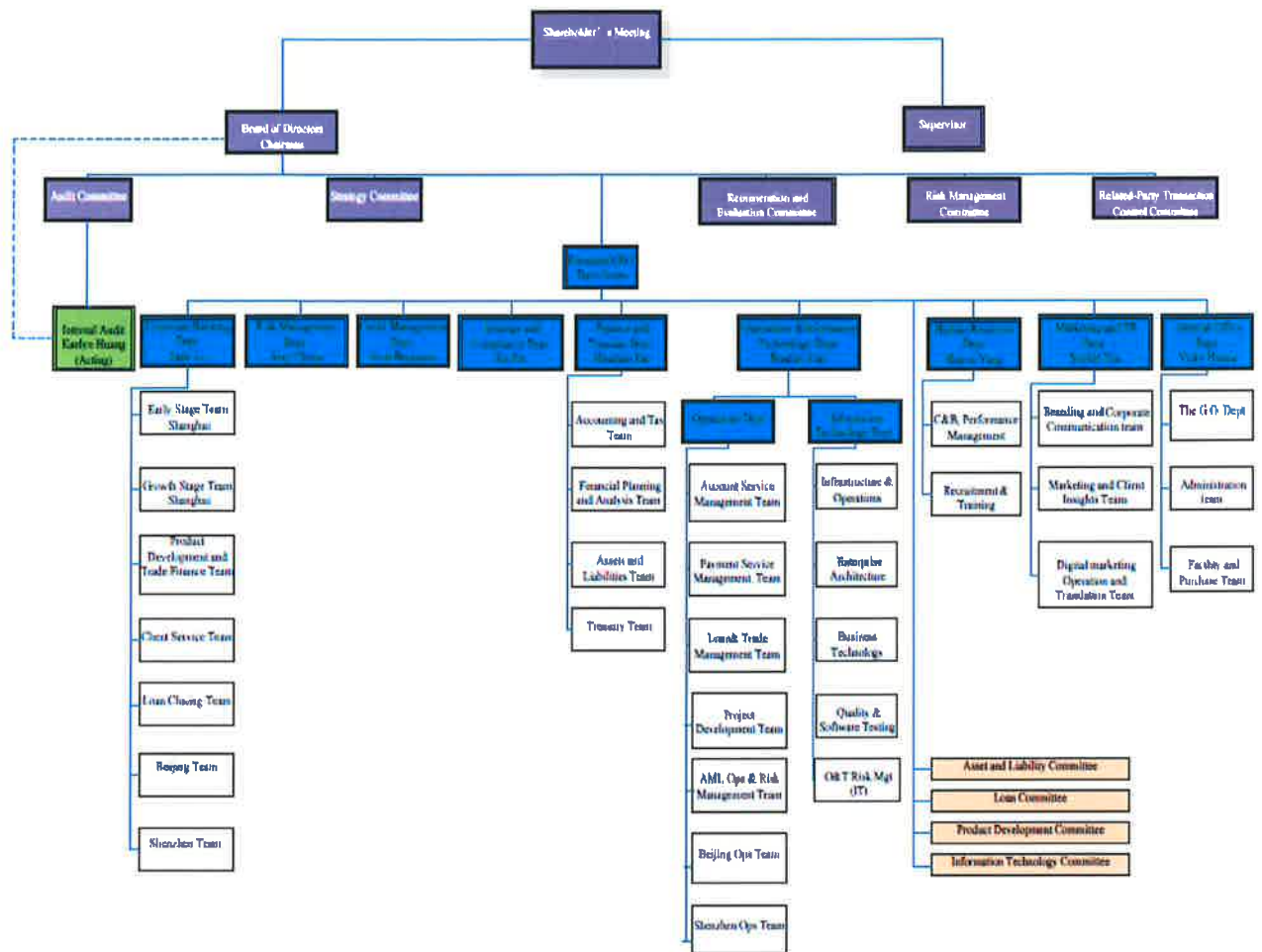


Liu Xinyi 刘信义

Chairman

Shanghai, April 24th, 2019

Organization Chart (ended on December, 31th, 2018)



Org Chart of SPD Silicon Valley Bank
136 Employees as of Dec. 2018

**2018 Financial Statement and the Report of the Auditors
(Attached Separately)**