



**SPD SILICON VALLEY BANK
2019 ANNUAL REPORT AND
ACCOUNTING STATEMENT**



Zheng Yang 郑杨

Chairman

Shanghai, April 29th, 2020

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This Annual Report is the SPD Silicon Valley Bank 2019 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)

	2019	2018
Yearly		
Operating Income	285.35	237.02
Operating Expense	308.61	193.29
Operating Profit	-23.25	43.74
Total Profit	-20.17	55.21
Net Profit	-13.48	42.16
Balance Sheet as of Dec. 31		
Loan	6,245.36	4,391.85
Total Assets	17,039.65	12,648.48
Customer Deposits	15,012.06	10,509.71
Total Liabilities	16,009.62	11,605.70
Total Owner's Equity	1,030.42	1,042.77
Capital Adequacy Ratio	14.23%	18.98%

Regulatory Indicator	Regulatory Tolerance Levels	Actual result
Loan provision rate	2.10%	2.10%
Loan provision coverage ratio	140%	143.57%

- 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 two 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 15, 2019, the shareholders' representatives deliberated and adopted the 2018 BOD report, 2018 Final Financial Report, 2018 profit distribution plan, 2019 budget plan, 2018 BOD and Director Performance Evaluation Report and other important resolutions.

BOD

As of December 31, 2019, the BOD of SSVB consisted of the following members:

Liu Xinyi	Chairman ¹
Ken Wilcox	Vice Chairman
Wang Xinhao	Vice Chairman
Dave Jones	Executive Director, President
Katherine Andersen	Non-executive Director
Yuan Rui	Non-executive Director
Li Jiaqing	Independent Director
Lu Xiongwen	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 2019, 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.

CBIRC Shanghai approved the appointment of Mr. Lu Xiongwen as the Independent Director on Jan 18, 2019. As approved by the BOD, Mr. Li Jiaqing served as the Chairman of the Related Party Transaction Control Committee and the Audit Committee, Mr. Lu Xiongwen served as the Remuneration and Evaluation Committee. The independent directors diligently and duly performed his duties as independent director and convener of BOD committees, 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

¹ Mr. Zheng Yang's qualification replaced Mr. Liu Xinyi as Chairman of SPD Silicon Valley Bank, Mr. Dave Jones's qualification replaced Mr. Ken Wilcox as Vice Chairman and Ms. Jade Lu's qualification replaced Mr. Dave Jones as Director have been approved by CBIRC in January, 2020.

appointment of senior management members, internal and external audit, risk management, etc.

The BOD held four meetings on February 28, May 16, August 15 and November 14 in 2019. 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 2019. The Strategy Committee held two meetings in 2019. The Audit Committee held four meetings in 2019. The Remuneration and Evaluation Committee held two meetings in 2019. The Related-Party Transaction Committee held two meetings in 2019.

Supervisor

As of December 31, 2019, the Bank had one supervisor, assumed by Mr. Hua Renchang, the Chairman of Shanghai Liansheng Venture Capital Co., Ltd. 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 ² 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
Grace Kuo	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

² Jade Lu's qualification replaced Mr. Dave Jones as President of SPD Silicon Valley Bank, Mr. Scott Bergquist's qualification replaced Ms. Jade Lu as Vice President and Head of Corporate Banking Department have been approved by CBIRC in January, 2020.

External Auditor

As approved by the Shareholders Meeting, the Bank appointed Price waterhouse Coopers Zhongtian Certified Public Accountants as its external auditor for 2019 fiscal year.

Capital Adequacy

As of December 31, 2019, SSVB had CNY 0.99 billion of net core Tier 1 capital, with CNY 1 billion of paid-in capital, CNY 34.78 million of capital reserve, CNY - 16.08million 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, 2019, 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, 2019, 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 2019 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 statement and overall business strategy;
- To pursue a prudential risk culture, cultivate the appropriate awareness of risk management, value criterion and professional integrity throughout the Bank, establish

a training, communication and oversight mechanism, promote all employees to understand and implement them, and cultivate the sense of duty of risk management from individual employee in each business unit to the management; and

- To continuously improve risk management quality in an efficient manner via governance, tools & instruments, analytics, review and reporting.

The Bank implements enterprise-wide risk management so as to identify and management the risks that the Bank is exposed to from the top management and based on a unified risk management framework and identify, measure, assess, monitor, report, control or mitigate various types of risks in quantitative and qualitative terms. The risks identified include: credit risk, market risk, liquidity risk, operational risk, compliance risk, country risk, bank account interest rate risk, reputation risk, strategic risk, IT risk and other risks.

Based on regulatory guidelines and best practices, the Bank establishes a risk governance structure with sound organizational structure and clear boundaries of responsibilities, and defines the duties of the BOD, the RMC, the Senior Management, the business departments, the RMD, the Internal Audit Department and all employees in risk management, and establishes a multi-level and inter-connected operating mechanism with effective checks and balances.

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 risk management policies and strategies across the Bank, and shall report to the Risk Management Committees on a quarterly basis.

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 conducted differentiated post-loan management based on the credit risk level of each borrower in loan portfolio to track the financial, funding and business performance of the company, and dynamically adjusted the ratings and plans of the portfolio.

The credit portfolio of the bank grew steadily in the year 2019. The loan balance as of 31 December 2019 was CNY 6.379 billion which represented a 42.20% year to year growth. As of 2019 year-end, credit portfolio quality remains stable with Non-Performing Loan (NPL) Ratio at 1.46%.

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. The Bank ensure the market risk exposure is within the acceptable level through establishing through limits and hedging strategies. The first line of defence, Treasury team ensure the transactions are within the limits and complying with hedging strategy; and the second line of defence, Risk Management

Department monitor the adherence of the limits and hedging strategy on daily basis. The regular interest rate sensitivity testing is being conducted to monitor interest rate risk in the Banking Book.

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 2019. As the end of 2019, we have met the regulatory requirement of ratios: LCR reached 283.11% (above 100%), NSFR at 153% (above 100%), Liquidity Matching Ratio at 214.54% (above 100%) and Liquidity Ratio reached 76.85% (above 25%).

Operational Risk

Operational risk refers to the risk of loss caused by imperfect or problematic internal procedures, employees, information technology systems, and external events.

Our bank has established effective internal control policies and operating procedures to reduce business interruptions at all levels of the organization, so as to identify, assess, monitor, mitigate and control key operational risks. All departments are faced with various degrees of operational risk, so all business lines and employees of the bank shall carry out business and management in accordance with the bank's policies and operating procedures.

Our bank adopts a variety of tools for operational risk management, including risk self-assessment, collection and reporting of operational risk incidents and monitoring of key risk indicators.

The annual operational risk is generally stable without any operational loss. In 2019, our bank set up the framework of enterprise-wide risk management (EWRM), further strengthened and improved the risk governance framework, risk culture construction, risk training, risk system, risk management report, etc.; established the "EWRM policy", "KRI monitoring and management policy" and "Branch risk management policy"; under the framework of EWRM, the methodology of risk self-assessment was optimized, and the key risks and control effectiveness of the bank-wide operational risks were identified and evaluated; formulated and organized the drill of business continuity management; improved the construction of the risk management system of the branch, designed and used the branch risk management checklist to carry out the relevant risk inspection; completed the sorting of important internal process lists at the

bank level and department level, the first and second lines of defence and responsibilities of operational risk are defined.

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.

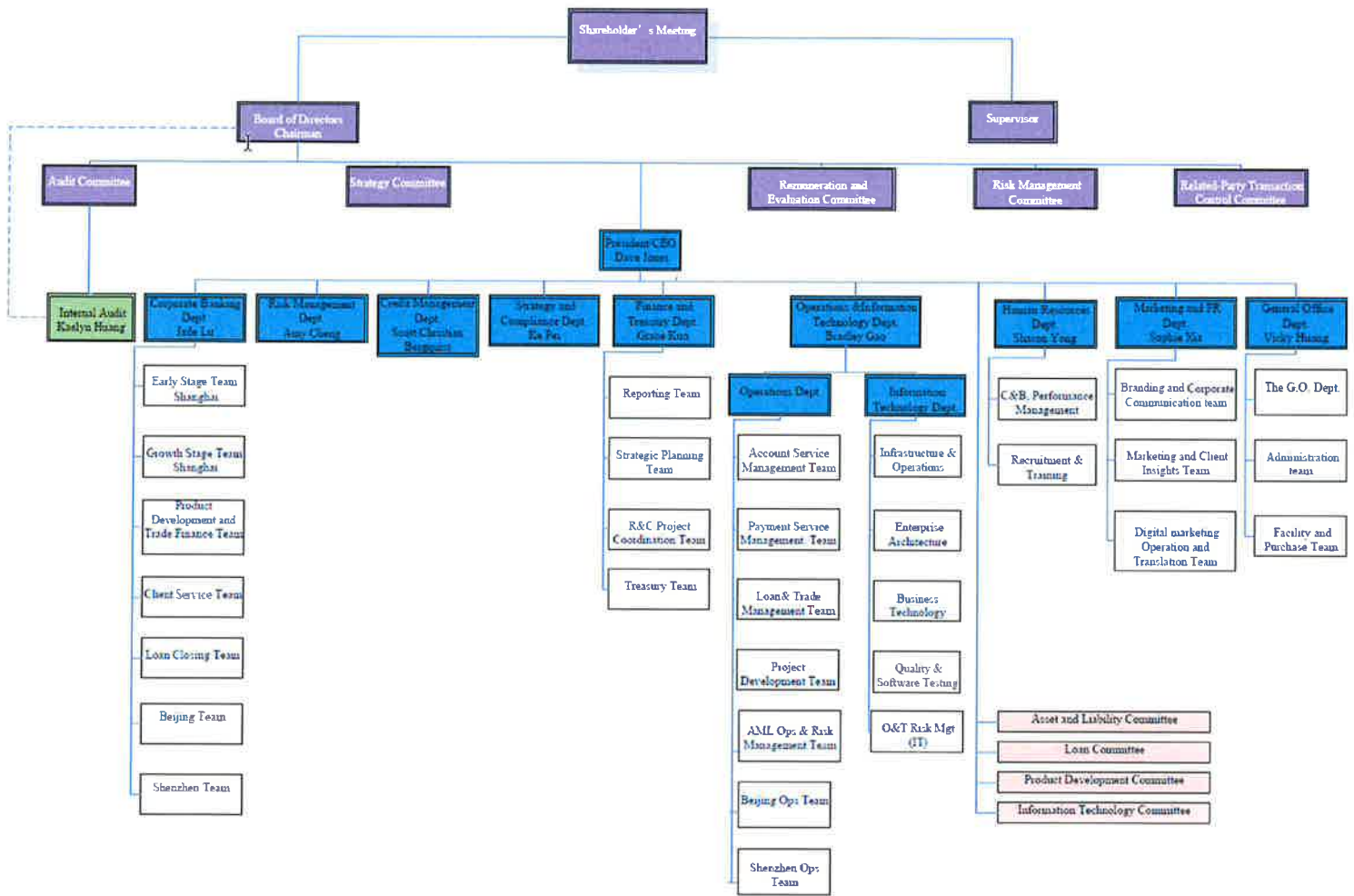
In 2019, the bank has increased its brand value and leveraged new media platform effectively. The bank has arranged content driven events such as Scientific Innovation Board Launch Seminar, China Start-up Outlook Report, Healthcare Capital and Connection Summit, State of Market Launch event. We leveraged 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.

Participating Oxfam Trailwalk is one of SSVB's traditional charity activity which is also one part of SSVB's social responsibility. In 2019, 5 of SSVB's employees joined Oxfam Trailwalk organized by Oxfam which is a renowned public benefit activity. Our colleagues challenged themselves not only physically to complete the competition by climbing mountains days and nights without sleeping; at the meantime, they raised funds by the activity for distressed area and families. Oxfam Trailwalk was supported by all SSVB staffs and our team finally raised more than 48000 RMB donation in 2019.

Organization Chart (ended on December, 31th, 2019)



Org Chart of SPD Silicon Valley Bank
 By 2019/12/31, total employee number is 165.
 Jade Lu's qualification as President of SPD Silicon Valley Bank has been approved by CBIRC in January, 2020.
 Scott Christian Bergquist's qualification as Vice President, Head of Corporate Banking Department has been approved by CBIRC in January, 2020.

2019 Financial Statement and the Report of the Auditors (Attached Separately)