SVB Financial Group Q1 2021 CEO Letter

April 22, 2021

To our Stakeholders:

SVB's first quarter of 2021 was the best in our history, with **Earnings Per Share of $10.03, Net Income of $532 million and Return on Equity of 27 percent**.

Q1'21 highlights: Exceptional growth and profitability – best quarter on record

Our quarterly results were marked by exceptional balance sheet growth due to continued robust client liquidity in the thriving innovation markets we serve. Period-end assets reached $142 billion, a 90% increase year-over-year; and total client funds reached $288 billion, a 71% year-over-year increase. Our exceptional balance sheet growth drove better-than-forecast quarterly net interest income of $665 million, despite the low rate environment.

Our quarterly performance reflected average loan growth of 11% driven by sustained high levels of private equity investment and strong borrowing by technology and healthcare/life science companies. Credit metrics remained stable, excluding a loss related to potential fraud, and improving economic forecasts drove a reserve release.

We had record warrant and investment gains of $364 million, net of non-controlling interests, from an acceleration of client IPOs and SPAC activity.

Core fee income improved as record foreign exchange and higher card and deposit fee revenues offset the impact of low interest rates in client investment fees. SVB Leerink booked record quarterly revenues of $167 million, due to strong public market activity in healthcare and life sciences.

Given our better-than forecast performance, expenses were higher than our previous Q1'21 guidance. Our capital and liquidity remained strong, and we have raised $2.4 billion of debt and equity through April 22, 2021, to support our increased growth momentum – as indicated in our improved 2021 outlook -- and accelerated investment in our business.

Strong markets and effective execution are driving extraordinary growth

Liquidity continues to flow into the innovation markets, due to robust venture capital and private equity activity, vibrant funding and exit markets, and the acceleration of digital adoption and activity in healthcare.

We are executing strongly across the business and continue to gain new clients at a rapid pace, adding more than 1,600 new clients in Q1 (an all-time high). Through consistent focus on client engagement and deepening and expanding our solutions to better meet clients' needs, we are growing and lengthening our client relationships. The investments we've made in people, technology and infrastructure have been essential to supporting and driving our growth, and the success of our strategy is evident in our exceptional balance sheet growth and peer-leading profitability.

Robust tailwinds supporting the innovation economy

Coming out of the first quarter of 2021, we see significant tailwinds for growth in the innovation economy. The outperformance of innovation companies relative to the broader economy is attracting strong new liquidity, on top of the already significant levels of venture capital and private equity dry powder available for investment globally. At the same time, the acceleration of digital adoption and healthcare activity is increasing the number of opportunities for deploying this liquidity. Although the positive momentum we're seeing could be affected by a rise in COVID-19 infection rates or global economic or geopolitical events, given the substantial liquidity in our markets, current low interest rates and the expectation that short-term rates will remain low until at least 2023, we expect the innovation economy to continue to attract investment.

Robust client funds growth over time

Robust funding and exit trends have fueled client liquidity in the past year, while our business diversification, client engagement and client acquisition strategies have positioned us to capture this liquidity over time. The dynamism of the venture capital and private equity industries is essential to our growth, but our unique liquidity franchise and long-term momentum in the innovation economy have created a resilience in our client funds, which have typically grown strongly during times of peak VC and PE investment and recovered relatively quickly following periods of pullback. While the growth is significant, over time our business model has shown the increase in liquidity to be sustainable.

That said, we are always mindful of the risk of deposit outflows and continue to manage our securities portfolio to support our liquidity needs.

Active capital management

Our exceptional balance sheet growth in the last two quarters has outpaced our forecasts and we have significantly raised our growth outlook as a result. Our high-quality balance sheet; off-balance sheet solutions; and robust and highly profitable earnings power have historically provided enough support for our capital and liquidity. While our risk-based capital ratios remain very healthy, in the first quarter, we raised $1.0 billion in common stock, $750 million in preferred stock and $500 million in senior notes and down-streamed $2.0 billion of the proceeds to Silicon Valley Bank. On April 14th, we issued an additional $150 million of common stock following the full exercise of the underwriters' over-allotment option.

Raising common equity provides high quality capital to support our growth and gives us additional capacity to utilize preferred equity and senior debt, as we have done previously, to support our growth. These issuances enable us to sustain our growth momentum, maintain our strong client acquisition and retention, and support our capital targets – particularly the tier 1 leverage ratio at the Bank.

We have also taken actions, through the addition of $10 billion of receive floating interest rate swaps, to position the securities portfolio for higher rates, along with the designating $3 billion in investment securities from available-for-sale (AFS) to held-to-maturity (HTM). This also has the benefit of protecting tangible book value against fluctuations in other comprehensive income and provides additional balance sheet flexibility.

We are focused on seizing the opportunity we see in our markets and expect to continue to optimize our capital composition as appropriate to support our current growth, drive future growth and advance our strategic priorities.

Our vision: Be the most sought-after digital-age partner helping innovators, enterprises and investors move bold ideas forward fast

Our long-term focus on a small number of dynamic markets has allowed us to develop differentiated expertise in working with our clients through challenging periods – providing tailored products, critical solutions, insights, and connections to accelerate their growth and increase the probability of their success. Over the years, we've built a network of relationships that would be difficult for any other company to replicate, and we have demonstrated our ability to stick with and provide value to our clients through good times and bad. Our unique platform and specialized approach have translated into deep relationships in a growing market that have driven strong levels of client liquidity and profitability.

We are focused on deepening and expanding our platform, both organically and via strategic investments and acquisitions. Together, our four business lines (Silicon Valley Bank, SVB Private Bank, SVB Capital and SVB Leerink) form a powerful platform for increasing our clients' probability of success and meeting their needs as they grow.

We've recently made several key announcements to this end. In 2020, we acquired WestRiver Group's debt investment business to establish a credit platform at SVB Capital that provides investors with additional investment opportunities in the innovation economy and commercial banking clients with new debt options. In January 2021, we announced our agreement to acquire Boston Private Financial Holdings, which we expect to close in mid-2021, subject to customary closing conditions. We expect this acquisition to significantly accelerate and scale the growth of our private bank and wealth management strategy, enabling us to capture a larger portion of this estimated $400 billion[*] opportunity among our clients. And we have recently made a significant number of strategic hires at SVB Leerink, to build or expand our equity capital markets, structured finance, leveraged finance and healthcare investment banking capabilities.

Accelerating investments in our strategic priorities to extend our competitive advantage

We are executing strongly on our vision to drive growth and profitability, without sacrificing our credit discipline and philosophy. We've supported these efforts by investing in our strategic priorities of enhancing client experience, improving employee enablement, driving revenue growth and enhancing risk management. Our investments have enabled us to accelerate our client acquisition by onboarding and delivering products more efficiently and deepen our client relationships by introducing products to better meet client needs at all life stages. They have also allowed us to develop or acquire critical leadership and skill sets that we need to expand our leadership position and continue growing.

Investment in our strategic priorities is critical to our future growth, and we expect to continue expanding our business organically through geographic, client and product expansion, while pursuing

[*] Estimated Total Client Position (TCP) of SVB's current clients based SVB management estimates (2020). TCP includes potential wealth management assets, deposits and lending.

opportunities to grow and differentiate our business through targeted acquisitions and the hiring of teams with special skills, if the right opportunities arise.

We continue to actively identify and evaluate potential opportunities for targeted investment in key areas not already included in our outlook and any such investments could increase our expense outlook in 2021. In addition, we continue to invest in the enhancements to our regulatory infrastructure and processes as part of our Large Financial Institution compliance and UK subsidiarization.

Overall stable credit metrics and improving macroeconomic environment

We saw solid performance and stable credit across our client base during the quarter, despite an isolated charge-off related to a potential instance of client fraud. Positive underlying credit trends and improving macroeconomic forecasts drove a reserve release during the quarter. As of March 31, 2021, only 1.3% of our loans remained in deferral and we have seen most clients resume payments with very few extension requests.

In late February, we identified and disclosed potentially fraudulent client activity in connection with a single loan in our Global Fund Banking portfolio. This activity resulted in a pre-tax charge-off of $80 million ($59 million net of tax) in the first quarter. Based on our review of the loan in question and our overall portfolio, we believe this was an isolated incident in approximately 30 years of pristine credit quality in this portfolio. We have a long history of strong underwriting and diligence that has served us well, and we remain focused on training and awareness to prevent similar occurrences in the future.

We are maintaining our positive expectations for credit in 2021. Should market conditions deteriorate, we believe we are strongly reserved to manage that change.

Diversified earnings power

Our robust balance sheet growth continued to offset the impact of low rates in the first quarter to drive strong net interest income of $665 million. In addition, our efforts to diversify our business lines, deepen our client relationships, and grow internationally generated strong non-interest income.

Well-positioned for rising rates

We continue to take a proactive approach to interest rate risk management. In recent years, we have successfully deployed strategies to provide protection against low rates – including receive-fixed interest rate swaps and loan floors – that have helped to sustain our net interest income. As the economic environment continues to evolve, we are well-positioned for rising rates, with an asset-sensitive balance sheet. More than 90 percent of our loans are tied to short-term rates and two thirds of our deposits are non-interest bearing. We also have approximately $3.0 billion to $3.5 billion in securities rolling off our investment portfolio each quarter and we will take advantage of opportunities to deploy liquidity at higher rates.

While our asset sensitivity calculations are based on a static model, we expect robust balance sheet growth in 2021, which we will magnify the positive impact of our asset sensitivity and provide meaningful NII upside.

Our off-balance sheet funds are also growing rapidly and, although they are not as sensitive to short-term rate increases, even modest spread improvements on these large volumes can drive significant fee income increases. These increases are not reflected in our asset-sensitivity analysis.

Finally, as our view shifts from protecting against lower rates to managing to a potential higher rate environment, we have implemented new strategies to mitigate “other comprehensive income” risk as long-term rates rise, including shortening the duration of our securities purchases, transferring investments designated as AFS to HTM, and putting in place $10 billion of fair value hedges, representing 38% of our AFS portfolio. We are targeting a duration of <2 years in the AFS portfolio to maintain balance sheet flexibility, and we are opportunistically buying strong credit-quality municipal and corporate bonds.

Improving Outlook and Final Thoughts

Our excellent performance in the first quarter and the incredible momentum we’re seeing in our markets has improved our expectations for balance sheet and revenue growth for the full-year 2021. While a rise in COVID-19 infections, or negative global economic or geopolitical events could, of course, change our outlook, the current strong tailwinds, ample liquidity, and meaningful opportunity we’re seeing in the innovation economy make us optimistic, and we further expect our growth to be underpinned by continued stable credit quality, assuming no deterioration in economic forecasts.

Importantly, we plan to support our accelerated growth through increased investment in our strategic priorities, extending our competitive advantage, and continued enhancement of our infrastructure to enable our growth and meet increasing regulatory requirements. We may also make opportunistic investments that are not reflected in our current guidance.

We continue to perform well and are operating from a stronger position than at any other time in our history. We are executing on our strategic vision, advancing and expanding our platform, and further strengthening our position as the best and most valuable partner to innovators and investors in the most dynamic segment of the global economy. We have a world class team to help us realize our vision and we are honored to have our clients’ trust and partnership as we work together to help them realize theirs.

Greg Becker
President and CEO