SVB Financial Group Q3 2020 CEO Letter

October 22, 2020

To our Stakeholders:

We delivered outstanding third quarter performance, with **Earnings Per Share of $8.47, Net Income of $442 million and Return on Equity of 24 percent.**

Our results reflected robust balance sheet growth driven by continued strong client liquidity, outsized warrant and investment gains from client IPOs, improved core fee income, strong investment banking revenues and low credit losses including a reserve release.

Exceptional execution across the franchise as resilient markets continue to attract strong liquidity

1. We are executing strongly in a remote work environment and continue to support our employees, clients and communities.
2. Our client markets are resilient and thriving and continue to attract and generate liquidity, despite continued economic uncertainty.
3. Credit quality remains stable, with improving model economic scenarios and strong performance in our Private Bank driving a substantial reserve release.
4. The investments we're making are accelerating client acquisition and growth and we will continue to focus on investment that supports our strategic priorities, growth and scalability.
5. Our strong capital and liquidity, high-quality balance sheet and robust earnings power position us well for long-term growth.
6. Our preliminary outlook for 2021 is positive, marked by strong average balance sheet growth and continued investment in our strategic priorities.

We are executing strongly in a remote work environment and continue to support our employees, clients and communities

After smoothly transitioning to remote work in March, we have continued to leverage the investments we've made in technology and infrastructure to execute strongly across the business.

As the need for most of the company to work remotely extends into 2021, we remain focused on supporting our employees through a variety of work-, life- and health-related benefits and programs. That support and the resilience and flexibility of SVBers have enabled us to prioritize doing the right things for our clients and our business; enhancing our products, services and solutions; and deepening our engagement with the innovation ecosystem globally. The result of our focus is apparent in our financial results and in the continued strength of our client acquisition, which remained near all-time highs in the third quarter.

Our support for our employees, clients and communities extends to the embrace of diverse perspectives and fostering of a culture of inclusion, not just at SVB but across the innovation ecosystem. We have recently put more focus and resources toward our commitment to Diversity, Equity and Inclusion at SVB and to championing causes that impact access to and diversity in the innovation economy. As part of these efforts, we will be donating approximately $20 million in the fourth quarter, representing our PPP fees less costs incurred, to support community and diversity programs. Internally, our efforts include an executive-led Diversity, Equity and Inclusion Steering Committee and a full-time Diversity Recruiting Director, as well as leadership development and fair-pay analysis. We have made our key diversity statistics public and have also set public goals for increasing diversity

and equity at SVB. Externally, through our signature Access to Innovation program, we are using our influence to work toward increasing funding for startups founded by women, Black, Latinx and other underrepresented groups to advance diversity and gender parity in the leadership of innovation companies. We also have a growing list of strategic and financial partnerships with organizations focused on furthering those goals.

Our client markets are thriving and resilient, and continue to generate robust liquidity, healthy loans and fees, despite continued economic uncertainty

Liquidity continues to flow into the innovation markets, even as the broader economy languishes.

Venture capital activity remained strong in the third quarter, with continued focus on late-stage investments, new highs in healthcare investing and continued robust fundraising. While overall private equity activity lagged, our PE clients were active. Technology-focused PE investment remained elevated and fundraising appears to be accelerating toward the tail end of the year.

Venture-backed exits surged in the third quarter, marked by the return of larger IPOs, which drove exit values to $104 billion, the second highest quarter in the last six years. This momentum appears set to continue as VC-backed companies take advantage of the open market window, with several more multi-billion-dollar IPOs, SPAC offerings and direct listings expected.

The ability of technology and life sciences to attract such strong liquidity highlights innovation's importance as a primary driver of the global economy, one whose value has only been enhanced by changes in the way we work and live brought about by COVID-19, as well as growing efforts to treat and prevent the disease. In addition to historically strong venture capital and private equity returns, the prospect of interest rates remaining very low for the foreseeable future is also driving increased interest in alternative investments.

Strong venture capital and private equity investment and active exit markets for our clients have continued to fuel our outstanding balance sheet growth, driving a $29 billion increase (42 percent) in our period-end assets year over year to $97 billion. Total client funds reached $211 billion during the quarter, thanks to strong fundraising and exit activity.

Our clients' activity levels were reflected in strong loan growth – particularly in Global Fund Banking (PE/VC) and the Private Bank – and higher core fee income for the quarter. At the same time, market-driven revenues were robust. Client funding and exit activity drove approximately $324 million in market-related fee income from warrants and investments, net of noncontrolling interests, in the third quarter alone.

Credit quality remains stable, with improving model economic scenarios and strong performance in our Private Bank driving a substantial reserve release.

Credit remained stable in the third quarter, due to strong performance across our client base. The vast majority of our Private Bank and Wine clients with three-month loan deferrals resumed payments during the quarter with very few extension requests. We expect the additional runway provided by our deferral programs, PPP, follow-on investments and clients' efforts to conserve cash will enable the majority of our venture debt deferral clients to do the same. Nevertheless, we continue to monitor our portfolio vigilantly, in light of continued economic uncertainty, fading stimulus and expiring deferrals. While there is potential for some increase in NPLs we are cautiously optimistic based on stable performance to date, and we have strong levels of reserves to withstand changing market conditions.

Net loan charge-offs in the third quarter remained relatively low at $24 million, primarily driven by granular, Investor-Dependent loans. Improved model economic scenarios and strong performance in our Private Bank drove a performing reserve release of $82 million. While this translated to a $52 million net benefit to our provision for credit losses in the third quarter, we expect potential changes in model economic outlooks to drive provision volatility moving forward.

As expected, we saw higher non-performing loans driven by a small number of Investor Dependent clients and our wine portfolio has been only minimally impacted by the California wildfires so far. The length and depth of the

current downturn and the course of the pandemic will ultimately determine how quickly business conditions return to normal, and those outcomes are uncertain for now. Nevertheless, we believe the quality of our loan portfolio, strong underwriting and proactive credit management have positioned us to perform well overall, as we have in past downturns.

The investments we're making are accelerating client acquisition and growth; future investment in our strategic priorities remains critical to maintaining our leadership position and driving growth

The investments we've made in the past five years have been key drivers of our growth and success. We have focused on our strategic priorities of enhancing client experience, improving employee enablement, driving revenue growth and enhancing risk management. Our investments have resulted in acceleration of our client acquisition, significant expansion of our product offerings to better meet the needs of our clients at all life stages, more efficient onboarding and product delivery, deeper client penetration, and critical leadership and skill sets that we need to continue growing.

We believe continued investment in our strategic priorities is critical to our future growth. With this in mind, we will retain our focus on growing our business organically through geographic, client and product expansion, while pursuing opportunities to grow and differentiate our business through targeted acquisitions and the hiring of teams with special skills, if the right opportunities arise.

Well-positioned for long-term growth

Our high-quality balance sheet, strong capital and liquidity, and long-term approach to investing in our business continues to provide a base of strength and stability that we believe will enable us to support our clients over the long term.

Our ability to offer meaningful connections, expertise and value to our clients, well beyond the abilities of an ordinary bank, continues to differentiate us as the partner of choice for innovators and investors.

We believe the pace of innovation and investment in the innovation economy will continue to grow and accelerate over time and that the efforts of VC and PE investors to put capital to work will remain a primary driver of new company formation and exceptional liquidity in the innovation economy.

Our investments in expansion and diversification of our business will provide levers to drive growth in a low rate environment while enhancing our ability to compete globally and maintain our market leadership, supporting long-term growth and operating leverage. Our long experience with innovators and investors gives us confidence in the continued resilience of our business to withstand the challenges ahead and to thrive in the long term.

Preliminary 2021 Outlook vs. Full Year 2020

We are providing more detail on our expectations for Q4 2020 in our earnings deck and issuing a preliminary outlook for select business drivers for the full year 2021. Our 2021 outlook is marked by continued strong average balance sheet growth tied to activity in our client markets as well as investment in our strategic priorities. Given uncertainty in the broader economy and the potential for changing economic outlooks, we are unable to provide a preliminary outlook for key credit metrics, although we are cautiously optimistic based on our performance to date and are well-reserved for potential losses.

Average loans

We expect average loan growth in the high single to low double-digit percent range. This outlook assumes healthy private equity and venture capital borrowing due to strong investment activity and private bank mortgage originations, although it could be offset by paydowns in the technology and life science portfolios as well as PPP forgiveness in the first quarter of 2021.

Average deposits

We expect average deposit growth in the high teens to low twenties percent range, driven by continued strong funding activity in VC and PE. This growth could be offset by a potential public market slowdown and higher PE/VC distributions, which typically occur during the fourth and first quarters. We could also see an impact to deposits from higher client spending if the economy begins to recover.

NII and NIM

We expect net interest income growth in the high single digit percent range, driven by strong growth in interest-earning assets, partially offset by low yields on new securities purchases as a result of the low rate environment.

We will continue to benefit in the near-term from the mechanisms we've put in place to protect NII, including $16 billion of active loan floors and $195 million of remaining locked-in gains from interest rate swaps (as of September 30, 2020), while continuously assessing the rate environment to determine whether additional measures are needed to protect our earnings. We are also selectively evaluating high-quality credit alternatives, such as municipal and investment grade corporate bonds, to support investment securities yields.

We expect full year net interest margin to be between 2.45% and 2.55% driven primarily by declining yields in our investment securities portfolio. Our NIM forecast is consistent with our current quarterly NIM performance.

Core Fee Income

We expect core fee income to be flat to 2020 levels due to lower expected client investment fee income resulting from lower rates, partially offset by higher expected client investment fund balances, recovering business activity and our ongoing efforts to deepen our client penetration and engagement.

Non-interest expense

We expect non-interest expense growth to be in the low to mid-single digit percent range driven by higher project costs and FTE related to our strategic investments.

Tax Rate

We expect our effective tax rate to be between 27% and 28%, pending the outcome of the presidential election.

Credit Commentary

While we are not providing an updated credit outlook for 2021, we are encouraged by the degree to which credit quality has remained healthy and the results of our ongoing credit analysis. To the extent we could have elevated charge-offs related to current or worsening economic conditions, we expect these charge-offs to be manageable and believe we have adequately reserved for them.

Likewise, we believe our reserve modeled on economic scenarios is ample, but we could see volatility in our reserve if economic forecasts change dramatically.

Final Thoughts

Although the broader economic environment could remain a challenge for years to come, at SVB we are in the strongest financial position in our history.

- The innovation economy continues to demonstrate its resilience as COVID-19 accelerates digital adoption and drives increased activity across the healthcare industry. As a result, our technology, healthcare and life science clients have been less impacted by the economic downturn than traditional businesses.
- Liquidity continues to flow into our markets, supported by strong PE/VC fundraising and dry powder, providing the fuel for long-term growth.
- We are cautiously optimistic on credit. While the ultimate trajectory of the economic slowdown and the course of the pandemic are uncertain, credit metrics currently remain within normal ranges and economic forecasts show signs of improvement. Should conditions worsen, we believe we are well positioned to handle the change, both from a portfolio quality and reserve perspective.
- The resilience of the innovation markets as a primary driver of the global economy reinforces our need to invest in extending our leadership position and competitive advantage. We believe the investments we've made and are making to expand and diversify our business will provide the foundation for long-term growth and operating leverage.
- Our strong capital and liquidity, high-quality balance sheet and earnings power position us well to serve our clients, adapt to changing market conditions and invest for the long-term.

We remain optimistic about our long-term prospects as the partner of choice supporting innovators and their investors in the most dynamic segment of the global economy. Not a day goes by when I am not amazed by the ingenuity and boldness of our clients. Many of them really are succeeding in changing the world for the better. I know I speak for all my fellow SVBers when I say I am truly grateful for their partnership and trust.

I am also grateful for our remarkable employees, who to demonstrate their dedication and resourcefulness in serving our clients and supporting each other each day, so that we can continue doing what we do best: helping our clients succeed.

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Greg Becker

President and CEO