SVB Financial Group Q4 and Full Year 2019 Financial Highlights

Exceptional growth and strong profitability to cap a record year

January 23, 2020

To our Stakeholders:

We are pleased to report an excellent fourth quarter with **Earnings per Share of $5.06, Net Income of $263 million and Return on Equity of 17 percent**. Our performance reflects the positive trends that have driven our results all year: effective execution of our strategy, robust client acquisition and continued strength in our operating environment. The quarter was marked by outstanding growth, healthy market-related gains and stable credit, as well as a positive outlook for 2020. For the full year 2019 we achieved record revenues and balance sheet growth and delivered outstanding performance across the board.

Q4'19 themes: strong performance and markets, effective execution and positive outlook

The following themes summarize our view of the most recent quarter and the current market environment:

1. Continued robust global market activity, strong client acquisition and client liquidity continue to fuel balance sheet growth.
2. We have returned to NII growth as our balance sheet growth offset the impact of lower interest rates.
3. Effective client engagement and product penetration are driving core fee income growth.
4. Gains on warrants and investment securities remain healthy.
5. Strong performance and continued investments in our growth and scalability drove higher costs.
6. Credit remains stable, as do underlying trends, due to the long-term improvement in our risk profile driven by growth in our loans to Private Equity, Venture Capital, and Private Bank clients.
7. Our 2020 growth outlook is positive; we expect to deliver solid performance while continuing to invest in our business.

The power of SVB's platform continues to drive robust client acquisition globally

The unparalleled access, connections and insights we can provide to clients because of our unique place at the center of the global innovation ecosystem continue to differentiate us and enable us to attract new clients at a healthy pace. In the fourth quarter, we attracted more than 1,100 new clients, another strong quarterly pace that has contributed to net client growth at a nearly 16 percent compounded annual growth rate since 2015. Our reputation as the best partner for entrepreneurs has enabled us to maintain 50 percent market share of all US VC-backed technology and life science companies for many years. In 2019, 69 percent of VC-backed innovation companies that went public were our clients.

Our long-term commitment to innovators and investors enables us to understand their businesses, give advice and help solve their problems to improve the probability of their success. The networks and deep relationships we've cultivated globally over decades allow us to make meaningful connections for our clients and provide value well beyond the capabilities of a typical bank. And we believe our continued investments in people, digital client experience, geographic expansion and diversification of our business will enable us to remain differentiated over the long term.

Healthy markets provide a positive operating environment

The healthy venture capital and private equity markets continue to provide support for our clients and our growth. US venture capital investment in 2019 remained robust, coming in just under 2018's record levels at $137 billion, driven by the continued trend toward fewer and larger investments. Demand for venture capital investment was also healthy, although below 2018 levels, with $46 billion raised in 2019 by fund managers. Even with slower VC-

backed IPOs in the fourth quarter, VC-backed exit values in 2019 reached a staggering $256 billion, 78 percent of which came from IPOs. The post-IPO struggles of some notable companies will likely lead to additional focus on profitability by some investors, but the tremendous amount of dry powder and new liquidity available for investment, and the long investment horizons that characterize venture capital suggest to us that healthy deal activity is likely to continue in 2020.

As expected, US private equity investment in 2019, at $678 billion, was extremely healthy, although it didn't quite meet 2018's dramatic levels. PE fundraising dollars far exceeded 2018 with $301 billion raised, reflecting a trend of larger fund sizes and fewer funds. Demand for deals from traditional LPs as well as newer entrants such as sovereign wealth funds remains healthy.

This backdrop of continued fundraising, investment and exits continues to provide a healthy environment for our clients and for us, as we execute on our strategy of enhancing client experience, improving employee enablement, enhancing risk management, and driving scalable, long-term growth.

Strong liquidity franchise continues to generate low-cost deposits and drive growth

Our trend of outstanding client funds growth continued in the fourth quarter with quarter over quarter growth of $6.8 billion (or 4.5 percent) in average total client funds. This increase reflected strong growth in both on-balance sheet deposits (+$3.0 billion) and off-balance sheet client investment funds (+$3.8 billion). While $2.5 billion of new interest-bearing deposits accounted for the majority of on-balance sheet deposit growth, quarterly deposit costs decreased by seven basis points from the prior quarter, reflecting the lower rate environment. Eighty-eight percent of the annual growth in client funds came from our Technology and Life Science & Healthcare clients.

We believe we are well positioned to drive continued balance sheet growth due to our deep client relationships, which start very early in our clients' lives; our proven ability to drive funding onto our balance sheet; and our effectiveness at optimizing our product mix to meet client needs.

Continued strong loan growth from highest-quality loan categories driving improving risk profile

Average loans continued to grow at a solid pace in the fourth quarter, increasing by $2.2 billion or 7.3 percent to $32.0 billion, over Q3'19. We also saw strong growth of $2.1 billion or 6.8% in period-end balances in the quarter. We saw increases across all loan categories, with the greatest growth in private equity capital call lines of credit and private bank lending.

Loan yields declined by 32 basis points during the quarter, driven primarily by lower interest rates and margin compression tied to the market environment, although this impact was somewhat offset by higher prepayment fees than in Q3.

Healthy growth in fixed-income securities portfolio; yields holding steady

Client funds growth contributed to a 6.1 percent increase in average fixed income securities in the fourth quarter. New purchases of $2.1 billion were deployed primarily in U.S. Treasury and Agency mortgage-backed securities at average yields of 2.08 percent (versus 2.43 percent in the third quarter), although aggregate portfolio yields held relatively steady with the past three quarters at 2.58 percent. The yield on bond maturities during the quarter was 2.24 percent (versus 2.43 percent in the prior quarter). We expect investment portfolio yields in 2020 to remain relatively stable.

Outstanding balance sheet growth offset the impact of rate declines on NII

Our ability to drive strong balance sheet growth along with lower deposit costs contributed to a $13 million (or 2.5 percent) increase in net interest income in the fourth quarter, despite the impact of decreases in the Fed Funds rate in September and October and a smaller impact from lower LIBOR rates on our interest earning assets.

We are managing net interest income sensitivity to our ~10% target

We are succeeding in our efforts to manage the impact of rate decreases on our net interest income sensitivity to no more than 10% in a 100-basis point shock scenario. As of 12/31/19 our sensitivity to a 100-basis point reduction to Fed Funds was 8.5% of net interest income. Our primary strategies underlying this effort are interest rate swaps, continued extension of duration in our fixed-income securities portfolio, managing cash balances and adapting our deposit pricing to market rates. We will continue to actively manage asset sensitivity to the 10% target.

Based on our expectations for the impact of our balance sheet strategies in 2020, we are forecasting a $30 to $40 million annualized, pre-tax reduction in NII for each 25 basis point Fed Funds decrease, which equates to approximately 2 percent of our expected net interest income. This estimate assumes deposit beta on lower rates of between 50 and 70 percent, and continued deposit growth, primarily in interest-bearing accounts.

We have levers to drive profitable growth in a changing rate environment

Our investments in growth and scalability, our ability to use products and pricing to shift liquidity on and off the balance sheet over time, and the capital accretion supported by our thriving client markets, give us significant flexibility to drive profitable growth even without help from interest rates.

Strong execution, client engagement and product penetration drove strong fee income growth

We continue to see strong growth in our core fee income lines as well as gains from warrants, investment securities and our investment banking business.

Core fee income in the fourth quarter grew by $5.9 million, primarily due to strong execution and continued investment in our platform, which resulted in a strong quarter for our foreign exchange business, as well as improved penetration of our credit card products among early-stage clients. These increases were partially offset by a two-basis point decrease in spreads on client investment funds due to the impact of decreases in the Fed Funds rate. The continued growth in our core fee income lines provides a welcome offset to downward pressure on interest income from rates and competition.

We had another good quarter for market-driven income streams – specifically, gains from warrants and investment securities (net of NCI) – which contributed $47 million in revenues in the fourth quarter and $224 million for the full year 2019, reflecting the healthy funding and exit environments for our clients. Absent a significant economic downturn, we expect our client markets to remain healthy in 2020, although gains related to market funding and exit activity will remain unpredictable and we believe they are unlikely to match 2019 levels.

SVB Leerink's revenues exceeded our expectations for 2019 and we are excited about our progress together. Income from SVB Leerink was strong in the fourth quarter. The market for SVB Leerink continues to grow and they are maintaining consistent market share. We continue to have positive expectations for SVB Leerink in 2020, assuming the markets remain healthy.

Revenue-driven incentives, continued investments in growth, and non-routine items drove higher costs

Higher expenses in the fourth quarter were primarily driven by higher incentive compensation costs, primarily related to strong SVB Leerink revenues as well as SVB's overall performance, higher project spend to support our digital banking and scalability efforts, and non-routine costs related to compensation and software impairment.

Our 2020 outlook for expense growth in the high single digits reflects our expectation of continued investment in our people, an enhanced digital client experience, diversification of our business and international expansion. In addition, we continue to invest in technology and process enhancements that will allow us to drive more scalability in our business operations.

Credit remains stable with solid underlying trends

Credit quality remained solid in the fourth quarter, as did underlying credit metrics. Our credit performance reflects continued growth in high-quality loan categories, such as Private Equity and Private Bank, as well as the gradual improvement of our risk profile, including the decrease over the years of early stage loans to only five percent of our loan portfolio.

Due to the high quality and short duration of our loan portfolio, we estimate the impact of CECL adoption will be a 11-16 percent ($40-$60 million) increase to our reserves for ALLL and unfunded credit commitments over prior levels, resulting in a 6-10 basis point increase in our ALLL. Once CECL is adopted, assuming stable economic conditions, we expect ALLL levels in 2020 to be between 0.95 and 1.05 percent. If economic conditions were to change, we would expect increased volatility in reserves going forward.

Strong capital provides flexibility

Capital remains very strong. At year-end, the Bank's CET 1 risk-based capital ratio was 11.18%, and the Tier 1 leverage ratio – the Bank's binding constraint – was at 7.30%, within our long-term target range of 7-8 percent. Our strong capital position and ability to accrete capital provides a long runway to support our growth and the flexibility to invest in the franchise or to return capital to shareholders.

We continue to evaluate our capital structure and, in December, we issued $350.0 million of 5.25% Series A Perpetual Preferred Stock at the holding company. Proceeds from the deal were used to redeem our $350.0 million 5.375% Senior Notes due 2020. The raise allows us to secure permanent capital at an attractive coupon, and we expect to pay a preferred stock dividend of 5.25% annualized starting in the first quarter based on the $350.0 million issued. In the fourth quarter, we did not purchase any shares under our $350 million share repurchase authorization, which expires in Q4 2020. We continue to look at share buybacks as a means to optimize our capital structure.

Positive 2020 outlook; expecting solid growth with continued investments in the future

In 2020, we expect continued solid performance and opportunities for growth. Our outlook is based on our expectations for healthy client liquidity and activity, although likely less robust than in 2019; and stable credit, barring a significant deterioration in the economy.

We made three adjustments to the preliminary 2020 outlook we provided in October:

- We raised our expectations for full year average deposit growth from the low double digits to the mid-teens, due to stronger-than-expected momentum in Q4 and entering 2020.
- We lowered our full year net interest margin outlook by 10 basis points consistent with our commentary regarding the potential impact of additional short-term rate decreases in 2019. This adjustment reflects the impact of October's Fed Funds decrease.
- We lowered our full year core fee income growth outlook due to better-than-forecast Q4 core fee income, which raised the baseline for growth.

Our 2020 outlook assumes no changes to interest rates. Our actual results will be impacted by a variety of factors, including the mix of interest-bearing to non-interest-bearing deposits, the mix of deposits to off-balance-sheet client funds and certain market-related factors.

Final thoughts

We are pleased with our continued strong performance and optimistic about our prospects in 2020 and beyond.

We are enjoying the flexibility provided by our strong capital and liquidity positions and are confident in our diversified, high-quality balance sheet. We have the highest-quality, most liquid balance sheet in our history, as well as a client base that has demonstrated resiliency through cycles.

We are effectively managing our asset sensitivity and the strategies and products we've put in place are designed to give us the ability to respond effectively to future changes in the rate environment.

Credit is excellent and, while the potential impact of an economic downturn on credit is on many people's minds, in this respect we believe we are better positioned than we have ever been, with fully 79 percent of our assets in high-quality loans and investments.

We believe the investments we're making in people, enhancing the digital client experience, geographic expansion, and diversification of our business, as well as in people and systems, will provide the foundation for long-term profitable growth and operating leverage. And as these investments enhance our ability to compete globally, we believe our unique access, networks and insights will continue to differentiate us with clients.

In the meantime, we remain focused on being the most valuable partner to innovators and their investors, and more deeply entrenching our position as the bank of the global innovation economy.



Greg Becker
President and CEO