SVB Financial Group Q1 2020 CEO Letter

April 23, 2020

To our Stakeholders:

The last few months have been extraordinarily challenging as communities and economies around the world have been faced with the impacts of COVID-19. Our thoughts are with those who have become ill, lost loved ones, lost jobs, and the many individuals who are still going to work every day in order to provide essential services to us all.

Like most companies, we are grappling with the current realities and future prospects of a world in which much of the economy has effectively been shut down until further notice. While our Q1'20 performance, with **Earnings per Share of $2.55, Net Income of $132 million and Return on Equity of 8.17 percent**, reflected strong balance sheet growth and significant momentum in the first two months of the quarter, that strong start was offset by rapid economic deterioration in March due to the impacts of COVID-19.

Since then, we have prioritized helping our clients navigate a challenging and rapidly changing situation, ensuring the health and well-being of our employees and supporting our communities. As a result, our focus today is not on the first quarter, but on our business and human response to the crisis, our financial strength and the dynamics we're expecting in 2020.

We are well-positioned to support our clients and navigate market conditions

The crisis has put SVB's values on full display and underscored our financial and business strength, with a focus on a handful of themes.

1. Robust and comprehensive COVID-19 response to support our clients, employees and communities
2. Strong capital and ample liquidity position us well to provide relief to our clients and manage shifting economic conditions while continuing to invest in our business
3. A high-quality balance sheet, reflecting long-term improvement of our risk profile, growth primarily from high credit-quality loan categories and a highly liquid investment portfolio
4. Higher macro-environment provision driven by COVID-19 recessionary scenarios, despite underlying credit metrics within normal ranges in Q1'20
5. Close monitoring of our loan portfolio and active client engagement to mitigate the impact of COVID-19
6. Experienced, proven leadership and exceptional global team that have successfully navigated past crises and economic cycles
7. Resilient business model; positioned for long-term growth once markets stabilize
8. 2020 outlook revision – providing Q2'20 guidance on select financial measures only

Robust COVID-19 response: Supporting our clients, employees and communities

We continue to serve our clients while doing everything we can to protect the health and safety of our employees, clients and partners around the world. In March we activated our business continuity and pandemic plans globally, moved to a work-from-home plan for our employees and prohibited all business travel, postponing or moving online all SVB-hosted events. Much of our ability to shift seamlessly was enabled by our investments in technology and infrastructure over the past few years.

We have implemented numerous programs to provide work, life and health-related support for our employees. These range from expanded time-off, counseling and medical benefits for employees directly impacted by COVID-19, to reimbursements and practical support for working from home.

Our approach to helping our clients adjust to rapidly shifting economic and business scenarios is informed by our long commitment to their success. A few weeks ago, we announced our Venture Debt payment relief program, offering our venture-backed clients with loans of $10 million or less the opportunity to make interest-only payments for six months. This is not the proverbial "kicking the can down the road," but a structured and more efficient way for us to provide our clients with more time and flexibility with which to adjust to the current environment. This in turn frees up our resources to focus on those clients that need the most help, which

increases the likelihood of successful outcomes. While these more closely managed efforts are important, they impact only a small percentage of our loan portfolio and an even smaller percentage of our total balance sheet.

We are supporting the government's efforts to distribute funding to small businesses, participating in the Small Business Administration's Paycheck Protection Program. We received more than 5,500 applications, of which more than 3,600 were processed through the SBA's online system, representing approximately $2.2 billion of relief provided through the program. We will continue to support this program as long as Congress funds it and will be donating all net fees we receive from the program (gross origination fees less set-up and administration costs) to our communities.

Consistent with our long tradition of supporting and giving back to our communities, SVB has also committed $5.5 million to local, regional and global COVID-19 relief activities in the 15 states and eight countries where we have offices. These activities are focused on three critical areas: health, food security & shelter, and small business owner relief.

SVB is the bank of the global innovation economy

Our approach to helping clients and the communities we serve through this crisis is aligned with our focus on the innovation ecosystem. Our long-established commitment to innovators and their 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. The unparalleled access, connections and insights we can offer to clients because of our unique place at the center of the global innovation ecosystem continue to differentiate us and make us the partner of choice for innovators. The qualities that set SVB apart are important in good times and essential in bad times.

Strong capital, ample liquidity and a high-quality balance sheet

None of the programs and initiatives we've put in place to help our clients, employees and communities would be possible without our solid financial foundation. This foundation enables us to provide support, while investing in our business to drive long-term growth.

It starts with strong capital and liquidity. Our bank Tier 1 leverage ratio remains within our target range at 7.2% and our risk-based capital ratios are all well above regulatory minimums for well-capitalized banks. Our strong capital base enables us to invest in our business and support client needs while offering flexibility and reserves during uncertain economic times.

We have a highly liquid and high-quality balance sheet with approximately half of our assets – $35.8 billion – held in cash and marketable securities. We have access to additional liquidity through diverse borrowing channels secured primarily by agency-backed mortgage securities and U.S. Treasuries. We also have ample liquidity at the holding company to support strategic business growth.

Most of our loan portfolio (63%) consists of capital call lines of credit and private bank mortgages, loans with exceptionally low loss history. Loans to early-stage, venture-backed companies -- the segment of clients typically most vulnerable to negative economic shifts – represent only five percent of loans, less than half our exposure in 2009.

Our loan-to-deposit ratio remains at an industry-leading low of 54%, giving us ample cushion to meet clients' increased borrowing needs. We are going into this uncertain environment with the strongest balance sheet in our 35-year history.

Higher macro-environment provision driven by COVID-19 recessionary scenarios despite underlying credit metrics within normal ranges in Q1; closely monitoring portfolio and engaging clients to mitigate impact of COVID-19

In good markets and bad, we have maintained the strong underwriting standards that have made us so successful over time. In past cycles, we have seen elevated early-stage losses as well as episodic losses in other parts of the portfolio. These have been followed by a rapid return to more normal credit patterns.

Our loan portfolio is stronger and more diversified today than in the last crisis. We still expect excellent credit performance from capital call lines of credit and the Private Bank, while Technology and Healthcare & Life Sciences remain areas of focus, as they have always been. While the duration and depth of the current downturn will ultimately determine how quickly credit returns to normal, we believe the quality of our loan portfolio will reflect similar resilience this time.

That said, our severe model assumptions for GDP and Unemployment using a blend of Moody's end-of-March assumptions drove higher modeled COVID-19 provisioning. The severity and sharpness of the declines in GDP and unemployment are unprecedented and reflect levels significantly worse over the next few quarters than what we saw in the 2008 financial crisis. While the model-driven provision is significant, we believe the modeled results are justified considering the unknown shape and duration of the economic recovery we will experience.

The deteriorating economic environment will undoubtedly lead to higher credit costs and non-performing loans in 2020. The good news is that we have little to no direct lending exposure to most of the hardest hit economic sectors, most of our borrowing clients do not have discernible credit issues to date, and we are actively monitoring our loan portfolio and engaging with clients.

Experienced, proven leadership and exceptional global team that have successfully navigated past crises and economic cycles

While the current situation is unprecedented, our management team has a long history of successful execution and effective credit management during major economic cycles. Our outstanding global team of professionals has significant experience in effectively responding to the needs and challenges of our unique clients and supporting them through difficult times.

We owe our history of strong, resilient credit quality to our high-quality underwriting and portfolio management, and this well-established expertise in working with high-growth companies and their investors.

Our ability to execute through a crisis has enabled us to grow during the most difficult times through continued investment in our growth, new client engagement and focus on the innovation economy, underpinned by effective credit management.

Resilient business model and solid positioning for long-term growth

No company is immune to cycles but we believe our business model and our focus on the global innovation economy contribute significantly to the resilience of our business. Innovation is a primary driver of the global economy. While it may slow down periodically, our view is that it will only continue to accelerate over time. Venture Capital and Private Equity are both sitting on record levels of uninvested capital and, while we could see a pause in investment, we expect those investors will continue to look for ways to put that capital to work.

We believe the investments we've made in 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. As these investments enhance our ability to compete globally, we believe our unique access, networks and insights will continue to differentiate us with clients.

Revising 2020 outlook; limiting it to select Q2 2020 financial measures

We have withdrawn our 2020 full-year outlook and are providing limited guidance for Q2'20 until we can get greater clarity around certain variables. Most important to our business are VC and PE fundraising and investment, exit activity and the shape of the yield curve, although competition, the broader economic environment and capital markets health are also significant factors. While the still-shifting economic scenario makes it challenging to get meaningful visibility into certain business metrics for 2020 at this point, we are providing our expectations for balance sheet growth, net interest income, expenses and tax rate for the second quarter 2020.

Balance Sheet

We expect average loan and deposit balances in Q2 to be flat to slightly lower to Q1. Loan drivers to the upside could include increased borrowing by our technology and life science clients and our participation in the SBA PPP program, with the downside being driven by a potential slowdown in PE/VC borrowing tied to lower investment and deal activity.

Upside deposit drivers include clients slowing their cash burn and shifting to on-balance sheet deposits, while lower investment, exit and other market activity could drive deposits to the downside.

NII and NIM; Other Selected Measures

We expect Q2 net interest income to be between $490 and $520 million. This expectation stems from an improving deposit mix, declining deposit costs due to lower rates, potential widening spreads on loans, a mix shift to Technology, Life Science & Healthcare lending and increased volumes from SBA PPP lending.

We expect Q2 net interest margin to be between 2.90% and 3.05%, due to lower interest rates on loans including $2.2 billion of SBA PPP loans, declining yields in our investment securities portfolio and higher cash levels.

We expect Q2 expenses to be between $390 and $410 million, due to lower business development, travel and other expenses because of the COVID-19-related decline in business activity.

We expect our effective tax rate to be between 27% and 29%.

Credit Commentary

While we are not providing an updated credit outlook for 2020, based on our portfolio analysis and experience, we have a good idea of the credit dynamics we can expect to see in each of our portfolios in 2020.

- Private Equity/Venture Capital: We expect continued strong credit performance and very low credit costs in our Private Equity/Venture Capital.
- Private Bank: We expect good credit quality in our mortgage portfolio despite COVID-19-related economic assumptions.
- Early stage: We expect higher losses in our early-stage portfolio, which makes up only 5% of loans but is the most vulnerable even in good economic conditions. That said, we expect loss rates to be below historical peak losses for this portfolio.
- Mid- and later-stage technology: We expect elevated near-term losses among our mid- and later-stage technology borrowers, especially Consumer Internet and AdTech companies, and those with direct exposure to the most severely affected segments of the economy. This segment constitutes approximately 7 percent of our portfolio.
- Mid- and later-stage Life Science & Healthcare: We expect higher losses in our Life Science and Healthcare portfolio, especially among clients requiring clinical trials and providing elective healthcare services. This segment constitutes approximately 2 percent of the portfolio.
- Wine: Many of our wine loans are secured by prime vineyard property in Napa and Sonoma and our working capital borrowers tend to enjoy high margins on their ultra-premium products. For this reason, we expect relatively low credit losses in our wine portfolio. However, we expect the impact of the complete shutdown of in-restaurant dining and tasting room visits to drive higher non-performing loans in this category.

Fee Income Commentary

We expect lower levels of client and business activity generally to drive lower core fee income, although we believe our ongoing work to improve product penetration and deepen our client engagement will lead to core fee income growth over the long term. Although we do not provide an outlook for market-driven revenues, they are likely to reflect the volatility in the markets overall, and to be negatively impacted by lower fundraising, investment and exit activity.

Final Thoughts

While the coming months will be challenging, we have the strongest balance sheet in our history and believe we are well prepared to support our clients through the crisis. We are doing everything we can to help our clients manage through near term challenges. At the same time, we are maintaining our focus on the long-term strategic initiatives that we have been pursuing for the last few years to drive growth and scalability in the future. 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. We are deeply grateful to our tireless and dedicated employees, many of whom have been working around the clock for weeks to implement funding and payment relief programs for our clients. We are honored to be able to help our clients meet their challenges and improve their chances of managing successfully through this difficult time.

We remain optimistic about our long-term prospects and committed to supporting innovators and their investors in the most dynamic segment of the global economy. We will continue to focus on being the most valuable partner to our clients and fortifying our position as the bank of the global innovation economy.



Greg Becker
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