SVB Financial Group Q3 2021 CEO Letter

October 21, 2021

To our Stakeholders

SVB delivered exceptional financial performance in the third quarter, with Earnings Per Share of $6.24, Net Income of $365 million and year-to-date Return on Equity of 19 percent. We achieved these results even with an estimated EPS impact of $1.59 due to both an $83 million in one-time, pre-tax merger-related charges and a day-one provision of $46 million related to the acquisition of Boston Private.

Q3'21 drivers: strong markets, innovation economy tailwinds and effective execution

Robust global VC and PE fundraising, investment and exit activity continued in the third quarter, generating ample liquidity for our clients and strong balance sheet growth for us, which was amplified by our acquisition of Boston Private:

- Average assets grew by 21% to $183B, a 107% increase over the same period last year.
- Average client funds grew by 15% to $355B, an increase of 76% year over year that reflects $86 billion (+110%) of on-balance sheet deposit growth year over year.
- Average loans grew by 19%, a 59% increase year over year.
- Average fixed income securities grew by 30% to $94 billion, a 188% increase year over year that reflects $26B in securities purchases in the third quarter alone.
- Our exceptional balance sheet growth drove a 17% increase in net interest income to $859 million, a 61% increase year over year, despite continuing pressure from low interest rates. Our balance sheet has now grown to a size that enables us to generate strong, sustainable NII growth, even without help from interest rates.
- Core fee income grew by 19% during the quarter, (40% year over year) due to Wealth Management and Trust fees from Boston Private, an improved client investment fee margin and increased card activity.
- SVB Leerink delivered strong revenues of $107 million, for a total of $393 million year to date, while robust private markets drove warrant and investment gains of $248 million in the quarter, for a total of $926 million year to date net of NCI.

To support our substantial growth, in the third quarter we issued $1.3 billion of common stock (gross of fees) and downstreamed $1.5 billion of holding company liquidity to the bank. Historically our strong earnings have offset the impact of our balance sheet growth, enabling us to build our capital ratios. However, our recent exceptional balance sheet growth has temporarily pressured capital ratios despite continued robust profitability. Accessing the capital markets enables us to maintain our growth momentum in the near term while investing in driving growth and profitability for the long-term.

We continue to execute on our strategic vision, extending and diversifying our business to support our innovative clients as they grow. Notably, in the third quarter we completed our acquisition of Boston Private and turned our focus to integrating our Private Bank and Wealth Management capabilities and teams. We also significantly expanded our investment banking capabilities, with key new hires in Technology, Healthcare Services and HealthTech investment banking at SVB Leerink.

We continue to expand our physical presence in key markets. We opened an office in Miami in the third quarter to focus on early-stage startups and expanded to Montréal. We also announced an SVB Leerink office in Nashville – home to more than 500 healthcare firms – to serve that growing market.

Raising 2021 outlook and introducing strong preliminary outlook for 2022

As a result of our continued outperformance, we are again raising our 2021 full-year outlook for balance sheet growth and revenues with an attendant increase in our expense outlook related to higher incentive compensation.

Our strong preliminary outlook for 2022 reflects our expectation of continued robust activity in our markets and the broader innovation economy. While we are watching valuations and the markets for any sign of change from the exceptionally high levels of liquidity we've seen in the past year, the global innovation economy continues to attract record investment, accelerated by digital adoption and healthcare activity, and both global fundraising and dry powder remain at historic highs.

Due to our exceptional growth and execution in 2021 and based on the continuing health of our markets, we believe we are poised for another strong year, even without any significant rate benefit.

Our 2022 outlook calls for continued strong balance sheet growth – with average loan growth in the mid-20% range on top of continued stable credit and average deposits in the low 40% range; net interest income growth in the mid-30% range, albeit on a much larger base, with somewhat lower NIM due to liquidity deployment; and mid-20% core fee income growth; as well as higher SVB Leerink revenues relative to 2021, which has been an exceptional year.

While we expect 2022 expense growth to slow from 2021's growth rate, we are increasing our investments in our strategic priorities of enhancing the client experience, driving revenue growth, improving employee enablement and enhancing risk management.

We expect to generate substantial operating leverage in our core business – even without warrant and investment gains -- with expected growth in revenues from NII, SVB Leerink and core fees outpacing expected growth in expenses by nearly 2.5 times (in dollars) as implied by our FY'21 and FY'22 guidance.

Further accelerating investments to realize our vision, and drive long-term growth

Considering this opportunity, we believe it makes sense to accelerate investment now to extend our leadership in the innovation economy and more firmly seize the opportunity ahead of us.

Our vision is to be the partner of choice for innovators, enterprises and investors, and this continues to drive our strategy. We have built a unique platform of four complementary businesses – Commercial Banking, Private Banking & Wealth Management, Investment Banking and PE/VC fund management (SVB Capital) – as well as an unmatched network and differentiated expertise. Now we are focused on bringing the full power of the SVB platform to each client relationship.

With SVB Leerink, we are building a full-service investment bank dedicated to the innovation economy. The success of SVB Leerink to date has exceeded our expectations, allowing us to attract highly sought-after experts to complement our current team and capabilities, and enhancing our ability to deliver strategic support to our clients as they prepare to raise capital or pursue M&A. Over the past nine months, we have added leadership in Healthcare Services and HealthTech to our industry-leading Life

Sciences and Healthcare practice, and extended our capabilities in leveraged finance, private placements and structured finance. In Q3, we expanded the SVB Leerink platform to technology investment banking– a key step toward our being able to offer a full range of investment banking services for our innovation clients. Year to date we've hired 87 investment bankers – more than doubling the size of the investment banking team – and expect to add another 35 to 50 people in 2022 in the areas of Technology equity capital markets and research, and Fintech. We expect these investments to drive incremental SVB Leerink revenues of $150-$200 million in 2022 alone, and to enable us to develop and retain deeper, more meaningful relationships with our clients over time.

We completed our acquisition of Boston Private and are making meaningful progress toward creating a premier private bank and wealth management platform for our clients. A key aspect of this work will be integration to leverage the best of both platforms – SVB's knowledge and access to the innovation economy and Boston Private's private banking and wealth solutions and expertise – and ensure a differentiated client experience. As part of this effort, we will be developing a team-based client engagement model to deliver holistic advice and solutions to our clients.

We are seeing promising green shoots and synergies already, with nearly $700 million in mortgage originations across our legacy Private Bank and new Boston Private platform in Q3, and the recruitment of 10 new wealth advisors since the acquisition. In addition to improving client penetration and growing our residential mortgage book, we plan to use our platform to offer unique and differentiated products, including private stock solutions, investment opportunities through SVB Capital and private placements, and Trust and family office services. While we are early in the integration process, we believe our successful efforts will enable us to penetrate this compelling $400 billion (and growing) opportunity among our clients.

We are accelerating our investments in creating an enhanced experience for our clients. A significant piece of this enhancement will be the completion of integrated, end-to-end digital banking and digital client onboarding across the business, as well as platform upgrades, APIs and payment enablement solutions. We are continuously expanding our products, through development and partnership, to ensure we can meet our clients' needs throughout their life cycles. Our recently announced partnership with Plaid will enable our clients to instantly authenticate their bank information and securely generate tokenized payments. And we expect to leverage our new Nasdaq Private Market joint venture and our private banking capabilities to build out our solutions in private stock lending, advisory services and trading.

On top of these efforts, we are accelerating our investments in talent acquisition and retention, client acquisition and product penetration. We are also leaning in on our projects to enhance employee enablement and drive scalability and efficiencies across the organization, while keeping pace with our rapid growth and enhancing our risk management capabilities and infrastructure to support a larger and more diversified global organization.

Long-term financial targets

We believe our robust earnings power, diversified business lines and compelling markets will continue to enable us to deliver strong growth and profitability.

With this in mind, we are reintroducing select, long-term financial targets for our growth and profitability. These are not annual guidance, but a view into how we are thinking about the long-term potential of our business.

- In a low-rate environment (with Fed Funds between 0% and 2.5%), we would expect ROE of approximately 15% and EPS growth of 10% on an annualized basis.
- In a normalized but stable rate environment (with Fed Funds greater than 2.5%), we would expect ROE of approximately 20% and 10% EPS growth annualized.
- Should we enter a sustained rising rate environment, we would expect EPS growth to increase to approximately 20% annualized. Again, these are not annual guidance but long-term targets.

Summary

We remain very positive about the opportunities ahead of us. While liquidity in the innovation markets is at historic highs, we believe demand for investment in the fastest growing segment of the global economy will remain robust and our markets will thrive over the long term.

We are making consistent progress in executing on our vision, along with bold steps to advance and expand our platform in investment banking and wealth management. Our outstanding financial performance is the best evidence of our success and we remain focused on relentless execution.

We raised our full year outlook for the third time this year and our preliminary 2022 outlook is stronger than any preliminary outlook in years. Our exceptional balance sheet growth to date provides the foundation for substantial NII growth. And our outstanding performance and strong financial position give us the flexibility to increase investment now to extend our leadership position.

In the current environment, we believe the larger balance sheet and diversified business we've built will drive sustainable revenue growth, regardless of market-related gains and well in excess of our increased investment. By expanding and enhancing our solutions and expertise, we expect to deepen our relationships and goodwill with clients and increase the value we can provide to them as they grow. Moreover, eventual rate increases as the economy improves will amplify our earnings power beyond our current expectations.

With robust earnings power, a diversified business model, and the world's most dynamic clients we have never been better positioned to deliver long-term, scalable growth.



Greg Becker
President and CEO