



SVB Financial Group Q1 2022 CEO Letter

To our Stakeholders

SVB delivered excellent first quarter results, with Earnings Per Share of \$7.92, Net Income of \$472 million and Return on Equity of 15.3 percent.

Q1'22 highlights: Strong execution and higher rates drove robust earnings and profitability

- Average assets increased by 6 percent during the quarter to \$216 billion.
- Average deposits grew by 4 percent to \$191 billion, driven by strong early-stage investment and client acquisition, augmented by flexible liquidity solutions. Average total client funds were \$397 billion, up 2 percent, as Q1 balances were impacted by the effects of market volatility on later-stage funding and exits, and by year-end PE/VC distributions.
- Average loans grew by 7 percent to \$67 billion, driven by continued strong PE investment activity and increased borrowing by technology and life science & healthcare clients.
- Net interest income increased by 15%, exceeding \$1 billion in a single quarter for the first time, as a result of strong balance sheet growth and improved yields on fixed income securities.
- Core fee income remained strong across all categories and was marked by a significant increase in client investment fees as a result of the March rate hike.
- Credit quality remained excellent with continuing solid underlying trends; we recorded a provision of \$11 million driven by strong growth, underpinned by low net charge-offs and declining nonperforming loans.
- SVB Securities' revenue and market-related gains were lower as public market volatility delayed equity capital markets transactions, reduced public valuations and slowed later-stage VC investment and exits. Improved net interest income and client investment fees in the quarter more than offset this decline.

Raised 2022 revenue outlook given current higher rate environment – additional potential upside if rates increase

We raised our 2022 revenue outlook, as the March Fed Funds increase and higher interest rates overall accelerated net interest income and core fee income growth. We also raised our outlook for loan growth, due to strong demand from private equity, technology and life science & healthcare clients. While market volatility slowed the pace of overall client liquidity growth in the first quarter, we are reiterating our full-year 2022 deposit outlook, which had already assumed moderation from 2021's exceptional levels.

The improvements to our 2022 NII and core fee income growth outlooks more than offset our lower outlook for SVB Securities revenue, which was reduced due to the impact of public market volatility on equity capital markets activity.

While we do not provide an outlook for warrant and investment gains, we expect continued moderation in these gains, especially while public markets remain volatile. At the same time, we



expect to be relatively insulated from material valuation declines in these portfolios for several reasons: 1) we have limited direct exposure to public equities; 2) private valuations are driven by fundraising events, and many companies have substantial liquidity and are not pressured to raise equity at lower valuations; and 3) our positions are largely granular and well diversified.

Our increased expense outlook reflects our plans to reinvest a portion of the additional revenue resulting from recent higher rates across our strategic priorities to drive and support long-term growth, including our Large Financial Institution journey. Future rate increases are not included in our revenue outlook, and we would not expect them to further accelerate spending on our strategic priorities.

Early-stage VC trends remained healthy in Q1, but public market volatility impacted later-stage investment and exits

US venture capital investment and IPOs slowed in the first quarter from 2021's record levels, although VC investment volume of \$71 billion still exceeded pre-2021 levels. Early-stage investment remained strong, despite being off Q4 2021 highs. At the same time, investment in later-stage companies was notably lower than in previous quarters, as later-stage companies raising private funding rounds felt the impact of lower public market valuations, while public listings were down 85% annualized from last year's pace.

The decline in IPO activity and VC investment, as well as the shift in VC investment towards early-stage companies, drove flat total client funds quarter over quarter due to the dollar amounts associated with IPO and later-stage fundraising events, despite continued healthy liquidity growth from our early-stage clients. We believe later-stage VC activity and IPOs are likely to remain pressured in the near term; however, in our view, the current roster of later-stage VC-backed companies is well-positioned to navigate a near-term adjustment, with strong business models, solid cash positions and long runways as the result of years of robust VC investment.

If public market volatility persists, the pressure experienced by later-stage companies could trickle down to early-stage. We believe it is too soon to assume a broad pullback, given continued strong early-stage investment and fundraising, and our current outlook does not assume a slowdown. If a pullback did occur, we would expect it to be short-lived, given the record amounts of VC dry powder still on the sidelines that investors need to put to work.

Over the long term, we expect the tailwinds supporting the innovation economy to remain intact and investors to continue pursuing growth opportunities in the acceleration of digital adoption, the solving of pressing problems in areas such as consumer healthcare and the environment, and the creation of new transformational sectors, such as Web3.

Well-positioned to withstand potential impacts of public market volatility

SVB has benefitted from the robust VC and PE markets of recent years, and, while we remain vigilant for signs of further weakening in VC, we are stronger and better positioned to weather market volatility than we have ever been.

We have a seasoned leadership team that has managed successfully through numerous periods of changing market conditions. We have a long history of driving resilient client funds growth due, in large part, to our effective, long-term focus on client acquisition and the continuous investments we've made in extending and expanding our business. These investments have enabled us to build and maintain diverse sources of liquidity by meeting our clients' needs at every stage of their growth, and to offer flexible liquidity solutions to optimize pricing and mix to drive profitable growth.

Our approach has resulted in outstanding balance sheet growth over the long term, which has provided a foundation for sustainable, higher levels of net interest income. At the same time, we have diversified our revenues by broadening and deepening our business capabilities, introducing new products and services, and expanding geographically.

We are seeing the power of our foundation-building today, with significant expected NII growth largely based on the balance sheet growth we've experienced to date. That balance-sheet driven NII growth is magnified by recent interest rate increases, and we would expect to see substantial pre-tax NII upside of \$100 - \$130 million annualized for every additional 25 basis point increase in the Federal Funds rate, based on our current growth outlook. On the fee income side, we would expect to see an additional \$20 - \$50 million of pre-tax fees tied to improved yields on our client investment funds with each additional 25 bps Fed Funds increase.

While rising rates benefit us from a revenue perspective, they also highlight the effectiveness of our proactive interest rate risk management, through which we actively mitigated AFS AOCI risk to support Tangible Book Value as rates increased in Q1, while taking the opportunity to monetize a portion of our fair value hedges and rebalance the fixed income securities portfolio at higher yields.

Finally, the diversity of our earnings and our growing earnings power has enabled us to build a strong capital base over time.

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

We continue to focus on expanding and diversifying our business to support our clients as they grow; investing in our strategic priorities; bringing the power of the combined SVB platform to clients through our OneSVB collaboration initiative; and remaining the financial partner of choice for innovators, enterprises, and investors globally.

In addition to our strong financial results, we continue to see early wins and growing momentum from our recently hired investment banking teams, as well as strengthening collaboration between our investment banking, commercial banking and private banking teams. Our larger balance sheet and expanded capabilities and partnerships are enabling us to win larger deals, provide larger loan amounts, and accelerate our pipeline growth.

As part of our growth journey, this week we announced that SVB is now our official enterprise brand, as the premiere comprehensive financial services partner dedicated to the innovation economy. Through the combined power of our four core businesses – Silicon Valley Bank, SVB Private, SVB Securities and SVB Capital – and our deep expertise and powerful network of relationships, we support our clients at every stage of their growth and wealth journeys.

Summary

We are pleased with our first quarter performance and with the opportunities we see in 2022, despite broader market volatility. We are not surprised to see liquidity moderate in the innovation markets, given 2021's historic highs and economic uncertainty, but we believe demand for investment in the fastest growing segment of the global economy will remain robust, and our markets and our business will thrive over the long term.

With the backdrop of our strong financial performance, we will continue to focus on being there for our clients, maintaining our momentum, and seizing the opportunities ahead of us. With excellent earnings power, a diversified business model, and a unique role in helping the world's most dynamic companies succeed, we remain well-positioned for long-term growth.



Greg Becker
President and CEO

This Q1 2022 CEO Letter should be reviewed together with our Q1 2022 Earnings Release and Earnings Presentation, as well as SVB's SEC filings.