

svb



Financial Group

# Q3 2019 Financial Highlights

October 24, 2019



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Solid operating environment, effective execution and robust client acquisition driving strong results
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This presentation should be reviewed with our Q3 2019 earnings release and CEO letter, as well as the company's SEC filings

# Q3 2019: Solid operating environment, effective execution and robust client acquisition drove strong results

*Strong balance sheet growth and profitability*

EPS:  
**\$5.15**

YTD EPS +27%  
vs. 2018

Net Income:  
**\$267M**

YTD Net Income +24%  
vs. 2018

ROE:  
**18%**

Strong profitability

## Q3'19 FINANCIAL HIGHLIGHTS

**\$7.4B**

5.2% client funds growth  
(Average vs. Q2)

**\$0.4B**

1.4% loan growth  
(Average vs. Q2)

**-1.6%**

Net interest income  
decrease due to lower rates  
and other items<sup>1</sup> (vs. Q2)

**\$53M**

Warrant and investment  
gains net of NCI<sup>2,3</sup>

**23%**

Core fee income  
growth<sup>2,4</sup> (YoY)

**Solid & stable**

Credit quality



1. Balance sheet growth drove an additional +\$12M of NII, offset by -\$11M for lower rates and -\$9M for other items; see slide 10 for more details
2. Non-GAAP financial measure. See "use of non-GAAP Financial Measures" in our earnings release
3. Net gains on investment securities for Q3'19 were \$29.8M
4. Excludes investment banking and commissions revenue

# What makes SVB different: Unparalleled access, connections & insights

*The premier financial partner for the global innovation economy*

## LEADING MARKET SHARE



of all US venture-backed technology and life sciences companies



of all US venture-backed technology and healthcare companies with IPOs YTD in 2019

## DEEP SECTOR EXPERTISE

Enterprise Software

Life Sciences & Healthcare

Frontier Tech & Hardware

FinTech

Consumer Software

Energy & Resource Innovation

## COMPREHENSIVE SOLUTIONS

Global Commercial Banking

Investment Banking (SVB Leerink)

Private Equity & Venture Capital Services

Fund Management (SVB Capital)

Private Banking & Wealth Management

Premium Wine



# Q3'19 themes: strong performance and markets, effective execution and positive outlook

1. Healthy markets, robust client liquidity and strong execution fueling growth in our core business globally
2. Achieved target of 10% NII sensitivity<sup>1</sup>
3. Strong, sustained core fee income growth; solid warrant and investment securities gains
4. Continued stable credit and improving risk profile
5. Strong liquidity and capital provide flexibility; new \$350 million share repurchase authorization<sup>2</sup>
6. Positive preliminary 2020 expectations with continued investment to drive growth

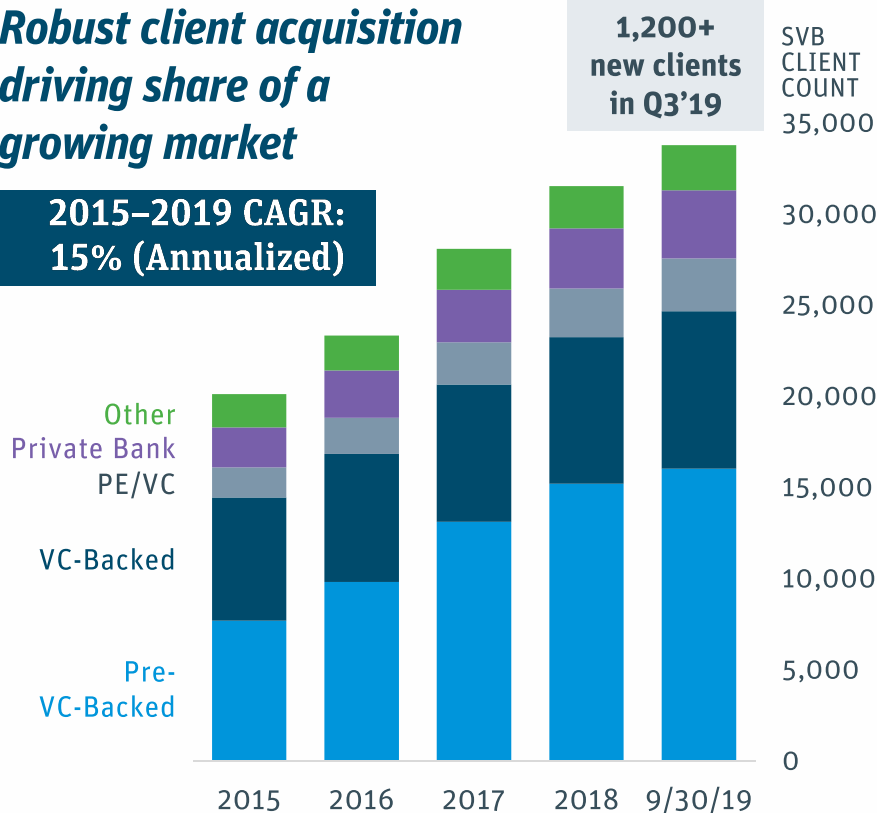


- 1) Estimated 12 month decline in net interest income on our static balance sheet based on a 100 bps parallel shift downward of the yield curve, all as of 9/30/19
- 2) This is a 12-month repurchase authorization

# Healthy markets and strong execution continue to fuel growth in core business

**Robust client acquisition driving share of a growing market**

**2015–2019 CAGR: 15% (Annualized)**



## VC/PE investment driving client liquidity

- 2019 VC investment of \$97B on track to easily exceed \$100B for second successive year
- Continued trend toward fewer and larger VC investments
- 2019 PE investment consistent with strong 2018

## Record VC-backed exit values

- YTD 2019 exit values exceeded \$200B for the first time in a decade, driven by robust IPO market
- SVB clients have represented 70% of US VC-backed Technology and Life Science IPOs YTD

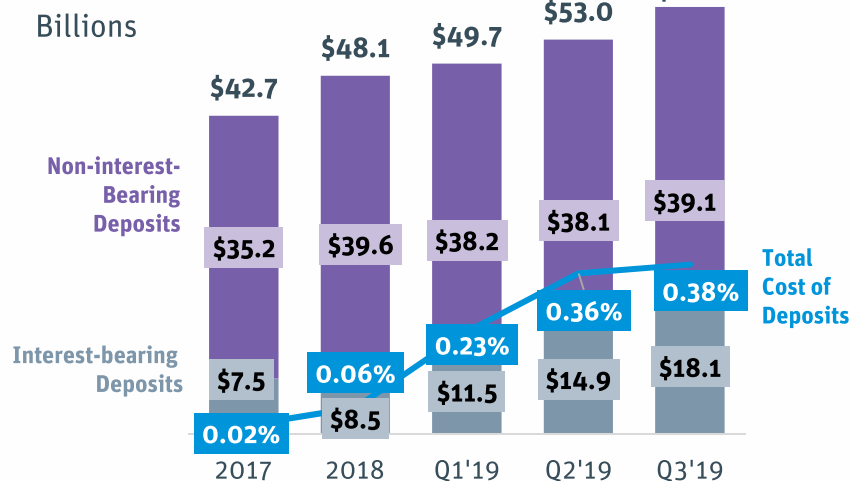
Continued robust VC/PE activity, strong client funnel and acquisition, although competition remains intense



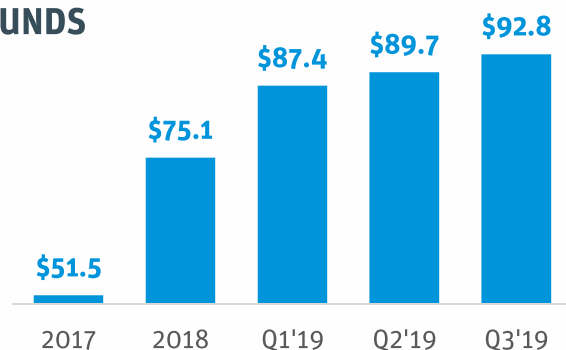
Source for VC and PE data: Pitchbook-NVCA 3Q 2019 Venture Monitor, Pitchbook 3Q 2019 US PE Breakdown and company data

# Robust client liquidity drove Q3'19 average total client funds growth of 5% to \$150 billion

## AVERAGE DEPOSITS



## AVERAGE OFF-BALANCE SHEET CLIENT FUNDS



### Strong Q3'19 deposit growth of 8% (\$4.2B)

- \$1.0B of growth in non-interest-bearing deposits
- Deposit growth primarily driven by equity funding activity for our technology banking clients
- Deposit beta in line with our expectations, but impact to interest-bearing deposits was partially offset by strong growth

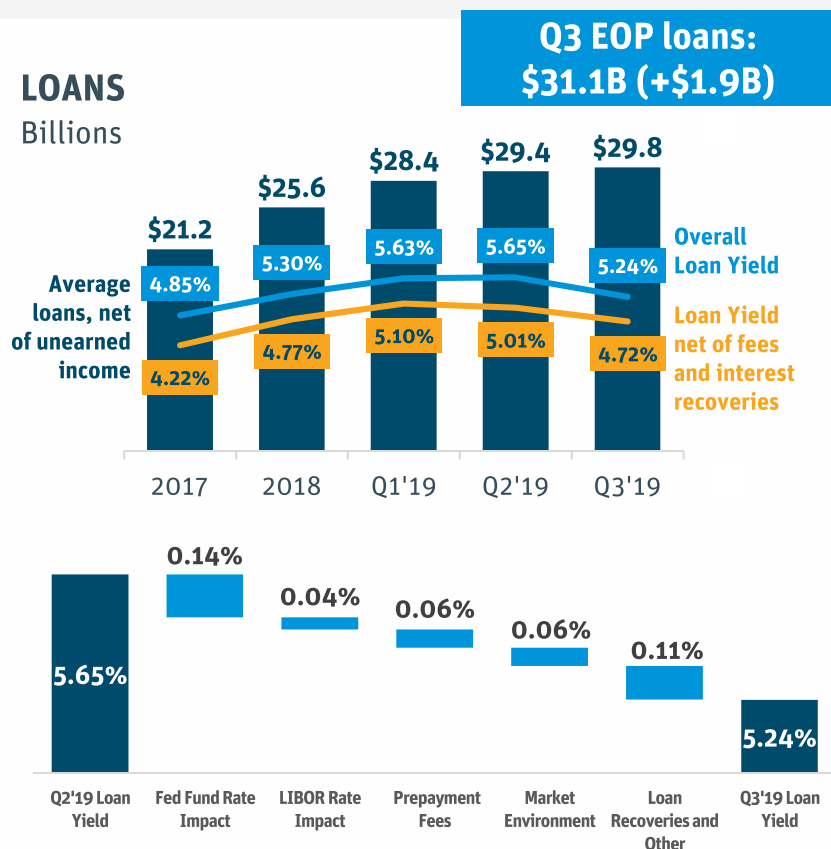
### Healthy Q3'19 off-balance sheet client funds growth of 3.5% (\$3.1B)

- Maintained off-balance sheet client funds margin at 20 bps through two rate cuts
- We expect 1 bps decline with each future 25 bps Fed Funds cut

### Period-end total client funds growth of 6% to \$156 billion

# Loans on track for full-year outlook of mid-teens growth

## LOANS Billions



## Loan growth in line with FY 2019 forecast

- Q3'19 loan growth weighted toward quarter end
- Growth primarily from Private Equity capital call lending and Private Bank
- Strong equity funding environment and our continued credit discipline have been an ongoing headwind for Technology Banking loan growth

**Q3 loan margin declines driven by rate headwinds, lower prepayment fees and recoveries vs. Q2, and market environment**

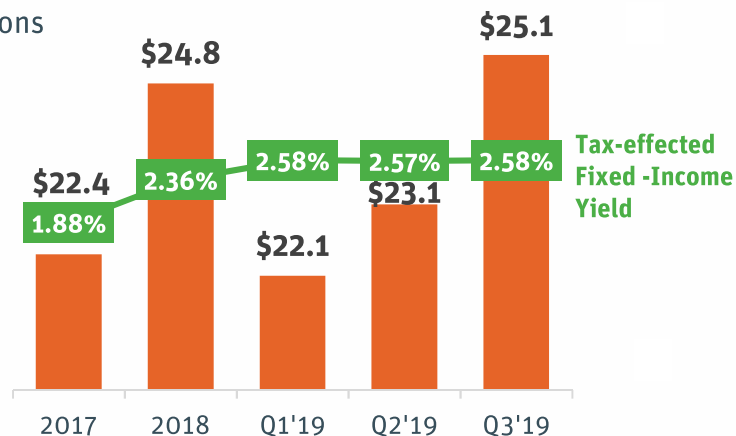
Loan growth and pipeline remain healthy with strong momentum going into Q4



# Strong growth in fixed-income securities portfolio; yields holding steady

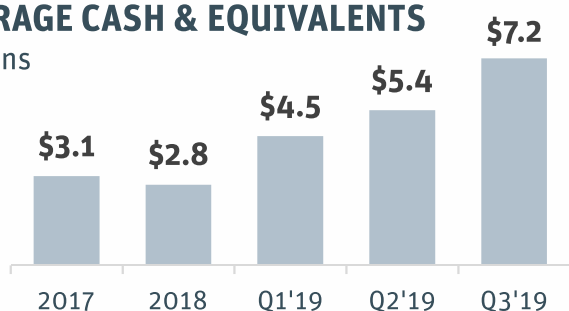
## AVERAGE FIXED-INCOME INVESTMENT SECURITIES

Billions



## AVERAGE CASH & EQUIVALENTS

Billions



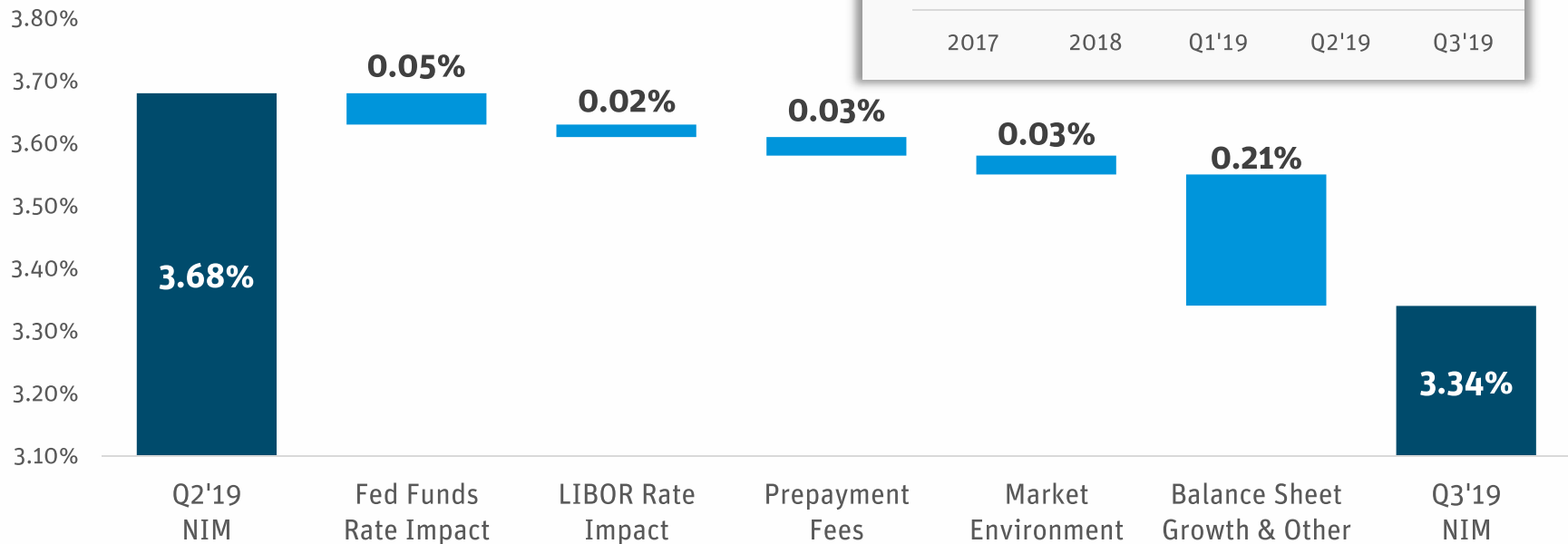
### *Fixed income yields flat in Q3; new purchase yields accretive to NII and driving lower asset sensitivity*

- Purchases of \$5.4B at yields of 2.43%, the same as yields for bonds that matured in the quarter
- Purchases at 6.4 year life, with 5.4 years duration
- Impact of lower rates decreased duration of securities portfolio slightly to 3.4 years
- Unrealized gain on fixed-income securities approaching \$460M as of 9/30/19

We expect total securities yields to hold steady through end of 2019

# Q3'19 NIM compression primarily driven by strong balance sheet growth

*Short-term rate decreases accounted for 7 basis points of NIM compression during the quarter*



- Q4 NIM expected to be 3.25%–3.30% with stable rates (or 3.20%–3.25% with the October and December rate cuts implied by the forward curve as of 10/24/19)
- 2019 net interest income outlook lowered to low double digits, in line with previous guidance on impact of rate cuts

# We reduced NII sensitivity to our ~10% target

## MODEL SENSITIVITY\*

Static Balance Sheet

**\$50M**  
**(annualized)**

Decline in pre-tax net interest income from -25 bps parallel shift

## Assumption Differences

- Expectation of stable re-investment rates on investment securities
- Managing cash balances lower than period-end levels
- Expected performance consistent with our 2019 outlook

## EXPECTED OUTCOME

Forecasted Scenario

**\$35-\$45M**  
**(annualized)**

Decline in pre-tax net interest income from 25 bps Fed Funds rate decrease

## STRATEGIES IMPLEMENTED TO MANAGE SENSITIVITY:

### Interest Rate Swaps

- Converting variable rate loans to fixed
- \$4.0B of notional outstandings, up from \$1.2B at the end of Q2

### Deposit Price Strategy

- Adapting to declining market rates (deposit beta)
- Lower rate deposit beta of 50%-70%

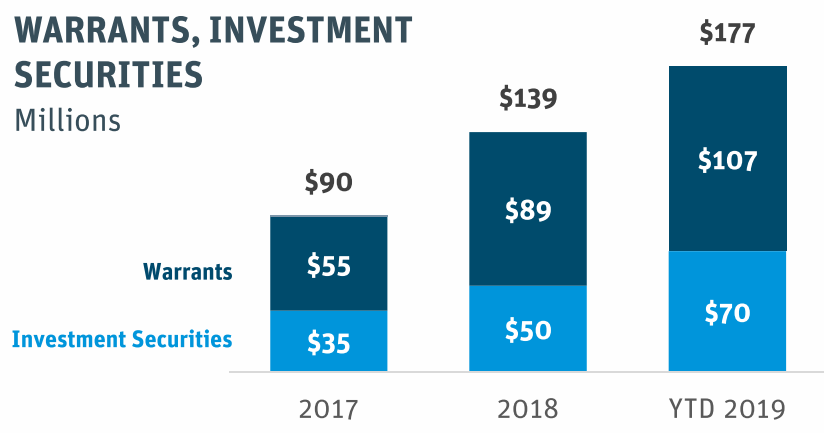
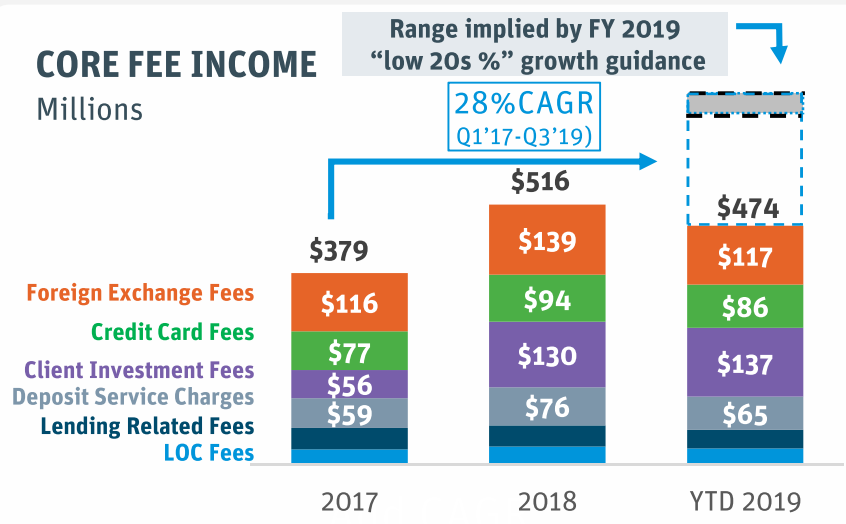
### Other Strategies

- Added \$5.4B of fixed income securities in Q3, averaging 6 years in maturity
- \$1.2B of loan portfolio includes active loan floors through 2020

With the two 25 bps Fed Funds rate decreases implied by the Forward Curve as of 10/24/19, we would expect 2019 full-year NII growth to be in the low double digits and NIM to be between 3.50% and 3.60%, likely at the bottom of each of those ranges

- Management's sensitivity analysis is based on the expected 12-month impact of a 100 basis point rate shock on net interest income. This is an estimate and is subject to assumptions; actual results may differ. Additional information will be included in our Q3'19 Form 10-Q report.

# Strong core fee income growth; solid warrant and investment securities gains

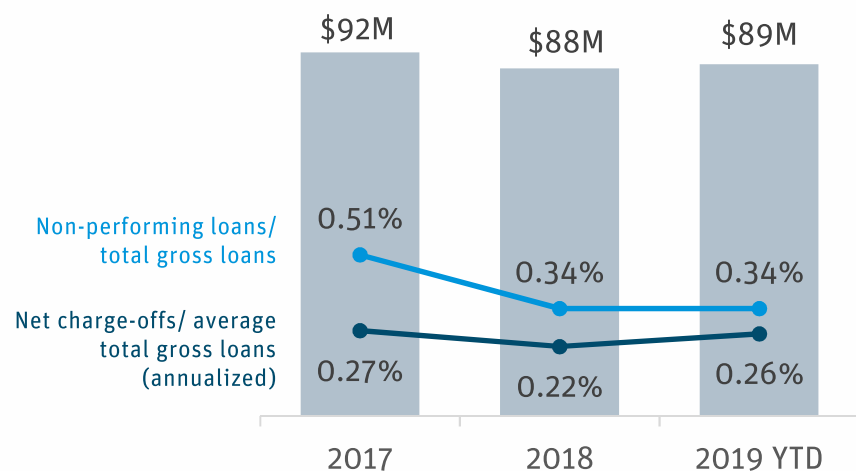


## Accelerating non-interest income growth provides an offset to lower rate environment

- Core fee income growth remains strong
  - Q3'19 growth of 3.1% to \$162.2M driven by strong FX and Card volumes and higher client fund balances
- Strong Q3'19 warrant and investment securities gains of \$53M from exits and funding events
  - YTD gains of \$177M have already surpassed full year 2018 gains
- Slower SVB Leerink revenues
  - Fees and commissions of \$51M in Q3'19 following outstanding Q2'19
  - Adjusting expectations for 2019 from lower M&A transaction revenue
  - Continued strong growth in market and solid market share

# Credit remains stable with solid underlying trends; CECL adoption preliminary estimates

## PROVISION FOR CREDIT LOSSES



Growth in Private Equity capital call lines and Private Bank (now 63% of loan portfolio) continues to improve the risk profile of our loan portfolio

## Day 1 Estimated CECL Impact (January 2020):

- Estimated increase in funded and unfunded credit commitment reserves of 7%-16% (\$25-\$60M pre-tax) over current levels will be recorded to equity
- Estimated adoption adjustment driven by longer forecast horizon due to longer maturities of our technology and life science portfolios
- Partially offset by lower risk, shorter duration of Private Equity capital call lines
- Increased volatility in reserves expected going forward, depending on economic conditions and forecasts

# Q3 summary: solid performance, positive outlook and long-term growth catalysts

- Strong performance fueled by healthy markets and effective execution
- Robust client liquidity driving strong balance sheet growth, laying foundation for future growth
- Proactive balance sheet management enabling us to successfully adapt to changing rates
- Stable credit with disciplined credit risk management
- Rate-driven NII and NIM adjustments consistent with our expectations

2019 OUTLOOK CHANGES <sup>1</sup>	PRIOR (JULY 2019)	NEW (OCTOBER 2019)
Deposit Growth %	Low double digits	Low teens
Net Interest Income Growth %	Low teens	Low double digits
Net Interest Margin	3.60% – 3.70%	3.50% – 3.60%
Core Fee Income with Investment Banking Activities Growth %	Low seventies	High sixties <sup>2</sup>



1) Outlook assumes no future changes to Fed Funds rate  
 2) Change in outlook driven by lower investment banking revenues in Q3

# Positive preliminary 2020 outlook: expecting solid growth while continuing to invest in the future

## ASSUMPTIONS:

- Continued healthy client liquidity and activity, although not as strong as in 2019
- Assumes continued strong competition, no further Fed Funds rate declines
- Stable credit overall, assuming no significant economic deterioration

BUSINESS DRIVER	OUTLOOK (%): 2020 vs. 2019 <sup>1</sup>
Average loans	Low teens
Average deposits	Low double digits
Net interest income	Low single digits
Net interest margin	Between 3.20% – 3.30%
Net loan charge-offs	Between 0.20% – 0.40%
Core fee income <sup>2</sup>	Low teens
Non-interest expense <sup>2,3</sup>	High single digits

With the two 25 bps Fed Funds rate decreases implied by the Forward Curve as of 10/23/19, we would expect 2020 full-year NII to be comparable to 2019 and NIM to be between 3.10% and 3.20%.



1. Outlook assumes no future changes to Fed Funds rate  
 2. Excludes investment banking activities  
 3. Excludes non-controlling interests

# What we're watching

## CONCERN

**Impact of interest rate declines**



## OUR PERSPECTIVE

We have reduced our asset sensitivity to our target ~10%; we have flexibility on costs to manage profitability

**Competition**



We believe our access, networks and insights will continue to differentiate us, while our investments in products and capabilities will strengthen our competitive position globally

**Credit**



We have the lowest risk loan portfolio in our history with low-credit-content capital call and mortgage lending representing 63% of all loans



# Levers to drive profitable growth in a changing rate environment

## Leveraging Investments in Growth

- Continued investment in geographic expansion
- Enhancement of digital experience to drive client acquisition and deepen relationships
- Diversification of business (investment banking, private banking, wealth management)



## Deposit Pricing

Use of products and pricing to reprice and shift excess deposits on or off balance sheet over time



## Strong Capital and Liquidity Position

Continued capital accretion provides optionality to invest or return capital to investors



## Leveraging Investments in Scalability

Investments in people and systems to enable continued growth at lower cost

**We believe we can continue to deliver strong profitability and drive investment in our business in a lower rate environment**

# Final thoughts

1. We have strong capital and liquidity, the fuel for growth and flexibility
2. Our balance sheet is diversified, with 79% of assets\* in high-quality investments and low credit loss experience lending
3. We are actively managing our asset sensitivity, meeting our 10% target with the ability to take further action
4. We are differentiated and are investing for growth and scalability

# Important information regarding forward-looking statements and use of non-GAAP financial measures

*The Company's financial results for 2019 reflected in this presentation are unaudited. This document should be read in conjunction with the Company's SEC filings.*

## Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical facts nor assurances of future performance, and are subject to known and unknown risks and uncertainties, many of which may be beyond our control. You can identify these and other forward-looking statements by the use of words such as “becoming,” “may,” “will,” “should,” “could,” “would,” “predict,” “potential,” “continue,” “anticipate,” “believe,” “estimate,” “seek,” “expect,” “plan,” “intend,” the negative of such words, or comparable terminology. In this presentation, we make forward-looking statements discussing management’s expectations about, among other things: economic conditions; opportunities in the market; outlook on our clients’ performance; our financial, credit, and business performance, including potential investment gains, loan growth, loan mix, loan yields, credit quality, deposits, noninterest income, and expense levels; and financial results. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we have based these expectations on our current beliefs as well as our assumptions, and such expectations may prove to be incorrect.

We wish to caution you that such statements are just predictions and actual events or results may differ materially, due to changes in economic, business and regulatory factors and trends. Our actual results of operations and financial performance could differ significantly from those expressed in or implied by our management’s forward-looking statements. Important factors that could cause our actual results and financial condition to differ from the expectations stated in the forward-looking statements include, among others: market and economic conditions (including the general condition of the capital and equity markets, and IPO, M&A and financing activity levels) and the associated impact on us (including effects on client demand for our commercial and investment banking and other financial services, as well as on the valuations of our investments); changes in the volume and credit quality of our loans; the impact of changes in interest rates or market levels or factors affecting or affected by them, especially on our loan and investment portfolios; changes in the levels of our loans, deposits and client investment fund balances; changes in the performance or equity valuations of funds or companies in which we have invested or hold derivative instruments or equity warrant assets; variations from our expectations as to factors impacting our cost structure; changes in our assessment of the creditworthiness or liquidity of our clients or unanticipated effects of credit concentration risks which create or exacerbate deterioration of such creditworthiness or liquidity; variations from our expectations as to factors impacting the timing and level of employee share-based transactions; variations from our expectations as to factors impacting our estimate of our full-year effective tax rate; accounting changes, as required by Generally Accepted Accounting Principles (GAAP); and regulatory, tax or legal changes or their impact on us.

We refer you to the documents the Company files from time to time with the Securities and Exchange Commission, including (i) our latest Annual Report on Form 10-K; (ii) our latest Quarterly Report on Form 10-Q; and (iii) our most recent earnings release filed on Form 8-K. These documents contain and identify important risk factors that could cause the Company’s actual results to differ materially from those contained in our projections or other forward-looking statements. All forward-looking statements included in this presentation are made only as of the date of this presentation. We assume no obligation and do not intend to revise or update any forward-looking statements contained in this presentation, except as required by law. This presentation shall not constitute an offer or solicitation in connection with any securities.

## Use of Non-GAAP Financial Measures

To supplement our financial disclosures that are presented in accordance with GAAP, we use certain non-GAAP measures of financial performance (including, but not limited to, non-GAAP core fee income, non-GAAP noninterest income, non-GAAP net gains on investment securities, non-GAAP non-marketable and other equity securities, non-GAAP noninterest expense and non-GAAP financial ratios) of financial performance. These supplemental performance measures may vary from, and may not be comparable to, similarly titled measures by other companies in our industry. Non-GAAP financial measures are not in accordance with, or an alternative for, GAAP. Generally, a non-GAAP financial measure is a numerical measure of a company’s performance that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. A non-GAAP financial measure may also be a financial metric that is not required by GAAP or other applicable requirement.

We believe that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures (as applicable), provide meaningful supplemental information regarding our performance by: (i) excluding amounts attributable to non-controlling interests for which we effectively do not receive the economic benefit or cost of, where indicated, or (ii) providing additional information used by management that is not otherwise required by GAAP or other applicable requirements. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate a comparison of our performance to prior periods. We believe these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. However, these non-GAAP financial measures should be considered in addition to, not as a substitute for or superior to, net income or other financial measures prepared in accordance with GAAP. Under the “Use of Non-GAAP Financial Measures” section in our latest earnings release filed as an exhibit to our Form 8-K on October 24, 2019, we have provided reconciliations of, where applicable, the most comparable GAAP financial measures to the non-GAAP financial measures used in this presentation, or a reconciliation of the non-GAAP calculation of the financial measure. Please refer to that section of the earnings release for more information.





## About SVB Financial Group

For more than 35 years, SVB Financial Group (NASDAQ: SIVB) and its subsidiaries have helped innovative companies and their investors move bold ideas forward, fast. SVB Financial Group's businesses, including Silicon Valley Bank, offer commercial, investment and private banking, asset management, private wealth management, brokerage and investment services and funds management services to companies in the technology, life science and healthcare, private equity and venture capital, and premium wine industries. Headquartered in Santa Clara, California, SVB Financial Group operates in centers of innovation around the world. Learn more at [www.svb.com](http://www.svb.com).

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