REPORT OF HOLDING COMPANY INSPECTION

HC Name:	SVB Financial Group	Inspection Commenced:	April 5, 2021
Location:	Santa Clara, California	Inspection Concluded:	April 16, 2021
RSSD Number:	1031449	Financial Data as of:	December 31, 2020

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July 9, 2021

Board of Directors
SVB Financial Group
3003 Tasman Drive
Santa Clara, California 95054

Dear Members of the Board:

The Federal Reserve Bank of San Francisco (FRBSF) conducted a full-scope inspection of SVB Financial Group (SVBFG) beginning on April 5, 2021, based on December 31, 2020 financial statements. Our inspection concluded on April 16 and overall results were reviewed with management on June 2. This Report of Inspection (ROI) concludes the 2020 supervisory cycle.

SUMMARY CONCLUSIONS

SVBFG's financial condition and risk management practices are satisfactory; nonbanking activities have become increasingly significant, but do not negatively impact Silicon Valley Bank (SVB). SVB's Bank Secrecy Act/Anti-Money Laundering (BSA/AML) and Office of Foreign Assets Control (OFAC) compliance program is now adequate, and the 2017 enforcement action was terminated. While overall risk management is acceptable, weaknesses evidenced by significant operational and technology risk governance shortcomings, insufficient lending and credit risk monitoring controls, and a stagnant independent credit review function support a downgrade to Internal Controls. As Internal Controls and Risk Monitoring are regarded as Fair, the board is expected to provide necessary resources and oversight to ensure management expeditiously remediates noted weaknesses.

SCOPE

SVBFG was inspected under the authority of section 5(c) of the Bank Holding Company Act of 1956, as amended. The inspection's primary objectives were to assess the organization's overall risk management and consolidated financial condition. We assessed the parent company's ability to act as a source of strength to SVB, reviewed intercompany transactions to determine compliance with laws and regulations, and assessed management's progress in remediating outstanding supervisory issues. Additionally, the March 22 nonbanking activities target, and the cycle's continuous monitoring activities inform our conclusions.

RATINGS

SVBFG remains in satisfactory condition and is rated a composite "2" according to the Federal Reserve System's Uniform Bank Holding Company rating system. Ratings are assigned on a scale from 1 to 5 in ascending order of supervisory concern.

> **Rating 2 (Satisfactory).** Holding companies in this group are fundamentally sound but may have modest weaknesses in risk management practices or financial condition. The weaknesses could develop into conditions of greater concern but are believed correctable in the normal course of business. As such, the supervisory response is limited. Cash flow is adequate to service obligations, and the nondepository entities are unlikely to have a significant negative impact on the subsidiary depository institution.

The table below lists SVBFG's composite, component, and subcomponent RFI/C (D) ratings assigned at this inspection and those assigned during the prior two cycles.

SVB Financial Group	Current Inspection 12/31/20	Prior Inspection 12/30/19	Prior Inspection 12/31/18
R – Risk Management	**2**	**2**	**2**
Components:			
Board and Senior Management Oversight	2	2	2
Policies, Procedures, and Limits	2	2	2
Risk Monitoring and MIS	3	3	3
Internal Controls	3	2	2
F – Financial Condition	**2**	**2**	**2**
Components:			
Capital	2	2	2
Asset Quality	2	2	2
Earnings	2	2	2
Liquidity	1	1	1
I – Impact of Parent and Non-Depository Subsidiaries on Depository Institution	**2**	**2**	**2**
C – Composite Rating	**2**	**2**	**2**
(D) – Depository Institution	**2**	**2**	**2**

MATTERS REQUIRING ATTENTION (MRA)[1]

Examiners did not identify any new matters requiring attention. Outstanding matters and disposition are summarized as follows:

SUMMARY OF OUTSTANDING FINDINGS				
Matters Requiring Attention				
Issue	**Target Area**	**Status**	**Comments**	**Timeframe for Completion Date[2]**
ERM Controls Monitoring	Management – Risk Management	Carry Forward	Cited at 7/29/19 Corporate Governance Target; management action plan received on 12/6/19, and supervisory feedback provided 10/28/20. Remediation efforts projected completion is 6/30/22.	3/31/21
Model Overlay/ Assumption Governance	Management – Risk Management	Closed	Cited at 7/29/19 Corporate Governance Target; management action plan received on 12/6/19, business line remediation competed 6/30/20, internal validation report issued 9/23/20, and supervisory review completed in this event.	9/30/20

[1] MRA are matters that are important and that the Federal Reserve expects a banking organization to address over time.
[2] Management's original target date for remediation of the supervisory issue (includes audit validation as applicable).

RISK MANAGEMENT – 2

Overall, risk management is satisfactory. Board and senior management oversight, and policies, procedures and limits remain satisfactory; however, risk monitoring and management information systems (MIS) remains fair and internal controls is downgraded to fair. Undeveloped controls in the first line of defense (FLoD) and an ineffective second line of defense (SLoD) inherently limit risk monitoring's efficacy. Management remains receptive to supervisory feedback and increased board engagement is noted as SVBFG has begun taking steps to add separation and strength to FLoD and SLoD controls governance. With an expectation of continued rapid growth regarding size, complexity, and global presence, a near term focus on acquisition integration must be a priority as other strategic projects are considered. Accordingly, the board is encouraged to remain diligent in ensuring appropriate resourcing, adequate control environment, and prudent governance processes are developed and maintained.

<u>Board and Senior Management Oversight – 2</u>

Board and senior management oversight is satisfactory. The board provides adequate oversight of corporate strategies, significant policies, and risk management practices and SVBFG has demonstrated resiliency despite the pandemic's financial disruptions. Additionally, the bank's BSA/AML and OFAC compliance programs are adequate, and the 2017 enforcement action was terminated late in 2020. Although financial performance remains stable, a three lines of defense model adopted in 2018 continues to lack needed traction; FLoD controls programs are insufficient and inconsistent, and the Enterprise Risk Management (ERM) program remains ineffective. In 2020, the bank's URSIT rating was downgraded to less-than-satisfactory reflecting significant supervisory concerns cited in Information Technology (IT) and operational risk management programs and issues in credit risk management have also surfaced.

Recent board additions and increased engagement have enhanced the group's ability to provide appropriate oversight to management of an increasingly complex technology and operating environment. Clear support for upscaling talent has resulted in more capable functional leadership, and meaningful actions are being taken to address regulatory concerns. New operating roadmaps and project plans are receiving appropriate governance, and early indications of initial progress to remediate IT/operational risk governance weaknesses and improve ERM are visible.

While management is credited with its responsiveness to regulatory findings, the board and management are encouraged to be proactive in maintaining an adequate risk management program to reduce reliance on internal audit or outside resources to identify risk management weaknesses. In reviewing its governance framework for management committees, SVBFG is considering the use of formal advisory committees to support executive decision-making processes and developing a SLoD Pause process to facilitate ERM's effective challenge role. In discussions with SVBFG's General Counsel, examiners encouraged management to ensure appropriate documentation is maintained to evidence fully informed decisions by executives and effective challenge by an independent SLoD. Additionally, as management projects continued rapid growth for SVBFG, board oversight and executive management diligence must ensure resources of an appropriate level and skill are available to carryout remediation plans without disruption and process improvements are sustainable.

Policies, Procedures, and Limits – 2

Policies, procedures, and limits is satisfactory. Policies and procedures cover major business areas and provide a clear delineation of accountability and lines of authority. Limits are tracked for compliance in various reports and committee packages provided to the board and senior management. The risk appetite statement is appropriate for SVBFG's inherent risk and complexity. Policies are centrally tracked to ensure timely board review and approval.

Risk Monitoring and MIS – 3

Risk monitoring and MIS remain fair. While MIS is acceptable in many financial areas, SVBFG is unable to monitor and report aggregate exposures as non-financial risks and controls are not sufficiently and consistently documented. Board MIS is adequate, but holistic and accurate risk reporting hinges on successful remediation of supervisory concerns related to the ERM program, Independent Credit Review, Loan/Credit Administration, and IT. As identified within IT in 2018, and cited at the enterprise-level in 2019, SVBFG's ERM program has not provided credible challenge to FLoD Controls Inventory, Testing, and Monitoring (Controls ITM) program.

Early in 2021, management outlined a multi-phase plan for FLoD to complete Controls ITM for all identified risks and for SLoD to implement a Controls Oversight, Validation, and Monitoring (Controls OVM) program of FLoD alignment to enterprise standards. Business units, products, and processes have been prioritized and management expects fully functioning ERM processes for all risks and controls by mid-year 2022. Additionally, as disparate systems and manual spreadsheets are used to capture and generate source MIS for various risk reports, SVBFG is in the process of implementing a centralized Global Risk Management (GRC) tool to achieve a consistent approach, standards and methodology for non-financial controls, and to capture and report risks on a real time basis. The tool could enable timely aggregation of risk monitoring information across business lines and enterprise wide.

The Model Overlay/Assumption Governance MRA was addressed and is closed. Although the MRA and corresponding remediation activities were limited to capital stress testing, SVBFG's Head of Operational Risk Management indicated model governance standards are being incorporated into a firm-wide program.

Internal Controls – 3

Internal controls is downgraded to fair. Supervisory concerns cited across the organization share a thematic weakness in FLoD governance/nonfinancial controls and insufficient SLoD oversight which hinder holistic and transparent risk reporting. The volume and significance of IT/operational risk internal control deficiencies increased through the 2020 supervisory cycle and new issues surfaced in loan administration and internal credit review. At this point, the system of internal controls does not provide adequate coverage of SVBFG's key risks and business activities.

A mid-year 2020 supervisory evaluation of management's progress remediating the 2019 ERM Controls Monitoring MRA resulted in critical feedback to SVBFG that the FLoD was inconsistently performing the firm's Controls ITM program and the SLoD was ineffective in board and executive reporting. Management acknowledged that additional effort was needed and engaged consultants to develop a standardized Controls ITM program for consistent implementation across the FLoD. Early in 2021, SVBFG created and filled a Chief Controls Officer position to oversee the enterprise Controls ITM program.

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More recently, a new Head of ERM was hired and additional SLoD resources are budgeted to ensure timely implementation of ERM playbooks, projects, and initiatives and to achieve a sustainable and scalable program. Additionally, resources in India will be used to supplement and assist in the Controls OVM program and perform periodic testing. Overall, the project plans appear reasonable with clearly defined ownership, enabling an end-to-end process owner to optimize handoffs and cross functional/entities interdependencies. The plan also provides a reasonable timeline on the alignment of FLoD's controls to the ERM Program risk taxonomy focusing on non-financial risks, establishing repeatable testing routines, and maintaining a complete risks and controls catalog. At this inspection, examiners were unable to validate the Controls ITM and/or Controls OVM as Phase 1 was still underway. The long-term plan is focused on identifying, documenting, and building out an inventory of highest risks and accompanying controls by year end 2021, with the completion of all risks in mid-2022.

Internal Audit (IA) remains effective. The Chief Audit Executive (CAE) provides the Audit Committee (AC) comprehensive quarterly updates with appropriate risk focus, and IA is independent and objective. Coverage of most key risks is adequate, and most auditable entities are reviewed on a frequency commensurate with risk; the frequency of ERM audit coverage was an exception as it had not been audited since 2018 and IA's ERM risk assessment did not appear to fully consider growing regulatory concerns regarding the ERM program and the IT control environment. Although IA did not review the ERM program holistically, the SLoD was assessed during individual entity audits and weaknesses were noted as applicable. An ERM audit is planned for August 2021, and the CAE was encouraged to provide the AC with an annual opinion on the comprehensive adequacy of risk management processes.

Although SVBFG's FLoD and SLoD need improvement in relation to controls management, IA has been effective in identifying weaknesses in the areas of BSA/AML, IT, loan administration, and affiliate transactions. However, inconsistencies were noted with IA's MRA validation test work. In two instances, the scope and test procedures were too narrowly focused, which inhibited IA's ability to effectively assess the design/operating effectiveness and effectively challenge management's remediation plans. The CAE was encouraged to consider expanding the breadth and depth of MRA validation work to ensure that sufficient testing is performed, and conclusions are well-supported.

SVBFG's Sarbanes-Oxley program is effectively managed. The firm's external auditors concluded that financial risks and controls were adequately inventoried, monitored and tested.

FINANCIAL CONDITION – 2

SVBFG's financial condition is satisfactory. The company demonstrated financial resilience despite significant unanticipated growth led by the influx of client funds and uncertainties caused by the pandemic. Capital, asset quality and earnings are rated satisfactory; and the liquidity position is strong.[3]

Capital – 2

Consolidated capital is satisfactory relative to the firm's risk profile and was prudently managed through the significant uncertainties of 2020. As the pandemic's initial impact to SVBFG's balance sheet became clear, management halted a share repurchase program and suspended bank-to-parent dividends while quarterly revisions were made to financial forecasts. A continuing unanticipated influx of client funds led to significant balance sheet growth and all capital ratios declining by approximately 150 basis points

[3] Unless otherwise noted, all financial information is as-of December 31, 2020 or for the 12 months ended December 31, 2020, as applicable.

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during the 2020 supervisory cycle. The consolidated common tier one equity capital, tier one capital, total capital, and tier one leverage are 11.04 percent, 11.89 percent, 12.64 percent, and 7.45 percent, respectively.

The influx of client funds generated unprecedented organic growth and SVBFG's Tier One Leverage ratio briefly breached management's initial threshold late in the cycle. Executives discussed capital management frequently with examiners and aggressive capital raising efforts that began in the fourth quarter have continued into early 2021 to improve all consolidated capital ratios. With cash and low-risk investment securities representing the majority of total assets, some concern related to leverage capital ratios is mitigated; however, management is encouraged to continue sharing capital management strategies with examiners and achieve the projected minimum 8.0 percent leverage ratio by year-end 2021.

Asset Quality – 2

Consolidated asset quality is satisfactory, with stable and manageable credit risk. Loans grew at 36.2 percent in 2020 but growth was centered in lower risk segments. Classification levels remain moderate with a total classification ratio of 16.3 percent and a weighted classification ratio of 3.6 percent. The investment portfolio also experienced material growth, it now represents 41.0 percent of total assets, and is comprised primarily of low-risk higher credit quality assets.

Earnings – 2

Consolidated earnings remain satisfactory, above peer, and sufficient under normal conditions. Net income of $1.3 billion was aided significantly by warrant gains and investment banking revenue to produce a return on average assets of 1.42 percent, a decrease from 1.80 percent in 2019. Earnings were adversely impacted by multiple factors present during the pandemic including a low rate environment, an increase in expected losses/credit reserves, and deferred income. Although profitability remains favorable, nonbank revenue is strong, and nearly all earnings are retained, capital raising was needed to sufficiently augment capital.

Liquidity – 1

Consolidated liquidity is strong, as liquid assets comprise 51.7 percent of total assets. The funding structure remains almost wholly comprised of deposits with minimal noncore funding sources primarily being foreign deposits. During 2020, the firm benefited from extraordinary deposit growth with total deposits increasing from $62.0 billion to $102.0 billion. Despite the high amount of core funding, deposit concentrations remain, and flows can be volatile. This risk is partially mitigated by $10.7 billion in secured funding sources and comprehensive risk management practices meet current expectations.

IMPACT – 2

The parent and its nonbank subsidiaries present limited likelihood of significant negative impact to SVB. Nonbank activities provide complementary services to SVB's clients and integration of nonbanking activities into the ERM program continues. The parent company remains financially flexible with low debt, adequate cash liquidity, and a demonstrated ability to access capital markets when needed to support SVB.

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Parent Company Financial Analysis

The parent company is financially satisfactory, and management monitoring is appropriate. With a 10.3 percent debt-to-equity ratio, the company is modestly leveraged and maintains liquidity at a minimum of 18 months of cash needs. As the pandemic disrupted financial markets, management halted share repurchases and bank-to-parent dividends to preserve liquidity and provide support to SVB. These actions, combined with multiple debt and equity raises beginning in late 2020, demonstrate financial resiliency and helped address a declining SVB tier 1 leverage capital ratio brought on by material asset growth. Management continues to revise projections and has proposed capital actions for various scenarios, including continued rapid growth.

Intercompany Transactions

The bank, parent company, and non-bank subsidiaries remain in compliance with Regulation W, and practices align with interagency guidelines regarding income tax allocation in a holding company structure. Appropriate and timely reimbursement is provided to SVB for employee time providing services to nonbank affiliates and the parent company. A Regulation W audit report issued during the inspection assigned a “Needs Improvement” to the program’s FLoD and SLoD. The report cited a doubling of Regulation W affiliates related to expansionary nonbanking activities coupled with a lack of clear ownership of control activities and decentralized program governance to oversee end-to-end compliance across business units and control functions as root cause issues. IA’s observations related to the process for affiliate identification, perfection of collateral for credit transactions with affiliates, and affiliate transaction identification and monitoring. In the past, management has satisfactorily addressed audit findings and is expected to develop and execute appropriate remediation action plans.

Nonbanking Activities

Nonbank activities continue to expand and generate material revenue for the consolidated company. These activities include venture capital investment and funds management offered through SVB Capital (a unit of the parent company), and investment bank and broker dealer activities operated by SVB Leerink (a subsidiary of the parent company). Integration into the ERM program activities remains a work in progress, particularly regarding SVB Leerink. Nonbanking assets account for only 1.9 percent of SVBFG’s consolidated assets but generated 31.6 percent of consolidated earnings with negligible financial risk.

SVB Capital presents limited, adequately controlled financial and non-financial risk. Since 2000, SVB Capital has raised and invested in ten funds of funds, five direct investment funds, five opportunity funds, and one debt fund. Fundraising for three new investment funds are planned for 2021. Integration into SVBFG’s ERM practices are keeping pace with the expansion of managed fund products and the range of potential investors. SVB Capital has contributed significant positive operating results to the consolidated organization, with higher levels of assets under management and significant revenue generated by strong warrant income.

SVB Leerink has focused on the healthcare and bio-pharmaceutical sector providing Equity Capital Markets, Merger and Acquisition Advisory, Equity Research and Institutional Sales and Trading. Management is planning to hire a team to implement operations for a strategic expansion into the technology sector, expanding services available to existing SVB customers. Financial Industry Regulatory Authority, SVB Leerink’s primary regulator, reports no current concerns with the operations of SVB

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Leerink. However, only recently has SVBFG begun integration of SVB Leerink into the ERM program and the current risk assessment and internal controls identification process has not been completed. Management acknowledged the gaps and remediation efforts are underway.

DEPOSITORY INSTITUTION – 2

SVB remains in satisfactory condition as noted in the May 3 Report of Examination. Capital, Asset Quality, Management, Earnings, and Sensitivity remain satisfactory; Liquidity is regarded as strong. The SVB examination noted board and executive management provide appropriate oversight over most risks, though increased attention is needed to address IT/operational issues and other risks surfaced during the 2020 cycle. Two supervisory issues were cited (Formalization and Maturity of Internal Credit Review and Ownership of LoD Lending Controls), though they do not cause heightened concern.

OTHER MATTERS

<u>BSA/AML and OFAC Compliance Program</u>

The bank's BSA/AML and OFAC compliance program is adequate. After several years of rebuilding the program, risks are now adequately identified, monitored, and mitigated. The 2017 Memorandum of Understanding was terminated on December 1, 2020.

<u>Consumer Compliance</u>

The most recent FRBSF and Consumer Financial Protection Bureau (CFPB) compliance examinations have resulted in satisfactory ratings. The CFPB's October 26, 2016 report identified violations related to loan originator compensation and Home Mortgage Disclosure Act reporting, and cited MRAs to ensure that corrective action was performed to address these violations and the FRBSF concurred with these findings. The October 22, 2018 FRBSF report noted that SVB continues to build out its consumer compliance risk management framework and did not identify any violations related to the non-enumerated consumer laws and regulations. SVB also operates under a Strategic Plan for compliance with the Community Reinvestment Act (CRA), and earlier this year the FRBSF approved the bank's plan for the 2021-2023 timeframe. The bank's CRA performance was most recently assessed as Satisfactory at the October 2018 review. Further, the FRBSF commenced a compliance and CRA examination of SVB on June 21.

<u>Information Technology</u>

SVB's IT/operational risk management activities are less than satisfactory, with a high volume of MRIA/MRA outstanding. A report on the November 30, 2020 IT examination was issued on February 11 and reported an URSIT composite downgrade to 3, and a downgrade to the Support & Delivery component to 3; IT Management was rated 3 at the February 19, 2019 examination. Several new and outstanding MRIA/MRA spanning cybersecurity, asset management, identity access management, data protection and governance, vendor management, and SLoD technology risk need to be addressed to improve the IT function and decrease operational risk to an acceptable level. SVB's response to the most recent examination included action plans reasonably outlining the course of remediation activities for each issue and additional governance activities to ensure executive management and the board remain aware of progress. As internal validation of remediation efforts is projected to stretch into January 2023,

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the board and executive management have been encouraged to seriously consider time-saving options such as staff augmentation, redirecting, or further prioritizing remediation efforts.

CLOSING COMMENTS

SVBFG has demonstrated financial resiliency and remains in satisfactory condition. The ERM program warrants continued attention to keep pace with the firm's rapid growth, and a response to this ROI providing an update on remediation of the Controls Monitoring MRA is requested by August 23.[4] Additionally, each director should sign the Signature of Directors page, and the board's review of this ROI should be recorded in SVBFG's corporate records. The contents of this letter are confidential and should not be made public.[5]

We appreciate the board and management's attention and cooperation throughout the 2020 supervisory cycle and look forward to meeting with the board to discuss the report's contents and the firm's transition to a large-bank supervisory program. Please direct any immediate questions or concerns related to this ROI's conclusions, or any matter involving our supervision of SVBFG as a regional banking organization, to me at **Redacted** or **Redacted**.

Sincerely,

Redacted

Redacted
Central Point of Contact

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[4] Any institution about which the Federal Reserve makes a written material supervisory determination is eligible to utilize the appeals process as described in [Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System, 85 Fed. Reg. 15175 (March 17, 2020)]. An appeal under this process may be made of any written material supervisory determination, as defined in the policy statement.

The Board's Ombudsman (Ombudsman) can provide assistance regarding questions related to the System's material supervisory determination appeals process and claims of retaliation. The Ombudsman can also provide assistance to facilitate the informal resolution of concerns prior to the filing of a formal appeal. An institution may contact the Ombudsman at any time by calling 1-800-337-0429, by sending a facsimile to 202-530-6208, by writing to the Office of the Ombudsman, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or by sending an e-mail to ombudsman@frb.gov.

[5] This document has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The document is property of the Board of Governors and is furnished to the directors and management for their confidential use. The document is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 U.S.C. 1817(a) and 1831m-1 and in the regulations of the Board of Governors (12C.F.R. 261.20). Under no circumstances should the directors, officers, employees, trustees, or independent auditors disclose or make public this document or any portions thereof except in accordance with applicable law and regulators of the Board of Governors. Any unauthorized disclosure of the document may subject the person or persons disclosing or receiving such information to the penalties of section 641 of the U.S. Criminal Code (18, U.S. C. 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this document. In making this review, it should be noted that this document is not an audit and should not be considered as such.

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SIGNATURE OF DIRECTORS

We, the undersigned directors of SVB Financial Group, Santa Clara, California have personally reviewed the contents of the report of inspection dated December 31, 2020.

Signature of Directors	Date
Greg W. Becker	
Eric A. Benhamou	
Richard Daniels	
Alison Davis	
Roger F. Dunbar	
Joel P. Friedman	
Jeffrey N. Maggioncalda	
Kay Matthews	
Mary J. Miller	
Kate D. Mitchell	
Garen K. Staglin	

NOTE: This form should remain attached to the report of inspection and be retained in the holding company's file for review during subsequent inspections. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.

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