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August 17, 2022

Board of Directors
Silicon Valley Bank/Silicon Valley Bank Financial Group
3003 Tasman Drive
Santa Clara, California 95054

Dear Board Members:

This letter conveys current supervisory ratings, the status of supervisory issues for SVB Financial Group (SVBFG or the "Firm") and its subsidiary bank, Silicon Valley Bank (SVB or the "Bank") based on supervisory work performed over the course of 2021 and first half of 2022. This assessment reflects the conclusions from firm-specific examination work, continuous monitoring, engagement or coordination with other regulators and meetings with management and directors.

We delayed issuing the ratings for the 2021 supervisory cycle to account for the full onset of large bank supervisory expectations and to better assess the thematic root causes associated with the previously cited supervisory findings. This letter formally communicates the ratings we presented to the Firm's board on July 21, 2022. While the Federal Reserve Bank of San Francisco (FRBSF) issues the LFI rating[1], CAMELS ratings covering SVB are issued jointly with the California Department of Financial Protection and Innovation (CDFPI). Most of the assessment used to support the ratings was based off examination work conducted jointly by the FRBSF and CDFPI.

Executive Summary

This is the first LFI rating to be issued to the Firm. The Governance & Control (G&C) rating is rated Deficient-1, while the Liquidity (L) and Capital (C) are rated Conditionally Meets Expectations and Broadly Meets Expectations, respectively. Many of the governance and risk management related matters, which drove the Deficient-1 rating, are detailed in the Governance Examination supervisory letter issued on May 31, 2022. In the time leading up to SVB crossing the $100 billion consolidated assets threshold, the firm experienced significant growth but did not maintain a risk management function commensurate with the growing size

[1] 12 CFR 225.2 and SR Letter 19-3/CA 19-2, *Large Financial Institution (LFI) Rating System*.

and complexity of the firm. It is imperative that the board of directors and management work diligently to remediate these important deficiencies.

The Deficient-1 (D-1) rating assigned for SVBFG's Governance and Controls and the "Fair" ratings assigned for SVB's Management and Risk Management indicate operational deficiencies in practices or capabilities that put the Firm's prospects for remaining safe and sound through a range of conditions at significant risk. In addition to the findings centered in first line business units, such as information technology, information security, corporate compliance, and treasury, the recent Governance Examination also identified thematic, root cause deficiencies related to ineffective board oversight, the lack of effective challenge by the second line independent risk function, insufficient third line internal audit coverage of the independent risk management function, and ineffective risk reporting. While the board and executive management have started many projects to address these issues, the deficiencies are not correctable in the normal course of business. We will evaluate the corrective actions the Firm will be implementing in response to the Board Effectiveness and Risk Management Program MRIAs cited in the previously referenced Governance Examination supervisory letter.

The Conditionally Meets Expectations (CME) rating assigned for SVBFG's Liquidity Risk Management and Positions indicates that certain, material financial weaknesses in practices or capabilities may place the Firm's prospects for remaining safe and sound through a range of conditions at risk if not resolved in a timely manner. Key liquidity risk management deficiencies, identified in the Liquidity Target Examination supervisory letter issued on November 2, 2021, include internal liquidity stress testing design weaknesses, such as the lack of deposit segmentation, the lack of differentiation between market and idiosyncratic risk scenarios, and the lack of testing of the firm's contingency funding plan. The examination also identified a lack of effective challenge by the second line independent risk function over the first line treasury business unit. SVBFG's CME rating and SVB's liquidity rating downgrade from "Strong" to "Satisfactory" are directly tied to the liquidity-related MRIA and MRAs highlighted in Exhibit B. Actions to correct liquidity issues are scheduled for completion within the 2022 supervisory cycle. Failure to adequately address these findings will likely result in a more adverse rating.

The Broadly Meets Expectations (BME) rating assigned for Capital Planning and Positions indicates that the Firm implemented practices to maintain sufficient capital levels based on the applicable supervisory guidance[2] at the time of our September 2021 Capital Target

[2] The examination used the following supervisory letter guidance to support this assessment: SR 11-7, Guidance of Model Risk Management; SR 12-7, Guidance on Stress Testing for Banking Organizations with Total Consolidated Assets of More than $10 Billion; SR 12-17, Consolidated Supervision Framework for Large Financial Institutions.

Examination, as well as assessing gaps to Regulatory Capital Rules[3] for Category IV firms as defined by the Federal Reserve Tailoring Rule.[4]

Enforcement Action

Shortly after issuance of this supervisory letter, the FRBSF and the CDFPI will initiate an informal, non-public, enforcement action, in the form of a Memorandum of Understanding (MOU). The MOU provisions reflect the Matters Requiring Immediate Attention cited in the previously referenced Governance Examination and Liquidity Target Examination supervisory letters. The enforcement action provisions are designed to hold SVBFG/SVB's board and executive management accountable for addressing the root cause deficiencies contributing to ineffective governance and risk management.

[3] 12 CFR Parts 208, 217, and 225, Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule.

[4] 12 CFR Parts 217, 225, 238 and 252, Capital Planning and Stress Testing Requirements for Large Bank Holding Companies, Intermediate Holding Companies and Savings and Loan Holding Companies.

Under the LFI rating system, SVBFG is assigned the following ratings:

Rating Component	Current Rating
Governance and Controls (G&C)	**Deficient -1**
Liquidity (L)	**Conditionally Meets Expectations**
Capital (C)	**Broadly Meets Expectations**

LFI Ratings Components

Governance and Controls (G&C) - *Deficient 1*

The G&C rating reflects our assessment of the firm's effectiveness in: (1) aligning strategic business objectives with risk appetite and risk management capabilities; (2) maintaining effective and independent risk management and control functions, including internal audit; (3) promoting compliance with laws and regulations, including for consumer protection; and (4) planning for ongoing operational resiliency of the firm.

Board Effectiveness
The board's oversight does not meet supervisory expectations. As noted in the Governance Exam supervisory letter, the board did not provide effective oversight of management's implementation of the LFI transition plan, or the execution of corrective actions needed to address the root causes for various issues cited from the prior and current supervisory cycles. The board committees did not sufficiently challenge management on the design and content of the risk information presented to directors. Risk management deficiencies, such as those identified through regulatory examinations or reviews performed by independent risk functions, have not been meaningfully considered in the Firm's incentive compensation program or executive officer performance evaluations. Lastly, the Firm's board lack members with relevant large financial institution risk management experience, and this attribute hinders the board's ability to provide effective oversight.

Risk Management Program
The Firm's risk management program is not effective. The current risk management framework is not comprehensive, does not incorporate coverage for all risk categories, and does not address foundational enterprise level risk management matters, such as risk acceptance, issues management and escalation protocols. While the Firm has recently hired several new senior officers with LFI risk management experience, these new members of senior management are in various stages of completing baseline gap assessments. Remediation plans to address the identified gaps will require time beyond the normal course of business. Executive management across all three lines of defense will need to demonstrate project management discipline to achieve an effective, holistic risk management program.

Lastly, the Firm's risk reporting does not present information for effective decision-making within the context of why management should/should not accept the risks for the topic being presented.

Internal Audit (IA)
IA's coverage of risk management is less than effective. While IA has effectively covered certain functional areas, such as capital planning and Bank Secrecy Act compliance, IA missed several key areas relevant to the Firm's LFI transition and foundational risk management. Despite indicators of deficiencies in second line independent risk management, IA did not provide sufficient coverage of this area in their 2020 or 2021 audit plans. Additionally, IA exhibited a slow and reactive approach to testing the effectiveness of the Firm's LFI transition plan, risk management programs and functions, and integration of acquired entities, such as Leerink Partners. IA's reporting to the Audit Committee does not align with guidance set forth under Federal Reserve *Supervision and Regulation Letter 13-1 Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing.* Lastly, the Audit Committee did not effectively challenge IA senior management on matters related to sufficient IA Plan coverage or the substance of the reporting needed for the Audit Committee to fulfill its oversight responsibilities.

Liquidity – Conditionally Meets Expectations

The liquidity rating reflects our assessment of: (1) the governance and risk management processes used by the firm to determine the amount of liquidity necessary to cover risks and exposures and support activities through a range of conditions; and (2) the sufficiency of liquidity positions to comply with regulatory requirements and support the firm's ongoing obligations through a range of conditions.

While actual and post-stress liquidity positions reflect a sufficient buffer, the Firm lacks several foundational liquidity risk management elements. These missing elements may negatively affect the sufficiency of the Firm's post-stress liquidity buffer. Notable elements that management must address include more granular deposit segmentation to produce effective modeling of deposit outflows during stress; more comprehensive testing of its contingent funding plan to assess the feasibility of funding options under stress; and more effective challenge provided by the second line independent risk function to ensure that the first line Treasury business unit has appropriately executed its liquidity risk management responsibilities.

This rating is time-bound and dependent on effective remediation of the open supervisory issues. The specific conditions that the Firm must address are described in detail as part of the two MRIAs and four MRAs cited in the Liquidity Target Examination supervisory letter issued on November 2, 2022.

Capital – Broadly Meets Expectations

The capital rating reflects our assessment of: (1) the governance and planning processes used by the firm to determine amount of capital necessary to cover risks and exposures, and support activities through a range of conditions; and (2) the sufficiency of capital positions to comply with regulatory requirements and support the firm's ability to continue to serve as a financial intermediary through a range of conditions.

The Firm's actual and internal post-stress capital positions reflect a sufficient buffer to comply with applicable regulatory requirements and to serve as a financial intermediary through a range of conditions. Management has demonstrated effective governance and planning processes to determine the amount of capital necessary to cover the Firm's risks and exposures. This assessment is primarily based off the Capital Target Examination completed on October 1, 2021. We also considered the RCM reviews completed in the fourth quarter 2021 and the first quarter 2022. During these RCM reviews, we noted the effective challenge that all three lines of defense applied to the Firm's dry-run capital plan submissions in advance of the first formal Capital Plan submitted to the Federal Reserve subject to the 2022 Horizontal Capital Review (HCR). The scope of this supervisory assessment does not include the 2022 HCR – those results will be communicated through a separate letter on August 19, 2022.

Depository Institution Ratings - CAMELS

Under the Uniform Financial Institution Rating System, SVB is assigned the following ratings:

Uniform Financial Institution Rating System	**Previous Rating April 5, 2021**	**Current Rating June 30, 2022**
Composite Rating	Satisfactory "2"	Fair "3"
Capital	Satisfactory "2"	Satisfactory "2"
Asset Quality	Satisfactory "2"	Satisfactory "2"
Management	Satisfactory "2"	Fair "3"
Earnings	Satisfactory "2"	Satisfactory "2"
Liquidity	Strong "1"	Satisfactory "2"
Sensitivity to Market Risk	Satisfactory "2"	Satisfactory "2"

Capital – Satisfactory "2"

SVB's capital levels are satisfactory relative to its risk profile. Management has proactively monitored capital adequacy relative to internal goals and limits. Notable points supporting this assessment include:

- As the bank experienced rapid growth, the parent company issued over $7.5 billion in common and preferred equity during 2021. Proceeds from these issuances were used to maintain the bank's capital ratios, most notably the Tier 1 leverage ratio, in line with internal goals.
- Management developed idiosyncratic stress scenarios to complement their use of stressed macroeconomic variables over a nine-quarter forecasted period. Outcomes from the internal stress tests were appropriately used to assess the sufficiency of SVB's capital buffer through a range of conditions.
- SVB's balance sheet structure mitigates some of the risks associated with its recent rapid growth. 64 percent of the bank's total assets are in cash and fixed income securities, and 93 percent of the bank's fixed income securities are in U.S. Treasuries and government agencies.

Asset Quality – Satisfactory "2"

SVB's asset quality and credit administration practices are satisfactory. Notable points supporting this assessment include:

- Total and weighted adversely classified assets, measured in relation to tier 1 capital and reserves, were 10.62 percent and 2.20 percent, respectively, as of March 31, 2022, and have trended lower over the past several supervisory cycles.
- Loan growth has been centered in two lower risk products with historically low loss rates: (i) capital call lines of credit to private equity and venture capital funds and (ii) single family residential mortgages to higher net worth private banking clients.
- SVB's Internal Loan Review function has effectively tested the accuracy of the first line business unit and second line independent risk's loan grading decisions. No adverse grading differences have been identified in the current and prior supervisory cycles

Management and Risk Management – Fair "3"

SVB's management and board performance needs improvement and is less than satisfactory. Notable points supporting this assessment include:

- SVB's board did not provide effective oversight of implementation of the Risk Management framework and execution of the LFI transition plan. This lack of oversight has resulted in management having to re-develop a Risk Transformation Project two years after their original LFI gap assessment and transition plan.
- SVB's board did not hold management accountable for the thematic root causes contributing to the supervisory findings related to information technology, information security, liquidity risk management, and second line independent risk.
- SVB's risk reporting used for management and board oversight does not sufficiently address all areas of risk to the bank nor does it provide an effective basis for decisions

on what risks should or should not be accepted.
- SVB's third line Internal Audit did not provide sufficient coverage of the second line independent risk function in both its 2020 and 2021 audit plans. Additionally, the Audit Committee did not effectively challenge IA management on their decisions related to coverage of the LFI transition plan implementation and second line independent risk function's execution of the Risk Management Framework.

Earnings – Satisfactory "2"

SVB's earnings are satisfactory to support operations and maintain adequate capital and allowance for credit losses. Notable points supporting this assessment include:
- The bank's earnings are accretive to capital despite significant expenditures to build the necessary risk management infrastructure.
- Management has implemented strategies to decrease reliance on warrant gains and diversify revenue sources through gradual changes in the investment portfolio structure, increased foreign exchange service fees resulting from the bank's increasing global footprint of its client base, and increased fee income from the planned growth in the private banking and investment banking business lines.

Sensitivity to Market Risk – Satisfactory "2"

SVB's Sensitivity to Market Risk is adequately controlled with moderate potential that earnings performance or capital positions will be adversely affected. Notable points supporting this assessment include:
- Management has established a moderately asset sensitive balance sheet structure, and the bank has benefitted from the recent interest rate increases. Management has appropriately considered strategies to limit the impact of potential declining rate scenarios.
- Interest rate hedges implemented in 2021 have effectively mitigated the bank's exposure to rising interest rates. Down rate mitigation strategies, such as loan pricing floors and receive fixed/pay floating interest rate swaps, are being presented through the existing governance committees and subject to effective challenge by the second line independent risk function.

Composite Rating – Fair "3"

SVB's Composite rating reflects the supervisory concerns related to Management and Risk Management. The deficiencies referenced in the assessment of Management and Risk Management reflect weaknesses ranging from moderate to severe. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Financial institutions in this rating category require more than normal supervision as indicated by the nature of the corrective actions required for the various findings cited in the current and prior supervisory cycles. The MRIAs cited in the previously referenced Governance Exam and Liquidity Examination supervisory letters will be the basis for the informal enforcement action provisions that the FRBSF and CDFPI will issue.

Closing

We request that this supervisory letter be reviewed by the board of directors. Additionally, the directors are to sign the Signature of Directors page (Attachment D) acknowledging that they have read and understood the findings contained in this letter. Please retain this acknowledgement in your files for future review by examiners from the Federal Reserve. At this time, no additional written remediation plans are required other than those to address the MRIAs cited in the previously referenced in the Governance Examination supervisory letter. Please send all supervisory correspondence from your institution in electronic format only, copying our centralized mailbox as a recipient at **Redacted** @sf.frb.org and **Redacted** CDFPI at **Redacted** @dfpi.ca.gov.

We appreciate the assistance received from your management team and staff throughout the year. As a reminder, this letter is the property of the Board of Governors and is furnished to directors and management for their confidential use under applicable law[5] as well as CA Financial Code 452. We welcome the opportunity to further discuss any aspect of this letter or our supervisory process with members of the board or management.[6] Should you have any comments or questions regarding this letter, please directly contact **Redacted** CDFPI **Redacted** nd **Redacted** FRBSF **Redacted**

[5] **THIS DOCUMENT IS STRICTLY CONFIDENTIAL**
This document has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The document is the property of the Board of Governors and is furnished to 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) and in the regulations of the Board of Governors (12 C.F.R. 261.20). Under no circumstances should the directors, officers, employees, trustees or independent auditors disclose or make public this document or any portion thereof except in accordance with applicable law and the regulations 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.

[6] Any institution about which the Federal Reserve makes a written material supervisory determination is eligible to utilize the appeals process as described in the Appeals Process and Board Ombudsman (Ombuds) Policy Statement (See also 85 Fed. Reg. 15,175 (March 17, 2020)). The Ombuds can provide assistance regarding questions related to the appeals process and claims of retaliation as well as assist in facilitating the informal resolution of a supervised institution's concerns prior to the filing of a formal appeal. For more information about the Ombuds, please visit the Federal Reserve Board's public website.

Sincerely,

Redacted

Department of Financial Protection and Innovation

By: Redacted

Redacted

LFBO Dedicated Supervisory Team Lead
Federal Reserve Bank of San Francisco

Enclosures

cc: Greg Becker, Chief Executive Officer
Redacted FDIC

Attachment A - Other Applicable Ratings
Depository Institution Ratings - Other Ratings

Rating System	Previous Rating (Date)	Previous Rating (Date)	Current Rating (Date)
URSIT	2-3-2-2/2 (6-5-19)	2-3-2-2/3 (2-11-21)	2-3-2-3/3 (2-18-22)
Consumer Compliance	2 (10-21-16)	2 (1-2-19)	2 (6-21-21)
Community Reinvestment Act	Satisfactory (10-21-16)	Satisfactory (1-2-19)	Outstanding (11-29-21)

Attachment B – Open Supervisory Issues
Outstanding Federal Reserve and CDFPI MRAs and MRIAs as of 6-30-22

Issue Type	Date Issued	Issue Summary	Source Event	Comments
MRA	6-24-22	Governance of Corporate Compliance Monitoring and Testing	2022 BSA/AML and OFAC Exam	
MRA	6-24-22	OFAC Sanctions Risk Management	2022 BSA/AML and OFAC Exam	
MRIA	5-31-22	Board Effectiveness	2022 Governance Exam	
MRIA	5-31-22	Independent Risk Management	2022 Governance Exam	
MRIA	5-31-22	Internal Audit Effectiveness	2022 Governance Exam	
MRA	11-19-21	Consumer Compliance Change Management and Issues Escalation	2021 Consumer Compliance Exam	
MRA	11-19-21	Consumer Compliance Risk Management	2021 Consumer Compliance Exam	
MRA	11-19-21	Consumer Compliance Dispute Process	2021 Consumer Compliance Exam	
MRA	11-19-21	Fair Lending Program Compliance Risk Management	2021 Consumer Compliance Exam	

MRA	11-2-21	Internal Liquidity Stress Testing Design	2021 Liquidity Target Exam	Factor considered in CME Liquidity Rating
MRA	11-2-21	Deposit Segmentation	2021 Liquidity Target Exam	Factor considered in CME Liquidity Rating
MRA	11-2-21	Liquidity Limits Framework	2021 Liquidity Target Exam	Factor considered in CME Liquidity Rating
MRA	11-2-21	Contingent Funding Plan	2021 Liquidity Target Exam	Factor considered in CME Liquidity Rating
MRIA	11-2-21	Liquidity Risk Management Project Plan	2021 Liquidity Target Exam	Factor considered in CME Liquidity Rating
MRIA	11-2-21	Effective Challenge – Second Line Financial Risk Management	2021 Liquidity Target Exam	Factor considered in CME Liquidity Rating
MRA	8-17-21	Loan Risk Rating System Granularity	2021 Asset Quality Target Exam	
MRA	8-17-21	Governance of Lending Procedures	2021 Asset Quality Target Exam	
MRA	5-3-21	Internal Loan Review Risk Assessment Process	2021 Asset Quality Target Exam	

MRA	5-3-21	First Line Credit Risk Management Roles and Responsibilities	2021 Asset Quality Target Exam	
MRIA	2-11-21	Information Technology Asset Management	2021 Information Technology Target Exam	
MRIA	2-11-21	Vendor Risk Management	2021 Information Technology Target Exam	
MRA	2-11-21	Data Governance	2021 Information Technology Target Exam	
MRA	2-11-21	Data Protection	2021 Information Technology Target Exam	
MRA	2-11-21	Technology Risk Management	2021 Information Technology Target Exam	
MRIA	6-3-20	Information Security Vulnerability Risk Management	2020 Information Technology Target Exam	
MRA	6-3-20	Identity Access Risk Management	2020 Information Technology Target Exam	
MRA	11-19-19	Enterprise Risk Management Controls Monitoring	2019 Information Technology Target Exam	
MRA	6-5-19	Effective Challenge – Second Line Information Technology Risk Management	2019 Information Technology Target Exam	

Attachment C – Closed Supervisory Issues
Closed Federal Reserve and CDFPI Issues During 2021 Supervisory Cycle

Issue Type	Date Issued	Issue Summary	Source Event	Comments
MRA	6-3-20	Audit Committee MIS	2020 Information Technology Target Exam	Issue Closed on 2-11-22
MRA	6-3-20	Governance of Disaster Recovery Planning	2020 Information Technology Target Exam	Issue Closed on 2-17-21
MRA	6-3-20	Information Technology Risk Taxonomy	2020 Information Technology Target Exam	Issue Closed on 2-17-21
MRA	6-5-19	Firewall Management	2019 Information Technology Target Exam	Issue Closed on 2-17-21
MRA	3-6-19	Model Risk Management	2019 Full Scope Safety and Soundness Exam	Issue Closed on 5-3-21
MRA	11-19-19	Governance of Model Assumptions and Overlays	2019 BHC Inspection	Issue Closed on 7-9-21
MRA	6-3-20	Governance – Disaster Recovery Plan Testing	2020 Information Technology Target Exam	Issue Closed on 8-6-21
MRA	6-5-19	Information Security Risk Reporting	2019 Information Technology Target Exam	Issue Closed on 8-6-21

Attachment D - Signature of Directors

We, the undersigned members of the Board of Directors of SVBFG and Silicon Valley Bank, have personally reviewed the contents of the summary report dated August 17, 2022.

Signature of Board Members	Date
______________________________ Kay Matthews	________________________
______________________________ Greg Becker	________________________
______________________________ Eric A. Benhamou	________________________
______________________________ Elizabeth Burr	________________________
______________________________ Alison Davis	________________________
______________________________ Richard Daniels	________________________
______________________________ Joel P. Friedman	________________________
______________________________ Jeffery N. Maggioncalda	________________________
______________________________ Mary J. Miller	________________________
______________________________ Kate D. Mitchell	________________________
______________________________ Garen K. Staglin	________________________