

Deception And Truth Analysis (D.A.T.A.), Inc.

Case Study: Silicon Valley Bank

10 March 2023

APPENDIX 1

D.A.T.A.'s Assessment of SIVB's Earnings Calls Since 3Q 2021

Let's dig a little deeper into Silicon Valley Bank's most recent six quarters of earnings call transcripts. Below is how the transcripts were assessed by our D.A.T.A. algorithm [Note: we have reinserted the questions from the analyst community so you know the contexts that led to SIVB's managements' answers].

SIVB 2021 Q3 Earnings Call

D.A.T.A. Score = 100.0%, 3 deceptive fragments

Fragment 1: D.A.T.A. Score = -8.061%

Q: Ebrahim Poonawala

And just remind us, Dan, what's the timeline for systems conversion when you get all the tech infrastructure kind of on board and won?

A: Dan Beck

Yes. Ebrahim, the vast majority of the systems conversions that need to occur are going to occur in 2022. So, the vast majority will be done, let's call it, Q3 into Q4 in terms of the transition. You will have some stragglers, but the things that we need more to manage the enterprise, to manage the opportunity across our businesses, Q3 is the target.

Q: Ebrahim Poonawala

And does that restrict your ability, Dan, to really go to market in terms of how you would like to penetrate that \$400 billion opportunity?

A: Dan Beck

No, I think it actually allows us to take a step back and understand the information that we are going to need, to understand how to manage those

opportunities and to do it in the best way. So, we are working, as Greg mentioned, we are working through that right now and then with that, can build out the platforms to scale it. So, I don't think that gets in the way of us making progress towards that objective.

A: Greg Becker

Yes. And I would add on to that part, let me just add on to that part, because I actually think that the technology side is one of those areas that we were pleasantly surprised how strong the technology was at Boston Private. And so, it actually doesn't slow us down at all. In fact, new clients as they are added, we are adding them on to the legacy Boston Private systems. And actually, that will be the main systems – client-facing systems that we engage in the market. So, I feel really good, but it's not going to slow us down and the fact, I believe it's going to actually enhance our ability to add clients under the platform.

Q: Casey Haire

Yes, thanks. Good afternoon, guys. A question on the deposit growth guide, if I layer in '21 and '22, it looks like it's about \$10 billion a quarter, which is obviously very conservative with – relative to what you've seen this quarter or this past year. I am just wondering the distributions, which happened at year end, is that something like after a banner year, you are expecting an outsized distribution at the end of the year this year?

A: Greg Becker

Hey, Casey, it's Greg. I will start. I am sure Dan or Mike would want to add to it. So, I would say that's a part of it, but the main part is what we have been adding this year roughly is \$20 billion a quarter. And what our outlook says is that we just believe that it's a reasonable assumption that it's going to be tempered from the incredible growth that we have seen quarter-over-quarter. And so, we are not seeing anything that really indicates that.

Our teams are still bullish. But I would say we have kind of sat back and said just from our own standpoint that pace – continue with that pace seems overly aggressive. And so, our outlook, we brought back to the range that you just described from a deposit growth.

Now, we have a high confidence in that. And is there upside? Sure, there is upside but it's preliminary guidance and we will clearly be able to give you a lot more color as we cross the year. And we will see if there are higher levels of distributions than we have seen in other – in prior years or anything else that

would maybe be a little bit of an anomaly. So, I will see if Dan or Mike wants to add anything to that?

A: Mike Descheneaux

Yes, Greg, this is Mike Descheneaux here. So, when Greg was describing it, you can kind of break it down into two areas, the macro features as well as what we are doing to execute. And so when you look at the macro pictures, the fundamentals are still extraordinarily strong. I mean, we see the flows of funds come in. You see the amount of dry powder that's out there, some accounts, it's \$2 trillion, \$2.5 billion, \$3 trillion tremendous amount of money. The amount of money being deployed into the space from VCs continues to grow the sizes the funds are growing multiple sources.

So those things just have not changed. And then on the execution front, I mean, if you look at our client acquisition count when you go into the deck that we have here, we continue to bring those on, increase record numbers of clients. And what happens is it takes some time for them to get funded and so you are seeing us accumulating effect. So, we all believe that the fundamentals are in place. But as Greg says, I mean what we have been growing at is just such an extraordinary high pace. But I will tell you, I am really, really happy with kind of what you implied there in terms of if we can grow \$10 billion, \$11 billion per quarter I think that's just a sensational growth as well, too. So again, nothing has fundamentally changed in our outlook.

Q: Casey Haire

Great. Thanks. And on the liquidity deployment, Slide 24, looks like you guys are expecting new purchase yields around the 150 level. I am just curious, what is the – what kind of the 10-year up 20 bps from the last week? I am just wondering how up to-date that number is and what kind of rate backdrop you guys are assuming on reinvestment rates?

A: Dan Beck

Yes, Casey, it's Dan. Those reinvestment rates were based on forward curve at 930. So you are right, we obviously sold off from there. I think the way to look at it is in the 3 to 5-year part of the curve. For every, let's call it, 15 basis points on an annualized basis, we should get about another percentage point annualized of net interest income. So, that's just a rule of thumb if we see that 3 to 5-year part of the curve increased by 15 basis points, that's about a percentage point of pre-tax net interest income, so since September 30, if you have seen a sell-off in that kind of 15 basis point range. Now we'll see how that's sustained. Again, that's annualized and is upside to the guidance.

Fragment 2: D.A.T.A. Score = -12.145%

Q: Steven Alexopoulos

Okay. So said another way, you are assuming a fairly material step down in what we're seeing right now with the preliminary guide.

A: Greg Becker

Yes. I think an earlier comment or question is if you go back and look at the last several quarters, we were at about a \$20 billion deposit growth rate, and now it's in that range that was articulated roughly 10%. So if we stay at the pace we are, clearly, there is going to be a material upside to what you see in the forecast. So we haven't seen anything that would cause us to, I just would say the belief – I've been doing this a long time and so is Mike and others that it rarely stays at that pace for an indefinite period of time. Usually, it's 4 or 5 quarters and then it goes back to what I'd say is more of a normalized growth rate, but certainly hoping that it stays at this pace.

Q: Steven Alexopoulos

Okay.

A: Dan Beck

Okay. Maybe one thing to consider, Steve. I mean look at some of the numbers coming out here, venture capital did, what, about \$83 billion in capital deployed in Q3 huge amount. It's just one quarter. When you look at exits, right, it's just massive excess of something like \$187 billion in Q3. The fundraising, I think this is a really important point to kind of digest in the fundraising. We're already at – DCs are at \$96 billion year-to-date, which is a record for a full year. It's already exceeding. Just the 9 months to date has already exceeded the record that we already have. So when we look at – again, coming – we talked about earlier, the fundamentals and the sources of capital going there, they are going to – those are going to get deployed, and so the war chest are certainly there. So again, as Greg said, I mean, I think we're being very sensible at this moment because, again, again, it should revert back to meet, but we're still at extraordinary levels here for sure.

Q: Steven Alexopoulos

Yes. Okay. Greg, regarding the line in the CEO letter where you say the balance sheet has reached the size or you can generate strong, sustainable NII growth

without the help from rates, typically, a larger balance sheet tons growth potential at a bank. It doesn't make it better. How does this create a more sustainable NII growth outlook?

A: Greg Becker

Yes, it's a great question, and maybe that should have been worded. The growth rate of the balance sheet, and that's what's driving it. So to your point, if you just have a static size balance sheet and it doesn't grow in a low rate environment, you're not – or flat rate environment, you're not going to get a lot of lift out of it. But I think the point is we've seen, and that's what's created the massive tailwind going into 2022 for net interest income, it is the acceleration of the growth of the balance sheet that we've seen. So it's really the combination. It's really – that is the way it should have been worded. Now what you didn't ask and – but I will answer is this, which is what we're really excited about is, at some point, we certainly believe that there will be some rate increases. And we have a slide in the deck that goes through and talks about how spring loaded the balance sheet actually is for additional NII if we do see rate increases in Slide 19, and you can go through that and look at every 25% increase in the balance sheet the way it is right now is \$106 million, again, modeled in on an annualized pretax basis for each 25 basis point increase. But in addition to that, with the first 25 basis point increase, we also expect somewhere between \$195 million and \$225 million of increased core fee income generated from the large balance sheet funds that we have. So again, 125 basis point increase, you could see revenue growth of roughly \$311 million to – I'm sorry, yes, \$311 million to roughly \$325 million or \$330 million. So normalize after this, when the second rate increase happens, but the balance sheet is clearly spring loaded. So we're happy that we can continue to grow NII in a low-rate environment, but we're even more bullish when we do start to see some rate increases.

Q: Steven Alexopoulos

Okay. Final question, the inclusion of the long-term targets in the CEO letter, including 10% EPS growth in a low rate environment that definitely caught some attention, I think we last saw that in 2019. What was your motivation to reintroduce that at this point?

A: Greg Becker

Well, a lot has changed, Steven. I think one of the things that we wanted to go back to is kind of how we think about what we're driving to over the long run. And as we sat back and looked at where we are with rates, looked at where we are with the size of the balance sheet, looked at kind of a bunch of different

things and building these kind of four pillars together, we wanted to give some long-term guidance. I think everybody is very focused on the next quarter or the next few quarters. What we wanted to do is say what we're driving to over the long run, and that's why we put in place years ago. And we just felt it was time to kind of bring them back so that everyone knew what we were headed to, where we were headed over the long-term.

Q: Steven Alexopoulos

Okay. Fair enough. Thanks for taking the question.

A: Greg Becker

Dan – I think Dan want to add something on that one.

Fragment 3: D.A.T.A. Score = -9.645%

Q: John Pancari

Got it. Alright. Great. Thanks. I have one more question and it's for competition. I guess if you look – if you compare where you are at now in your business dynamics versus maybe even not too long ago, or maybe 2 years ago versus now, what are the changes you are seeing in competition? And then how is that – the competitive landscape change in terms of -- are you seeing new players digging deeper into capital call lending, or are you seeing the new entrants from any of the bigger money centers? I mean can you just help us understand the more recent competitive dynamics and how they have been changing?

A: Greg Becker

[First paragraph of Mr. Becker's answer is not assessed by D.A.T.A. as deceptive, here is the start of the deceptive fragment...]

Now, there is still competition. We wake up every day, realizing that, and it's only getting more competitive. But our ability to compete has never been stronger. And I think that's a really important message to deliver. And we are also spending more money, as we talked about earlier on the call earlier, in digital transformation, which is a requirement. We are spending more money on, again, helping our teams become more efficient. And we still have a long way to go, which is why we are continuing to accelerate that investment. But we are definitely, I believe in the best competitive position we have ever been. Mike, anything you would add to that?

A: Mike Descheneaux

No, Greg. I think you summed it quite nicely as well, too, as you alluded to and talked about. We have expanded our capabilities so much. I mean as you know, we have been around for many, many years at this bank. And to now see all the capabilities and the tools and the platform that we have to bring to our clients, there is no one else out there that can bring all this together for our clients, at least in the innovation sector as well, too. So, it's only opening up even more possibilities for us to go after and be extremely competitive.

But again, having said all that, yes, there is competition in various segments where you have a lot of debt funds as well, too. And people see it's a very attractive area to lend too, as well, too. So no doubt, those have been proliferating as well. Some of these big box banks are coming down into trying to get smaller as well because they know that we are going even more up-market in terms of size as well, too. So, it's there. But again, we have never been better equipped today than we have ever been before. And I can tell you going forward, it's only going to get stronger from our competitive position.

Q: Jared Shaw

Hey guys. Thanks very much for the insight you have given us already. Just maybe a couple of questions. How should we be thinking about the pace of incremental securities purchases or cash deployment from here? And I know you are pretty aggressive this quarter. Are we at a really good level, or should we still think cash can come down?

A: Dan Beck

Jared, it's Dan. I still think we have got opportunity in the materials. We talk about a target in the \$8 billion to \$10 billion range. So, we have got opportunity to continue to put money to work based on how we ended the quarter and obviously with the liquidity and deposit forecast included in the guidance. So, will the pace be the same as what we saw in the last couple of quarters. Obviously, the guidance would imply slower investment rates, but we have opportunity with what's on the balance sheet and with the deposit guidance to continue to deploy liquidity in the rate environment in a good spot for us to continue to do that with the recent sell-offs.

Q: Jared Shaw

Okay. Great. Thanks. And then looking at the Boston Private addition, any additional thoughts or any updated thoughts around your view or approach to crypto? Is there an opportunity there to be more active in that space? And

would you ever consider, I guess lending against crypto positions through the private bank?

A: Greg Becker

Yes, this is Greg. I will start. Obviously, the crypto market is getting more and more attention and we are spending time on it. We do obviously have some clients that are involved in the crypto space. But on that part, the bar is pretty high. As you know and you read about it, we certainly pay attention to compliance issues around crypto companies. And so we want to make sure that any clients we do bring on board are ones that are at that high bar level for compliance. And we are all on the same page on that. At the same time, in our innovation team – strategy and innovation team, we are spending time figuring out what is that game plan to approach that market and how do we want to invest and how do we want to play. So, we are certainly looking at that. There isn't anything imminent to announce. But certainly at some point, we are going to be leaning in more in this space given the attention that it's getting in the market.

Q: Jared Shaw

Great. Thanks so much.

Operator

At this time, there are no further questions. I will now turn the floor back over to Greg Becker for any additional or closing remarks.

A: Greg Becker

Great. Thanks. So thank you, everyone for joining us today. We are obviously really happy with our continued growth and excited about the opportunities ahead. We are making real, incredible progress on these four businesses and how they all work together. And I just couldn't be more proud about how the teams are working together, the strategy build-out, the execution, the commercial bank, especially in what we are seeing from the investment bank, not only just in the investment bank, the biotech team, the healthcare team is doing so well, but the addition of the tech team really across the board, the integration of Boston Private. So, I am certainly optimistic as you can tell. As we bring people on-board, we are committed to keeping the culture that we have at SVB, which is incredibly client-centric that is a culture of really embracing the innovation economy and helping those clients be successful. It's all part of what

has made us successful to-date and certainly what we believe is going to continue to allow us to be successful in the future.

As always, I want to say thanks to our incredible employees, in my view, the best in the industry. They do such an incredible job taking care of our clients and thinking about the future and collaborating with their colleagues. And as you can tell, we have added a lot of new colleagues in different businesses, and that collaboration has been exceptional. So, I couldn't be more pleased with their dedication and inspiration they give to all of us every day. And clearly, the clients, we wouldn't have a business that wasn't for the most interesting, compelling, fastest growing companies in the entire world. And then we all certainly appreciate the fact that they trust us to partner with us and thanks to all of you guys for joining us today to hear our story and the continuation of the strategy that we have been building. So, thanks to everyone and have a wonderful day. Thank you.

SIVB 2021 Q4 Earnings Call:

D.A.T.A. Score = 75.61%, 5 deceptive fragments

Fragment 1: D.A.T.A. Score = -16.955%

Greg Becker

Thanks, Meghan and thank all of you for joining us today. We're pleased to be reporting another quarter of strong growth and profitability. Our core business continues to fire in all cylinders with a growing balance sheet, healthy net interest income in spite of NIM pressure, robust fee income, and excellent credit quality. While warrants and investment gains moderated from record levels in Q3, we see continued strength across our entire business. We are reiterating our strong 2022 outlook, and raising our expectations for loan growth and net interest income.

In addition, our outlook does not include the significant positive impact of future short-term rate increases, which seems increasingly likely. We filed our earnings materials earlier this afternoon, and they're available on the Investor Relations section of our website. And with that, I will ask the Operator to open up the lines, and turn it over for questions. Thank you.

Question-and-Answer Session

Q: Ebrahim Poonawala

Good afternoon.

A: Greg Becker

Hey, Ebrahim.

Q: Ebrahim Poonawala

I guess -- hey, Greg. Maybe just in your letter, you mentioned public market volatility a couple of times. When I look at your results, extremely strong, the outlook is strong, but when you look at the stock performance since October, it's exact what we're seeing in with tech stocks in the IPO market. Remind us in terms of if we do have a sustained sell-off and technology higher-growth stocks, where will that manifests itself in terms of your growth outlook be it credit, be it in terms of fee or balance sheet growth?

A: Greg Becker

I'll try to answer it a couple of different ways. Ebrahim and then Mark Kadjar are going to talk about credit or Mike want to talk about the commercial bank. Well you see the volatility that we've seen in public markets. There's a few places that you could see that. Obviously in any ECM business we have in the investment bank that could be one area, but I will counter that with the upside of we have a lot of M&A capabilities. And so I think M&A will pick up. So I actually think it will offset and there's more upside there and we can get into investment banking a little bit later. So that's one place. Second place is in the volatility we would see in moderating warrants and investment gains, which we talked about in the letter.

And so clearly, if we stay in this place for a material period of time where tech stocks are down, you could see some compression there. But still we expect even with some compression, we still believe it will be healthy in 2020. Credit quality wise, I'll give my perspective and then Marc may want to add. You really have to see the ripple effect in a pretty material way. Valuations are not what repays loans. You have cash flow and cash that repays loans and companies, public and private are incredibly strong from a balance sheet perspective. And their ability to raise money is also very strong.

So we don't see -- and the outlook obviously is very healthy. We think it's going to be healthy even if there is some volatility in the market. So those are a few places that you could see it and maybe new client growth. But again, we've seen for the last 3 years a really nice tick-up in our new client's additions, and we still obviously are very bullish on the innovation economy. And so I don't see that slowing down. So a temporary volatility in the public markets, net-net isn't going to have that material of an impact.

Q: Ebrahim Poonawala

Got it. I guess, just a separate question. Maybe I don't need sensitivity for you, Dan. So you've laid out the impact from [Indiscernible] in our investment field. Talk to us about one -- cash came down a fair bit this quarter, how are you thinking about the bond book in terms of, what are we adding duration and credit wise? And is there any meaningful credit risk in that corporate bond portfolio that you've added over the last few year? Just give us some coloring into that if you could.

A: Dan Beck

Ebrahim, so on the first question specifically, if you look at cash balances, as we've talked about in previous years, there's a pretty substantial amount of distributions that happen around private equity and venture capital. We saw that plus the -- effectively putting over \$20 billion to work in the investment securities portfolio in the quarter. So we're still bullish on liquidity as you see in the guidance for 2022. Now, when we look at the investment securities portfolio and where we're putting money to work based on the current environment we'd probably be putting money to work in the 165, 175 range.

The vast majority of that still being agency mortgage-backs, mortgage, collateral, things along those lines. The corporate growth is still quite small and that's all high credit quality. So don't expect to see any issues there from a credit perspective. So the good news is at least we are putting money to work, is that that is above effectively the yield of the portfolio to the margin compression that we've been seeing by putting money to work underneath the securities yield seems to be abating in this better rate environment.

Fragment 2: D.A.T.A. Score = -11.972%

Q: Ebrahim Poonawala

And do you expect any difference in deposit behavior than this cycle versus what we saw in '16, '17, just given the Fed might be hiking at a much faster pace, you have larger customers. Do either of those dynamics change how deposit betas, the mix shift could behave this cycle versus last?

A: Dan Beck

Yeah. Ebrahim, we're watching that and modeling sensitivities to that. All [Indiscernible] and our rate sensitivity, we've got a 60% deposit beta, and that's on the interest-bearing balances that we have in the portfolio, which is

consistent with the last cycle. And we've effectively for conservatism, modeled a faster beta and some of these net interest income assumptions, meaning that they would take place sooner in the rate cycle than we experienced during the last hike. So we feel like we've got some measure of conservatism in there. Just to take into consideration the fact that Fed could move faster and client behavior could be different this time. That's how we're getting comfortable with that all lien \$102 to \$130 million annualized pretax net interest income number.

Q: Ebrahim Poonawala

Got it. Thank you.

Operator

Your next question comes from the line of Steve Alexopoulos with Bank of America. Your line is open.

Q: Steven Alexopoulos

Hi everybody. I'm still a JPMorgan.

A: Greg Becker

Thought you changed jobs dude.

Q: Steven Alexopoulos

No, Ebrahim, I think is still at BMA. Greg, I wanted to start with the environment. So we're obviously paying a lot of attention to the equity market, but are VCs getting more cautious given the correction in tech stocks now playing out. Now with, spec stocks seeing even more bit of a beating, are private companies starting to see down rounds?

A: Greg Becker

It's very early when such a correction in the tech market is played out. I would say the engagement we have in our discussions, we're paying attention, very close attention to it. But we really haven't seen it. So our channel checks in talking with their clients, in talking with venture capital, it's still very active. And I think you have to -- could there be a little bit of a slowdown, it's possible. Again, we haven't seen it yet. But you have to remember, there's so much money that was raised last year. There was so much dry powder, and they need to put it to work. And so, could there be some valuation corrections in the later stage? Yeah, there could be as companies look to raise money.

But if they do, there is still at healthy valuations. And so I think companies need to raise money. There is ample money out there for them to raise money. Could

they hold out, wait for high evaluation? Possibly. But again, we're just not seeing yet. And it's good to wait at least a quarter or two to really see if there's any -- a trend that start -- anything that starts a meta trend beyond that.

Q: Steven Alexopoulos

Okay. I want to follow-up on that. So VCs and P firms are sitting on a record dry powder. But if the HM markets were to get disrupted, do you think we would see the pace of investments slow the way we've seen in other cycles, or because of all this dry powder, do you think that firms will just invest right through a market disruption?

A: Greg Becker

Well, when you go back and talk about cycles, right, the last time we had a -- I'll call it a dip, was back in 2016. And if you remember, that was because of Asia and concerns around Asia market. It literally slowed down for about 90 days or a 120 days, and we were very worried it was going to continue to be a very slow decline or a pause, it quickly came back. You can look at the beginning of the pandemic. We thought with everyone going to zoom, that people wouldn't be making investments because it's a different way to do it. That was about a 90 days' cycle. You really have to go back and look at 2010 to say when there was really a pause or slowdown.

And when I talk to limited partners, when I talk to investors, the one mistake I think most of them would say is they didn't put money to work more quickly, they waited too long to jump back in. If you combine those things with just the innovation market growing very fast domestically and globally, could there be a prolonged slowdown? It's possible. I just think the likelihood is a lot less than it has been in prior significant cycles.

Q: Steven Alexopoulos

And it's because of the dry powder on the sidelines that's why I think it will be narrower?

A: Greg Becker

It's because -- well, it's 2 things. It's the dry powder, Number 1. Number 2, it's the innovation economy still growing on a global basis. And number 3, if you do see valuations even do a minor correction, I think people are going to look at it and say, that's an opportunity to get back in and this is going to be temporary. So those are the 3 reasons I would point to say that it could be short-lived if there is a short-term slowdown.

Fragment 3: D.A.T.A. Score = -8.132%

Q: John Pancari

On the -- your back to the loan growth, just kind of digging a little bit more in terms of if we do get the -- I mean, there's some expectations for practically 8 hikes by the end of '23. If we do get that and we get that piece starting relatively soon in 2022, does that -- can you talk about how nicely should that may impact your loan growth expectations at all? Just curious if in that dynamic, if you've seen much of an impact or does again, does the dry powder factor that we've talked about really choke that? Thanks.

A: Greg Becker

[Indiscernible] Meghan.

A: Mike Descheneaux

No, we're just trying to figure out how to un-mute and either is the best. John, this is A - Mike Descheneaux, there, here. In general, I mean, as far as you've known, you've been following us for a number of years, the first few basis points heights, really is not going to have much impact on the loan books as well. Clearly, you're looking at some leverage loans and that particularly are some buyout, they might consider, but still nonetheless, that is still so much cheaper than equity. So you are still going to have people that we are going to use here. So we're not really anticipating that we'll have that strong of an impact here, but it's actually something to keep an eye on.

Q: John Pancari

Got it, Mike, that's helpful. Thanks. And then in terms of the warrant and investment gains, I know you reasonably expect them to moderate off of the very strong 2021 levels. I know this is probably a tough question but any way to help us gauge the magnitude of moderation that we can expect any way to frame it, as you are looking at the market now and the backdrop to turn to see if there's how we should think about it.

A: Dan Beck

John, this is Dan. It's really hard. And that's obviously why we don't guide to it. To put a range around what that could look like coming out of the year with close to \$1.1 billion worth of [Indiscernible] and investment gains. But I think it's clear that that's exceptional and likely not to repeat. But at the same time as we've been talking about, we are still bullish on the environment and so hard to put a

percentage around it, we just know that with this market volatility, it could be slower, at least for the next quarter or so, especially relative to what we saw in 2021. Still again, expecting 2022 to be a good year.

Q: John Pancari

Got it. Okay.

A: Mike Descheneaux

Maybe John, I'll just add on top of what Dan is saying. It is no doubt a very difficult thing to predict, but just some of the factors to consider. I mean, we talked -- we keep talking about dry powder. There is a lot of lot of dollars out there, but there's a lot of companies that have been formed over the last couple of years that are prime and really great candidates to go public as well. I mean, we had something like close to 300 public listings in 2021, but there's -- if you look at some of the fact sheet, the number of companies that are valued greater than the medium value of what went public last year, is significantly greater than what went public. So there is a lot of good companies that can be tenants for exit there. So the fundamentals are still really, really strong and a lot of good companies out there.

Q: John Pancari

Got it. Thanks, Mike. And then I know Greg you referenced that earlier on. But just curious around the investment banking trends. If you could maybe give us a little bit of color on the outlook there and pipeline and everything and then also in terms of impacts that you expect from what we're seeing right now, if we are looking at a certainly a rising rate environment in this backdrop, or how does that impact that outlook? Thanks.

A: Greg Becker

So we got a couple of slides in it. In the deck, we talked about both get the revenue side of what we've seen in the quarter-to-quarter basis. But really, when I think of '22, we have a pretty nice growth built in their relative to what the record quarter -- or record year was in '21. And the question really is, how volatile is that? How do we think about that? And to answer that question, I would break them to business into few categories.

First is the historical SVB Leerink business. So it was mainly Biopharma. It was ECM. It was trading, research, and they just continue to do an exceptional job in that area. Exceptional moving up the lead tables had a great year last year. But what we are building up capability wise, is Healthcare services, technology and M&A and ECM, and then M&A for biotech, and now, with research with

technology as well. So while you're hearing from some other larger investment banks softness as they go into '22, for us, especially in technology and healthcare services, and then of course M&A, we're going from either a 0 base or a very little base.

Fragment 4: D.A.T.A. Score = -6.018%

A: Greg Becker [this is continued from Mr. Becker's answer in Fragment 3, above]

And so, when you speak about the team that we've assembled, we certainly believe that the upside from where we are still significant, even if it's a softer market in '22. I also believe that the equity capital markets are slow. Again, what we pushed towards is having a balance of both ECM and M&A. And in fact, in technology and in Healthcare services, the main teams were more M&A led. We feel good about the outlook, and we feel good, not just about the outlook for '22, but the trajectory in '23 and '24, based on the people that we brought onto the platform who really are exceptional.

Q: John Pancari

Great. Thanks, Greg. Appreciate it.

Operator

Your next question comes from the line of Bill Carcache with Wolfe Research. Your line is open.

Q: Bill Carcache

Thank you. Good afternoon. Greg, I wanted to ask a question on Wolfe management. It would seem that Wolfe management teams would find opportunity to join SIVB as quite compelling given your client base. Can you speak to the pace at which you would expect on-board new teams as you grow that business? And is there may be a certain number of per year that you're targeting or are there any parameters you can share on the characteristics of the teams you'd be looking to on-board, including maybe a minimum level of assets under management, any color?

A: Greg Becker

Yeah. When we add wealth advisors, it's a little bit different. And so again, I will break this down into a couple of different parts. When is the interest level. The interest level is very high. Lots of inbound, and when we do approach targeted

individuals that are in the innovation economy, we're getting a very, very positive reception. And so we added 14 wealth advisor hires in '21. And really, if you think about it, that was mainly at the last three or four months of the year. And then we expect, as we grow into this coming year, that we're going to have anywhere from 14 to 20, maybe 25 add in '22. I've been on some of those calls to recruiting calls and discussions, and it's very positive. And in talking to some of our team members who have joined, they've been on the platform for 30 days, 60 days, kind of getting their feedback.

And again, very positive for a couple of different reasons. One is the opportunity because we always said it is incredible here, given our connections to the innovation space for wealth is created at our incredibly rapid pace. That's number 1 and number 2, the collaborative environment that exists on the platform. Those 2 things are very compelling. And so it's still early. So we certainly can't claim victory. But so far I feel really good about our ability to recruit. But it's not just about recruiting. It's about who is the team that you have already here. And I feel really, really good about that as well. So I think the outlook is positive. We want to kind of have a -- I'll call it tempered outlook because we want to see the evidence of it happening, and so more to come over the coming quarters, but the foundation is very strong.

Q: Bill Carcache

That's very helpful. Thank you. A follow-up on your earlier comments, where would you say the Technology Investment Banking business is in its ramp from last September's launch, I'm guessing it hasn't hit full stride yet, but it'd be helpful if you could frame for us. I guess, just give us a sense of what you've assumed in [Indiscernible].

A: Greg Becker

So actually, we expected that it would take really, 6,9 months for really to hit -- I wouldn't even say full stride. But I would say really starting to get a little bit of a flywheel. And I don't think you're really going to see what I'll call the full potential until later this year and into '23. And it just takes time to get everything in order, to get everyone communicated with. That being said, what has impressed me right out of the shoot is that we've had more than ten very significant mandates signed up, and a very, very strong pipeline in the technology side and healthcare services. And again, in the biotech side, it's already an incredibly robust team and outlook. I think we're in a really good trajectory. And again, most of those are M&A, but we certainly have already signed on a couple public offerings as well. So again, feeling really good about the foundation that's being built.

Q: Bill Carcache

Okay, great. That's great to hear. Last one for me, for Dan, your reserve build was growth driven. Looking ahead, should we expect the reserve rate to hold such that the growth in your reserves will generally be commensurate with your loan growth? Is that a reasonable way to think about it?

A: Dan Beck

Yeah. Though I think that Marc might want to add something to it, but I think, when we look at where the reserves are, we're effectively probably at the bottom from a reserve rate perspective. So I think to the extent that we continue to add on additional lending, that it's going to drive the additional formulaic provision that we saw this quarter. Obviously those loans are generating good solid net interest income and client relationships, so that we're certainly going to see more provision associated with loan growth.

A: Marc Cadieux

Nothing to add here Dan. Thank you.

Fragment 5: D.A.T.A. Score = -8.257%

Q: Bill Carcache

Thank you for taking my questions.

Operator

Your next question comes from the line of Jared Shaw with Wells Fargo Securities. Your line is open.

Q: Jared Shaw

Hey, everybody, and good afternoon. Thanks.

A: Greg Becker

Hey, Jared.

Q: Jared Shaw

Circling back on the expense conversation and the expectation for additional investment if rates or want s rates to go higher. How should we be thinking about that? Is that really more when we look at Slide 14, it will just be an acceleration, a pull-forward of investments that may otherwise have taken a little bit longer or

would there be new initiatives, other new opportunities that you would use that that opportunity from revenue to expand?

A: Mike Descheneaux

Yes, it's Jared,

A: Greg Becker

Keep going.

A: Mike Descheneaux

Go ahead, Greg.

A: Greg Becker

Jared, to start. I wouldn't call it necessarily a pull-forward. Here's what I would say, is we have an incredible amount of opportunities to invest in a very long list. And part of this is we're constrained by just how many things you can do at once. And there is some we want to make sure that we're investing at the right pace. If we do see revenue start to pick up with some rate increases, we're going to look at opportunistic opportunities to accelerate some of those investments. So is it a pull forward? I wouldn't describe it that way because a pull-forward means that you have a certain dollar amount you're moving it up and then it'll drop down to a lower level.

It's more we're going to take advantage of those investment opportunities. So I would think about it as saying it's opportunistic. And we have a lot of opportunities ahead of us. So if we do get that rate increase, we'll put some of it to work for sure.

Q: Jared Shaw

Okay. Alright. Thanks. And then looking at the AUM guide and in light of the prior question around the success you've had bringing people, relationship managers, onto the platform and the expectation with that to continue. The AUM guide seems a little conservative, I guess, given the growth we were used to expecting from Silicon Valley. What could cause AUM to grow faster with the broader expectation of the support you're putting behind the private bank?

A: Greg Becker

Yes. I think we have to get, what I'll call the flywheel up and running. And we're just getting it started. To think about it, that's one thing, you're not -- let's just talk about the differences between wealth management and what I'll call commercial banking. In commercial banking, you have a Commercial client,

they have a lending need. And it's usually within a reasonable period of time. You put that together, you put the loan in place and they borrow money. It's a relatively, I'll call it a short time period to bring on those types of new clients. When you're looking at in the private bank and wealth, you typically -- it takes a while to build that relationship, to reconnect with them, to convince them that you have the full product set, for them it's capable. That's even for wealth advisors that are coming over, because again, we're looking specifically at the innovation economy. So it's going to take a little bit of time, and once we see that, then I think they are going to see in outlook, that's going to be increasing at a much, much accelerated pace. But I think we're just saying until we see that flywheel effect, we're not going to set overly ambitious goals and wealth AUM at this point.

Q: Jared Shaw

Okay, great. Thank you.

A: Greg Becker

Yes.

Operator

Your next question comes from the line of Chris McGratty with KBW. Your line is open.

Q: Chris Mcgratty

Great. Thanks. I'm interested in your thoughts on the geography of deposit growth in 2022 under a varying rate outlook on or off balance sheet, the next where do you see it going.

A: Dan Beck

Hey, Chris, it's Dan. I think as we look at the first couple of rate increases, imagine 25 to 50 basis points, I think we're going to start to see behavior -- pretty similar to what we saw during the last rate rise cycle, where you're not really seeing a massive shift towards off balance sheet and not even seeing much of that money start to be motivated to move into the interest-bearing sectors. I think as we start to get into the 75, 100, 125 basis point of said funds, that's when the money market rates off the balance sheet really can start to be more attractive.

And I think that's when you can start to see more movement. And that's where I think you've just got a competitive advantage, if you look at the total \$400 billion worth of client funds. You have clients that may want to look for some higher rates which we could offer on the balance sheet and money market as

we did during the last cycle and still by doing that, end up with a very low cost of deposits and deposit base. So I think your first 25 basis point to 50 basis points, no big shifts in client behavior, 75 basis points to 100 basis points on this one, you start to see a little bit more migration. And again, I think that's where the liquidity that we have really plays in our favor. To be able to have managed between that on-and-off balance sheet put to use some of these products that we've been developing here over the last couple of years.

SIVB 2022 Q1 Earnings Call:

D.A.T.A. Score = 100.0%, 5 deceptive fragments

Fragment 1: D.A.T.A. Score = -10.66%

Q: Ebrahim Poonawala

And just to that point if I may follow up with one then. Talk to us about what you assume in the mix shift for deposits on balance sheet. And how quickly do we start seeing the deposit beta kick in for the interest-bearing piece if the Fed hike 50 basis points May, 50 basis points June. Do we get to a 30% 40% beta or will it take time?

A: Dan Beck [Note: This is the second paragraph of Mr. Beck's answer in response to Mr. Poonawala's question.]

In terms of movement of non-interest-bearing to interest-bearing, I think that if the forward curve were to play out, we'll probably migrate into the 40% range of interest-bearing to non-interest-bearing accounts. And that's up from where we are in the 30-ish percent range. And that's all factored into our sensitivity from a 25 basis point rate hike. So, hopefully that gives you enough color there.

Q: Ebrahim Poonawala

That is helpful. Thanks both. Thanks for taking my questions.

A: Greg Becker

Yeah. Absolutely.

Operator

Your next question comes from the line of Casey Haire with Jefferies. Your line is open.

Q: Casey Haire

Thanks. Good afternoon, everyone.

A: Greg Becker

Hi, Casey.

Q: Casey Haire

I wanted to dig in on the deposit growth guide. In the letter, you guys referenced help from liquidity solutions, which looks to be taking money from off-balance sheet on to the balance sheet. Just curious how much was that this quarter? And then, how much of that is contemplated as a lever for your -- for sustaining the deposit growth guide in 2022?

A: Dan Beck

Yeah. Casey, this is Dan. As we look at the quarter on an average basis, it was in the, let's call it, \$2 billion range so a smaller part of what we saw from a quarterly basis. In terms of the full year, we're not relying only on that from a growth perspective. We factored in some growth along with what we're seeing from traditional organic liquidity activity. So this is really looked at as a tool for flexibility. And effectively a tool that where we can utilize the rate environment that we've got in front of us and really help clients all at the same time.

Q: Casey Haire

Okay, very good. And the distributions you also made mention of that, is that -- was that a significant headwind in the quarter? And what's the outlook going forward? Is that something that picks up or slows down for what we saw in the first quarter?

A: Dan Beck

Casey, it was one of the factors in the first quarter. Traditionally, fourth quarter, first quarter are the biggest quarters for distribution, so we think most of that is behind us at least for the year.

A: Mike Descheneaux

This is Mike Descheneaux. The one thing I would add is when you think about deal activity and you think about the distribution right so deal activity creates new dollars coming in. And as we talked about earlier Greg mentioned, the slowdown in exits to slow down in IPO, so you don't have as much money coming in. And so with these distribution is going up, that's what is getting a fair amount of headwinds and challenges in that particular area.

Q: Casey Haire

Okay, great. And just last one for me just to clarify. On slide 32, you guys talked about that further rate hikes is not going to take your expense guide higher. So this high 20s could be a ceiling in terms of expense growth unless you guys really -- I mean, what else could drive that higher? I guess fee outperformance or should be securities?

A: Greg Becker

Yeah. Casey, it's Greg. I'll start and Dan will add. As we said last quarter that we're -- and if we saw some rate increases, we're going to build some of that in or expense growth just from an investment perspective. And we feel really good about the numbers that we're putting out there that they're real significant investments. And so that's why we basically have kind of said that, we weren't going to cap out at the high 20s. Of course, we'll caveat it. And the caveat will be pay for performance is the biggest one. And that's either with SVB securities, it's the institution overall. And so I think my guess is that you all would be happy, if we end up having to pay more expense out and we go above that, because it would mean for the most part that the performance overall is even stronger.

Q: Casey Haire

Got it. Thank you.

A: Greg Becker

Yes.

Operator

Your next question comes from the line of Bill Carcache with Wolfe Research. Your line is open.

Q: Bill Carcache

Hi. Good afternoon. Thank you for taking my questions. I wanted to ask about the outlook. And at a high level, how -- how -- would love to hear your thoughts on how a scenario where the Fed is forced to push the economy into recession to tame inflation how that would impact your outlook?

A: Greg Becker

Yeah. This is Greg. I'll start. And I think because we have the four business units now, I think it's important to kind of talk about them a little bit in separation. So, on the bank side, it's important to note that, the clients are better positioned than they ever have been with lots of liquidity. They're in really strong position. And so we think we don't -- wouldn't expect any material change in credit

quality based on the fact that, we continue to have a smaller percentage of the loan book in the higher risk from a historical perspective lending portfolio.

Fragment 2: D.A.T.A. Score = -6.633%

A: Greg Becker [Note: This is a continuation of Mr. Becker's previous answer, above to Mr. Carcache's question.]

And again, our clients from a lending perspective aren't as rate sensitive on the commercial side. So you're not going to see much of a change there. Obviously, if you see rate declines we're rate sensitive. But Dan and the team are working on ensuring that we're as protected as we can be if rates – I know, it's funny we're talking about potential rate decline, when we're just not having really seen the rate increases, but you have to think that way being prepared for that. And I have a huge amount of confidence and Dan and the team that they're going to make sure that we are protected as much as we can be there. So that's the commercial bank at SVB, Silicon Valley Bank.

On the private bank could you see, if rates go down the long end goes down because there is word about the economy. Could that stimulate growth potentially? It depends upon what happens with prices and so forth. Securities, again, I think you'd probably similar to where you are price softness in ECM. But M&A probably would pick up. And it's important to note on the SVB security side, when we talk about M&A, we're starting from such a small basis that we do believe, there is a significant upside over the next few years as that team really starts to hit stride their pipeline is strong now and they feel – I feel really good about it.

You can look at leveraged finance. That looks like it would also have upside there as well. And I think, there's still going to be an interest in money flowing in into SVB capital from our fund side. So I think the balance sheet is much different than it was in prior economic downturns. The levers the finance team puts in place to protect the balance sheet to protect, net interest income is better than ever has been. So will there be an impact? Sure. But certainly, in my view is going to be more muted than it normally would be, if you hit a recession five, 10, 15 years ago. Dan, what would you add to it?

A: Dan Beck

Yeah. I think everything Greg said, plus if you think about potentially a lower liquidity environment, again looking at the total pool of client liquidity including off-balance sheet solutions in the products that the teams are putting in place,

obviously doing the right thing for customers and clients gives us just more flexibility. It's just part of a different toolkit that we have had from previous downturn scenarios.

Q: Bill Carcache

That's really helpful. If I could follow up on sort of the credit side of that. Even if the credit environment remained relatively contained and the level of actual losses that you'd experienced within sort of your expected range, could we still see you add to reserves a little bit more aggressively, just to reflect sort of a greater uncertainty, or is the fact that you would expect losses to remain relatively contained, would that lead to you not having to build reserves?

A: Marc Cadieux

So it's Marc Cadieux I'll start. Dan may wish to add. Recalling that the reserve of today is driven by economic forecasts, the recession scenario you speak of likely would trigger a reserve build, hopefully not like we saw in the early innings of COVID, it would certainly depend on the degree of the downturn in front of us. But I think in that scenario, sort of irrespective on whether a seeing a deterioration in credit quality, the economic forecast would probably take the reserve higher. Dan, anything to add?

A: Dan Beck

No, I think that's right Marc.

Q: Bill Carcache

And then if I may squeeze in a final follow up on your comments around the proactive interest rate risk management and sort of in that scenario, I mean, it's impressive like in this quarter where we've seen many banks, setting aside the larger ones where there's a direct impact to the regulatory capital and buyback capacity. Some of the others that are outside of category one and two that don't have to recognize OCI headwinds for regulatory capital purposes. We've seen 12%, 15% tangible book value hits. And they've sort of been okay with it, because there's no impact on regulatory capital or buyback capacity or earnings. And so they haven't really been as focused on tangible book value, but you guys -- maybe could you speak to SIVB's I guess to the extent that you protecting tangible book value is something that you hold as important? And how important that is to you? It seems like your hedging strategy has made that a focus. I just love to hear you kind of speak high level on that?

A: Dan Beck

Yeah. That's really high level associated with it. We like to manage to ensure that we have flexibility and this is another area where we provide ourselves flexibility by reducing sensitivity to significant movements like that. So especially with the amount of liquidity that came in last year, being able to protect again, what would have been a higher rate environment that's not now played out, which we think even though it's not counted for regulatory capital, it's still important to be able to manage capital from a strength perspective all-in.

Fragment 3: D.A.T.A. Score = -7.915%

A: Dan Beck [Continuation of Mr. Beck's previous answer.]

So we manage for flexibility. And even as we're thinking about the higher rate environment today that's what Greg was talking about, thinking through how to sustain the rate environment that we're seeing today and to be able to protect against downside risk is the shift in how we're starting to think about things. So yes, yes it's important and continuing to just make sure that we've got flexibility.

Q: Bill Carcache

That's very helpful. Thank you again for taking my questions.

A: Dan Beck

Yeah.

Operator

Your next question comes from the line of Jared Shaw with Wells Fargo Securities. Your line is open.

Q: Jared Shaw

Hey good afternoon, evening.

A: Greg Becker

Hey Jared.

Q: Jared Shaw

I thought it was interesting you said, you have -- your companies and you have the option to increase lending if some of the equity support cuts off. Did you see -- what did the utilization rate do this quarter among those tech and health care companies? Did you actually see some of that happen this quarter? And I

guess, how much of the loan growth projection is due to maybe a shift in lending into that sector?

A: Mike Descheneaux

This is Mike Descheneaux. Yeah, the utilization rates did not increase much at all. So it's been pretty stable. It was up a little bit in this quarter, but certainly not significant or not really the huge driver of growth.

A: Dan Beck

And Jared, this is Dan. On a forward-looking basis, the growth forecast is still primarily driven by capital call lending and lending exposure. There's a small increase from what we're seeing on technology, health care and life sciences. But there, again, is a lot of new business there in the pipeline that's driving it. So less from commitment utilization usage versus new and what we're seeing from a private equity global funds banking capital call lending perspective.

Q: Jared Shaw

Okay. Thanks. During the quarter, I think there's been a lot of investor concern or disconcert that higher rates would really have a detrimental effect on private equity venture capital investments and need for capital call lending. But when we look at where everything was in 2018, we were at Fed funds of \$250 and things seem pretty healthy there. From your conversations with, I guess, the GPs, what level do rates really need to get to before you think that has a meaningfully negative impact on capital call demand?

A: Greg Becker

Yeah. This is Greg. I'll start, and Mike may want to add. It's -- I would say it's far enough away that it's hard to predict. And what I mean by that is, you referenced the last time when Fed funds were higher and it really didn't have much of an impact. We may see those Fed fund rates later this year if the forward curve plays out. But there's a lot of dry powder out there. And innovation, again, as I talked about, the start-up activity is incredibly strong.

The dry powder that exists in venture, the dry powder that exists in private equity is very, very, very strong. And they need to put that money to work. And maybe it slows down a little bit if rates pick up, but there's just so much opportunity out there that it's just -- it's far enough away that I can't give you an amount that would be helpful.

Q: Jared Shaw

All right. That's good color, though. Thanks. And then I guess just finally, some great moves on asset liability positioning. Congratulations on that. You referenced there's still \$6 million -- or I'm sorry, \$6 billion of received floating hedges here. Is there any thought to unwinding more of that and continuing to see that shift in second quarter or not necessarily?

A: Dan Beck

Yes. Jared, it's Dan. I mean we're always going to be opportunistic, but there's still, I think, a lot of risk of short rates moving higher from here. So if we think about the hedging strategy and just being able to provide optionality to be able to execute and to gain access to liquidity, that's why we have such a large securities book to begin with, keeping some of that protection there really makes sense for us. So we'll keep an eye on what happens from a rate perspective. If rates start to move, we may be opportunistic, but no plans right in front of us right now.

Q: Jared Shaw

Great. Thank you.

A: Greg Becker

Yes.

Operator

Your next question comes from the line of Steven Alexopoulos with JPMorgan. Your line is open

Q: Steven Alexopoulos

Hi, everybody/

A: Greg Becker

Hi, Steve.

Fragment 4: D.A.T.A. Score = -7.544%

Q: Steven Alexopoulos

Wanted to start. So if I look at the first quarter, it was an unusual quarter more broadly, given that the IPO market dried up, but we still saw VC investment given all the dry powder, which you've referenced on the sidelines, but you also saw VCs raise a lot more money than they spent in the first quarter. So the

mountain of dry powder didn't even come down. Greg, what are you hearing from your VC partners that they're able to raise so much money in a pretty tough quarter. And are you hearing that a slowdown in either fundraising or investing is coming?

A: Greg Becker

Yes. Steve, there's -- as you said, and I agree, there's a lot of different things that are going around. So underneath, let's say, the fund raising, it's important to note, that it's not equally distributed, meaning a lot of that money that was raised was raised by the strong funds, the ones -- the notable funds that have a long, long track record upsizing their funds pretty significantly. And it was -- I don't know if anyone would ever say it's easy, but it certainly was easier.

The one, the funds that are having a harder time are the smaller funds, the first-time funds, the funds that it's Fund I or Fund II, but you really don't have enough distribution in the first fund or two. And so there are some headwinds with that. So you're getting a little bit of a mixed message, but the dry powder from the more stalwart firms is incredibly strong.

And so you are seeing, I'd say, a bifurcation, the large, large funds that have a -- I'd say now the strategies that you're employing are very different, meaning they have a large late-stage strategies. They have fed fund programs. They have niche programs. So they're much more diversified in both stage and the markets they're going after.

Then you have very successful funds that are very niche oriented. And the ones that are having a harder time are the ones that I have said, the ones that don't have a long track record or there are more of a, what I'll call a me-too approach, but they don't really have a differentiated strategy. So obviously, you know this, we have deep connections into all those areas and the are staying very close to it. But the strongest funds clearly have been -- have benefited from it.

And I think, personally, they're going to continue to benefit from it. There's a lot of money that still wants to come into venture, but they want to come in to the funds that are proven. And so I think it's going to be a headwind for the emerging funds, and it's going to be -- continue to be more of a tailwind for the funds that have been around a long time that have built up a great track record.

A: Dan Beck

I mean, certainly, with the volatility that's in the system that makes it difficult. And so, it's something to keep an eye on. And the deals that we're closing in, in Q1, as Greg mentioned, Steve, they are the large -- they're large funds and probably a lot of this is also agreed in 2021, right, as you kind of have these close come in the first quarter. But it's definitely something to keep an eye on. But as Greg said, as well as having something like \$3.4 trillion of dry powder out there. It's just still a lot of dollars to get put to work.

Q: Steven Alexopoulos

Yes. Okay. That's helpful. I wanted to drill down into the capital call growth a bit. If I just look quarter-over-quarter, it trailed off in 1Q. Could you tell us in the private equity capital calls where you're seeing activity slow down a bit, the capital call sign and maybe where it's still a little bit more active? It looks like the other bucket went up and I don't know what's in there.

A: Dan Beck

Are you talking about just like particular segments, Steve?

Q: Steven Alexopoulos

Yes. Within private equity capital calls.

A: Dan Beck

It's an interesting, I would say, quarter. We started in the first quarter healthy, strong. February was a bit funky. It kind of slowed down a little bit, but then starting to pick back up in March. And it was across the board that we had -- there really was no well outlier in any particular sector that was up or down in that particular -- so there's really nothing really to point to that I can tell you at this time.

Q: Steven Alexopoulos

Okay. Thanks. And then, finally, it's a little bit of a conceptual question. But, Greg, regarding the comment in the CEO letter, that you would expect any potential pullback to be short-lived. I tend to agree with that.

But if you think about all of these factors that really hit this first quarter, which are probably worse than what we saw in the first quarter of 2016, and the fact that VC still invested \$70 billion in this backdrop, is it possible that we are living today in the exact period you're describing? And given how much capital there is, we just will not see a pullback of any kind?

A: Greg Becker

Yes. I would love to tell you with absolute confidence exactly what's going to happen, but I'm sitting beside our General Counsel, and he says I can't do that. So the -- Steve, I think that's possible. I would say -- I would just follow through with what I commented.

My crystal ball, right now with the information that we have, says that it's going to be -- we're going to have some softness. It's still a very healthy market, right? Early stage is going to be healthy for all the reasons I talked about earlier.

Fragment 5: D.A.T.A. Score = -4.084%

Operator

Your next question comes from the line of John Pancari with Evercore ISI. Your line is open.

Q: John Pancari

Good afternoon.

A: Greg Becker

Hey John.

Q: John Pancari

I just want to ask around the farm flows question in a little bit different way. I guess I hear you in terms of where you're seeing a little softening and where the risk could be, but also the benefit of dry powder and how that's buffering flows. I mean how -- what incremental slowing in flows is included in your guidance right now as you look at the full year expectation?

A: Greg Becker

Yes, I'll start, and Dan will then give you more color around it. This is how I think about it. I think about the -- what we saw in the first quarter, we kind of look at softness for another several months that's going to continue. And then just start to see some uptick in kind of the market and money flowing back in at the pace that we talked about, capital markets opening up clearly more than they are right now, which you could argue it's closed. So, that's not a long leap from where we are right now.

So, that's what we have in the forecast. And where we are when you think about that range or the lower end of that range of deposits that we have in that forecast. So, that's taking the forecast -- the lower end of that range and

combining it with what I said about what we're -- kind of how we think the crystal ball is, right?

So, if it plays out differently, obviously, more positive, more than likely, we probably wouldn't go -- I have a hard time seeing how we'd go above the range and go to another range. That's a pretty big step up. You'd have to see a pretty big pickup from where we are right now.

Conversely, on the other side, if the numbers that I talked about, you saw from first quarter of the funds flow in venture capital, public, international private equity were worse, you could see us go below that range and tick down into the next range below that. So, just to give you a little more color of the outlook, what's built into the outlook? And what could cause it to kind of go above or below that range?

A: Dan Beck

The only thing I would add to that, Greg, is, again, the off balance sheet, the ability to be able to serve clients' needs and we enter the short-term rate environment where it stands to be able to drive some of that money on the balance sheet to support liquidity management is another thing that we consider as a part of the scenario that Greg just laid out. So, we do have more flexibility. We do have more options as well.

Q: John Pancari

Got it. Okay. Thanks for that. And then separately, I know in your CEO letter indicate that warrant gains could moderate from here, even though you typically don't guide on warrants. I don't know if can you help us maybe frame out that potential moderation? How we could think about that?

And then I get a ton of questions in times like this for you guys that could these warrant gains turn negative? And could your investment gains turn negative. So, could you talk about that? Thanks.

A: Greg Becker

Yes. So, we don't guide. We don't give ranges. We don't give details around it because, quite honestly, it's too hard to predict and we could be off in a meaningful way just based on market. So, that's obviously the reason that we don't guide.

But we wanted to give additional color to say, look, there's clearly a possibility that there could be more softness in there, and we talked about this a little bit earlier on the call. There's a little bit of a lag in some of the investments, right? So,

that could go through and you could see a decline there. And to your specific question was, could you see warrants decline and actually be a negative number? The answer is yes, you could. It's possible. And so again, we expect some softness. Do we expect it to go negative? The answer is no. But, what we like to do with our confidence levels when you look at our guidance, we'd like to clearly have a pretty strong confidence, 70%, 80%. And that's why we don't give guidance on warrants and securities because the confidence level, quite honestly, if I said this is the direction, if I said this is where it would be. The confidence level would be below our comfort zone.

A: Mike Descheneaux

But clearly, John, I mean, as you know, how does the IPO market? How does the exit markets, it's really going to drive or determine what those numbers are going to be. So you to take a view on where do you think the IPO and exit markets are going to go.

A: Dan Beck

John, the last thing I'll say, this is Dan. Again, the granularity here really matters, and the fact that the vast majority of what we've got in the warrant investment portfolio are in the private market. If you think about it, you've got 500 funds. You have close to 5,000 companies and thousands of individual investments that are made over time.

SIVB 2022 Q2 Earnings Call:

D.A.T.A. Score = 100.0%, 6 deceptive fragments

Fragment 1: D.A.T.A. Score = -11.678%

Greg Becker

Thanks, Meghan, and thanks everyone for joining us today. Before we jump into questions, I just want to share a few thoughts about the market and how we're positioned to navigate it before we again open it up to everyone. Obviously, we've seen a lot of changes in the markets and sentiment regarding the economy in the last few months and the innovation economy has been impacted even to a greater degree. We have unprecedented Fed tightening, record inflation, the persistence of COVID and geopolitical conflict that pressured public markets and increased economic uncertainty, we've all seen that.

This environment has nearly closed the IPO market, meaningfully slowed the pace of PE and VC investment and revalued private companies. Based on these facts, we've lowered our 2022 outlook to reflect these near-term challenges. The current environment though challenging is a normal and necessary part of the innovation cycle and we've talked a lot about that with many of you over the last several years.

And what we're experiencing certainly doesn't change our view of our markets or our opportunity in any way. For us, it's really just a question of when not if our markets will recover. And we all know innovation drives economic growth, it's happening more and more every day and digital adoption and activity in healthcare have all accelerated. Plus, PE and VC firms have record levels of dry powder to invest and we believe they'll do so once valuations normalize. Our markets have recovered quickly in the past and today our clients are better positioned than ever before to weather a down turn. Record VC investment over the last two years has strengthened clients' balance sheets in a way we've never seen. In the innovation economy today is significantly larger than before. Again, comments I've made before many times.

It's also important to note that we're stronger and better positioned than in any time in our history to support our clients as well. We have a high quality balance sheet, with ample liquidity and strong capital. We have the right strategy and a powerful set of capabilities to meet our clients' needs at every stage. We have a great team, strongest in our history and one that has experienced managing through multiple cycles. And we've always stood apart from competitors for our commitment or partnership with our clients, our depth of knowledge and our effectiveness as advisors. These qualities are important differentiators in today's environment, especially in today's environment.

We've been here before and are better equipped to continue serving our clients and executing on our strategy. These are the times although maybe not the most enjoyable times when we develop the best relationships with our clients and really show who we are as an institution.

So looking forward to answering your questions and with that, operator, please open up the lines. Thank you.

Question-and-Answer Session

Operator

Your first question comes from Steve Alexopoulos with JPMorgan. Your line is open.

Q: Steve Alexopoulos

Hi, everyone.

A: Greg Becker

Hey, Steve.

Q: Steve Alexopoulos

I'd like to start, so first on the deposit side. For the high 20% deposit guidance, which basically looks like period end balances remain pretty flat through the rest of the year. Do you think you can hold flat on an organic basis? Are you assuming at least for now that organically balances go down and you just move balances from the off balance sheet, on balance sheet to fill the gap?

A: Greg Becker

Yes, Steve, it's Greg. I'll start and then I'm going to turn it over to Dan to add a little more granular detail. To put in context and some of this you know, but I'll just give you a little more detail. When you look at the last four or five quarters we've seen rapid growth in quarterly venture capital flows and that's the biggest catalyst of deposits for us. It peaked out in Q3, we saw kind of flattening in Q4, declining Q1 and then a bigger decline in Q2. So that's obviously one driver of deposits and flow.

But there's another factor and we don't spend as much -- haven't spent as much time talking about and that's cash burn. And what's interesting is when companies raise a lot of money, the expectation is they're going to invest that money. And so, we saw burn rates had accelerated for over the last 18-months, that was six quarters and it's actually continued to accelerate. And now the question is, well, with all the messaging out there from investors, why would that actually be happening?

And the answer is we believe the following. It's -- the burn rate is a little bit of a lag, so you got the investment came last year, the burn rate increases and now you start to slow down. But when you start to slow down burn rates, you have with the companies and you're hearing about this, severance, you've got real estate, getting out of real estate and those sort of things, the burn rate actually is a little bit of a lag. This quarter was the highest cash burn quarter that we had seen. So when you put those things together, that's what really created the decline and the softness in this quarter.

Fragment 2: D.A.T.A. Score = -9.471%

A: Greg Becker [This is a continuation of Mr. Becker's previous answer in response to Mr. Alexopoulos' question.]

So now to give you more color, a little more granular detail, plus the assumptions that we've made in our outlook, I'll turn it over to Dan to give you a little more of that detail.

A: Daniel Beck

Yes, Steve. And as Greg was talking about public markets, but effectively shut for the quarter. So we had about \$2 billion worth of inflow from the public market. Just putting that into perspective, Q3 of '21 that was \$16 billion. So we're off pretty significantly. If you look at the private markets, we're down roughly 20% on a quarterly basis and I think that's fairly consistent with what we're seeing with investments in venture. Those burn rates as Greg talked about are certainly accelerated in up on a quarter-over-quarter basis.

So when I look at those factors on a go forward basis, we're -- for the guidance effectively looking at anywhere between \$3 billion to \$5 billion on a sequential quarter basis of a deposit decline, assuming that public markets effectively stay shut, assuming that we see sequential decline of 20% in Q3 of public market investment and as well as in Q4 and that effectively burn rate slow slightly, but stay at elevated levels. So, we've tried to build a forecast that takes all of those elements into considerations.

Now if the public markets start to improve a bit, public market, investment improves, we can see upside relative to what we have. And to the extent public market investment is slow, that could put additional pressure on the numbers.

A: Greg Becker

Just to -- and just to add to that Steve, on the private side, again we've -- as Dan said, we build in a continuation of a decline over the next few quarters. So that's one aspect and we really haven't shown much of a change, maybe a little bit of a change in cash burn rate. So you got those three variables, kind of, given you our assumptions and so if you see improvement in any one of those three, you could see some upside from our forecast conversely, if they're actually on the downside to any one of those rate, you could see some softness as well.

A: Daniel Beck

And the last thing, I would say Steve is if I look at July deposit balances were effectively staying relatively flat to where we ended the second quarter, so seeing some consistency there on at least the early July results.

Q: Steve Alexopoulos

Okay. That's good color on the deposit side. If I could ask now on the loan guidance, somewhat similar that it implies pretty flattish growth through the rest of the year, at least to where period end was. And that's pretty consistent with what Signature Bank guided earlier in the week, they really dialed down their expectations for capital call growth in the second half. And I'm curious if -- can you give more color on this? I get it why VCs would slow down capital call lending, but aren't VC or PE firms typically more active during periods of stress?

A: Greg Becker

Yes, Steve, I'll start and then Mike will add. The drivers of loan growth, we expect to see actually the tech and life sciences that actually is going to be better than what we originally were forecasting. You're going to see more slowness in the mortgages for the obvious reasons around rates. And then you really think about on the capital call, it's really about utilization rates. And so we do have growth built into it, but it's clearly we pulled that growth down.

You're right on Venture Capital to calls that has slowed, but PE is somewhat, I'll call cyclical. They still need to find companies that have recalibrated to lower valuations. And that doesn't have -- even though public markets are mark-to-market, private markets are not mark-to-market. It takes a little while for opportunities to kind of come to the conclusion or companies to come to the conclusion that valuations have reset and it may not come back. So we're seeing a little bit of that softness.

Now again, if that changes and the stability of valuations start to balance out, you could see that pick up. There's one of those factor in here that I would say that creates upside. We've had incredibly strong term sheets and new business sign ups in the Global Funds Banking, I think, and Mike, correct me if I'm wrong, but last quarter was either the highest or second highest of new deals signed up or term sheets signed. So that also creates opportunities.

And the final piece I would say when you think of capital calls, it's this not only is it about new relationships, but I would also say, as our balance sheet has grown, our ability to take larger sizes of loans has also increased. That creates additional loan growth capacity. So the uncertainty, the market is kind of causing us to give the outlook that we have. But I would say certainly as the market plays out, there's definitely some upside that could be built in.

Fragment 3: D.A.T.A. Score = - 7.143%

Q: Steve Alexopoulos

Okay. Thank you, and then the final question. So if we look at the \$137 million of investment losses, which are detailed on Page seven, that declines a bit more than we've seen in other periods, right, is over 8%, typically you're like 2% to 3%. Can you walk us through the three buckets, so we can understand that a bit better, which is really fund-to-fund strategic and other investments in SVB Securities? And which of those held the public equities you're calling out? Thanks.

A: Daniel Beck

Yes, Steve. So just breaking those losses into the three buckets so we've got the public fund exposures, we've got valuation adjustments against the liquid private exposures. And then we've got a hedged equity investment that's included within those numbers. So while the majority of the portfolio is made up of this private investment, there's a small portion of our warrant and investment portfolio that's made up of public exposures. During the quarter we saw valuation declines in that book of close to \$45 million and that's effectively marked mark-to-market. So that makes of about 20% of the losses.

Probably more importantly given our fund portfolios over time or somewhat correlated to the public markets, these are the illiquid privates. We took a downward valuation adjustment for the illiquid investments held in that investment and warrant portfolio, so that reserve was close to \$40 million, so the losses on investments and warrants are effectively mark-to-market through the quarter. And if we see the updates or valuations, we've effectively captured that with those adjustments in the quarter.

Last but not least that hedged equity investment, there is about \$35 million worth of the law included there. There is an offset to that in other income, so that's effectively flat. If you back out that \$35 million you're really looking at the losses on private illiquid and the public securities.

Q: Steve Alexopoulos

Okay, got it. So because Greg you said there aren't that many down rounds yet. But what you're saying Dan is you guys marked them down, not to public your privates anticipating that it will come down, is that right?

A: Daniel Beck

Yes. Based on what was happening in the public market, we took evaluation adjustment. Now to the extent that public markets continue to decline, you could see further adjustments, but we believe that we've effectively marked

through those down rounds that could really trickle through in the next one or two quarters.

A: Greg Becker

And maybe just to pile into that last part, Steve, is the one advantage of seeing the rapid decline in valuations in public tech stocks is you've kind of hopefully get to that floor more quickly as opposed to kind of a bunch of quarters in a row. And I think you've seen over the last week, couple of weeks, there is more stability with the public tech stocks. And at least from my standpoint, I believe and I certainly hope we've kind of gotten down to the floor. No guarantees, but this is just a flavor for how we've approached the securities portfolio.

Q: Steve Alexopoulos

Got it. Okay, thanks for all the color.

A: Greg Becker

Yes. Thanks, Steve.

Operator

Your next question is from the line of Ebrahim Poonawala with Bank of America. Your line is open.

Q: Ebrahim Poonawala

Hey, good afternoon.

A: Greg Becker

Hey, Ebrahim.

Q: Ebrahim Poonawala

Hey, Greg. Just I guess taking a step back, I want to follow-up on your comments on deposits and loan growth. One, like what's the degree of visibility that you have means, I appreciate the macro environments really tough. Stocks could have had a bounce over the last two weeks, but as you pointed out, means we could see a sell off. I'm just wondering the comment you made about deposits being flat month-over-month. Should we take it as the likelihood of another downward revision on loan deposit growth, is a low probability event given how much you factored in, in terms of downside risk? Would love to get a sense based on previous cycles what you've seen and just how confident you feel about this guidance?

A: Greg Becker

Yes. I mean, Ebrahim, I think as I described it and I'm going to ask again Dan to reinforce what he said. What we have built in is a few different factors and then you have to kind of have your own point of view. Does that assumption make sense from your standpoint, what we built in, in the Venture Capital flows is that we believe that there is likely two additional quarters of decline that you're going to see in Venture Capital dollars going in, right? That's what we build into it and we think that is a reasonable assumption.

The second part is on the cash burn. Again, this quarter was the highest quarter that we've seen and almost 50% or actually more than 50% higher from an average quarterly cash burn, compared to 18-months ago. We believe that, that was going to kind of temper off, right and kind of flat now. And so we also believe that is a very realistic and reasonable assumption given everything we've heard talk to our clients. You've read, we've all read about the views that Venture Capital's have had about the market. When you put those two factors in together, that really creates the outlook.

Fragment 4: D.A.T.A. Score = -12.546%

Q: Casey Haire

Yes, thanks. Good evening everyone. So a question on the NII guide and what you guys are assuming for funding going forward? Because if I'm understanding you correctly, you do expect some loan growth, you expect deposits down. I know you have the bond book cash flowing through \$3 billion a quarter, but is that enough to match to fund the loan growth? And the deposit outflows?

A: Daniel Beck [Note: the answer below is Mr. Beck's second paragraph as the first paragraph of his answer was not assessed by D.A.T.A. as deceptive.]

And then as we've talked about in the past, we have opportunities to drive deposits from off the balance sheet to on the balance sheet to effectively shore up liquidity flows. So those are some of the options that we have to continue to manage the cash flow. And those options are all considered in the NII guide that we have.

Q: Casey Haire

Okay. Very good. And then my question for you, Slide 28 gives pretty good color as to what the downside scenario that Moody's lays out that you guys have waited 65%. But it speaks to like broader macro, like peak unemployment of 7.9% and GDP shrinkage of 2.2%, like that's great for a garden variety. Regionally, you guys obviously are a little bit different, so is there a way to --

what does that mean for the tech and innovation markets? So are there any indicators that you could point to? That way we have a better understanding of how things change, how conservative or aggressive your reserve policy has been thus far?

A: Marc Cadieux

Yes. So it's Marc. And what I would say here is that the broadly speaking, our portfolio putting aside the investor dependent and particularly companies that aren't going to have to sell a product or service to customers for some number of years. The rest of the portfolio, generally speaking, would be impacted to varying degrees in differing segments by a recession. And so I think that's the first thing. And I think by extension, there is some sensitivity in unemployment. There are some of our segments of the portfolio that are consumer facing, depend on consumer spending, could see stress there. So I'm going to stop and make sure I'm answering the question you're asking.

Q: Casey Haire

Yes. No, that's great. That's great. I know, it's not easy to address.

A: Marc Cadieux

You want to add something?

A: Daniel Beck

Casey, it's Dan. I think another way to look at it is, you know, in the more risky segments, what do we have reserved relative to kind of the highest stress life cycle losses. And we talked about this at the onset of COVID, our highest loss rates in the early stage investor dependent portfolio through the cycle are around 6%. Well, you've seen us with this change in the Moody's economic scenario get very close to a reserve rate on that book of 5%. So kind of seeing where that's heading from a reserve on our riskiest segment. So hopefully that helps a little bit in trying to point out how covered we are for a more negative scenario.

Q: Casey Haire

Got you. Last one from me just on the capital front. Obviously, not a lot of balance sheet growth upcoming. Wondering if share buybacks are being considered with capital ratios climbing with the balance sheet, kind of, running in place in the next little bit?

A: Daniel Beck

Yes. Casey, we're always open obviously to capital actions. We'll see how the next couple of quarters play out. You've folks have seen this in our business we've been here before. Once we get to a spot where valuation folks are comfortable with that and that amount of dry powder that's out there comes off the sidelines, growth returns pretty rapidly. So we got to be ready for that, but obviously, if this plays out over the next couple of quarters, we'll consider all of our options from a capital perspective.

Q: Casey Haire

Great. Thank you.

Operator

Your next question is from the line of Jared Shaw with Wells Fargo Securities. Your line is open.

Q: Jared Shaw

Hey, good afternoon.

A: Greg Becker

Hey, Jared.

Q: Jared Shaw

Just looking at deposit betas, I see you are clearly calling out the 55% to 60 % beta through the cycle. I mean, this quarter, we got up pretty quickly to 46% it looks like. How should we be thinking about additional beta growth from here? Is it -- are we going to get there basically next quarter or this was the initial jump up and now you think you can moderate that growth?

A: Daniel Beck

Yes. Jared, I think if you look at it this quarter, through June 30 beta is right around 41 basis points. We're still really projecting that 60 basis points throughout the cycle. And we think that off to on balance sheet flow that we did see this quarter is going to moderate a bit in our forecast for the remainder of the year. So those are some higher priced deposits that increase the beta more significantly within the quarter. So we think that we're still within that 60 basis points beta through the cycle range. But obviously, market conditions we'll dictate that and most importantly retaining our clients' deposits and paying a market rate to them for their deposits is important to us.

Q: Jared Shaw

Okay. Thanks. And then looking at the loan growth outlook, how should we be thinking about spread compression from here? And obviously, it's a competitive market? Should that continue to be accelerating?

A: Greg Becker

If you're talking in terms of loan yield beta, I think right now we're around 70%, and as we get through some of the floors, you could start to see it be around 80% or 90% there as we go forward. So still pretty good here right now. And again, as we go back to the pipelines are full and it is still competitive out there. But again, I think we're in a pretty good position on loan data.

Fragment 5: D.A.T.A. Score = -12.610%

Q: Chris McGratty

Great. Thanks. Dan or Greg, on the off balance sheet trends, can you remind me what you moved on this quarter? And then within your forecast for the updated deposit growth. What are your assumptions, I guess, for total client funds like I'm trying to gauge it size the off balance sheet?

A: Daniel Beck

Chris, it's Dan. When we look at total funds from off to on the balance sheet, it gets a little bit complicated, because we also had funds flowing generally from our global funds banking clients off the balance sheet for higher rates. But when we look at it, order of magnitude, we saw something close to \$10 billion of funds move from off the balance sheet to on the balance sheet within the quarter. Now we have tempered that expectation in the third and the fourth quarter, but that effectively is there and stands ready to the extent that from a pricing perspective it makes sense for us to bring more of those funds onto the balance sheet.

Q: Chris McGratty

Okay, great. And then maybe my follow-up would be you guys moved your bond portfolio to held the maturities a lot sooner than others in protected book. Can you walk me through a scenario where you would have to or be allowed to reverse that? And if so, I assume there'd be a mark on that?

A: Daniel Beck

Yes, Chris, we have no expectation or intention of doing that. If we take a look just as the overall liquidity of the balance sheet, we're in a really solid position, so no intention to do it.

Q: Chris McGratty

Okay. Thank you.

Operator

Your next question comes from the line of Vilas Abraham with UBS. Your line is open.

Q: Vilas Abraham

Hey everyone. Thanks for all the market color on the call today is very helpful. So I hear you on the abundance of dry powder that's out there. But can you discuss what you're hearing from LP that have committed this capital, but much of it is presumably still in their bank accounts. Are they getting uncomfortable at all, particularly as private market exposures in their portfolio may actually be moving up as the public side gets marked down? Just how they're thinking about things right now?

A: Greg Becker

Yes. This is Greg, I'll start, and I know Mike has spent even more time with limited partners recently and will give you even more real time color about what he's hearing. From my standpoint I'm not hearing or seeing any concern about the -- where they're at their balances. Clearly, they're getting -- they're having write downs for the position to markets that they -- the dollars they have right now, but they still look at the returns they have made over time in private equity and Venture Capital. And it's at the top of the return food chain over time. So that's number one.

Number two, a lot of firms looked at who didn't have money in the market back in '08, '09, 2010, because they were concerned that the market turned down and it was a bad investment and they missed out on that incredibly trajectory over the last decade. And so we're seeing an interest for people that haven't been in the market to say, wow, what a great time to come back in right now. Now what they are saying, so that's part of it. Second part of it is, if there's -- if your underlying question has any part around worried about defaults from limited partners. The answer is there is zero, we haven't seen any, we don't expect any, we didn't see any in the last cycle and so not worried about that.

What they are saying is, well, you raised a lot of funds very quickly and can you slow down the pace somewhat for new formations? And the answer is, yes, firms are doing that not surprisingly. But as far as limited partners go, my view is they're very optimistic about the innovation economy much as we are. Mike, what would you [Multiple Speakers]

A: Mike Descheneaux

Just, if you think that, I mean, what you saw here coming out recently, the data shows \$3.62 trillion of dry powder at the end of June 30. So, there's a significant amount of lot of interest and certainly deploying in the areas. The one thing to keep in mind though in terms of public valuations and the so called denominator effect, so you do have some endowments and pensions that are saying, look, I'm a little bit more overweighted in the private sector, because of public market valuations have come down.

And so, there is some anecdotal commentary about, hey, let's maybe slow down a little bit, but my interest has not waned. And so, it's just a little bit of buying time and clearly with the economic drop some of the states in terms of tax dollars could be coming down, so they may be saving dollars for the other areas. But again, strong demand, strong interest and during these cycles, they tend to create great companies. So I don't see that slowing down, it's just maybe as Greg said, a little bit slow down the pace just a bit. But again, still tremendous opportunities for them going forward.

Fragment 6: D.A.T.A. Score = -8.215%

Q: Vilas Abraham

Okay. Got it. That's very helpful. Just back to the second life sciences portfolio, it sounds like you guys are looking at that as an opportunity here as equity, capital access gets a little bit more challenging for some of these companies. Can you talk though about just the underwriting box from here on out? Has that changed at all from a couple of quarters ago as the environment changes as you put out those term sheets?

A: Marc Cadieux

It's Marc. I'll start, Mike may wish to add. And so historically speaking, we try very, very hard to be the consistent predictable, dependable provider of services to our clients at every point in the cycle no matter where we are. And so we are very much interested in the loan demand we're seeing. And at the same time, as you might expect, we are being thoughtful about which new clients we take

on or new deals we originate. And obviously that would differ from sector to sector, segment to segment. And so -- but that's again nothing new. We strive to be consistent. But we will of course be thoughtful when the environment changes around us as to how far and to what degree to lean in to given opportunities and that is a practice that has served as well for a long, long time.

Mike, what would you add?

A: Mike Descheneaux

Yes, there's a few different things we're watching. I mean, when you think of the backdrop, what are some of the things that are going on inflation? So how does the company handle increases in pricing? Do they have pricing power, some things we're watching for increase in interest rates. Can they at least absorb some of the interest rate increases? So those are things that we're looking on. But to Marc's point, I think it's a great opportunity for us to lean in and help our clients particularly some of the good clients having those discussions with the VCs about, which ones they're going to lean on and making sure there -- were there to continue for the support.

Q: Vilas Abraham

Great. That's all I had. Thank you guys.

A: Mike Descheneaux

Thanks.

Operator

Your next question comes from the line of Andrew Liesch with Piper Jaffray. Your line is open.

Q: Andrew Liesch

Thanks for taking the questions. Just a question on the expense guide from here, backing up the merger chart, it looks like it's a pretty big ramp and expenses in the second half of the year? I'm just curious where are these investments going? And how do we get to that expense guide?

A: Greg Becker

Yes, it's Greg. You know, we still obviously have a lot of initiatives that we're investing in. You can look at it from the standpoint of digital investment. We're still adding headcount to support growth, infrastructure build. There's a lot of things, but in fact actually what's happening is we're -- excuse me, lowering your

trajectory. And so from that standpoint, we're looking at professional services, we're looking at open racks and pulling back on that.

But I'll give Dan, to give you a little more color.

A: Daniel Beck

So if you look at the expense trajectory, first and foremost, in the quarter, considering the pullback of our expectations for the year, we did have some overall reductions in expenses around incentive compensation and the like. So when we really look at run rate for expenses, you're a little bit lower in this quarter just because of the reduction in that area. When I look at the expense run rate for Q3, we're probably in the [950 to 970] (ph) range, just to put a little bit of color around it. So we're clearly focused on investment management at expense management. We absolutely know that we need to invest to take advantage of the opportunity in front of us. But we -- when revenue and balance sheet was growing with rate opportunities at a much higher pace, we clearly hit the accelerator on investments. And now we have the opportunity to be able to dial some of that back through professional services consultants and the like.

So just really turning to dial on that are ways for us to be able to temper some of those investments in a slower period. Again, we must continue to invest though, because we see this opportunity in front of us.

Q: Andrew Liesch

Understood. Thanks for taking the question. You've covered everything else.

A: Greg Becker

Thanks.

Operator

Your next question is from the line of David Smith with Autonomous. Your line is open.

Q: David Smith

Hi, you spoke earlier about how the balance sheet having grown means that you can take on larger sizes of loans. Does that mean you can go above the mid market in global fund banking? You could essentially go above the mid market fund space that you've historically focused on?

A: Greg Becker

This is Greg, I'll start. I think there's always interesting definitions of mid market. So I think if just start there, I would say when you look at -- when we've done our analysis, we can go up by compared to a year ago or two years ago, you're looking at more than 50% growth in capacity from where we were and selectively even higher than that for the highest quality firms. Then you combine that with our ability to syndicate, so you have to look at those two things together and our syndication capability gives us even more headroom we can support very large PE firms.

SIVB 2022 Q3 Earnings Call:

D.A.T.A. Score = 100.0%, 5 deceptive fragments

Fragment 1: D.A.T.A. Score = -10.355%

Q: Jared Shaw

I guess when you when you look at the companies that have taken that down around VC financing, are there any characteristics that stick out? And I guess for those that haven't, how long can they hold out before they sort of need to take a lower pricing? Are we closer to a point of capitulation for that?

A: Greg Becker [Mr. Becker's first three paragraphs in response to Mr. Shaw's question were not assessed as deceptive. We pick up below with the fourth paragraph.]

And others would say, protect your valuation, if you can keep it and do a structured round. It's not the end of the world. So, we're just seeing that all play out. But that's, that's the main reason they ended up with a fair amount of cash right now, so they don't have to come to that conclusion yet, but more of its coming.

Q: Jared Shaw

Okay. Okay. That's, that's helpful. Thanks. And then guess for the investments that you're all holding on -- in your own investments, how are you treating valuations if there haven't been recent rounds to give that market check? Are you having to wait and take your lead from the company? Or are you proactively making any marks on your own?

A: Daniel Beck

Yes, Jared its Dan. On the warrant positions, we get pretty regular updates and really current with those valuations where we have at least some gap is in the

liquid position. So, we took a reserve last quarter associated with those and still had additional losses come through on some older funds where we had an ownership position this quarter.

So, and as we think about it on a go-forward basis, we would expect valuations on those illiquid positions. They're going to be updated as a part of fund audits through Q4 and probably all the way through Q2. And that's where we may see additional losses.

So, think of that is a pool of about \$600 million worth of illiquid positions. We could see kind of order of magnitude anywhere between 5% and 10% of that in the form of write-downs over the next couple of quarters.

Now, those losses may be offset by the occasional warrant gain which we continue to see, but that I think is going to be more limited quantities at this point in the cycle.

Q: Jared Shaw

Okay. Thank you.

A: Greg Becker

Yes.

Operator

We'll go next now to Bill Carcache at Wolfe Research.

Q: Bill Carcache

Thank you. I had a question on credit, you maintain the ACL ratio at 77 basis points, looks like but lowered the downside weighting from 65% from 40%. Can you discuss what's behind the lower downside scenario waiting? Any color on that?

A: Marc Cadieux

Yes, this is Marc Cadieux. I'll start on that. And so in a nutshell, the most recent Moody's forecast was much more aligned with our view on the economic outlook. And at the same time after the forecast, which included an assumption of 50 basis point Fed increase. We saw 75 and so our conclusion in so many words, was that closer but not quite. And so we took our weighting of the S3 scenario down, but not all the way back to standard weights, kept it at 40% for this quarter.

Q: Bill Carcache

Understood. And separately, how would you characterize the demand that you're seeing from customers seeking funding from you relative to your capacity to provide funding? How are you determining customers that gets funding? Maybe discuss a little bit on how competitive that lending environment is?

A: Greg Becker

This is Greg. Maybe I'll start and then Mike Descheneaux may want to add. So, there's no question we've seen an uptick in demand and that should be expected, right? Last year, we were definitely competing more with the healthy amount of venture capital that was coming in, yes, while it was a competitive market, but definitely the major competition last year was equity.

This year, clearly, it's harder to raise money. And so -- or if people want insurance policies, so debt is now back in vogue. So, the level of activity, new clients coming on board and delivering term sheets are the pipeline. The backlog and this is specifically in the technology and life science area, across all loan products is actually has been very healthy.

Your question on -- at least I'll interpret it. Do you have the capacity to fill all the orders that you may want to? And the answer is, absolutely. As Dan said, we have the capacity in a lot of different ways to bring those loans onto the balance sheet. Assuming that qualifying Of course, that's a given. And when they do, we're able to fill those orders. So, we see no slowdown in that. And it's actually one of this many areas that excites us about what we're seeing -- what we saw so far, especially in third quarter. So, take a look at the growth in the third quarter. And what we look at as we roll into -- get ready to roll into 2023. Mike, would you add anything to that?

A: Mike Descheneaux

I think I would just go down the questions around are we -- essentially interpreted, are we doing anything different or being more cautious about who we're lending to and be a little bit more particular? And the answer is, of course, yes. Right. I mean, we've been through economic downturns. Our teams are very well versed in to kind of what to recognize and to pay attention to in terms of companies that might be more vulnerable to this during this economic cycle.

Fragment 2: D.A.T.A. Score = -11.033%

A: Mike Descheneaux [This is a continuation of Mr. Descheneaux's previous answer.] So, for example, things such as the consumer area are definitely one area that we got to keep an eye on because given this macroeconomic

backdrop and inflation, certainly that's an industry or sector that's going to take some sort of hit or impact. So those are just one example of kind of how we're thinking through and looking at the different sectors where we need to be a little bit more thoughtful than had if the economic environment was stronger.

Q: Bill Carcache

Thanks. And maybe I could follow-up with one last one along those lines, to the extent that you're putting up that growth, if you think about the yields that you're generating on those kinds of loans. And if we think about the sort of funding environment persisting and perhaps the money market type rates as sort of being your cost of funds, maybe, is the spread and sort of the NII accretion.

Is it reasonable, that you'd expect that essentially -- that you would be asset-sensitive? I think there's certainly concern that some liability sensitivity could shine through given some of the dynamics that we're seeing. I know you're not giving guidance, but if you could just speak to that broader dynamic and your overall thoughts would be helpful.

A: Daniel Beck

Yes. Bill I'll start and Mike want to add. If we just kind of look at the dynamics of the loan portfolio, again, we talked about it, over 90% of that is variable rate and we're seeing on the commercial lending side, in particular, close to 90%, beta coming through on that lending.

So, I feel good as our entire funding base is certainly not going to reprice at those levels that not just will we continue to maintain a strong spread there, but we'll actually be able to continue to grow it. So, I feel good about that on the lending side. Mike, anything that?

A: Mike Descheneaux

Yes, I think maybe we're getting to is the level of impact of competition on the spreads. And then there's the pricings that we the payment we can actually have. And so for longest time, as we all know, it was competitive -- by the way, it's still very, very competitive. And so there was a drive or trend down where spreads were getting tighter. I would say in this environment, particularly certain segments of the loan portfolio, the downward pressure is not as significant as banks and other -- non-banks are being very conscientious of their cost of funds. And so I think that is -- I wouldn't say it's a baited, but nonetheless, it's there's a lot less downward pricing pressure on the spread there. And a little bit more neutral at this time -- maybe neutral to some possible bias to build a spreads expanding a bit.

Q: Bill Carcache

That's very helpful. Thanks for taking my questions.

A: Greg Becker

Yes.

Operator

Thank you. We go next now to Andrew Liesch - Piper Sandler.

Q: Andrew Liesch

Hey, good afternoon. Thanks for taking the questions. Just on the increase in criticized loans here, I was still relatively small as a percentage of the overall but is that concerning to you? And I guess what drove that?

A: Marc Cadieux

Hi, it's Marc, I'll start. Concerning insofar as any increase in criticized loans would be concerning. And I think reflective of the environment and worsening projected economic conditions that we were talking about. At the same time, as mentioned earlier in the call, our clients continue relative to past cycles continue to have more robust liquidity. And so while we are seeing that uptick in criticize, as you can see, in the third quarter, we did not see a translate to an increase in non-performing loans or loan losses.

Q: Andrew Liesch

Got you. Is it issues with any individual credits or just a general downgrade of target from the portfolio that drove this?

A: Marc Cadieux

Yes, I'd say it is concentrated in our tech and healthcare portfolio as you would imagine. And generally speaking, there probably falls more heavily on our investor-dependent segments.

Q: Andrew Liesch

Got it. All right. And then just kind of a housekeeping item on the client investment fees. Are those capped at all or you continue to benefit, no matter how fast or how high the Fed raises rates?

A: Marc Cadieux

Yes, based on some good work by Mike and the teams over the last couple of years, they've renegotiated those agreements. So, we don't see a cap on those

client investment fees. Now, with where rates are the expectation is every 25 basis points is probably another basis point versus the like one and a half to two that we got at the beginning of the rate cycle, but that it is not kept and expect about a basis point for every 25 basis points.

Q: Andrew Liesch

Got it. All right, that covers my questions. Thanks so much.

A: Greg Becker

Yes.

Operator

And next, we go to Manan Gosalia at Morgan Stanley.

Q: Manan Gosalia

Hi, good afternoon. Most have been answered at this stage, but just -- I sort of recognize there's not enough visibility for 2023. But I was wondering if you can just talk about the NII guide for next quarter as a jumping off point for 2023. Maybe there will be some more weakness if funding levels remain weak, but I was wondering if you could help quantify that?

Fragment 3: D.A.T.A. Score = -9.703%

Q: Gary Tenner

Thanks. Afternoon. On slide 24, the client investment for the client funds slide, one of the considerations you pointed out was China policy changes and investment in Chinese companies. I just wonder if you could maybe talk to China policy changes and any considerations as it relates to your strategy over there?

A: Mike Descheneaux [Note: we pick up Mr. Descheneaux's second paragraph.]

In terms of engaging with China, as we all know, economically, it had been extremely challenged and that certainly affected our business levels and business activities in Asia overall. So, this is something that to continue to watch, but no direct impact one way or the other. It's really just more about the macro picture here at this juncture.

Q: Gary Tenner

Okay, appreciate that. I wasn't sure if it was referencing President Xi's more recent comments, or not. And then just lastly from a -- just -- there's been several questions about cash burn, and obviously, it's not slowed to the degree that it would benefit the balance sheet yet. Why is that? I mean I think we were at this point for several years, it seems like we're kind of scale at any cost and lending was free or close to it. How much has the -- I guess the founders or the startup CEOs of some of these companies? How has that population change, maybe over the last decade to potentially slowing the ability, or desire to kind of really focus on that has not sunk in yet on that side?

A: Greg Becker

Yes. I mean, there's -- some of that does exist. So, I will acknowledge that, but I -- how I think about it is -- how I answered an earlier question about this, which is, if you raise a bunch of money -- let's say you've raised three years or four years' worth of cash. And your business is -- as you think about it, you're still -- the business itself is fundamentally sound, although it definitely is going to be harder for you to raise money in the future.

Part of this is the mentality is, why would you cut back costs, lay people off and make the hard calls, if you really believe that you're going to be needed to add value, grow revenue, and maybe grow back into your evaluation over time, right? It's the old saying, you can't cut your way to growth, or you can't work your way to success and so some of that exists, and it's a function of, again, a lot of its how much money has been raised.

So -- but if you fast forward, six more months, nine more months, these are the companies that have raised a long runway, they're going to have to look at either cutting, cutting, burn, or raising more money at that time and there's a lot of companies out there that are still performing well, right. Sometimes it feels like the -- that -- oh my gosh, all these companies must be really having a hard time. That's not the case. There's a lot of them doing really well.

And one last point, again, if you go back two years ago and you remember what happened in COVID, it was cut your cost, it's going to be a horrible situation. They did that and then literally 90 days later, 120 days later, people said, no, we were just kidding, let's go back and raise more money and increase the burn.

So, the COVID call it fake-out was definitely one that I think is still in some of their some of their heads. So, do I think it's fully set in across the Board? The answer's no. That's just a little bit of -- there's a complex answer, because it's every

company is slightly different. But those are just kind of the reasons that you wouldn't see -- or we haven't seen yet more of a dramatic reduction in burn.

Q: Gary Tenner

Thanks. I appreciate the answers.

A: Greg Becker

Yes.

Operator

We go next now to Chris McGratty at KBW.

Q: Chris McGratty

Great. Thanks. Dan, just on the average balance sheet, the bond yields, can you just speak to me a little bit about the yield at which that's thrown off? I know you gave the dollars, but the yield kind of stuck around 2% on HCM and around 170 on the AFS, just wondering what the outlook is for those?

A: Daniel Beck

Yes, at all then yields exiting the quarter roughly 2%, there was some pickup in yield from lower premium amortization in the quarter that just so everybody remembers is also part of the decline in our expectations from Q3 to Q4 net interest income.

Net-net, at least as we look ahead, we are going to see some lower yielding securities roll off, but I think we're going to get a bump around this 2% range here for at least the next couple quarters.

Q: Chris McGratty

Okay. And then just maybe Greg a question on charge-offs. As you see the world unfolding, if we are going to get losses, like, I'd love a little bit of color on when you think the cadence would be? You built the reserve last quarter and a little bit less this quarter, but when you when do you think the losses will come?

A: Greg Becker

Hey, Chris. Well, I can help answer that question, Marc is probably better.

A: Marc Cadieux

Yes. So, I think consistent with all of the uncertainty we've talked about, and the challenges we're guiding for 2023, I think that's a really very difficult question to answer. I think it really comes back to -- again, that robust average client

liquidity, the ability to last longer and wait for that reopening, so to speak for capital start flowing again. And I think generally speaking, when I think about the portfolio where bars are positioned, going into whatever is next relative to past downturns.

Fragment 4: D.A.T.A. Score = -5.602%

A: Marc Cadieux [This is a continuation of Mr. Cadieux's answer from above.]

More of these companies will probably outlast right, they'll live long enough to make it to that other side than might otherwise have been the case. But exactly when the losses come if they come is just too difficult to predict at this point.

A: Greg Becker

And to add to what Marc is saying, Chris, if you take a look at the reserve, the area that we continue to expect if we were to see those types of losses, to see the most being the investor dependent early stage. And if you think about that 2008 cycle, and we're not saying that we would see something to that magnitude, that was about a 6% through the cycle loss. So, we're at that 4.3% range right now. So, feeling pretty good relative to what that could look like in that type of environment from a reserve perspective. So, even if those losses were to come, we've got sufficient reserves associated with it.

The last thing to say is just again, remember, the overall lending portfolio and the concentration of capital call lending and loss experience there, kind of, when thinking about to the extent that we have a slower period, what that might look like in terms of credit losses.

Q: Chris McGratty

Great. Thanks.

A: Greg Becker

Yes.

Operator

And we'll go next now to Ebrahim Poonawala at Bank of America.

Q: Ebrahim Poonawala

Hey, thanks for taking my question again. This one question than the big picture, Greg. So, a lot of what's happened in terms of the earnings outlook for the company is market-driven. Is there anything for self-help perspective? And I

don't mean to say you need to cut your way to prosperity, as you mentioned, but is there anything either balance sheet-wise, expense-wise, capital-wise, that you could do to alleviate some of this market-driven pressure on the earnings and ROE?

A: Greg Becker

Yes, let me talk about it from an expense perspective, and then Dan, or Mike, may want to talk about the balance sheet, anything else and Mike. When I think about the expenses, Ebrahim and as you know, I've been here a long time. And from that standpoint, the long-term belief in the potential opportunity we have in front of us hasn't changed. And in so doing anything that is going to truly diminish the growth potential, the outlook in a year, two years, or three years, just doesn't make sense.

It may it may feel good or feel better in a short run, but it won't be helpful in the long run. And as you know, we're playing the long game. But what are we doing? One area that we're taking a look at, over the last two years, we've had a lot of growth, as we've done, build out our LFI, or risk-based function, large financial institution functions. And a lot of that actually came with the backs of professional services, because we needed to build up the kind of core foundations.

Now, as we brought in the expertise in the form of FTEs, we expect and it's going to happen faster than then even maybe was planned. We're going to be reducing professional services in a very aggressive way. We've got the incredibly talented team that we brought on board to help us manage through this. I feel really good about it.

And so what do you what are we going to do, we're going to -- again, the biggest thing is reducing professional services as aggressively as possible. That's probably the biggest thing.

The second part is really taking a hard look at our overall the projects that we have in that project portfolio, and prioritizing, and say which ones are the more than nice to have versus the must haves. And from that standpoint, we're looking at that and we'll make some changes there and not eliminate it. Not say never, but it'll definitely be put on the backburner as we concentrate our efforts and focus on the highest priority must do initiatives, which includes things like the digitalization of the of the platform.

As I mentioned in my opening comments, we've been rolling out our digital banking solution and gotten some incredibly positive feedback. And we're

going to continue to invest in that and rollout more of that over the course of 2022 and 2023. So, we have to continue to make those investments.

So, while the expense growth will be lower than it would have been, it's still going to be healthy as we roll into 2023. I don't know Dan, or Mike would anything.

A: Daniel Beck

I'll start and Mike might have something to add. I think we just -- one, I have to add on expenses, continue to go back to 1,800 new clients added to the platform in the quarter. Five -- \$0.5 trillion worth of dry powder raise from a venture capital perspective, those are all opportunities for us, in the medium and the long-term. So, for us to really materially pull back on investment,

Even cut investment levels -- probably cut into that opportunity here over the longer term. So, we're still really bullish on that. At some point, we anticipate to play through the franchise. So, that's number one.

Fragment 5: D.A.T.A. Score = -7.905%

Q: David Smith

Thank you. And lastly as it looks like we're getting closer to peak Fed rates, is there a point where you start to work to reduce the variable component of the lending book or otherwise protect the asset yields in some way?

A: Daniel Beck

Yes, I think -- well, first and foremost, I think the positioning right now for us is to continue to look to open up the position for asset sensitivity, at the same time, we are contractually as we've done in the past, continuing to embed loan for just as a matter of practice associated with that portfolio that benefited us quite significantly and one-way protection here during the 20 -- post-2018 move down, and I'm expected to do the same thing. So, that that that's the vast majority of the protection that we're putting on right now.

If we see Fed funds, and short term rates move even further, you'll see us find ways to continue to manage down rate sensitivity. But as folks know, with the higher levels of interest bearing accounts right now, with the off to on-balance sheet moves, that's another great source of potential protection to downside rates for us.

Q: David Smith

Great. Thank you.

A: Daniel Beck

Thank you.

Operator

And we'll take our last question from Jon Arfstrom at RBC Capital Markets.

Q: Jon Arfstrom

Hey, thanks for hanging on to the end. Just a follow-up on that last question. Would have Fed pause, help-hurt or no difference in terms of your outlook? How would you answer that?

A: Daniel Beck

I'll start, Greg might want to add. I think if you take a big step back and look at venture deployments, there's a -- like we talked about \$0.5 trillion worth of funding that's been raised. What's really stopping that from being deployed is this disconnect in valuations between public equity markets that are bouncing around and the expectation of all these amazing founders that are -- and management teams that are working on these ideas.

To the extent that we see Fed pause or slowdown, I think that's going to start to bring some more certainty into public market valuations, reduce that uncertainty and really start the flow of funding across our markets. So, one, just I think, for a broad deployment perspective, that that would be helpful.

Second rate -- a pause or a slowdown, from a rate perspective could be helpful, just as we would continue -- we would see likely additional deposit flows that are coming in. But in terms of the asset sensitivity, a pause won't really help it that at this point.

A: Greg Becker

Yes. The only thing I would add is just -- and Dan said, but it's just the markets looking for certainty. They're looking for clarity, and there isn't any right now. So, a clear pause and the data that backs up a clear pause, I think would be well received by the market right now.

If you talk to five different economists what they would say -- what their crystal ball would be is literally all over the map and that clearly isn't helpful right now.

Q: Jon Arfstrom

Okay, I appreciate that. And then just speaking of uncertainty, but when I do the crude calculations on your fourth quarter guidance, I get in the midpoint

excluding gains or losses, somewhere between \$5.15 and \$6 for EPS, and correct me if I'm wrong, but do you feel like that represents a trough for you for EPS or is that just too difficult to predict from here?

A: Daniel Beck

As we mentioned earlier, there are so many variables that are going to drive what things look like heading into the first quarter, and the level of cash burn, what we're seeing in venture deployment, and ultimately, the interest bearing to non-interest bearing mix.

Those are going to be big drivers of what happens from here from a net interest income perspective. So, that could be pressured down and -- or we could see stability of cash burn, materially reduces from here. So, to go any further than that, I think would go against us not giving the guidance.

Q: Jon Arfstrom

Okay. All right. Thank you very much.

A: Greg Becker

Yes.

Operator

Thank you, Mr. Becker, I'll turn things back to you sir for any closing comments.

A: Greg Becker

Great. Thank you. Thanks, again, everyone, for joining us. I know for people on the East Coast and so you're into the evening, so I appreciate it. I'm going to close where I started the conversation by really highlighting this. I know most of the discussion was about the balance sheet inflows. And clearly that's a very important part of the equation.

I just want to make sure that it's not lost on everyone and that's both investors, but also our employees who are listening. All the great things that are going on inside the platform. Again, I talked about it, you can look at record term sheets and all-time high and client funds and strong credit quality, and there's so many really positive things that are going on, we just can't lose sight of that.

There's no question the uncertainty is out there and as we've said, based on the fact that we're not going to give guidance into 2023, that uncertainty, clearly is difficult to predict exactly what will happen, although clearly we've given you some frameworks to think about for 2023, and what the what the drivers will be, and how that could change.

SIVB 2022 Q4 Earnings Call:

D.A.T.A. Score = 75.1%, 9 deceptive fragments

Fragment 1: D.A.T.A. Score = - 13.242%

Greg Becker

Great. Thanks, Meghan and thanks everyone for joining us today.

Before we go into questions, I just want to briefly comment on kind of our business and the market environment. First, I think it's important to set kind of context. When we continue to see strength and momentum in our business despite the broader market backdrop, which I'll talk about in a minute. We had healthy loan growth across the board driven by global funds, banking technology, and private banking, mortgage lending, we had record core fee income from improved client investment fee margins, we saw healthy investment banking revenue driven by a foreign pharma deal activity, which was great to see.

And we had more balanced in client fund flows as client cash burn in the pace of VC investment declined showed signs of moderation, which was obviously very important and welcomed. And we saw continued strong new client acquisition of approximately 1600 clients in the quarter, which is higher than pre-COVID levels, which is notable. And credit remains solid, although our provision reflects higher net charge-offs and non-performing loans as well as our expectations for deteriorating economic conditions.

Now, the markets are still challenging, we admit that and they're likely to remain so throughout 2023. We don't expect any dramatic change from where we are right now. And in fact, even a little bit more pressure in the first couple quarters. So in other words, again, not expecting a dramatic improvement.

Global market volatility is significantly reduced private and public investment. In public there's almost, there's a longest time that window has been effectively shut. And we don't really expect that to change until maybe put a big maybe in the latter half of the year. And there's still a lot of uncertainty over the direction of rates and inflation in the broader economy. And we hear about it pretty much every day in the news and on media. So, what does it mean for us for 23? We expect these conditions we'll continue to put pressure on our growth in the first half of 23 with net interest income pressure, somewhat higher provision, although we still expect credit performance will remain good overall, and other headwinds that are kind of come on a daily basis.

But in the second half, we expect continued momentum and balance between venture investment and cash burn. And it doesn't – as we reported, and it doesn't take much of improvement, in fact, no real improvement from where we are. On the deployment of dollars, it's more about the cash burn which we again continue to believe is going to be a pullback.

We expect the shift towards interest bearing deposits to stabilize and could see an inflection point in net interest income and NIM in the second half of the year. We believe that shift combined with progressive pay downs in our investment securities portfolio again roughly 3 billion a quarter, will provide meaningful revenue tailwinds that build throughout the year. And we have enough visibility at this point to provide full year 2023 outlook despite the market uncertainty and those details during our Q4 '22 earnings deck filed earlier today.

We're prepared if those things don't improve, again, which is important. And even if the market challenges are prolonged or get worse, it's important to note we have a high quality, very liquid balance sheet, which I know there'll be lots of questions, about strong capital levels, a seasoned management team which we experienced navigating challenging markets, and adding a lot of new people with deep experience as well. And a consistent focus on our long-term business strategy.

So, when you put all that together, we feel clearly better about the outlook than we did last quarter where there was more uncertainty. And we certainly believe that the innovation economy is the best place to be. And even if we're in this prolonged period of time, for longer, or even a little bit deeper and deeper, we know we're going to weather that fine.

So, with that, I'm going to turn it back to the operator to open up to questions.

Question-and-Answer Session

Operator

Thank you. Your first question today comes from the line of Ebrahim Poonawala with Bank of America. Your line is now open.

Q: Ebrahim Poonawala

So, I guess, I mean, think it was good to see the 2023 guidance and just wanted to follow up on what you just mentioned around having enough visibility to provide that guidance. It sounds like you're feeling better today. And you look at the slide 10 in terms of the client fund, outflows obviously, cut in half quarter-over-quarter. If you don't mind, just give us a sense of this customer conversations that you are having with clients. What's added to that visibility

today versus three months ago? And I understand all the things that can go wrong, I think, but what are you seeing in terms of green shoots of improvement? Would love to start there.

A: Greg Becker

Yes, I'll start. And I'm sure that Mike will want to add even more color to my comments. Ebrahim, here's how I think about where the clarity is coming from is a couple places. One is, I would say, we were hoping we would have had seen more of this in the third quarter. And that's where I would say we're disappointed. And that's why we didn't give guidance, because it kind of didn't fit with what our expectations were and what we were hearing, which was the following.

Fragment 2: D.A.T.A. Score = -13.288%

Q: Greg Becker [This is a continuation of Mr. Becker's answer, above.]

Companies realized that it's hard to raise money, the level of venture capital deployment is coming down. And we expected a more dramatic decrease in burn rates, that really didn't happen in Q3. We saw clearly much more of that in Q4. And I think you're going to see more of it in Q1 and you hear about it, because when you're having conversations with companies, they're talking about, gosh, we hired a bunch in the last couple years. And now we're going to pull back on some of that. So, we're going to cut back 10%, 15%, 20%, or whatever that is. And we're going to look to cut costs in other areas. And the only reason I don't think it happened as quickly as we thought it was going to, is that companies had a lot more cash than they had in other cycles. And so that was just a prolonged period. So, we know that venture capital declined pretty significantly in the third quarter continued in the fourth quarter. But again, what our expectations are, is that you're actually going to see a little bit more of a decline in the first two quarters, and then start to see a little bit of improvement in the second half of the year. So, our forecast isn't a rosier Q1 and Q2 with higher levels of venture capital deployment, in fact, it's the opposite, a little bit more of a decline. And then you're going to see, again, this continuation of client burn, or cash burn pullback. So that's the narrative that all -- when we talk to clients, and again, not all clients are the same, as you know, we have some that are still spending more money. They're raising money still. And that's going to happen, but that narrative is shaping our outlook in the first kind of two periods, first half versus the second half. So Mike, turn it over to you to add any color to them.

A: Mike Descheneaux

Sure. Great. Thanks a lot Greg. Ebrahim, there's a few data points, I think were investors are going to start to get even more clarity, right. When we think about inflation reports and whether or not the rising rates are having an impact on inflation. We just had a January 12 report, and we had the February 14 inflation report coming up. So, we're starting to see that rates are starting to have an impact on inflation. I think that's really important for investors looking for clarity, what's happening, the COVID impact of the zero COVID policy in China. We're starting to see that go through China and we'll know here end of January, February about whether or not that actually is gone through and then supply chains can start to come out again, having impact on inflation.

The energy impact in Europe, we're going to get to that and see some more data points about the impact of inflation. But perhaps most importantly is the valuations, right? I think you have the auditors that are in at the various companies here that are looking at the valuations. And you're going to start with these audit reports that start to come up. And there'll be some valuation adjustments between the companies who have been holding off in terms of readjusting the valuation. So, I think that's really helpful.

And so right now, obviously, the investors are still holding off on investments. They're slowing the pace but there's still a lot of good companies out there. There's still a lot of opportunities. They're still investing in early stage. But they have to prioritize their investments here. And they know they're probably going to have to hold on to these investments a little bit longer than anticipated, because there's just not a whole lot of exits as you know. There's just no IPOs, there's not a whole lot going on out there. But again, I think, there's obviously a lot of dry powder, I think that's very helpful.

Now, when you shift to the lens of the entrepreneur, as Greg mentioned, they have had a lot of cash. They've been sitting on that, but we are starting to see where they are resetting their spin levels, right. The layoffs, you're starting to see that in news, which there's the good news and the bad news. Obviously, the bad news is the layoff. But the good news is, they're really starting to focus on their cash burn, because they know they need to hold on to their cash for a lot longer. Advertising spends have been coming down over the last several months. And so that's been a big thing that we're seeing here.

So they're all getting back to focusing on client acquisition costs and profitability. So again, growth or just for growth sake is no longer the thing to do. So economics do absolutely matter. So they've been very, I would say, very focused on valuations, they've been holding off in terms of taking more

investments, but eventually the cash starts to run out, eventually, they start to reset their expectations on valuations. And so we believe we're starting to see some of that breaks through. And again, I think over the next couple of months, I think that's when you would start to see as Greg describing a little bit more stabilization there, and perhaps as a platform here for the second half of the year to start to see some of those shoots that you were talking about.

Fragment 3: D.A.T.A. Score = -13.116%

Q: Ebrahim Poonawala

Understood. And I guess maybe a separate question for Dan. When we think about, from a balance sheet management perspective, on the asset side, available for sale securities, about \$25 billion, \$26 billion. Give us a sense, is there any view of like pulling forward some of those maturities and locking in higher interest rates today, given one, the COVID is already inverted? Who knows where it might be six months from now? Just give us a thought process around any piecemeal restructuring of the AFS book that we should think about?

A: Daniel Beck

Yes, Abraham. Good question. In the quarter, for example, we did billion dollars sale out of the Treasury portfolio for AFS to be very clear. And the rationale behind that is, we look at the payback period on that sale was roughly nine months. So that's really the way for us to look at, from a tangible book value perspective, that payback period and opportunity. So I wouldn't say there's any desire for a wholesale change in the available for sale portfolio. But periodically with an opportunistic lens on payback period, we can do these small sales that - to some degree can be offset by warrant gains and things along those lines. So thinking about it from a tangible book value perspective, but at the same time, looking opportunistically at payback period.

Q: Ebrahim Poonawala

Got it. Thanks for taking my questions.

Operator

Your next question comes from the line of Casey Haire with Jefferies. Your line is now open.

Q: Casey Haire

Couple of questions on Slide 12. First off, so the non-interest-bearing mix, high 30s by fourth quarter '23. That's obviously very difficult to sort of handicap. Just what's giving you confidence around that number.

A: Daniel Beck

Yes, Casey, it's Dan, I'll start. Mike wants to add as well. There are two things that we're looking at that give us a little bit more confidence on where that non-interest-bearing mix is going to bottom-out. First and foremost, the teams have spent a lot more time getting into the detail across our different segments on where operating dollars lie versus excess dollars in these deposit accounts. So exactly how much from a deposit perspective is available to be transferred. Now that analysis is never perfect but allows to start to get a sense of where we think that non-interest-bearing piece is going to lie.

And then secondly, when we take a big step back, we've talked about this before. And when you look at the total client funds of the company, and you start to think about non-interest-bearing bottoming out in the high 30% range. And looking at the fact that total client funds is close to the \$340 billion range, that high 30s is really when you compare it to other banks that don't have off balance sheet in that, mid-teens to high-teens range, which we think no route relative to our historical experience is a bottom and is a low.

So we've got the individual assessment that we've done plus just our historical experience, on where that would bottom-out, in comparison to peer banks. Now, it's not perfect for sure. And we're encouraged by the slowdown and the pace of that change here in the fourth quarter. And we expect that to continue throughout 2023.

Q: Casey Haire

Very good, thank you. And then in the letter you guys talk about, you don't need to see VC deployment returned to 2021 levels, which were obviously very strong. Can you provide some color as to why that is? Because that comes up a lot, because that was such obviously a monster year for deposits. And it's obviously flowing out now. And so it makes sense, the push back that it's going to be very hard to replace what was a banner year?

A: Daniel Beck

Yes, Casey. I'll just go to the results of the fourth quarter as an indicator of why that statement makes sense. We're looking at venture deployment in the quarter, 35 billion or so think of that is kind of an annualized run with 120 billion to 140 billion venture deployment in the quarter, from a balance sheet perspective

on balance sheet. While we did see the decline in deposits, it was much lower than what we saw in the third quarter. And the reason for that gets to what Greg mentioned, as well as Mike, where we're seeing that lower level of cash burn. So even on a much slower venture deployment number, call it in the mid \$30 billion range, we started to see that on balance sheet deposit when we look at cash burn versus the inflows get to a much more normalized level.

So that I think is an indicator with cash burn continuing to slow based on what Mike and Greg just said, that we can get back without going to the 2021 deployment level, to not just deposit of being at the same level, but the potential for deposit growth.

Fragment 4: D.A.T.A. Score = -11.440%

Q: Casey Haire

Got you. Okay. Just last one for me, the premium amortization that you guys talked about for the first quarter here, you have it down a little bit. But it's predicated on a 375 tenure, which is, tenure, obviously a little bit lower today. With incremental pressure on that number, if the tenure finishes 50 bp lower, can you just provide some color on the premium memorization because this does create a lot of, I think confusion.

A: Daniel Beck

Yes. So we would still anticipate the premium amortization to decline here in the first quarter. And the reason for that is that mortgage spreads continue to come in. Now, after the first quarter, to the extent that we continue to see the 10-year come down, we do have the sensitivity to an increase in premium amortization from that quarter, but just from the fourth quarter to the first quarter, consider that it's going to continue to come down just because of the decrease in mortgage spreads in the quarter.

Operator

Your next question comes from the line of Steven Alexopoulos with JPMorgan. Your line is now open.

Q: Steven Alexopoulos

So to follow up with the pace of cash burn now slowing, has the amount of cash on hand and the burn levels are those both [the words] [ph] what you guys would consider a normal level right now or those each still elevated?

A: Greg Becker

Yes. It's Greg. I'll start. Trying to say what normal is, is really difficult for a variety of different ways. When you go back and the one thing you go back, five or six, seven years and try to say well, is that more of a normal period? Our portfolio, we have a lot more mature companies in the portfolio. So you going to think about they tend to keep a lot more cash. And so we don't have quite the same level of experience.

I think towards the end of this year, my sense is like, we're going to get more to what I'll call more of a normal cash balance level, because you're going to see the cash burn rates are still be elevated from the first half, they're going to be reducing, but they'll still be higher. And so we'll get to this more I'll call normal level. And I think, again, when you get to 24, we expect a modest increase in venture capital deployment. But one more thing that gets factored in is, which has been zero for almost all at '22 and it's first part of '23. And most of '23 have been unexpected big impact is private market or public markets. And, again, this for the longest time that they have hadn't really been any IPOs.

And as we spend more time with our late-stage clients, there's many of them that are doing really well. And when that market opens up, that we certainly believe that we're going to be in a really good position to do two things, one, help them go public, number one, and number two, be the beneficiaries of that cash when it comes in. And so all those things are factored in, which makes it, it's just hard to predict exactly how it will, "settle out to a normal level".

Q: Steven Alexopoulos

Okay. That's fair. And I know it's not one-for-one, but very roughly, what type of year would you need from a VC investment level? To get to this 2023 guidance? Like what is this roughly based on?

A: Greg Becker

Yes. I'll start and Dan or Mike may want to add. I tried to kind of give a little bit of color in my opening comments, but the way to think about it is that we still expect in the first half of '23, that you're going to see kind of a 10% to 20%, roughly decline in venture capital. And then, you're going to kind of pick back up in the -- from those low points in the first half. And pick up that not a lot. So you're probably looking at, again, if you annualize the fourth quarter, you're at about 144 billion, I think we're in that, roughly 130 billion-ish for the year. Again, rough estimates, because you factor everything in, you got to think about burn rates and everything else. But the point is that the run rate for the fourth quarter, our forecast for '23 is actually slightly lower than that, when you aggregate it, it's

just more front end loaded the negative. And we'll see a little bit of a benefit in the second half.

A: Daniel Beck

Yes. Steve just add to what Greg is saying it doesn't increase very much in the back half. So we're in no way shape, or form being aggressive, thinking that the market is going to come back with significant amounts of deployment, the back half of the year. So you're not talking about material shift in Q3 and Q4 in investment levels. But what we do see in Q3 and Q4, with the guidance that we're going to see the slowdown in the decline in non-interest bearing deposits, plus the securities pay down each quarter that you kind of -- you get to a normalization of net interest income and margin, right around the midpoint of the year, And then can start to see some growth into the fourth quarter, just with those factors alone.

So small increase in venture deployment, a stabilization in the non-interest-bearing levels that happened towards the back of 2023 plus the securities pay down starts to build momentum for net interest income.

Fragment 5: D.A.T.A. Score = -7.956%

Q: Jared Shaw

You're [restricting] [ph] just a little bit over to the loan side and the growth you saw in, and they are going to be talking about clients favoring debt over capital here. Have you changed underwriting? Or have you seen any better terms on loans that are being originated now versus earlier in the cycle for these early and mid-stage companies?

A: Greg Becker [This is Mr. Becker's third paragraph in response to Mr. Shaw's question.]

And so obviously, it's gotten harder. Not that they couldn't raise money, it's that they're choosing not to because of the valuation, that they would like to see, those are great opportunities for us. So the team is doing a great job of winning, really some great, great business on the technology side. In the global funds banking, you've got, again, we've been doing this longer than anybody else. So we've got a great experience. That's the term sheets, and the new business is still in very, very strong demand and we've seen some people pull out of the market. And so that allows us to, in some cases get a little bit higher margin. But I'd say it's as much getting -- making sure we have the highest quality clients that we're bringing on board to the platform. So it's still competitive. But we're able to

bring in some great clients, and we're able to see some nice outstandings in this environment. So I don't know, Marc or Mike?

A: Marc Cadieux

So I'll just comment, specifically on underwriting that was part of your question. Generally speaking, we try to keep our underwriting standards consistent. And what that will mean generally, in times when the environment is getting worse is fewer clients clearing the bar. At the same time, as Greg mentioned, that has been offset by more demand. And so we are continuing to see some great opportunities to grow loans, really across the segments, including the core tech and healthcare. Mike anything you want to add.

A: Mike Descheneaux

Yes. The only thing I would add is, I mean, clearly, we're very cognizant of the economic environment that we're operating in. So when we're looking at underwriting, we're very conscientious of business models that are relying on the consumer as the consumer might be hit with inflation, starting to think about interest rates and how they might impact the business models as well, or their amount of financing. So all these things are coming into factor. But as Marc said, right, we're very consistent or underwriting standards, which has served us well for many, many years.

Q: Jared Shaw

Okay, thanks. And then, I guess a corollary of that you look at the credit, expectations and the growth in the allowance looks like, inside 30 of -- you're nearly at peak stage losses are very close to it for coverage. How much higher do you think we can see the allowances or ratio go with sort of your broader credit expectation backdrop for normalizing losses?

A: Marc Cadieux

That's Mark, I'll start, Dan or others may wish to chime in. So certainly, there's a fair bit of reserve build, as you pointed out in '22, because the reserves go higher in '23. As I think you probably know, economic forecasts can drive the reserve as it did for us, this particular quarter. So that's one factor. We could, as we've noted, see higher levels of non-performing loans that could drive higher specific reserves. And so there is that potential for the reserves to go higher, again, recognizing that we have a fair bit of reserve built behind us in 2022.

Operator

Your next question comes from the line of Bill Carcache with Wolfe Research. Your line is now open.

Q: Bill Carcache

I wanted to follow up on the reopening of IPO markets being a clear positive for the business. From a timing perspective, would you expect that reopening to coincide with a Fed pause? Are we more likely to need to see rate cuts? Just curious for your high-level thoughts there?

A: Greg Becker

Yes. I wish I had our SVB Securities team on the line right now. They're close to [indiscernible]. But as we talked about it, I think we don't have a lot of expectations for things, in '23, with a few exceptions, right. I think my view when you start to see the top off of rates, and so I don't think they need to go down. I think they need to be stable at whatever level they're at. And I think just some confidence that's where we're going to hold and we're not going to see a potential for another spike. So that's one data point.

Second data point is, as I mentioned this earlier, I've been spending more time with some of our later stage clients that are -- they have a lot of the metrics that we would say they are in a position when the market opens up to go public. And I think there's when that stability happens, you're going to see some go out and test the waters. We need them to test the waters. And so I think could that happen in late Q3, Q4, the answer is yes. So I think if we see maybe a couple more rate hikes at 25 basis points and a quarter a little more than a quarter of flattening. Do I think that the market could open up for a few IPOs, the answer's yes.

Fragment 6: D.A.T.A. Score = -2.829%

A: Greg Becker [This is a continuation of Mr. Becker's answer, above.]

Again, make one more point, even when it opens up, it's not going to be a flood, it'll be a trickle. Because it'll be the ones that have the highest potential to go public, and people are going to wait to see how they perform. So I would say, yes, maybe in the late third quarter and fourth quarter, you'll see an opening, but it's going to be a slow-paced opening when that happens.

A: Daniel Beck

The only thing I'd add to it, Greg is, and we saw it in the fourth quarter on the biopharma side, in particular, good deal flow, good deal activity there, has that

if you think about that business, that's the normal flow of fund-raising activity for those types of clients. So we're not expecting, a substantially strong year on the biopharma side. But I think that can become more constant. And as embedded within our guidance expectations for 2023.

Q: Bill Carcache

That's helpful. Thank you. Separately, how would you characterize the current willingness of companies to take down funding rounds? And how would you say that compares to the appetite for dry powder deployment? Just curious, if you think we're in any way getting closer to those two sides coming together?

A: Greg Becker

Yes, it's Greg. I'll start. It's exactly what you'd expect. We've seen this movie before. And you've got companies that are, and you can see this in the venture capital data that was released in the fourth quarter. Late-stage rounds, there were a lot fewer of them, but the valuation actually didn't drop a whole lot. And the reason for that is that investors looked at this as an opportunity to go in on a flat round, and some of the highest profile companies that had actually done really well since their last round, but they can still get in at it, what they would say is a decent valuation. And you have another group of companies that are there -- they're basically saying, hey, I'm going to take the lower valuation, I'm going to get it over with, those are fewer. But we're going to see more of it over the course of '23. And then the final one is, what I'll call the in between, it's the structure deal where it is, it looks like it's the same round valuation as the last round, but they have preferences and things like that, that you would say, when you really look through it isn't keeping it at the same valuation, there's structure involved.

All those things are happening but you're going to see more my view, more down rounds occur in '23, you'll see some more structured deals. So all three of those scenarios are played out, you're just going to see more activity happening. And again, as we talked about earlier, more in the second half of the year, than the first half of the year.

Q: Bill Carcache

That's very helpful. Thank you. If I could squeeze in one last one. Really wanted to follow up on your commentary around the non-interest-bearing deposit mix. I'm sorry to keep coming to that question about stabilizing the high 30% range. But the question is sort of around this broad concern around the banking system in general that we're hearing from a lot of investors that we could see the mix of non-interest-bearing deposits revert to pre GFC levels.

But when we look to the pre-GST era, your mix of non-interest-bearing deposits was in the mid to high 60% range, which is around where you were pre-COVID. So I appreciate your commentary around looking at non-interest bearing in relation to total client funds. But maybe like a broader question is, do you envision a scenario where we can sort of get back to that mid to high 60% non-interest-bearing mix as we look beyond some of these more near-term liquidity pressures that you're dealing with?

A: Greg Becker

Yes. As people would say, hope is not a strategy. So while it would be great to be there. There certainly is nothing in our forecasts that would say we're getting back to that at all. And so, do we -- is there a scenario that we would see an uptick from the bottom that we think will happen later this year? The answer is yes. And we haven't come out with a guidance on what that would look like. But it's going to be well below our historical level of non-interest deposits. I know, Dan what you add to it.

A: Daniel Beck

Yes. The other way to think about it is, when you go back to the history of pre-global financial crisis, just the size of the overall balance sheet, the types of companies that we bank are very, very different. And I think as a result of that change in client mix, we're not going to get back to those levels of non-interest-bearing deposits. That doesn't mean that we don't have the quality of the deposit franchise, it's just a different mix of clients, now versus then with close to \$215 billion balance sheet.

Fragment 7: D.A.T.A. Score = -10.733%

Q: John Pancari

Okay, thanks. And then, lastly, for me, it's just the capital markets investment banking pipeline. If you could maybe just comment there what you are saying, sorry, if you've already touched on it. But just wondering if you can talk a little bit about what you're seeing here in terms of deal opportunities, as you look out into 2023?

A: Greg Becker [This is second paragraph in response to Mr. Pancari's question.]

This is going to be a tough year, our outlook shows, it's going to be a tough year. But I'm actually really excited about '24 and '25. And having that team be on the platform longer and really take advantage of an improving market at some

point. But it's going to be a tough market, but still an uptick in revenue from what we saw in '22.

Q: John Pancari

Okay. Thanks, Greg. Appreciate it.

Operator

Your next question comes from the line of Jennifer Demba with Truist Securities. Your line is now open.

Q: Jennifer Demba

Question on credit quality. I know you have a very small commercial real estate portfolio. But I wonder if you could just kind of give us a characterization of what's in there. And if you have any concerns about any piece of it. I know it's really small. But a lot of banks have been talking about concern about commercial real estate in a tougher environment?

A: Marc Cadieux

Hi, it's Marc. And that is a segment certainly bears watching, particularly if there is a recession in the offing. But generally speaking, as you pointed out, it's 3% of total loan, it's reasonably well diversified across several different categories. And probably what's most important, is that it's on average, well margins, relative to the underlying real estate collateral. So that was certainly going back to the Boston Private acquisition. It was a portfolio we were more concerned about, in part because it was -- we were in the depths of COVID at the time, and it has continued to really outperform my expectations.

Q: Jennifer Demba

Great. Is there any office exposure in there?

A: Marc Cadieux

There is some office exposure, it is not an enormous part of that 3% but significant again, so far has continued to outperform expectations.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer. Your line is now open.

Q: Chris Kotowski

Yes. Good evening. Thank you. It's a question, I guess, mainly for Dan. And I hear you and I understand exactly why you're saying the only securities restructuring would be in the available for sale portfolio. But I wonder as you're looking at that held to maturities portfolio, I'm looking at your average balance sheet, there's like the \$85 billion taxable hold to maturities portfolio. I wonder, just if you can highlight a few of the dynamics of the run-off there. And the first thing I'd say is, I noticed like the yield went down from, like 192 to 172 from the third quarter to the fourth quarter. Presumably that's the \$50 million of amortization. But I'm wondering, what's the go forward? I mean, was the third quarter a \$50 million, good guy or is the fourth quarter \$50 million bad guy, I guess? That's the first thing, you know, should we expect something like with a 170 handle or a 190 handle?

And then, secondly, I guess I'm wondering, I mean, from the disclosures in the 10-Q, it looks like that had has a very long maturities profile. Is there like any significant runoff that would kind of on a natural basis, take that portfolio over, say, 3% yield handle anytime in the next, 12 to 24 months?

A: Daniel Beck

Yes. It's Dan. I think, first and foremost, the payoff profile there, we're getting off that book, anywhere between \$2 billion to \$3 billion, a quarter. So think \$12 billion, annualized, run down in that portfolio. And those assumptions were where 10-year rates were just a couple of weeks ago. So we now think about tenure, 330, 340, you can pick up some pay down acceleration associated with that. We'll see how material that becomes and where the 10-year ultimately land. So I think you're going to continue to see some improvement. But in this kind of \$2 billion to \$3 billion, quarter like a clock just continues to pay down with the opportunity to accelerate if 10-year rates come down from there.

We think about yields themselves, I think, as we look at Q1, we're still talking about in the high 170s to the mid-180 range, in that book, and a lot of that really comes down to where premium amortization comes in for the portfolio. So, those are really the factors, watch the 10-year yield, to the extent that that continues to come down, you could see an acceleration of payments on that book, which obviously, just make things go faster, faster there and get us closer to that inflection point of NII and NIM sooner, if that were to occur.

Q: Chris Kotowski

Okay. Thank you. That's it for me.

Operator

Your next question comes from the line of Andrew Liesch with Piper Sandler. Your line is now open.

Q: Andrew Liesch

Just curious if you'd look at the investor dependent cohort right now, how much cash runway do they have? Obviously, they've been trying to sell their cash burn. And that sounds like they've been successful at doing that. But how does their cash position stand looking out for the next year or so?

A: Daniel Beck

Yes. So we track remaining months of liquidity we call it otherwise referred to as runway, and the majority of that portfolio at last check, still had over a year's worth of cash on hand.

Fragment 8: D.A.T.A. Score = -15.676%

Q: Andrew Liesch

Got it. All right. That's helpful. And then just shifting gears. On the funding side, when investment activity does come back, and client funds come in. How do you expect the mix to trend with respect to deposits versus off balance sheet funds?

A: Daniel Beck

Yes. This is Dan. I think, based on a potential recovery and venture deployment, again, we don't have a substantial pickup at all in the earnings guidance for 2023. But imagining that we do start to see a pickup there, I think we're going to continue to direct those funds on the balance sheet. We think about the composition of those funds as they come in, they'll likely be less expensive than what we've got from the off-balance sheet to on balance sheet product. So over time, to the extent that that accumulates, we'll look at over time, shifting more of those expensive deposits. That's one of the benefits of that product is that it's not a one-way door, we have the ability to shift that off balance sheet to accelerate the improvement in net interest income and net interest margin.

So I think we'll for -- if you think of the switch and how we toggle the switch, the switch will be continued toggled on the balance sheet. As we drive some of those higher costing deposits off the balance sheet. And to be very clear, we don't expect this to come in is all non-interest bearing it'll certainly be more heavily weighted to interest bearing in this higher for longer environment, but still be cheaper than those off-balance sheet client funds.

Q: Andrew Liesch

Got it. That was my question. Thanks so much.

Operator

Your next question comes from the line of David Smith with Autonomous Research. Your line is now open.

Q: David Smith

On the capital call lending and global fund banking, could you just say a little bit about how much of the growth was driven by new lines of commitments versus any change in utilization?

A: Greg Becker

So, as far as the new client business, I mean, most of it was from utilization, the change from an outstanding perspective. So we did have some new, obviously new client fundings. But so, I'd say it varies from quarter-to-quarter. So it's probably not anything to make a -- have a dramatic change. So, Dan, if you would add anything to it?

A: Daniel Beck

Yes. I think when we look at the quarter from a funded perspective, we did have growth in capital call. And at the same time, that was off of lower utilization. So you've got some net new clients in there. I think more notable is the increase in the amount of term sheets and net new unfunded commitments, which over the next six to nine to 12 months, are really going to be a tailwind for us from a loan growth perspective. I think that's most notable also drove an element of the provision increase in the quarter.

Q: David Smith

Okay. So just to be clear, lines were up but utilization was down slightly, but on net to outstandings were higher?

A: Daniel Beck

That's right.

Q: David Smith

Okay. And just unpacking the SVB Securities outlook a little bit more. It was largely biopharma driven in the fourth quarter, as I understand it. What kind of tech recovery is contemplated in the guide for 2023?

A: Greg Becker

Very little, very little. Again, as I said, now, having the full platform and people in the saddle for longer and deeper relationships being built, it's really just -- able to pick up some market share. We just don't have a lot of new activity in there.

Q: David Smith

Okay. Is it fair to call it still largely a biopharma story for next year?

A: Greg Becker

No. I think it's clearly going to see more of a mix. Biopharm will do fine, but it's M&A in technology. It's M&A in healthcare services. So M&A is going to be the bigger part. So I here's how to describe it. Biopharm is probably going to be still be a mix of ECM in M&A. Technology and healthcare services is going to be more driven for the year with M&A. And maybe towards the end of the year, you start to see a little bit of a pickup in ECM in the technology side.

Q: David Smith

Okay. Thank you.

Operator

Your next question comes from the line of Christopher McGratty with KBW. Your line is now open.

Q: Christopher McGratty

Greg, your balance sheet historically has been one of the more asset sensitive, we're going through a period of really big rate increases. So you've moved to the other side. If we look at the forward curve, which begins the pricing cuts, and I know your guidance doesn't factor in cuts. How do we think the margin will perform if the Fed funds rate gets cut? As we look into next year, should the balance sheet flipped to being liability sensitive in that respect?

A: Daniel Beck

Yes, Chris. This is Dan. I think if you look at our disclosure of what we're talking about for potential rate increases, you start to see that that which is factored at least the next couple increases are factored into our guidance, you start to see that we could be liability sensitive associated with that. So in the case that the Fed starts to decrease rates, and again, we don't have any of that baked into our estimates, that could start to be a bit more of a tailwind from an NII perspective, reducing the overall pricing on some of those more expensive deposits faster than what we have incorporated in our model.

Fragment 9: D.A.T.A. Score = -9.22%

A: Daniel Beck [This is a continuation of Mr. Beck's answer, above.]

So I think you can look to the asset sensitivity disclosure and look to the same potential for a reduction to the extent that rates come down.

A: Greg Becker

And maybe Chris just to add-on, because I think you've kind of had two questions. One is maybe short-term and long-term. And I think, when we settle out to find out kind of that kind of normalization. And then when you see, let's say, you got back to whatever that normal floor is, or flattening of rates at some points and lower level. And then at that point, I think if you saw some rate increases, modest ones, I think we'd be back into the more assets sensitive side. I think it's just right now, and you said it, we saw such a rapid increase in rates, which we've never seen before. And that's what kind of made the biggest change, in addition to this kind of construction of the balance sheet. Those two things, cause it to be kind of out of historical norm. And it's going to take a little while for us to get back to that place where we can eventually get back to a base level, although less level of asset sensitivity.

Q: Christopher McGratty

That's great. Thank you for that. If I could just follow it up. One of your competitors. Last week talked about deferring costs into the out year, given the environment, appreciating the low single digit guide for expense this year. Were certain projects just pushed to next year, or is there, I know you talked about hiring slowing, but is there a natural ramp that comes back into the expense growth rate once environments get a little better?

A: Greg Becker

Yes. I'll talk about Chris philosophically how we've operated from an expense perspective over years and cycles. And then, more specifically about the guidance that you gave, and then Dan can add comments to it. And we've said this, when you go back and look at the pace of investment we made in digital infrastructure, and a whole variety of risk management, a lot of different things.

We looked at it and said, look, when [indiscernible] times are better, we are earning more money. We're going to we're going to kind of accelerate that investment level. Because we have an insatiable appetite for investment,

because of our target market and the market overall, and where it's growing and how large it is. And so when you have times like this, that's just a more challenging, more uncertain market are more headwinds, you're going to take a look, and you're going to say, you're going to basically prioritize, and you're going to kind of optimize what you have. So does that mean slowing down some projects? Yes, it does. Does it mean potentially pushing things out into future years? It does. But we have that prioritized list. And as things start to improve, we're going to start to put more money behind those projects.

We have in the deck where we're making the investment focus, our prioritized list. So it's more in the private banking, wealth management going to go-to-market strategy. Secondly, in the commercial bank, kind of focus there and digital enhancements. Third is this one SVB collaboration, just making sure that we're working across the entire platform. And that's just really important to make sure that we leverage our investments, leverage our acquisitions, and really take care of our clients deliver for our clients in a meaningful way.

And then the last one is risk management, which again, we continue to enhance, as we are in this LFI status, and both expectations, and just our own needs are increased. And so that's how we think about prioritization and so forth. So Dan, what would you add to that?

A: Daniel Beck

Yes. I think as long as it's clear, we're going to continue to invest here, even in a more challenged 2023, across the elements that Greg mentioned that's key, I think, for us to emphasize, we're able to optimize that spend also, as we're looking at changing the mix between professional services, and cheaper, full-time employees. That's just another way for us to get optimization from a cost perspective. And we're doing that and that also helps us from a sustainability perspective.

And then I think the last part of your question is, to the extent that the environment improves, are we going to go back, to that more traditional higher expense run rate. And I think that's going to be a balance. And I think for us the overall return, the profitability of the franchise is continuously important. So we'll have to continue to balance those investments, as our profitability returns to more normal levels.

Q: Christopher McGratty

That's great color. Thanks. And maybe just the last one, I know the environment is uncertain, but thoughts on a buyback over time given the valuation.

A: Daniel Beck

Yes, Chris. I think we've said this in the past, we're always going to remain open to looking at our options from a capital perspective. Now, obviously 2023, we're not expecting a lot in terms of new major acceleration in deployment. But to the extent that deployment does come back and does come back quickly, you can start to see the balance sheet increase. And again, no more pressure from a Tier-1 leverage perspective. So we certainly don't have that now, but it's something that we need to continue to be cognizant of. So I think as we look ahead, we're just going to continue to keep our options open. But again, no, I think growth over the medium and long-term is the thing that we need to prepare for.