

SVB FINANCIAL GROUP  
Form 10-Q  
November 06, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to            .

Commission File Number: 000-15637

**SVB FINANCIAL GROUP**

(Exact name of registrant as specified in its charter)

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**91-1962278**  
(I.R.S. Employer  
Identification No.)

**3003 Tasman Drive, Santa Clara, California**  
(Address of principal executive offices)

**95054-1191**  
(Zip Code)

**(408) 654-7400**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At October 30, 2009, 33,208,760 shares of the registrant's common stock (\$0.001 par value) were outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	<b>3</b>
Item 1. <u>Interim Consolidated Financial Statements (unaudited)</u>	3
<u>Interim Consolidated Balance Sheets (unaudited) as of September 30, 2009 and December 31, 2008</u>	3
<u>Interim Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2009 and 2008</u>	4
<u>Interim Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2009 and 2008</u>	5
<u>Interim Consolidated Statements of Stockholders' Equity (unaudited) for the nine months ended September 30, 2009 and 2008</u>	6
<u>Interim Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2009 and 2008</u>	7
<u>Notes to Interim Consolidated Financial Statements (unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	66
Item 4. <u>Controls and Procedures</u>	67
<b><u>PART II - OTHER INFORMATION</u></b>	<b>68</b>
Item 1. <u>Legal Proceedings</u>	68
Item 1A. <u>Risk Factors</u>	68
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	76
Item 3. <u>Defaults Upon Senior Securities</u>	76
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	76
Item 5. <u>Other Information</u>	76
Item 6. <u>Exhibits</u>	76
<b><u>SIGNATURE</u></b>	<b>77</b>
<b><u>INDEX TO EXHIBITS</u></b>	<b>78</b>

**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
SVB FINANCIAL GROUP AND SUBSIDIARIES****INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(Dollars in thousands, except par value and share data)	September 30, 2009	December 31, 2008 *
<b>Assets</b>		
Cash and due from banks	\$ 4,062,298	\$ 1,958,333
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	48,530	478,392
Investment securities	3,491,281	1,786,100
Loans, net of unearned income	4,655,817	5,506,253
Allowance for loan losses	(86,713)	(107,396)
<b>Net loans</b>	<b>4,569,104</b>	<b>5,398,857</b>
Premises and equipment, net of accumulated depreciation and amortization	30,722	30,589
Goodwill		4,092
Accrued interest receivable and other assets	336,668	361,917
<b>Total assets</b>	<b>\$ 12,538,603</b>	<b>\$ 10,018,280</b>
<b>Liabilities and total equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 6,422,937	\$ 4,419,965
Negotiable order of withdrawal (NOW)	39,818	58,133
Money market	1,198,611	1,213,086
Money market deposits in foreign offices	64,701	53,123
Time	333,870	379,200
Sweep	1,995,695	1,349,965
<b>Total deposits</b>	<b>10,055,632</b>	<b>7,473,472</b>
Short-term borrowings	52,285	62,120
Other liabilities	171,166	175,553
Long-term debt	866,748	995,423
<b>Total liabilities</b>	<b>11,145,831</b>	<b>8,706,568</b>
Commitments and contingencies (Note 12)		
SVBFG stockholders' equity:		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Preferred stock, Series B Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000 liquidation value per share, 235,000 shares authorized; 235,000 shares issued and outstanding, net of discount	223,009	221,185
Common stock, \$0.001 par value, 150,000,000 shares authorized;		

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

33,202,387 and 32,917,007 shares outstanding, respectively	33	33
Additional paid-in capital	92,367	66,201
Retained earnings	726,455	709,726
Accumulated other comprehensive income (loss)	25,513	(5,789)
<b>Total SVBFG stockholders equity</b>	<b>1,067,377</b>	<b>991,356</b>
Noncontrolling interests	325,395	320,356
Total equity	1,392,772	1,311,712
<b>Total liabilities and total equity</b>	<b>\$ 12,538,603</b>	<b>\$ 10,018,280</b>

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation for more details.  
 See accompanying notes to interim consolidated financial statements (unaudited).

**Table of Contents****SVB FINANCIAL GROUP AND SUBSIDIARIES****INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(Dollars in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008 *	2009	2008 *
<b>Interest income:</b>				
Loans	\$ 83,049	\$ 94,256	\$ 255,548	\$ 268,530
<b>Investment securities:</b>				
Taxable	21,562	15,321	53,207	43,677
Non-taxable	1,008	1,106	3,098	3,121
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	2,367	2,712	7,228	10,513
<b>Total interest income</b>	<b>107,986</b>	<b>113,395</b>	<b>319,081</b>	<b>325,841</b>
<b>Interest expense:</b>				
Deposits	4,801	6,267	17,253	16,908
Borrowings	6,367	12,517	21,818	36,748
<b>Total interest expense</b>	<b>11,168</b>	<b>18,784</b>	<b>39,071</b>	<b>53,656</b>
<b>Net interest income</b>	<b>96,818</b>	<b>94,611</b>	<b>280,010</b>	<b>272,185</b>
<b>Provision for loan losses</b>	<b>8,030</b>	<b>13,682</b>	<b>72,889</b>	<b>29,756</b>
<b>Net interest income after provision for loan losses</b>	<b>88,788</b>	<b>80,929</b>	<b>207,121</b>	<b>242,429</b>
<b>Noninterest income:</b>				
Foreign exchange fees	7,491	8,641	22,574	24,446
Deposit service charges	6,906	6,129	20,319	18,076
Client investment fees	5,527	13,636	17,355	41,006
Letters of credit and standby letters of credit income	3,019	3,050	8,240	9,138
Credit card fees	2,300	1,473	6,696	4,675
Corporate finance fees				3,640
(Losses) gains on derivative instruments, net	(1,090)	6,472	(2,123)	13,479
Gains (losses) on investment securities, net	3,905	(876)	(37,890)	(4,949)
Other	6,249	1,913	21,830	17,194
<b>Total noninterest income</b>	<b>34,307</b>	<b>40,438</b>	<b>57,001</b>	<b>126,705</b>
<b>Noninterest expense:</b>				
Compensation and benefits	45,815	49,598	141,042	153,438
Professional services	12,109	9,623	35,452	27,556
Premises and equipment	5,892	5,781	16,993	16,424
FDIC assessments	2,589	671	13,853	1,807
Net occupancy	4,198	4,135	13,346	12,825
Business development and travel	2,902	3,389	9,578	10,575
Correspondent bank fees	2,118	1,689	5,994	5,011
Impairment of goodwill			4,092	
Loss from cash settlement of conversion premium of zero-coupon convertible subordinated notes				3,858
Provision for (reduction of) unfunded credit commitments	65	(990)	(3,366)	(355)
Other	4,119	6,535	18,975	19,918

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Total noninterest expense	79,807	80,431	255,959	251,057
Income before income tax expense	43,288	40,936	8,163	118,077
Income tax expense	16,879	16,711	21,605	51,350
Net income (loss) before noncontrolling interests	26,409	24,225	(13,442)	66,727
Net (income) loss attributable to noncontrolling interests	(2,246)	1,693	40,708	7,445
<b>Net income attributable to SVBFG</b>	<b>\$ 24,163</b>	<b>\$ 25,918</b>	<b>\$ 27,266</b>	<b>\$ 74,172</b>
Preferred stock dividend and discount accretion	(3,555)		(10,636)	
<b>Net income available to common stockholders</b>	<b>\$ 20,608</b>	<b>\$ 25,918</b>	<b>\$ 16,630</b>	<b>\$ 74,172</b>
Earnings per common share basic	\$ 0.62	\$ 0.80	\$ 0.50	\$ 2.30
Earnings per common share diluted	0.61	0.77	\$ 0.50	2.17

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation for more details.

See accompanying notes to interim consolidated financial statements (unaudited).

**Table of Contents****SVB FINANCIAL GROUP AND SUBSIDIARIES****INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30, 2009	2008 *	September 30, 2009	2008 *
<b>Net income (loss) before noncontrolling interests</b>	\$ 26,409	\$ 24,225	\$ (13,442)	\$ 66,727
Other comprehensive income (loss), net of tax:				
Cumulative translation gains (losses):				
Foreign currency translation gains (losses)	455	(565)	(87)	(1,269)
Related tax (expense) benefit	(184)	232	28	520
Change in unrealized gains (losses) on available-for-sale investment securities:				
Unrealized holding gains (losses)	35,068	(9,666)	52,927	(22,730)
Related tax (expense) benefit	(14,291)	3,973	(21,581)	9,321
Reclassification adjustment for realized (losses) gains included in net income (loss)	(8)	1,232	26	2,568
Related tax benefit (expense)	3	(506)	(11)	(1,054)
Other comprehensive income (loss), net of tax	21,043	(5,300)	31,302	(12,644)
<b>Comprehensive income</b>	47,452	18,925	17,860	54,083
Net (income) loss attributable to noncontrolling interests	(2,246)	1,693	40,708	7,445
<b>Comprehensive income attributable to SVBFG</b>	\$ 45,206	\$ 20,618	\$ 58,568	\$ 61,528

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation for more details.

See accompanying notes to interim consolidated financial statements (unaudited).



**Table of Contents****SVB FINANCIAL GROUP AND SUBSIDIARIES****INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)**

(Dollars in thousands)	Preferred Stock		Common Stock		Additional	Retained Earnings	Accumulated	Total SVBFG	Noncontrolling	Total Equity
	Shares	Amount	Shares	Amount	Paid-in Capital		Other Comprehensive (Loss) Income			
<b>Balance at December 31, 2007 *</b>		\$	32,670,557	\$ 33	\$ 13,167	\$ 669,459	\$ (6,290)	\$ 676,369	\$ 240,102	\$ 916,471
Common stock issued under employee benefit plans, net of restricted stock cancellations			1,069,803	1	29,813			29,814		29,814
Income tax benefit from stock options exercised, vesting of restricted stock and other					5,728			5,728		5,728
Net income (loss)						74,172		74,172	(7,445)	66,727
Capital calls and (distributions), net									92,341	92,341
Net change in unrealized losses on available-for-sale investment securities, net of tax							(11,895)	(11,895)		(11,895)
Foreign currency translation adjustments, net of tax							(749)	(749)		(749)
Proceeds from cash exercise of call option on zero-coupon convertible subordinated notes					3,858			3,858		3,858
Net cost of convertible note hedge and warrant agreement related to our 3.875% convertible senior notes					(20,550)			(20,550)		(20,550)
Income tax benefit from original issue discount related to our zero-coupon convertible subordinated notes and 3.875% convertible senior notes					12,848			12,848		12,848
Common stock repurchases			(1,004,628)	(1)	(12,322)	(33,294)		(45,617)		(45,617)
Stock-based compensation expense under SFAS 123(R)					10,786			10,786		10,786
Other-net					1,031	(16)		1,015		1,015
<b>Balance at September 30, 2008 *</b>		\$	32,735,732	\$ 33	\$ 44,359	\$ 710,321	\$ (18,934)	\$ 735,779	\$ 324,998	\$ 1,060,777
<b>Balance at December 31, 2008 *</b>	235,000	\$ 221,185	32,917,007	\$ 33	\$ 66,201	\$ 709,726	\$ (5,789)	\$ 991,356	\$ 320,356	\$ 1,311,712
Common stock issued under employee benefit plans, net of restricted stock cancellations			285,380		4,116			4,116		4,116
Income tax expense from stock options exercised, vesting of restricted stock					(584)			(584)		(584)

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

and other										
Net income (loss)				27,266		27,266		(40,708)		(13,442)
Capital calls and (distributions), net								45,747		45,747
Net change in unrealized gains on available-for-sale investment securities, net of tax				31,361		31,361				31,361
Foreign currency translation adjustments, net of tax				(59)		(59)				(59)
Income tax benefit from original issue discount related to our 3.875% convertible senior notes				10,739		10,739				10,739
Stock-based compensation expense under SFAS 123(R)				11,051		11,051				11,051
Preferred stock dividend and discount accretion		1,824		(10,636)		(8,812)				(8,812)
Other-net				844	99	943				943
<b>Balance at September 30, 2009</b>	<b>235,000</b>	<b>\$ 223,009</b>	<b>33,202,387</b>	<b>\$ 33</b>	<b>\$ 92,367</b>	<b>\$ 726,455</b>	<b>\$ 25,513</b>	<b>\$ 1,067,377</b>	<b>\$ 325,395</b>	<b>\$ 1,392,772</b>

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation for more details.  
See accompanying notes to interim consolidated financial statements (unaudited).

**Table of Contents****SVB FINANCIAL GROUP AND SUBSIDIARIES****INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Dollars in thousands)	Nine months ended September 30,	
	2009	2008 *
<b>Cash flows from operating activities:</b>		
Net (loss) income before noncontrolling interests	\$ (13,442)	\$ 66,727
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Impairment of goodwill	4,092	
Loss from cash settlement of conversion premium of zero-coupon convertible subordinated notes		3,858
Provision for loan losses	72,889	29,756
(Reduction of) provision for unfunded credit commitments	(3,366)	(355)
Changes in fair values of derivatives, net	6,201	(6,888)
Losses on investment securities, net	37,890	4,949
Depreciation and amortization	25,796	21,492
Tax benefit of original issue discount	10,745	3,899
Tax (expense) benefit from stock exercises	(927)	1,419
Amortization of share-based compensation	11,177	10,870
Amortization of deferred warrant-related loan fees	(6,125)	(6,105)
Deferred income tax (benefit) expense	(1,859)	16,357
Losses on sale of and valuation adjustments to other real estate owned property	117	236
Changes in other assets and liabilities:		
Accrued interest, net	(2,235)	1,815
Accounts receivable	3,378	851
Income tax receivable, net	(21,169)	(5,919)
Accrued compensation	(5,742)	(19,821)
Foreign exchange spot contracts, net	(9,282)	4,689
Other, net	(5,337)	(11,842)
<b>Net cash provided by operating activities</b>	<b>102,801</b>	<b>115,988</b>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(2,115,015)	(302,346)
Proceeds from sales of available-for-sale securities	195	4,432
Proceeds from maturities and pay downs of available-for-sale securities	499,493	194,158
Purchases of nonmarketable securities (cost and equity method accounting)	(33,882)	(43,674)
Proceeds from sales of nonmarketable securities (cost and equity method accounting)	3,363	7,422
Proceeds from nonmarketable securities (cost and equity method accounting)		1,498
Purchases of nonmarketable securities (investment fair value accounting)	(43,849)	(85,997)
Proceeds from sales of nonmarketable securities (investment fair value accounting)	11,760	22,083
Net decrease (increase) in loans	729,876	(1,156,978)
Proceeds from recoveries of charged-off loans	16,892	5,547
Proceeds from sale of other real estate owned	693	287
Purchases of premises and equipment	(11,545)	(5,959)
<b>Net cash used for investing activities</b>	<b>(942,019)</b>	<b>(1,359,527)</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	2,582,160	821,406
Repayments of other long-term debt	(101,272)	(901)
(Decrease) increase in short-term borrowings	(9,835)	335,000
Net payments for settlement of zero-coupon convertible subordinated notes		(149,732)
Proceeds from the issuance of 3.875% convertible senior notes, note hedge and warrant, net of issuance costs		222,686

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Capital contributions from noncontrolling interests, net of distributions	45,747	92,341
Tax benefit from stock exercises	337	5,882
Dividends paid on preferred stock	(7,932)	
Proceeds from issuance of common stock and Employee Stock Purchase Plan	4,116	29,813
Repurchases of common stock		(45,617)
<b>Net cash provided by financing activities</b>	<b>2,513,321</b>	<b>1,310,878</b>
Net increase in cash and cash equivalents	1,674,103	67,339
Cash and cash equivalents at beginning of period	2,436,725	683,174
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,110,828</b>	<b>\$ 750,513</b>
<b>Supplemental disclosures:</b>		
Cash paid during the period for:		
Interest paid	\$ 35,852	\$ 46,116
Income taxes paid	35,824	31,843
Noncash items during the period:		
Preferred stock dividends accrued, not yet paid	\$ 1,469	\$
Unrealized gains (losses) on available-for-sale securities, net of tax	31,346	(13,409)
Net change in fair value of interest rate swaps	(37,914)	7,157

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation for more details.  
See accompanying notes to interim consolidated financial statements (unaudited).

---

**Table of Contents**

**SVB FINANCIAL GROUP AND SUBSIDIARIES**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Basis of Presentation**

SVB Financial Group ( SVB Financial or the Parent ) is a diversified financial services company, as well as a bank holding company and financial holding company. SVB Financial was incorporated in the state of Delaware in March 1999. Through our various subsidiaries and divisions, we offer a variety of banking and financial products and services to support our clients through all stages of their life cycles. In these notes to our interim consolidated financial statements, when we use or refer to SVB Financial Group, SVBFG, the Company, we, our, us, other similar words, we mean SVB Financial Group and all of its subsidiaries collectively, including Silicon Valley Bank (the Bank ), unless the context requires otherwise. When we use or refer to SVB Financial or the Parent we are referring only to the parent company, SVB Financial Group, unless the context requires otherwise.

The accompanying interim consolidated financial statements reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary to fairly present our financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of results to be expected for any future periods. These interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008 ( 2008 Form 10-K ).

The accompanying unaudited interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Consolidated Financial Statements and Supplementary Data-Note 2- Summary of Significant Accounting Policies under Part II, Item 8 of our 2008 Form 10-K, and with the accounting pronouncements adopted during the nine months ended September 30, 2009, as discussed below.

The preparation of interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates may change as new information is obtained. Significant items that are subject to such estimates include the valuation of non-marketable securities, the allowance for loan losses, valuation of equity warrant assets, the recognition and measurement of income tax assets and liabilities, the adequacy of the reserve for unfunded credit commitments, and share-based compensation.

***Principles of Consolidation and Presentation***

Our consolidated interim financial statements include the accounts of SVB Financial Group and our majority-owned subsidiaries and variable interest entities ( VIEs ) for which we are the primary beneficiary. There have been no significant changes during the nine months ended September 30, 2009 to our majority-owned subsidiaries and VIEs. Refer to our Consolidated Financial Statements and Supplementary Data-Note 2- Summary of Significant Accounting Policies under Part II, Item 8 of our 2008 Form 10-K.

***Impact of Adopting Financial Accounting Standards Board ( FASB ) Issued Guidance Over Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 (ASC 810-10-65)***

In December 2007, the FASB issued new accounting standards (Accounting Standards Codification ( ASC ) 810-10-65, formerly known as Statement of Financial Accounting Standards ( SFAS ) No. 160). This standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This standard also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Our adoption of this standard on January 1, 2009 required us to reclassify our presentation of noncontrolling interests (formerly referred to as minority interests) in our financial statements and had no effect on our financial position, results of operations or stockholders equity.



**Table of Contents**

***Impact of Adopting FASB Issued Guidance Over Disclosures about Derivative Instruments and Hedging Activities (ASC 815-10-65)***

In March 2008, the FASB issued new accounting standards (ASC 815-10-65, formerly known as SFAS No. 161). This standard requires companies with derivative instruments to provide enhanced disclosure of information that should enable financial statement users to better understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB issued guidance over accounting for derivative instruments and hedging activities (ASC 815, formerly known as SFAS No. 133) and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. Our adoption of this standard on January 1, 2009 required us to expand our disclosures for our derivative financial instruments. Please refer to Note 9- Derivative Financial Instruments for further details.

***Impact of Adopting FASB Issued Guidance Over Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (ASC 470-20)***

In May 2008, the FASB issued new accounting standards (ASC 470-20, formerly known as FASB Staff Position ( FSP ) Accounting Principles Board ( APB ) Opinion No. 14-1), which requires the proceeds from the issuance of convertible debt instruments to be allocated between a liability and an equity component in a manner that reflects the entity's non-convertible debt borrowing rate when interest expense is recognized in subsequent periods. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. Our adoption on January 1, 2009 required historical financial statements for 2007 and 2008 to be retrospectively adjusted to conform to the new accounting treatment for both our \$150 million zero-coupon convertible subordinated notes ( 2003 Convertible Notes ), which matured on June 15, 2008, and our \$250 million 3.875% convertible senior notes ( 2008 Convertible Notes ), due April 15, 2011.

As a result of adopting the requirements of this standard, our net income available to common stockholders for the three and nine months ended September 30, 2009 decreased by \$0.3 million and \$0.9 million, respectively. Details of certain items revised in prior periods related to the adoption of this standard are provided below under the section Changes to Prior Period Balances .

***Impact of Adopting FASB Issued Guidance Over Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (ASC 820-10-65)***

In April 2009, the FASB issued new accounting standards (ASC 820-10-65, formerly known as FSP SFAS No. 157-4), which provides guidance to highlight and expand on factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset or liability. This standard also provides guidance on identifying circumstances that may indicate that a transaction is not orderly. Our adoption of this standard on April 1, 2009 did not have a material effect on our financial position, results of operations or stockholders' equity.

***Impact of Adopting FASB Issued Guidance Over Recognition and Presentation of Other-Than-Temporary Impairments ( OTTI ) (ASC 320-10-65)***

In April 2009, the FASB issued new accounting standards (ASC 320-10-65, formerly known as FSP SFAS No. 115-2 and SFAS No. 124-2), which changes the methodology for determining whether OTTI exists for debt securities. This standard requires changes to the presentation of OTTI impairment in the statements of income for those impairments involving credit losses, as well as enhanced disclosures regarding the methodology and significant inputs used to measure the amount related to credit losses. Our adoption of this standard on April 1, 2009 did not have a material effect on our financial position, results of operations or stockholders' equity, but required us to update our significant accounting policy for available-for-sale debt securities, to include the specific requirements of this standard.

***Impact of Adopting FASB Issued Guidance Over Interim Disclosures about Fair Value of Financial Instruments (ASC 825-10-65)***

In April 2009, the FASB issued new accounting standards (ASC 825-10-65, formerly known as FSP SFAS No. 107-1 and APB Opinion No. 28-1), which requires interim disclosures regarding the fair values of all financial instruments within the scope of FASB issued guidance over disclosures about fair value of financial instruments (ASC 825-10-50 and ASC 825-10-55, formerly known as SFAS No. 107) as well as the methods and significant assumptions used to estimate the fair value of those financial instruments. Our adoption of this standard on April 1, 2009 required us to expand our interim disclosures of all financial instruments and had no effect on our financial position, results of operations or stockholders' equity. Please refer to Note 14- Fair Value of Financial Instruments for further details.

**Table of Contents**

***Impact of Adopting FASB Issued Guidance Over Subsequent Events (ASC 855-10)***

In May 2009, the FASB issued new accounting standards (ASC 855-10, formerly known as SFAS No. 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Our adoption of this standard on July 1, 2009 required us to disclose the date through which we have evaluated subsequent events and had no effect on our results of operations or stockholders' equity this quarter.

***Impact of Adopting The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles<sup>TM</sup> (ASC 105-10)***

In June 2009, the FASB issued new accounting standards (ASC 105-10, formerly known as SFAS No. 168), which has become the source of authoritative GAAP recognized by the FASB. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification has superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification has become non-authoritative. Our adoption of this standard on July 1, 2009 did not have any impact on our consolidated financial position and results of operations, but did have an impact on how we reference and disclose accounting literature in our interim and annual reports.

***Correction of an Immaterial Error***

During the second quarter of 2009, we determined that we had incorrectly recognized certain gains and losses on foreign exchange contracts in prior periods. The cumulative pre-tax effect of the error was \$6.2 million, or \$3.8 million after-tax and is considered to be immaterial to the prior periods. However, since the cumulative impact of correcting this error would be material to the results of the quarter ended June 30, 2009, we applied the guidance of ASC 250-10-S99-1 and S99-2 (formerly known as SAB 99 and SAB 108). This guidance requires that prior financial statements be corrected, even though such revisions were, and continue to be, immaterial to the prior period financial statements. As such, the affected prior period results have been revised as follows: For the three months ended March 31, 2009, net loss increased by \$1.2 million, or \$0.04 per diluted common share; for the year ended December 31, 2008, net income was reduced by \$2.3 million, or \$0.07 per diluted common share; and for the year ended December 31, 2007, net income was reduced by \$0.2 million, or \$0.01 per diluted common share. Details of the revisions are provided under the section "Changes to Prior Period Balances".



**Table of Contents****Changes to Prior Period Balances**

The table below highlights certain items revised in prior periods related to the revision of certain immaterial gains and losses on foreign exchange contracts that were incorrectly recorded in prior periods and to the adoption of ASC 470-20:

(Dollars in thousands, except per share amounts)	Three months ended				Year ended	
	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
<b>AS REVISED</b>						
<b>Income Statement</b>						
Interest expense borrowings	\$ 8,181	\$ 10,219	\$ 12,517	\$ 11,695	\$ 12,536	\$ 54,259
Other noninterest income	2,782	1,858	1,913	5,759	9,522	26,096
Income tax expense (benefit)	(2,448)	863	16,711	16,291	18,348	84,581
Net income (loss) attributable to SVBFG	(8,235)	114	25,918	21,014	27,240	120,329
Net income (loss) available to common stockholders	(11,771)	(593)	25,918	21,014	27,240	120,329
Earnings (loss) per common share diluted	(0.36)	(0.02)	0.77	0.61	0.79	3.28
<b>Fully Taxable Equivalent</b>						
Net interest income (fully taxable equivalent basis)	\$ 92,083	\$ 97,024	\$ 95,206	\$ 87,377	\$ 91,283	\$ 377,115
Net interest margin	3.97%	5.39%	5.70%	5.62%	6.27%	7.19%
<b>Balance Sheet</b>						
Cash and due from banks	\$ 3,360,199	\$ 1,789,311	\$ 371,425	\$ 303,057	\$ 301,888	\$ 324,510
Total assets	10,955,015	10,018,280	8,070,315	7,310,010	6,897,163	6,692,171
Long-term debt	964,175	995,423	976,189	969,588	892,516	873,241
Additional paid-in capital	71,760	66,201	44,359	20,754	13,975	13,167
Retained earnings	697,956	709,726	710,321	684,404	663,963	669,459
<b>ADJUSTMENTS DUE TO CORRECTION OF ERROR</b>						
<b>Income Statement</b>						
Other noninterest income	\$ (1,971)	\$ (3,239)	\$ (1,309)	\$ 578	\$ 187	\$ (415)
Income tax expense (benefit)	(746)	(1,248)	(531)	215	65	(171)
Net income (loss) attributable to SVBFG	(1,225)	(1,991)	(778)	363	122	(244)
Net income (loss) available to common stockholders	(1,225)	(1,991)	(778)	363	122	(244)
Earnings (loss) per common share diluted	(0.04)	(0.06)	(0.02)	0.01		(0.01)
<b>Balance Sheet</b>						
Cash and due from banks	\$ (2,017)	\$ (2,085)	\$ (2,085)	\$ (2,085)	\$ (2,085)	\$ (889)
Total assets	(3,753)	(2,528)	(537)	241	(122)	(244)
Retained earnings	(3,753)	(2,528)	(537)	241	(122)	(244)
<b>ADJUSTMENTS DUE TO ASC 470-20</b>						
<b>Income Statement</b>						
Interest expense borrowings	N/A	\$ 525	\$ 518	\$ 1,068	\$ 1,303	\$ 5,091
Income tax expense (benefit)	N/A	(208)	(206)	(424)	(518)	(2,026)
Net income (loss) attributable to SVBFG	N/A	(317)	(312)	(644)	(785)	(3,065)
Net income (loss) available to common stockholders	N/A	(317)	(312)	(644)	(785)	(3,065)

**Fully Taxable Equivalent**

Net interest income (fully taxable equivalent basis)	N/A	\$	(525)	\$	(518)	\$	(1,068)	\$	(1,303)	\$	(5,091)
Net interest margin	N/A		(0.03)%		(0.03)%		(0.07)%		(0.09)%		(0.10)%

**Balance Sheet**

Total assets	N/A	\$	(84)	\$	(93)	\$	(102)	\$	(18)	\$	(41)
Long-term debt	N/A		(5,217)		(5,757)		(6,290)		(673)		(2,013)
Additional paid-in capital	N/A		20,329		20,543		20,754		13,975		13,167
Retained earnings	N/A		(15,196)		(14,879)		(14,566)		(13,993)		(13,208)

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentations.

**Recent Accounting Pronouncements**

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of SFAS No. 140* ( SFAS No. 166 ). SFAS No. 166 defines the term *participating interest* to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. SFAS No. 166 also removes the concept of a qualifying special-purpose entity for accounting purposes. SFAS No. 166 is effective for interim or annual financial periods ending after November 15, 2009. We are currently assessing the impact of SFAS No. 166 on our consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FIN 46(R)* ( SFAS No. 167 ). SFAS No. 167 replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling interest in a VIE, with an approach focused on which enterprise has both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant. SFAS No. 167 is effective for interim or annual financial periods beginning after November 15, 2009. We are currently assessing the impact of SFAS No. 167 on our consolidated financial position and results of operations.

In August 2009, the FASB issued *Measuring Liabilities at Fair Value (ASC 820)* Accounting Standards Update ( ASU ) No. 2009-05. ASU No. 2009-05 clarifies that a quoted price for the identical liability in an active market for a level 1 liability is the best evidence of fair value for that liability. ASU No. 2009-05 is effective beginning in the fourth quarter of 2009. We are currently

**Table of Contents**

assessing the impact of ASU No. 2009-05 on our consolidated financial position and results of operations and do not expect any material changes.

In September 2009, the FASB issued *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASC 820) ASU No. 2009-12. ASU No. 2009-12 permits an investor to estimate the fair value of an investment without further adjustment if the net asset value is calculated in accordance with the American Institute of Certified Public Accountants ( AICPA ) Audit and Accounting Guide for Investment Companies. ASU No. 2009-12 is effective beginning in the fourth quarter of 2009. We are currently assessing the impact of ASU No. 2009-12 on our consolidated financial position and results of operations and do not expect any material changes.

**2. Stockholders Equity and Earnings Per Share ( EPS )***Common Stock*

We did not repurchase any shares of our common stock for the three or nine months ended September 30, 2009. We repurchased 1.0 million shares for the nine months ended September 30, 2008 totaling \$45.6 million. In July 2008 upon expiration of our earlier stock repurchase program, our Board of Directors approved a stock repurchase program authorizing us to purchase up to \$150.0 million of our common stock, which expires on December 31, 2009; however, we are subject to certain stock repurchase restrictions in connection with our participation in the U.S. Treasury s ( Treasury ) Capital Purchase Program (the CPP ). At September 30, 2009, \$150.0 million of shares remain authorized for repurchase under our current stock repurchase program. For more information regarding the CPP, please refer to our Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources under Part II, Item 7 of our 2008 Form 10-K.

*Preferred Stock*

In connection with our participation in the CPP in the fourth quarter of 2008, for the nine months ended September 30, 2009, we have paid or accrued dividends of \$8.8 million on our Series B Fixed Rate Cumulative Perpetual Preferred Stock ( Series B Preferred Stock ). At December 31, 2008, accrued dividends were \$0.6 million.

*Earnings Per Share*

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for stock options, our Employee Stock Purchase Plan, restricted stock awards and units, our 2003 Convertible Notes and related warrants, which matured in June 2008, our 2008 Convertible Notes and related warrants and note hedge, and our warrant under the CPP. Potentially dilutive common shares are excluded from the computation of dilutive earnings per share in periods in which the effect would be antidilutive. The following is a reconciliation of basic EPS to diluted EPS for the three and nine months ended September 30, 2009 and 2008, respectively:

(Dollars and shares in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
<b>Numerator:</b>				
Net income attributable to SVBFG	\$ 24,163	\$ 25,918	\$ 27,266	\$ 74,172
Preferred stock dividend and discount accretion	(3,555)		(10,636)	
Net income available to common stockholders	\$ 20,608	\$ 25,918	\$ 16,630	\$ 74,172
<b>Denominator:</b>				
Weighted average common shares outstanding-basic	33,177	32,535	33,033	32,296
<b>Weighted average effect of dilutive securities:</b>				
Stock options	495	994	215	998
Restricted stock units		106		93
2003 Convertible Notes				868
2008 Convertible Notes		143		

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Denominator for diluted calculation	33,672	33,778	33,248	34,255
Net income per common share:				
Basic	\$ 0.62	\$ 0.80	\$ 0.50	\$ 2.30
Diluted	\$ 0.61	\$ 0.77	\$ 0.50	\$ 2.17

**Table of Contents**

The following table summarizes the common shares excluded from the diluted EPS calculation as they were deemed to be anti-dilutive for the three and nine months ended September 30, 2009 and 2008, respectively:

(Shares in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Stock options	1,718	827	2,485	822
Restricted stock units	90	2	499	1
Warrant associated with CPP	275		597	
Total	2,083	829	3,581	823

In addition to the above, at September 30, 2009, 4.7 million shares of our 2008 Convertible Notes and associated warrants were outstanding but not included in the calculation of diluted earnings per common share because the exercise price was higher than the market price, and therefore were anti-dilutive. Concurrent with the issuance of our 2008 Convertible Notes, we entered into a convertible note hedge and warrant agreement. For information on our 2008 Convertible Notes and associated convertible note hedge and warrant agreement, see our Consolidated Financial Statements and Supplementary Data-Note 9- Derivative Financial Instruments and Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2008 Form 10-K.

**3. Share-Based Compensation**

For the three and nine months ended September 30, 2009, we recorded share-based compensation expense of \$3.4 million and \$11.2 million, respectively, resulting in the recognition of \$0.8 million and \$2.7 million, respectively, in related tax benefits. For the three and nine months ended September 30, 2008, we recorded share-based compensation expense of \$3.5 million and \$10.9 million, respectively, resulting in the recognition of \$1.0 million and \$2.7 million, respectively, in related tax benefits.

**Unrecognized Compensation Expense**

At September 30, 2009, unrecognized share-based compensation expense was as follows:

(Dollars in thousands)	Unrecognized Expense	Average Expected Recognition Period - in Years
Stock options	\$ 8,353	1.70
Restricted stock units	10,163	1.31
Total unrecognized share-based compensation expense	\$ 18,516	

**Share-Based Payment Award Activity**

The table below provides stock option information related to the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the nine months ended September 30, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The-Money Options
Outstanding at December 31, 2008	3,130,929	\$ 37.25		
Granted	533,561	21.70		

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Exercised	(77,877)	20.69		
Forfeited	(18,385)	40.43		
Expired	(30,931)	38.51		
Outstanding at September 30, 2009	3,537,297	35.24	3.44	\$ 35,334,682
Vested and expected to vest at September 30, 2009	3,387,019	35.37	3.33	33,349,450
Exercisable at September 30, 2009	2,491,910	35.21	2.44	23,904,431

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value based on our closing stock price of \$43.27 as of September 30, 2009. The total intrinsic value of options exercised during the three and nine months ended September 30, 2009 was \$0.8 million and \$1.0 million, respectively, compared to \$13.4 million and \$22.0 million for the comparable 2008 periods.

**Table of Contents**

The table below provides information for restricted stock units under the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the nine months ended September 30, 2009:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2008	393,463	\$ 46.49
Granted	128,441	23.96
Vested	(97,444)	21.56
Forfeited	(10,906)	30.38
Nonvested at September 30, 2009	413,554	45.80

**4. Federal Funds Sold, Securities Purchased under Agreements to Resell and Other Short-Term Investment Securities**

The following table details the federal funds sold, securities purchased under agreements to resell and other short-term investment securities at September 30, 2009 and December 31, 2008, respectively:

(Dollars in thousands)	September 30, 2009	December 31, 2008
Federal funds sold overnight	\$	\$ 250,000
Securities purchased under agreements to resell	34,599	150,910
Other short-term investment securities	13,931	77,482
Total federal funds sold, securities purchased under agreements to resell and other short-term investment securities	\$ 48,530	\$ 478,392

In addition to the above, as of September 30, 2009 and December 31, 2008, \$3.7 billion and \$1.1 billion, respectively, of our cash and due from banks was deposited at the Federal Reserve Bank and was earning interest at the Federal Funds target rate, and interest-earning deposits in other financial institutions were \$160.3 million and \$169.0 million, respectively.

**5. Investment Securities**

The major components of our investment securities portfolio at September 30, 2009 and December 31, 2008 are as follows:

(Dollars in thousands)	Amortized Cost	September 30, 2009 Unrealized Gains	Unrealized Losses	Carrying Value	Amortized Cost	December 31, 2008 Unrealized Gains	Unrealized Losses	Carrying Value
Marketable securities:								
Available-for-sale securities, at fair value:								
U.S. treasury securities	\$ 25,627	\$ 623	\$	\$ 26,250	\$	\$	\$	\$
U.S. agency debentures	899,634	7,668	(20)	907,282	109,981	3,622		113,603
Residential mortgage-backed securities:								
Agency-issued mortgage-backed securities	474,416	17,848	(125)	492,139	438,688	9,910	(4)	448,594
Agency-issued collateralized mortgage obligations	1,283,563	19,179	(758)	1,301,984	478,397	5,354	(476)	483,275
Non-agency mortgage-backed securities	98,051	196	(5,774)	92,473	133,561	255	(18,486)	115,330

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Commercial mortgage-backed securities	49,984	749	(124)	50,609	54,202		(6,721)	47,481
Municipal bonds and notes	101,768	6,287		108,055	109,405	1,384	(2,034)	108,755
Marketable equity securities	3,946	74	(53)	3,967	157		(5)	152
Venture capital fund investments						1		1
<b>Total available-for-sale securities</b>	<b>\$ 2,936,989</b>	<b>\$ 52,624</b>	<b>\$ (6,854)</b>	<b>\$ 2,982,759</b>	<b>\$ 1,324,391</b>	<b>\$ 20,526</b>	<b>\$ (27,726)</b>	<b>\$ 1,317,191</b>
Marketable securities (investment company fair value accounting) (1)				643				1,703
Non-marketable securities (investment company fair value accounting):								
Private equity fund investments (2)				232,294				242,645
Other private equity investments (3)				89,968				82,444
Other investments (4)				1,241				1,547
Non-marketable securities (equity method accounting):								
Other investments (5)				51,975				27,000
Low income housing tax credit funds				28,052				31,510
Non-marketable securities (cost method accounting):								
Private equity fund investments (6)				91,330				69,971
Other private equity investments				13,019				12,089
<b>Total investment securities</b>				<b>\$ 3,491,281</b>				<b>\$ 1,786,100</b>

- (1) Marketable securities (investment company fair value accounting) represent investments managed by us or our consolidated subsidiaries that were originally made within our non-marketable securities portfolio that have been converted into publicly-traded shares. The following table shows the amount of investments by the following funds and our ownership of each fund at September 30, 2009 and December 31, 2008:

(Dollars in thousands)	September 30, 2009		December 31, 2008	
	Amount	Ownership %	Amount	Ownership %
Partners for Growth, LP	\$ 55	50.0%	\$ 1,233	50.0%
SVB India Capital Partners I, LP	588	14.4	470	14.4
<b>Total marketable securities</b>	<b>\$ 643</b>		<b>\$ 1,703</b>	



**Table of Contents**

- (2) The following table shows the amount of investments by the following consolidated funds of funds and our ownership of each fund at September 30, 2009 and December 31, 2008:

(Dollars in thousands)	September 30, 2009		December 31, 2008	
	Amount	Ownership %	Amount	Ownership %
SVB Strategic Investors Fund, LP	\$ 52,224	12.6%	\$ 65,985	12.6%
SVB Strategic Investors Fund II, LP	82,250	8.6	94,161	8.6
SVB Strategic Investors Fund III, LP	91,845	5.9	80,780	5.9
SVB Strategic Investors Fund IV, LP	5,975	5.0	1,719	5.0
<b>Total private equity fund investments</b>	<b>\$ 232,294</b>		<b>\$ 242,645</b>	

- (3) The following table shows the amount of investments by the following consolidated co-investment funds and our ownership of each fund at September 30, 2009 and December 31, 2008:

(Dollars in thousands)	September 30, 2009		December 31, 2008	
	Amount	Ownership %	Amount	Ownership %
Silicon Valley BancVentures, LP	\$ 21,113	10.7%	\$ 24,188	10.7%
SVB Capital Partners II, LP (i)	41,148	5.1	38,234	5.1
SVB India Capital Partners I, LP	27,707	14.4	20,022	14.4
<b>Total other private equity investments</b>	<b>\$ 89,968</b>		<b>\$ 82,444</b>	

- (i) At September 30, 2009, we had a direct ownership interest of 1.3% and an indirect ownership interest of 3.8% in the fund through our ownership interest of SVB Strategic Investors Fund II, LP.
- (4) Other investments within non-marketable securities (investment company fair value accounting) include our ownership in Partners for Growth, LP, a consolidated sponsored debt fund. At September 30, 2009 and December 31, 2008 we had a majority ownership interest of approximately 50.0% in the fund. Partners for Growth, LP is managed by a third party, and we do not have an ownership interest in the general partner of this fund.
- (5) The following table shows the amount of investments in the following funds and our ownership of each fund at September 30, 2009 and December 31, 2008:

(Dollars in thousands)	September 30, 2009		December 31, 2008	
	Amount	Ownership %	Amount	Ownership %
Gold Hill Venture Lending 03, LP (i)	\$ 15,628	9.3%	\$ 18,234	9.3%
Partners for Growth II, LP	11,525	24.2	8,559	24.2
Other fund investments	24,822	N/A	207	N/A
<b>Total other investments</b>	<b>\$ 51,975</b>		<b>\$ 27,000</b>	

(i)

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

At September 30, 2009, we had a direct ownership interest of 4.8% in the fund. In addition, we had a 90.7% direct ownership interest in the fund's general partner, Gold Hill Venture Lending Partners 03, LLC ( "GHLLC" ). GHLLC has a direct ownership interest of 5.0 % in Gold Hill Venture Lending 03, LP and its parallel funds. Our indirect interest in the fund through our investment in GHLLC is 4.5%. Our aggregate direct and indirect ownership in the fund is 9.3%.

- (6) Represents investments in 351 and 360 private equity funds at September 30, 2009 and December 31, 2008, respectively, where our ownership interest is less than 5% of the voting interests of each such fund. For the three months ended September 30, 2009, we concluded that 33 of our investments had declines in value that were determined to be other-than-temporary, and as a result, we recognized OTTI losses of \$2.1 million. For the nine months ended September 30, 2009 we recognized OTTI losses of \$3.7 million resulting from other-than-temporary declines in value for 74 of the 351 investments. The OTTI losses are included in net gains (losses) on investment securities, a component of noninterest income. For the remaining 277 investments at September 30,

**Table of Contents**

2009, we concluded that any declines in value were temporary and as such, no OTTI was recognized. At September 30, 2009, the carrying value of these private equity fund investments (cost method accounting) was \$91.3 million, and the estimated fair value was \$84.2 million. The following table summarizes our unrealized losses on our available-for-sale investment securities into categories of less than 12 months, or 12 months or longer, at September 30, 2009:

(Dollars in thousands)	Less than 12 months		September 30, 2009 12 months or longer		Total	
	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
U.S. agency debentures	\$ 30,103	\$ (20)	\$	\$	\$ 30,103	\$ (20)
Residential mortgage-backed securities:						
Agency-issued mortgage-backed securities	20,429	(125)			20,429	(125)
Agency-issued collateralized mortgage obligations (1)	173,542	(733)	2,431	(25)	175,973	(758)
Non-agency mortgage-backed securities (1)	8,391	(151)	66,222	(5,623)	74,613	(5,774)
Commercial mortgage-backed securities (1)			14,950	(124)	14,950	(124)
Marketable equity securities	3,946	(53)			3,946	(53)
Total temporarily impaired securities	\$ 236,411	\$ (1,082)	\$ 83,603	\$ (5,772)	\$ 320,014	\$ (6,854)

(1) As of September 30, 2009, we identified a total of 44 investments that were in unrealized loss positions, of which 25 investments totaling \$83.6 million with unrealized losses of \$5.8 million have been in an impaired position for a period of time greater than 12 months. The time periods in which these securities were originally purchased were as follows: Agency-issued collateralized mortgage obligations between November 2002 and March 2003, non-agency mortgage-backed securities between June 2003 and July 2005, commercial mortgage-backed securities between May 2005 and July 2005. All investments with unrealized losses for a period of time greater than 12 months are considered investment grade by either Moody's or S&P or were issued by a government sponsored enterprise. The unrealized losses are due primarily to increases in market spread relative to spreads at the time of purchase. Based on the underlying credit quality of the investments, we do not intend to sell any of our securities prior to recovery of our adjusted cost basis and as of September 30, 2009, it is more likely than not that we will not be required to sell any securities prior to recovery of our adjusted cost basis. Impaired investments are recognized and presented according to FASB guidance over other-than-temporary impairments (ASC 320-10-65, formerly known as FSP SFAS No. 115-2 and 124-2). Based on the analysis under current accounting guidance we deem all impairments to be temporary and changes in value for our temporarily impaired securities as of September 30, 2009 are included in other comprehensive income. Market valuations and impairment analyses on assets in the investment securities portfolio are reviewed and monitored on a quarterly basis.

The following table summarizes our unrealized losses on our available-for-sale investment securities portfolio into categories of less than 12 months, or 12 months or longer, as of December 31, 2008:

(Dollars in thousands)	Less than 12 months		December 31, 2008 12 months or longer		Total	
	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
Residential mortgage-backed securities:						
Agency-issued mortgage-backed securities	\$	\$	\$ 5,076	\$ (4)	\$ 5,076	\$ (4)
Agency-issued collateralized mortgage obligations	13,559	(88)	44,327	(388)	57,886	(476)
Non-agency mortgage-backed securities	44,751	(4,237)	64,386	(14,249)	109,137	(18,486)
Commercial mortgage-backed securities	9,491	(404)	37,990	(6,317)	47,481	(6,721)
Municipal bonds and notes	39,694	(1,827)	4,091	(207)	43,785	(2,034)
Marketable equity securities	152	(5)			152	(5)
Total temporarily impaired securities	\$ 107,647	\$ (6,561)	\$ 155,870	\$ (21,165)	\$ 263,517	\$ (27,726)



**Table of Contents**

The following table summarizes the remaining contractual principal maturities and fully taxable equivalent yields on debt securities classified as available-for-sale as of September 30, 2009. Interest income on certain municipal bonds and notes (non-taxable investments) are presented on a fully taxable equivalent basis using the federal statutory tax rate of 35.0 percent. The weighted average yield is computed using the amortized cost of debt securities, which are reported at fair value. Expected remaining maturities of U.S. treasury securities, U.S. agency securities and mortgage-backed securities may differ significantly from their contractual maturities because borrowers have the right to prepay obligations with or without penalties. This is most apparent in mortgage-backed securities as contractual maturities are typically 15 to 30 years, whereas expected average lives of these securities are significantly shorter and vary based upon structure.

(Dollars in thousands)	September 30, 2009									
	Total Carrying Value	Weighted-Average Yield	One Year or Less Carrying Value	Weighted-Average Yield	After One Year to Five Years Carrying Value	Weighted-Average Yield	After Five Years to Ten Years Carrying Value	Weighted-Average Yield	After Ten Years Carrying Value	Weighted-Average Yield
U.S. treasury securities	\$ 26,250	2.39%	\$	%	\$ 26,250	2.39%	\$	%	\$	%
U.S. agency debentures	907,282	2.41	35,393	4.32	812,067	2.18	59,822	4.41		
Residential mortgage-backed securities:										
Agency-issued mortgage-backed securities	492,139	4.70			2,216	6.43	137,694	4.40	352,229	4.80
Agency-issued collateralized mortgage obligations	1,301,984	3.87					80,444	4.48	1,221,540	3.83
Non-agency mortgage-backed securities	92,473	4.93					21,060	4.75	71,413	4.98
Commercial mortgage-backed securities	50,609	4.67							50,609	4.67
Municipal bonds and notes	108,055	6.08	4,778	7.34	4,183	5.68	35,252	5.80	63,842	6.17
<b>Total</b>	<b>\$ 2,978,792</b>	<b>3.68</b>	<b>\$ 40,171</b>	<b>4.68</b>	<b>\$ 844,716</b>	<b>2.22</b>	<b>\$ 334,272</b>	<b>4.59</b>	<b>\$ 1,759,633</b>	<b>4.18</b>

The cost of investment securities is determined on a specific identification basis. The following table presents the components of gains and losses on investment securities for the three and nine months ended September 30, 2009 and 2008:

(Dollars in thousands)	Three months ended September 30, 2009		Nine months ended September 30, 2008	
Gross gains on investment securities:				
Available-for-sale securities, at fair value	\$ 8	\$ 1	\$ 15	\$ 206
Marketable securities (investment company fair value accounting)	111	18	1,290	630
Non-marketable securities (investment company fair value accounting):				
Private equity fund investments	7,101	1,723	8,370	18,538
Other private equity investments	4,531	4,694	4,724	10,134
Other investments	71	41	684	196
Non-marketable securities (equity method accounting):				
Other investments	2,361	148	5,170	1,679
Non-marketable securities (cost method accounting):				
Private equity fund investments	15	318	316	728
Other private equity investments		4	22	85
<b>Total gross gains on investment securities</b>	<b>14,198</b>	<b>6,947</b>	<b>20,591</b>	<b>32,196</b>

Gross losses on investment securities:

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Available-for-sale securities, at fair value		(1,234)	(41)	(2,775)
Marketable securities (investment company fair value accounting)	(16)	(1,348)	(409)	(3,274)
Non-marketable securities (investment company fair value accounting):				
Private equity fund investments	(4,321)	(3,585)	(41,081)	(19,334)
Other private equity investments	(2,072)	(393)	(10,104)	(2,926)
Other investments		(132)		(5,646)
Non-marketable securities (equity method accounting):				
Other investments	(1,690)	(1)	(2,973)	(1,094)
Non-marketable securities (cost method accounting):				
Private equity fund investments	(2,105)	(1,130)	(3,754)	(1,838)
Other private equity investments	(89)		(119)	(258)
Total gross losses on investment securities	(10,293)	(7,823)	(58,481)	(37,145)
Gains (losses) on investment securities, net	\$ 3,905	\$ (876)	\$ (37,890)	\$ (4,949)
Gains (losses) attributable to noncontrolling interests, including carried interest	\$ 4,880	\$ 1,220	\$ (32,491)	\$ (227)

**Table of Contents****6. Loans and Allowance for Loan Losses**

The composition of loans, net of unearned income of \$36.7 million and \$45.4 million at September 30, 2009 and December 31, 2008, respectively, is presented in the following table:

(Dollars in thousands)	September 30, 2009	December 31, 2008
Commercial loans	\$ 3,714,075	\$ 4,515,019
Premium wine (1)	415,468	419,539
Community development loans (2)	66,526	48,293
Consumer and other (3)	459,748	523,402
<b>Total loans, net of unearned income</b>	<b>\$ 4,655,817</b>	<b>\$ 5,506,253</b>

- (1) Premium wine consists of loans for vineyard development as well as working capital and equipment term loans to meet the needs of our clients premium wineries and vineyards. At September 30, 2009 and December 31, 2008, \$275.3 million and \$269.6 million, respectively, of such loans were secured by real estate.
- (2) Community development loans consist of low income housing loans made as part of our responsibilities under the Community Reinvestment Act and are primarily secured by real estate.
- (3) Consumer and other loans consist of loans to targeted high-net-worth individuals. These products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans and capital call lines of credit. This category also includes loans made to eligible employees through our Employee Home Ownership Plan ( EHOP ). Loans secured by real estate at September 30, 2009, and December 31, 2008 were comprised of the following:

(Dollars in thousands)	September 30, 2009	December 31, 2008
Home equity lines of credit (i)	\$ 88,453	\$ 89,544
Loans to eligible employees (ii)	85,239	74,759
Loans for personal residence (iii)	58,355	58,700
<b>Consumer loans secured by real estate</b>	<b>\$ 232,047</b>	<b>\$ 223,003</b>

- (i) Represents home equity lines of credits, which may have been used to finance real estate investments.
- (ii) Represents loans made to eligible employees through our EHOP.
- (iii) Represents loans used to purchase, renovate or refinance personal residences.

The activity in the allowance for loan losses for the three and nine months ended September 30, 2009 and 2008 was as follows:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Allowance for loan losses, beginning balance	\$ 110,473	\$ 52,888	\$ 107,396	\$ 47,293
Provision for loan losses	8,030	13,682	72,889	29,756
Gross loan charge-offs	(46,553)	(7,000)	(110,464)	(22,306)
Loan recoveries	14,763	720	16,892	5,547
<b>Allowance for loan losses, ending balance</b>	<b>\$ 86,713</b>	<b>\$ 60,290</b>	<b>\$ 86,713</b>	<b>\$ 60,290</b>

**Nonaccrual Loans**

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

The aggregate investment in loans for which impairment has been determined totaled \$72.2 million and \$84.9 million at September 30, 2009 and December 31, 2008, respectively. There were no commitments available for funding to any clients with nonaccrual loans at September 30, 2009 and at December 31, 2008. The allocation of the allowance for loan losses related to impaired loans was \$23.4 million and \$25.9 million at September 30, 2009 and December 31, 2008, respectively. We did not have any accruing loans past due 90 days or more at September 30, 2009, compared to \$2.3 million at December 31, 2008.

### **7. Goodwill**

During the first quarter of 2009, we conducted an assessment of goodwill of eProsper, a data management services company in which we own a 65% interest, in accordance with ASC 350 (formerly known as SFAS No. 142, *Goodwill and Other Intangible Assets*), based on eProsper's revised forecast of discounted net cash flows for that reporting unit. We concluded that we had an impairment of goodwill resulting from changes in our outlook for eProsper's future financial performance. As a result, \$4.1 million of goodwill was expensed as a noncash non tax-deductible charge to continuing operations during the first quarter of 2009. There is no remaining goodwill on our balance sheet as of September 30, 2009, compared to \$4.1 million at December 31, 2008.



**Table of Contents****8. Short-Term Borrowings and Long-Term Debt**

The following table represents outstanding short-term borrowings and long-term debt at September 30, 2009 and December 31, 2008:

(Dollars in thousands)	Maturity	September 30, 2009	December 31, 2008
<i>Short-term borrowings:</i>			
Other short-term borrowings	(1)	\$ 52,285	\$ 62,120
<b>Total short-term borrowings</b>		<b>\$ 52,285</b>	<b>\$ 62,120</b>
<i>Long-term debt:</i>			
FHLB advances	(2)	\$	\$ 100,000
5.70% senior notes	June 1, 2012	271,715	279,370
6.05% subordinated notes	June 1, 2017	283,929	313,953
3.875% convertible senior notes (3)	April 15, 2011	246,430	244,783
7.0% junior subordinated debentures	October 15, 2033	55,968	55,914
4.99% long-term notes payable	(4)	8,443	
8.0% long-term notes payable	(5)	263	1,403
<b>Total long-term debt</b>		<b>\$ 866,748</b>	<b>\$ 995,423</b>

- (1) Represents cash collateral received from counterparties for our interest rate swap agreements related to our senior and subordinated notes.
- (2) Balance as of December 31, 2008 included Federal Home Loan Bank ( FHLB ) advances of \$50 million that matured in May 2009, and \$50 million that was repaid in September 2009.
- (3) Balance as of December 31, 2008 reflects a retrospective adjustment resulting from our adoption of ASC 470-20 (formerly known as FSP APB No. 14-1) on January 1, 2009 (see Note 1- Basis of Presentation ).
- (4) Represents long-term notes payable related to one of our debt fund investments beginning April 30, 2009 with the last payment due in April 2012.
- (5) Represents long-term notes payable at eProsper and was payable beginning January 1, 2008 with the last payment due in November 2009. SVBFG purchased a 65% interest in eProsper in 2006.

Interest expense related to short-term borrowings and long-term debt was \$6.4 million and \$21.8 million for the three and nine months ended September 30, 2009, respectively, and \$12.5 million and \$36.7 million for the comparable 2008 periods. Interest expense shown is net of the cash flow impact from our interest rate swap agreements related to our senior and subordinated notes and junior subordinated debentures. In December 2008, our counterparty called the swap on our junior subordinated debentures for settlement in January 2009. As a result, the swap was terminated. Additionally, interest expense for the three and nine months ended September 30, 2008 reflects retrospective adjustments resulting from our adoption of ASC 470-20 (formerly known as FSP APB No. 14-1) on January 1, 2009 (see Note 1- Basis of Presentation ).

**3.875% Convertible Senior Notes ( 2008 Convertible Notes )**

In April 2008, we issued our 2008 Convertible Notes, due April 15, 2011, in the aggregate principal amount of \$250 million to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The issuance costs related to the 2008 Convertible Notes were \$6.8 million, and the net proceeds from the offering were \$243.2 million. We used \$141.9 million of the net proceeds to settle the principal value of our 2003 Convertible Notes, which matured in June 2008, and \$20.6 million to purchase a call spread associated with the 2008 Convertible Notes. All remaining proceeds were used or set aside for general corporate purposes. The 2008 Convertible Notes are initially convertible, subject to certain conditions, into cash up to the principal amount of notes and, into shares of our common stock or cash or any combination thereof for any excess conversion value, at our option. Holders may convert their 2008 Convertible Notes beginning any fiscal quarter commencing after June 30, 2008, if: (i) the price of our common stock issuable upon conversion of the note reaches a specific threshold, (ii) specified corporate transactions occur, or (iii) the trading price for the note falls below certain thresholds. The notes have an initial conversion rate of 18.8525 shares of common stock per \$1,000 principal amount of notes, which represents an initial effective conversion price of \$53.04 per share. Upon maturity, we intend to settle the outstanding principal amount in cash, and we have the option to settle any amount exceeding the principal value of the 2008 Convertible Notes in either cash or shares of our common stock.

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Concurrent with the issuance of our 2008 Convertible Notes, we entered into a convertible note hedge and warrant agreement (see Note 9- Derivative Financial Instruments ), which effectively increased the economic conversion price of our 2008 Convertible Notes to \$64.43 per share of common stock. The terms of the hedge and warrant agreement are not part of the terms of the notes and will not affect the rights of the holders of the notes.

---

## **Table of Contents**

For the three and nine months ended September 30, 2009, the effective interest rate for our 2008 Convertible Notes was 5.66 percent and 5.73 percent, respectively, and interest expense was \$3.5 million and \$10.5 million, respectively. For the three and nine months ended September 30, 2008, the effective interest rate for our 2008 Convertible Notes was 5.69 percent and 5.65 percent, respectively, and interest expense was \$3.5 million and \$6.6 million respectively. At September 30, 2009, the unamortized debt discount totaled \$3.6 million, and will be amortized over the remaining contractual term of the debt.

### ***Available Lines of Credit***

We have certain facilities in place to enable us to access short-term borrowings on a secured (using fixed income securities as collateral) and an unsecured basis. These include repurchase agreements and uncommitted federal funds lines with various financial institutions. As of September 30, 2009, we had not borrowed against our repurchase lines or any of our uncommitted federal funds lines. We also pledge securities to the Federal Home Loan Bank of San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco (primarily comprised of agency-issued mortgage securities) at September 30, 2009 totaled \$540.9 million, all of which was unused and available to support additional borrowings. The market value of collateral pledged at the discount window of the Federal Reserve Bank at September 30, 2009 totaled \$89.9 million, all of which was unused and available to support additional borrowings.

## **9. Derivative Financial Instruments**

We primarily use derivative financial instruments to manage interest rate risk, currency exchange rate risk, equity market price risk and to assist customers with their risk management objectives. Also, as part of negotiating credit facilities and certain other services, we obtain rights to acquire stock in the form of equity warrant assets in certain client companies.

### ***Interest Rate Risk***

Interest rate risk is our primary market risk and can result from timing and volume differences in the repricing of our interest rate-sensitive assets and liabilities and changes in market interest rates. To manage interest rate risk for our 5.70% senior notes and our 6.05% subordinated notes, we entered into fixed-for-floating interest rate swap agreements at the time of debt issuance based upon London Interbank Offered Rates ( LIBOR ) with matched-terms. We use the shortcut method to assess hedge effectiveness and evaluate the hedging relationships for qualification under the shortcut method requirements of ASC 815 (formerly known as SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*), for each reporting period.

For more information on our 5.70% senior notes and our 6.05% subordinated notes, see our Consolidated Financial Statements and Supplementary Data-Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2008 Form 10-K.

Net cash benefits associated with our interest rate swaps are recorded in Interest Expense: Borrowings , a component of net interest income. The fair value of our interest rate swaps is calculated using a discounted cash flow method and adjusted for credit valuation associated with counterparty risk. Increases from changes in fair value are included in Other Assets and decreases from changes in fair value are included in Other Liabilities . Any differences associated with our interest rate swaps that arise as a result of hedge ineffectiveness are recorded through net gains on derivative instruments, in noninterest income, a component of consolidated net income.

### ***Currency Exchange Risk***

We enter into foreign exchange forward contracts to hedge against exposures of our credit facilities that are denominated in foreign currencies to our clients, primarily in Pound Sterling, Euro, and Japanese Yen. We do not designate any foreign exchange forward contracts as derivative instruments that qualify for hedge accounting. In accordance with ASC 830 (formerly known as SFAS No. 52, *Foreign Currency Translation*), changes in currency rates are included in other noninterest income, a component of noninterest income. We may experience ineffectiveness in the economic hedging relationship, because the credit facilities are revalued based upon changes in the currency's spot rate on the principal value, while the forwards are revalued on a discounted cash flow basis. We record forward agreements in gain positions in Other Assets and loss positions in Other Liabilities , while net changes in fair value are recorded through net (losses) gains on derivative instruments, in noninterest income, a component of consolidated net income.

### ***Equity Market Price Risk***

We have convertible debt instruments that contain conversion options that enable the holders to convert the instruments, subject to certain conditions. Specifically, we currently have outstanding our 2008 Convertible Notes. We intend to settle any conversions in cash up to the

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

principal amount of these notes and, in shares of our common stock or cash or any combination thereof for any excess conversion value, at our option. The conversion option represents an equity risk exposure for the excess conversion value and is an equity derivative classified in stockholders' equity. We manage equity market price risk of our convertible debt instruments by entering into convertible note hedge and warrant agreements to increase the economic conversion price of our convertible debt.

---

## **Table of Contents**

instruments and to decrease potential dilution to stockholders resulting from the conversion option. Similar to the conversion option, the hedge and warrant agreements are equity derivatives classified in stockholders' equity.

Concurrent with the issuance of our 2008 Convertible Notes, we entered into a convertible note hedge and warrant agreement at a net cost of \$20.6 million, which effectively increased the economic conversion price from \$53.04 per common share to \$64.43. For the nine months ended September 30, 2009 and 2008, there were no note conversions or exercises under the warrant agreement as the notes were not convertible. Concurrent with the issuance of our 2003 Convertible Notes, we entered into a convertible note hedge agreement and a warrant agreement at a net cost of \$21.9 million, which effectively increased the economic conversion price from \$33.63 per common share to \$51.34. The 2003 Convertible Notes and associated note hedge and warrant agreement matured on June 15, 2008.

For more information on the 2003 Convertible Notes and the 2008 Convertible Notes, see our Consolidated Financial Statements and Supplementary Data-Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2008 Form 10-K.

### ***Other Derivative Instruments***

#### **Equity Warrant Assets**

Our equity warrant assets are concentrated in private, venture-backed companies in the technology and life science industries. Our warrant agreements contain net share settlement provisions, which permit us to pay the warrant exercise price using shares issuable under the warrant ( "cashless exercise" ). Because we can net settle our warrant agreements, our equity warrant assets qualify as derivative instruments. We value our equity warrant assets using a modified Black-Scholes option pricing model, which incorporates assumptions about the underlying asset value, volatility, and the risk-free rate. We make valuation adjustments for estimated remaining life and marketability for warrants issued by private companies. Equity warrant assets are recorded at fair value in "Other Assets", while changes in their fair value are recorded through net gains on derivative instruments, in noninterest income, a component of consolidated net income.

#### **Other Derivatives**

Our consolidated sponsored debt fund may extend credit facilities with options to convert their principal value into the borrower's common stock. These instruments often contain a price range whereby the conversion option may be exercised. As this fund follows fair value accounting, this embedded conversion feature is integrated into the fair value of the debt instrument and does not receive separate accounting recognition. The fair value of these instruments is recorded in "Investment Securities" with changes in fair value recorded through net gains (losses) in investment securities, in noninterest income, a component of consolidated net income.

We sell forward and option contracts to clients that wish to mitigate their foreign currency exposure. We hedge the currency risk from this business by entering into opposite way contracts with correspondent banks. This hedging relationship does not qualify for hedge accounting. The contracts generally have terms of one year or less, although we may have contracts extending for up to five years. We generally have not experienced nonperformance on these contracts, have not incurred credit losses, and anticipate performance by all counterparties to such agreements. Increases from changes in fair value are included in "Other Assets" and decreases from changes in fair value are included in "Other Liabilities". The net change in the fair value of these contracts is recorded through net (losses) gains on derivative instruments, in noninterest income, a component of consolidated net income.

#### **Counterparty Credit Risk**

We are exposed to credit risk if counterparties to our derivative contracts do not perform as expected. We minimize counterparty credit risk through credit approvals, limits, monitoring procedures and obtaining collateral, as appropriate.

**Table of Contents**

The total notional or contractual amounts, fair value, collateral and net exposure of our derivative financial instruments at September 30, 2009 and December 31, 2008, respectively, were as follows:

(Dollars in thousands)	Balance sheet location	September 30, 2009				December 31, 2008			
		Notional or contractual amount	Fair value	Collateral	Net exposure (1)	Notional or contractual amount	Fair value	Collateral	Net exposure (1)
<b>Derivatives designated as hedging instruments:</b>									
<i>Interest Rate Risks:</i>									
Interest rate swaps	Other assets	\$ 500,000	\$ 56,228	\$ 52,285	\$ 3,943	\$ 550,000	\$ 94,142	\$ 62,120	\$ 32,022
<b>Derivatives not designated as hedging instruments:</b>									
<i>Currency Exchange Risks:</i>									
Foreign exchange forwards	Other assets	29,994	1,434		1,434	50,393	4,212		4,212
Foreign exchange forwards	Other liabilities	19,639	(693)		(693)	23,193	(1,092)		(1,092)
Net exposure			741		741		3,120		3,120
<i>Other Derivative Instruments:</i>									
Equity warrant assets	Other assets	122,123	42,446		42,446	130,401	43,659		43,659
<i>Other derivatives:</i>									
Foreign exchange forwards	Other assets	362,258	20,370		20,370	354,399	32,476		32,476
Foreign exchange forwards	Other liabilities	346,668	(19,038)		(19,038)	344,703	(31,039)		(31,039)
Foreign currency options	Other assets	7,726	429		429	25,848	501		501
Foreign currency options	Other liabilities	7,726	(429)		(429)	25,848	(501)		(501)
Net exposure			1,332		1,332		1,437		1,437
Net			\$ 100,747	\$ 52,285	\$ 48,462		\$ 142,358	\$ 62,120	\$ 80,238

(1) Net exposure for contracts in a gain position reflects the replacement cost in the event of nonperformance by all such counterparties. The credit ratings of our institutional counterparties as of September 30, 2009 remain at A or higher and there were no material changes in their credit ratings during the nine months ended September 30, 2009.

A summary of our derivative activity and the related impact on our consolidated statements of income for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Statement of income location	Three months ended September 30,		Nine months ended September 30,	
		2009	2008	2009	2008
<b>Derivatives designated as hedging instruments:</b>					
<i>Interest Rate Risks:</i>					
Net cash benefit associated with interest rate swaps	Interest expense -borrowings	\$ 5,741	\$ 3,497	\$ 14,874	\$ 7,282
Changes in fair value of interest rate swap	Net (losses) gains on derivative instruments		(10)	(170)	376

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Net gains associated with interest rate risk derivatives	\$ 5,741	\$ 3,487	\$ 14,704	\$ 7,658
--	----------	----------	-----------	----------

**Derivatives not designated as hedging instruments:**

*Currency Exchange Risks:*

(Losses) gains on foreign currency loan revaluations, net	Other noninterest income	\$ (94)	\$ (4,740)	\$ 1,886	\$ (2,825)
(Losses) gains on foreign exchange forward contracts, net	Net (losses) gains on derivative instruments	(128)	4,452	(2,664)	1,985

Net losses associated with currency risk	\$ (222)	\$ (288)	\$ (778)	\$ (840)
--	----------	----------	----------	----------

*Other Derivative Instruments:*

(Losses) gains on equity warrant assets	Net (losses) gains on derivative instruments	\$ (1,322)	\$ 1,445	\$ (593)	\$ 8,949
---	--	------------	----------	----------	----------

Gains on client foreign exchange forward contracts, net	Net (losses) gains on derivative instruments	\$ 360	\$ 561	\$ 1,304	\$ 1,767
---	--	--------	--------	----------	----------

Gains on covered call options, net	Net (losses) gains on derivative instruments	\$	\$ 24	\$	\$ 402
------------------------------------	--	----	-------	----	--------

**10. Other Noninterest Income and Other Noninterest Expense**

A summary of other noninterest income for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008 *	2009	2008 *
Fund management fees	\$ 2,437	\$ 2,228	\$ 7,625	\$ 6,105
Service-based fee income (1)	1,700	2,073	5,645	6,329
(Losses) gains on foreign currency loans revaluation, net	(94)	(4,740)	1,886	(2,825)
Other	2,206	2,352	6,674	7,585
<b>Total other noninterest income</b>	<b>\$ 6,249</b>	<b>\$ 1,913</b>	<b>\$ 21,830</b>	<b>\$ 17,194</b>

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation for more details.

(1) Includes income from SVB Analytics and eProsper.

**Table of Contents**

A summary of other noninterest expense for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Tax credit fund amortization	\$ 1,165	\$ 1,036	\$ 3,458	\$ 3,077
Telephone	324	1,373	3,042	3,870
Postage and supplies	165	1,032	2,328	2,810
Other	2,465	3,094	10,147	10,161
<b>Total other noninterest expense</b>	<b>\$ 4,119</b>	<b>\$ 6,535</b>	<b>\$ 18,975</b>	<b>\$ 19,918</b>

**11. Segment Reporting**

We have four operating segments for management reporting purposes: Global Commercial Bank, Relationship Management, SVB Capital, and Other Business Services. Our Other Business Services group includes Sponsored Debt Funds & Strategic Investments and SVB Analytics. The results of our operating segments are based on our internal management reporting process.

Unlike financial reporting, which benefits from the comprehensive structure provided by GAAP, our internal management reporting process is highly subjective, as there is no comprehensive, authoritative guidance for management reporting. Our management reporting process measures the performance of our operating segments based on our internal operating structure and is not necessarily comparable with similar information for other financial services companies. In addition, changes in an individual client's primary relationship designation have resulted, and in the future may result, in the inclusion of certain clients in different segments in different periods.

An operating segment is separately reportable if it exceeds any one of several quantitative thresholds specified in ASC 280 (formerly known as SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*). With respect to our operating segments, only Global Commercial Bank, Relationship Management and SVB Capital were determined to be reportable segments as of September 30, 2009.

The summary financial results of our operating segments are presented along with a reconciliation to our consolidated interim results. The Reconciling Items column reflects the adjustments necessary to reconcile the results of the operating segments to the consolidated financial statements prepared in conformity with GAAP. Net interest income in the Reconciling Items column is primarily interest income recognized from our fixed income investment portfolio. Noninterest income in the Reconciling Items column is primarily attributable to noncontrolling interests (formerly referred to as minority interests) and gains (losses) on equity warrant assets. Noninterest expense in the Reconciling Items column primarily consists of expenses associated with corporate support functions such as information technology, finance, human resources, loan and deposit operations, and legal, as well as certain corporate wide adjustments related to compensation expenses. Additionally, average assets in the Reconciling Items column primarily consist of our fixed income investment portfolio balances.

*Changes to Segment Reporting Effective January 1, 2009*

Effective January 1, 2009, we changed the way we monitor performance and results of our business segments and as a result, we changed how our operating segments are presented. We have reclassified all prior period segment information to conform to the current presentation of our reportable segments. The following is a description of the services that our four operating segments provide:

**Global Commercial Bank** provides solutions to the financial needs of commercial clients through lending, deposit products, cash management services, and global banking and trade products and services. It also serves the needs of our non-U.S. clients with global banking products, including loans, deposits and global finance, in key foreign entrepreneurial markets. Previously, the operations of SVB Global were aggregated as a part of Other Business Services.

**Relationship Management** provides banking products and services to our premium wine industry clients, including vineyard development loans, as well as a range of credit services to targeted high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. Previously, the operations of SVB Wine and SVB Private



## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Client Services were aggregated as part of Other Business Services.

**SVB Capital** manages venture capital and private equity funds on behalf of SVB Financial Group and other third party limited partners. The SVB Capital family of funds is comprised of funds it manages, including funds of funds, such as our SVB Strategic Investors Funds, and co-investment funds, such as our SVB Capital Partners funds and SVB India Capital Partners fund. Previously, SVB Capital also included our sponsored debt funds, Gold Hill Venture Lending funds and Partners for Growth funds, and certain strategic investments held by SVB Financial.

**Table of Contents**

**Other Business Services** includes the results of our Sponsored Debt Funds & Strategic Investments segment, which is comprised of our sponsored debt funds, Gold Hill Venture Lending funds, which provide secured debt, typically to early-stage and mid-stage clients, and Partners for Growth funds, which provide secured debt primarily to mid-stage and late-stage clients, and certain strategic investments held by SVB Financial. Previously, the operations of our sponsored debt funds and strategic investments were reported as part of the SVB Capital operating segment. Other Business Services also includes the results of SVB Analytics, which provides equity valuation and equity management services to private companies and venture capital firms.

Additionally, we made certain changes effective January 1, 2009 as follows: (i) FDIC and state bank assessments are reported in noninterest expense within Global Commercial Bank, whereas previously these were recognized in noninterest expense under the Reconciling Items column; and (ii) we report the provision for loan losses by reportable segments, whereas previously the provision for loan losses was recognized under the Reconciling Items column. We have reclassified all prior period amounts to conform to the current period's presentation.

**Table of Contents**

The following table summarizes the key operating results and financial position for each of our business segments, as well as a reconciliation used to arrive at our consolidated totals. We have reclassified all prior period amounts to conform to the current period's presentation.

(Dollars in thousands)	Global Commercial Banking	Relationship Management	SVB Capital (1)	Other Business Services (1)	Reconciling Items	Total
<b>Three months ended September 30, 2009</b>						
Net interest income (loss)	\$ 88,494	\$ 8,582	\$ (10)	\$ (76)	\$ (172)	\$ 96,818
Provision for loan losses	(3,153)	(4,855)			(22)	(8,030)
Noninterest income	25,938	333	3,014	41	4,981	34,307
Noninterest expense (2)	(31,961)	(3,114)	(3,355)	(2,726)	(38,651)	(79,807)
Income (loss) before income tax expense (3)	\$ 79,318	\$ 946	\$ (351)	\$ (2,761)	\$ (33,864)	\$ 43,288
Total average loans, net of unearned income	\$ 3,575,026	\$ 945,694	\$	\$	\$ 23,790	\$ 4,544,510
Total average assets	3,683,824	946,811	96,077	87,396	6,596,518	11,410,626
Total average deposits	8,757,097	146,367			6,958	8,910,422
<b>Three months ended September 30, 2008</b>						
Net interest income (loss)	\$ 82,773	\$ 7,170	\$ (19)	\$ (8)	\$ 4,695	\$ 94,611
(Provision for) recovery of loan losses	(13,762)	77			3	(13,682)
Noninterest income	35,684	380	2,680	609	1,085	40,438
Noninterest expense (2)	(31,498)	(3,719)	(5,932)	(3,140)	(36,142)	(80,431)
Income (loss) before income tax expense (3)	\$ 73,197	\$ 3,908	\$ (3,271)	\$ (2,539)	\$ (30,359)	\$ 40,936
Total average loans, net of unearned income	\$ 3,884,283	\$ 933,696	\$	\$	\$ 45,727	\$ 4,863,706
Total average assets	3,935,523	937,287	60,368	65,761	2,548,886	7,547,825
Total average deposits	4,671,979	143,203			5,074	4,820,256
<b>Nine months ended September 30, 2009</b>						
Net interest income (loss)	\$ 273,740	\$ 25,897	\$ (13)	\$ (156)	\$ (19,458)	\$ 280,010
Provision for loan losses	(60,883)	(11,974)			(32)	(72,889)
Noninterest income (loss)	78,991	944	3,015	4,399	(30,348)	57,001
Noninterest expense (2)	(103,506)	(10,288)	(9,991)	(12,685)	(119,489)	(255,959)
Income (loss) before income tax expense (3)	\$ 188,342	\$ 4,579	\$ (6,989)	\$ (8,442)	\$ (169,327)	\$ 8,163
Total average loans, net of unearned income	\$ 3,819,466	\$ 966,939	\$	\$	\$ 25,076	\$ 4,811,481
Total average assets	3,915,780	968,384	91,412	79,244	5,880,352	10,935,172
Total average deposits	8,264,929	155,678			6,568	8,427,175
<b>Nine months ended September 30, 2008</b>						
Net interest income	\$ 246,076	\$ 22,017	\$ 11	\$ 35	\$ 4,046	\$ 272,185
(Provision for) recovery of loan losses	(30,017)	291			(30)	(29,756)
Noninterest income	103,296	1,218	7,756	2,047	12,388	126,705
Noninterest expense (2)	(92,348)	(11,556)	(14,882)	(8,402)	(123,869)	(251,057)
Income (loss) before income tax expense (3)	\$ 227,007	\$ 11,970	\$ (7,115)	\$ (6,320)	\$ (107,465)	\$ 118,077
Total average loans, net of unearned income	\$ 3,475,019	\$ 883,724	\$	\$	\$ 74,988	\$ 4,433,731
Total average assets	3,525,464	887,694	49,796	64,743	2,626,016	7,153,713
Total average deposits	4,479,278	157,778			(1,682)	4,635,374

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

- (1) SVB Capital s and Other Business Services components of net interest income, noninterest income, noninterest expense and total average assets are shown net of noncontrolling interests for all periods presented.
- (2) The Global Commercial Bank segment includes direct depreciation and amortization of \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2009, respectively, and \$0.7 million and \$2.0 million for the three and nine months ended September 30, 2008, respectively.
- (3) The internal reporting model used by management to assess segment performance does not calculate income tax expense by segment.

### **12. Off-Balance Sheet Arrangements, Guarantees and Other Commitments**

In the normal course of business, we use financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commercial and standby letters of credit and commitments to invest in private equity fund investments. These instruments involve, to varying degrees, elements of credit risk.

**Table of Contents**

Credit risk is defined as the possibility of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract.

**Commitments to Extend Credit**

The following table summarizes information related to our commitments to extend credit at September 30, 2009 and December 31, 2008, respectively:

(Dollars in thousands)	September 30, 2009	December 31, 2008
Commitments available for funding: (1)		
Fixed interest rate commitments	\$ 574,563	\$ 689,063
Variable interest rate commitments	4,219,900	4,941,423
Total commitments available for funding	\$ 4,794,463	\$ 5,630,486
Commitments unavailable for funding (2)	\$ 1,043,550	\$ 922,170
Maximum lending limits for accounts receivable factoring arrangements (3)	\$ 501,318	\$ 476,329
Reserve for unfunded credit commitments	11,332	14,698

- (1) Represents commitments which are available for funding, due to clients meeting all collateral, compliance, and financial covenants under loan commitment agreements.
- (2) Represents commitments which are currently unavailable for funding, due to clients failing to meet all collateral, compliance, and financial covenants under loan commitment agreements.
- (3) We extend credit under accounts receivable factoring arrangements when our clients' sales invoices are deemed creditworthy under existing underwriting practices.

As of December 31, 2008, we guaranteed some of our customers' credit cards that had been provided by an unaffiliated financial institution. The total amount of these guarantees at December 31, 2008 was \$87.4 million. During the first quarter of 2009, we purchased this credit card portfolio and began processing these credit cards in-house. The credit card commitments as of September 30, 2009 are included in the summary above within our commitments to extend credit.

**Commercial and Standby Letters of Credit**

The table below summarizes our commercial and standby letters of credit at September 30, 2009. The maximum potential amount of future payments represents the amount that could be remitted under letters of credit if there was a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from the collateral held or pledged.

(Dollars in thousands)	Expires In One Year or Less	Expires After One Year	Total Amount Outstanding	Maximum Amount of Future Payments
Financial standby letters of credit	\$ 563,881	\$ 32,782	\$ 596,663	\$ 596,663
Performance standby letters of credit	27,777	9,193	36,970	36,970
Commercial letters of credit	4,492		4,492	4,492
Total	\$ 596,150	\$ 41,975	\$ 638,125	\$ 638,125

At September 30, 2009 and December 31, 2008, deferred fees related to commercial and standby letters of credit were \$4.1 million and \$4.8 million, respectively. At September 30, 2009, collateral in the form of cash of \$192.2 million and investment securities of \$32.3 million were available to us to reimburse losses, if any, under financial and performance standby letters of credit.



**Table of Contents****Commitments to Invest in Private Equity Funds**

We make commitments to invest in venture capital and private equity funds, which in turn make investments generally in, or in some cases make loans to, privately held companies. Commitments to invest in these funds are generally made for a ten-year period from the inception of the fund. Although the limited partnership agreements governing these investments typically do not restrict the general partners from calling 100% of committed capital in one year, it is customary for these funds to generally call most of the capital commitments over 5 to 7 years. The actual timing of future cash requirements to fund such commitments is generally dependent upon the investment cycle, overall market conditions, and the nature and type of industry in which the privately held companies operate. The following table details our total capital commitments, unfunded capital commitments, and our ownership in each fund at September 30, 2009:

<b>Our Ownership in Limited Partnership (Dollars in thousands)</b>	<b>Capital Commitments</b>	<b>Unfunded Commitments</b>	<b>Our Ownership of each Fund</b>
Silicon Valley BancVentures, LP	\$ 6,000	\$ 270	10.7%
SVB Capital Partners II, LP (1)	1,200	486	5.1
SVB Strategic Investors Fund, LP	15,300	1,530	12.6
SVB Strategic Investors Fund II, LP	15,000	3,750	8.6
SVB Strategic Investors Fund III, LP	15,000	7,950	5.9
SVB Strategic Investors Fund IV, LP	12,239	11,505	5.0
Partners for Growth, LP	25,000	9,750	50.0
Partners for Growth II, LP	15,000	4,950	24.2
Gold Hill Venture Lending 03, LP (2)	20,000		9.3
SVB India Capital Partners I, LP	7,750	3,216	14.4
Other Fund Investments (3)	149,594	50,284	N/A
New Fund Commitments (4)	332,412	273,574	N/A
<b>Total</b>	<b>\$ 614,495</b>	<b>\$ 367,265</b>	

- (1) Our ownership includes 1.3% direct ownership through SVB Capital Partners II, LLC and SVB Financial Group, and 3.8% indirect ownership through our investment in SVB Strategic Investors Fund II, LP.
- (2) Our ownership includes 4.8% direct ownership and 4.5% indirect ownership interest through GHLLC.
- (3) Represents commitments to 337 venture capital and private equity funds where our ownership interest is generally less than 5% of the voting interests of each such fund.
- (4) Represents the investment commitments made by SVB Financial on behalf of certain new managed funds of funds that we have formed or plan to form in the future, which have not been funded or called.

**13. Income Taxes**

At September 30, 2009, the total amount of unrecognized tax benefits was \$0.3 million, the recognition of which would reduce our income tax expense by \$0.3 million. Total accrued interest and penalties at September 30, 2009 were \$0.1 million. We expect that our unrecognized tax benefit will change in the next 12 months, however, we do not expect the change to have a material impact on our financial position or our results of operations.

We are subject to income tax in the U.S. federal jurisdiction and various state and foreign jurisdictions and have identified our federal tax return and tax returns in California and Massachusetts as major tax filings. U.S. federal tax examinations through 1998 have been concluded. The U.S. federal tax return for 2006 and subsequent years remain open to examination by the Internal Revenue Service. Our California and Massachusetts tax returns for the years 2004 and 2006, respectively, and subsequent years remain open to examination.

**14. Fair Value of Financial Instruments**

Our marketable investment securities, non-marketable investment securities using investment company fair value accounting and derivatives are financial instruments recorded at fair value on a recurring basis. We make estimates regarding valuation of assets and liabilities measured at fair value in preparing our consolidated financial statements.





**Table of Contents**

The following fair value hierarchy tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2009, in accordance with ASC 820 (formerly known as SFAS No. 157, *Fair Value Measurements*):

(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2009
<b>Assets</b>				
Marketable securities:				
Available-for-sale securities:				
U.S. treasury securities	\$	\$ 26,250	\$	\$ 26,250
U.S. agency debentures		907,282		907,282
Residential mortgage-backed securities:				
Agency-issued mortgage-backed securities		492,139		492,139
Agency-issued collateralized mortgage obligations		1,301,984		1,301,984
Non-agency mortgage-backed securities		92,473		92,473
Commercial mortgage-backed securities		50,609		50,609
Municipal bonds and notes		108,055		108,055
Marketable equity securities	3,967			3,967
<b>Total available-for-sale securities</b>	<b>3,967</b>	<b>2,978,792</b>		<b>2,982,759</b>
Marketable securities (investment company fair value accounting)	643			643
<b>Total marketable securities</b>	<b>4,610</b>	<b>2,978,792</b>		<b>2,983,402</b>
Non-marketable securities (investment company fair value accounting):				
Private equity fund investments			232,294	232,294
Other private equity investments			89,968	89,968
Other investments			1,241	1,241
<b>Total non-marketable securities (investment company fair value accounting)</b>			<b>323,503</b>	<b>323,503</b>
<b>Other assets:</b>				
Interest rate swaps		56,228		56,228
Foreign exchange forward contracts		22,233		22,233
Equity warrant assets		2,443	40,003	42,446
<b>Total assets (1)</b>	<b>\$ 4,610</b>	<b>\$ 3,059,696</b>	<b>\$ 363,506</b>	<b>\$ 3,427,812</b>
<b>Liabilities</b>				
Foreign exchange forward contracts	\$	\$ 20,160	\$	\$ 20,160
<b>Total liabilities</b>	<b>\$</b>	<b>\$ 20,160</b>	<b>\$</b>	<b>\$ 20,160</b>

(1) Included in Level 1 and Level 3 assets are \$0.5 million and \$295.4 million, respectively, attributable to noncontrolling interests calculated based on the ownership percentages of the noncontrolling interests.



**Table of Contents**

The following fair value hierarchy tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008:

(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2008
<b>Assets</b>				
Marketable securities:				
Available-for-sale securities:				
U.S. agency debentures	\$	\$ 113,603	\$	\$ 113,603
Residential mortgage-backed securities:				
Agency-issued mortgage-backed securities		448,594		448,594
Agency-issued collateralized mortgage obligations		483,275		483,275
Non-agency mortgage-backed securities		115,330		115,330
Commercial mortgage-backed securities		47,481		47,481
Municipal bonds and notes		108,755		108,755
Marketable equity securities	152			152
Venture capital fund investments	1			1
Total available-for-sale securities	153	1,317,038		1,317,191
Marketable securities (investment company fair value accounting)	1,703			1,703
Total marketable securities	1,856	1,317,038		1,318,894
Non-marketable securities (investment company fair value accounting):				
Private equity fund investments			242,645	242,645
Other private equity investments			82,444	82,444
Other investments			1,547	1,547
Total non-marketable securities (investment company fair value accounting)			326,636	326,636
Other assets:				
Interest rate swaps		94,142		94,142
Foreign exchange forward contracts		37,189		37,189
Equity warrant assets		1,960	41,699	43,659
Total assets (1)	\$ 1,856	\$ 1,450,329	\$ 368,335	\$ 1,820,520
<b>Liabilities</b>				
Foreign exchange forward contracts	\$	\$ 32,632	\$	\$ 32,632
Total liabilities	\$	\$ 32,632	\$	\$ 32,632

(1) Included in Level 1 and Level 3 assets are \$1.0 million and \$297.4 million, respectively, attributable to noncontrolling interests calculated based on the ownership percentages of the noncontrolling interests.



**Table of Contents**

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2009, and 2008, respectively:

	Total Realized and Unrealized Gains (Losses) Included in Income			Total Realized and Unrealized Gains (Losses) Included in Income			Purchases, Sales, Other Settlements and Issuances, net	Transfers In and/or (Out) of Level 3	Ending Balance
	Beginning Balance	Realized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income			
<b>(Dollars in thousands)</b>									
<b>Three months ended September 30, 2009:</b>									
Non-marketable securities (investment company fair value accounting):									
Private equity fund investments	\$ 225,892	\$ 3,146	\$ (366)	\$ 2,780	\$ 3,622	\$	\$ 232,294		
Other private equity investments	84,613	(342)	2,825	2,483	2,872		89,968		
Other investments	1,348		71	71	(178)		1,241		
Total non-marketable securities (investment company fair value accounting) (1)	311,853	2,804	2,530	5,334	6,316		323,503		
Other assets:									
Equity warrant assets (2)	41,013	1,715	(1,582)	133	(1,143)		40,003		
Total assets	\$ 352,866	\$ 4,519	\$ 948	\$ 5,467	\$ 5,173	\$	\$ 363,506		
<b>Three months ended September 30, 2008:</b>									
Non-marketable securities (investment company fair value accounting):									
Private equity fund investments	\$ 220,963	\$ 1,525	\$ (3,388)	\$ (1,863)	\$ 12,916	\$	\$ 232,016		
Other private equity investments	60,272		4,300	4,300	15,115		79,687		
Other investments	2,643		(123)	(123)	(283)		2,237		
Total non-marketable securities (investment company fair value accounting) (1)	283,878	1,525	789	2,314	27,748		313,940		
Other assets:									
Equity warrant assets (2)	34,494	1,130	362	1,492	1,003	(14)	36,975		
Total assets	\$ 318,372	\$ 2,655	\$ 1,151	\$ 3,806	\$ 28,751	\$ (14)	\$ 350,915		
<b>Nine months ended September 30, 2009:</b>									
Non-marketable securities (investment company fair value accounting):									
Private equity fund investments	\$ 242,645	\$ 5,203	\$ (37,914)	\$ (32,711)	\$ 22,360	\$	\$ 232,294		
Other private equity investments	82,444	(1,772)	(3,308)	(5,080)	12,604		89,968		
Other investments	1,547		687	687	(993)		1,241		
Total non-marketable securities (investment company fair value accounting) (1)	326,636	3,431	(40,535)	(37,104)	33,971		323,503		

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Total non-marketable securities  
(investment company fair value  
accounting) (1)

<b>Other assets:</b>							
Equity warrant assets (2)	41,699	1,884	(4,757)	(2,873)	1,388	(211)	40,003
<b>Total assets</b>	<b>\$ 368,335</b>	<b>\$ 5,315</b>	<b>\$ (45,292)</b>	<b>\$ (39,977)</b>	<b>\$ 35,359</b>	<b>\$ (211)</b>	<b>\$ 363,506</b>

**Nine months ended September 30,  
2008:**

<b>Non-marketable securities (investment company fair value accounting):</b>							
Private equity fund investments	\$ 194,862	\$ 6,708	\$ (7,505)	\$ (797)	\$ 37,951	\$	\$ 232,016
Other private equity investments	44,872	4,672	2,534	7,206	27,609		79,687
Other investments	3,098		(286)	(286)	(575)		2,237
<b>Total non-marketable securities (investment company fair value accounting) (1)</b>	<b>242,832</b>	<b>11,380</b>	<b>(5,257)</b>	<b>6,123</b>	<b>64,985</b>		<b>313,940</b>
<b>Other assets:</b>							
Equity warrant assets (2)	26,911	6,493	3,779	10,272	(235)	27	36,975
<b>Total assets</b>	<b>\$ 269,743</b>	<b>\$ 17,873</b>	<b>\$ (1,478)</b>	<b>\$ 16,395</b>	<b>\$ 64,750</b>	<b>\$ 27</b>	<b>\$ 350,915</b>

- (1) Realized and unrealized gains (losses) are recorded on the line items gains (losses) on investment securities, net and other noninterest income, components of noninterest income.
- (2) Realized and unrealized gains (losses) are recorded on the line item (losses) gains on derivative instruments, net a component of noninterest income.

**Table of Contents**

The following table presents the amount of unrealized gains (losses) included in earnings for the three and nine months ended September 30, 2009 attributable to Level 3 assets still held at September 30, 2009:

(Dollars in thousands)	Three months ended September 30, 2009	Nine months ended September 30, 2009
Non-marketable securities (investment company fair value accounting):		
Private equity fund investments	\$ (366)	\$ (37,914)
Other private equity investments	2,325	(4,881)
Other investments	71	687
Total non-marketable securities (investment company fair value accounting)	2,030	(42,108)
Other assets:		
Equity warrant assets	(405)	(745)
Total unrealized losses	\$ 1,625	\$ (42,853)

FASB issued guidance over financial instruments (ASC 825-10-65, formerly known as SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*) requires that we disclose estimated fair values for our financial instruments not carried at fair value. Fair value estimates, methods and assumptions, set forth below for our financial instruments, are made solely to comply with the requirements of ASC 825.

Fair values are based on estimates or calculations at the transaction level using present value techniques in instances where quoted market prices are not available. Because broadly traded markets do not exist for many of our financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. Fair valuations are management's estimates of the values, and they are calculated based on indicator prices corroborated by observable market quotes or pricing models, the economic and competitive environment, the characteristics of the financial instruments, expected losses, and other such factors. These calculations are subjective in nature, involve uncertainties and matters of significant judgment, and do not include tax ramifications; therefore, the results cannot be determined with precision or substantiated by comparison to independent markets, and they may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. For all of these reasons, the aggregation of the fair value calculations presented herein does not represent, and should not be construed to represent, the underlying value of the Company.

The following describes the methods and assumptions used in estimating the fair values of financial instruments, excluding financial instruments already recorded at fair value as described above.

**Short-Term Financial Assets**

Short-term financial assets include cash on hand, cash balances due from banks, interest-earning deposits, securities purchased under agreement to resell and other short-term investment securities. The carrying amount is a reasonable estimate of fair value because of the insignificant risk of changes in fair value due to changes in market interest rates, and purchased in conjunction with our cash management activities.

**Investment Securities Non-Marketable (Cost and Equity Method Accounting)**

Non-marketable investment securities (cost and equity method accounting) includes other investments (equity method accounting), low income housing tax credit funds (equity method accounting), private equity fund investments (cost method accounting), and other private equity investments (cost method accounting). The fair value of other investments (equity method accounting), private equity fund investments (cost method accounting), and other private equity investments (cost method accounting) is based on financial information obtained as the investor or obtained from the fund investments' or debt fund investments' respective general partner. For private company investments, fair value is based on consideration of a range of factors including, but not limited to, the price at which the investment was acquired, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, exit strategies and financing transactions subsequent to the acquisition of the investment. For our fund investments and debt fund investments, we utilize the most recent available financial information from the investee general partner, for example June 30th, for our September 30th interim consolidated financial

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

statements, adjusted for any contributions paid or distributions received from the investment during the third quarter. The fair value of our low income housing tax credit funds (equity method accounting) is based on carrying value.



**Table of Contents****Loans**

The fair value of fixed and variable rate loans is estimated by discounting contractual cash flows using discount rates that reflect our current pricing for loans with similar credit characteristics and the forward yield curve.

**Deposits**

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing checking accounts and money market accounts is equal to the amount payable on demand at the measurement date. The fair value of time deposits is estimated by discounting the balances using our cost of borrowings and the forward yield curve over their remaining contractual term.

**Short-Term Borrowings**

Short-term borrowings at September 30, 2009 and December 31, 2008 included cash collateral received from counterparties for our interest rate swap agreements related to our senior and subordinated note. The carrying amount is a reasonable estimate of fair value.

**Long-Term Debt**

Long-term debt includes our contingently convertible debt, junior subordinated debentures, senior and subordinated notes, and other long-term debt (see Note 8- Short-Term Borrowings and Long-Term Debt ). The fair value of long-term debt is generally based on quoted market prices, when available, or is estimated based on calculations utilizing third-party pricing services and current market spread, price indications from reputable dealers or observable market prices of the underlying instrument(s), whichever is deemed more reliable.

**Off-Balance Sheet Financial Instruments**

The fair value of unfunded commitments to extend credit is estimated based on the average amount we would receive or pay to execute a new agreement with identical terms, considering current interest rates and taking into account the remaining terms of the agreement and counterparties' credit standing.

Letters of credit are carried at their fair value, which is equivalent to the residual premium or fee at September 30, 2009 and December 31, 2008. Commitments to extend credit and letters of credit typically result in loans with a market interest rate if funded.

The information presented herein is based on pertinent information available to us as of September 30, 2009 and December 31, 2008. The following table is a summary of the estimated fair values of our financial instruments that are not carried at fair value at September 30, 2009 and December 31, 2008.

(Dollars in thousands)	September 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Investment securities-non-marketable (cost and equity method accounting)	\$ 184,376	\$ 182,565	\$ 140,570	\$ 143,724
Net loans	4,569,104	4,679,213	5,398,857	5,518,431
<b>Financial liabilities:</b>				
Other short-term borrowings	52,285	52,285	62,120	62,120
Deposits	10,055,632	9,962,329	7,473,472	7,471,614
5.70% senior notes (1) (2)	271,715	273,852	279,370	262,043
6.05% subordinated notes (1) (2)	283,929	269,285	313,953	269,429
3.875% convertible senior notes	246,430	264,398	244,783	199,795
7.0% junior subordinated debentures (2)	55,968	40,186	55,914	32,747
Other long-term debt	8,706	8,706	101,403	101,695
<b>Off-balance sheet financial assets:</b>				
Commitments to extend credit		14,229		17,920

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

- (1) At September 30, 2009, included in the carrying value and estimated fair value of our 5.70% senior notes and 6.05% subordinated notes, are \$21.9 million and \$34.4 million, respectively related to the fair value of the interest rate swaps associated with the notes.
- (2) At December 31, 2008, included in the carrying value and estimated fair value of our 5.70% senior notes, 6.05% subordinated notes and 7.0% junior subordinated debentures, are \$29.5 million, \$64.4 million and \$0.2 million, respectively related to the fair value of the interest rate swaps associated with the notes. The interest rate swap on our 7.0% junior subordinated debentures was terminated and no longer designated as a hedging instrument in the first quarter of 2009.

**Table of Contents**

**15. Legal Matters**

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Based upon information available to us, our review of such claims to date and consultation with our outside legal counsel, management believes the liability relating to these actions, if any, will not have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. Where appropriate, as we determine, we establish reserves in accordance with FASB guidance over contingencies (ASC 450, formerly known as SFAS No. 5, *Accounting for Contingencies*). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operation.

**16. Subsequent Events**

We have evaluated all subsequent events through November 6, 2009, the date the accompanying interim consolidated financial statements were issued, and determined there are no events other than those discussed above that require disclosure.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
Forward-Looking Statements; Reclassifications**

This Quarterly Report on Form 10-Q, including in particular Management's Discussion and Analysis of Financial Condition and Results of Operations under Part 1, Item 2 of this report, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Management has in the past and might in the future make forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements are statements that are not historical facts. Broadly speaking, forward-looking statements include, but are not limited to, the following:

Projections of our net interest income, noninterest income, earnings per share, noninterest expenses, including professional service, compliance, compensation and other costs, cash flows, balance sheet positions, capital expenditures, and capitalization or other financial items

Descriptions of our strategic initiatives, plans or objectives for future operations, including pending acquisitions

Forecasts of venture capital/private equity funding and investment levels

Forecasts of future interest rates, economic performance, and income from investments

Forecasts of expected levels of provisions for loan losses, loan growth and client funds

Descriptions of assumptions underlying or relating to any of the foregoing

In this Quarterly Report on Form 10-Q, we make forward-looking statements, including, but not limited to, those discussing our management's expectations about:

The likelihood that the market value of our impaired investments will recover

The extent to which counterparties to forward and option contracts will perform their obligations under such contracts

The formation of new managed funds and the transfer of investments to these new funds

The sufficiency of our capital, including in the event of credit losses

The likelihood that funds generated through retained earnings will continue to be a significant source of capital and liquidity

The expansion of operations in China, India, Israel, the United Kingdom and elsewhere

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Economic conditions and associated impact on us

The extent to which our products and services will meet changing client needs

The payment of cash dividends on, or our repurchase of, our common stock

The adequacy of reserves and appropriateness of methodology for calculating our reserves

The sensitivity of our interest-earning assets and interest-bearing liabilities to interest rates, and the impact to earnings from a change in interest rates; overall management of interest rate risk

The realization, timing, valuation and performance of equity or other investments

Our intention to sell our investment securities prior to recovery of our cost basis, or the likelihood of a requirement to do so

Our liquidity position

The level of client investment fees and associated margins

The level of loan and deposit balances

The credit quality of our loan portfolio, including levels and trends of nonperforming loans

The activities for which capital may be used or required

The financial impact of continued growth of our funds management business

The expansion and growth of our noninterest income sources

The profitability of our products and services

Our venture capital and private equity funding and investment levels

Our strategic initiatives

The effect of application of certain accounting pronouncements

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

The effect of lawsuits and claims

The changes in, or adequacy of, our unrecognized tax benefits and any associated impact

The cash requirements of unfunded commitments to certain investments

The investment of excess cash

The settlement of convertible debt instruments

The transfer of certain investment commitments to new managed funds and the subsequent reduction in our total unfunded investment commitments

Our plans to form new investment funds and our intention to transfer investment commitments to those funds

The expected decrease in our noninterest-bearing deposit balances after the expiration of applicable FDIC insurance coverage

You can identify these and other forward-looking statements by the use of words such as becoming , may , will , should , predicts , potential continue , anticipates , believes , estimates , seeks , expects , plans , intends , the negative of such words, or comparable terminology. All believe that the expectations reflected in these forward-looking statements are reasonable, we have based these expectations on our beliefs as well as our assumptions, and such expectations may prove to be incorrect. Our actual results of operations and financial performance could differ significantly from those expressed in or implied by our management s forward-looking statements.

---

## **Table of Contents**

For information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see **Risk Factors** under Part II, Item 1A of this report. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this report. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements included in this filing are made only as of the date of this filing. We assume no obligation and do not intend to revise or update any forward-looking statements contained in this Quarterly Report on Form 10-Q.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and accompanying notes as presented in Part I, Item 1 of this report and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008 ( **2008 Form 10-K** ), as filed with the Securities and Exchange Commission ( **SEC** ).

Certain reclassifications have been made to prior years' results to conform to the current period's presentations. Such reclassifications had no effect on our results of operations or stockholders' equity. In addition, certain amounts in prior years' results have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts, as well as the adoption of new accounting standards (Accounting Standards Codification ( **ASC** ) 470-20, formerly known as Financial Accounting Standards Board ( **FASB** ) Staff Position ( **FSP** ) Accounting Principles Board ( **APB** ) Opinion No. 14-1). Refer to Note 1- **Basis of Presentation** of the **Notes to Interim Consolidated Financial Statements (unaudited)** under Part I, Item 1 of this report for further details.

### **Management's Overview of Third Quarter 2009 Performance**

During the third quarter of 2009, we began to see signs of stabilization and relative improvement in our client base. Credit quality appears to be improving overall, and we were able to resolve a number of credit issues during the third quarter of 2009. Additionally, portfolio company valuations appear to be stabilizing.

We recorded net income available to common stockholders for the three months ended September 30, 2009 of \$20.6 million, or \$0.61 per diluted common share. The major drivers of these results were improved overall credit quality and resolution of certain impaired loans, higher net interest income resulting from an increase in our fixed income investment portfolio and lower interest expense, as well as lower noninterest expense. Additionally, we continued to see strong deposit growth during the third quarter of 2009, primarily as a result of clients' preference for the security provided by the Federal Deposit Insurance Corporation ( **FDIC** ), as well as to the lack of attractive alternative investment opportunities due to the current low interest rate environment. Although the growth in deposits significantly increased our cash levels, we continued to increase our fixed income investment securities portfolio and invest the excess cash. While liquidity remains a priority, we expect to continue to invest a portion of our excess cash from deposits into fixed income investment securities during the fourth quarter of 2009. Deposits at September 30, 2009 reflect a large deposit of approximately \$0.9 billion related to client capital calls for investments on the last day of the third quarter of 2009, which was subsequently withdrawn during the first week of the fourth quarter of 2009.

Highlights of our third quarter 2009 financial results (compared to the third quarter of 2008, where applicable) included the following:

Provision for loan losses of \$8.0 million, a decrease of \$5.7 million compared to the third quarter of 2008. The decrease was primarily due to: (i) an \$11.4 million partial recovery of a single loan that was previously charged off in the first quarter of 2009, (ii) a reduction of required reserves for impaired loans due to the finalization of the HRJ Capital ( **HRJ** ) transaction, as well as the charge-offs of certain other impaired loans from our software and hardware client portfolios, and (iii) an overall improvement in the credit quality of our loan portfolio.

Growth of \$4.1 billion in average deposit balances to \$8.9 billion, primarily due to clients' preference for security provided by the FDIC insurance for noninterest-bearing accounts, as well as to the lack of attractive alternative investment opportunities due to the current low interest rate environment. The growth in deposits decreased our average loan-to-deposit ratio to 51.00 percent for the third quarter of 2009.

Growth of \$1.1 billion in average investment securities to \$2.5 billion, primarily due to purchases of agency-issued collateralized mortgage obligations and U.S. agency securities, which were purchased with excess cash as a result of our continued growth in deposits.

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

A decrease in average loan balances of \$319.2 million, reflecting continued efforts by some clients to de-leverage their businesses.

A decrease in our net interest margin from 5.70 percent to 3.70 percent, primarily due to the current low interest rate environment as our average prime-lending rate decreased by 100 basis points to 4.00 percent for the three months ended September 30, 2009, compared to 5.00 percent for the comparable 2008 period. In addition, a large portion of our deposits were invested in overnight cash with the Federal Reserve earning 25 basis points throughout the third quarter of 2009.



**Table of Contents**

The discussions below under our results of operations provide more information on our third quarter 2009 performance.

The key highlights of our performance for the three and nine months ended September 30, 2009 and 2008, respectively, were as follows:

(Dollars in thousands, except per share data and ratios)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008 *	Change	2009	2008 *	Change
<b>Income Statement:</b>						
Diluted earnings per share (1)	\$ 0.61	\$ 0.77	(20.8)%	\$ 0.50	\$ 2.17	(77.0)%
Net income attributable to SVBFG (1)	24,163	25,918	(6.8)	27,266	74,172	(63.2)
Net income available to common stockholders (1)	20,608	25,918	(20.5)	16,630	74,172	(77.6)
Net interest income (1)	96,818	94,611	2.3	280,010	272,185	2.9
Net interest margin (1)	3.70%	5.70%	200 bps	3.79%	5.85%	206 bps
Provision for loan losses	8,030	13,682	(41.3)%	72,889	29,756	145.0%
Noninterest income (2)	34,307	40,438	(15.2)	57,001	126,705	(55.0)
Noninterest expense (3)	79,807	80,431	(0.8)	255,959	251,057	2.0
<b>Balance Sheet:</b>						
Average loans, net of unearned income	\$ 4,544,510	\$ 4,863,706	(6.6)%	\$ 4,811,481	\$ 4,433,731	8.5%
Average noninterest-bearing deposits	5,373,486	2,826,289	90.1	5,050,329	2,852,851	77.0
Average interest-bearing deposits	3,536,936	1,993,967	77.4	3,376,846	1,782,523	89.4
Average total deposits	8,910,422	4,820,256	84.9	8,427,175	4,635,374	81.8
<b>Ratios:</b>						
Return on average common SVBFG stockholders equity (annualized) (1)(4)	9.94%	14.37%	(30.8)%	2.78%	14.25%	(80.5)%
Return on average assets (annualized) (1)(5)	0.84	1.37	(38.7)	0.33	1.38	(76.1)
Book value per common share (6)	25.43	22.48	13.1	25.43	22.48	13.1
Operating efficiency ratio (1)(7)	60.61	59.30	2.2	75.58	62.67	20.6
Allowance for loan losses as a percentage of total gross loans	1.85	1.13	72 bps	1.85	1.13	72 bps
Gross loan charge-offs as a percentage of average total gross loans (annualized)	4.03	0.57	346 bps	3.04	0.67	237 bps
Net loan charge-offs as a percentage of average total gross loans (annualized)	2.75	0.51	224 bps	2.58	0.50	208 bps
<b>Other Statistics:</b>						
Average SVB prime lending rate	4.00%	5.00%	100 bps	4.00%	5.44%	144 bps
Period end full-time equivalent employees	1,259	1,237	1.8	1,259	1,237	1.8
<b>Non-GAAP measures:</b>						
Non-GAAP operating efficiency ratio (1)(8)	60.79%	57.68%	5.4%	66.67%	60.75%	9.7%
Non-GAAP noninterest income, net of noncontrolling interest (9)	\$ 29,190	\$ 39,396	(25.9)	\$ 88,573	\$ 126,562	(30.0)
Non-GAAP noninterest expense, net of noncontrolling interest (9)	76,935	77,567	(0.8)	246,852	242,977	1.6
Tangible common equity to tangible assets (10)	6.73	9.06	(25.7)	6.73	9.06	(25.7)
Tangible common equity to risk-weighted assets (10)	11.43	9.28	23.2	11.43	9.28	23.2

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

- (1) Balances, results and ratios for all periods presented reflect our adoption of ASC 470-20 (formerly known as FSP SFAS No. 14-1). Refer to Critical Accounting Policies and Estimates Impact of Adopting FASB Issued Guidance over Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) in Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details. Amounts for the three and nine months ended September 30, 2008 have been retrospectively adjusted.
- (2) Noninterest income included net gains of \$5.1 million and net losses of \$31.6 million attributable to noncontrolling interests for the three and nine months ended September 30, 2009, respectively, compared to net gains of \$1.0 million and \$0.1 million for the comparable 2008

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

- periods, respectively. See Results of Operations Noninterest Income for a description of noninterest income attributable to noncontrolling interests.
- (3) Noninterest expense included \$2.9 million and \$9.1 million attributable to noncontrolling interests for the three and nine months ended September 30, 2009, respectively, compared to \$2.9 million and \$8.1 million for the comparable 2008 periods. See Results of Operations Noninterest Expense for a description of noninterest expense attributable to noncontrolling interests.
  - (4) Ratio represents annualized consolidated net income available to common stockholders divided by quarterly and year-to-date average SVB Financial Group ( SVBFG ) stockholders equity (excluding preferred equity).
  - (5) Ratio represents annualized consolidated net income attributable to SVBFG divided by quarterly and year-to-date average assets.
  - (6) Book value per common share is calculated by dividing total SVBFG stockholders equity (excluding preferred equity) by total outstanding common shares.
  - (7) The operating efficiency ratio is calculated by dividing noninterest expense by total taxable-equivalent income.
  - (8) See Results of Operations Noninterest Expense for a reconciliation of the non-GAAP operating efficiency ratio.
  - (9) See Results of Operations Noninterest Income for a description of noninterest income and noninterest expense that is attributable to noncontrolling interests.
  - (10) See Capital Resources Capital Ratios for a reconciliation of non-GAAP tangible common equity and tangible assets.

---

**Table of Contents****Critical Accounting Policies and Estimates**

The accompanying management's discussion and analysis of results of operations and financial condition is based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. Management evaluates estimates on an ongoing basis. Management bases its estimates on historical experiences and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

There have been no significant changes during the nine months ended September 30, 2009 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations under Part II, Item 7 of our 2008 Form 10-K.

***Fair Value Measurements***

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Our marketable investment securities, certain non-marketable investment securities using investment company fair value accounting and derivatives are financial instruments recorded at fair value on a recurring basis. For a detailed description of our methodology, critical estimates and approach for fair value measurements of assets and liabilities, refer to our Management's Discussion and Analysis of Financial Condition and Results of Operations under Part II, Item 7 of our 2008 Form 10-K.

At September 30, 2009, approximately 27.3 percent of our total assets, or \$3.4 billion, consisted of financial assets recorded at fair value on a recurring basis. Of these assets, 89.4 percent used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value, and 10.6 percent of these financial assets were measured using model-based techniques, or Level 3 measurements. Almost all of our financial assets valued using Level 3 measurements at September 30, 2009 represented non-marketable securities. At September 30, 2009, 0.2 percent of total liabilities, or \$20.2 million, consisted of financial liabilities recorded at fair value on a recurring basis, which were valued using market-observable inputs. There were no material transfers in or out of Level 3 during the nine months ended September 30, 2009. Our valuation processes include a number of key controls that are designed to ensure that fair value is calculated appropriately. Such controls include a model validation policy requiring that models that provide values used in financial statements be validated by qualified personnel and escalation procedures to ensure that valuations using unverifiable inputs are identified and monitored on a regular basis by senior management.

As of September 30, 2009, our available-for-sale investment portfolio, consisting primarily of U.S. agency debentures, U.S. agency-issued and investment grade mortgage securities and municipal bonds, represented \$3.0 billion, or 86.9 percent of our portfolio of assets measured at fair value on a recurring basis. These instruments were classified as Level 2 because their valuations were based on indicator prices corroborated by observable market quotes or pricing models with all significant inputs derived from or corroborated by observable market data. Since our available-for-sale fixed-income investment securities portfolio consisted primarily of fixed rate securities, the fair value of the portfolio is sensitive to changes in levels of market interest rates and market perceptions of credit quality of the underlying securities. Market valuations and impairment analyses on assets in the fixed-income investment portfolio are reviewed and monitored on an ongoing basis.

To the extent available-for-sale investment securities are used to secure borrowings, changes in the fair value of those securities could have an impact on the total amount of secured financing available. We pledge securities to the Federal Home Loan Bank of San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco at September 30, 2009 totaled \$540.9 million, all of which was unused and available to support additional borrowings. The market value of collateral pledged at the discount window of the Federal Reserve Bank in accordance with our risk management practices at September 30, 2009 totaled \$89.9 million, all of which was unused and available to support additional borrowings. We have repurchase agreements in place with multiple securities dealers, which allow us to access short-term borrowings by using fixed income securities as collateral. At September 30, 2009, we had not utilized our repurchase lines to secure borrowed funds.

Financial assets valued using Level 3 measurements consist primarily of our investments in venture capital and private equity funds, direct equity investments in privately held companies and certain investments made by our consolidated sponsored debt fund. These funds are investment companies under the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Investment Companies and accordingly, these funds report their investments at estimated fair value, with unrealized gains and losses resulting from changes in fair value reflected as investment gains or losses in our consolidated statements of income. Assets valued using Level 3 measurements also include equity warrant assets in shares of private company capital stock.

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

During the three and nine months ended September 30, 2009, the Level 3 assets that are measured at fair value on a recurring basis experienced net unrealized fair value increases totaling \$0.9 million and net unrealized fair value decreases totaling \$45.3 million, respectively, primarily due to valuations in underlying equity and fund investments in our managed funds. Realized gains related to the Level 3 assets for the three and nine months ended September 30, 2009 of \$4.5 million and \$5.3 million, respectively, related primarily to gains from distributions from underlying fund investments in our managed funds of funds.

---

## **Table of Contents**

The valuation of nonmarketable securities and equity warrant assets in shares of private company capital stock is subject to management judgment. The inherent uncertainty in the process of valuing securities for which a ready market does not exist may cause our estimated values of these securities to differ significantly from the values that would have been derived had a ready market for the securities existed, and those differences could be material. The timing and amount of changes in fair value, if any, of these financial instruments depend upon factors beyond our control, including the performance of the underlying companies, fluctuations in the market prices of the preferred or common stock of the underlying companies, general volatility and interest rate market factors, and legal and contractual restrictions. The timing and amount of actual net proceeds, if any, from the disposition of these financial instruments depend upon factors beyond our control, including investor demand for initial public offerings, levels of merger and acquisition activity, legal and contractual restrictions on our ability to sell, and the perceived and actual performance of portfolio companies. All of these factors are difficult to predict.

### ***Recent Accounting Pronouncements***

Please refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

### ***Correction of an Immaterial Error***

During the second quarter of 2009, we determined that we had incorrectly recognized certain gains and losses on foreign exchange contracts in prior periods. The cumulative pre-tax effect of the error was \$6.2 million, or \$3.8 million after-tax and is considered to be immaterial to the prior periods. However, since the cumulative impact of correcting this error would have been material to the results of the quarter ended June 30, 2009, we applied the guidance of ASC 250-10-S99-1 and S99-2 (formerly known as SAB 99 and SAB 108). This guidance requires that the prior financial statements be corrected, even though such revisions were, and continue to be, immaterial to the prior period financial statements. As such, the affected prior period results have been revised as follows: For the three months ended March 31, 2009, net loss increased by \$1.2 million, or \$0.04 per diluted common share; for the year ended December 31, 2008, net income was reduced by \$2.3 million, or \$0.07 per diluted common share; and for the year ended December 31, 2007, net income was reduced by \$0.2 million, or \$0.01 per diluted common share. For further details, please refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

## **Results of Operations**

### ***Net Interest Income and Margin (Fully Taxable Equivalent Basis)***

Net interest income is defined as the difference between interest earned on loans, investment securities, federal funds sold, securities purchased under agreements to resell and other short-term investment securities, and interest paid on funding sources including deposits and borrowings. Net interest income is our principal source of revenue. Net interest margin is defined as the amount of annualized net interest income, on a fully taxable-equivalent basis, expressed as a percentage of average interest-earning assets. Net interest income and net interest margin are presented on a fully taxable-equivalent basis to consistently reflect income from taxable loans and securities and tax-exempt securities based on the federal statutory tax rate of 35.0 percent.

### ***Net Interest Income (Fully Taxable Equivalent Basis)***

#### ***Three months ended September 30, 2009 and 2008***

Net interest income increased by \$2.2 million to \$97.4 million for the three months ended September 30, 2009, compared to \$95.2 million for the comparable 2008 period. Overall, we saw an increase in our net interest income, primarily due to the low interest rate environment, which lowered our costs on deposits and London Interbank Offered Rates ( LIBOR ) rates underlying our long-term debt. In addition, we saw an improvement in our net interest income as a result of our growing interest-earning investment portfolio. Although our cost of funding benefited from the low interest rate environment, lower loan balances and the decline in interest rates earned on our loan portfolio decreased our net interest income.

The main factors affecting interest income and interest expense for the three months ended September 30, 2009, compared to the comparable 2008 period are discussed below:

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

*Interest income* for the three months ended September 30, 2009 decreased by \$5.5 million primarily due to:

- i An \$11.2 million decrease in interest income on loans driven by a \$319.2 million decrease in average loan balances for the three months ended September 30, 2009, compared to the comparable 2008 period, as well as a 46 basis points decrease in loan yields. While we continue to make loans to new borrowers, we had a net decrease in average loan balances primarily from loans to venture capital/private equity funds for capital calls due to the effects of the downturn in the economy causing pressures on mergers and acquisitions ( M&A ) activity and lower levels of venture capital investments, as well as from a decrease in loans to software and hardware clients reflecting continued efforts by some clients to de-leverage their businesses. The decrease in loan yields was due primarily to a 100 basis points decrease in our prime-lending rate during the fourth

**Table of Contents**

quarter of 2008, in response to certain Federal Fund rate decreases. Our average prime-lending rate was 4.00 percent for the three months ended September 30, 2009, compared to 5.00 percent for the comparable 2008 period.

- i A decrease of \$0.3 million in interest income on short-term investment securities, primarily due to decreases in the Federal Funds rates in the fourth quarter of 2008, partially offset by an increase in average balances as a result of excess cash from the growth in our deposits.

These decreases were partially offset by a \$6.1 million increase in interest income on interest-earning investment securities, primarily related to the growth in average balances of \$1.1 billion due to purchases of agency-issued collateralized mortgage obligations and U.S. agency securities. The investments were made as part of our overall investment strategy to invest excess cash as a result of the growth in our deposits. The increase in interest income from growth in average balances was partially offset by a decrease in yields due to the current low interest rate environment.

*Interest expense* for the three months ended September 30, 2009 decreased by \$7.6 million primarily due to:

- i A decrease in interest expense of \$3.1 million from long-term debt, primarily due to lower LIBOR rates associated with interest rate swap agreements on our senior and subordinated notes.
- i A decrease in interest expense from short-term borrowings of \$3.0 million, primarily due to declining short-term market interest rates and a decrease in average balances outstanding. Average short-term borrowings decreased by \$502.2 million to \$42.1 million for the three months ended September 30, 2009, compared to \$544.3 million for the comparable 2008 period, due to growth in deposit balances.
- i A decrease in interest expense from interest-bearing deposits of \$1.5 million, primarily related to a decrease in deposit rates due to declining market rates and our decision to lower rates in the first quarter and third quarter of 2009, partially offset by an increase in average interest-bearing balances of \$1.5 billion. The increase in average balances was primarily due to clients preference for the security provided by the FDIC, the lack of attractive alternative investment opportunities due to the current low interest rate environment and the discontinuation of our off-balance sheet sweep product in late 2008.

*Nine months ended September 30, 2009 and 2008*

Net interest income increased by \$7.8 million to \$281.7 million for the nine months ended September 30, 2009, compared to \$273.9 million for the comparable 2008 period. Overall, we saw an increase in our net interest income, primarily due to the low interest rate environment, which lowered our costs on deposits and LIBOR rates underlying our long-term debt. In addition, we saw an improvement in our net interest income as a result of our growing interest-earning investment portfolio. Although our cost of funding benefited from the low interest rate environment, higher deposit balances, lower loan balances and the decline in interest rates earned on our loan portfolio decreased our net interest income.

The main factors affecting interest income and interest expense for the nine months ended September 30, 2009, compared to the comparable 2008 period are discussed below:

*Interest income* for the nine months ended September 30, 2009 decreased by \$6.8 million primarily due to:

- i A \$13.0 million decrease in interest income on loans driven principally by a 99 basis point decrease in loan yields due primarily to decreases totaling 325 basis points in our prime-lending rate during 2008, in response to certain Federal Fund rate decreases. Our average prime-lending rate was 4.00 percent for the nine months ended September 30, 2009, compared to 5.44 percent for the comparable 2008 period. The impact of lower loan yields was partially offset by an increase of \$377.8 million in average loan balances for the nine months ended September 30, 2009, compared to the comparable 2008 period. This growth was driven primarily by loan growth from software, life science, and hardware clients, partially offset by a decrease in

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

loans to venture capital/private equity funds for capital calls.

i A \$3.3 million decrease in interest income on short-term investments primarily due to the decreases in the Federal Funds rates in 2008, partially offset by the effect of a \$2.7 billion increase in average balances resulting from the growth in our deposits. These decreases were partially offset by an increase of \$9.5 million in interest income on interest-earning investment securities, primarily related to the growth in average balances of \$608.8 million due to purchases of agency-issued collateralized mortgage obligations and U.S. agency securities.

*Interest expense* for the nine months ended September 30, 2009 decreased by \$14.6 million primarily due to:

- i A decrease in interest expense of \$9.0 million related to our long-term debt, primarily due to lower LIBOR rates associated with interest rate swap agreements on our senior and subordinated notes.
  
- i A decrease in interest expense related to our short-term borrowings of \$5.9 million, primarily due to declining short-term market interest rates, as well as a decrease in average balances outstanding. Average short-term borrowings decreased by \$284.2 million to \$45.0 million for the nine months ended September 30, 2009, compared to \$329.2 million for the comparable 2008 period. This decrease was due to the availability of excess cash resulting from the growth in deposit balances.



**Table of Contents**

These decreases were partially offset by an increase in interest expense of \$0.3 million from interest-bearing deposits, primarily due to a \$1.6 billion increase in average interest-bearing deposits. This increase was primarily due to clients' preference for the security provided by the FDIC, the lack of attractive alternative investment opportunities due to the current low interest rate environment and the discontinuation of our off-balance sheet sweep product in late 2008. These factors were partially offset by a decrease in deposit interest rates due to declining market rates and our decision to lower rates in the first quarter and third quarter of 2009.

*Analysis of Interest Changes Due to Volume and Rate (Fully Taxable-Equivalent Basis)*

Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as volume change. Net interest income is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities, referred to as rate change. Changes in our prime-lending rate impact the yield earned on our loans, and changes in short-term market rates, primarily the fed funds target rate, impact rates paid on our interest-bearing deposits. The following table sets forth changes in interest income for each major category of interest-earning assets and interest expense for each major category of interest-bearing liabilities. The table also reflects the amount of simultaneous changes attributable to both volume and rate changes for the periods indicated. For this table, changes that are not solely due to either volume or rate are allocated in proportion to the percentage changes in average volume and average rate.

(Dollars in thousands)	2009 Compared to 2008 Three months ended September 30, Increase (decrease) due to change in			2009 Compared to 2008 Nine months ended September 30, Increase (decrease) due to change in		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest income:</b>						
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	\$ 4,084	\$ (4,429)	\$ (345)	\$ 13,379	\$ (16,664)	\$ (3,285)
Investment securities (Taxable)	10,832	(4,591)	6,241	18,556	(9,026)	9,530
Investment securities (Non-Taxable)	(90)	(61)	(151)	169	(204)	(35)
Loans, net of unearned income	(5,874)	(5,333)	(11,207)	21,609	(34,591)	(12,982)
Increase (decrease) in interest income, net	8,952	(14,414)	(5,462)	53,713	(60,485)	(6,772)
<b>Interest expense:</b>						
NOW deposits	(9)	(10)	(19)	(5)	(36)	(41)
Regular money market deposits	(56)	(329)	(385)	85	(947)	(862)
Bonus money market deposits	26	(1,907)	(1,881)	385	(4,930)	(4,545)
Money market deposits in foreign offices	90		90	342		342
Time deposits	(102)	(228)	(330)	(80)	(585)	(665)
Sweep deposits	2,863	(1,804)	1,059	9,595	(3,479)	6,116
Total increase (decrease) in deposits expense	2,812	(4,278)	(1,466)	10,322	(9,977)	345
Short-term borrowings	(1,506)	(1,520)	(3,026)	(2,841)	(3,059)	(5,900)
Zero-coupon convertible subordinated notes				(2,418)		(2,418)
3.875% convertible senior notes	36	(14)	22	3,793	91	3,884
Junior subordinated debentures	36	343	379	108	685	793
Senior and subordinated notes	239	(2,853)	(2,614)	933	(9,293)	(8,360)
Other long-term debt	(472)	(439)	(911)	(1,359)	(1,570)	(2,929)
Total (decrease) in borrowings expense	(1,667)	(4,483)	(6,150)	(1,784)	(13,146)	(14,930)
Increase (decrease) in interest expense, net	1,145	(8,761)	(7,616)	8,538	(23,123)	(14,585)
Increase (decrease) in net interest income	\$ 7,807	\$ (5,653)	\$ 2,154	\$ 45,175	\$ (37,362)	\$ 7,813

*Net Interest Margin (Fully Taxable-Equivalent Basis)*

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Our net interest margin was 3.70 percent and 3.79 percent for the three and nine months ended September 30, 2009, compared to 5.70 percent and 5.85 percent for the comparable 2008 periods. The decreases in net interest margin were primarily due to decreases in the yield earned on our loan portfolio resulting from reductions in our prime-lending rate, which we lowered in response to certain Federal Reserve rate cuts in 2008. The decreases in net interest margin were also attributable to an increase in cash as a result of the growth in noninterest-bearing and interest-bearing deposits, which were invested in overnight cash with the Federal Reserve earning 25 basis points throughout the third quarter of 2009. These declines in our net interest margin were partially offset by a decrease in interest expense from borrowings due to declining market rates.

**Table of Contents****Average Balances, Yields and Rates Paid (Fully Taxable Equivalent Basis)**

The average yield earned on interest-earning assets is the amount of annualized fully taxable-equivalent interest income expressed as a percentage of average interest-earning assets. The average rate paid on funding sources is the amount of annualized interest expense expressed as a percentage of average funding sources. The following tables set forth average assets, liabilities, noncontrolling interests and SVBFG stockholders' equity, interest income, interest expense, annualized yields and rates, and the composition of our annualized net interest margin for the three and nine months ended September 30, 2009 and 2008, respectively.

**Average Balances, Rates and Yields for the Three Months Ended September 30, 2009 and 2008**

(Dollars in thousands)	Three months ended September 30,					
	2009			2008 *		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>Interest-earning assets:</b>						
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities (1)	\$ 3,370,898	\$ 2,367	0.28%	\$ 383,009	\$ 2,712	2.82%
<b>Investment securities: (2)</b>						
Taxable	2,412,432	21,562	3.55	1,288,039	15,321	4.73
Non-taxable (3)	102,142	1,550	6.02	108,115	1,701	6.26
Total loans, net of unearned income (4)	4,544,510	83,049	7.25	4,863,706	94,256	7.71
<b>Total interest-earning assets</b>	<b>10,429,982</b>	<b>108,528</b>	<b>4.12</b>	<b>6,642,869</b>	<b>113,990</b>	<b>6.82</b>
Cash and due from banks	205,084			241,536		
Allowance for loan losses	(114,364)			(55,998)		
Goodwill				4,092		
Other assets (5)	889,924			715,326		
<b>Total assets (6)</b>	<b>\$ 11,410,626</b>			<b>\$ 7,547,825</b>		
<b>Funding sources:</b>						
<b>Interest-bearing liabilities:</b>						
NOW deposits	\$ 35,092	\$ 34	0.38%	\$ 42,538	\$ 53	0.50%
Regular money market deposits	122,809	145	0.47	139,210	530	1.51
Bonus money market deposits	1,035,822	1,208	0.46	1,027,018	3,089	1.20
Money market deposits in foreign offices	68,589	90	0.52			
Time deposits	346,714	568	0.65	395,970	898	0.90
Sweep deposits	1,927,910	2,756	0.57	389,231	1,697	1.73
<b>Total interest-bearing deposits</b>	<b>3,536,936</b>	<b>4,801</b>	<b>0.54</b>	<b>1,993,967</b>	<b>6,267</b>	<b>1.25</b>
Short-term borrowings	42,134	16	0.15	544,301	3,042	2.22
3.875% convertible senior notes (6)	246,065	3,512	5.66	243,976	3,490	5.69
Junior subordinated debentures	55,956	893	6.33	52,502	514	3.89
Senior and subordinated notes	552,171	1,767	1.27	522,302	4,381	3.34
Other long-term debt	58,033	179	1.22	151,998	1,090	2.85
<b>Total interest-bearing liabilities</b>	<b>4,491,295</b>	<b>11,168</b>	<b>0.99</b>	<b>3,509,046</b>	<b>18,784</b>	<b>2.13</b>
Portion of noninterest-bearing funding sources	5,938,687			3,133,823		
<b>Total funding sources</b>	<b>10,429,982</b>	<b>11,168</b>	<b>0.42</b>	<b>6,642,869</b>	<b>18,784</b>	<b>1.12</b>
<b>Noninterest-bearing funding sources:</b>						

**Noninterest-bearing funding sources:**

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Demand deposits	5,373,486		2,826,289	
Other liabilities	183,781		194,426	
SVBFG stockholders' equity (6)	1,045,340		717,759	
Noncontrolling interests (7)	316,724		300,305	
Portion used to fund interest-earning assets	(5,938,687)		(3,133,823)	
Total liabilities, noncontrolling interest, and SVBFG stockholders' equity	\$ 11,410,626		\$ 7,547,825	
Net interest income and margin (6)	\$ 97,360	3.70%	\$ 95,206	5.70%
Total deposits	\$ 8,910,422		\$ 4,820,256	
Average SVBFG stockholders' equity as a percentage of average assets		9.16%		9.51%
<u>Reconciliation to reported net interest income:</u>				
Adjustments for taxable equivalent basis	(542)		(595)	
Net interest income, as reported	\$ 96,818		\$ 94,611	

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

- (1) Includes average interest-bearing deposits in other financial institutions of \$182.7 million and \$90.0 million for the three months ended September 30, 2009 and 2008, respectively. For the three months ended September 30, 2009, balance also includes \$3.1 billion deposited at the Federal Reserve Bank, earning interest at the Federal Funds target rate.
- (2) Yields on interest-earning investment securities do not give effect to changes in fair value that are reflected in other comprehensive income.
- (3) Interest income on non-taxable investments is presented on a fully taxable-equivalent basis using the federal statutory income tax rate of 35.0 percent for all periods presented.
- (4) Nonaccrual loans are reflected in the average balances of loans.
- (5) Average investment securities of \$505.3 million and \$388.2 million for the three months ended September 30, 2009 and 2008, respectively, were classified as other assets as they were noninterest-earning assets. These investments primarily consisted of non-marketable securities.
- (6) Amounts for all periods presented reflect our adoption of ASC 470-20 (formerly known as FSP APB No. 14-1). Amounts for the three months ended September 30, 2008 have been retrospectively adjusted.
- (7) Our 2009 adoption of ASC 810-10-65 (formerly known as SFAS No. 160) required us to clarify our presentation of noncontrolling interests and had no effect on our results of operations or stockholders' equity.

**Table of Contents***Average Balances, Rates and Yields for the Nine Months Ended September 30, 2009 and 2008*

(Dollars in thousands)	Nine months ended September 30,					
	Average Balance	2009 Interest Income/Expense	Yield/Rate	Average Balance	2008 * Interest Income/Expense	Yield/Rate
<b>Interest-earning assets:</b>						
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities (1)	\$ 3,190,730	\$ 7,228	0.30%	\$ 484,892	\$ 10,513	2.90%
<b>Investment securities: (2)</b>						
Taxable	1,837,141	53,207	3.87	1,231,948	43,677	4.74
Non-taxable (3)	103,839	4,766	6.14	100,184	4,801	6.40
Total loans, net of unearned income (4)	4,811,481	255,548	7.10	4,433,731	268,530	8.09
<b>Total interest-earning assets</b>	<b>9,943,191</b>	<b>320,749</b>	<b>4.31</b>	<b>6,250,755</b>	<b>327,521</b>	<b>7.00</b>
Cash and due from banks	241,150			254,856		
Allowance for loan losses	(112,857)			(52,363)		
Goodwill	1,334			4,092		
Other assets (5)	862,354			696,373		
<b>Total assets (6)</b>	<b>\$ 10,935,172</b>			<b>\$ 7,153,713</b>		
<b>Funding sources:</b>						
<b>Interest-bearing liabilities:</b>						
NOW deposits	\$ 42,653	\$ 120	0.38%	\$ 43,888	\$ 161	0.49%
Regular money market deposits	151,394	625	0.55	142,787	1,487	1.39
Bonus money market deposits	977,096	4,246	0.58	934,253	8,791	1.26
Money market deposits in foreign offices	60,767	342	0.75			
Time deposits	364,024	1,919	0.70	375,914	2,584	0.92
Sweep deposits	1,780,912	10,001	0.75	285,681	3,885	1.82
<b>Total interest-bearing deposits</b>	<b>3,376,846</b>	<b>17,253</b>	<b>0.68</b>	<b>1,782,523</b>	<b>16,908</b>	<b>1.27</b>
Short-term borrowings	44,990	57	0.17	329,198	5,957	2.42
Zero-coupon convertible subordinated notes (6)				93,475	2,418	3.46
3.875% convertible senior notes (6)	245,463	10,523	5.73	156,822	6,639	5.65
Junior subordinated debentures	55,939	2,572	6.15	52,853	1,779	4.50
Senior and subordinated notes	561,064	7,749	1.85	528,565	16,109	4.07
Other long-term debt	79,924	917	1.53	152,339	3,846	3.37
<b>Total interest-bearing liabilities</b>	<b>4,364,226</b>	<b>39,071</b>	<b>1.20</b>	<b>3,095,775</b>	<b>53,656</b>	<b>2.32</b>
Portion of noninterest-bearing funding sources	5,578,965			3,154,980		
<b>Total funding sources</b>	<b>9,943,191</b>	<b>39,071</b>	<b>0.52</b>	<b>6,250,755</b>	<b>53,656</b>	<b>1.15</b>
<b>Noninterest-bearing funding sources:</b>						
Demand deposits	5,050,329			2,852,851		
Other liabilities	183,334			227,628		
Discount on zero-coupon convertible subordinated notes (6)				671		
SVBFG stockholders' equity (6)	1,022,701			695,301		
Noncontrolling interests (7)	314,582			281,487		
Portion used to fund interest-earning assets	(5,578,965)			(3,154,980)		

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Total liabilities, noncontrolling interest, and SVBFG stockholders' equity	\$ 10,935,172		\$ 7,153,713
Net interest income and margin (6)	\$ 281,678	3.79%	\$ 273,865    5.85%
Total deposits	\$ 8,427,175		\$ 4,635,374
Average SVBFG stockholders' equity as a percentage of average assets		9.35%	9.72%
<u>Reconciliation to reported net interest income:</u>			
Adjustments for taxable equivalent basis	(1,668)		(1,680)
Net interest income, as reported	\$ 280,010		\$ 272,185

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

- (1) Includes average interest-bearing deposits in other financial institutions of \$179.0 million and \$90.7 million for the nine months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009, balance also includes \$2.9 billion deposited at the Federal Reserve Bank, earning interest at the Federal Funds target rate.
- (2) Yields on interest-earning investment securities do not give effect to changes in fair value that are reflected in other comprehensive income.
- (3) Interest income on non-taxable investments is presented on a fully taxable equivalent basis using the federal statutory income tax rate of 35.0 percent for all periods presented.
- (4) Nonaccrual loans are reflected in the average balances of loans.
- (5) Average investment securities of \$481.1 million and \$369.0 million for the nine months ended September 30, 2009 and 2008, respectively, were classified as other assets as they were noninterest-earning assets. These investments primarily consisted of non-marketable securities.
- (6) Amounts for all periods presented reflect our adoption of ASC 470-20 (formerly known as FSP APB No. 14-1). Amounts for the nine months ended September 30, 2008 have been retrospectively adjusted.
- (7) Our 2009 adoption of ASC 810-10-65 (formerly known as SFAS No. 160) required us to clarify our presentation of noncontrolling interests and had no effect on our results of operations or stockholders' equity.

**Table of Contents****Provision for Loan Losses**

Our provision for loan losses is based on our evaluation of the adequacy of the existing allowance for loan losses in relation to total gross loans and on our periodic assessment of the inherent and identified risk dynamics of the loan portfolio resulting from reviews of selected individual loans. We consider our allowance for loan losses of \$86.7 million adequate to cover credit losses inherent in the loan portfolio at September 30, 2009. The following table summarizes our allowance for loan losses for the three and nine months ended September 30, 2009 and 2008, respectively:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Allowance for loan losses, beginning balance	\$ 110,473	\$ 52,888	\$ 107,396	\$ 47,293
Provision for loan losses	8,030	13,682	72,889	29,756
Gross loan charge-offs	(46,553)	(7,000)	(110,464)	(22,306)
Loan recoveries	14,763	720	16,892	5,547
Allowance for loan losses, ending balance	\$ 86,713	\$ 60,290	\$ 86,713	\$ 60,290
Provision as a percentage of total gross loans (annualized)	0.68%	1.02%	2.08%	0.75%
Gross loan charge-offs as a percentage of average total gross loans (annualized)	4.03	0.57	3.04	0.67
Net loan charge-offs as a percentage of average total gross loans (annualized)	2.75	0.51	2.58	0.50
Allowance for loan losses as a percentage of total gross loans	1.85	1.13	1.85	1.13
Total gross loans at period-end	\$ 4,692,498	\$ 5,323,323	\$ 4,692,498	\$ 5,323,323
Average total gross loans	4,583,320	4,897,996	4,852,543	4,464,716

Our provision for loan losses decreased by \$5.7 million to \$8.0 million for the three months ended September 30, 2009, compared to \$13.7 million for the comparable 2008 period. Our provision of \$8.0 million for the three months ended September 30, 2009 is detailed as follows:

Gross loan charge-offs of \$46.6 million, primarily from our software, venture capital/private equity and hardware client portfolios. Gross loan charge-offs included \$27.4 million of loans that were previously included as nonperforming loans, with specific reserves of \$34.9 million.

Loan recoveries of \$14.8 million, primarily due to a partial recovery of \$11.4 million from a loan within our hardware industry portfolio that was charged-off in the first quarter of 2009. The remaining recoveries of \$3.4 million were primarily from our life sciences and software client portfolios.

Our net loan charge-offs of \$31.8 million, as a percentage of average total gross loans (annualized) was 2.75 percent for the third quarter of 2009, compared to our allowance for loan losses as a percentage of total gross loans (annualized) of 1.85 percent for the third quarter of 2009. Net loan charge-offs of 2.75 percent for the third quarter of 2009 included the finalization of the HRJ Capital, LLC ( HRJ ) transaction and the charge-offs of certain other impaired loans.

As shown in the table below, we believe our allowance for loan losses of 1.85 percent is adequate and is indicative of ongoing levels of future net charge-offs.

(Dollars in thousands, except ratios)	Period end balances at	
	September 30, 2009	September 30, 2008
Allowance for loan losses as a percentage of total gross loans	1.85%	1.13%

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Allowance for loan losses for performing loans as a percentage of total gross performing loans	1.37	1.02
Allowance for loan losses for nonperforming loans as a percentage of total gross nonperforming loans	32.36	63.31
Allowance for loan losses	\$ 86,713	\$ 60,290
Allowance for loan losses for performing loans	63,357	54,347
Allowance for loan losses for nonperforming loans	23,356	5,943
Total gross performing loans	4,620,325	5,313,936
Total gross nonperforming loans	72,173	9,387

Our provision for loan losses increased by \$43.1 million to \$72.9 million for the nine months ended September 30, 2009, compared to \$29.8 million for the comparable 2008 period. Our provision of \$72.9 million for the nine months ended September 30, 2009 is detailed as follows:

Gross loan charge-offs of \$110.5 million, primarily from our software, venture capital/private equity and hardware client portfolios. Gross loan charge-offs included \$39.4 million of loans that were previously included as nonperforming loans, with specific reserves of \$41.0 million.

Loan recoveries of \$16.9 million, primarily due to a partial recovery of \$11.4 million from a loan within our hardware industry portfolio that was charged-off in the first quarter of 2009. The remaining recoveries of \$5.5 million were primarily from our life sciences, software and hardware client portfolios.



**Table of Contents**

In July 2009, an independent asset management firm announced that it had closed its transaction with HRJ to assume the management of HRJ's private equity and real estate funds of funds. The finalization of this transaction in the third quarter of 2009 had a favorable impact on our overall allowance for loan losses and nonperforming loans.

**Noninterest Income**

A summary of noninterest income for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008 *	% Change	2009	2008 *	% Change
Foreign exchange fees	\$ 7,491	\$ 8,641	(13.3)%	\$ 22,574	\$ 24,446	(7.7)%
Deposit service charges	6,906	6,129	12.7	20,319	18,076	12.4
Client investment fees	5,527	13,636	(59.5)	17,355	41,006	(57.7)
Letters of credit and standby letters of credit income	3,019	3,050	(1.0)	8,240	9,138	(9.8)
Credit card fees	2,300	1,473	56.1	6,696	4,675	43.2
Corporate finance fees					3,640	(100.0)
(Losses) gains on derivative instruments, net	(1,090)	6,472	(116.8)	(2,123)	13,479	(115.8)
Gains (losses) on investment securities, net	3,905	(876)	NM	(37,890)	(4,949)	NM
Other	6,249	1,913	NM	21,830	17,194	27.0
<b>Total noninterest income</b>	<b>\$ 34,307</b>	<b>\$ 40,438</b>	<b>(15.2)</b>	<b>\$ 57,001</b>	<b>\$ 126,705</b>	<b>(55.0)</b>

NM- Not meaningful

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

Included in net income is income and expense attributable to noncontrolling interests. We recognize, as part of our investment funds management business through SVB Capital and Sponsored Funds and Strategic Investments, the entire income or loss from funds where we own significantly less than 100%. We also recognize, as part of our equity valuation business through SVB Analytics, the results of eProsper, of which we own 65%. We are required under GAAP to consolidate 100% of the results of entities that we are deemed to control, even though we may own less than 100% of such entities. The relevant amounts attributable to investors other than us are reflected under Net (Income) Loss Attributable to Noncontrolling Interests on our statements of income. The non-GAAP tables presented below, for noninterest income and net losses on investment securities, all exclude noncontrolling interests. We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that represent income attributable to investors other than us and our subsidiaries. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results and when planning, forecasting and analyzing future periods. However, these non-GAAP financial measures should be considered in addition to, not as a substitute for or preferable to, financial measures prepared in accordance with GAAP.

The following table provides a summary of non-GAAP noninterest income, net of noncontrolling interests:

Non-GAAP noninterest income, net of noncontrolling interests	Three months ended September 30,			Nine months ended September 30,		
	2009	2008 *	% Change	2009	2008 *	% Change
(Dollars in thousands)						
GAAP noninterest income	\$ 34,307	\$ 40,438	(15.2)%	\$ 57,001	\$ 126,705	(55.0)%
Less: income (losses) attributable to noncontrolling interests, including carried interest	5,117	1,042	NM	(31,572)	143	NM

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Non-GAAP noninterest income, net of noncontrolling interests	\$ 29,190	\$ 39,396	(25.9)	\$ 88,573	\$ 126,562	(30.0)
--	-----------	-----------	--------	-----------	------------	--------

NM- Not meaningful

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

### *Foreign Exchange Fees*

Foreign exchange fees were \$7.5 million and \$22.6 million for the three and nine months ended September 30, 2009, compared to \$8.6 million and \$24.4 million for the comparable 2008 periods. The decreases were primarily due to lower commissioned notional volumes, which decreased to \$1.3 billion and \$3.4 billion for the three and nine months ended September 30, 2009, compared to \$1.6 billion and \$4.9 billion for the comparable 2008 periods. The decrease in commissioned notional volumes was partially offset by higher commission rates as a higher portion of that volume came from trades with notional amounts less than \$1 million for the three and nine months ended September 30, 2009, which carry comparatively higher commission rates.

**Table of Contents***Deposit Service Charges*

Deposit service charges were \$6.9 million and \$20.3 million for the three and nine months ended September 30, 2009, compared to \$6.1 million and \$18.1 million for the comparable 2008 periods. The increases were primarily attributable to a decrease in the credit received by clients due to decreases in short-term market interest rates in 2008.

*Client Investment Fees*

Client investment fees were \$5.5 million and \$17.4 million for the three and nine months ended September 30, 2009, respectively, compared to \$13.6 million and \$41.0 million for the comparable 2008 periods. The decreases were primarily attributable to lower margins earned on certain products owing to historically low rates in the short-term fixed income markets, as well as a decrease in average client investment funds. During the latter half of the fourth quarter of 2008, we discontinued offering a third party off-balance sheet sweep product, primarily due to our decision to utilize our own on-balance sheet sweep product. In addition, growth in off-balance sheet funds was challenged due to the significant decline of initial public offerings ( IPO ), resulting in less client funds available for investment. Based on the expectation of continued lower margins on certain client investment products, we expect to see continued declining client investment fees throughout the fourth quarter of 2009. The following table summarizes average client investment funds for the three and nine months ended September 30, 2009 and 2008, respectively:

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Client directed investment assets (1)	\$ 10,644	\$ 12,948	(17.8)%	\$ 11,109	\$ 12,819	(13.3)%
Client investment assets under management	5,477	6,406	(14.5)	5,574	6,262	(11.0)
Sweep money market funds		2,682	(100.0)	75	2,692	(97.2)
Total average client investment funds (2)	\$ 16,121	\$ 22,036	(26.8)	\$ 16,758	\$ 21,773	(23.0)

(1) Mutual funds and Repurchase Agreement Program assets.

(2) Client investment funds are maintained at third-party financial institutions.

Period-end total client investment funds were \$16.4 billion at September 30, 2009, compared to \$18.6 billion at December 31, 2008.

*Credit Card Fees*

Credit card fees were \$2.3 million and \$6.7 million for the three and nine months ended September 30, 2009, respectively, compared to \$1.5 million and \$4.7 million for the comparable 2008 periods. The increases were primarily due to the purchase of our credit card portfolio in the first quarter of 2009, as we began to process our credit card business in-house. Refer to Note 12- Off-Balance Sheet Arrangements, Guarantees and Other Commitments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

*Corporate Finance Fees*

There were no corporate finance fees for the three or nine months ended September 30, 2009, compared to \$3.6 million for the nine months ended September 30, 2008. The decrease was a result of the decision to cease operations at SVB Alliant in July 2007. The \$3.6 million in fees for the nine months ended September 30, 2008 represented the completion of all remaining client transactions at SVB Alliant as of March 31, 2008.

**Table of Contents***(Losses) Gains on Derivative Instruments, Net*

A summary of (losses) gains on derivative instruments, net, for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Gains (losses) on foreign exchange forward contracts, net:						
Gains on client foreign exchange forward contracts, net (1)	\$ 360	\$ 561	(35.8)%	\$ 1,304	\$ 1,767	(26.2)%
(Losses) gains on internal foreign exchange forward contracts, net (2)	(128)	4,452	(102.9)	(2,664)	1,985	NM
Total gains (losses) on foreign exchange forward contracts, net	232	5,013	(95.4)	(1,360)	3,752	(136.2)
Change in fair value of interest rate swap (3)		(10)	(100.0)	(170)	376	(145.2)
Gains on covered call options (4)		24	(100.0)		402	(100.0)
Equity warrant assets: (5)						
(Losses) gains on exercise, net	(506)	1,130	(144.8)	(338)	6,321	(105.3)
Change in fair value:						
Cancellations and expirations	(1,170)	(950)	23.2	(3,644)	(1,895)	92.3
Other changes in fair value	354	1,265	(72.0)	3,389	4,523	(25.1)
Total net (losses) gains on equity warrant assets (6)	(1,322)	1,445	(191.5)	(593)	8,949	(106.6)
Total (losses) gains on derivative instruments, net	\$ (1,090)	\$ 6,472	(116.8)	\$ (2,123)	\$ 13,479	(115.8)

NM- Not meaningful

- (1) Represents the net gains for foreign exchange forward contracts executed on behalf of clients.
- (2) Represents the change in the fair value of foreign exchange forward contracts used to economically reduce our foreign exchange exposure risk related to certain foreign currency denominated loans. Revaluations of foreign currency denominated loans are recorded on the line item Other as part of noninterest income, a component of consolidated net income (loss).
- (3) Represents the change in the fair value hedge of the junior subordinated debentures. In December 2008, our counterparty called this swap for settlement in January 2009. As a result, the swap was terminated and no longer designated as a hedging instrument.
- (4) Represents net gains on covered call options by one of our sponsored debt funds.
- (5) At September 30, 2009, we held warrants in 1,250 companies, compared to 1,258 companies at September 30, 2008.
- (6) Includes net gains on equity warrant assets held by consolidated investment affiliates. Relevant amounts attributable to noncontrolling interests are reflected in the interim consolidated statements of income under the caption Net (Income) Loss Attributable to Noncontrolling Interests.

Net losses on derivative instruments were \$1.1 million for the three months ended September 30, 2009, compared to net gains of \$6.5 million for the comparable 2008 period. The decrease of \$7.6 million was primarily due to the following:

Net losses from foreign exchange forward contracts hedging our foreign currency denominated loans of \$0.1 million for the three months ended September 30, 2009, compared to net gains of \$4.5 million for the comparable 2008 period. The change was primarily due to the significant strengthening of the U.S. dollar in the third quarter of 2008 against the Pound Sterling and Euro. Exchange rate fluctuations in the third quarter of 2009 were relatively flat.

Net losses from the exercise of certain warrant positions of \$0.5 million for the three months ended September 30, 2009, compared to net gains of \$1.1 million for the comparable 2008 period. The net losses for the three months ended September 30, 2009 were

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

primarily a result of net losses from the exercise of one warrant position, as well as from lower gains recognized from exercise reflecting the impact of slowing mergers and acquisitions ( M&A ) and IPO markets in late 2008 and throughout 2009 due to the current economic environment.

Net gains from changes in the fair value of our equity warrant assets of \$0.4 million for the three months ended September 30, 2009, compared to \$1.3 million for the comparable 2008 period. The decrease was primarily attributable to the overall lower comparative valuations from our public and private company portfolios as well as from current economic conditions. Net gains of \$0.4 million for the third quarter of 2009 were due to \$0.8 million from share price increases of certain investments in our public company warrant portfolio, partially offset by \$0.4 million from valuation decreases in our private warrant portfolio.

Losses on derivative instruments, net, were \$2.1 million for the nine months ended September 30, 2009, compared to net gains of \$13.5 million for the comparable 2008 period. The decrease of \$15.6 million was primarily due to the following:

Net losses from the exercise of certain warrant positions of \$0.3 million for the nine months ended September 30, 2009, compared to net gains of \$6.3 million for the comparable 2008 period. The net losses for the three months ended September 30, 2009 were primarily a result of net losses recognized from exercises of warrant positions reflecting the impact of slowing M&A and IPO markets in late 2008 and throughout 2009 due to the current economic environment. In addition, during the nine months ended September 30, 2008, we recognized a gain of \$3.9 million from the sale of one warrant position.

**Table of Contents**

Net losses from foreign exchange forward contracts hedging our foreign currency denominated loans of \$2.7 million for the nine months ended September 30, 2009, compared to net gains of \$2.0 million for the comparable 2008 period. The change was primarily due to the weakening of the U.S. dollar in nine months ended September 30, 2009 against the Pound Sterling, compared to the strengthening of the dollar against the Pound Sterling for the comparable 2008 period.

Net losses from warrant cancellations and terminations of \$3.6 million for the nine months ended September 30, 2009, compared to net losses of \$1.9 million for the comparable 2008 period. The increase in warrant terminations in 2009 is reflective of the downturn in the overall economy.

*Gains (Losses) on Investment Securities, Net*

We experience variability in the performance of our private equity and venture capital investments from quarter to quarter due to a number of factors, including changes in the values of our investments, changes in the amount of distributions or liquidity events and general economic and market conditions. Such variability may lead to volatility in the gains (losses) from investment securities and cause our results for a particular period not to be indicative of our performance in a future period. The valuation of our investments were affected by a more challenging venture capital environment, a significant slowdown of merger and acquisition ( M&A ) activities and effectively a halt in IPOs among our portfolio companies in 2008 and the first nine months of 2009. The net losses for the nine months ended September 30, 2009 were primarily due to lower valuations of private companies as a result of the overall impact of lower than expected operating results, lower comparative valuations from other private companies, and declines in the public equity markets, reflective of the current economic slowdown throughout the venture capital/private equity community. As a result, we saw more unrealized losses in the nine months ended September 30, 2009, compared to the comparable 2008 period. In addition, we experienced realized losses in our other investments for the nine months ended September 30, 2009 due to impairment losses primarily from our private equity fund investments, due principally to sustained valuation decreases in underlying portfolio companies. For the nine months ended September 30, 2008, realized losses in our other investments were due to sales of our marketable equity securities, which are publicly traded shares acquired upon exercise of equity warrant assets. The following tables provide a summary of net gains (losses) on investment securities for the three and nine months ended September 30, 2009 and 2008:

(Dollars in thousands)	Three months ended September 30, 2009				
	Managed Co- Investment Funds	Managed Funds Of Funds	Debt Funds	Other	Total
Unrealized gains (losses)	\$ 2,896	\$ (366)	\$ 85	\$	\$ 2,615
Realized (losses) gains	(342)	3,146	657	(2,171)	1,290
<b>Total gains (losses) on investment securities, net</b>	<b>\$ 2,554</b>	<b>\$ 2,780</b>	<b>\$ 742</b>	<b>\$ (2,171)</b>	<b>\$ 3,905</b>
Less: income attributable to noncontrolling interests, including carried interest	2,328	2,511	41		4,880
<b>Non-GAAP net gains (losses) on investment securities, net of noncontrolling interests</b>	<b>\$ 226</b>	<b>\$ 269</b>	<b>\$ 701</b>	<b>\$ (2,171)</b>	<b>\$ (975)</b>

(Dollars in thousands)	Three months ended September 30, 2008				
	Managed Co- Investment Funds	Managed Funds Of Funds	Debt Funds	Other	Total
Unrealized gains (losses)	\$ 4,669	\$ (3,386)	\$ (2,004)	\$	\$ (721)
Realized gains (losses)		1,525	364	(2,044)	(155)
<b>Total gains (losses) gains on investment securities, net</b>	<b>\$ 4,669</b>	<b>\$ (1,861)</b>	<b>\$ (1,640)</b>	<b>\$ (2,044)</b>	<b>\$ (876)</b>
Less: income (losses) attributable to noncontrolling interests, including carried interest	4,137	(1,854)	(1,063)		1,220

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Non-GAAP net gains (losses) on investment securities, net of noncontrolling interests	\$ 532	\$ (7)	\$ (577)	\$ (2,044)	\$ (2,096)
---	--------	--------	----------	------------	------------

**Table of Contents**

(Dollars in thousands)	Nine months ended September 30, 2009				
	Managed Co-Investment Funds	Managed Funds Of Funds	Debt Funds	Other	Total
Unrealized (losses) gains	\$ (3,492)	\$ (37,914)	\$ 1,867	\$	\$ (39,539)
Realized (losses) gains	(1,772)	5,203	1,780	(3,562)	1,649
<b>Total (losses) gains on investment securities, net</b>	<b>\$ (5,264)</b>	<b>\$ (32,711)</b>	<b>\$ 3,647</b>	<b>\$ (3,562)</b>	<b>\$ (37,890)</b>
Less: (losses) income attributable to noncontrolling interests, including carried interest	(4,863)	(28,425)	797		(32,491)
<b>Non-GAAP net (losses) gains on investment securities, net of noncontrolling interests</b>	<b>\$ (401)</b>	<b>\$ (4,286)</b>	<b>\$ 2,850</b>	<b>\$ (3,562)</b>	<b>\$ (5,399)</b>

(Dollars in thousands)	Nine months ended September 30, 2008				
	Managed Co-Investment Funds	Managed Funds Of Funds	Debt Funds	Other	Total
Unrealized gains (losses)	\$ 2,377	\$ (7,505)	\$ (8,279)	\$	\$ (13,407)
Realized gains (losses)	4,672	6,707	924	(3,845)	8,458
<b>Total gains (losses) on investment securities, net</b>	<b>\$ 7,049</b>	<b>\$ (798)</b>	<b>\$ (7,355)</b>	<b>\$ (3,845)</b>	<b>\$ (4,949)</b>
Less: income (losses) attributable to noncontrolling interests, including carried interest	6,261	(1,732)	(4,756)		(227)
<b>Non-GAAP net gains (losses) on investment securities, net of noncontrolling interests</b>	<b>\$ 788</b>	<b>\$ 934</b>	<b>\$ (2,599)</b>	<b>\$ (3,845)</b>	<b>\$ (4,722)</b>

*Other Noninterest Income*

A summary of other noninterest income for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008 *	% Change	2009	2008 *	% Change
Fund management fees	\$ 2,437	\$ 2,228	9.4%	\$ 7,625	\$ 6,105	24.9%
Service-based fee income (1)	1,700	2,073	(18.0)	5,645	6,329	(10.8)
(Losses) gains on foreign currency loans revaluation, net	(94)	(4,740)	(98.0)	1,886	(2,825)	(166.8)
Other	2,206	2,352	(6.2)	6,674	7,585	(12.0)
<b>Total other noninterest income</b>	<b>\$ 6,249</b>	<b>\$ 1,913</b>	<b>NM</b>	<b>\$ 21,830</b>	<b>\$ 17,194</b>	<b>27.0</b>

NM- Not meaningful

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

(1) Includes income from SVB Analytics and its subsidiary, eProsper.

Other noninterest income was \$6.2 million for the three months ended September 30, 2009, compared to \$1.9 million for the comparable 2008 period. The increase was primarily due to net losses on revaluation of foreign currency loans of \$0.1 million for the three months ended September 30, 2009, compared to net losses of \$4.7 million for the comparable 2008 period. The change was primarily due to the significant



## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

strengthening of the U.S. dollar in the third quarter of 2008 against the Pound Sterling and Euro. Exchange rate fluctuations in the third quarter of 2009 were relatively flat. Net losses or gains on revaluation of foreign currency loans are partially offset by comparable net losses or gains from foreign exchange forward contracts, which are included in net (losses) gains on derivative instruments.

Other noninterest income was \$21.8 million the nine months ended September 30, 2009, compared to \$17.2 million for the comparable 2008 period. The increase was primarily due to net gains on revaluation of foreign currency loans of \$1.9 million for the three months ended September 30, 2009, compared to net losses of \$2.8 million for the comparable 2008 period. The change was primarily due to the weakening of the U.S. dollar in nine months ended September 30, 2009 against the Pound Sterling, compared to the strengthening of the dollar against the Pound Sterling for the comparable 2008 period.

Fund management fees were \$2.4 million and \$7.6 million for the three and nine months ended September 30, 2009, respectively, compared to \$2.2 million and \$6.1 million for the comparable 2008 periods. The increases in fund management fees were primarily due to the closings of a fund in the SVB Strategic Investors Fund family in the fourth quarter of 2008 and the first quarter of 2009. Typically, a fund of funds is formed through multiple closing transactions in which limited partners enter into investment commitments.

**Table of Contents**

**Noninterest Expense**

A summary of noninterest expense for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Compensation and benefits	\$ 45,815	\$ 49,598	(7.6)%	\$ 141,042	\$ 153,438	(8.1)%
Professional services	12,109	9,623	25.8	35,452	27,556	28.7
Premises and equipment	5,892	5,781	1.9	16,993	16,424	3.5
FDIC assessments	2,589	671	NM	13,853	1,807	NM
Net occupancy	4,198	4,135	1.5	13,346	12,825	4.1
Business development and travel	2,902	3,389	(14.4)	9,578	10,575	(9.4)
Correspondent bank fees	2,118	1,689	25.4	5,994	5,011	19.6
Impairment of goodwill				4,092		
Loss from cash settlement of conversion premium of zero-coupon convertible subordinated notes					3,858	(100.0)
Provision for (reduction of) unfunded credit commitments	65	(990)	(106.6)	(3,366)	(355)	NM
Other	4,119	6,535	(37.0)	18,975	19,918	(4.7)
<b>Total noninterest expense</b>	<b>\$ 79,807</b>	<b>\$ 80,431</b>	<b>(0.8)</b>	<b>\$ 255,959</b>	<b>\$ 251,057</b>	<b>2.0</b>

NM- Not meaningful

We use and report non-GAAP noninterest expense and a non-GAAP operating efficiency ratio, which excludes noncontrolling interests. We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that represent expense attributable to investors other than us and our subsidiaries. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results and when planning, forecasting and analyzing future periods. However, these non-GAAP financial measures should be considered in addition to, not as a substitute for or preferable to, financial measures prepared in accordance with GAAP. The table below provides a summary of non-GAAP noninterest expense and non-GAAP operating efficiency ratio, both net of noncontrolling interests:

Non-GAAP operating efficiency ratio, net of noncontrolling interests	Three months ended September 30,			Nine months ended September 30,		
	2009	2008 *	% Change	2009	2008 *	% Change
(Dollars in thousands, except ratios)						
GAAP noninterest expense	\$ 79,807	\$ 80,431	(0.8)%	\$ 255,959	\$ 251,057	2.0%
Less: amounts attributable to noncontrolling interests	2,872	2,864	0.3	9,107	8,080	12.7
<b>Non-GAAP noninterest expense, net of noncontrolling interests</b>	<b>\$ 76,935</b>	<b>\$ 77,567</b>	<b>(0.8)</b>	<b>\$ 246,852</b>	<b>\$ 242,977</b>	<b>1.6</b>
GAAP taxable equivalent net interest income	\$ 97,361	\$ 95,206	2.3	\$ 281,678	\$ 273,865	2.9
Less: income (losses) attributable to noncontrolling interests	1	129	(99.2)	(29)	492	(105.9)
<b>Non-GAAP taxable equivalent net interest income, net of noncontrolling interests</b>	<b>97,360</b>	<b>95,077</b>	<b>2.4</b>	<b>281,707</b>	<b>273,373</b>	<b>3.0</b>
<b>Non-GAAP noninterest income, net of noncontrolling interests</b>	<b>29,190</b>	<b>39,396</b>	<b>(25.9)</b>	<b>88,573</b>	<b>126,562</b>	<b>(30.0)</b>
Non-GAAP taxable equivalent revenue, net of noncontrolling interests	\$ 126,550	\$ 134,473	(5.9)	\$ 370,280	\$ 399,935	(7.4)

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Non-GAAP operating efficiency ratio	60.79%	57.68%	5.4	66.67%	60.75%	9.7
-------------------------------------	--------	--------	-----	--------	--------	-----

- \* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

**Table of Contents***Compensation and Benefits*

Compensation and benefits expense was \$45.8 million for the three months ended September 30, 2009, compared to \$49.6 million for the comparable 2008 period. The decrease of \$3.8 million was largely due to a decrease of \$4.8 million in expenses related to our Incentive Compensation Plan ( ICP ) and Employee Stock Ownership Plan ( ESOP ), as a result of lower expected financial results for 2009. These decreases were partially offset by an increase of \$0.6 million in salaries and wages expense, primarily related to an increase in the average number of full-time equivalent ( FTE ) personnel, which increased to 1,262 for the three months ended September 30, 2009, compared to 1,227 for the comparable 2008 period. The increase in average FTE was primarily attributable to increases in sales and advisory positions to support our Global Commercial Bank operations.

Compensation and benefits expense was \$141.0 million for the nine months ended September 30, 2009, compared to \$153.4 million for the comparable 2008 period. The decrease of \$12.4 million was largely due to a decrease of \$20.5 million in expenses related to our ICP and ESOP, as a result of lower expected financial results for 2009. These decreases were partially offset by an increase of \$5.9 million in salaries and wages expense, primarily related to an increase in the average number FTE personnel, which increased to 1,260 for the nine months ended September 30, 2009, compared to 1,200 for the comparable 2008 period. The increase in average FTE was primarily attributable to increase in sales and advisory positions to support our Global Commercial Bank operations.

Our variable compensation plans primarily consist of incentive compensation plans, SVB Financial Group 401(k), ESOP, Retention Program and Warrant Incentive Plan. Total costs incurred under these plans were \$8.0 million and \$22.4 million for the three and nine months ended September 30, 2009, compared to \$12.7 million and \$43.8 million for the comparable 2008 periods.

*Professional Services*

Professional services expense was \$12.1 million and \$35.5 million for the three and nine months ended September 30, 2009, compared to \$9.6 million and \$27.6 million for the comparable 2008 periods. The increases were primarily due to consulting fees related to certain infrastructure projects and legal fees related to HRJ.

*FDIC Assessments*

FDIC assessments were \$2.6 million for the three months ended September 30, 2009, compared to \$0.7 million for the comparable 2008 period. The increase was primarily due to an increase in average deposit balances and an increase in FDIC assessment rates.

FDIC assessments were \$13.9 million for the nine months ended September 30, 2009, compared to \$1.8 million for the comparable 2008 period. The increase was primarily due to a special assessment fee of \$5.0 million, mandated for all banks by the FDIC, an increase in average deposit balances, and an increase in FDIC assessment rates.

*Impairment of Goodwill*

We review goodwill for possible impairment on an annual basis, and we also monitor for any impairment triggering events quarterly. As such, as part of our quarterly review of goodwill during the three months ended March 31, 2009, we noted an impairment resulting from a change in our outlook for eProsper's future financial performance. As a result, we recognized a non-cash non-tax deductible charge of \$4.1 million relating to the impairment of goodwill in the first quarter of 2009. There is no remaining goodwill on our balance sheet as of September 30, 2009.

*Loss from Cash Settlement of Conversion Premium of Zero-Coupon Convertible Subordinated Notes*

During the three months ended June 30, 2008, but prior to the maturity date of our 2003 Convertible Notes, we received a conversion notice to convert notes in the total principal amount of \$7.8 million. Consistent with prior early conversions, we elected to settle the conversion fully in cash and paid a total of \$11.6 million in cash, which included \$3.9 million representing the conversion premium value of the converted notes. Accordingly, we recorded a non-tax deductible loss of \$3.9 million as noninterest expense. In connection with this early conversion settlement payment, we exercised call options pursuant to our call-spread arrangement and received a corresponding cash payment of \$3.9 million from the counterparty. Accordingly, we recorded an increase in stockholders' equity of \$3.9 million, representing such payment received, which was reflected as additional paid-in capital. As a result, the \$3.9 million in noninterest expense we recorded due to this early conversion settlement had no net impact on our total stockholders' equity.

*Provision for (Reduction of) Unfunded Credit Commitments*

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

We calculate the provision for (reduction of) unfunded credit commitments based on the credit commitments outstanding, as well as the credit quality of our loan commitments. We recorded a provision of \$0.1 million for the three months ended September 30, 2009, compared to a reduction in the provision for unfunded credit commitments of \$1.0 million for the comparable 2008 period. The provision for unfunded credit commitments of \$0.1 million for the third quarter of 2009 reflects an increase in historical loan loss factors applied to our unfunded portfolio, partially offset by a decrease in the balance of our total unfunded credit commitments. Total unfunded credit commitments were \$4.8 billion as of September 30, 2009, compared to \$5.0 billion at June 30, 2009.

**Table of Contents**

We recorded a reduction in the provision for unfunded credit commitments of \$3.4 million for the nine months ended September 30, 2009, compared to a reduction in the provision of \$0.4 million for the comparable 2008 period. The reduction in the provision for the nine months ended September 30, 2009 was reflective of a decrease in the balance of our total unfunded credit commitments, which decreased from \$5.6 billion at December 31, 2008 to \$4.8 billion at September 30, 2009.

*Other Noninterest Expense*

A summary of other noninterest expense for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Tax credit fund amortization	\$ 1,165	\$ 1,036	12.5%	\$ 3,458	\$ 3,077	12.4%
Telephone	324	1,373	(76.4)	3,042	3,870	(21.4)
Postage and supplies	165	1,032	(84.0)	2,328	2,810	(17.2)
Other	2,465	3,094	(20.3)	10,147	10,161	(0.1)
<b>Total other noninterest expense</b>	<b>\$ 4,119</b>	<b>\$ 6,535</b>	<b>(37.0)</b>	<b>\$ 18,975</b>	<b>\$ 19,918</b>	<b>(4.7)</b>

The decrease in total other noninterest expense of \$2.4 million for the three months ended September 30, 2009, compared to the comparable 2008 period was primarily due to the reversal of certain operating expense accruals. Total other noninterest expense for the nine months ended September 30, 2009 remained relatively unchanged compared to the comparable 2008 period.

*Net (Income) Loss Attributable to Noncontrolling Interests*

Net (income) loss attributable to noncontrolling interests is primarily related to the noncontrolling interest holders' portion of investment gains or losses and management fees from our managed funds. Noninterest (income) loss consists primarily of investment gains and losses from our consolidated funds. Noninterest expense is primarily related to management fees paid by our managed funds to the general partner entities at SVB Capital and one of our consolidated sponsored debt funds for funds management. Our adoption of ASC 810-10-65 (formerly known as SFAS No. 165) requires us to reclassify our presentation of noncontrolling interests. A summary of net (income) loss attributable to noncontrolling interests for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Net interest (income) loss (1)	\$ (1)	\$ (129)	(99.2)%	\$ 29	\$ (492)	(105.9)%
Noninterest (income) loss (1)	(5,114)	(1,393)	NM	32,946	(1,946)	NM
Noninterest expense (1)	2,872	2,864	0.3	9,107	8,080	12.7
Carried interest (2)	(3)	351	(100.9)	(1,374)	1,803	(176.2)
<b>Net (income) loss attributable to noncontrolling interests</b>	<b>\$ (2,246)</b>	<b>\$ 1,693</b>	<b>NM</b>	<b>\$ 40,708</b>	<b>\$ 7,445</b>	<b>NM</b>

NM- Not meaningful

- (1) Represents noncontrolling interests' share in net interest income, noninterest income and noninterest expense.
- (2) Represents the change in the preferred allocation of income we earn as general partners managing two of our managed funds of funds and the preferred allocation earned by the general partner entity managing one of our consolidated sponsored debt funds.

*Income Taxes*

Effective January 1, 2009, we adopted new accounting standards (ASC 810-10-65, formerly known as SFAS No. 160), which requires us to clearly identify and distinguish between the interests of the Company and the interests of the noncontrolling owners by presenting

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

noncontrolling interests after net income (loss) in our interim consolidated statements of income. As a result, our effective tax rate is calculated by dividing income tax expense by the sum of income before income tax expense and the net (income) loss attributable to noncontrolling interests.

Our effective tax rate was 41.1 percent for the three months ended September 30, 2009, compared to 39.2 percent for the comparable 2008 period. The increase in the tax rate was primarily attributable to the lower tax impact of tax advantaged investments on our overall pre-tax income and tax impact of higher non-deductible officer's compensation expense on overall pre-tax income.

Our effective tax rate was 44.2 percent for the nine months ended September 30, 2009, compared to 40.9 percent for the comparable 2008 period. The increase in the tax rate was primarily attributable to the tax impact of the \$4.1 million non-tax deductible goodwill impairment associated with eProsper in the first quarter of 2009 as well as the tax impact of higher non-deductible officers' compensation expense on overall pre-tax income.

**Table of Contents****Operating Segment Results**

For management reporting purposes, we have four operating segments: Global Commercial Bank, Relationship Management, SVB Capital and Other Business Services.

In accordance with ASC 280 (formerly known as SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*), we report segment information, make decisions and assess performance based on the management approach. Please refer to Note 11- Segment Reporting of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for additional details.

Our primary source of revenue is from net interest income, which is primarily the difference between interest earned on loans, net of funds transfer pricing ( FTP ), and interest paid on deposits, net of FTP. Accordingly, our segments are reported using net interest income, net of FTP. FTP is an internal measurement framework designed to assess the financial impact of a financial institution's sources and uses of funds. It is the mechanism by which an earnings credit is given for deposits raised, and an earnings charge is made for funded loans. FTP is calculated by applying a transfer rate to pooled, or aggregated, loan and deposit volumes.

We also evaluate performance based on provision for loan losses, noninterest income and noninterest expense, which are presented as components of segment operating profit or loss. In calculating each operating segment's noninterest expense, we consider the direct costs incurred by the operating segment as well as certain allocated direct costs. As part of this review, we allocate certain corporate overhead costs to a corporate account. We do not allocate income taxes to our segments. Additionally, our management reporting model is predicated on average asset balances; therefore, period-end asset balances are not presented for segment reporting purposes.

Changes in an individual client's primary relationship designation have resulted, and in the future may result, in the inclusion of certain clients in different segments in different periods. Effective January 1, 2009, we have four operating segments for management reporting purposes: Global Commercial Bank, Relationship Management, SVB Capital and Other Business Services. Previously, we reported based on three operating segments: Commercial Banking, SVB Capital, and Other Business Services. Additionally, we made certain changes effective January 1, 2009 as follows: (i) FDIC and state bank assessments are reported in noninterest expense within Global Commercial Bank, whereas previously these were recognized in noninterest expense under the Reconciling Items column; and (ii) we report the provision for loan losses by reportable segments, whereas previously the provision for loan losses was recognized under the Reconciling Items column. We have reclassified all prior period amounts to conform to the current period's presentation.

The following is our segment information for the three and nine months ended September 30, 2009 and 2008, respectively.

*Global Commercial Bank*

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Net interest income	\$ 88,494	\$ 82,773	6.9%	\$ 273,740	\$ 246,076	11.2%
Provision for loan losses	(3,153)	(13,762)	(77.1)	(60,883)	(30,017)	102.8
Noninterest income	25,938	35,684	(27.3)	78,991	103,296	(23.5)
Noninterest expense	(31,961)	(31,498)	1.5	(103,506)	(92,348)	12.1
Income before income tax expense	\$ 79,318	\$ 73,197	8.4	\$ 188,342	\$ 227,007	(17.0)
Total average loans, net of unearned income	\$ 3,575,026	\$ 3,884,283	(8.0)	\$ 3,819,466	\$ 3,475,019	9.9
Total average assets	3,683,824	3,935,523	(6.4)	3,915,780	3,525,464	11.1
Total average deposits	8,757,097	4,671,979	87.4	8,264,929	4,479,278	84.5

*Three months ended September 30, 2009 compared to the three months ended September 30, 2008*

Net interest income from our Global Commercial Bank ( GCB ) increased by \$5.7 million for the three months ended September 30, 2009, primarily due to an increase in the FTP earned for deposits due to significant deposit growth, as well as decreases in the FTP charge incurred for funded loans due to decreases in market rates. These increases were partially offset by a decrease in the FTP earned for deposits due to decreases in market interest rates, a decrease in interest income from loans due to a decrease in our average prime-lending rate, which decreased to 4.00 percent for the three months ended September 30, 2009, compared to 5.00 percent for the comparable 2008 period, as well as a decrease in



## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

average loan balances, which decreased by \$309.3 million to \$3.6 billion for the three months ended September 30, 2009.

The provision for loan losses for GCB of \$3.2 million for the three months ended September 30, 2009 was primarily attributable to gross charge-offs primarily from our software, venture capital/private equity, and hardware industry portfolios, partially offset by an \$11.4 million partial recovery of a single loan that was previously charged off in the first quarter of 2009 and a reduction of required reserves for impaired loans.

Noninterest income decreased by \$9.7 million for the three months ended September 30, 2009, primarily due to a decrease in client investment fees of \$8.0 million. The decrease in client investment fees was primarily attributable to lower margins earned on certain products owing to historically low rates in the short-term fixed income markets, as well as a decrease in average balances of client investment funds due to the discontinuation of our off-balance sheet sweep product in late 2008.

**Table of Contents**

Noninterest expense increased by \$0.5 million for the three months ended September 30, 2009, primarily due to an increase in FDIC assessments, professional services expense and salaries and wages expense, partially offset by decreases in our incentive compensation and ESOP related expenses. The increase in FDIC assessments related primarily to an increase in average deposit balances and an increase in FDIC assessment rates. The increase in professional services expense was primarily due to consulting fees related to certain infrastructure projects and legal fees related to HRJ. The increase in salaries and wages expense was primarily due to an increase in the number of average FTE employees at GCB, which increased to 562 for the three months of September 30, 2009, compared to 538 for the comparable 2008 period. The decreases in incentive compensation and ESOP related expenses were as a result of lower expected financial results for 2009.

*Nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

Net interest income from the GCB increased by \$27.7 million for the nine months ended September 30, 2009, primarily due to an increase in the FTP earned for deposits due to significant deposit growth, decreases in the FTP charge incurred for funded loans due to decreases in market interest rates, as well as an increase in interest income from growth in GCB's loan portfolio. These increases were partially offset by a decrease in the FTP earned for deposits due to decreases in market interest rates, as well as from a decrease in interest income from loans due to a decrease in our average prime-lending rate, which decreased to 4.00 percent for the nine months ended September 30, 2009, compared to 5.44 percent for the comparable 2008 period.

The provision for loan losses for GCB of \$60.9 million for the nine months ended September 30, 2009 was primarily attributable to gross charge-offs primarily from our software, venture capital/private equity, and hardware industry portfolios, partially offset by an \$11.4 million partial recovery of a single loan that was previously charged off in the first quarter of 2009 and a reduction of required reserves for impaired loans.

Noninterest income decreased by \$24.3 million for the nine months ended September 30, 2009, primarily due to a decrease in client investment fees of \$23.7 million. The decrease in client investment fees was primarily attributable to lower margins earned on certain products owing to historically low rates in the short-term fixed income markets, as well as a decrease in average balances of client investment funds due to the discontinuation of our off-balance sheet sweep product in late 2008.

Noninterest expense increased by \$11.2 million for the nine months ended September 30, 2009, primarily due to an increase in FDIC assessments of \$12.0 million and an increase in professional services expense of \$4.5 million, partially offset by a decrease in compensation and benefits expense of \$8.7 million. The increase in FDIC assessments relates primarily to a special assessment fee of \$5.0 million, mandated for all banks by the FDIC in the second quarter of 2009, an increase in average deposit balances, and an increase in FDIC fee rates. The increase in professional services expense was primarily due to consulting fees related to certain infrastructure projects and legal fees related to HRJ. The decrease in compensation and benefits expense was primarily a result of a decrease in our incentive compensation and ESOP related expenses, resulting from lower expected financial results for 2009, partially offset by an increase in salaries and wages expenses, primarily as a result of growth in the number of average FTE employees at GCB, which increased to 558 for the nine months of September 30, 2009, compared to 525 for the comparable 2008 period.

*Relationship Management*

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Net interest income	\$ 8,582	\$ 7,170	19.7%	\$ 25,897	\$ 22,017	17.6%
(Provision for) recovery of loan losses	(4,855)	77	NM	(11,974)	291	NM
Noninterest income	333	380	(12.4)	944	1,218	(22.5)
Noninterest expense	(3,114)	(3,719)	(16.3)	(10,288)	(11,556)	(11.0)
Income before income tax expense	\$ 946	\$ 3,908	(75.8)	\$ 4,579	\$ 11,970	(61.7)
Total average loans, net of unearned income	\$ 945,694	\$ 933,696	1.3	\$ 966,939	\$ 883,724	9.4
Total average assets	946,811	937,287	1.0	968,384	887,694	9.1
Total average deposits	146,367	143,203	2.2	155,678	157,778	(1.3)

NM- Not meaningful

**Table of Contents***Three months ended September 30, 2009 compared to the three months ended September 30, 2008*

Net interest income increased by \$1.4 million for the three months ended September 30, 2009, primarily due to decreases in the FTP charge incurred for funded loans due to decreases in market interest rates. This increase was partially offset by a decrease in interest income from loans due to a decrease in our average prime-lending rate and a decrease in the FTP earned for deposits due to decreases in market interest rates.

The provision for loan losses for Relationship Management of \$4.9 million for the three months ended September 30, 2009 was primarily attributable to charge-offs and reserves related to loans to certain high-net-worth individuals.

Noninterest expense decreased by \$0.6 million for the three months ended September 30, 2009, primarily due to a decrease in compensation and benefits expense of \$0.5 million attributable to a decrease in incentive compensation related expenses as a result of lower expected financial results for 2009.

*Nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

Net interest income increased by \$3.9 million for the nine months ended September 30, 2009, primarily due to decreases in the FTP charge incurred for funded loans due to decreases in market interest rates, as well as an increase in interest income from growth in Relationship Management's loan portfolio, particularly from growth in loans to targeted high-net-worth individuals. These increases were partially offset by a decrease in interest income from loans due to a decrease in our average prime-lending rate and a decrease in the FTP earned for deposits due to decreases in market interest rates.

The provision for loan losses for Relationship Management of \$12.0 million for the nine months ended September 30, 2009 was primarily attributable to charge-offs and reserves related to loans to certain high-net-worth individuals.

Noninterest expense decreased by \$1.3 million for the nine months ended September 30, 2009, due to a decrease in compensation and benefits expense of \$1.2 million attributable to a decrease in incentive compensation related expenses as a result of lower expected financial results for 2009.

*SVB Capital*

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Net interest (loss) income	\$ (10)	\$ (19)	(47.4)%	\$ (13)	\$ 11	NM%
Noninterest income	3,014	2,680	12.5	3,015	7,756	(61.1)
Noninterest expense	(3,355)	(5,932)	(43.4)	(9,991)	(14,882)	(32.9)
Loss before income tax expense	\$ (351)	\$ (3,271)	(89.3)	\$ (6,989)	\$ (7,115)	(1.8)
Total average assets	\$ 96,077	\$ 60,368	59.2	\$ 91,412	\$ 49,796	83.6

NM- Not meaningful

SVB Capital's components of noninterest income primarily include net gains and losses on investment securities and fund management fees, all net of noncontrolling interests and carried interest. When we refer to net gains and losses on investment securities in the discussion below, we are referring to net gains and losses from investment securities, net of noncontrolling interests and carried interest.

We experience variability in the performance of SVB Capital from quarter to quarter due to a number of factors, including changes in the values of our funds' investments, changes in the amount of distributions and general economic and market conditions. Such variability may lead to volatility in the gains and losses from investment securities and cause our results for a particular period not to be indicative of future performance. The valuation of our consolidated investment funds continues to be affected by a challenging venture capital environment, a significant slowdown of M&A activities and effectively a halt in IPOs among our portfolio companies in 2008 and the first three quarters of

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

2009. The net losses for the three and nine months ended September 30, 2009 were primarily due to lower than expected operating results, lower comparative valuations from other private companies, and declines in the public equity markets. As a result, we saw more unrealized losses due to lower valuations in the nine months ended September 30, 2009, compared to the comparable 2008 periods.

*Three months ended September 30, 2009 compared to the three months ended September 30, 2008*

Noninterest income was \$3.0 million for the three months ended September 30, 2009, compared to \$2.7 million for the comparable 2008 period. SVB Capital's components of noninterest income primarily include:

Fund management fees of \$2.4 million and \$2.2 million for the three months ended September 30, 2009 and 2008, respectively. The increase in fund management fees was primarily due to the closings of a fund in the SVB Strategic Investors Fund family in the fourth quarter of 2008 and the first quarter of 2009. Typically, a fund of funds is formed through multiple closing transactions in which limited partners enter into investment commitments.

**Table of Contents**

Net gains on investment securities of \$0.4 million for the three months ended September 30, 2009, compared to net gains of \$0.5 million for the comparable 2008 period. The net gains on investment securities of \$0.4 million for the three months ended September 30, 2009 were primarily due to distribution gains and an increase in the fair value of investments.

Noninterest expense decreased by \$2.6 million for the three months ended September 30, 2009, primarily due to a decrease in compensation and benefits expense attributable to incentive compensation related expenses as a result of lower expected financial results for 2009.

*Nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

Noninterest income was \$3.0 million for the nine months ended September 30, 2009, compared to \$7.8 million for the comparable 2008 period. SVB Capital's components of noninterest income primarily include:

Net losses on investment securities of \$4.7 million for the nine months ended September 30, 2009, compared to net gains of \$1.7 million for the comparable 2008 period. The net losses on investment securities of \$4.7 million for the nine months ended September 30, 2009 were primarily due to net losses from three of our managed funds of funds due to net decreases of \$3.0 million in the fair value of fund investments and a decrease of \$1.3 million in carried interest due to a decline in the performance of two of our managed funds of funds.

Fund management fees of \$7.6 million and \$6.1 million for the nine months ended September 30, 2009 and 2008, respectively. The increase in fund management fees was primarily due to the closings of a fund in the SVB Strategic Investors Fund family in the fourth quarter of 2008 and the first quarter of 2009.

Noninterest expense decreased by \$4.9 million for the nine months ended September 30, 2009, primarily due to a decrease in compensation and benefits expense attributable to incentive compensation related expenses as a result of lower expected financial results for 2009.

*Other Business Services*

Our Other Business Services group includes SVB Analytics as well as our Sponsored Debt Funds and Strategic Investments.

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Net interest (loss) income	\$ (76)	\$ (8)	NM%	\$ (156)	\$ 35	NM%
Noninterest income	41	609	(93.3)	4,399	2,047	114.9
Noninterest expense	(2,726)	(3,140)	(13.2)	(12,685)	(8,402)	51.0
Loss before income tax expense	\$ (2,761)	\$ (2,539)	8.7	\$ (8,442)	\$ (6,320)	33.6
Total average assets	\$ 87,396	\$ 65,761	32.9	\$ 79,244	\$ 64,743	22.4

NM- Not meaningful

Included in noninterest income are net gains and losses on investment securities, net of noncontrolling interests and carried interest from our sponsored debt funds and strategic investments. When we refer to net gains and losses on investment securities in the discussion below, we are referring to net gains and losses from investment securities, net of noncontrolling interests and carried interest.

**Table of Contents**

We experience variability in the performance of our sponsored debt funds and strategic investments from quarter to quarter due to a number of factors, including changes in the values of our investments, changes in the amount of distributions and general economic and market conditions. Such variability may lead to volatility in the gains and losses from investment securities and cause our results for a particular period not to be indicative of future performance.

SVB Analytics provides equity valuation services to private companies and venture capital firms. We also offer equity management services, including capitalization data management, through eProsper, Inc., a company which SVB Analytics holds a controlling ownership interest.

A summary of noninterest income for SVB Analytics and Sponsored Debt Funds & Strategic Investments is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	% Change	2009	2008	% Change
SVB Analytics	\$ 1,490	\$ 1,872	(20.4)%	\$ 5,032	\$ 5,646	(10.9)%
Sponsored Debt Funds & Strategic Investments	(1,449)	(1,263)	14.7	(633)	(3,599)	(82.4)
<b>Total noninterest income</b>	<b>\$ 41</b>	<b>\$ 609</b>	<b>(93.3)</b>	<b>\$ 4,399</b>	<b>\$ 2,047</b>	<b>114.9</b>

*Three months ended September 30, 2009 compared to the three months ended September 30, 2008*

Noninterest income decreased by \$0.6 million, primarily due to a \$0.4 million decrease resulting from lower transaction volumes at SVB Analytics. Included in the \$1.4 million in net losses for the three months ended September 30, 2009 at Sponsored Debt Funds and Strategic Investments are \$2.1 million in impairment losses from our private equity fund investments, due principally to sustained valuation decreases in underlying portfolio companies.

Noninterest expense decreased by \$0.4 million, primarily due to a decrease in compensation and benefits expense of \$0.3 million at SVB Analytics attributable to a decrease in incentive compensation related expenses as a result of lower expected financial results for 2009.

*Nine months ended September 30, 2009 compared to the nine months ended September 30, 2008*

Noninterest income increased by \$2.4 million, primarily due to net losses on investment securities of \$0.7 million for the nine months ended September 30, 2009, compared to net losses of \$3.8 million for the comparable 2008 period. The losses on investment securities of \$0.7 million for the nine months ended September 30, 2009 were primarily due to \$3.7 million in impairment losses from our private equity fund investments due principally to sustained valuation decreases in underlying portfolio companies, partially offset by net gains of \$2.8 million from our debt funds. The increase in noninterest income was partially offset by a decrease of \$0.6 million resulting from a lower number of valuations performed by SVB Analytics.

Noninterest expense increased by \$4.3 million, primarily due to a non-tax deductible charge of \$4.1 million related to impairment of goodwill resulting from changes in our outlook for eProsper's future financial performance. Additionally, there was an increase in compensation and benefits expense, primarily attributable to the growth in the number of average FTE employees at SVB Analytics, which increased to 36 for the nine months of September 30, 2009, compared to 29 for the comparable 2008 period.

**Consolidated Financial Condition**

Our total assets were \$12.5 billion at September 30, 2009, an increase of \$2.5 billion, or 25.2 percent, compared to \$10.0 billion at December 31, 2008. The increase was primarily due to significant increases in cash and investment securities due to the growth in our deposit balances.

---

**Table of Contents*****Cash and Due from Banks***

Cash and due from banks totaled \$4.1 billion at September 30, 2009, an increase of \$2.1 billion, or 107.4 percent, compared to \$2.0 billion at December 31, 2008. The increase was primarily due to the significant increase in our deposit balances from December 31, 2008 to September 30, 2009. The increase in our deposit balance was due to the following factors: (i) clients' preference for the security provided by FDIC insurance in noninterest-bearing accounts, as well as to the lack of attractive alternative investment opportunities due to the current low interest rate environment; and (ii) our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third-party, off-balance sheet product in late 2008. In addition, we received a large deposit of approximately \$0.9 billion related to client capital calls for investments on the last day of the third quarter of 2009, which was subsequently withdrawn in the first week of the fourth quarter of 2009. As of September 30, 2009 and December 31, 2008, \$3.7 billion and \$1.1 billion, respectively, of our cash and due from banks was deposited at the Federal Reserve Bank and was earning interest at the Federal Funds target rate, and interest-earning deposits in other financial institutions were \$160.3 million and \$169.0 million, respectively.

***Federal Funds Sold, Securities Purchased Under Agreements to Resell and Other Short-Term Investments***

Federal funds sold, securities purchased under agreements to resell and other short-term investments were \$48.5 million at September 30, 2009, a decrease of \$429.9 million, or 89.9 percent, compared to \$478.4 million at December 31, 2008. The decrease was primarily due to cash management strategies.

***Investment Securities***

Investment securities totaled \$3.5 billion at September 30, 2009, an increase of \$1.7 billion, or 95.5 percent, compared to \$1.8 billion at December 31, 2008. The increase was primarily related to purchases of agency-issued collateralized mortgage obligations and U.S. agency securities as part of our overall investment strategy to invest excess cash from our continued growth in deposits.

***Marketable Securities***

Marketable securities consist of our available-for-sale fixed income investment portfolio and marketable securities accounted for under investment company fair value accounting.

Our fixed income investment portfolio is managed with the goal of prudently maximizing portfolio yield over the long-term in a manner consistent with our liquidity, credit diversification, asset/liability mix, and risk management strategies. All securities in our fixed income investment portfolio are currently held as available-for-sale. Available-for-sale securities were \$3.0 billion at September 30, 2009, an increase of \$1.7 billion, or 126.4 percent, compared to \$1.3 billion at December 31, 2008. The increase was primarily due to an \$818.7 million increase in our agency-issued collateralized mortgage obligations and a \$793.7 million increase in U.S. agency securities, as part of our overall investment strategy.

The duration of our fixed income investment portfolio decreased to 2.5 years at September 30, 2009, compared to 2.8 years at December 31, 2008. Changes in portfolio duration are impacted by the effect of changing interest rates on mortgage-backed securities and collateralized mortgage obligations as well as changes in the mix of longer versus shorter term to maturity securities.

Marketable securities accounted for under investment company fair value accounting represents investments managed by SVB Capital or our consolidated sponsored debt fund that were originally made within our non-marketable securities portfolio and have been converted into publicly-traded shares. Marketable securities were \$0.6 million and \$1.7 million at September 30, 2009, and December 31, 2008, respectively. The decrease of \$1.1 million was primarily due to the sale of certain investments in one of our sponsored debt funds.

***Non-Marketable Securities***

Non-marketable securities primarily represent investments managed by SVB Capital and Sponsored Debt Funds and Strategic Investments as part of our investment funds management business. Included in our non-marketable securities carried under investment company fair value accounting are amounts that are attributable to noncontrolling interests. We are required under GAAP to consolidate 100% of these investments that we are deemed to control, even though we may own less than 100% of such entities. Non-marketable securities were \$507.9 million (\$211.9 million net of noncontrolling interests) as of September 30, 2009, an increase of \$40.7 million or 8.7 percent, compared to \$467.2 million (\$169.1 million net of noncontrolling interests) as of December 31, 2008. The increase was primarily attributable to additional capital calls for fund investments, partially offset by unrealized valuation losses of venture capital/private equity investments.





**Table of Contents**

**Loans**

Loans, net of unearned income were \$4.7 billion at September 30, 2009, a decrease of \$850.4 million, or 15.4 percent, compared to \$5.5 billion at December 31, 2008. Unearned income was \$36.7 million at September 30, 2009, a decrease of \$8.7 million, or 19.2 percent, compared to \$45.4 million at December 31, 2008. The majority of our loans are commercial in nature. Total gross loans were \$4.7 billion at September 30, 2009, a decrease of \$859.1 million, or 15.5 percent, compared to \$5.6 billion at December 31, 2008. The decrease came primarily from decreases in loans to venture capital/private equity funds for capital calls due to the continuing effects of the downturn in the economic environment causing lower levels of venture capital investments, as well as from a decrease in our technology client portfolio. The breakdown of total gross loans by industry sector is as follows:

Industry Sector	September 30, 2009		December 31, 2008	
	Amount	Percentage	Amount	Percentage
<b>(Dollars in thousands)</b>				
Technology (1)	\$ 2,128,112	45.4%	\$ 2,666,372	48.0%
Private Equity	832,103	17.7	1,065,424	19.2
Life Sciences (1)	567,581	12.1	601,690	10.8
Private Client Services	459,714	9.8	523,299	9.4
Premium Winery	415,577	8.9	419,916	7.6
All other sectors	289,411	6.1	274,935	5.0
<b>Total gross loans</b>	<b>\$ 4,692,498</b>	<b>100.0</b>	<b>\$ 5,551,636</b>	<b>100.0</b>

(1) Included in the technology and life science niches are loans provided to emerging growth clients, which represent approximately 12 percent of total gross loans at both September 30, 2009 and December 31, 2008.

The following table provides a summary of concentration in our loan portfolio by industry sector and size of loan as of September 30, 2009:

(Dollars in thousands)	September 30, 2009					Total
	Less than Five Million	More than Five to Ten Million	More than Ten to Twenty Million	More than Twenty to Thirty Million	More than Thirty Million	
Technology	\$ 1,068,809	\$ 253,724	\$ 346,678	\$ 255,575	\$ 203,326	\$ 2,128,112
Private Equity	216,878	136,334	205,971	120,039	152,881	832,103
Life Sciences	319,523	90,449	111,892	45,717		567,581
Private Client Services	273,120	86,913	30,029		69,652	459,714
Premium Winery	170,525	111,802	112,943	20,307		415,577
All other sectors	114,091	35,399	118,921	21,000		289,411
<b>Total gross loans</b>	<b>\$ 2,162,946</b>	<b>\$ 714,621</b>	<b>\$ 926,434</b>	<b>\$ 462,638</b>	<b>\$ 425,859</b>	<b>\$ 4,692,498</b>

At September 30, 2009, gross loans totaling \$888.5 million, or 18.9 percent of our portfolio, were individually greater than \$20 million. These loans represented 28 clients, and of these loans, \$20.0 million were on nonaccrual status as of September 30, 2009.

The following table provides a summary of concentration in our loan portfolio by industry sector and size of loan as of December 31, 2008:

**December 31, 2008**

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

<b>(Dollars in thousands)</b>	<b>Less than Five Million</b>	<b>More than Five to Ten Million</b>	<b>More than Ten to Twenty Million</b>	<b>More than Twenty to Thirty Million</b>	<b>More than Thirty Million</b>	<b>Total</b>
Technology	\$ 1,236,293	\$ 328,518	\$ 533,694	\$ 283,403	\$ 284,464	\$ 2,666,372
Private Equity	186,289	222,806	304,264	115,175	236,890	1,065,424
Life Sciences	324,915	120,249	102,325	21,800	32,401	601,690
Private Client Services	278,330	79,360	60,433	22,719	82,457	523,299
Premium Winery	184,798	115,841	98,967	20,310		419,916
All other sectors	81,002	53,255	90,178	50,500		274,935
<b>Total gross loans</b>	<b>\$ 2,291,627</b>	<b>\$ 920,029</b>	<b>\$ 1,189,861</b>	<b>\$ 513,907</b>	<b>\$ 636,212</b>	<b>\$ 5,551,636</b>

At December 31, 2008, gross loans totaling \$1.2 billion, or 20.7 percent of our portfolio, were individually greater than \$20 million. These loans represented 36 clients, and of these loans \$66.7 million were on nonaccrual status as of December 31, 2008.

**Table of Contents*****Credit Quality, Allowance for Loan Losses and Reserve for Unfunded Credit Commitments***

Nonperforming assets consist of loans past due 90 days or more, loans on nonaccrual status and foreclosed property classified as Other Real Estate Owned ( OREO ). The table below sets forth certain data and ratios between nonperforming loans, nonperforming assets and the allowance for loan losses:

(Dollars in thousands)	September 30, 2009	December 31, 2008
<b>Gross nonperforming loans:</b>		
Loans past due 90 days or more still accruing interest	\$ 72,173	\$ 2,330
Nonaccrual loans	72,173	84,919
<b>Total gross nonperforming loans</b>	<b>72,173</b>	<b>87,249</b>
OREO	440	1,250
<b>Total nonperforming assets</b>	<b>\$ 72,613</b>	<b>\$ 88,499</b>
Nonperforming loans as a percentage of total gross loans	1.54%	1.57%
Nonperforming assets as a percentage of total assets	0.58	0.88
Allowance for loan losses	\$ 86,713	\$ 107,396
As a percentage of total gross loans	1.85%	1.93%
As a percentage of total gross nonperforming loans	120.15	123.09
Allowance for loan losses for total gross nonperforming loans	\$ 23,356	\$ 25,911
As a percentage of total gross loans	0.50%	0.47%
As a percentage of total gross nonperforming loans	32.36	29.70
Allowance for loan losses for total gross performing loans	\$ 63,357	\$ 81,485
As a percentage of total gross loans	1.35%	1.47%
As a percentage of total gross performing loans	1.37	1.49
Reserve for unfunded credit commitments (1)	\$ 11,332	\$ 14,698

(1) The Reserve for unfunded credit commitments is included as a component of Other Liabilities. See (Reduction of) Provision for Unfunded Credit Commitments above for a discussion of the changes to the reserve.

The decreases in our allowance for loan losses and nonperforming loans from December 31, 2008 to September 30, 2009 were primarily due to the finalization of the HRJ transaction, partially offset by increases primarily from our software and hardware client portfolios.

***Nonaccrual Loans***

All nonaccrual loans represent impaired loans. Average impaired loans for the three months ended September 30, 2009 and 2008 were \$95.1 million and \$10.5 million, respectively, and average impaired loans for the nine months ended September 30, 2009 and 2008, were \$98.6 million and \$9.9 million, respectively. If these loans had not been impaired, \$2.1 million and \$0.1 million in interest income would have been recorded for the three months ended September 30, 2009 and 2008, respectively, and \$5.7 million and \$0.3 million in interest income would have been recorded for the nine months ended September 30, 2009 and 2008, respectively.

***Accrued Interest Receivable and Other Assets***

A summary of accrued interest receivable and other assets at September 30, 2009 and December 31, 2008 is as follows:

(Dollars in thousands)	September 30, 2009	December 31, 2008 *	% Change
Derivative assets, gross (1)	\$ 120,907	\$ 174,990	(30.9)%
Deferred tax assets and income tax receivable, net	66,817	65,372	2.2
Foreign exchange spot contract assets, gross	44,853	21,333	110.3

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Accrued interest receivable	40,672	35,218	15.5
FHLB and FRB stock	35,778	35,651	0.4
OREO	440	1,250	(64.8)
Other	27,201	28,103	(3.2)
Total accrued interest receivable and other assets	\$ 336,668	\$ 361,917	(7.0)

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation for more details.

(1) See Derivatives, Net section below.

**Table of Contents***Deferred Tax Assets and Income Tax Receivable, Net*

Our deferred tax assets balance was \$43.5 million at September 30, 2009, compared to \$63.2 million at December 31, 2008. The decrease was primarily due to the tax effect of a decrease in our timing differences and the tax effect of an increase in the value of our investment securities portfolio. We pay quarterly estimated taxes to the Internal Revenue Service and certain state and foreign taxing authorities. At September 30, 2009 and December 31, 2008, we had \$23.3 million and \$2.1 million, respectively, as income taxes receivable from these authorities. The increase was primarily due to tax payments for 2008 and 2009 made to the IRS and various state taxing authorities.

*Derivatives, Net*

Derivative instruments are recorded as a component of other assets and other liabilities on the balance sheet. The following table provides a summary of derivative assets (liabilities), net at September 30, 2009 and December 31, 2008:

(Dollars in thousands)	September 30, 2009	December 31, 2008	% Change
<b>Assets (liabilities):</b>			
Equity warrant assets	\$ 42,446	\$ 43,659	(2.8)%
Interest rate swaps assets	56,228	94,142	(40.3)
Foreign exchange forward and option contracts - assets	22,233	37,189	(40.2)
Foreign exchange forward and option contracts - liabilities	(20,160)	(32,632)	(38.2)
Total derivatives, net	\$ 100,747	\$ 142,358	(29.2)

*Equity Warrant Assets*

As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of equity warrant assets in certain client companies. At September 30, 2009, we held warrants in 1,250 companies, compared to 1,307 companies at December 31, 2008. The change in fair value of equity warrant assets is recorded in (losses) gains on derivatives instruments, net, in noninterest income, a component of consolidated net income. The following table provides a summary of transactions and valuation changes for equity warrant assets for the three and nine months ended September 30, 2009 and 2008, respectively:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Balance, beginning of period	\$ 47,704	\$ 36,463	\$ 43,659	\$ 31,317
New equity warrant assets	989	2,646	4,755	7,409
Non-cash increases in fair value	354	1,265	3,389	4,523
Exercised equity warrant assets	(5,431)	(370)	(5,800)	(2,300)
Terminated equity warrant assets	(1,170)	(950)	(3,557)	(1,895)
Balance, end of period	\$ 42,446	\$ 39,054	\$ 42,446	\$ 39,054

*Interest Rate Swaps*

For information on our interest rate swaps, see Note 9- Derivative Financial Instruments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

*Foreign Exchange Forward and Foreign Currency Option Contracts*

For information on our foreign exchange forward and foreign currency option contracts, see Note 9- Derivative Financial Instruments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

At September 30, 2009 and December 31, 2008, the aggregate notional amounts of foreign exchange forward and foreign currency option contracts totaled \$774.0 million and \$824.4 million, respectively. Our net exposure for foreign exchange forward and foreign currency option contracts at September 30, 2009 and December 31, 2008 amounted to \$2.1 million and \$4.6 million, respectively.

### *Deposits*

Deposits were \$10.1 billion at September 30, 2009, an increase of \$2.6 billion, or 34.6 percent, compared to \$7.5 billion at December 31, 2008. The increase in our deposit balance was primarily due to increases in our noninterest-bearing demand deposits of \$2.0 billion and our interest-bearing sweep deposits of \$645.7 million. The overall increase in our deposits was due to the following factors: (i) clients' preference for the security provided by FDIC insurance in noninterest-bearing accounts, as well as to the lack of

**Table of Contents**

attractive alternative investment opportunities due to the current low interest rate environment; and (ii) our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third-party, off-balance sheet product in late 2008. In addition, we received a large deposit of approximately \$0.9 billion related to client capital calls for investments on the last day of the third quarter of 2009, which was subsequently withdrawn in the first week of the fourth quarter of 2009. At September 30, 2009, 36.1 percent of our total deposits were interest-bearing deposits, compared to 40.9 percent at December 31, 2008.

At September 30, 2009, the aggregate balance of time deposit accounts individually exceeding \$100,000 totaled \$280.3 million, compared to \$326.8 million at December 31, 2008. At September 30, 2009, substantially all time deposit accounts exceeding \$100,000 in balances were scheduled to mature within one year. No material portion of our deposits has been obtained from a single depositor in which the loss of that depositor would materially affect our business.

**Long-Term Debt**

At September 30, 2009 and December 31, 2008, we had long-term debt of \$866.7 million and \$995.4 million, respectively. At September 30, 2009, long-term debt included 5.70% senior notes and 6.05% subordinated notes, 2008 Convertible Notes, junior subordinated debentures, 4.99% notes payable related to one of our debt fund investments and other long-term debt. The decrease in long-term debt of \$128.7 million at September 30, 2009, compared to December 31, 2008, was primarily attributable to the maturity of \$50 million in FHLB advances in May 2009 and the repayment of \$50 million in FHLB advances in September 2009, as well as the change in fair value of the interest rate swaps associated with our senior and subordinated notes. For information on our interest rate swaps, see Note 9- Derivative Financial Instruments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

**Other Liabilities**

A summary of other liabilities at September 30, 2009 and December 31, 2008, respectively, is as follows:

(Dollars in thousands)	September 30, 2009	December 31, 2008	% Change
Foreign exchange spot contract liabilities, gross	\$ 48,246	\$ 34,008	41.9%
Accrued compensation	30,215	35,957	(16.0)
Derivative liabilities, gross (1)	20,160	32,632	(38.2)
Reserve for unfunded credit commitments	11,332	14,698	(22.9)
Other	61,213	58,258	5.1
 Total other liabilities	 \$ 171,166	 \$ 175,553	 (2.5)

(1) See Derivatives, Net section above.

**Accrued Compensation**

Accrued compensation includes amounts for our Incentive Compensation Plans, vacation, Direct Drive Incentive Compensation Plan, Retention Program, Warrant Incentive Plan and ESOP. The decrease of \$5.7 million was primarily due to the September 30, 2009 balance including only nine months worth of accruals, compared to twelve months as of December 31, 2008.

**Reserve for Unfunded Credit Commitments**

The level of reserve for unfunded credit commitments is determined by following a methodology that parallels that used for the allowance for loan losses. We recognized a reduction of provision for unfunded credit commitments of \$3.4 million for the nine months ended September 30, 2009, which was reflective of a decrease in the balance of our total unfunded credit commitments due to expirations and reductions in credit lines to certain clients, as well as lower utilization of commitments by borrowers. Total unfunded credit commitments were \$4.8 billion at September 30, 2009, compared to \$5.6 billion at December 31, 2008.

**Noncontrolling Interests**



## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Noncontrolling interests totaled \$325.4 million and \$320.4 million at September 30, 2009 and December 31, 2008, respectively. The increase of \$5.0 million was primarily due to equity transactions, which included \$47.8 million of contributed capital, primarily from investors in five of our managed funds for the purpose of investing in limited partnerships and portfolio companies, partially offset by net losses attributable to noncontrolling interests of \$40.7 million for the nine months ended September 30, 2009, primarily from our managed funds of funds and managed co-investment funds.

### **Capital Resources**

We seek to maintain adequate capital to support anticipated asset growth, operating needs and credit risks, and to ensure that SVB Financial and the Bank are in compliance with all regulatory capital guidelines. Our primary sources of new capital include retained earnings and proceeds from the sale and issuance of capital stock or other securities. Our management engages in a regular capital planning process in an effort to make effective use of the capital available to us. The capital plan considers capital needs for the

**Table of Contents**

foreseeable future and allocates capital to both existing and future business activities. Expected future use or activities for which capital may be set aside include balance sheet growth, unexpected credit losses, investment activity, potential product and business expansions and strategic or infrastructure investments.

In December 2008, we participated in the Capital Purchase Program ( CPP ), under which we received \$235 million in exchange for issuing shares of Series B Preferred Stock and a warrant to purchase common stock to the Treasury. For more information refer to our Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources under Part II, Item 7 of our 2008 Form 10-K.

**Common Stock and Preferred Stock**

For information on our common stock and preferred stock, see Note 2- Stockholders Equity and Earnings Per Share of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

**SVBFG Stockholders Equity**

SVBFG stockholders equity totaled \$1.1 billion at September 30, 2009, compared to \$1.0 billion at December 31, 2008. SVB Financial has not paid a cash dividend on our common stock since 1992 and, as of September 30, 2009, there were no plans for any payment of dividends. Under the terms of our participation in the CPP, we may not, without the prior consent of the United States Treasury, pay any dividend on our common stock prior to the earlier of December 12, 2011 or the date on which the outstanding shares of Series B Preferred Stock have been redeemed in whole or have been transferred to a third party. As of September 30, 2009, we had no plans to pay, or to seek consent from the Treasury to pay, cash dividends on our common stock.

Funds generated through retained earnings are a significant source of capital and liquidity and are expected to continue to be so in the future.

**Capital Ratios**

Both SVB Financial and the Bank are subject to capital adequacy guidelines issued by the Federal Reserve Board. Under these capital guidelines, the minimum total risk-based capital ratio and Tier 1 risk-based capital ratio requirements are 10.0% and 6.0%, respectively, for a well-capitalized depository institution. Under the same capital adequacy guidelines, a well-capitalized depository institution must maintain a minimum Tier 1 leverage ratio of 5.0%.

The Federal Reserve has not issued any minimum guidelines for the tangible common equity to tangible assets ratio or the tangible common equity to risk-weighted assets ratio.

The Federal Reserve Board has also established minimum capital leverage ratio guidelines for state member banks. The ratio is determined using Tier 1 capital divided by quarterly average total assets. The guidelines require a minimum of 5.0% for a well-capitalized depository institution.

Both the capital ratios of SVB Financial and the Bank were in excess of regulatory guidelines for a well-capitalized depository institution at September 30, 2009 and December 31, 2008. Capital ratios for SVB Financial and the Bank are set forth below:

	September 30, 2009	December 31, 2008
<b>SVB Financial:</b>		
Total risk-based capital ratio	19.23%	17.58%
Tier 1 risk-based capital ratio	14.59	12.51
Tier 1 leverage ratio	9.71	13.00
Tangible common equity to tangible assets ratio (1)	6.73	7.64
Tangible common equity to risk-weighted assets ratio (1)	11.43	9.31
<b>Bank:</b>		
Total risk-based capital ratio	16.93%	13.79%
Tier 1 risk-based capital ratio	12.21	8.66
Tier 1 leverage ratio	8.17	9.20
Tangible common equity to tangible assets ratio (1)	7.60	7.38
Tangible common equity to risk-weighted assets ratio (1)	12.57	8.58

- (1) See below for a reconciliation of non-GAAP tangible common equity and tangible assets.

**Table of Contents**

The increase in the total risk-based and Tier 1 capital ratios for SVB Financial at September 30, 2009, compared to December 31, 2008, was primarily due to a shift in the mix of assets to a lower overall risk-weighting driven by an increase in funds held at the Federal Reserve, increases in investment balances and a decrease in loan balances. For the same period, larger increases in the total risk-based and Tier 1 capital ratios for the Bank were affected by the same change in the mix of risk-weighted assets, in addition to an increase in earnings from operations and a capital contribution from the Bank Holding Company. For both SVB Financial and the Bank, decreases in the Tier 1 leverage ratio were reflective of our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third-party, off-balance sheet product in late 2008, which resulted in substantial increases in cash balances and deposit liabilities resulting in significant growth in the balance sheet.

The tangible common equity to tangible assets ratio is not required by GAAP or applicable bank regulatory requirements. We believe this ratio provides meaningful supplemental information regarding our capital levels. Our management uses, and believes that investors benefit from referring to, this ratio in evaluating the adequacy of the Company's capital levels; however, this financial measure should be considered in addition to, not as a substitute for or preferable to, comparable financial measures prepared in accordance with GAAP. Our ratio is calculated by dividing total SVBFG stockholder's equity, by total assets, after reducing both amounts by acquired intangibles and goodwill. The manner in which this ratio is calculated varies among companies. Accordingly, our ratio is not necessarily comparable to similar measures of other companies. The following table provides a reconciliation of non-GAAP financial measures with financial measures defined by GAAP:

Non-GAAP tangible common equity and tangible assets	SVB Financial		Bank	
	September 30, 2009	December 31, 2008 *	September 30, 2009	December 31, 2008 *
(Dollars in thousands, except ratios)				
GAAP stockholders' equity	\$ 1,067,377	\$ 991,356	\$ 904,166	\$ 695,438
Less:				
Preferred stock	223,009	221,185		
Goodwill		4,092		
Intangible assets	697	1,087		
Tangible common equity	\$ 843,671	\$ 764,992	\$ 904,166	\$ 695,438
GAAP Total assets	\$ 12,538,603	\$ 10,018,280	\$ 11,889,226	\$ 9,419,440
Less:				
Goodwill		4,092		
Intangible assets	697	1,087		
Tangible assets	\$ 12,537,906	\$ 10,013,101	\$ 11,889,226	\$ 9,419,440
Risk-weighted assets	\$ 7,381,820	\$ 8,220,447	\$ 7,190,318	\$ 8,109,332
Tangible common equity to tangible assets	6.73%	7.64%	7.60%	7.38%
Tangible common equity to risk-weighted assets	11.43	9.31	12.57	8.58

\* Certain amounts have been revised to reflect the correction of immaterial errors associated with previously recognized gains and losses on foreign exchange contracts. Refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details. Amounts for December 31, 2008 have been revised.

At SVB Financial, the tangible common equity to tangible assets ratio decreased due to an increase in tangible assets on a consolidated basis. At the Bank, the tangible common equity to tangible asset ratio increased due to the capital contribution from SVB Financial, partially offset by an increase in tangible assets. For both SVB Financial and the Bank, the increase in tangible common equity to risk-weighted asset ratios is reflective of the higher concentration of lower risk-weighted assets.

**Off-Balance Sheet Arrangements**

In the normal course of business, we use financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commercial and standby letters of credit and commitments to invest in private equity fund investments. These instruments involve, to varying degrees, elements of credit risk. Credit risk is defined as the possibility of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract. For details of our

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

commitments to extend credit, and commercial and standby letters of credit, please refer to Note 12- Off-Balance Sheet Arrangements, Guarantees, and Other Commitments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

### ***Commitments to Invest in Private Equity Funds***

We make commitments to invest in venture capital and private equity funds, which in turn make investments generally in, or in some cases make loans to, privately held companies. Commitments to invest in these funds are generally made for a ten-year period from the inception of the fund. Although the limited partnership agreements governing these investments typically do not restrict the

## **Table of Contents**

general partners from calling 100% of committed capital in one year, it is customary for these funds to generally call most of the capital commitments over 5 to 7 years. The actual timing of future cash requirements to fund such commitments is generally dependent upon the investment cycle, overall market conditions, and the nature and type of industry in which the privately held companies operate.

At September 30, 2009, we had \$614.5 million in total capital commitments in such private equity funds, of which \$367.3 million was unfunded or uncalled. Included in the \$367.3 million unfunded commitments are commitments of \$273.6 million made by SVB Financial on behalf of certain new managed funds of funds that we have formed or plan to form ( New Fund Commitments ). In September 2009, we closed two new managed funds, which included fund commitments of \$89.8 million from third party investors. A portion of the New Fund Commitments are expected to be transferred to, and become the financial obligations of, these two new funds as soon as practicable, which is expected to reduce SVB Financial's total unfunded commitments in the New Fund Commitments to approximately \$183.8 million. While we cannot provide any assurances that we will be successful, we intend to form additional new managed funds of funds, to which we expect to transfer most of such remaining unfunded commitments. Upon transfer of these investments to the new funds, these investments are expected to be accounted for on an investment company fair value basis and any underlying gains or losses would be recognized in earnings according to the ownership interests of all participants in the fund, including SVB Financial. While the actual cash requirements of these New Fund Commitments are dependent on various factors, we currently expect capital calls of approximately \$6.9 million during the remainder of 2009.

For further details on our commitments to invest in private equity funds, refer to Note 12- Off-Balance Sheet Arrangements, Guarantees, and Other Commitments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

### ***Liquidity***

The objective of liquidity management is to ensure that funds are available in a timely manner to meet our financial needs, including paying creditors, meeting depositors' needs, accommodating loan demand and growth, funding investments, repurchasing shares and other capital needs, without incurring undue cost or risk, or causing a disruption to normal operating conditions.

We regularly assess the amount and likelihood of projected funding requirements through a review of factors such as historical deposit volatility and funding patterns, present and forecasted market and economic conditions, individual client funding needs, and existing and planned business activities. Our Asset/Liability Committee ( ALCO ), which is a management committee, provides oversight to the liquidity management process and recommends policy guidelines, subject to the approval of the Finance Committee of our Board of Directors, and courses of action to address our actual and projected liquidity needs.

Historically, we have attracted a stable, low-cost deposit base, which has been our primary source of liquidity. From time to time, depending on market conditions, prevailing interest rates or our introduction of additional interest-bearing deposit products, our deposit levels and cost of deposits may fluctuate. We introduced an interest-bearing money market deposit product for early stage clients and an interest-bearing sweep deposit product in 2007. Our sweep deposit balance increased by \$645.7 million to \$2.0 billion at September 30, 2009, compared to \$1.3 billion at December 31, 2008. Additionally, we grew our noninterest-bearing demand deposits by \$2.0 billion to \$6.4 billion at September 30, 2009, compared to \$4.4 billion as of December 31, 2008. The overall increase in our deposits was primarily due to the following factors: (i) clients preference for the security provided by FDIC insurance in noninterest-bearing accounts, as well as to the lack of attractive alternative investment opportunities due to the current low interest rate environment; and (ii) our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third-party, off-balance sheet product in late 2008. In addition, we received a large deposit of approximately \$0.9 billion related to client capital calls for investments on the last day of the third quarter of 2009, which was subsequently withdrawn in the first week of the fourth quarter of 2009. The FDIC's insurance coverage of noninterest-bearing accounts is currently expected to expire on June 30, 2010. If such coverage is not extended or replaced by a similar program, we currently estimate that our total noninterest-bearing deposit balances will decrease by approximately \$1.5 billion to \$2.0 billion. Notwithstanding, we continue to expand on opportunities to increase our liquidity and take steps to carefully manage our liquidity.

Our liquidity requirements can also be met through the use of our portfolio of liquid assets. Our definition of liquid assets includes cash and cash equivalents in excess of the minimum levels necessary to carry out normal business operations, investment securities maturing within nine months, investment securities eligible and available for financing or pledging purposes with a maturity in excess of nine months and anticipated near-term cash flows from investments.

On a stand-alone basis, SVB Financial's primary liquidity channels include dividends from the Bank, its investment portfolio assets, cash and cash equivalents, and its ability to raise debt and equity capital. The ability of the Bank to pay dividends is subject to certain regulations described in Business Supervision and Regulation Restriction on Dividends under Part I, Item 1 of our 2008 Form 10-K.

### ***Consolidated Summary of Cash Flows***

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Below is a summary of our average cash position and statement of cash flows for the nine months ended September 30, 2009 and 2008, respectively. Please refer to our Interim Statements of Cash Flows for the nine months ended September 30, 2009, and 2008 under Part I, Item 1 of this report.

**Table of Contents**

(Dollars in thousands)	Nine months ended September 30,	
	2009	2008
Average cash and due from banks	\$ 241,150	\$ 254,856
Average federal funds sold, securities purchased under agreements to resell and other short-term investment securities	3,190,730	484,892
Average cash and cash equivalents	\$ 3,431,880	\$ 739,748
Percentage of total average assets	31.4%	10.3%
Net cash provided by operating activities	\$ 102,801	\$ 115,988
Net cash used for investing activities	(942,019)	(1,359,527)
Net cash provided by financing activities	2,513,321	1,310,878
Net increase in cash and cash equivalents	\$ 1,674,103	\$ 67,339

Average cash and cash equivalents increased by \$2.7 billion to \$3.4 billion for the nine months ended September 30, 2009, compared to \$739.7 million for the comparable 2008 period, primarily due to the increase in deposit balances, which resulted in substantial increases in cash balances. The increase in deposit balances was primarily due to clients' preference for the security provided by FDIC insurance in noninterest-bearing accounts, as well as to the lack of attractive alternative investment opportunities due to the current low interest rate environment and our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third-party, off-balance sheet product in late 2008.

Cash provided by operating activities was \$102.8 million for the nine months ended September 30, 2009, which included net loss before noncontrolling interests of \$13.4 million. Significant adjustments for noncash items that increased cash provided by operating activities included \$72.9 million related to the provision for loan losses, \$37.9 million in net losses on investment securities, \$25.8 million of depreciation and amortization, \$11.2 million in share-based compensation amortization, tax benefit of original issue discount of \$10.7 million, and net changes of \$6.2 million in the fair value of derivatives. Significant adjustments for noncash items that decreased cash provided by operating activities included net changes of \$21.2 million in income tax receivable, net changes of \$9.3 million in foreign exchange spot contracts, a \$6.1 million decrease in amortization of deferred warrant-related loan fees, and a \$5.7 million decrease in accrued compensation.

Cash used for investing activities was \$942.0 million for the nine months ended September 30, 2009. Net cash outflows included purchases of available-for-sale securities of \$2.1 billion and purchases of non-marketable securities of \$77.7 million. Net cash inflows included a net decrease in loans of \$729.9 million, proceeds from the sales, maturities, and pay downs of available-for-sale securities of \$499.5 million, and proceeds from recoveries of charged-off loans of \$16.9 million.

Cash provided by financing activities was \$2.5 billion for the nine months ended September 30, 2009. Net cash inflows included increases in deposits of \$2.6 billion and net capital contributions from noncontrolling interests of \$45.7 million. Net cash outflows included repayments of other long-term debt of \$101.3 million.

Cash and cash equivalents at September 30, 2009 were \$4.1 billion, compared to \$750.5 million at September 30, 2008.



**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Interest Rate Risk Management**

Market risk is defined as the risk of adverse fluctuations in the market value of financial instruments due to changes in market interest rates. Interest rate risk is our primary market risk and can result from timing and volume differences in the repricing of our rate-sensitive assets and liabilities, widening or tightening of credit spreads and changes in the shape and level of the yield curve. Other market risks include foreign currency exchange risk and equity price risk. These risks are not considered significant and no separate quantitative information concerning them is presented herein.

Interest rate risk is managed by the Asset/Liability Committee ( ALCO ), which is a management committee. ALCO reviews sensitivities of assets and liabilities to changes in interest rates, structural changes in investment and funding portfolios, loan and deposit activity and current market conditions. Adherence to relevant policies, which are approved by the Finance Committee of our Board of Directors, is monitored on an ongoing basis and decisions related to the management of interest rate exposure are made, as appropriate.

Management of interest rate risk is carried out primarily through strategies involving our investment securities and funding portfolios. In addition, our policies permit off-balance sheet derivative instruments to manage interest rate risk.

We utilize a simulation model to perform sensitivity analysis on the market value of portfolio equity and net interest income under a variety of interest rate scenarios, balance sheet forecasts and proposed strategies. The simulation model provides a dynamic assessment of interest rate sensitivity embedded in our balance sheet. We also use traditional gap analysis to provide a simple indicator of interest rate risk. Gap analysis provides only a static view of interest rate sensitivity at a point in time, while the simulation model measures the potential volatility in forecasted results relating to changes in market interest rates over time. We review our interest rate risk position at a minimum, on a quarterly basis.

**Market Value of Portfolio Equity and Net Interest Income**

One application of the aforementioned simulation model involves measurement of the impact of market interest rate changes on our market value of portfolio equity ( MVPE ). MVPE is defined as the market value of assets, less the market value of liabilities, adjusted for any off-balance sheet items. A second application of the simulation model measures the impact of market interest rate changes on our net interest income ( NII ).

The following table presents our MVPE and NII sensitivity exposure at September 30, 2009 and December 31, 2008, related to an instantaneous and sustained parallel shift in market interest rates of 100 and 200 basis points, respectively.

Change in interest rates (basis points)	Estimated MVPE	Estimated Increase/ (Decrease) In MVPE		Estimated NII	Estimated Increase/ (Decrease) In NII	
		Amount	Percent		Amount	Percent
(Dollars in thousands)						
September 30, 2009:						
+200	\$ 1,697,132	\$ 101,563	6.4%	\$ 571,318	\$ 96,287	20.3%
+100	1,633,957	38,388	2.4	514,619	39,588	8.3
-	1,595,569			475,031		
-100	1,610,353	14,784	0.9	462,153	(12,878)	(2.7)
-200	1,615,196	19,627	1.2	456,898	(18,133)	(3.8)
December 31, 2008:						
+200	\$ 1,623,746	\$ 119,253	7.9%	\$ 467,955	\$ 57,865	14.1%
+100	1,554,708	50,215	3.3	425,970	15,880	3.9
-	1,504,493			410,090		
-100	1,437,606	(66,887)	(4.4)	403,890	(6,200)	(1.5)
-200	1,457,086	(47,407)	(3.2)	401,074	(9,016)	(2.2)

## **Table of Contents**

The estimated MVPE in the preceding table is based on a discounted cash flow analysis using market interest rates provided by independent broker/dealers and other publicly available sources that we deem reliable. These estimates are highly assumption-dependent and will change regularly as our asset/liability structure changes, as interest rate environments evolve, and as we change our assumptions in response to relevant circumstances. These calculations do not reflect changes we may make to reduce our MVPE exposure in response to a change in market interest rates. We expect to continue to manage our interest rate risk utilizing on and off-balance sheet strategies, as appropriate.

As with any method of measuring interest rate risk, certain limitations are inherent in the method of analysis presented in the preceding table. We are exposed to yield curve risk, prepayment risk and basis risk which cannot be fully modeled and expressed using the above methodology. Accordingly, the results in the preceding table should not be relied upon as a precise indicator of actual results in the event of changing market interest rates. Additionally, the resulting MVPE and NII estimates are not intended to represent, and should not be construed to represent the underlying value.

Our base case MVPE at September 30, 2009 increased from December 31, 2008 by \$91.1 million primarily due to the overall growth in our noninterest-bearing deposits, which grew by \$2.0 billion from December 31, 2008 to September 30, 2009. MVPE sensitivity declined in simulated downward interest rate movements due to the historically low level of interest rates. Our simulation model embeds floors in our interest rate scenarios which prevent model benchmark rates from resulting in negative rates. Given the low level of interest rates, these floors contributed to the lower sensitivity in the down 100 and 200 basis point scenarios. In addition, we grew our investment portfolio by \$1.7 billion in fixed income investment securities from December 31, 2008 to September 30, 2009 thus decreasing the amount of value lost in a declining rate environment. MVPE sensitivity decreased in both the 100 and 200 basis point simulated upward interest rate movements primarily due to the large increase in our Federal Reserve account which were offset mainly by noninterest-bearing deposits. Additionally, our rate sensitive loan portfolio also decreased in size through the third quarter thus lowering our asset sensitivity to rising rates. Current modeling assumptions maintain the SVB prime lending rate at its existing level until the National Prime Index has been adjusted upward by a minimum of 75 basis points (to 4.0%), however, these assumptions may change in future periods.

Our expected 12-month NII at September 30, 2009 also increased from December 31, 2008 by \$64.9 million due primarily to our balance sheet growing by \$2.5 billion. The growth is principally attributed to large increases in our noninterest-bearing deposit accounts contributing to a similar growth in our rate sensitive cash equivalents and fixed rate investment portfolio. NII sensitivity increased in both the simulated upward and downward interest rate movements due primarily to the large growth in the rate sensitive cash equivalents which are being offset mostly by noninterest-bearing deposits. The change in sensitivity is due to the factors mentioned above for the MVPE (predominantly modeled interest rate floors) as well as the changes in our balance sheet mix, our deposit repricing assumptions, and the steepening of the yield curve. Actual changes in our deposit pricing strategies may differ from our current model assumptions and may have an impact on our overall sensitivity.

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***Disclosure Controls and Procedures***

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of our most recently completed fiscal quarter, pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

### ***Changes in Internal Control***

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



---

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Please refer to Note 15- Legal Matters of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

**ITEM 1A. RISK FACTORS**

*Our business faces significant risks, including current market environment, credit, market/liquidity, operational, legal/regulatory and strategic/reputation risks. The factors described below may not be the only risks we face and are not intended to serve as a comprehensive listing or be applicable only to the category of risk under which they are disclosed. The risks described below are generally applicable to more than one of the following categories of risks. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following factors actually occurs, our business, financial condition and/or results of operations could suffer.*

There are no material changes from the risk factors set forth in our 2008 Form 10-K.

***Risks Relating to Current Market Environment***

**The continuation or worsening of current market and economic conditions may adversely affect our industry, business, results of operations and ability to access capital.**

The United States is currently in a serious economic downturn, as are economies around the world. Financial markets are volatile, business and consumer spending has declined, and overall business activities have slowed, including a slowdown over the past several quarters in mergers, acquisitions and initial public offerings of companies events upon which the venture capital and private equity community relies to exit their investments. If current market and economic conditions persist, our clients will continue to be adversely impacted, as well as our investment returns, valuations of companies and overall levels of venture capital and private equity investments, which may have a material and adverse affect on our business, financial condition and results of operations. A worsening of these conditions could likely exacerbate the adverse affect on us.

As a result of current economic conditions, the capital and credit markets have been experiencing extreme volatility and disruption. SVB Financial depends on access to equity and debt markets as one of its primary sources to raise capital. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

**Recent and future legislation and regulatory initiatives to address current market and economic conditions may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy.**

Recent and future legislative and regulatory initiatives to address current market and economic conditions, such as the Emergency Economic Stabilization Act of 2008 ( EESA ) or the American Recovery and Reinvestment Act of 2009 ( ARRA ), may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy. EESA was enacted in October 2008 to restore confidence and stabilize the volatility in the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Treasury and banking regulators have implemented, and likely will continue to implement, various programs and legislation to address capital and liquidity issues in the banking system, including TARP, the CPP, President Obama s Financial Stability Plan announced in February 2009, and the ARRA. There can be no assurance as to the actual impact that any of the recent, or future, legislative and regulatory initiatives will have on the financial markets and the overall economy. Any failure of these initiatives to help stabilize or improve the financial markets and the economy, and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

**Additional requirements under our regulatory framework, especially those imposed under ARRA, EESA or other legislation intended to strengthen the U.S. financial system, could adversely affect us.**

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Recent government efforts to strengthen the U.S. financial system, including the implementation of ARRA, EESA, and the Federal Deposit Insurance Corporation's ( FDIC ) Temporary Liquidity Guaranty Program ( TLGP ), subject participants to additional regulatory fees and requirements, including corporate governance requirements, executive compensation restrictions, restrictions on declaring or paying dividends, restrictions on share repurchases, limits on executive compensation tax deductions and prohibitions against golden parachute payments. These requirements, and any other requirements that may be subsequently imposed, including further limitations on compensation, may have a material and adverse effect on our business, financial condition, and results of operations.

---

## **Table of Contents**

### ***Credit Risks***

#### **If our clients fail to perform under their loans, our business, profitability and financial condition could be adversely affected.**

As a lender, we face the risk that our client borrowers will fail to pay their loans when due. If borrower defaults cause large aggregate losses, it could have a material adverse effect on our business, profitability and financial condition. We reserve for such losses by establishing an allowance for loan losses, the increase of which results in a charge to our earnings as a provision for loan losses. We have established an evaluation process designed to determine the adequacy of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the forecasts and establishment of loan losses are dependent to a great extent on our subjective assessment based upon our experience and judgment. Actual losses are difficult to forecast, especially if such losses stem from factors beyond our historical experience or are otherwise inconsistent or out of pattern with regards to our credit quality assessments. There can be no assurance that our allowance for loan losses will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, profitability and financial condition.

#### **Because of the credit profile of our loan portfolio, our levels of nonperforming assets and charge-offs can be volatile. We may need to make material provisions for loan losses in any period, which could reduce net income or increase net losses in that period.**

Our loan portfolio has a credit profile different from that of most other banking companies. In addition, the credit profile of our clients varies across our loan portfolio, based on the nature of the lending we do for different market segments. In our portfolios for emerging-technology, early-stage and mid-stage companies, many of our loans are made to companies with modest or negative cash flows and no established record of profitable operations. Repayment of these loans is dependent upon receipt by borrowers of additional equity financing from venture capitalists or others, or in some cases, a successful sale to a third party or a public offering. In recent periods, due to the overall weakening of the economic environment, venture capital financing activity has slowed, and initial public offerings ( IPOs ) and merger/acquisition ( M&A ) activities have slowed significantly. If economic conditions worsen or do not improve, such activities may slow down even further. Venture capital firms may provide financing at lower levels, more selectively or on less favorable terms, which may have an adverse affect on our borrowers that are otherwise dependent on such financing to repay their loans to us. Moreover, collateral for many of our loans often includes intellectual property, which is difficult to value and may not be readily salable in the case of default. Because of the intense competition and rapid technological change that characterizes the companies in our technology and life science industry sectors, a borrower's financial position can deteriorate rapidly.

Additionally, we may enter into accounts receivable financing arrangements with our company clients. The repayment of these arrangements is dependent on the financial condition, and payment ability, of third parties with whom our clients do business. Such third parties may be unable to meet their financial obligations to our clients, especially in a weakened economic environment.

In our portfolio of venture capital and private equity firm clients, many of our clients have capital call lines of credit, the repayment of which is dependent on the payment of capital calls by the underlying limited partner investors in the funds managed by these firms. These limited partner investors may face liquidity issues or have difficulties meeting their financial commitments, especially during unstable economic times, which may lead to our clients' inability to meet their repayment obligations to us.

Additionally, we have been increasing our efforts to lend to corporate technology clients, including some companies with greater levels of debt relative to their equity, and have increased the average size of our loans over time. At September 30, 2009, our gross loan portfolio included a total of \$888.5 million, or 18.9 percent, of individual loans greater than \$20 million. Increasing our larger loan commitments could increase the impact on us of any single borrower default.

For all of these reasons, our level of nonperforming loans, loan charge-offs and allowance for loan losses can be volatile and can vary materially from period to period. Increases in our level of nonperforming loans or loan charge-offs may require us to increase our provision for loan losses in any period, which could reduce our net income or cause net losses in that period. Additionally, such increases in our level of nonperforming loans or loan charge-offs may also have an adverse effect on our credit ratings and market perceptions of us.

#### **The borrowing needs of our clients may be volatile, especially during a challenging economic environment. We may not be able to meet our unfunded credit commitments, or adequately reserve for losses associated with our unfunded credit commitments, which could have a material effect on our business, profitability, results of operations and reputation.**

A commitment to extend credit is a formal agreement to lend funds to a client as long as there is no violation of any condition established under the agreement. The actual borrowing needs of our clients under these credit commitments have historically been lower than the contractual amount of the commitments. A significant portion of these commitments expire without being drawn upon. Because of the credit profile of our

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

clients, we typically have a substantial amount of total unfunded credit commitments, which is reflected off our balance sheet. At September 30, 2009, we had \$4.8 billion in total unfunded credit commitments. Actual borrowing needs of our clients may exceed our expected funding requirements, especially during a challenging economic environment when our client companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, the increasing costs of credit, or the limited availability of financings from more discerning and selective venture capital/private equity firms. Or, limited

---

## **Table of Contents**

partner investors of our venture capital/private equity fund clients facing liquidity or other financing issues may fail to meet their underlying investment commitments, which may impact our clients' borrowing needs. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our clients, may have a material adverse effect on our business, profitability, results of operations and reputation.

Additionally, we establish a reserve for losses associated with our unfunded credit commitments. The level of the reserve for unfunded credit commitments is determined by following a methodology similar to that used to establish our allowance for loan losses in our funded loan portfolio. The reserve is based on credit commitments outstanding, credit quality of the loan commitments, and management's estimates and judgment, and is susceptible to significant changes. There can be no assurance that our reserve for unfunded credit commitments will be adequate to provide for actual losses associated with our unfunded credit commitments. An increase in the reserve in any period may result in a charge to our earnings as a provision for unfunded credit commitments, which could reduce our net income or increase net losses in that period.

### ***Market/Liquidity Risks***

**Our current level of interest rate spread may decline in the future. Any material reduction in our interest rate spread, or a sustained period of low market interest rates, could have a material adverse effect on our business, profitability or financial condition.**

A major portion of our net income comes from our interest rate spread, which is the difference between the interest rates paid by us on amounts used to fund assets and the interest rates and fees we receive on our interest-earning assets. We fund assets using deposits and other borrowings. While we are increasingly offering more interest-bearing deposit products, a majority of our deposit balances are from our non-interest bearing products. Our interest-earning assets include outstanding loans extended to our clients and securities held in our investment portfolio. Overall, the interest rates we pay on our interest-bearing liabilities and receive on our interest-earning assets, and our level of interest rate spread, could be affected by a variety of factors, including changes in market interest rates, competition, and a change over time in the mix of loans, investment securities, deposits and other liabilities on our balance sheet.

Changes in market interest rates, such as the Federal Funds rate, generally impact our interest rate spread. While changes in interest rates do not produce equivalent changes in the revenues earned from our interest-earning assets and the expenses associated with our interest-bearing liabilities because of the composition of our balance sheet, increases in market interest rates will likely cause our interest rate spread to increase. Conversely, if interest rates decline, our interest rate spread will likely decline. Recent decreases in market interest rates have caused our interest rate spread to decline significantly, which reduces our net income. Sustained low levels of market interest rates will likely continue to put pressure on our profitability. Unexpected interest rate declines may also adversely affect our business forecasts and expectations. Interest rates are highly sensitive to many factors beyond our control, such as inflation, recession, global economic disruptions, unemployment and the fiscal and monetary policies of the federal government and its agencies.

Any material reduction in our interest rate spread could have a material adverse effect on our business, profitability and financial condition.

**Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.**

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, equity/debt offerings and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a reduction in our credit ratings, an increase in costs of capital in financial capital markets, a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us, or a decrease in depositor or investor confidence in us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Additionally, our credit ratings are important to our liquidity and our business. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, and limit our access to the capital markets. Moreover, a reduction in our credit ratings could increase the interest rates we pay on deposits, or adversely affect perceptions about our creditworthiness or our overall reputation.

**Equity warrant asset, venture capital and private equity funds and direct equity investment portfolio gains or losses depend upon the performance of the portfolio investments and the general condition of the public equity markets, which are uncertain and may vary materially by period.**

We obtain rights to acquire stock in the form of equity warrant assets in certain clients as part of negotiated credit facilities and for other services. We also make investments in venture capital and private equity funds and direct investments in companies. The fair





## **Table of Contents**

value of these warrants and investments are reflected in our financial statements and adjusted on a quarterly basis. Fair value changes are generally recorded as unrealized gains or losses through consolidated net income. The timing and amount of changes in fair value, if any, of these financial instruments depend upon factors beyond our control, including the performance of the underlying companies, fluctuations in the market prices of the preferred or common stock of the underlying companies, general volatility and interest rate market factors, and legal and contractual restrictions. The timing and amount of our realization of actual net proceeds, if any, from the disposition of these financial instruments depend upon factors beyond our control, including investor demand for initial public offerings, levels of merger and acquisition activity, legal and contractual restrictions on our ability to sell, and the perceived and actual performance and future value of portfolio companies. Because of the inherent variability of these financial instruments and the markets in which they are made, the fair market value of these financial instruments might increase or decrease materially, and the net proceeds realized upon disposition might be less than the then-current recorded fair market value.

We cannot predict future realized or unrealized gains or losses, and any such gains or losses are likely to vary materially from period to period. Additionally, the value of our equity warrant asset portfolio depends on the number of warrants we obtain, and in future periods, we may not be able to continue to obtain such equity warrant assets to the same extent we historically have achieved.

### **Public equity offerings and mergers and acquisitions involving our clients or a slowdown in venture capital investment levels may reduce the borrowing needs of our clients, which could adversely affect our business, profitability and financial condition.**

While an active market for public equity offerings and mergers and acquisitions generally has positive implications for our business, one negative consequence is that our clients may pay off or reduce their loans with us if they complete a public equity offering, are acquired by or merge with another entity or otherwise receive a significant equity investment. The current economic conditions reflect a slowdown in such transactions, however if the levels of such transactions were to increase, our total outstanding loans may decline. Moreover, our capital call lines of credit are typically utilized by our venture capital fund clients to make investments prior to receipt of capital called from their respective limited partners. A slowdown in overall venture capital investment levels may reduce the need for our clients to borrow from our capital call lines of credit. Any significant reduction in the outstanding amounts of our loans or lines of credit could have a material adverse effect on our business, profitability and financial condition.

### **Failure to raise additional funds from third-party investors for our funds managed by SVB Capital may require us to use capital to fund commitments to other funds, which may have a material adverse effect on our business, financial condition and reputation.**

From time to time, we form new investment funds through our funds management division, SVB Capital. These funds include funds that invest in other venture capital and private equity funds (which we refer to as funds of funds) and portfolio companies (which we refer to as direct equity funds). Our managed funds are typically structured as limited partnerships, heavily funded by third party limited partners and ultimately managed by us through our SVB Capital division. We typically will also make a significant capital commitment to each of these funds as a limited partner.

Prior to forming a new fund of funds, SVB Financial has made and may make investment commitments intended for the new fund, in order to show potential investors the types of funds in which the new fund will invest. Until these investments are transferred to the new fund, which typically will occur upon the acceptance of binding commitments from third-party limited partners (the closing), these investments are obligations of SVB Financial. If we fail to attract sufficient capital from third-party investors to conduct the closing of a fund of funds, we may be required to permanently allocate capital to these investments when we otherwise had intended them to be temporary obligations. If, under such circumstances, we decide to sell these investments or fail to meet our obligations, we may lose some or all of the capital that has already been deployed and may be subject to legal claims. Any unexpected permanent allocation of capital toward these investments, loss of capital contributed to these investments or legal claims against us could have a material adverse effect on our business and financial condition, as well as our reputation.

### **The soundness of other financial institutions could adversely affect us.**

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. Many of these transactions expose us to credit and market risk that may cause our counterparty or client to default. In addition, we are exposed to market risk when the collateral we hold cannot be realized or is liquidated at prices not sufficient to recover the full amount of the secured obligation. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

*Operational Risks*

**If we fail to retain our key employees or recruit new employees, our growth and profitability could be adversely affected.**

We rely on key personnel, including a substantial number of employees who have technical expertise in their subject matter area and/or a strong network of relationships with individuals and institutions in the markets we serve. If we were to have less success in

---

## **Table of Contents**

recruiting and retaining these employees than our competitors, for reasons including regulatory restrictions on compensation practices (such as those under EESA as amended by the ARRA) or the availability of more attractive opportunities elsewhere, our growth and profitability could be adversely affected.

### **The manner in which we structure our employee compensation could adversely affect our results of operations and cash flows, as well as our ability to attract, recruit and retain key employees.**

In May 2006, in an effort to align our equity grant rate to that of other financial institutions similar to us, we committed to restrict the total number of shares of our common stock issued under stock options, restricted stock awards, restricted stock unit awards, stock bonus awards and any other equity awards granted during a fiscal year as a percentage of the total number of shares outstanding on a prospective basis. In light of this restriction, we may in the future consider taking other actions to modify employee compensation structures, such as granting cash compensation or other cash-settled forms of equity compensation, which may result in an additional charge to our earnings.

How we structure our equity compensation may also have an adverse affect on our ability to attract, recruit and retain key employees. Our decision in May 2006 to reduce equity awards to be granted on a prospective basis, and any other similar changes limiting our equity awards that we may adopt in the future, could negatively impact our hiring and retention strategies. Moreover, current economic conditions have reduced our share price, causing existing employee options and equity awards to have exercise prices higher in some cases, meaningfully higher than our current share price. These factors could adversely affect our ability to attract, recruit and retain certain key employees.

### **The occurrence of breaches of our information security could have a material adverse effect on our business, financial condition and results of operations.**

Information pertaining to us and our clients are maintained, and transactions are executed, on our internal networks and internet-based systems, such as our online banking system. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and to maintain our clients' confidence. Increases in criminal activity levels, advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we have developed systems and processes that are designed to detect and prevent security breaches and periodically test our security, failure to mitigate breaches of security could result in losses to us or our clients, result in a loss of business and/or clients, cause us to incur additional expenses, affect our ability to grow our online services or other businesses, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

More generally, publicized information security problems could inhibit the growth of the Internet as a means of conducting commercial transactions. Our ability to provide financial services over the Internet would be severely impeded if clients became unwilling to transmit confidential information online. As a result, our business, financial condition and results of operations could be adversely affected.

### **We face risks associated with the ability of our information technology systems and our people and processes to support our operations and future growth effectively.**

In order to serve our target clients effectively, we have developed a comprehensive array of banking and other products and services. In order to support these products and services, we have developed and purchased or licensed information technology and other systems and processes. As our business continues to grow, we will continue to invest in and enhance these systems, and our people and processes. These investments and enhancements may affect our future profitability and overall effectiveness. From time to time, we may change, consolidate, replace, add or upgrade existing systems or processes, which if not implemented properly to allow for an effective transition, may have an adverse effect on our operations. Or, we may outsource certain operational functions to consultants or other third parties to enhance our overall efficiencies, which if not performed properly, could also have an adverse effect on us. There can be no assurance that we will be able to effectively maintain or improve our systems and processes, or utilize outsourced talent, to meet our business needs efficiently. Any failure of such could adversely affect our operations, financial condition, results of operations, future growth and reputation.

### **Business disruptions and interruptions due to natural disasters and other external events beyond our control can adversely affect our business, financial condition and results of operations.**

Our operations can be subject to natural disasters and other external events beyond our control, such as earthquakes, fires, severe weather, public health issues, power failures, telecommunication loss, major accidents, terrorist attacks, acts of war, and other natural and man-made events. Our corporate headquarters and a portion of our critical business offices are located in California near major earthquake faults. Such events of

disaster, whether natural or attributable to human beings, could cause severe destruction, disruption

## **Table of Contents**

or interruption to our operations or property. Financial institutions, such as us, generally must resume operations promptly following any interruption. If we were to suffer a disruption or interruption and were not able to resume normal operations within a period consistent with industry standards, our business could suffer serious harm. In addition, depending on the nature and duration of the disruption or interruption, we might be vulnerable to fraud, additional expense or other losses, or to a loss of business and/or clients. We are in the process of implementing our business continuity and disaster recovery program, which is a multi-year effort. We began implementing the program during 2005, but it has not yet been completed. There is no assurance that our business continuity and disaster recovery program can adequately mitigate the risks of such business disruptions and interruptions.

Additionally, natural disasters and external events could affect the business and operations of our clients, which could impair their ability to pay their loans or fees when due, impair the value of collateral securing their loans, cause our clients to reduce their deposits with us, or otherwise adversely affect their business dealings with us, any of which could have a material adverse effect on our business, financial condition and results of operations.

### **We face reputation and business risks due to our interactions with business partners, service providers and other third parties.**

We rely on third parties, both in the United States and internationally in countries such as India, in a variety of ways, including to provide key components of our business infrastructure or to further our business objectives. These third parties may provide services to us and our clients or serve as partners in business activities. We rely on these third parties to fulfill their obligations to us, to accurately inform us of relevant information and to conduct their activities professionally and in a manner that reflects positively on us. Any failure of our business partners, service providers or other third parties to meet their commitments to us or to perform in accordance with our expectations could harm our business and operations, financial performance, strategic growth or reputation.

### **We depend on the accuracy and completeness of information about customers and counterparties.**

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, under our accounts receivable financing arrangements, we rely on information, such as invoices, contracts and other supporting documentation, provided by our clients and their account debtors to determine the amount of credit to extend. Similarly, in deciding whether to extend credit, we may rely upon our customers' representations that their financial statements conform to GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on information that turns out to be materially misleading, false, inaccurate or fraudulent.

### **Our accounting policies and methods are key to how we report our financial condition and results of operations. They may require management to make estimates about matters that are uncertain.**

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in our reporting materially different amounts than would have been reported under a different alternative.

### **Changes in accounting standards could materially impact our financial statements.**

From time to time, FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, or apply an existing standard differently, also retroactively, in each case resulting in our restating prior period financial statements.

**If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.**

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

If we identify material weaknesses in our internal control over financial reporting or are otherwise required to restate our financial statements, we could be required to implement expensive and time-consuming remedial measures and could lose investor

---

## **Table of Contents**

confidence in the accuracy and completeness of our financial reports. We may also face regulatory enforcement or other actions, including the potential delisting of our securities from NASDAQ. This could have an adverse effect on our business, financial condition and results of operations, including our stock price, and could potentially subject us to litigation.

### ***Legal/Regulatory Risks***

**We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business.**

SVB Financial Group, including the Bank, is extensively regulated under federal and state laws and regulations governing financial institutions, including those imposed by the FDIC, the Federal Reserve and the California Department of Financial Institutions. Federal and state laws and regulations govern, limit or otherwise affect the activities in which we may engage and may affect our ability to expand our business over time. In addition, a change in the applicable statutes, regulations or regulatory policy could have a material effect on our business, including limiting the types of financial services and products we may offer or increasing the ability of nonbanks to offer competing financial services and products. These laws and regulations also require financial institutions, including SVB Financial and the Bank, to maintain certain minimum levels of capital, which may affect our ability to use our capital for other business purposes. In addition, increased regulatory requirements, whether due to the adoption of new laws and regulations, changes in existing laws and regulations, or more expansive or aggressive interpretations of existing laws and regulations, may have a material adverse effect on our business, financial condition and profitability.

**If we were to violate international, federal or state laws or regulations governing financial institutions, we could be subject to disciplinary action that could have a material adverse effect on our business, financial condition, profitability and reputation.**

International, federal and state banking regulators possess broad powers to take supervisory or enforcement action with respect to financial institutions. Other regulatory bodies, including the SEC, NASDAQ, the Financial Industry Regulatory Authority ( FINRA ) and state securities regulators, regulate broker-dealers, including our subsidiary, SVB Securities. If SVB Financial Group were to violate, even if unintentionally or inadvertently, the laws governing public companies, financial institutions and broker-dealers, the regulatory authorities could take various actions against us, depending on the severity of the violation, such as revoking necessary licenses or authorizations, imposing censures, civil money penalties or fines, issuing cease and desist or other supervisory orders, and suspending or expelling from the securities business a firm, its officers or employees. Supervisory actions could result in higher capital requirements, higher insurance premiums and limitations on the activities of SVB Financial Group. These remedies and supervisory actions could have a material adverse effect on our business, financial condition, profitability and reputation.

**SVB Financial relies on dividends from its subsidiaries for most of its cash revenues.**

SVB Financial is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its cash revenues from dividends from its subsidiaries, primarily the Bank. These dividends are the principal source of funds to pay operating costs, borrowings, if any, and dividends, should SVB Financial elect to pay any. Various federal and state laws and regulations limit the amount of dividends that our bank and certain of our nonbank subsidiaries may pay to SVB Financial. Also, SVB Financial's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

### ***Strategic/Reputation Risks***

**Adverse changes in domestic or global economic conditions, especially in our industry niches, could have a material adverse effect on our business, growth and profitability.**

Overall deterioration in domestic or global economic conditions, especially in the technology, life science, venture capital/private equity and premium wine industry niches or overall financial capital markets, may materially and adversely affect our business, growth and profitability. A global, U.S. or significant regional economic slowdown or recession, such as the current economic downturn, could harm us by adversely affecting our clients' and prospective clients' access to capital to fund their businesses, their ability to sustain and grow their businesses, the level of funds they have available to maintain deposits, their demand for loans, their ability to repay loans and otherwise.

**Concentration of risk increases the potential for significant losses.**

Concentration of risk increases the potential for significant losses in our business. Our clients are concentrated by industry niches: technology, life science, venture capital/private equity and premium wine. Many of our client companies are concentrated by certain stages within their life cycles, such as early-stage or mid-stage, and many of these companies are venture capital-backed. Our loan concentrations are derived from our



## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

borrowers engaging in similar activities or types of loans extended to a diverse group of borrowers that could cause those borrowers to be similarly impacted by economic or other conditions. Any adverse effect on any of

## **Table of Contents**

our areas of concentration could have a material impact on our business or results of operations. Due to our concentrations, we may suffer losses even when economic and market conditions are generally favorable for our competitors.

### **Decreases in the amount of equity capital available to our portfolio companies could adversely affect our business, growth and profitability.**

Our core strategy is focused on providing banking products and services to companies, including in particular to emerging technology stage to mid-stage companies, that receive financial support from sophisticated investors, including venture capital or private equity firms, angels, and corporate investors. We derive a meaningful share of our deposits from these companies and provide them with loans as well as other banking products and services. In some cases, our lending credit decision is based on our analysis of the likelihood that our venture capital or angel-backed client will receive additional rounds of equity capital from investors. If the amount of capital available to such companies decreases, it is likely that the number of new clients and investor financial support to our existing borrowers could decrease, which could have an adverse effect on our business, profitability and growth prospects.

Among the factors that have affected and could in the future affect the amount of capital available to our portfolio companies are the receptivity of the capital markets, and the prevalence of IPOs or mergers and acquisitions of companies within our technology and life science industry sectors, the availability and return on alternative investments and general economic conditions in the technology, life science and venture capital/private equity industries. Reduced capital markets valuations could reduce the amount of capital available to our client companies, including companies within our technology and life science industry sectors.

Because our business and strategy are largely based on this venture capital/private equity financing framework focused on our particular client niches, any material changes in the framework, including adverse trends in investment or fundraising levels, may have a materially adverse effect on our business, strategy and overall profitability.

### **We face competitive pressures that could adversely affect our business, profitability, financial condition and future growth.**

Other banks and specialty and diversified financial services companies and debt funds, many of which are larger than we are, offer lending, leasing, other financial products and advisory services to our client base. In addition, we compete with hedge funds and private equity funds. In some cases, our competitors focus their marketing on our industry sectors and seek to increase their lending and other financial relationships with technology companies or special industries such as wineries. In other cases, our competitors may offer a broader range of financial products to our clients. When new competitors seek to enter one of our markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing and credit terms prevalent in that market, which could adversely affect our market share or ability to exploit new market opportunities. Our pricing and credit terms could deteriorate if we act to meet these competitive challenges, which could adversely affect our business, profitability, financial condition and future growth. Similarly, competitive pressures could adversely affect the business, profitability, financial condition and future growth of our non-banking services, including our access to capital and attractive investment opportunities for our funds business.

### **Our ability to maintain or increase our market share depends on our ability to meet the needs of existing and future clients.**

Our success depends, in part, upon our ability to adapt our products and services to evolving industry standards and to meet the needs of existing and potential future clients. A failure to achieve market acceptance of any new products we introduce, a failure to introduce products that the market may demand, or the costs associated with developing, introducing and providing new products and services could have an adverse effect on our business, profitability and growth prospects.

### **We face risks in connection with our strategic undertakings.**

If appropriate opportunities present themselves, we may engage in strategic activities, which could include acquisitions, joint ventures, partnerships, investments or other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

In order to finance future strategic undertakings, we might obtain additional equity or debt financing. Such financing might not be available on terms favorable to us, or at all. If obtained, equity financing could be dilutive and the incurrence of debt and contingent liabilities could have a material adverse effect on our business, results of operations and financial condition.

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Our ability to execute strategic activities successfully will depend on a variety of factors. These factors likely will vary based on the nature of the activity but may include our success in integrating the operations, services, products, personnel and systems of an acquired company into our business, operating effectively with any partner with whom we elect to do business, retaining key employees, achieving anticipated synergies, meeting management's expectations and otherwise realizing the undertaking's anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management's attention from ongoing business operations and may subject us to additional regulatory scrutiny. If we do not

## **Table of Contents**

successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations.

### **We face risks associated with international operations.**

One component of our strategy is to expand internationally. To date, we have opened offices in China, India, Israel and the United Kingdom. We plan to expand our operations in those locations and may expand beyond these countries. Our efforts to expand our business internationally carry with them certain risks, including risks arising from the uncertainty regarding our ability to generate revenues from foreign operations. In addition, there are certain risks inherent in doing business on an international basis, including, among others, legal, regulatory and tax requirements and restrictions, uncertainties regarding liability, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, differing technology standards or customer requirements, political and economic risks and financial risks, including currency and payment risks. These risks could adversely affect the success of our international operations and could have a material adverse effect on our overall business, results of operation and financial condition. In addition, we face risks that our employees may fail to comply with applicable laws and regulations governing our international operations, including the U.S. Foreign Corrupt Practices Act and foreign laws and regulations, which could have a material adverse effect on us.

### **Our business reputation is important and any damage to it could have a material adverse effect on our business.**

Our reputation is very important to sustain our business, as we rely on our relationships with our current, former and potential clients and stockholders, the venture capital and private equity communities and the industries that we serve. Any damage to our reputation, whether arising from regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with SEC and exchange listing requirements, negative publicity, or our conduct of our business or otherwise could have a material adverse effect on our business.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

### **Recent Sales of Unregistered Securities**

None.

### **Issuer Purchases of Equity Securities**

None.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

## **ITEM 5. OTHER INFORMATION**

None.

## **ITEM 6. EXHIBITS**

See Index to Exhibits at end of report.



**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SVB Financial Group

Date: November 6, 2009

/s/ MICHAEL DESCHENEAX

Michael Descheneaux

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

**Table of Contents****INDEX TO EXHIBITS**

Exhibit		Incorporated by Reference				Filed Herewith
Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation	8-K	000-15637	3.1	May 31, 2005	
3.2	Amended and Restated Bylaws	8-K	000-15637	3.2	August 28, 2009	
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	8-K	000-15637	3.3	December 8, 2008	
3.4	Certificate of Designations for Fixed Rate Cumulative Perpetual Preferred Stock, Series B	8-K	000-15637	3.4	December 15, 2008	
4.1	Indenture dated as of May 20, 2003 between SVB Financial and Wells Fargo Bank Minnesota, National Association	S-3	333-107994	4.1	August 14, 2003	
4.2	Form of Note	S-3	333-107994	4.1	August 14, 2003	
4.3	Registration Rights Agreement dated as of May 20, 2003, between SVB Financial and the initial purchasers named therein	S-3	333-107994	4.3	August 14, 2003	
4.4	Junior Subordinated Indenture, dated as of October 30, 2003 between SVB Financial and Wilmington Trust Company, as trustee	8-K	000-15637	4.12	November 19, 2003	
4.5	7.0% Junior Subordinated Deferrable Interest Debenture due October 15, 2033 of SVB Financial	8-K	000-15637	4.13	November 19, 2003	
4.6	Amended and Restated Trust Agreement, dated as of October 30, 2003, by and among SVB Financial as depositor, Wilmington Trust Company as property trustee, Wilmington Trust Company as Delaware trustee, and the Administrative Trustees named therein	8-K	000-15637	4.14	November 19, 2003	
4.7	Certificate Evidencing 7% Cumulative Trust Preferred Securities of SVB Capital II, dated October 30, 2003	8-K	000-15637	4.15	November 19, 2003	
4.8	Guarantee Agreement, dated October 30, 2003, between SVB Financial and Wilmington Trust Company, as trustee	8-K	000-15637	4.16	November 19, 2003	
4.9	Agreement as to Expenses and Liabilities, dated as of October 30, 2003, between SVB Financial and SVB Capital II	8-K	000-15637	4.17	November 19, 2003	
4.10	Certificate Evidencing 7% Common Securities of SVB Capital II, dated October 30, 2003	8-K	000-15637	4.18	November 19, 2003	
4.11	Officers Certificate and Company Order, dated October 30, 2003, relating to the 7.0% Junior Subordinated Deferrable Interest Debentures due October 15, 2033	8-K	000-15637	4.19	November 19, 2003	
4.12	Amended and Restated Preferred Stock Rights Agreement, dated as of January 29, 2004, between SVB Financial and Wells Fargo Bank Minnesota, N.A.	8-A12G/A	000-15637	4.20	February 27, 2004	
4.13	Amendment No. 1 to Amended & Restated Preferred Stock Rights Agreement, dated as of August 2, 2004, by and between SVB Financial and Wells Fargo Bank, N.A.	8-A12G/A	000-15637	4.13	August 3, 2004	
4.14	Amendment No. 2 to Amended & Restated Preferred Stock Rights Agreement, dated as of January 29, 2008, by and between SVB Financial and Wells Fargo Bank, N.A.	8-A/A	000-15637	4.14	January 29, 2008	

## Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

4.15	Amendment No. 3 to Amended and Restated Preferred Stock Rights Agreement, dated as of April 30, 2008, by and between SVB Financial and Wells Fargo Bank, N.A	8-A/A	000-15637	4.20	April 30, 2008
4.16	Indenture for 3.875% Convertible Senior Notes Due 2011, dated as of April 7, 2008, by and between Wells Fargo Bank, N.A., as Trustee, and SVB Financial	8-K	000-15637	4.1	April 7, 2008



**Table of Contents**

Exhibit		Incorporated by Reference				Filed Herewith
Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	
4.17	Letter Agreement re Call Option Transaction, dated as of April 1, 2008, by and between SVB Financial and JPMorgan Chase Bank, National Association.	8-K	000-15637	4.2	April 7, 2008	
4.18	Letter Agreement re Call Option Transaction, dated as of April 1, 2008, by and between SVB Financial and Bank of America, N.A.	8-K	000-15637	4.3	April 7, 2008	
4.19	Letter Agreement re Warrants, dated as of April 1, 2008, by and between SVB Financial and JPMorgan Chase Bank, National Association.	8-K	000-15637	4.4	April 7, 2008	
4.20	Letter Agreement re Warrants, dated as of April 1, 2008, by and between SVB Financial and Bank of America, N.A.	8-K	000-15637	4.5	April 7, 2008	
4.21	Warrant, dated December 12, 2008 to purchase shares of Common Stock of SVB Financial Group	8-K	000-15637	4.21	December 15, 2008	
*10.7	Form of Indemnification Agreement					X
31.1	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Executive Officer					X
31.2	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Financial Officer					X
32.1	Section 1350 Certifications					**

\* Denotes management contract or any compensatory plan, contract or arrangement.

\*\* Furnished herewith