

SVB FINANCIAL GROUP  
Form 10-Q  
May 07, 2010  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

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 April 30, 2010, 41,740,445 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 March 31, 2010 and December 31, 2009</u>	3
<u>Interim Consolidated Statements of Income (unaudited) for the three months ended March 31, 2010 and 2009</u>	4
<u>Interim Consolidated Statements of Comprehensive Income (unaudited) for the three months ended March 31, 2010 and 2009</u>	5
<u>Interim Consolidated Statements of Stockholders' Equity (unaudited) for the three months ended March 31, 2010 and 2009</u>	6
<u>Interim Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2010 and 2009</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>	32
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	60
Item 4. <u>Controls and Procedures</u>	61
<b><u>PART II - OTHER INFORMATION</u></b>	<b>61</b>
Item 1. <u>Legal Proceedings</u>	61
Item 1A. <u>Risk Factors</u>	61
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	70
Item 3. <u>Defaults Upon Senior Securities</u>	70
Item 4. <u>(Removed and Reserved)</u>	70
Item 5. <u>Other Information</u>	70
Item 6. <u>Exhibits</u>	70
<b><u>SIGNATURE</u></b>	<b>71</b>
<b><u>INDEX TO EXHIBITS</u></b>	<b>72</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)	March 31, 2010	December 31, 2009
<b>Assets</b>		
Cash and due from banks	\$ 4,614,434	\$ 3,454,611
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	77,269	58,242
Cash and cash equivalents	4,691,703	3,512,853
Investment securities	4,939,084	4,491,752
Loans, net of unearned income	4,205,245	4,548,094
Allowance for loan losses	(68,271)	(72,450)
Net loans	4,136,974	4,475,644
Premises and equipment, net of accumulated depreciation and amortization	34,966	31,736
Accrued interest receivable and other assets	322,522	329,414
<b>Total assets</b>	<b>\$ 14,125,249</b>	<b>\$ 12,841,399</b>
<b>Liabilities and total equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 7,012,310	\$ 6,298,988
Negotiable order of withdrawal (NOW)	47,840	53,200
Money market	1,462,661	1,292,215
Money market deposits in foreign offices	73,326	49,722
Time	331,981	332,310
Sweep	2,585,176	2,305,502
<b>Total deposits</b>	<b>11,513,294</b>	<b>10,331,937</b>
Short-term borrowings	39,895	38,755
Other liabilities	163,187	139,947
Long-term debt	859,713	856,650
<b>Total liabilities</b>	<b>12,576,089</b>	<b>11,367,289</b>
Commitments and contingencies (Note 12)		
<b>SVBFG stockholders' equity:</b>		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.001 par value, 150,000,000 shares authorized; 41,526,122 shares and 41,338,389 shares outstanding, respectively	42	41
Additional paid-in capital	398,510	389,490

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

Retained earnings	751,472	732,907
Accumulated other comprehensive income	23,456	5,905
<b>Total SVBFG stockholders' equity</b>	<b>1,173,480</b>	<b>1,128,343</b>
Noncontrolling interests	375,680	345,767
<b>Total equity</b>	<b>1,549,160</b>	<b>1,474,110</b>
<b>Total liabilities and total equity</b>	<b>\$ 14,125,249</b>	<b>\$ 12,841,399</b>

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 March 31,	
		2010	2009
Interest income:			
Loans		\$ 73,942	\$ 88,251
Investment securities:			
Taxable		32,267	14,851
Non-taxable		970	1,061
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities		2,840	2,376
Total interest income		110,019	106,539
Interest expense:			
Deposits		3,665	6,847
Borrowings		5,514	8,181
Total interest expense		9,179	15,028
Net interest income		100,840	91,511
Provision for loan losses		10,745	43,466
Net interest income after provision for loan losses		90,095	48,045
Noninterest income:			
Gains (losses) on investment securities, net		16,004	(35,045)
Foreign exchange fees		8,861	7,466
Deposit service charges		7,225	6,823
Client investment fees		3,940	6,248
Credit card fees		2,687	1,439
Letters of credit and standby letters of credit income		2,511	2,892
Gains on derivative instruments, net		1,982	1,814
Other		6,063	2,782
Total noninterest income (loss)		49,273	(5,581)
Noninterest expense:			
Compensation and benefits		59,830	48,280
Professional services		12,098	12,080
Premises and equipment		5,784	5,407
FDIC assessments		5,049	2,675
Net occupancy		4,688	4,305
Business development and travel		4,286	3,273
Correspondent bank fees		1,948	1,913
Impairment of goodwill			4,092
Reduction of provision for unfunded credit commitments		(1,507)	(2,284)
Other		6,400	7,399
Total noninterest expense		98,576	87,140

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

Income (loss) before income tax expense	40,792	(44,676)
Income tax expense (benefit)	11,582	(2,448)
Net income (loss) before noncontrolling interests	29,210	(42,228)
Net (income) loss attributable to noncontrolling interests	(10,653)	33,993
<b>Net income (loss) attributable to SVBFG</b>	<b>\$ 18,557</b>	<b>\$ (8,235)</b>
Preferred stock dividend and discount accretion		(3,536)
<b>Net income (loss) available to common stockholders</b>	<b>\$ 18,557</b>	<b>\$ (11,771)</b>
Earnings (loss) per common share basic	\$ 0.45	\$ (0.36)
Earnings (loss) per common share diluted	0.44	(0.36)

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 March 31,	
	2010	2009
<b>Net income (loss) before noncontrolling interests</b>	<b>\$ 29,210</b>	<b>\$ (42,228)</b>
Other comprehensive income, net of tax:		
Cumulative translation gains (losses):		
Foreign currency translation gains (losses)	1,520	(1,431)
Related tax (expense) benefit	(620)	365
Change in unrealized gains (losses) on available-for-sale investment securities:		
Unrealized holding gains	27,226	6,268
Related tax expense	(10,559)	(2,571)
Reclassification adjustment for losses included in net income (loss)	(27)	(7)
Related tax benefit	11	3
Other comprehensive income, net of tax	17,551	2,627
<b>Comprehensive income (loss)</b>	<b>46,761</b>	<b>(39,601)</b>
Comprehensive (income) loss attributable to noncontrolling interests	(10,653)	33,993
<b>Comprehensive income (loss) attributable to SVBFG</b>	<b>\$ 36,108</b>	<b>\$ (5,608)</b>

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



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

	Preferred Stock		Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive (Loss) Income	Total SVBFG Stockholders' Equity	Noncontrolling Interests	
(Dollars in thousands)	Shares	Amount	Shares	Amount	Capital	Earnings				Total Equity
<b>Balance at December 31, 2008</b>	<b>235,000</b>	<b>\$ 221,185</b>	<b>32,917,007</b>	<b>\$ 33</b>	<b>\$ 66,201</b>	<b>\$ 709,726</b>	<b>\$ (5,789)</b>	<b>\$ 991,356</b>	<b>\$ 320,356</b>	<b>\$ 1,311,712</b>
Common stock issued under employee benefit plans, net of restricted stock cancellations			18,508		85			85		85
Income tax benefit from stock options exercised, vesting of restricted stock and other					238			238		238
Net (loss)						(8,235)		(8,235)	(33,993)	(42,228)
Capital calls and (distributions), net									13,911	13,911
Net change in unrealized losses on available-for-sale investment securities, net of tax							3,693	3,693		3,693
Foreign currency translation adjustments, net of tax							(1,066)	(1,066)		(1,066)
Stock-based compensation expense					3,908			3,908		3,908
Income tax benefit from original issue discount related to 3.875% convertible senior notes					1,105			1,105		1,105
Preferred stock dividend and discount accretion		598				(3,536)		(2,938)		(2,938)
Other-net					223	1		224		224
<b>Balance at March 31, 2009</b>	<b>235,000</b>	<b>\$ 221,783</b>	<b>32,935,515</b>	<b>\$ 33</b>	<b>\$ 71,760</b>	<b>\$ 697,956</b>	<b>\$ (3,162)</b>	<b>\$ 988,370</b>	<b>\$ 300,274</b>	<b>\$ 1,288,644</b>

<b>Balance at December 31, 2009</b>		<b>\$</b>	<b>41,338,389</b>	<b>\$ 41</b>	<b>\$ 389,490</b>	<b>\$ 732,907</b>	<b>\$ 5,905</b>	<b>\$ 1,128,343</b>	<b>\$ 345,767</b>	<b>\$ 1,474,110</b>
-------------------------------------	--	-----------	-------------------	--------------	-------------------	-------------------	-----------------	---------------------	-------------------	---------------------

Common stock issued under employee benefit plans, net of restricted stock cancellations			187,733	1	5,065			5,066		5,066
Income tax benefit from stock options exercised, vesting of restricted stock and other					779			779		779
Net income						18,557		18,557	10,653	29,210
Capital calls and (distributions), net									19,260	19,260
Net change in unrealized gains on available-for-sale investment securities, net of tax							16,651	16,651		16,651
Foreign currency translation adjustments, net of tax							900	900		900
Stock-based compensation expense					3,196			3,196		3,196
Other-net					(20)	8		(12)		(12)

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

<b>Balance at March 31, 2010</b>	<b>\$</b>	<b>41,526,122</b>	<b>\$</b>	<b>42</b>	<b>\$</b>	<b>398,510</b>	<b>\$</b>	<b>751,472</b>	<b>\$</b>	<b>23,456</b>	<b>\$</b>	<b>1,173,480</b>	<b>\$</b>	<b>375,680</b>	<b>\$</b>	<b>1,549,160</b>
----------------------------------	-----------	-------------------	-----------	-----------	-----------	----------------	-----------	----------------	-----------	---------------	-----------	------------------	-----------	----------------	-----------	------------------

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

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

	<b>Three months ended March 31,</b>	
<b>(Dollars in thousands)</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income (loss) before noncontrolling interests	\$ 29,210	\$ (42,228)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Impairment of goodwill		4,092
Provision for loan losses	10,745	43,466
(Reduction of) provision for unfunded credit commitments	(1,507)	(2,284)
Changes in fair values of derivatives, net	518	(1,237)
(Gains) losses on investment securities, net	(16,004)	35,045
Depreciation and amortization	4,547	5,245
Amortization of premiums on investment securities, net	7,008	1,994
Tax benefit of original issue discount		1,105
Tax (expense) benefit from stock exercises	(313)	178
Amortization of share-based compensation	3,291	3,887
Amortization of deferred warrant-related loan fees	(1,614)	(2,126)
Deferred income tax expense (benefit)	1,236	(2,937)
Losses on sale of and valuation adjustments to other real estate owned property	24	50
Changes in other assets and liabilities:		
Accrued interest, net	4,114	5,503
Accounts receivable	1,370	(4,031)
Income tax receivable, net	8,550	(12,676)
Accrued compensation	(8,477)	(16,313)
Foreign exchange spot contracts, net	12,258	(8,106)
Other, net	2,864	4,631
<b>Net cash provided by operating activities</b>	<b>57,820</b>	<b>13,258</b>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(878,579)	(340,303)
Proceeds from sales of available-for-sale securities	714	7
Proceeds from maturities and pay downs of available-for-sale securities	489,932	86,882
Purchases of nonmarketable securities (cost and equity method accounting)	(8,332)	(14,035)
Proceeds from sales of nonmarketable securities (cost and equity method accounting)	1,769	648
Purchases of nonmarketable securities (investment fair value accounting)	(18,101)	(12,381)
Proceeds from sales of nonmarketable securities (investment fair value accounting)	4,859	2,193
Net decrease in loans	321,525	460,629
Proceeds from recoveries of charged-off loans	6,256	1,161
Proceeds from sale of other real estate owned	196	
Payment for acquisition of intangibles, net of cash acquired	(360)	
Purchases of premises and equipment	(6,763)	(2,475)
<b>Net cash (used for) provided by investing activities</b>	<b>(86,884)</b>	<b>182,326</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	1,181,357	1,008,852
Principal payments of other long-term debt		(505)
Increase (decrease) in short-term borrowings	1,140	(5,670)
Capital contributions from noncontrolling interests, net of distributions	19,260	13,911
Tax benefit from stock exercises	1,092	60
Dividends paid on preferred stock		(2,056)

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

Proceeds from issuance of common stock	5,065	85
<b>Net cash provided by financing activities</b>	<b>1,207,914</b>	<b>1,014,677</b>
Net increase in cash and cash equivalents	1,178,850	1,210,261
Cash and cash equivalents at beginning of period	3,512,853	2,436,725
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,691,703</b>	<b>\$ 3,646,986</b>
<b>Supplemental disclosures:</b>		
Cash paid during the period for:		
Interest paid	\$ 5,618	\$ 9,475
Income taxes paid	1,129	12,150
Noncash items during the period:		
Preferred stock dividends accrued, not yet paid	\$	\$ 1,469
Unrealized gains on available-for-sale securities, net of tax	16,667	3,697
Net change in fair value of interest rate swaps	3,137	(31,629)
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 months ended March 31, 2010 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, 2009 ( 2009 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 2009 Form 10-K, and with the accounting pronouncements adopted during the three months ended March 31, 2010, 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 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 and our investments in which we have a majority owned voting interest. All significant intercompany accounts and transactions have been eliminated.

We determine whether we have a controlling financial interest in an entity by evaluating whether the entity is a VIE for which we are the primary beneficiary. We consider the following factors in evaluating whether our involvement with the VIE is significant and designates us as the primary beneficiary:

1. We have the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and,
2. The aggregate indirect and direct variable interests held by the Company have the obligation to absorb losses or the right to receive benefits from the entity that could be significant to the VIE.

We reassess our initial evaluation of whether an entity is a VIE upon the occurrence of certain events, such as changes in an entity's capital structure or in its activities, known as reconsideration events. Our evaluation of whether we are the primary beneficiary of a VIE is not limited to the occurrence of certain reconsideration events but is instead reassessed on an ongoing basis. We have not provided financial or other support

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

during the periods presented to any VIE that we were not previously contractually required to provide. We are variable interest holders in certain partnerships for which we are the primary beneficiary.

### ***Current Accounting Developments***

In the first quarter of 2010, we adopted new guidance related to the following topics:

## **Table of Contents**

ASU No. 2009-16, *Accounting for Transfers of Financial Assets*

ASU No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*

ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*

Information about these pronouncements is described in more detail below.

### ***Impact of Adopting ASU No. 2009-16***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued a new accounting standard which defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. This standard also removes the concept of a qualifying special-purpose entity ( QSPE ) for accounting purposes. Our adoption of this standard as of January 1, 2010 did not have a material impact on our financial position, results of operations or stockholders' equity as we have not historically made sales or transfers of assets to QSPEs. We do engage from time to time in selling our loans, however, historically our participating interests in those sales has the same priority and is not subordinated to the other participating interest holders' interest. Therefore, the change in the standard of removing the QSPE concept and the new definition of participating interest did not have an impact on our sales treatment.

### ***Impact of Adopting ASU No. 2009-17***

In June 2009, the FASB issued a new accounting standard which 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 to the VIE. Our adoption of this standard as of January 1, 2010 required us to de-consolidate Gold Hill Venture Lending Partners 03, LLC ( GHLLC ), which resulted in a reduction of total assets and total equity of \$1.1 million. The identification of VIEs or changes in our consolidation of entities did not have a material impact on our financial position, results of operations or stockholders' equity.

### ***Impact of Adopting ASU No. 2010-06***

In January 2010, the FASB issued a new accounting standard which requires the addition of new disclosures and clarifies existing disclosure requirements already included in the guidance for fair value measurements. The new disclosures related to significant transfers in and out of Level 1, Level 2 and Level 3 fair value measurements and the reasons for the transfers, as well as the clarifications of existing disclosures were adopted as of January 1, 2010. The new disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for interim or annual reporting periods beginning after December 15, 2010. This standard clarified and increased the disclosure requirements for fair value measurements and did not have an impact on our financial position, results of operations or stockholders' equity. See Note 14- Fair Value of Financial Instruments for further details.

### ***Reclassifications***

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

## **2. Stockholders' Equity and Earnings Per Share ( EPS )**

### ***Common Stock***

In connection with our previous participation in the U.S. Treasury's Capital Purchase Program ( CPP ), as of March 31, 2010, we have a warrant outstanding for 354,058 shares of our common stock at an exercise price of \$49.78 per share. We have engaged in negotiations with the U.S. Treasury regarding the repurchase of our warrant, but have not reached an agreement on the repurchase. If we are unable to reach an agreement, the U.S. Treasury may decide to sell the warrant through an auction process.

### ***Earnings Per Share***

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

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 pursuant to stock options and restricted stock units under our equity incentive plan, stock purchases under our employee stock purchase plan, our 3.875% convertible senior notes ( 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 months ended March 31, 2010 and 2009, respectively:



**Table of Contents**

(Dollars and shares in thousands, except per share amounts)	Three months ended March 31,	
	2010	2009
<b>Numerator:</b>		
Net income (loss) attributable to SVBFG	\$ 18,557	\$ (8,235)
Preferred stock dividend and discount accretion		(3,536)
Net income (loss) available to common stockholders	\$ 18,557	\$ (11,771)
<b>Denominator:</b>		
Weighted average common shares outstanding-basic	41,405	32,932
<b>Weighted average effect of dilutive securities:</b>		
Stock options	751	
Restricted stock units	135	
Denominator for diluted calculation	42,291	32,932
<b>Net income (loss) per common share:</b>		
Basic	\$ 0.45	\$ (0.36)
Diluted	\$ 0.44	\$ (0.36)

Due to the loss applicable to common stockholders for the three months ended March 31, 2009, no potentially dilutive shares were included in the loss per share calculation as including such shares would be anti-dilutive and reduce the reported loss per share.

Any dilutive effect of our 2008 Convertible Notes are included in the calculation of diluted EPS using the treasury stock method. The 2008 Convertible Notes did not impact our weighted average diluted common shares total as the applicable conversion price was higher than the average daily closing price for the three month periods. Our warrants associated with the 2008 Convertible Notes and CPP also did not impact our weighted average diluted common shares total as the applicable conversion prices were higher than the average daily closing price for the three month periods.

The following table summarizes the common shares excluded from the diluted EPS calculation as they were deemed to be anti-dilutive for the three months ended March 31, 2010 and 2009, respectively:

(Shares in thousands)	Three months ended March 31,	
	2010	2009
Stock options	7	2,933
Restricted stock units		847
Warrant associated with CPP	38	1,062
Total	45	4,842

In addition to the above, at March 31, 2010, 4.7 million shares of our 2008 Convertible Notes and associated warrants were outstanding but also excluded from the diluted EPS calculation as they were deemed to be 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 13- Derivative Financial Instruments and Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2009 Form 10-K.

**3. Share-Based Compensation**

For the three months ended March 31, 2010 and 2009, we recorded share-based compensation expense of \$3.3 million and \$3.9 million, respectively, resulting in the recognition of \$0.8 million and \$1.0 million, respectively, in related tax benefits.

**Unrecognized Compensation Expense**

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

At March 31, 2010, unrecognized share-based compensation expense was as follows:

(Dollars in thousands)	Unrecognized Expense	Average Expected Recognition Period - in Years
Stock options	\$ 6,997	2.46
Restricted stock units	7,452	1.97
Total unrecognized share-based compensation expense	\$ 14,449	

## Table of Contents

### 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 three months ended March 31, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The- Money Options
Outstanding at December 31, 2009	3,500,723	\$ 35.31		
Granted	2,997	44.33		
Exercised	(188,019)	27.76		
Forfeited	(38,975)	43.57		
Outstanding at March 31, 2010	3,276,726	35.64	3.08	\$ 39,217,347
Vested and expected to vest at March 31, 2010	3,103,979	35.95	2.93	36,257,469
Exercisable at March 31, 2010	2,267,880	35.89	2.06	26,217,920

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value based on our closing stock price of \$46.66 as of March 31, 2010. The total intrinsic value of options exercised during the three months ended March 31, 2010 was \$3.2 million compared to \$0.2 million for the comparable 2009 period.

The table below provides information for restricted stock units under the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the three months ended March 31, 2010:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2009	336,806	\$ 39.55
Granted	6,583	45.66
Vested	(5,468)	45.83
Forfeited	(5,025)	30.05
Nonvested at March 31, 2010	332,896	39.77

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

The following table details the securities purchased under agreements to resell and other short-term investment securities at March 31, 2010 and December 31, 2009, respectively:

(Dollars in thousands)	March 31, 2010	December 31, 2009
Securities purchased under agreements to resell	\$ 55,470	\$ 58,242
Other short-term investment securities	21,799	
Total securities purchased under agreements to resell and other short-term investment securities	\$ 77,269	\$ 58,242

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

In addition, as of March 31, 2010 and December 31, 2009, \$4.3 billion and \$3.1 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 \$148.1 million and \$171.6 million, respectively.

**Table of Contents****5. Investment Securities**

The major components of our investment securities portfolio at March 31, 2010 and December 31, 2009 are as follows:

(Dollars in thousands)	Amortized Cost	March 31, 2010 Unrealized Gains	Unrealized Losses	Carrying Value	Amortized Cost	December 31, 2009 Unrealized Gains	Unrealized Losses	Carrying Value
Marketable securities:								
Available-for-sale securities, at fair value:								
U.S. treasury securities	\$ 25,540	\$ 593	\$	\$ 26,133	\$ 25,583	\$ 464	\$	\$ 26,047
U.S. agency debentures	1,194,106	5,981	(2,207)	1,197,880	887,008	5,188	(443)	891,753
Residential mortgage-backed securities:								
Agency-issued mortgage-backed securities	1,548,582	17,362	(9,085)	1,556,859	1,413,817	14,050	(17,237)	1,410,630
Agency-issued collateralized mortgage obligations	1,312,124	27,504	(377)	1,339,251	1,360,790	17,142	(5,557)	1,372,375
Non-agency mortgage-backed securities	82,469	147	(4,792)	77,824	89,155	48	(5,507)	83,696
Commercial mortgage-backed securities	47,399	1,255		48,654	48,440	468	(107)	48,801
Municipal bonds and notes	97,566	2,344	(177)	99,733	100,504	2,429	(56)	102,877
Marketable equity securities	1,231	7	(263)	975	1,795	219	(5)	2,009
Total available-for-sale securities	\$ 4,309,017	\$ 55,193	\$ (16,901)	\$ 4,347,309	\$ 3,927,092	\$ 40,008	\$ (28,912)	\$ 3,938,188
Marketable securities (investment company fair value accounting) (1)				84				33
Non-marketable securities (investment company fair value accounting):								
Private equity fund investments (2)				301,445				271,316
Other private equity investments (3)				96,517				96,577
Other investments (4)				996				1,143
Non-marketable securities (equity method accounting):								
Other investments (5)				63,175				59,660
Low income housing tax credit funds				25,745				26,797
Non-marketable securities (cost method accounting):								
Private equity fund investments (6)				91,793				86,019
Other private equity investments				12,020				12,019
Total investment securities				\$ 4,939,084				\$ 4,491,752

(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.

(2)

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

The following table shows the amount of investments by the following consolidated funds of funds and our ownership of each fund at March 31, 2010 and December 31, 2009:

(Dollars in thousands)	March 31, 2010		December 31, 2009	
	Amount	Ownership %	Amount	Ownership %
SVB Strategic Investors Fund, LP	\$ 49,693	12.6%	\$ 50,508	12.6%
SVB Strategic Investors Fund II, LP	92,510	8.6	85,820	8.6
SVB Strategic Investors Fund III, LP	118,294	5.9	102,568	5.9
SVB Strategic Investors Fund IV, LP	17,068	5.0	13,677	5.0
SVB Capital Preferred Return Fund, LP	11,460	20.0	8,330	20.0
SVB Capital NT Growth Partners, LP	12,420	33.0	10,413	33.0
Total private equity fund investments	\$ 301,445		\$ 271,316	

- (3) The following table shows the amount of investments by the following consolidated co-investment funds and our ownership of each fund at March 31, 2010 and December 31, 2009:

(Dollars in thousands)	March 31, 2010		December 31, 2009	
	Amount	Ownership %	Amount	Ownership %
Silicon Valley BancVentures, LP	\$ 23,705	10.7%	\$ 24,023	10.7%
SVB Capital Partners II, LP (i)	36,213	5.1	36,847	5.1
SVB India Capital Partners I, LP	36,599	14.4	35,707	14.4
Total other private equity investments	\$ 96,517		\$ 96,577	

- (i) At March 31, 2010, 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 March 31, 2010 and December 31, 2009 we had a majority ownership interest of slightly more than 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.

## Table of Contents

- (5) The following table shows the amount of investments in the following funds and our ownership of each fund at March 31, 2010 and December 31, 2009:

(Dollars in thousands)	March 31, 2010		December 31, 2009	
	Amount	Ownership %	Amount	Ownership %
Gold Hill Venture Lending 03, LP (i)	\$ 19,176	9.3%	\$ 16,134	9.3%
Partners for Growth II, LP	13,184	24.2	13,059	24.2
Other investments	30,815	N/A	30,467	N/A
Total other investments	\$ 63,175		\$ 59,660	

- (i) At March 31, 2010, we had a direct ownership interest of 4.8% in the fund and an indirect interest in the fund through our investment in GHLLC of 4.5%. Our aggregate direct and indirect ownership in the fund is 9.3%.
- (6) Represents investments in 350 and 349 venture capital/private equity funds at March 31, 2010 and December 31, 2010, respectively, where our ownership interest is less than 5% of the voting interests of each such fund. For the three months ended March 31, 2010, we recognized other-than-temporary impairment ( OTTI ) losses of \$0.3 million resulting from other-than-temporary declines in value for 14 of the 350 investments. The OTTI losses are included in net gains (losses) on investment securities, a component of noninterest income. For the remaining 336 investments at March 31, 2010, we concluded that any declines in value were temporary and as such, no OTTI was required to be recognized. At March 31, 2010, the carrying value of these private equity fund investments (cost method accounting) was \$91.8 million, and the estimated fair value was \$90.9 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 March 31, 2010:

(Dollars in thousands)	Less than 12 months		March 31, 2010 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	\$ 452,695	\$ (2,207)	\$	\$	\$ 452,695	\$ (2,207)
Residential mortgage-backed securities:						
Agency-issued mortgage-backed securities	1,013,180	(9,085)			1,013,180	(9,085)
Agency-issued collateralized mortgage obligations (1)	119,856	(367)	562	(10)	120,418	(377)
Non-agency mortgage-backed securities (1)	21,210	(1,487)	48,840	(3,305)	70,050	(4,792)
Municipal bonds and notes	15,448	(177)			15,448	(177)
Marketable equity securities	651	(263)			651	(263)
Total temporarily impaired securities	\$ 1,623,040	\$ (13,586)	\$ 49,402	\$ (3,315)	\$ 1,672,442	\$ (16,901)

- (1) As of March 31, 2010, we identified a total of 96 investments that were in unrealized loss positions, of which 18 investments totaling \$49.4 million with unrealized losses of \$3.3 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 were originally purchased in November 2002, and non-agency mortgage-backed securities between June 2003 and July 2005. All investments with unrealized losses for a period of time greater than 12 months were issued by a government-sponsored enterprise or had an investment grade credit rating issued by either Moody's or S&P, or in some cases, both. Unrealized losses are due primarily to increases in market spreads 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 March 31, 2010, it is more likely than not that we will not be required to sell any securities prior to recovery of our adjusted cost basis. Based on our analysis we deem all impairments to be temporary and changes in value for our temporarily impaired securities as of March 31, 2010 are included in other comprehensive income. Market

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

valuations and impairment analyses on assets in the investment securities portfolio are reviewed and monitored on a quarterly basis.



## Table of Contents

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, 2009:

(Dollars in thousands)	Less than 12 months		December 31, 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	\$ 287,621	\$ (443)	\$	\$	\$ 287,621	\$ (443)
Residential mortgage-backed securities:						
Agency-issued mortgage-backed securities	1,034,781	(17,237)			1,034,781	(17,237)
Agency-issued collateralized mortgage obligations (1)	321,388	(5,535)	1,392	(22)	322,780	(5,557)
Non-agency mortgage-backed securities (1)	23,966	(195)	51,276	(5,312)	75,242	(5,507)
Commercial mortgage-backed securities	14,968	(107)			14,968	(107)
Municipal bonds and notes	11,908	(56)			11,908	(56)
Marketable equity securities	3	(5)			3	(5)
Total temporarily impaired securities	\$ 1,694,635	\$ (23,578)	\$ 52,668	\$ (5,334)	\$ 1,747,303	\$ (28,912)

The following table summarizes the remaining contractual principal maturities and fully taxable equivalent yields on debt securities classified as available-for-sale as of March 31, 2010. 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 debentures 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 tend to be significantly shorter and vary based upon structure.

(Dollars in thousands)	Total		One Year or Less		March 31, 2010 After One Year to Five Years		After Five Years to Ten Years		After Ten Years	
	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield
U.S. treasury securities	\$ 26,133	2.39%	\$	%	\$ 26,133	2.39%	\$	%	\$	%
U.S. agency debentures	1,197,880	2.20	30,553	3.08	1,137,524	2.14	29,803	3.48		
Residential mortgage-backed securities:										
Agency-issued mortgage-backed securities	1,556,859	3.93	111	6.16	1,500	6.45	104,478	4.33	1,450,770	3.90
Agency-issued collateralized mortgage obligations	1,339,251	3.73			12,101	5.06	60,217	4.36	1,266,933	3.69
Non-agency mortgage-backed securities	77,824	4.87					17,916	4.75	59,908	4.91
Commercial mortgage-backed securities	48,654	4.67							48,654	4.67
Municipal bonds and notes	99,733	6.02	1,135	6.20	3,970	5.25	31,282	5.77	63,346	6.17
Total	\$ 4,346,334	3.46	\$ 31,799	3.20	\$ 1,181,228	2.19	\$ 243,696	4.45	\$ 2,889,611	3.89



**Table of Contents**

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 months ended March 31, 2010 and 2009:

(Dollars in thousands)	Three months ended March 31,	
	2010	2009
Gross gains on investment securities:		
Available-for-sale securities, at fair value	\$ 31	\$ 7
Marketable securities (investment company fair value accounting)	51	488
Non-marketable securities (investment company fair value accounting):		
Private equity fund investments	19,792	615
Other private equity investments	484	52
Other investments	27	364
Non-marketable securities (equity method accounting):		
Other investments	1,543	564
Non-marketable securities (cost method accounting):		
Private equity fund investments	315	66
Other private equity investments		22
Total gross gains on investment securities	22,243	2,178
Gross losses on investment securities:		
Available-for-sale securities, at fair value	(4)	
Marketable securities (investment company fair value accounting)		(196)
Non-marketable securities (investment company fair value accounting):		
Private equity fund investments	(4,336)	(30,810)
Other private equity investments	(1,561)	(5,149)
Non-marketable securities (equity method accounting):		
Other investments	(1)	(120)
Non-marketable securities (cost method accounting):		
Private equity fund investments	(337)	(948)
Total gross losses on investment securities	(6,239)	(37,223)
Gains (losses) on investment securities, net	\$ 16,004	\$ (35,045)
Gains (losses) attributable to noncontrolling interests, including carried interest	\$ 12,778	\$ (30,438)

**6. Loans and Allowance for Loan Losses**

The composition of loans, net of unearned income of \$33.6 million and \$34.9 million at March 31, 2010 and December 31, 2009, respectively, is presented in the following table:

(Dollars in thousands)	March 31, 2010	December 31, 2009
Commercial loans	\$ 3,307,898	\$ 3,603,639
Premium wine (1)	434,620	441,901
Community development loans (2)	49,891	59,926
Consumer and other (3)	412,836	442,628
Total loans, net of unearned income	\$ 4,205,245	\$ 4,548,094

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

- (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 March 31, 2010 and December 31, 2009, \$298.7 million and \$298.9 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 primarily 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 March 31, 2010, and December 31, 2009 were comprised of the following:

## Table of Contents

(Dollars in thousands)	March 31, 2010	December 31, 2009
Home equity lines of credit (i)	\$ 90,021	\$ 90,459
Loans to eligible employees (ii)	78,852	86,147
Loans for personal residence (iii)	66,219	64,678
Consumer loans secured by real estate	\$ 235,092	\$ 241,284

- (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 months ended March 31, 2010 and 2009 was as follows:

(Dollars in thousands)	Three months ended March 31, 2010	Three months ended March 31, 2009
Allowance for loan losses, beginning balance	\$ 72,450	\$ 107,396
Provision for loan losses	10,745	43,466
Gross loan charge-offs	(21,180)	(42,013)
Loan recoveries	6,256	1,161
Allowance for loan losses, ending balance	\$ 68,271	\$ 110,010

## Impaired Loans and Troubled Debt Restructurings

A loan is considered impaired when, based upon currently known information, it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the agreement. The recorded investment in impaired loans totaled \$50.6 million and \$50.2 million at March 31, 2010 and December 31, 2009, respectively. The recorded investment in impaired loans for which there was a related allowance for loan losses was \$47.6 million and \$47.0 million at March 31, 2010 and December 31, 2009, respectively, with related allowance for loan losses of \$9.5 million and \$8.9 million, respectively. The recorded investment in impaired loans for which there was no related allowance for loan losses was \$3.0 million and \$3.2 million at March 31, 2010 and December 31, 2009, respectively. Average impaired loans for the three months ended March 31, 2010 and March 31, 2009 totaled \$50.4 million and \$95.0 million, respectively. Cash payments received related to these loans totaled \$0.4 million and \$0.2 million for the three months ended March 31, 2010 and 2009, respectively. These payments were applied against the outstanding principal balance of the loans. We did not recognize any interest income related to impaired loans in either of the three months ended March 31, 2010 or 2009 during the time period that the loans were impaired. Our accruing loans past due 90 days or more were \$0.2 million and \$2.5 million at March 31, 2010 and December 31, 2009, respectively.

Included in the \$50.6 million of impaired loans at March 31, 2010 are loans modified in troubled debt restructurings (TDRs), where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, or other actions intended to maximize collection. As of March 31, 2010, we had TDRs of \$28.9 million, which were comprised of \$20.3 million in our consumer and other category, \$7.5 million in our commercial loans category and \$1.1 million in our community development loans category. In order for these loan balances to return to accrual status, the borrower must demonstrate a sustained period of timely payments. There were no commitments available for funding to the clients associated with these TDRs as of March 31, 2010.

## 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, 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 was no remaining goodwill on our balance sheet as of March 31, 2010 or December 31, 2009.



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

The following table represents outstanding short-term borrowings and long-term debt at March 31, 2010 and December 31, 2009:

(Dollars in thousands)	Maturity	March 31, 2010	December 31, 2009
<i>Short-term borrowings:</i>			
Other short-term borrowings	(1)	\$ 39,895	\$ 38,755
Total short-term borrowings		\$ 39,895	\$ 38,755
<i>Long-term debt:</i>			
5.70% senior notes	June 1, 2012	270,031	269,793
6.05% subordinated notes	June 1, 2017	279,462	276,541
3.875% convertible senior notes	April 15, 2011	247,559	246,991
7.0% junior subordinated debentures	October 15, 2033	55,680	55,986
4.99% long-term notes payable	(2)	6,981	7,339
Total long-term debt		\$ 859,713	\$ 856,650

(1) Represents cash collateral received from counterparties for our interest rate swap agreements related to our senior and subordinated notes.

(2) 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.

Interest expense related to short-term borrowings and long-term debt was \$5.5 million and \$8.2 million for the three months ended March 31, 2010, and 2009, respectively. Interest expense shown is net of the cash flow impact from our interest rate swap agreements. The weighted average interest rates associated with our short-term borrowings as of March 31, 2010 and December 31, 2009 were 0.09 percent and 0.05 percent, respectively.

**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. 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 conversion of a note, we will pay the outstanding principal amount in cash as required by the terms of the notes, and to the extent that the conversion value exceeds the principal amount, we have the option to pay cash or shares of our common stock (or a combination of cash and shares) in respect of the excess amount.

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.

For the three months ended March 31, 2010 and 2009, the effective interest rate for our 2008 Convertible Notes was 5.78 percent and 5.81 percent, respectively, and interest expense for both the three months ended March 31, 2010 and 2009 was \$3.5 million. At March 31, 2010, the unamortized debt discount totaled \$2.4 million, and will be amortized over the remaining contractual term of the debt.

**Available Lines of Credit**

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

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 March 31, 2010, 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 March 31, 2010 totaled \$180.6 million, all of which was unused and available to support additional



## **Table of Contents**

borrowings. The market value of collateral pledged at the discount window of the Federal Reserve Bank at March 31, 2010 totaled \$85.5 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, in connection with negotiating credit facilities and certain other services, we frequently obtain equity warrant assets giving us the right to acquire stock 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 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 2009 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 loans 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. Changes in currency rates on the loans are included in other noninterest income, a component of noninterest income. We may experience ineffectiveness in the economic hedging relationship, because the loans 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 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. Upon conversion of a note, we will pay the outstanding principal amount in cash as required by the terms of the notes, and to the extent that the conversion value exceeds the principal amount, we have the option to pay cash or shares of our common stock (or a combination of cash and shares) in respect of the excess amount. 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 instruments and to decrease potential dilution to stockholders resulting from the conversion option.

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. Similar to the conversion option of the excess value of the note, the hedge and warrant agreements are equity derivatives classified in stockholders' equity. For the three months ended March 31, 2010 and 2009, there were no note conversions or exercises under the warrant agreement as the notes were not convertible.

For more information on 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 2009 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. These warrant agreements contain net share settlement provisions, which permit us to pay the warrant exercise price using shares

## Table of Contents

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

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 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.

The total notional or contractual amounts, fair value, collateral and net exposure of our derivative financial instruments at March 31, 2010 and December 31, 2009, respectively, were as follows:

		March 31, 2010				December 31, 2009			
	Balance sheet location	Notional or contractual amount	Fair value	Collateral (1)	Net exposure (2)	Notional or contractual amount	Fair value	Collateral (1)	Net exposure (2)
(Dollars in thousands)									
<b>Derivatives designated as hedging instruments:</b>									
<i>Interest Rate Risks:</i>									
Interest rate swaps	Other assets	\$ 500,000	\$ 50,032	\$ 39,895	\$ 10,137	\$ 500,000	\$ 46,895	\$ 38,755	\$ 8,140
<b>Derivatives not designated as hedging instruments:</b>									
<i>Currency Exchange Risks:</i>									
Foreign exchange forwards	Other assets	39,141	1,855		1,855	48,276	1,472		1,472
Foreign exchange forwards	Other liabilities	5,589	(65)		(65)	9,828	(85)		(85)
Net exposure			1,790		1,790		1,387		1,387
<i>Other Derivative Instruments:</i>									
Equity warrant assets	Other assets	115,903	40,845		40,845	120,192	41,292		41,292
<b>Other derivatives:</b>									
Foreign exchange forwards	Other assets	273,195	10,045		10,045	316,759	16,772		16,772
Foreign exchange forwards	Other liabilities	276,858	(9,419)		(9,419)	326,116	(15,593)		(15,593)
Foreign currency options	Other assets	107,209	836		836	1,819	192		192
Foreign currency options	Other liabilities	107,209	(836)		(836)	1,819	(192)		(192)
Net exposure			626		626		1,179		1,179
Net			\$ 93,293	\$ 39,895	\$ 53,398		\$ 90,753	\$ 38,755	\$ 51,998

- (1) Cash collateral received from counterparties for our interest rate swap agreements is recorded as a component of short-term borrowings on our consolidated balance sheets.
- (2) 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 March 31, 2010 remain at A or higher and there were no material changes in their credit ratings during the three months ended March 31, 2010.

## Table of Contents

A summary of our derivative activity and the related impact on our consolidated statements of income for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Statement of income location	Three months ended March 31,	
		2010	2009
<b>Derivatives designated as hedging instruments:</b>			
<i>Interest Rate Risks:</i>			
Net cash benefit associated with interest rate swaps	Interest expense - borrowings	\$ 6,501	\$ 4,204
Changes in fair value of interest rate swap	Net gains on derivative instruments		(170)
Net gains associated with interest rate risk derivatives		\$ 6,501	\$ 4,034
<b>Derivatives not designated as hedging instruments:</b>			
<i>Currency Exchange Risks:</i>			
Losses on foreign currency loan revaluations, net	Other noninterest income	\$ (2,030)	\$ (2,677)
Gains on foreign exchange forward contracts, net	Net gains on derivative instruments	2,046	1,943
Net gains (losses) associated with currency risk		\$ 16	\$ (734)
<i>Other Derivative Instruments:</i>			
Losses on equity warrant assets	Net gains on derivative instruments	\$ (356)	\$ (455)
Gains on client foreign exchange forward contracts, net	Net gains on derivative instruments	\$ 292	\$ 496

## 10. Other Noninterest Income and Other Noninterest Expense

A summary of other noninterest income for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Three months ended March 31,	
	2010	2009
Fund management fees	\$ 2,698	\$ 2,717
Service-based fee income (1)	1,996	1,829
Currency revaluation gains (losses)	1,018	(960)
Losses on foreign currency loans revaluation, net	(2,030)	(2,677)
Other	2,381	1,873
Total other noninterest income	\$ 6,063	\$ 2,782

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

A summary of other noninterest expense for the three months ended March 31, 2010 and 2009, respectively, is as follows:

Three months ended March 31,

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

(Dollars in thousands)	2010	2009
Telephone	\$ 1,140	\$ 1,380
Tax credit fund amortization	1,052	1,129
Data processing services	977	1,012
Postage and supplies	471	1,258
Other	2,760	2,620
 Total other noninterest expense	 \$ 6,400	 \$ 7,399

### 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.

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

## Table of Contents

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.

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.

With respect to our operating segments, only Global Commercial Bank, Relationship Management and SVB Capital were determined to be separate reportable segments as of March 31, 2010.

### *Changes to Segment Reporting Effective January 1, 2010*

Effective January 1, 2010, we changed the way we monitor performance and results for certain of our business lines. We made certain changes to the items reported under our Global Commercial Bank, Relationship Management and Other Business Services segments. These changes do not change the four operating segments we currently report. As a result of these changes, our Global Commercial Bank segment's income before income tax expense for 2009 was reduced by \$41.0 million. Changes to other operating segments were not significant. 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, where applicable. Effective January 1, 2010, Global Commercial Bank also includes the results of certain other business units that were previously reported as part of Relationship Management and Reconciling Items.

**Relationship Management** provides banking products and a range of credit services to targeted high-net-worth individuals using both long-term secured and short-term unsecured lines of credit.

**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 of funds and co-investment funds.

**Other Business Services** includes the results of our Sponsored Debt Funds & Strategic Investments segment, which is comprised of our sponsored debt funds; Gold Hill Funds, which provide secured debt to private companies of all stages, 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. 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. Effective January 1, 2010, SVB Analytics also includes the results of certain other business units that were previously reported as part of Reconciling Items.

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 (loss) in the Reconciling Items column is primarily interest income recognized from our fixed income investment portfolio, partially offset by interest income transferred to the segments as part of FTP. Noninterest income in the Reconciling Items column is primarily attributable to noncontrolling 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 cash and cash equivalents and our fixed income investment portfolio balances.





## Table of Contents

Our segment information for the three months ended March 31, 2010 and 2009 is as follows:

(Dollars in thousands)	Global Commercial Banking	Relationship Management	SVB Capital (1)	Other Business Services (1)	Reconciling Items	Total
<b>Three months ended March 31, 2010</b>						
Net interest income (loss)	\$ 82,396	\$ 8,227	\$ (1)	\$ (75)	\$ 10,293	\$ 100,840
Provision for loan losses	(10,751)	(18)			24	(10,745)
Noninterest income	27,641	313	4,580	3,427	13,312	49,273
Noninterest expense (2)	(55,377)	(4,453)	(3,404)	(3,359)	(31,983)	(98,576)
Income (loss) before income tax expense (3)	\$ 43,909	\$ 4,069	\$ 1,175	\$ (7)	\$ (8,354)	\$ 40,792
Total average loans, net of unearned income	\$ 3,168,171	\$ 927,832	\$	\$	\$ 19,555	\$ 4,115,558
Total average assets	3,444,510	929,462	105,908	92,786	8,992,771	13,565,437
Total average deposits	10,781,929	188,033			(2,738)	10,967,224
<b>Three months ended March 31, 2009</b>						
Net interest income (loss)	\$ 94,256	\$ 8,887	\$ (2)	\$ (26)	\$ (11,604)	\$ 91,511
Provision for loan losses	(42,815)	(649)			(2)	(43,466)
Noninterest income (loss)	26,454	303	(2,358)	1,597	(31,577)	(5,581)
Noninterest expense, excluding impairment of goodwill (2)	(41,973)	(3,502)	(3,346)	(3,112)	(31,115)	(83,048)
Impairment of goodwill				(4,092)		(4,092)
Income (loss) before income tax expense (3)	\$ 35,922	\$ 5,039	\$ (5,706)	\$ (5,633)	\$ (74,298)	\$ (44,676)
Total average loans, net of unearned income	\$ 4,115,564	\$ 989,842	\$	\$	\$ 10,846	\$ 5,116,252
Total average assets	4,219,487	991,605	85,626	74,232	5,085,457	10,456,407
Total average deposits	7,750,433	172,661			4,612	7,927,706

- (1) SVB Capital and Other Business Services components of net interest loss, noninterest income (loss), 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 \$1.1 million and \$0.9 million for the three months ended March 31, 2010 and 2009, respectively.
- (3) The internal reporting model used by management to assess segment performance does not calculate income tax expense by segment. Our effective tax rate is a reasonable approximation of the segment rates.

## 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 venture capital/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.

### Commitments to Extend Credit

The following table summarizes information related to our commitments to extend credit at March 31, 2010 and December 31, 2009, respectively:

(Dollars in thousands)	March 31, 2010	December 31, 2009
Commitments available for funding: (1)		

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

Fixed interest rate commitments	\$ 436,747	\$ 539,986
Variable interest rate commitments	4,814,589	4,798,740
 Total commitments available for funding	 \$ 5,251,336	 \$ 5,338,726
Commitments unavailable for funding (2)	\$ 1,081,252	\$ 1,103,489
Maximum lending limits for accounts receivable factoring arrangements (3)	\$ 591,213	\$ 535,257
Reserve for unfunded credit commitments	11,824	13,331

- (1) Represents commitments which are available for funding, due to clients meeting all collateral, compliance, and financial covenants required under loan commitment agreements.

**Table of Contents**

- (2) Represents commitments which are currently unavailable for funding, due to clients failing to meet all collateral, compliance, and financial covenants required 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.

**Commercial and Standby Letters of Credit**

The table below summarizes our commercial and standby letters of credit at March 31, 2010. 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	\$ 543,726	\$ 19,919	\$ 563,645	\$ 563,645
Performance standby letters of credit	27,921	8,810	36,731	36,731
Commercial letters of credit	6,620		6,620	6,620
Total	\$ 578,267	\$ 28,729	\$ 606,996	\$ 606,996

At March 31, 2010 and December 31, 2009, deferred fees related to financial and performance standby letters of credit were \$4.2 million and \$3.9 million, respectively. At March 31, 2010, collateral in the form of cash of \$205.1 million and investment securities of \$19.2 million were available to us to reimburse losses, if any, under financial and performance standby letters of credit.

**Commitments to Invest in Venture Capital/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 these 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 March 31, 2010:

Our Ownership in Limited Partnership (Dollars in thousands)	SVBFG Capital Commitments	SVBFG Unfunded Commitments	SVBFG Ownership of each Fund
Silicon Valley BancVentures, LP	\$ 6,000	\$ 270	10.7%
SVB Capital Partners II, LP (1)	1,200	456	5.1
SVB India Capital Partners I, LP	7,750	2,945	14.4
SVB Capital Shanghai Yangpu Venture Capital Fund, LP	850	850	6.8
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	7,050	5.9
SVB Strategic Investors Fund IV, LP	12,239	10,526	5.0
SVB Capital Preferred Return Fund, LP	10,688		20.0
SVB Capital NT Growth Partners, LP	24,670	10,190	33.0
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
Other Fund Investments (3)	149,235	45,472	N/A
New Fund Commitments (4)	212,208	153,230	N/A
Total	\$ 530,140	\$ 250,969	

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

- (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 336 venture capital/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.

**Table of Contents**

The following table details the remaining unfunded commitments to venture capital/private equity funds by our consolidated managed funds of funds at March 31, 2010, which includes SVBFG's unfunded commitments detailed above:

<b>Limited Partnership (Dollars in thousands)</b>	<b>Unfunded Commitments</b>
SVB Strategic Investors Fund, LP	\$ 3,663
SVB Strategic Investors Fund II, LP	23,054
SVB Strategic Investors Fund III, LP	119,372
SVB Strategic Investors Fund IV, LP	154,013
SVB Capital Preferred Return Fund, LP	40,865
SVB Capital NT Growth Partners, LP	52,603
<b>Total</b>	<b>\$ 393,570</b>

**13. Income Taxes**

At March 31, 2010, our unrecognized tax benefit was \$0.4 million, the recognition of which would reduce our income tax expense by \$0.3 million. Total accrued interest and penalties at March 31, 2010 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 2005 and 2006, respectively, and subsequent years remain open to examination.

**14. Fair Value of Financial Instruments*****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, derivative instruments and certain non-marketable investment securities are financial instruments recorded at fair value on a recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. There is a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. The three levels for measuring fair value are based on the reliability of inputs and are as follows:

**Level 1** Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to instruments utilizing Level 1 inputs. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

Assets utilizing Level 1 inputs include exchange-traded equity securities.

**Level 2** Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Valuations for the marketable investment securities are provided by independent external pricing service providers. We review the methodologies used to determine the fair value, including understanding the nature and observability of the inputs used

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

to determine the price. Additional corroboration, such as obtaining a non-binding price from a broker, may be required depending on the frequency of trades of the security and the level of liquidity or depth of the market. The valuation methodology that is generally used for the Level 2 assets is the income approach. Below is a summary of the significant inputs used for each class of Level 2 assets and liabilities:

- **U.S. treasury securities:** U.S. treasury securities are considered by most investors to be the most liquid fixed income investments available. These securities are priced relative to market prices on similar U.S. treasury securities.
- **U.S. agency debentures:** Valuations of U.S. agency debentures are based on the characteristics specific to bonds held, such as issuer name, coupon rate, maturity date and any applicable issuer call option features. Valuations are based on market spreads relative to similar term benchmark market interest rates, generally U.S. treasury securities.
- **Agency-issued mortgage-backed securities:** Agency-issued mortgage-backed securities are pools of individual conventional mortgage loans underwritten to U.S. agency standards with similar coupon rates, tenor, and other attributes such as geographic location, loan size and origination vintage. Valuations of these securities are based on observable price adjustments relative to benchmark market interest rates taking into consideration estimated loan prepayment speeds.

## Table of Contents

- **Agency-issued collateralized mortgage obligations:** Agency-issued collateralized mortgage obligations are structured into classes or tranches with defined cash flow characteristics and are collateralized by U.S. agency-issued mortgage pass-through securities. Valuations of these securities incorporate similar characteristics of mortgage pass-through securities such as coupon rate, tenor, geographic location, loan size and origination vintage, in addition to incorporating the effect of estimated prepayment speeds on the cash flow structure of the class or tranche. Valuations incorporate observable market spreads over an estimated average life after considering the inputs listed above.
- **Non-agency mortgage-backed securities:** Non-agency mortgage-backed securities can be structured as pass-through securities or collateralized mortgage-backed securities and are supported by conventional mortgage loans that are underwritten to standards that are considered Prime or Alternative-A. These loans have similar characteristics to loans underwritten to U.S. agency standards but may deviate from those standards in terms of loan size, loan documentation and the ratio of the loan amount to the value of the mortgaged property. Valuations of these securities incorporate similar characteristics of U.S. agency mortgage pass-through securities such as coupon rate, tenor, geographic location, loan size and origination vintage, in addition to incorporating the effect of estimated prepayment speeds on the cash flow structure of the class or tranche. Principal and interest payments from non-agency securities are not guaranteed by the U.S. government or its agencies. Therefore, pricing adjustments may incorporate the potential for adverse credit performance of the underlying mortgage loans. All non-agency mortgage-backed securities are in the senior most position in the securitization capital structure. Valuations incorporate observable market spreads over an estimated average life after considering the inputs listed above.
- **Commercial mortgage-backed securities:** Commercial mortgage-backed securities are collateralized obligations supported by pools of commercial mortgage loans. Commercial mortgage loans are underwritten to standards which consider debt service coverage ratios, loan to property values, real estate capitalization rates and occupancy rates. Valuations of commercial mortgage-backed securities consider estimated cash flows, subordination levels and deal over-collateralization levels. All commercial mortgage-backed securities held by the Company are the senior-most classes in each deal securitization. Valuations of these securities are based on spreads to benchmark market interest rates (usually U.S. treasury rates or rates observable in the swaps market), prepayment speeds, loan default rate assumptions and loan loss severity assumptions on underlying loans.
- **Municipal bonds and notes:** Bonds issued by municipal governments generally have stated coupon rates, final maturity dates and are subject to being called ahead of the final maturity date at the option of the issuer. Valuations of these securities are priced based on spreads to other municipal benchmark bonds with similar characteristics; or, relative to market rates on U.S. treasury bonds of similar maturity.
- **Interest rate swap assets:** Valuations of interest rate swaps are priced considering the coupon rate of the fixed leg of the contract and the variable coupon on the floating leg of the contract. Valuation is based on both spot and forward rates on the swap yield curve.
- **Foreign exchange forward and option contract assets and liabilities:** Valuations of these assets and liabilities are priced based on spot and forward foreign currency rates and option volatility assumptions.
- **Equity warrant assets (public portfolio):** Valuations of equity warrant assets of public portfolio companies are priced based on the Black-Scholes option pricing model that use the publicly-traded equity prices (underlying stock value), stated strike prices, option expiration dates, the risk-free interest rate and market-observable option volatility assumptions.

**Level 3** Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions market participants would use in pricing the asset or liability. Below is a summary of the valuation techniques used for each class of Level 3 assets:

- **Private equity fund investments:** Valuations are based on the information provided by the investee funds' management, which reflects our share of the fair value of the net assets of the investment fund on the valuation date. We account for differences between our measurement date and the date of the fund investment's net asset value by using the most recent available financial information available from the investee general partner, adjusted for any contributions paid during the quarter, distributions received from the investment during the quarter, or significant fund transactions or market events.
- **Other private equity investments:** Valuations are 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, and as it relates to the private company issue, the current and projected operating performance, exit strategies and financing transactions subsequent to the acquisition of the investment.
- **Other investments:** Valuations are based on pricing models that use observable inputs, such as yield curves and publicly-traded equity prices, and unobservable inputs, such as private company equity prices.
- **Equity warrant assets (private portfolio):** Valuations of equity warrant assets of private portfolio companies are priced based on a modified Black-Scholes option pricing model to estimate the underlying asset value, by using stated strike prices, option expiration dates, risk-free interest rates and option volatility assumptions. Option volatility assumptions used in the modified Black-Scholes model are based on public market indices whose members operate in similar industries as



## Table of Contents

companies in our private company portfolio. Option expiration dates are modified to account for estimates of actual life relative to stated expiration. Overall model asset values are further adjusted for a general lack of liquidity due to the private nature of the associated underlying company.

For the three months ended March 31, 2010 and 2009, there were no transfers between Level 1 and Level 2 and no material transfers in or out of Level 3.

It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When available, we use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates. Substantially all of our financial instruments use either of the foregoing methodologies, collectively Level 1 and Level 2 measurements, to determine fair value adjustments recorded to our financial statements. However, in certain cases, when market observable inputs for model based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. For inactive markets, there is little information, if any, to evaluate if individual transactions are orderly. Accordingly, we are required to estimate, based upon all available facts and circumstances, the degree to which orderly transactions are occurring and provide more weighting to price quotes that are based upon orderly transactions. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement. Accordingly, the degree of judgment exercised by management in determining fair value is greater for financial assets and liabilities categorized as Level 3.

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 March 31, 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2010
<b>(Dollars in thousands)</b>				
<b>Assets</b>				
Marketable securities:				
Available-for-sale securities:				
U.S. treasury securities	\$	\$ 26,133	\$	\$ 26,133
U.S. agency debentures		1,197,880		1,197,880
Residential mortgage-backed securities:				
Agency-issued mortgage-backed securities		1,556,859		1,556,859
Agency-issued collateralized mortgage obligations		1,339,251		1,339,251
Non-agency mortgage-backed securities		77,824		77,824
Commercial mortgage-backed securities		48,654		48,654
Municipal bonds and notes		99,733		99,733
Marketable equity securities	975			975
Total available-for-sale securities	975	4,346,334		4,347,309
Marketable securities (investment company fair value accounting)	84			84
Total marketable securities	1,059	4,346,334		4,347,393

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

Non-marketable securities (investment company fair value accounting):

Private equity fund investments	301,445	301,445
Other private equity investments	96,517	96,517
Other investments	996	996

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

398,958 398,958

Other assets:

Interest rate swaps	50,032		50,032
Foreign exchange forward and option contracts	12,736		12,736
Equity warrant assets	2,086	38,759	40,845

Total assets (1)	\$ 1,059	\$ 4,411,188	\$ 437,717	\$ 4,849,964
------------------	----------	--------------	------------	--------------

### Liabilities

Foreign exchange forward and option contracts	\$	\$ 10,320	\$	\$ 10,320
---	----	-----------	----	-----------

Total liabilities	\$	\$ 10,320	\$	\$ 10,320
-------------------	----	-----------	----	-----------

**Table of Contents**

(1) Included in Level 2 and Level 3 assets are \$0.1 million and \$345.0 million, respectively, attributable to noncontrolling interests calculated based on the ownership percentages of the noncontrolling interests.

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, 2009:

	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, 2009
<b>(Dollars in thousands)</b>				
<b>Assets</b>				
Marketable securities:				
Available-for-sale securities:				
U.S. treasury securities	\$	\$ 26,047	\$	\$ 26,047
U.S. agency debentures		891,753		891,753
Residential mortgage-backed securities:				
Agency-issued mortgage-backed securities		1,410,630		1,410,630
Agency-issued collateralized mortgage obligations		1,372,375		1,372,375
Non-agency mortgage-backed securities		83,696		83,696
Commercial mortgage-backed securities		48,801		48,801
Municipal bonds and notes		102,877		102,877
Marketable equity securities	2,009			2,009
Total available-for-sale securities	2,009	3,936,179		3,938,188
Marketable securities (investment company fair value accounting)	33			33
Total marketable securities	2,042	3,936,179		3,938,221
Non-marketable securities (investment company fair value accounting):				
Private equity fund investments			271,316	271,316
Other private equity investments			96,577	96,577
Other investments			1,143	1,143
Total non-marketable securities (investment company fair value accounting)			369,036	369,036
Other assets:				
Interest rate swaps		46,895		46,895
Foreign exchange forward and option contracts		18,436		18,436
Equity warrant assets		1,173	40,119	41,292
Total assets (1)	\$ 2,042	\$ 4,002,683	\$ 409,155	\$ 4,413,880
<b>Liabilities</b>				
Foreign exchange forward and option contracts	\$	\$ 15,870	\$	\$ 15,870
Total liabilities	\$	\$ 15,870	\$	\$ 15,870

- (1) Included in Level 3 assets are \$319.9 million 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 months ended March 31, 2010 and 2009, 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 Into Level 3 Out of Level 3		Ending Balance
(Dollars in thousands)	Beginning Balance	Realized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Beginning Balance	Realized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Beginning Balance	Realized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Beginning Balance	Realized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income
<b>Three months ended March 31, 2010:</b>												
Non-marketable securities (investment company fair value accounting):												
Private equity fund investments	\$ 271,316	\$ 3,002	\$ 12,453	\$ 15,455	\$ 14,674	\$	\$			\$ 301,445		
Other private equity investments	96,577	(1,966)	1,781	(185)	125					96,517		
Other investments	1,143		27	27	(174)					996		
Total non-marketable securities (investment company fair value accounting) (1)												
	369,036	1,036	14,261	15,297	14,625					398,958		
Other assets:												
Equity warrant assets (2)	40,119	849	(1,979)	(1,130)	(91)					(139)		38,759
Total assets	\$ 409,155	\$ 1,885	\$ 12,282	\$ 14,167	\$ 14,534	\$	\$			(139)		\$ 437,717
<b>Three months ended March 31, 2009:</b>												
Non-marketable securities (investment company fair value accounting):												
Private equity fund investments	\$ 242,645	\$ 883	\$ (31,079)	\$ (30,196)	\$ 5,917	\$	\$			\$ 218,366		
Other private equity investments	82,444	(523)	(5,009)	(5,532)	5,561					82,473		
Other investments	1,547		367	367	(638)					1,276		
Total non-marketable securities (investment company fair value accounting) (1)												
	326,636	360	(35,721)	(35,361)	10,840					302,115		
Other assets:												
Equity warrant assets (2)	41,699	210	(401)	(191)	1,603					(99)		43,012
Total assets	\$ 368,335	\$ 570	\$ (36,122)	\$ (35,552)	\$ 12,443	\$	\$			(99)		\$ 345,127

- (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 gains on derivative instruments, net a component of noninterest income.

The following table presents the amount of unrealized gains (losses) included in earnings attributable to Level 3 assets still held at March 31, 2010:

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

	Three months ended March 31, 2010	
Non-marketable securities (investment company fair value accounting):		
Private equity fund investments	\$	12,453
Other private equity investments		(219)
Other investments		27
Total non-marketable securities (investment company fair value accounting) (1)		12,261
Other assets:		
Equity warrant assets (2)		(142)
Total unrealized gains	\$	12,119

- (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 gains on derivative instruments, net a component of noninterest income.

## **Table of Contents**

### ***Financial Instruments not Carried at Fair Value***

FASB issued guidance over financial instruments (ASC 825-10-65) 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 private equity fund investments and debt fund investments, we utilize the net asset value per share as obtained from the general partners of the fund investments. We adjust the net asset value per share for differences between our measurement date and the date of the fund investment's net asset value by using the most recently available financial information from the investee general partner, for example December 31st, for our March 31st interim consolidated financial statements, adjusted for any contributions paid during the first quarter, distributions received from the investment during the first quarter, or significant fund transactions or market events, if any. The fair value of our low income housing tax credit funds (equity method accounting) is based on carrying value.

### ***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 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, money market accounts and interest-bearing sweep deposits 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***

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

Short-term borrowings at March 31, 2010 and December 31, 2009 include cash collateral received from counterparties for our interest rate swap agreements related to our senior and subordinated notes. The carrying amount is a reasonable estimate of fair value.



**Table of Contents****Long-Term Debt**

Long-term debt includes our 2008 Convertible Notes, 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 March 31, 2010 and December 31, 2009. 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 March 31, 2010 and December 31, 2009. The following table is a summary of the estimated fair values of our financial instruments that are not carried at fair value at March 31, 2010 and December 31, 2009.

(Dollars in thousands)	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Investment securities-non-marketable (cost and equity method accounting)	\$ 192,734	\$ 198,206	\$ 184,495	\$ 186,065
Net loans	4,136,974	4,159,619	4,475,644	4,499,058
<b>Financial liabilities:</b>				
Other short-term borrowings	39,895	39,895	38,755	38,755
Deposits	11,513,294	11,513,119	10,331,937	10,331,381
5.70% senior notes (1) (2)	270,031	281,440	269,793	273,843
6.05% subordinated notes (1) (2)	279,462	278,004	276,541	259,598
3.875% convertible senior notes	247,559	266,563	246,991	264,595
7.0% junior subordinated debentures (2)	55,680	47,835	55,986	42,082
Other long-term debt	6,981	6,981	7,339	7,339
<b>Off-balance sheet financial assets:</b>				
Commitments to extend credit		15,174		15,398

- (1) At March 31, 2010, included in the carrying value and estimated fair value of our 5.70% senior notes and 6.05% subordinated notes, are \$20.2 million and \$29.9 million, respectively related to the fair value of the interest rate swaps associated with the notes.
- (2) At December 31, 2009, included in the carrying value and estimated fair value of our 5.70% senior notes and 6.05% subordinated notes, are \$19.9 million and \$27.0 million, respectively related to the fair value of the interest rate swaps associated with the notes.

**Investments in Entities that Calculate Net Asset Value Per Share**

FASB issued guidance over certain fund investments (FASB Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*) requires that we disclose the fair value of funds, significant investment strategies of the investees, redemption features of the investees, restrictions on the ability to sell investments, estimate of the period of time over which the underlying assets are expected to be liquidated by the investee, and unfunded commitments related to the investments.

Our investments in debt funds and private equity fund investments generally can never be redeemed with the funds. Alternatively, we expect distributions to be received through initial public offerings ( IPOs ) and merger and acquisition ( M&A ) activity of the underlying assets of the fund. We currently do not have any plans to sell any of these fund investments. If we decide to sell these investments in the future, the investee fund's management must approve of the buyer before the sale of the investments can be completed. The fair values of the fund investments have

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

been estimated using the net asset value per share of the investments, adjusted for any differences between our measurement date and the date of the fund investment's net asset value by using the most recently available financial information from the investee general partner, for example December 31st, for our March 31st interim consolidated financial statements, adjusted for any contributions paid during the first quarter, distributions received from the investment during the first quarter, or significant fund transactions or market events.

## Table of Contents

The following table is a summary of the estimated fair values of these investments and remaining unfunded commitments for each major category of these investments as of March 31, 2010:

(Dollars in thousands)	Fair Value	Unfunded Commitments
Non-marketable securities (investment company fair value accounting):		
Private equity fund investments (1)	\$ 301,445	\$ 393,570
Non-marketable securities (equity method accounting):		
Other investments (2)	59,161	24,533
Non-marketable securities (cost method accounting):		
Private equity fund investments (3)	90,927	179,120
<b>Total</b>	<b>\$ 451,533</b>	<b>\$ 597,223</b>

- (1) Private equity fund investments within non-marketable securities (investment company fair value accounting) include investments made by our managed funds of funds including SVB Strategic Investors Fund, LP, SVB Strategic Investors Fund II, LP, SVB Strategic Investors Fund III, LP, SVB Strategic Investors Fund IV, LP, SVB Capital NT Growth Partners, LP, and SVB Capital Preferred Return Fund, LP. These investments represent investments in private equity and venture capital funds that invest primarily in U.S. and global technology and life sciences companies. Included in the fair value and unfunded commitments of fund investments under investment company fair value accounting are \$257.5 million and \$364.4 million, respectively, attributable to noncontrolling interests. It is estimated that we will receive distributions from the fund investments over the next 12 years, depending on the age of the funds.
- (2) Other investments within non-marketable securities (equity method accounting) include investments in debt funds and private equity and venture capital fund investments that invest in or lend money to primarily U.S. and global technology and life sciences companies. It is estimated that we will receive distributions from the fund investments over the next 10 years, depending on the age of the funds.
- (3) Private equity fund investments within non-marketable securities (cost method accounting) include investments in private equity and venture capital fund investments that invest primarily in U.S. and global technology and life sciences companies. Included in the \$179.1 million is \$153.2 million of unfunded 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. It is estimated that we will receive distributions from the fund investments over the next 10 years, depending on the age of the funds.

## 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. 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 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**

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:

Market and economic conditions and the associated impact on us

The sufficiency of our capital, including sources of capital (such as funds generated through retained earnings) and the extent of which capital may be used or required

The adequacy of our liquidity position, including sources of liquidity (such as funds generated through retained earnings)

Our repurchase of our common stock

Our overall investment plans, strategies and activities, including venture capital/private equity funding and investments, and our investment of excess liquidity

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

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

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

Our intention to sell our investment securities prior to recovery of our cost basis, or the likelihood of such

Expected cash requirements of unfunded commitments to certain investments

Our overall management of interest rate risk, including managing 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

The credit quality of our loan portfolio, including levels and trends of nonperforming loans, impaired loans and troubled debt restructurings

The adequacy of reserves (including allowance for loan and lease losses) and the appropriateness of our methodology for calculating such reserves

The level of loan balances

The level of deposit balances

The level of client investment fees and associated margins

The profitability of our products and services

Our strategic initiatives, including the expansion of operations in China, India, Israel, the United Kingdom and elsewhere

The expansion and growth of our noninterest income sources

The financial impact of continued growth of our funds management business

Our plans to form new managed investment funds and our intention to transfer certain existing investment commitments to new funds; the subsequent reduction in our total unfunded investment commitments upon such transfer and the associated accounting treatment

Distributions of private equity or debt fund investment proceeds; intentions to sell such fund investments

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

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

Payment upon conversion of convertible debt instruments

The repurchase or disposition of our warrant issued under the U.S. Treasury's Capital Purchase Program

The extent to which counterparties, including those to our forward and option contracts, will perform their contractual obligations

The issuance of shares upon exercise of stock options

The effect of application of certain accounting pronouncements

The effect of lawsuits and claims

Meeting internal performance targets for 2010 with respect to incentive compensation accruals

## **Table of Contents**

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. Although we 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.

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, 2009 ( 2009 Form 10-K ), as filed with the Securities and Exchange Commission ( SEC ).

### **Reclassifications**

Certain reclassifications have been made to prior period results to conform to the current period's presentations. Such reclassifications had no effect on our results of operations or stockholders' equity.

### **Management's Overview of First Quarter 2010 Performance**

During the first quarter of 2010, we saw signs of stabilization and improvement in our client base. We recorded net income available to common stockholders for the three months ended March 31, 2010 of \$18.6 million, or \$0.44 per diluted common share. Although we saw a decrease in average loan balances, we saw improvements in our overall credit quality. Also, portfolio company valuations stabilized somewhat, net interest income remained strong, and interest expense was lower. Additionally, we continued to see strong deposit growth during the first quarter of 2010, primarily due to our clients' desire to maintain short-term liquidity and a lack of attractive investment opportunities off the balance sheet. Although the deposit growth significantly raised our cash levels, we continued to increase our fixed income investment securities portfolio. While liquidity remains a priority, we expect to continue to invest a portion of our excess cash from deposits into fixed income investment securities throughout 2010.

Highlights of our first quarter 2010 financial results (compared to the first quarter of 2009, where applicable) included the following:

Growth of \$3.0 billion in average deposit balances to \$11.0 billion.

Growth of \$2.5 billion in average interest-earning investment securities to \$4.0 billion, which have increased as a result of our continued deposit growth. Period-end interest-earning investment securities were \$4.3 billion.

Provision for loan losses of \$10.7 million, a decrease of \$32.8 million compared to the first quarter of 2009. Please refer to Results of Operations Provision for Loan Losses below for further details on our provision for loan losses.

Although we did not see growth in average loan balances, and utilization of credit commitments remained low during the first quarter of 2010, we continued to make new loans, as we have throughout the downturn. During the first quarter of 2010, we added 318 new loan clients, resulting in \$233.1 million in new funded loans. Average loan balances for the first quarter of 2010 decreased by \$1.0 billion, or 19.6 percent. Period-end loans were \$4.2 billion.

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

An increase in net interest income (fully taxable equivalent basis) of \$9.3 million, primarily due to an increase in our average interest-earning investment portfolio, as well as lower interest expense on deposits and long-term debt due to the low interest rate environment. This increase was partially offset by a decrease in interest income from loans due to a decrease in average loan balances.

A decrease of 67 basis points in our net interest margin to 3.30 percent, primarily due to significant growth of our deposits, the majority of which were invested in overnight cash with the Federal Reserve, which earned 25 basis points throughout the first quarter of 2010. In addition, our net interest margin also decreased due to loan paydowns. These declines in our net interest margin were partially offset by a decrease in interest expense from deposits and borrowings due to declining market rates.

An increase of \$54.9 million in noninterest income (loss) to \$49.3 million, primarily due to net gains on investment securities of \$16.0 million for the three months ended March 31, 2010, compared to net losses of \$35.0 million for the comparable 2009 period.



## Table of Contents

An increase of \$11.4 million in noninterest expense to \$98.6 million, primarily due to an increase of \$8.2 million in incentive compensation and Employee Stock Ownership Plan ( ESOP ) expenses. Incentive compensation and ESOP expenses for the first quarter 2010 reflect our current expectation that we will meet our internal performance targets for 2010 as compared to our 2009 incentive compensation levels, which were at half of target levels as we did not meet our internal performance targets.

The key highlights of our performance for the three months ended March 31, 2010 and 2009, respectively, were as follows:

(Dollars in thousands, except per share data and ratios)	Three months ended March 31		
	2010	2009	% Change
<b>Income Statement:</b>			
Diluted earnings (loss) per share	\$ 0.44	\$ (0.36)	NM%
Net income (loss) attributable to SVBFG	18,557	(8,235)	NM
Net income (loss) available to common stockholders	18,557	(11,771)	NM
Net interest income	100,840	91,511	10.2
Net interest margin	3.30%	3.97%	(67) bps
Provision for loan losses	10,745	43,466	(75.3)%
Noninterest income (loss) (1)	49,273	(5,581)	NM
Noninterest expense (2)	98,576	87,140	13.1
<b>Balance Sheet:</b>			
Average loans, net of unearned income	\$ 4,115,558	\$ 5,116,252	(19.6)%
Average noninterest-bearing demand deposits	6,710,928	4,636,553	44.7
Average interest-bearing deposits	4,256,296	3,291,153	29.3
Average total deposits	10,967,224	7,927,706	38.3
<b>Ratios:</b>			
Return on average common SVBFG stockholders' equity (annualized) (3)	6.47%	(6.07)%	NM%
Return on average assets (annualized) (4)	0.55	(0.32)	NM
Book value per common share (5)	28.26	23.28	21.4
Operating efficiency ratio (6)	65.44	100.74	(35.0)
Allowance for loan losses as a percentage of total period-end gross loans	1.61	2.18	(57) bps
Gross loan charge-offs as a percentage of average total gross loans (annualized)	2.07	3.30	(123) bps
Net loan charge-offs as a percentage of average total gross loans (annualized)	1.46	3.21	(175) bps
<b>Other Statistics:</b>			
Average SVB prime lending rate	4.00%	4.00%	bps
Period end full-time equivalent employees	1,271	1,262	0.7
<b>Non-GAAP measures:</b>			
Non-GAAP net income (loss) available to common stockholders (7)	\$ 18,557	\$ (7,679)	NM%
Non-GAAP diluted earnings (loss) per common share (7)	0.44	(0.23)	NM
Non-GAAP operating efficiency ratio (8)	69.72%	68.02%	2.5
Non-GAAP noninterest income, net of noncontrolling interest (9)	\$ 35,382	\$ 25,011	41.5
Non-GAAP noninterest expense, net of noncontrolling interest (8)	95,345	79,661	19.7
Tangible common equity to tangible assets (10)	8.30%	6.99%	18.7
Tangible common equity to risk-weighted assets (10)	16.01	10.17	57.4

- (1) Noninterest income included net gains of \$13.9 million attributable to noncontrolling interests for the three months ended March 31, 2010, compared to net losses of \$30.6 million for the comparable 2009 period. See Results of Operations Noninterest Income for a description of noninterest income (loss) attributable to noncontrolling interests.
- (2) Noninterest expense included \$3.2 million attributable to noncontrolling interests for the three months ended March 31, 2010, compared to \$3.4 million for the comparable 2009 period. See Results of Operations Noninterest Expense for a description of noninterest expense attributable to noncontrolling interests.
- (3) Ratio represents consolidated net income (loss) available to common stockholders divided by quarterly average SVB Financial Group ( SVBFG ) stockholders' equity (excluding preferred equity).
- (4) Ratio represents consolidated net income (loss) attributable to SVBFG divided by quarterly average assets.
- (5) Book value per common share is calculated by dividing total SVBFG stockholders' equity (excluding preferred equity) by total outstanding common shares.
- (6) The operating efficiency ratio is calculated by dividing noninterest expense by total taxable-equivalent income.

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

- (7) See below for a reconciliation of non-GAAP net income and non-GAAP diluted earnings per common share.
- (8) See Results of Operations Noninterest Expense for a description and reconciliation of the non-GAAP operating efficiency ratio and non-GAAP noninterest expense.
- (9) See Results of Operations Noninterest Income for a description and reconciliation of non-GAAP noninterest income.

## Table of Contents

(10) See Capital Resources Capital Ratios for a reconciliation of non-GAAP tangible common equity to tangible assets and tangible common equity to risk-weighted assets.

### *Non-GAAP Net Income (Loss) and Non-GAAP Diluted Earnings (Loss) Per Common Share*

We use and report non-GAAP net income (loss) and non-GAAP diluted earnings (loss) per common share, which excludes non-cash charges relating to impairment of goodwill. 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 do not occur every reporting period. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results and related trends, 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.

A reconciliation of GAAP to non-GAAP net income (loss) and non-GAAP diluted earnings (loss) per common share for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands, except share amounts)	Three months ended March 31,	
	2010	2009
Net income (loss) available to common stockholders	\$ 18,557	\$ (11,771)
Impairment of goodwill (1)		4,092
Non-GAAP net income (loss) available to common stockholders	\$ 18,557	\$ (7,679)
GAAP earnings (loss) per common share diluted	\$ 0.44	\$ (0.36)
Impact of impairment of goodwill (1)		0.13
Non-GAAP earnings (loss) per common share diluted	\$ 0.44	\$ (0.23)
Weighted average diluted common shares outstanding	42,291,467	32,931,714

(1) Non-tax deductible goodwill impairment charge for eProsper recognized in the first quarter of 2009.

### **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 and assumptions 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. Actual results may differ materially from these estimates under different assumptions or conditions.

There have been no significant changes during the three months ended March 31, 2010 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 2009 Form 10-K.

### **Fair Value Measurements**

At March 31, 2010, approximately 34.3 percent of our total assets, or \$4.8 billion, consisted of financial assets recorded at fair value on a recurring basis, compared to 34.4 percent of our total assets, or \$4.4 billion as of December 31, 2009. Of these assets as of March 31, 2010, 91.0 percent used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value, and 9.0 percent of these financial assets were measured using model-based techniques, or Level 3 measurements. This compares to 90.7 percent and 9.3 percent, respectively, as of December 31, 2009. Almost all of our financial assets valued using Level 3 measurements at March 31, 2010 and December 31, 2009 represented non-marketable securities. At March 31, 2010, 0.1 percent of total liabilities, or \$10.3 million, consisted of financial liabilities recorded at fair value on a recurring basis, which were valued using

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

market-observable inputs, compared to 0.1 percent, or \$15.9 million as of December 31, 2009. There were no transfers between Level 1 and Level 2 and no material transfers in or out of Level 3 during the three months ended March 31, 2010 and 2009. Our valuation processes include a number of key controls that are designed to ensure that fair value is calculated appropriately.

As of March 31, 2010, our available-for-sale investment portfolio, consisting primarily of agency-issued mortgage-backed securities, agency-issued collateralized mortgage obligations and U.S. agency debentures, represented \$4.3 billion, or 89.6 percent of

## **Table of Contents**

our portfolio of assets measured at fair value on a recurring basis, compared to \$3.9 billion, or 89.2 percent, as of December 31, 2009. These instruments were primarily 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 a quarterly 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 (primarily comprised of agency-issued mortgage-backed securities) at March 31, 2010 totaled \$180.6 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 March 31, 2010 totaled \$85.5 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 March 31, 2010, 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. Our managed funds and sponsored debt fund that hold these investments 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.

During the three months ended March 31, 2010 and 2009, the Level 3 assets that are measured at fair value on a recurring basis experienced net unrealized fair value increases totaling \$12.3 million and net unrealized fair value decreases totaling \$36.1 million, respectively, primarily due to valuation increases and decreases, respectively, in underlying fund investments in our managed funds of funds. Realized gains related to the Level 3 assets for the three months ended March 31, 2010 and 2009 of \$1.9 million and \$0.6 million, respectively, related primarily to gains from distributions from underlying fund investments in our managed funds of funds.

The valuation of nonmarketable securities and equity warrant assets in shares of private company capital stock is subject to significant 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. (See Risk Factors under Item 1A of Part II below.)

## **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 and short-term investment securities, and interest paid on funding sources. 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.

### ***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. 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.

**Table of Contents**

(Dollars in thousands)	2010 Compared to 2009		
	Three months ended March 31, Increase (decrease) due to change in		
	Volume	Rate	Total
<b>Interest income:</b>			
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	\$ 1,060	\$ (596)	\$ 464
Investment securities (taxable)	21,859	(4,443)	17,416
Investment securities (non-taxable)	(112)	(29)	(141)
Loans, net of unearned income	(17,853)	3,544	(14,309)
 Increase (decrease) in interest income, net	 4,954	 (1,524)	 3,430
<b>Interest expense:</b>			
NOW deposits	10	5	15
Regular money market deposits	(44)	(157)	(201)
Bonus money market deposits	361	(1,169)	(808)
Money market deposits in foreign offices	(6)	(115)	(121)
Time deposits	(95)	(142)	(237)
Sweep deposits	1,352	(3,182)	(1,830)
 Total increase (decrease) in deposits expense	 1,578	 (4,760)	 (3,182)
Short-term borrowings	(1)	(5)	(6)
3.875% convertible senior notes	34	(13)	21
Junior subordinated debentures	1	(218)	(217)
Senior and subordinated notes	(95)	(1,976)	(2,071)
Other long-term debt	(636)	242	(394)
 Total (decrease) in borrowings expense	 (697)	 (1,970)	 (2,667)
 Increase (decrease) in interest expense, net	 881	 (6,730)	 (5,849)
 Increase in net interest income	 \$ 4,073	 \$ 5,206	 \$ 9,279

*Net Interest Income (Fully Taxable Equivalent Basis)**Three months ended March 31, 2010 and 2009*

Net interest income increased by \$9.3 million to \$101.4 million for the three months ended March 31, 2010, compared to \$92.1 million for the comparable 2009 period. Overall, we saw an increase in our net interest income, primarily due to our growing interest-earning investment portfolio, as well as from lower interest expense due to the low interest rate environment, which lowered our costs of deposits and London Interbank Offered Rates ( LIBOR ) rates underlying interest rate swap agreements for certain long-term debt. These increases were partially offset by a decrease in interest income from our loan portfolio primarily due to a decrease of \$1.0 billion in average loan balances.

The main factors affecting interest income and interest expense for the three months ended March 31, 2010, compared to the comparable 2009 period are discussed below:

*Interest income* for the three months ended March 31, 2010 increased by \$3.4 million primarily due to:

- i A \$17.3 million increase in interest income on interest-earning investment securities, primarily related to the growth in average balances of \$2.5 billion due to purchases of agency-issued mortgage-backed securities, agency-issued collateralized mortgage obligations and U.S. agency debentures, which were purchased as a result of our continued deposit growth. The increase in interest income from growth in average balances was partially offset by lower interest income earned on

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

investments, which were purchased at lower yields due to the current low interest rate environment.

- i This increase was partially offset by a \$14.3 million decrease in interest income on loans driven principally by a \$1.0 billion decrease in average loan balances for the three months ended March 31, 2010, compared to the comparable 2009 period, reflecting continued efforts by some clients to deleverage their businesses.

*Interest expense* for the three months ended March 31, 2010 decreased by \$5.8 million primarily due to:

- i A decrease in interest expense from interest-bearing deposits of \$3.2 million, primarily related to a decrease in deposit interest rates due to declining market rates and our decision to lower rates throughout 2009 and in the first quarter of 2010. This decrease was partially offset by a \$1.0 billion increase in average interest-bearing deposits.
- i A decrease in interest expense of \$2.7 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.



**Table of Contents**

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

Our net interest margin was 3.30 percent and 3.97 percent for the three months ended March 31, 2010 and 2009, respectively. The decrease in net interest margin was primarily due to significant growth of our deposits, the majority of which were invested in overnight cash with the Federal Reserve, which earned 25 basis points throughout the first quarter of 2010. In addition, our net interest margin also decreased due to loan paydowns. These declines in our net interest margin were partially offset by a decrease in yields from our funding sources 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 months ended March 31, 2010 and 2009 respectively.

**Average Balances, Rates and Yields for the Three Months Ended March 31, 2010, and 2009**

(Dollars in thousands)	Three months ended March 31,					
	Average Balance	2010 Interest Income/Expense	Yield/Rate	Average Balance	2009 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)	\$ 4,316,307	\$ 2,840	0.27%	\$ 2,825,988	\$ 2,376	0.34%
Investment securities: (2)						
Taxable	3,911,183	32,267	3.35	1,357,752	14,851	4.44
Non-taxable (3)	98,957	1,492	6.11	106,404	1,633	6.22
Total loans, net of unearned income (4)	4,115,558	73,942	7.29	5,116,252	88,251	7.00
<b>Total interest-earning assets</b>	<b>12,442,005</b>	<b>110,541</b>	<b>3.60</b>	<b>9,406,396</b>	<b>107,111</b>	<b>4.62</b>
Cash and due from banks	237,691			321,282		
Allowance for loan losses	(78,050)			(111,527)		
Goodwill				4,048		
Other assets (5)	963,791			836,208		
<b>Total assets</b>	<b>\$ 13,565,437</b>			<b>\$ 10,456,407</b>		
<b>Funding sources:</b>						
<b>Interest-bearing liabilities:</b>						
NOW deposits	\$ 61,809	\$ 64	0.42%	\$ 52,282	\$ 49	0.38%
Regular money market deposits	149,397	104	0.28	179,099	305	0.69
Bonus money market deposits	1,234,319	930	0.31	986,034	1,738	0.71
Money market deposits in foreign offices	62,037	53	0.35	64,485	174	1.09
Time deposits	323,476	493	0.62	376,833	730	0.79
Sweep deposits	2,425,258	2,021	0.34	1,632,420	3,851	0.96
<b>Total interest-bearing deposits</b>	<b>4,256,296</b>	<b>3,665</b>	<b>0.35</b>	<b>3,291,153</b>	<b>6,847</b>	<b>0.84</b>
Short-term borrowings	44,668	15	0.14	47,044	21	0.18
3.875% convertible senior notes	247,195	3,526	5.78	244,789	3,505	5.81
Junior subordinated debentures	55,967	569	4.12	55,921	786	5.70
Senior and subordinated notes	551,932	1,336	0.98	568,206	3,407	2.43
Other long-term debt	7,335	68	3.76	101,269	462	1.85
<b>Total interest-bearing liabilities</b>	<b>5,163,393</b>	<b>9,179</b>	<b>0.72</b>	<b>4,308,382</b>	<b>15,028</b>	<b>1.41</b>
Portion of noninterest-bearing funding sources	7,278,612			5,098,014		
<b>Total funding sources</b>	<b>12,442,005</b>	<b>9,179</b>	<b>0.30</b>	<b>9,406,396</b>	<b>15,028</b>	<b>0.65</b>

**Noninterest-bearing funding sources:**

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

Demand deposits	6,710,928	4,636,553
Other liabilities	176,283	184,844
SVBFG stockholders' equity	1,162,929	1,008,102
Noncontrolling interests	351,904	318,526
Portion used to fund interest-earning assets	(7,278,612)	(5,098,014)

Total liabilities, noncontrolling interest, and SVBFG stockholders' equity	\$ 13,565,437	\$ 10,456,407
--	---------------	---------------

Net interest income and margin	\$ 101,362	3.30%	\$ 92,083	3.97%
--------------------------------	------------	-------	-----------	-------

Total deposits	\$ 10,967,224	\$ 7,927,706
----------------	---------------	--------------

Average SVBFG stockholders' equity as a percentage of average assets	8.57%	9.64%
--	-------	-------

### Reconciliation to reported net interest income:

Adjustments for taxable equivalent basis	(522)	(572)
--	-------	-------

Net interest income, as reported	\$ 100,840	\$ 91,511
----------------------------------	------------	-----------

- (1) Includes average interest-bearing deposits in other financial institutions of \$169.9 million and \$180.0 million for the three months ended March 31, 2010 and 2009, respectively. For the three months ended March 31, 2010 and 2009, balances also include \$4.1 billion and \$2.5 billion, respectively, 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.

## Table of Contents

- (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 \$599.6 million and \$467.0 million for the three months ended March 31, 2010 and 2009, respectively, were classified as other assets as they were noninterest-earning assets. These investments primarily consisted of non-marketable securities.

### 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. The following table summarizes our allowance for loan losses for the three months ended March 31, 2010 and 2009, respectively:

(Dollars in thousands)	Three months ended March 31,	
	2010	2009
Allowance for loan losses, beginning balance	\$ 72,450	\$ 107,396
Provision for loan losses	10,745	43,466
Gross loan charge-offs	(21,180)	(42,013)
Loan recoveries	6,256	1,161
Allowance for loan losses, ending balance	\$ 68,271	\$ 110,010
Provision as a percentage of total gross loans (annualized)	1.03%	3.49%
Gross loan charge-offs as a percentage of average total gross loans (annualized)	2.07	3.30
Net loan charge-offs as a percentage of average total gross loans (annualized)	1.46	3.21
Allowance for loan losses as a percentage of period-end total gross loans	1.61	2.18
Period-end total gross loans	\$ 4,238,848	\$ 5,045,208
Average total gross loans	4,149,183	5,159,412

Our provision for loan losses decreased by \$32.8 million to \$10.7 million for the three months ended March 31, 2010, compared to \$43.5 million for the comparable 2009 period. Our provision of \$10.7 million for the three months ended March 31, 2010 is detailed as follows:

Gross loan charge-offs of \$21.2 million primarily from our life science, hardware and software client portfolios. Gross loan charge-offs included \$4.1 million of loans that were previously classified as nonperforming loans.

Loan recoveries of \$6.3 million primarily from our hardware and software client portfolios.

Our allowance for loan losses decreased from \$72.5 million at December 31, 2009 to \$68.3 million at March 31, 2010. Our allowance for loan losses peaked at \$110.5 million at June 30, 2009 and has decreased in each subsequent quarter. The decrease in allowance for loan losses reflects both a decrease in our loan balances, as well as a continuing improvement in credit quality trends in our loan portfolio since the second quarter of 2009 as indicated by several factors including the following:

A 54.4 percent decrease in nonperforming loans from a peak of \$111.5 million at June 30, 2009 to \$50.8 million at March 31, 2010.

A 29.5 percent decrease in classified loans from June 30, 2009 to March 31, 2010.

Resolution of certain large nonperforming loans in the fourth quarter of 2009 that had previously been specifically reserved for. Our levels of nonperforming loans remained stable at March 31, 2010, as compared to December 31, 2009.

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

Our overall percentage of allowance for loan losses decreased from a high of 2.26 percent at June 30, 2009, to 1.61 percent at March 31, 2010 due primarily to the resolution of certain large nonperforming loans and the fact that new additions to nonperforming loans have been smaller in size.

As such, we believe our current allowance for loan losses of \$68.3 million (1.61 percent of total gross loans) is adequate and indicative of ongoing levels of future net charge-offs. The following table provides a summary of our credit quality information:

## Table of Contents

(Dollars in thousands, except ratios)	Period end balances at	
	March 31, 2010	December 31, 2009
Allowance for loan losses as a percentage of total gross loans	1.61%	1.58%
Allowance for loan losses for performing loans as a percentage of total gross performing loans	1.40	1.40
Allowance for loan losses for impaired loans as a percentage of total gross nonperforming loans	18.68	16.83
Allowance for loan losses	\$ 68,271	\$ 72,450
Allowance for loan losses for total gross performing loans	58,775	63,582
Allowance for loan losses for impaired loans	9,496	8,868
Total gross performing loans	4,188,015	4,530,283
Total gross nonperforming loans	50,833	52,683

### Noninterest Income

A summary of noninterest income for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Gains (losses) on investment securities, net	\$ 16,004	\$ (35,045)	(145.7)%
Foreign exchange fees	8,861	7,466	18.7
Deposit service charges	7,225	6,823	5.9
Client investment fees	3,940	6,248	(36.9)
Credit card fees	2,687	1,439	86.7
Letters of credit and standby letters of credit income	2,511	2,892	(13.2)
Gains on derivative instruments, net	1,982	1,814	9.3
Other	6,063	2,782	117.9
Total noninterest income (loss)	\$ 49,273	\$ (5,581)	NM

NM- Not meaningful

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 & 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 gains (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 (Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
GAAP noninterest income (loss)	\$ 49,273	\$ (5,581)	NM%

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

Less: income (losses) attributable to noncontrolling interests, including carried interest	13,891	(30,592)	(145.4)
Non-GAAP noninterest income, net of noncontrolling interests	\$ 35,382	\$ 25,011	41.5

NM- Not meaningful

*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

**Table of Contents**

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. Throughout 2009, the valuations of our investments were affected by a more challenging venture capital environment and a significant slowdown of merger and acquisition ( M&A ) activities and IPOs among our portfolio companies. In the first quarter of 2010, we began to see improving venture capital investment levels and increased M&A and IPO activity among these portfolio companies.

The net gains of \$16.0 million for the first quarter of 2010 were primarily due to unrealized gains of \$12.5 million from our managed funds of funds as a result of higher valuations and realized gains of \$3.0 million from distributions to our managed funds of funds. The following tables provide a summary of net gains (losses) on investment securities for the three months ended March 31, 2010 and 2009:

(Dollars in thousands)	Three months ended March 31, 2010				
	Managed Co-Investment Funds	Managed Funds Of Funds	Debt Funds	Other	Total
Unrealized gains	\$ 889	\$ 12,454	\$ 813	\$ 374	\$ 14,530
Realized (losses) gains	(1,966)	3,002	447	(9)	1,474
Total (losses) gains on investment securities, net	\$ (1,077)	\$ 15,456	\$ 1,260	\$ 365	\$ 16,004
Less: (losses) income attributable to noncontrolling interests, including carried interest	(1,402)	14,120	60		12,778
Non-GAAP net gains on investment securities, net of noncontrolling interests	\$ 325	\$ 1,336	\$ 1,200	\$ 365	\$ 3,226

(Dollars in thousands)	Three months ended March 31, 2009				
	Managed Co-Investment Funds	Managed Funds Of Funds	Debt Funds	Other	Total
Unrealized (losses) gains	\$ (4,697)	\$ (31,079)	\$ 984	\$	\$ (34,792)
Realized (losses) gains	(523)	883	240	(853)	(253)
Total (losses) gains on investment securities, net	\$ (5,220)	\$ (30,196)	\$ 1,224	\$ (853)	\$ (35,045)
Less: (losses) income attributable to noncontrolling interests, including carried interest	(4,777)	(26,105)	444		(30,438)
Non-GAAP net (losses) gains on investment securities, net of noncontrolling interests	\$ (443)	\$ (4,091)	\$ 780	\$ (853)	\$ (4,607)

*Foreign Exchange Fees*

Foreign exchange fees were \$8.9 million and \$7.5 million for the three months ended March 31, 2010, and 2009, respectively. The increase was primarily due to higher commissioned notional volumes, which increased to \$1.5 billion for the three months ended March 31, 2010, compared to \$1.0 billion for the comparable 2009 period.

*Client Investment Fees*

Client investment fees were \$3.9 million and \$6.2 million for the three months ended March 31, 2010 and 2009, respectively. The decrease 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 client investment funds. The decrease in average client investment funds for the three months ended March 31, 2010, compared to the comparable 2009 period was primarily due to clients' desire to maintain short term liquidity provided by on balance sheet deposit accounts rather than invest in other options available in the current low interest rate environment. The following table summarizes



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

average client investment funds for the three months ended March 31, 2010 and 2009, respectively:

(Dollars in millions)	Three months ended March 31,		
	2010	2009	% Change
Client directed investment assets (1)	\$ 9,389	\$ 11,643	(19.4)%
Client investment assets under management	5,680	5,834	(2.6)
Sweep money market funds		224	(100.0)
 Total average client investment funds (2)	 \$ 15,069	 \$ 17,701	 (14.9)

(1) Mutual funds and Repurchase Agreement Program assets.

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

## Table of Contents

Period-end total client investment funds were \$15.1 billion at March 31, 2010, compared to \$15.6 billion at December 31, 2009.

### Credit Card Fees

Credit card fees were \$2.7 million and \$1.4 million for the three months ended March 31, 2010 and 2009, respectively. The increase was primarily due to the transfer of management and processing of our credit card portfolio in-house from a third-party servicer in the first quarter of 2009.

### Gains on Derivative Instruments, Net

A summary of gains on derivative instruments, net, for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Gains on foreign exchange forward contracts, net:			
Gains on client foreign exchange forward contracts, net (1)	\$ 292	\$ 496	(41.1)%
Gains on internal foreign exchange forward contracts, net (2)	2,046	1,943	5.3
Total gains on foreign exchange forward contracts, net	2,338	2,439	(4.1)
Change in fair value of interest rate swap (3)		(170)	(100.0)
Equity warrant assets: (4)			
Gains on exercise, net	849	210	NM
Change in fair value:			
Cancellations and expirations	(1,782)	(1,198)	48.7
Other changes in fair value	577	533	8.3
Total net losses on equity warrant assets (5)	(356)	(455)	(21.8)
Total gains on derivative instruments, net	\$ 1,982	\$ 1,814	9.3

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 (loss), 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) At March 31, 2010, we held warrants in 1,161 companies, compared to 1,303 companies at March 31, 2009.
- (5) 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 gains on derivative instruments were \$2.0 million for the three months ended March 31, 2010, compared to net gains of \$1.8 million for the comparable 2009 period. The net gains of \$2.0 million for the three months ended March 31, 2010 were primarily attributable to the following:

Net gains from foreign exchange forward contracts hedging our foreign currency denominated loans of \$2.0 million, primarily due to the strengthening of the U.S. dollar against the Pound Sterling. These gains were offset by net losses of \$2.0 million from revaluation of foreign currency denominated loans that are included in other noninterest income.

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

Net losses on equity warrant assets of \$0.4 million, primarily driven by \$1.8 million from warrant cancellations and expirations, partially offset by net gains of \$0.8 million from the exercise of certain warrant positions and net gains of \$0.6 million from valuation increases in our warrant portfolio.

**Table of Contents***Other Noninterest Income*

A summary of other noninterest income for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Fund management fees	\$ 2,698	\$ 2,717	(0.7)%
Service-based fee income (1)	1,996	1,829	9.1
Currency revaluation gains (losses)	1,018	(960)	NM
Losses on foreign currency loans revaluation, net	(2,030)	(2,677)	(24.2)
Other	2,381	1,873	27.1
 Total other noninterest income	 \$ 6,063	 \$ 2,782	 117.9

NM- Not meaningful

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

Other noninterest income was \$6.1 million for the three months ended March 31, 2010, compared to \$2.8 million for the comparable 2009 period. The increase of \$3.3 million was primarily due to currency revaluation gains of \$1.0 million for the three months ended March 31, 2010, compared to losses of \$1.0 million for the comparable 2009 period. The currency revaluation gains of \$1.0 million for the three months ended March 31, 2010 were primarily due to the weakening of the U.S. dollar against the Indian Rupee. Additionally, net losses on revaluation of foreign currency loans were \$2.0 million for the three months ended March 31, 2010, compared to net losses of \$2.7 million for the comparable 2009 period. The net losses of \$2.0 million for the three months ended March 31, 2010 were primarily due to the strengthening of the U.S. dollar against the Pound Sterling. These losses were offset by net gains of \$2.0 million from foreign exchange forward contracts, which are included in net gains on derivative instruments.

*Noninterest Expense*

A summary of noninterest expense for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Compensation and benefits	\$ 59,830	\$ 48,280	23.9%
Professional services	12,098	12,080	0.1
Premises and equipment	5,784	5,407	7.0
FDIC assessments	5,049	2,675	88.7
Net occupancy	4,688	4,305	8.9
Business development and travel	4,286	3,273	31.0
Correspondent bank fees	1,948	1,913	1.8
Impairment of goodwill		4,092	(100.0)
Reduction of provision for unfunded credit commitments	(1,507)	(2,284)	(34.0)
Other	6,400	7,399	(13.5)
 Total noninterest expense	 \$ 98,576	 \$ 87,140	 13.1

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: (i) excluding certain items that represent expense attributable to investors other than us and our subsidiaries, or certain items that do not occur every reporting period; or (ii) providing additional information used by management that is not otherwise required by GAAP or other applicable requirement. 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,

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

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:

**Table of Contents**

Non-GAAP operating efficiency ratio, net of noncontrolling interests (Dollars in thousands, except ratios)	Three months ended March 31,		
	2010	2009	% Change
GAAP noninterest expense	\$ 98,576	\$ 87,140	13.1%
Less: amounts attributable to noncontrolling interests	3,231	3,387	(4.6)
Less: impairment of goodwill		4,092	(100.0)
Non-GAAP noninterest expense, net of noncontrolling interests	\$ 95,345	\$ 79,661	19.7
GAAP taxable equivalent net interest income	\$ 101,362	\$ 92,083	10.1
Less: (losses) attributable to noncontrolling interests	(7)	(14)	(50.0)
Non-GAAP taxable equivalent net interest income, net of noncontrolling interests	101,369	92,097	10.1
Non-GAAP noninterest income, net of noncontrolling interests	35,382	25,011	41.5
Non-GAAP taxable equivalent revenue, net of noncontrolling interests	\$ 136,751	\$ 117,108	16.8
Non-GAAP operating efficiency ratio	69.72%	68.02%	2.5

*Compensation and Benefits*

Compensation and benefits expense was \$59.8 million for the three months ended March 31, 2010, compared to \$48.3 million for the comparable 2009 period. The increase of \$11.5 million was primarily due to an increase of \$8.2 million in incentive compensation and ESOP expenses. Incentive compensation and ESOP expenses for the first quarter 2010 reflect our current expectation that we will meet our internal performance targets for 2010 as compared to our 2009 incentive compensation levels, which were at half of target levels as we did not meet our internal performance targets. In addition to lower incentive compensation levels, no ESOP expenses or company-wide merit increases were recorded in 2009.

Our variable compensation plans primarily consist of the Incentive Compensation Plan, Direct Drive Incentive Compensation Plan, 401(k) Plan, ESOP, Retention Program and Warrant Incentive Plan. Total costs incurred under these plans were \$16.5 million and \$7.3 million for the three months ended March 31, 2010 and 2009, respectively.

*Federal Deposit Insurance Corporation ( FDIC ) Assessments*

FDIC assessments were \$5.0 million for the three months ended March 31, 2010, compared to \$2.7 million for the comparable 2009 period. The increase was primarily due to an increase in average deposit balances and an increase in FDIC assessment rates.

*Impairment of Goodwill*

We review goodwill, if any, 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 March 31, 2010.

*Reduction of Provision for Unfunded Credit Commitments*

We calculate changes to our provision for unfunded credit commitments based on the credit commitments outstanding, as well as the credit quality of our loan commitments. We recorded a reduction of provision for unfunded credit commitments of \$1.5 million for the three months ended March 31, 2010, compared to \$2.3 million for the comparable 2009 period. The reduction of provision for unfunded credit commitments of \$1.5 million for the first quarter of 2010 is reflective of a decrease in our total unfunded credit commitments, as well as a decrease in our estimate of commitments expected to fund. Total unfunded credit commitments decreased by \$87.4 million to \$5.25 billion at March 31, 2010, compared to \$5.34 billion at December 31, 2009.



**Table of Contents***Other Noninterest Expense*

A summary of other noninterest expense for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Telephone	\$ 1,140	\$ 1,380	(17.4)%
Tax credit fund amortization	1,052	1,129	(6.8)
Data processing services	977	1,012	(3.5)
Postage and supplies	471	1,258	(62.6)
Other	2,760	2,620	5.3
Total other noninterest expense	\$ 6,400	\$ 7,399	(13.5)

*Net (Income) Loss Attributable to Noncontrolling Interests*

Included in net income (loss) is income and expense attributable to noncontrolling interests. The relevant amounts attributable to investors other than us are reflected under Net (Income) Loss Attributable to Noncontrolling Interests on our statements of income.

In the table below, net interest loss represents interest earned on loans held by one of our sponsored debt funds. Noninterest (income) loss consists of investment gains and losses from our consolidated funds, currency revaluation gains (losses) from our managed funds and gains or losses recognized from the exercise of warrants held by one of our sponsored debt funds. Noninterest expense is primarily related to management fees paid by our managed funds to the Company as the general partner and one of our consolidated sponsored debt funds for funds management. A summary of net (income) loss attributable to noncontrolling interests for the three months ended March 31, 2010 and 2009, respectively, is as follows:

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Net interest loss (1)	\$ 7	\$ 14	(50.0)%
Noninterest (income) loss (1)	(14,283)	31,907	(144.8)
Noninterest expense (1)	3,231	3,387	(4.6)
Carried interest (2)	392	(1,315)	(129.8)
Net (income) loss attributable to noncontrolling interests	\$ (10,653)	\$ 33,993	(131.3)

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

*Income Taxes*

Our effective tax expense rate was 38.4 percent for the three months ended March 31, 2010, compared to an effective tax benefit rate of 22.9 percent for the comparable 2009 period. The increase in the tax rate was attributable to the lower tax impact of tax advantaged investments on our overall pre-tax income.

*Operating Segment Results*

We have four operating segments in which we report our financial information: Global Commercial Bank, Relationship Management, SVB Capital and Other Business Services.



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

In accordance with ASC 280, we report segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reporting segments. 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

**Table of Contents**

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.

The following is our segment information for the three months ended March 31, 2010 and 2009, respectively.

*Global Commercial Bank*

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Net interest income	\$ 82,396	\$ 94,256	(12.6)%
Provision for loan losses	(10,751)	(42,815)	(74.9)
Noninterest income	27,641	26,454	4.5
Noninterest expense	(55,377)	(41,973)	31.9
 Income before income tax expense	 \$ 43,909	 \$ 35,922	 22.2
 Total average loans, net of unearned income	 \$ 3,168,171	 \$ 4,115,564	 (23.0)
Total average assets	3,444,510	4,219,487	(18.4)
Total average deposits	10,781,929	7,750,433	39.1

*Three months ended March 31, 2010 compared to the three months ended March 31, 2009*

Net interest income from our Global Commercial Bank ( GCB ) decreased by \$11.9 million for the three months ended March 31, 2010, primarily due to a decrease in interest income resulting from a decrease in average loan balances, which decreased by \$947.4 million to \$3.2 billion, and a decrease in the FTP earned for deposits due to decreases in market interest rates. These decreases were partially offset by an increase in the FTP earned for deposits due to significant deposit growth, an increase in interest income from loans due to an increase in loan yield and a decrease in deposit expense due to decreases in market interest rates and our decision to lower rates throughout 2009 and the first quarter of 2010.

The provision for loan losses for GCB was \$10.8 million for the three months ended March 31, 2010, a decrease of \$32.1 million compared to the comparable 2009 period. The provision for loan losses of \$10.8 million for the three months ended March 31, 2010 was primarily attributable to gross charge-offs from our life sciences, hardware and software industry portfolios.

Noninterest income increased by \$1.2 million for the three months ended March 31, 2010, primarily due to an increase in foreign exchange fees and an increase in credit card fees, partially offset by a decrease in client investment fees. The increase in credit card fees was primarily due to the transfer of management and processing of our credit card portfolio in-house from a third party servicer late in the end of the first quarter of 2009, as we began to process our credit card business in-house. The increase in foreign exchange fees was primarily due to higher commissioned notional volumes, which increased to \$1.5 billion for the three months ended March 31, 2010, compared to \$1.0 billion for the comparable 2009 period. 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.

Noninterest expense increased by \$13.4 million for the three months ended March 31, 2010, primarily due to an increase in compensation and benefits expense of \$9.7 million and an increase in FDIC assessments of \$2.4 million. The increase in compensation and benefits expense was attributable to an increase in incentive compensation, ESOP, and salaries and wages expenses. Incentive compensation and ESOP expenses for the first quarter 2010 reflect our current expectation that we will meet our internal performance targets for 2010 as compared to our 2009 incentive compensation levels, which were at half of target levels as we did not meet our internal performance targets. The increase in salaries and wages was primarily due to the increase in the average number of full-time equivalent ( FTE ) employees at GCB, which increased to 821 for the three months of March 31, 2010, compared to 794 for the comparable 2009 period. The increase in average FTE's was attributable to increases in product development and operational positions, sales and advisory positions, and positions to support our global commercial banking operations. The increase in FDIC assessments was primarily due to an increase in average deposit balances and an increase in FDIC assessment rates.



**Table of Contents***Relationship Management*

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Net interest income	\$ 8,227	\$ 8,887	(7.4)%
Provision for loan losses	(18)	(649)	(97.2)
Noninterest income	313	303	3.3
Noninterest expense	(4,453)	(3,502)	27.2
Income before income tax expense	\$ 4,069	\$ 5,039	(19.2)
Total average loans, net of unearned income	\$ 927,832	\$ 989,842	(6.3)
Total average assets	929,462	991,605	(6.3)
Total average deposits	188,033	172,661	8.9

Three months ended March 31, 2010 compared to the three months ended March 31, 2009

Net interest income decreased by \$0.7 million for the three months ended March 31, 2010, primarily due to a decrease in interest income resulting from a decrease in average loan balances, particularly loans to targeted high-net-worth individuals, and a decrease in the FTP earned for deposits due to decreases in market interest rates. These decreases were partially offset by decreases in the FTP charge incurred for funded loans due to a decrease in average loan balances and from decreases in market interest rates.

Noninterest expense increased by \$1.0 million for the three months ended March 31, 2010, primarily due to an increase in compensation and benefits expense of \$0.9 million attributable to an increase in incentive compensation and ESOP expenses.

*SVB Capital*

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Net interest loss	\$ (1)	\$ (2)	(50.0)%
Noninterest income (loss)	4,580	(2,358)	NM
Noninterest expense	(3,404)	(3,346)	1.7
Income (loss) before income tax expense	\$ 1,175	\$ (5,706)	(120.6)
Total average assets	\$ 105,908	\$ 85,626	23.7

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 to differ from period to period. Results for a particular period may not be indicative of future performance. In 2009, the valuation of our consolidated investment funds was affected by a more challenging venture capital environment and a significant slowdown of M&A activities and IPOs. The net gains for the three months ended March 31, 2010 were primarily due to an increase in valuations for private companies and increased IPO and M&A activities. As a result, we saw higher unrealized gains in the three months ended March 31, 2010, compared to the comparable 2009 period.

Three months ended March 31, 2010 compared to the three months ended March 31, 2009

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

Noninterest income increased by \$7.0 million to \$4.6 million for the three months ended March 31, 2010, compared to a net loss of \$2.4 million for the comparable 2009 period, primarily due to net gains on investment securities for the three months ended March 31, 2010. SVB Capital's components of noninterest income primarily include the following:

Net gains on investment securities of \$1.7 million for the three months ended March 31, 2010, compared to net losses of \$4.5 million for the comparable 2009 period. The net gains on investment securities of \$1.7 million for the three months ended March 31, 2010 were primarily related to net gains of \$1.0 million from two of our managed funds of funds mainly attributable to net increases in the fair value of fund investments and \$0.4 million in carried interest for one of our managed co-investment funds.

## Table of Contents

We received fund management fees of \$2.7 million for both the three months ended March 31, 2010 and 2009.

### Other Business Services

Our Other Business Services group is comprised of SVB Analytics as well as our Sponsored Debt Funds & Strategic Investments.

(Dollars in thousands)	Three months ended March 31,		
	2010	2009	% Change
Net interest loss	\$ (75)	\$ (26)	188.5%
Noninterest income	3,427	1,597	114.6
Noninterest expense	(3,359)	(7,204)	(53.4)
Loss before income tax expense	\$ (7)	\$ (5,633)	(99.9)
Total average assets	\$ 92,786	\$ 74,232	25.0

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.

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 to differ from period to period. Results for a particular period may not 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 March 31,		
	2010	2009	% Change
SVB Analytics	\$ 1,752	\$ 1,633	7.3%
Sponsored Debt Funds & Strategic Investments	1,675	(36)	NM
Total noninterest income	\$ 3,427	\$ 1,597	114.6

NM- Not meaningful

Three months ended March 31, 2010 compared to the three months ended March 31, 2009

Noninterest income increased by \$1.8 million, primarily due to net gains on investment securities from our Sponsored Debt Funds & Strategic Investments. Other Business Services components of noninterest income primarily include the following:

Net gains on investment securities of \$1.5 million for the three months ended March 31, 2010, compared to net losses of \$0.1 million for the comparable 2009 period. The net gains on investment securities of \$1.5 million for the three months ended March 31, 2010 were primarily related to net gains of \$0.9 million from two of our debt funds mainly attributable to net increases in the fair value of fund investments and gains of \$0.4 million from one of our direct equity investments in a privately held company.

An increase in SVB Analytics' revenues to \$1.8 million for the three months ended March 31, 2010, compared to \$1.6 million for the comparable 2009 period, primarily as a result of an increase in the number of valuations performed to 217 in first quarter of 2010, compared to 158 for the comparable 2009 period, partially offset by a reduction in the average fee earned per valuation.

Noninterest expense decreased by \$3.8 million for the three months ended March 31, 2010, primarily due to a non-tax deductible charge of \$4.1 million related to impairment of goodwill recognized in the first quarter of 2009 resulting from changes in our outlook for eProsper's future financial performance. This decrease was partially offset by an increase in compensation and benefits expense, attributable to an increase in incentive compensation and ESOP expenses.

## **Table of Contents**

### **Consolidated Financial Condition**

Our total assets were \$14.1 billion at March 31, 2010, an increase of \$1.3 billion, or 10.0 percent, compared to \$12.8 billion at December 31, 2009. The increase was primarily due to increases in cash and investment securities due to our deposit growth.

#### ***Cash and Due from Banks***

Cash and due from banks totaled \$4.6 billion at March 31, 2010, an increase of \$1.1 billion, or 33.6 percent, compared to \$3.5 billion at December 31, 2009. The increase was primarily due to the increase in our deposit balances from December 31, 2009 to March 31, 2010. As of March 31, 2010 and December 31, 2009, \$4.3 billion and \$3.1 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 \$148.1 million and \$171.6 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 \$77.3 million at March 31, 2010, an increase of \$19.1 million, or 32.7 percent, compared to \$58.2 million at December 31, 2009. The increase was primarily due to cash management strategies.

#### ***Investment Securities***

Investment securities totaled \$4.9 billion at March 31, 2010, an increase of \$447.3 million, or 10.0 percent, compared to \$4.5 billion at December 31, 2009. The increase was primarily related to purchases of U.S. agency debentures and agency-issued mortgage-backed securities, which were purchased as a result of our continued deposit growth.

#### ***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 to maximize portfolio yield over the long-term in a manner consistent with our liquidity, credit diversification, and asset/liability strategies. All securities in our fixed income investment portfolio are currently held as available-for-sale. Available-for-sale securities were \$4.3 billion at March 31, 2010, an increase of \$409.1 million, or 10.4 percent, compared to \$3.9 billion at December 31, 2009. The increase was primarily due to a \$306.1 million increase in U.S. agency debentures and a \$146.2 million increase in agency-issued mortgage-backed securities.

The duration of our fixed income investment portfolio is an estimate based on current market interest rates, expectations for changes in the path of forward rates and the effect of forward rates on mortgage prepayment speed assumptions. Changes in portfolio duration are also impacted by changes in the mix of longer versus shorter term to maturity securities. Estimated portfolio duration was 2.8 years at March 31, 2010, compared to 2.3 years at December 31, 2009.

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 \$84 thousand and \$33 thousand at March 31, 2010, and December 31, 2009, respectively.

#### ***Non-Marketable Securities***

Non-marketable securities primarily represent investments managed by SVB Capital and investments in Sponsored Debt Funds & Strategic Investments as part of our investment funds management business and include funds of funds, co-investment funds and debt funds, as well as direct equity investments in portfolio companies and fund investments. 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 of \$591.7 million (\$246.8 million net of noncontrolling interests) as of March 31, 2010, increased by \$38.2 million or 6.9 percent, from \$553.5 million (\$233.0 million net of noncontrolling interests) as of December 31, 2009. The increase was primarily attributable to additional capital calls for fund investments of \$25.3 million, as well as from unrealized gains of \$14.5 million from our non-marketable securities.



***Loans***

Loans, net of unearned income were \$4.2 billion at March 31, 2010, a decrease of \$342.8 million, or 7.5 percent, compared to \$4.5 billion at December 31, 2009. Unearned income was \$33.6 million at March 31, 2010, compared to \$34.9 million at December 31, 2009. The majority of our loans are commercial in nature. Total gross loans were \$4.2 billion at March 31, 2010, a decrease of \$344.1 million, or 7.5 percent, compared to \$4.6 billion at December 31, 2009. The decrease was primarily due to decreases in loans

## Table of Contents

to venture capital/private equity clients, as well as decreases from life science and hardware clients, reflecting continued efforts by some clients to deleverage their businesses. The breakdown of total gross loans and total loans as a percentage of gross loans by industry sector is as follows:

Industry Sector	March 31, 2010		December 31, 2009	
	Amount	Percentage	Amount	Percentage
(Dollars in thousands)				
Technology	\$ 1,960,925	46.3%	\$ 2,023,887	44.2%
Venture capital/private equity	746,402	17.6	936,693	20.4
Life sciences	472,563	11.1	519,791	11.3
Premium wine	434,772	10.3	442,061	9.7
Private client services	404,019	9.5	440,018	9.6
All other sectors	220,167	5.2	220,516	4.8
Total gross loans	\$ 4,238,848	100.0%	\$ 4,582,966	100.0%

The following table provides a summary of concentration in our loan portfolio by industry sector and size of loan as of March 31, 2010:

(Dollars in thousands)	March 31, 2010					Total
	Less than Five Million	Five to Ten Million	Ten to Twenty Million	Twenty to Thirty Million	Thirty Million or More	
Technology	\$ 942,121	\$ 253,157	\$ 424,345	\$ 232,131	\$ 109,171	\$ 1,960,925
Venture capital/private equity	242,371	103,137	203,773	98,445	98,676	746,402
Life sciences	259,731	73,441	117,391	22,000		472,563
Premium wine	166,418	99,673	91,977	76,704		434,772
Private client services	245,093	71,470	10,000	44,456	33,000	404,019
All other sectors	114,409	21,407	84,351			220,167
Total gross loans	\$ 1,970,143	\$ 622,285	\$ 931,837	\$ 473,736	\$ 240,847	\$ 4,238,848

At March 31, 2010, gross loans totaling \$714.6 million, or 16.9 percent of our portfolio, were individually equal to or greater than \$20 million. These loans represented 25 clients, and of these loans, \$20.3 million were on nonaccrual status as of March 31, 2010.

The following table provides a summary of concentration in our loan portfolio by industry sector and size of loan as of December 31, 2009:

(Dollars in thousands)	December 31, 2009					Total
	Less than Five Million	Five to Ten Million	Ten to Twenty Million	Twenty to Thirty Million	Thirty Million or More	
Technology	\$ 997,990	\$ 258,034	\$ 391,791	\$ 265,592	\$ 110,480	\$ 2,023,887
Venture capital/private equity	238,869	149,289	176,807	136,305	235,423	936,693
Life sciences	285,646	84,781	103,697	45,667		519,791
Premium wine	169,053	100,931	95,291	76,786		442,061
Private client services	261,049	81,790	10,000	20,207	66,972	440,018
All other sectors	94,760	36,977	68,654	20,125		220,516
Total gross loans	\$ 2,047,367	\$ 711,802	\$ 846,240	\$ 564,682	\$ 412,875	\$ 4,582,966

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

At December 31, 2009, gross loans totaling \$977.6 million, or 21.3 percent of our portfolio, were individually equal to or greater than \$20 million. These loans represented 33 clients, and of these loans \$20.4 million were on nonaccrual status as of December 31, 2009.

The credit profile of our clients varies across our loan portfolio, based on the nature of the lending we do for different market segments. Clients across all industry segments and loan categories have been affected by the weakened economic environment in recent periods. Our technology and life sciences loan portfolio includes loans to clients of all life cycles, beginning with the emerging, start-up stage. Loans provided to early-stage, venture-backed company clients represent a relatively small percentage of our portfolio at approximately 11 percent of total gross loans at both March 31, 2010 and December 31, 2009. Typically these loans are made to companies with modest or negative cash flows and no established record of profitable operations. Repayment of these loans may be 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 the weakened economic environment during recent periods, venture capital financing activity as well as IPOs and M&A activities have slowed significantly. Venture capital firms may provide financing at lower levels,

## Table of Contents

more selectively or on less favorable terms, which may have an adverse effect on our borrowers that are otherwise dependent on such financing to repay their loans to us. When repayment is dependent upon the next round of venture investment and there is an indication that further investment is unlikely or will not occur, it is often likely the company would need to be sold to repay debt in full. If reasonable efforts have not yielded a likely buyer willing to repay all debt at the close of the sale or on commercially viable terms, the account will most likely be deemed to be impaired.

At March 31, 2010, our lending to private equity firms and venture capital companies represented 17.6 percent of total gross loans, compared to 20.4 percent of total gross loans at December 31, 2009. Many of these 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.

At March 31, 2010, our asset-based lending, which consists primarily of working capital lines, and our accounts receivable factoring represented 8.3 percent and 6.5 percent, respectively, of total gross loans, compared to 7.8 percent and 6.5 percent, respectively at December 31, 2009. The repayment of these arrangements is dependent on the financial condition, and payment ability, of third parties with whom our clients do business which could be impacted due to the weakened economic environment.

Approximately 45.6 percent and 9.6 percent of our outstanding total gross loan balances as of March 31, 2010 were to entities based in the states of California and Massachusetts, respectively, compared to 44.9 percent and 9.0 percent, respectively, as of December 31, 2009. There are no other states with balances greater than 10 percent.

See generally Risk Factors Credit Risks below in Item 1A of Part II.

### Credit Quality and Allowance for Loan Losses

Nonperforming assets consist of loans past due 90 days or more that are still accruing interest, loans on impaired status and foreclosed property classified as Other Real Estate Owned (OREO). We measure all loans placed on impaired status for impairment based on the fair value of the underlying collateral or the net present value of the expected cash flows in accordance with ASC 310. The table below sets forth certain data and ratios between nonperforming loans, nonperforming assets and the allowance for loan losses:

(Dollars in thousands)	March 31, 2010	December 31, 2009
Gross nonperforming loans:		
Loans past due 90 days or more still accruing interest	\$ 184	\$ 2,456
Impaired loans	50,649	50,227
Total gross nonperforming loans	50,833	52,683
OREO		220
Total nonperforming assets	\$ 50,833	\$ 52,903
Nonperforming loans as a percentage of total gross loans	1.20%	1.15%
Nonperforming assets as a percentage of total assets	0.36	0.41
Allowance for loan losses	\$ 68,271	\$ 72,450
As a percentage of total gross loans	1.61%	1.58%
As a percentage of gross nonperforming loans	134.30	137.52
Allowance for loan losses for impaired loans	\$ 9,496	\$ 8,868
As a percentage of total gross loans	0.22%	0.19%
As a percentage of gross nonperforming loans	18.68	16.83
Allowance for loan losses for total gross performing loans	\$ 58,775	\$ 63,582
As a percentage of total gross loans	1.39%	1.39%
As a percentage of gross performing loans	1.40	1.40
Reserve for unfunded credit commitments (1)	\$ 11,824	\$ 13,331
Total gross loans	4,238,848	4,582,966
Total unfunded credit commitments	5,251,336	5,338,726

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

- (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.

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

Included in the \$50.6 million of impaired loans at March 31, 2010 are \$28.9 million of loans modified in troubled debt restructurings (TDRs), where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, or other actions intended to maximize collection. Refer to Note 6 Loans and Allowance for Loan Losses of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details.

Average impaired loans for the three months ended March 31, 2010 and 2009 were \$50.4 million and \$95.0 million, respectively. If the impaired loans had not been impaired, \$0.9 million and \$1.7 million in interest income would have been recorded for the three months ended March 31, 2010 and 2009, respectively.

**Accrued Interest Receivable and Other Assets**

A summary of accrued interest receivable and other assets at March 31, 2010 and December 31, 2009 is as follows:

(Dollars in thousands)	March 31, 2010	December 31, 2009	% Change
Derivative assets, gross (1)	\$ 103,613	\$ 106,623	(2.8)%
Deferred tax assets and income tax receivable, net	48,997	69,945	(29.9)
Accrued interest receivable	43,712	44,265	(1.2)
FHLB and FRB stock	38,888	38,888	
Prepaid FDIC assessments	25,736	28,178	(8.7)
Foreign exchange spot contract assets, gross	31,171	13,653	128.3
OREO		220	(100.0)
Other assets	30,405	27,642	10.0
<b>Total accrued interest receivable and other assets</b>	<b>\$ 322,522</b>	<b>\$ 329,414</b>	<b>(2.1)</b>

(1) See Derivatives, Net section below.

**Deferred Tax Assets and Income Tax Receivable, Net**

Our deferred tax assets balance was \$40.6 million at March 31, 2010, compared to \$53.0 million at December 31, 2009. The decrease was primarily due to the tax effect of an increase in the fair value of our investment securities portfolio. We pay quarterly estimated taxes to the Internal Revenue Service and certain state and foreign taxing authorities. At March 31, 2010 and December 31, 2009, we had \$8.4 million and \$16.9 million, respectively, as income taxes receivable from these 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 March 31, 2010 and December 31, 2009:

(Dollars in thousands)	March 31, 2010	December 31, 2009	% Change
<b>Assets (liabilities):</b>			
Equity warrant assets	\$ 40,845	\$ 41,292	(1.1)%
Interest rate swaps assets	50,032	46,895	6.7
Foreign exchange forward and option contracts assets	12,736	18,436	(30.9)
Foreign exchange forward and option contracts liabilities	(10,320)	(15,870)	(35.0)

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Total derivatives, net	\$	93,293	\$	90,753	2.8
------------------------	----	--------	----	--------	-----

**Table of Contents***Equity Warrant Assets*

In connection with negotiating 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 March 31, 2010, we held warrants in 1,161 companies, compared to 1,225 companies at December 31, 2009. The change in fair value of equity warrant assets is recorded in 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 months ended March 31, 2010 and 2009, respectively:

(Dollars in thousands)	Three months ended March 31,	
	2010	2009
Balance, beginning of period	\$ 41,292	\$ 43,659
New equity warrant assets	1,347	2,074
Non-cash increases in fair value	577	533
Exercised equity warrant assets	(589)	(222)
Terminated equity warrant assets	(1,782)	(1,111)
Balance, end of period	\$ 40,845	\$ 44,933

*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*

We enter into foreign exchange forward contracts and foreign currency option contracts with clients involved in international activities, either as the purchaser or seller, depending upon the clients' need. For each forward or option contract entered into with our clients, we enter into an opposite way forward or option contract with a correspondent bank, which mitigates the risk of fluctuations in currency rates. We enter into forward contracts with correspondent banks to economically hedge currency 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. We have not experienced nonperformance by a counterparty and therefore have not incurred related losses. Further, we anticipate performance by all counterparties.

At March 31, 2010 and December 31, 2009, the aggregate notional amounts of foreign exchange forward and foreign currency option contracts totaled \$809.2 million and \$704.6 million, respectively. Our net exposure for foreign exchange forward and foreign currency option contracts at March 31, 2010 and December 31, 2009 amounted to \$2.4 million and \$2.6 million, respectively.

*Deposits*

Deposits were \$11.5 billion at March 31, 2010, an increase of \$1.2 billion, or 11.4 percent, compared to \$10.3 billion at December 31, 2009. The increase in our deposit balance was primarily from increases in our noninterest-bearing demand deposits, which grew by \$713.3 million, and increases in our interest-bearing sweep deposits, which grew by \$279.7 million. The overall increase in average deposit balances was primarily due to our clients' desire to maintain short-term liquidity, as well as the lack of attractive investment opportunities off the balance sheet. Additionally, we saw growth in our interest-bearing sweep deposits primarily due to our clients' desire to take advantage of the convenience of the daily sweep product combined with the competitive rates we pay on the product. At March 31, 2010, 39.1 percent of our total deposits were interest-bearing deposits, compared to 39.0 percent at December 31, 2009.

At March 31, 2010, the aggregate balance of time deposit accounts individually exceeding \$100,000 totaled \$284.0 million, compared to \$273.0 million at December 31, 2009. At March 31, 2010, 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 and the loss of any one depositor would not materially affect our business.

*Long-Term Debt*



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

At March 31, 2010 and December 31, 2009, we had long-term debt of \$859.7 million and \$856.7 million, respectively. At March 31, 2010, long-term debt included 5.70% senior notes and 6.05% subordinated notes, 2008 Convertible Notes, junior subordinated debentures and 4.99% notes payable related to one of our debt fund investments.

**Table of Contents*****Other Liabilities***

A summary of other liabilities at March 31, 2010 and December 31, 2009, respectively, is as follows:

(Dollars in thousands)	March 31, 2010	December 31, 2009	% Change
Foreign exchange spot contract liabilities, gross	\$ 49,414	\$ 19,638	151.6%
Accrued compensation	29,397	37,873	(22.4)
Derivative liabilities, gross (1)	10,320	15,870	(35.0)
Reserve for unfunded credit commitments	11,824	13,331	(11.3)
Other	62,232	53,235	16.9
Total other liabilities	\$ 163,187	\$ 139,947	16.6

(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 \$8.5 million was primarily due to the March 31, 2010 balance including only three months worth of accruals for our Incentive Compensation Plans and Direct Drive Incentive Compensation Plan, compared to twelve months as of December 31, 2009.

***Reserve for Unfunded Credit Commitments***

The level of reserve for unfunded credit commitments is determined by following a methodology that parallels the methodology used for the allowance for loan losses. We recognized a reduction of provision for unfunded credit commitments of \$1.5 million for the three months ended March 31, 2010, which was primarily reflective of a decrease in our total unfunded credit commitments, as well as a decrease in our estimate of commitments expected to fund. Total unfunded credit commitments decreased by \$87.4 million to \$5.25 billion at March 31, 2010, compared to \$5.34 billion at December 31, 2009.

***Noncontrolling Interests***

Noncontrolling interests totaled \$375.7 million and \$345.8 million at March 31, 2010 and December 31, 2009, respectively. The increase of \$29.9 million was primarily due to equity transactions, which included \$21.1 million of contributed capital from investors in three of our managed funds of funds for investing in limited partnerships, as well as net income attributable to noncontrolling interests of \$10.7 million for the three months ended March 31, 2010, primarily from two of our managed funds of funds.

**Capital Resources**

Our management seeks to maintain adequate capital to support anticipated asset growth, operating needs and unexpected 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 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 and unexpected credit losses, investment activity, potential product and business expansions, acquisitions and strategic or infrastructure investments.

On December 23, 2009, we redeemed in full 235,000 outstanding shares of preferred stock, for \$235 million, plus \$1.2 million of accrued and unpaid dividends, from the U.S. Treasury under the Capital Purchase Program ( CPP ). In connection with our previous participation in the CPP, as of March 31, 2010, we have a warrant outstanding for 354,058 shares of our common stock at an exercise price of \$49.78 per share. We have engaged in negotiations with the U.S. Treasury regarding the repurchase of our warrant, but have not reached an agreement on the repurchase. If we are unable to reach an agreement, the U.S. Treasury may decide to sell the warrant through an auction process.

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

### *Common Stock*

For information on our common 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.

**Table of Contents*****SVBFG Stockholders' Equity***

SVBFG stockholders' equity totaled \$1.2 billion at March 31, 2010, an increase of \$45.1 million, or 4.0 percent compared to \$1.1 billion at December 31, 2009. This increase was primarily the result of net income and an increase in accumulated other comprehensive income due to an increase in the fair value of our investment securities portfolio.

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 for bank holding companies and banks to be well-capitalized are 10.0% and 6.0%, respectively. Under the same capital adequacy guidelines, a well-capitalized state member bank must maintain a minimum Tier 1 leverage ratio of 5.0%. There is no Tier 1 leverage requirement for a holding company to be deemed well-capitalized.

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.

Both the capital ratios of SVB Financial and the Bank were in excess of regulatory guidelines to be well-capitalized at March 31, 2010 and December 31, 2009. Capital ratios for SVB Financial and the Bank are set forth below:

	March 31, 2010	December 31, 2009
<b>SVB Financial:</b>		
Total risk-based capital ratio	20.72%	19.94%
Tier 1 risk-based capital ratio	16.21	15.45
Tier 1 leverage ratio	8.99	9.53
Tangible common equity to tangible assets ratio (1)	8.30	8.78
Tangible common equity to risk-weighted assets ratio (1)	16.01	15.05
<b>Bank:</b>		
Total risk-based capital ratio	17.90%	17.05%
Tier 1 risk-based capital ratio	13.25	12.45
Tier 1 leverage ratio	7.28	7.67
Tangible common equity to tangible assets ratio (1)	7.16	7.50
Tangible common equity to risk-weighted assets ratio (1)	13.56	12.53

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

The increases in the total risk-based and Tier 1 capital ratios for both SVB Financial and the Bank at March 31, 2010, compared to December 31, 2009, were 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 both SVB Financial and the Bank, decreases in the Tier 1 leverage ratio were reflective of our continued increase in deposit balances. This decision resulted in substantial increases in cash balances and deposit liabilities, and thereby, significant growth in the balance sheet.

**Table of Contents**

The tangible common equity to tangible assets ratio and the tangible common equity to risk-weighted assets ratios are not required by GAAP or applicable bank regulatory requirements. We believe these ratios provide meaningful supplemental information regarding our capital levels. Our management uses, and believes that investors benefit from referring to, these ratios 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. These ratios are calculated by dividing total SVBFG stockholder's equity, by total assets or risk-weighted 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 (Dollars in thousands, except ratios)	SVB Financial		Bank	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
GAAP stockholders' equity	\$ 1,173,480	\$ 1,128,343	\$ 961,674	\$ 914,068
Less:				
Goodwill				
Intangible assets	979	665		
Tangible common equity	\$ 1,172,501	\$ 1,127,678	\$ 961,674	\$ 914,068
GAAP Total assets	\$ 14,125,249	\$ 12,841,399	\$ 13,433,277	\$ 12,186,203
Less:				
Goodwill				
Intangible assets	979	665		
Tangible assets	\$ 14,124,270	\$ 12,840,734	\$ 13,433,277	\$ 12,186,203
Risk-weighted assets	\$ 7,325,011	\$ 7,494,498	\$ 7,090,235	\$ 7,293,332
Tangible common equity to tangible assets	8.30%	8.78%	7.16%	7.50%
Tangible common equity to risk-weighted assets	16.01	15.05	13.56	12.53

For both SVB Financial and the Bank, the tangible common equity to tangible assets ratio decreased due primarily to an increase in tangible assets. This increase was partially offset by an increase in tangible equity from an increase in retained earnings. For both SVB Financial and the Bank, the increase in tangible common equity to risk-weighted asset ratio 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 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 Venture Capital/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 commitment 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 March 31, 2010, we had \$530.1 million in total capital commitments in venture capital/private equity funds, of which \$251.0 million was unfunded or uncalled. Included in the \$251.0 million unfunded commitments are commitments of \$153.2 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 ). While we cannot provide any

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

assurances that we will be successful, we intend to form additional new managed fund of funds, to which we expect to transfer most of these New Fund 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

## **Table of Contents**

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 \$22 million for the next 12 months.

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 sweep deposit product in 2007, which increased by \$279.7 million to \$2.6 billion at March 31, 2010, compared to \$2.3 billion at December 31, 2009. Additionally, we grew our noninterest-bearing demand deposits by \$713.3 million to \$7.0 billion at March 31, 2010, compared to \$6.3 billion as of December 31, 2009. The overall increase in deposit balances was primarily due to our clients' desire to maintain short-term liquidity, as well as the lack of attractive investment opportunities off the balance sheet. Additionally, we saw growth in our interest-bearing sweep deposits due to our clients' desire to take advantage of the convenience of the daily sweep product combined with the competitive rates we pay on the product. Furthermore, our deposits increased in 2009 in part due to clients' preference for the security provided by FDIC insurance for noninterest-bearing deposits. The FDIC has recently announced that it will extend such insurance coverage for participating financial institutions from its prior expiration date of June 30, 2010 to December 31, 2010; however, we have opted out of such extended coverage. Our election to opt out was based primarily on our assessment of our liquidity position and the associated costs of maintaining such extended coverage. The discontinuation of this extended coverage may impact our deposit levels to some extent, the level of which we cannot predict. Nevertheless, despite any fluctuations in our deposit levels or cost of deposits, 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, and its ability to raise debt and 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 2009 Form 10-K.

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

Below is a summary of our average cash position and statement of cash flows for the three months ended March 31, 2010 and 2009, respectively. Please refer to our Interim Statements of Cash Flows for the three months ended March 31, 2010, and 2009 under Part I, Item 1 of this report.

## Table of Contents

(Dollars in thousands)	Three months ended March 31,	
	2010	2009
Average cash and due from banks	\$ 237,691	\$ 321,282
Average federal funds sold, securities purchased under agreements to resell and other short-term investment securities	4,316,307	2,825,988
Average cash and cash equivalents	\$ 4,553,998	\$ 3,147,270
Percentage of total average assets	33.6%	30.1%
Net cash provided by operating activities	\$ 57,820	\$ 13,258
Net cash (used for) provided by investing activities	(86,884)	182,326
Net cash provided by financing activities	1,207,914	1,014,677
Net increase in cash and cash equivalents	\$ 1,178,850	\$ 1,210,261

Average cash and cash equivalents increased by \$1.5 billion to \$4.6 billion for the three months ended March 31, 2010, compared to \$3.1 billion for the comparable 2009 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 our clients' desire to maintain short-term liquidity, as well as the lack of attractive investment opportunities off the balance sheet.

Cash provided by operating activities was \$57.8 million for the three months ended March 31, 2010, which included net income before noncontrolling interests of \$29.2 million. Significant adjustments for noncash items that increased cash provided by operating activities included net changes of \$12.3 million in foreign exchange spot contracts, \$10.7 million of provision for loan losses, net changes of \$8.6 million in income tax receivable and \$7.0 million of amortization of premiums on investment securities. Significant adjustments for noncash items that decreased cash provided by operating activities included \$16.0 million of net gains on investment securities and a \$8.5 million decrease in accrued compensation.

Cash used for investing activities was \$86.9 million for the three months ended March 31, 2010. Net cash outflows included purchases of available-for-sale securities of \$878.6 million and purchases of non-marketable securities of \$26.4 million. Net cash inflows included proceeds from the maturities and pay downs of available-for-sale securities of \$489.9 million, a net decrease in loans of \$321.5 million and sales of non-marketable securities of \$6.6 million.

Cash provided by financing activities was \$1.2 billion for the three months ended March 31, 2010. Net cash inflows included increases in deposits of \$1.2 billion, net capital contributions from noncontrolling interests of \$19.3 million and \$5.1 million of proceeds from issuance of common stock.

Cash and cash equivalents at March 31, 2010 were \$4.7 billion, compared to \$3.6 billion at March 31, 2009.



**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 our 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.

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 which 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 March 31, 2010 and December 31, 2009, 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 Amount	Percent Percent (Dollars in thousands)	Estimated NII	Estimated Increase/ (Decrease) In NII Amount	Percent
<b>March 31, 2010:</b>						
+200	\$ 1,609,928	\$ 17,113	1.1%	\$ 523,506	\$ 89,962	20.8%
+100	1,606,779	13,964	0.9	471,169	37,625	8.7
-	1,592,815			433,544		
-100	1,673,366	80,551	5.1	409,966	(23,578)	(5.4)
-200	1,714,999	122,184	7.7	384,108	(49,436)	(11.4)
<b>December 31, 2009:</b>						
+200	\$ 1,491,262	\$ (37,645)	(2.5)%	\$ 515,333	\$ 75,569	17.2%
+100	1,510,211	(18,696)	(1.2)	470,398	30,634	7.0
-	1,528,907			439,764		
-100	1,567,122	38,215	2.5	424,444	(15,320)	(3.5)
-200	1,626,056	97,149	6.4	406,626	(33,138)	(7.5)

The estimated MVPE in the preceding table is based on a discounted cash flow analysis using market interest rates provided by 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.

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

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

## **Table of Contents**

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 March 31, 2010 increased from December 31, 2009 by \$63.9 million primarily due to a change in the overall balance sheet mix as fixed income investment securities and interest-bearing cash equivalents grew by \$410.2 million and \$1.2 billion, respectively, from December 31, 2009 to March 31, 2010. MVPE rose in both the simulated upward and downward interest rate movements due to our significant growth in interest-bearing cash equivalents and noninterest-bearing deposits. Additionally, with the historically low level of interest rates, our deposit rates are also at or near their absolute floors thus decreasing the downward rate shock effects.

Our expected 12-month NII at March 31, 2010 decreased from December 31, 2009 by \$6.2 million due primarily to average loan balances decreasing by \$252.4 million from the fourth quarter of 2009 to the first quarter of 2010. Our overall balance sheet did grow by \$1.3 billion during the quarter, but the growth was principally attributed to large increases in our noninterest-bearing deposits, low yielding cash equivalents, and fixed income 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 and noninterest-bearing deposits. In addition to these changes, other general contributing factors include changes in balance sheet mix, changes in deposit repricing assumptions, and a lower projected forward rate curve.

The simulation model used for above analysis embeds floors in our interest rate scenarios which prevent model benchmark rates from resulting in negative 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%), as we did not lower the Bank's prime lending rate despite the 75 basis point decrease in the target Federal Funds rates in December 2008. These assumptions may change in future periods based on management discretion. 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, as amended (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, among other things, processes, 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 the design and operation of our disclosure controls and procedures as of our most recently completed fiscal quarter, pursuant to Exchange Act Rule 13a-15(b). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's 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.

## **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 market and economic 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*

## **Table of Contents**

*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 2009 Form 10-K. We have removed the risk factor relating to the possibility that legislation and regulatory initiatives to address the market and economic conditions resulting from the recent U.S. financial crisis (such as the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009) may not meet their intended objectives.

### ***Risks Relating to Market and Economic Environment***

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

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 adversely affect our business, growth, results of operations and ability to access capital. A global, domestic or significant regional economic slowdown or recession, 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.

The United States has been in a serious economic downturn, as have economies around the world. Financial markets have been volatile, business and consumer spending has declined, and overall business activities have slowed, including a general slowdown in mergers and acquisitions ( M&A ) and initial public offerings ( IPOs ) of companies events upon which the venture capital and private equity community relies to exit their investments. Overall venture capital financing activity has also slowed in recent periods. There have been limited signs of economic recovery recently, such as a modest increase in the number of IPOs and M&A activity levels, yet economic conditions continue to be challenging. If recent market and economic conditions persist, our clients will continue to be adversely impacted, as will our investment returns, valuations of companies, and overall levels of venture capital and private equity investments, which may have a material and adverse effect on our business, financial condition and results of operations. A worsening of these conditions could likely exacerbate the adverse effect on us.

As a result of recent economic conditions, the capital and credit markets have experienced extreme volatility and disruption. SVB Financial depends on access to equity and debt markets as one of its primary sources to raise capital. There has been some improvement to market conditions, particularly access to equity and debt markets; however, if recent 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.

### ***Credit Risks***

**If our clients fail to perform under their loans, our business, results of operations 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, results of operations 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, financial condition and results of operations.

## **Table of Contents**

**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, 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 may be 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 IPOs and M&A activities have slowed significantly. If economic conditions worsen or do not continue to 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 effect 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 the 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.

We have been increasing our efforts to lend to corporate technology and large corporate clients, including some companies with greater levels of debt relative to their equity, and have increased the average size of our loans over time. Increasing our larger loan commitments could increase the impact on us of any single borrower default.

We lend to targeted high net-worth individual clients through our Private Client Services (PCS) group. These individual clients may face difficulties meeting their financial commitments, especially during a challenging economic environment, and may be unable to repay their loans. We also lend to premium wineries and vineyards through our SVB Wine group. Repayment of loans made to these clients may be dependent on overall grape supply (which may be adversely affected by poor weather or other natural conditions) and overall wine demand and sales, or other sources of financing or income (which may be adversely affected by a challenging economic environment). See *Loans under Management's Discussion and Analysis of Financial Condition and Results of Operations* Consolidated Financial Condition under Item 2 of Part I of this report.

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, financial condition, 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 clients, we typically have a substantial amount of total unfunded credit commitments, which is reflected off our balance sheet. At March 31, 2010, we had \$5.3 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. In addition, limited partner investors of our venture capital/private equity fund clients may fail to meet their underlying investment commitments due to liquidity or other financing issues, which may impact our clients' borrowing needs. Any failure to meet our unfunded credit



## **Table of Contents**

commitments in accordance with the actual borrowing needs of our clients may have a material adverse effect on our business, financial condition, 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 for unfunded credit commitments in any period may result in a charge to our earnings, 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, results of operations 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 noninterest 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, increases in market interest rates will nevertheless likely cause our interest rate spread to increase. Conversely, if interest rates decline, our interest rate spread will likely decline. Decreases in market interest rates, especially during 2008 and 2009, have caused our interest rate spread to decline significantly, which has reduced our net income. Sustained low levels of market interest rates will likely continue to put pressure on our results of operations. 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 or the continuation of sustained low levels of market interest rates could have a material adverse effect on our business, results of operations and financial condition.

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

Liquidity is essential to our business. We require sufficient liquidity to meet our expected, as well as unexpected, financial obligations and requirements. 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.**

In connection with negotiated credit facilities and certain other services, we frequently obtain equity warrant assets giving us the right to acquire stock in certain client companies. We also make investments through our SVB Capital family of funds in venture capital and private equity



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

funds and direct investments in companies, which are required to be carried at fair value. The fair value of

## **Table of Contents**

these warrants and investments are reflected in our financial statements and are 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, the timing of our receipt of relevant financial information, 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 IPOs, levels of M&A 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 bought and sold, 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 have historically 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, results of operations 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 recent 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 under our lines of credit could have a material adverse effect on our business, results of operations 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. SVB Financial 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, 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, which may result in payment obligations to us or to our clients due to products arranged by us. 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 business, results of operations and financial condition.



## **Table of Contents**

### ***Operational Risks***

#### **If we fail to retain our key employees or recruit new employees, our growth and results of operations 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 recruiting and retaining these employees than our competitors, for reasons including regulatory restrictions on compensation practices or the availability of more attractive opportunities elsewhere, our growth and results of operations 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 effect 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, recent 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 actual share price. These factors could adversely affect our ability to attract, recruit and retain certain key employees.

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

As a financial institution, we are susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses to us or our clients, privacy breaches against our clients, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. In recent periods, there has been a rise in electronic fraudulent activity within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts.

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 and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) 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 concerning security problems could inhibit the use or 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

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

upgrade existing systems or processes, which if not implemented properly to allow for an effective transition, may have an adverse effect on our operations, including business interruptions which may result in

## **Table of Contents**

inefficiencies, revenue losses, client losses, exposure to fraudulent activities, or damage to our reputation. For example, we are in the process of implementing a new universal banking system that will replace our current platform. 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 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 have implemented a business continuity management program and we continue to enhance it on an ongoing basis. There is no assurance that our business continuity management 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 result in operational issues, increased expenditures, damage to our reputation or loss of clients, which 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 U.S.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 materially misleading, false, inaccurate or fraudulent information.

### **Our accounting policies and methods are key to how we report our financial condition and results of operations. They require management to make judgments and 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

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

might result in our reporting materially different amounts than would have been reported under a different alternative.

## **Table of Contents**

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

From time to time, the 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 retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our revising or 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.**

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 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 require us to raise additional capital in the future or affect our ability to use our capital resources 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 results of operations.

#### **Additional requirements under our regulatory framework intended to strengthen the U.S. financial system could adversely affect us.**

Recent government efforts to strengthen the U.S. financial system have resulted in the imposition of additional regulatory requirements, and Congress is considering comprehensive financial services regulatory reform legislation. Current and future legal and regulatory requirements, restrictions and regulations may have a material and adverse effect on our business, financial condition, and results of operations and may make it more difficult for us to attract and retain qualified executive officers and employees.

#### **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, results of operations 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, higher levels of liquidity available to meet the Bank's financial needs 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, results of operations and reputation.

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



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

SVB Financial is a holding company and 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 a 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 the 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.

## **Table of Contents**

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

#### **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 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 our areas of concentration could have a material impact on our business, results of operations and financial condition. 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 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, the prevalence of IPOs and M&A activity 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, results of operations, 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, results of operations, financial condition and future growth. Similarly, competitive pressures could adversely affect the business, results of operations, 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 for 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, results of operations, growth prospects and financial condition.

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

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

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.

## **Table of Contents**

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.

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 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, incremental requirement of management's attention and resources, differing technology standards or customer requirements, cultural differences, 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 operations 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. (REMOVED AND RESERVED)**

**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: May 7, 2010

/s/ MICHAEL DESCHENEAUX  
Michael Descheneaux  
Chief Financial Officer  
(Principal Financial Officer)

SVB Financial Group

Date: May 7, 2010

/s/ KAMRAN HUSAIN  
Kamran Husain  
Chief Accounting Officer  
(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
------	--	-------	-----------	------	----------------



# Table of Contents

Exhibit		Incorporated by Reference				Filed Herewith
Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	
4.16	Amendment No. 4 to Amended and Restated Preferred Stock Rights Agreement, dated as of January 15, 2010, by and between SVB Financial, Wells Fargo Bank, N.A. and American Stock Transfer & Trust Company, LLC	8-A/A	000-15637	4.22	January 19, 2010	
4.17	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	
4.18	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	
4.19	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	
4.20	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	
4.21	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	
4.22	Warrant, dated December 12, 2008 to purchase shares of Common Stock of SVB Financial Group	8-K	000-15637	4.21	December 15, 2008	
*10.5	1999 Employee Stock Purchase Plan	DEF 14A	000-15637	A	March 10, 2010	
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