

SVB FINANCIAL GROUP  
Form 10-Q  
May 08, 2009  
[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, 2009

OR

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

For the transition period from            to            .

Commission File Number: 000-15637

**SVB FINANCIAL GROUP**

(Exact name of registrant as specified in its charter)

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

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

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

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

**95054-1191**  
(Zip Code)

**(408) 654-7400**

(Registrant's telephone number, including area code)

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

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

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

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

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

At April 30, 2009, 32,978,109 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>   |             |
| ITEM 1. <u>INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>   | 3           |
| <u>INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED) AS OF MARCH 31, 2009 AND DECEMBER 31, 2008</u>                                    | 3           |
| <u>INTERIM CONSOLIDATED STATEMENTS OF (LOSS) INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008</u>               | 4           |
| <u>INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008</u> | 5           |
| <u>INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008</u>        | 6           |
| <u>INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008</u>                  | 7           |
| <u>NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>  | 8           |
| ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>                                 | 28          |
| ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>  | 54          |
| ITEM 4. <u>CONTROLS AND PROCEDURES</u>   | 55          |
| <b><u>PART II - OTHER INFORMATION</u></b>  |             |
| ITEM 1. <u>LEGAL PROCEEDINGS</u>   | 55          |
| ITEM 1A. <u>RISK FACTORS</u>   | 55          |
| ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>   | 64          |
| ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>   | 64          |
| ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>   | 64          |
| ITEM 5. <u>OTHER INFORMATION</u>   | 64          |
| ITEM 6. <u>EXHIBITS</u>  | 64          |
| <u>SIGNATURE</u>   | 65          |
| <u>INDEX TO EXHIBITS</u>   | 66          |

**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,<br>2009    | December 31,<br>2008 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Cash and due from banks   | \$ 3,362,216         | \$ 1,791,396         |
| Federal funds sold, securities purchased under agreements to resell and other short-term investment securities  | 286,787              | 647,414              |
| Investment securities   | 2,032,157            | 1,786,100            |
| Loans, net of unearned income   | 5,003,069            | 5,506,253            |
| Allowance for loan losses   | (110,010)            | (107,396)            |
| Net loans   | 4,893,059            | 5,398,857            |
| Premises and equipment, net of accumulated depreciation and amortization  | 29,341               | 30,589               |
| Goodwill  |                      | 4,092                |
| Accrued interest receivable and other assets  | 355,208              | 362,360              |
| <b>Total assets</b>   | <b>\$ 10,958,768</b> | <b>\$ 10,020,808</b> |
| <b>Liabilities and total equity</b>   |                      |                      |
| Liabilities:  |                      |                      |
| Deposits:   |                      |                      |
| Noninterest-bearing demand  | \$ 5,228,830         | \$ 4,419,965         |
| Negotiable order of withdrawal (NOW)  | 43,802               | 58,133               |
| Money market  | 1,061,547            | 1,213,086            |
| Foreign money market  | 45,439               | 53,123               |
| Time  | 393,433              | 379,200              |
| Sweep   | 1,709,273            | 1,349,965            |
| Total deposits  | 8,482,324            | 7,473,472            |
| Short-term borrowings   | 56,450               | 62,120               |
| Other liabilities   | 163,422              | 175,553              |
| Long-term debt  | 964,175              | 995,423              |
| <b>Total liabilities</b>  | <b>9,666,371</b>     | <b>8,706,568</b>     |
| Commitments and contingencies (Note 12)   |                      |                      |
| SVBFG stockholders' equity:   |                      |                      |
| Preferred stock, \$0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding  |                      |                      |
| Preferred stock, Series B Fixed Rate Cumulative Perpetual Preferred Stock, \$1,000 liquidation value per share, 235,000 shares authorized; 235,000 shares issued and outstanding, net of discount | 221,783              | 221,185              |
| Common stock, \$0.001 par value, 150,000,000 shares authorized; 32,935,515 and 32,917,007 shares outstanding, respectively  | 33                   | 33                   |
| Additional paid-in capital  | 71,761               | 66,201               |

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

|   |                      |                      |
|---|----------------------|----------------------|
| Retained earnings                         | 701,708              | 712,254              |
| Accumulated other comprehensive loss      | (3,162)              | (5,789)              |
| <b>Total SVBFG stockholders' equity</b>   | <b>992,123</b>       | <b>993,884</b>       |
| Noncontrolling interests                  | 300,274              | 320,356              |
| Total equity                              | 1,292,397            | 1,314,240            |
| <b>Total liabilities and total equity</b> | <b>\$ 10,958,768</b> | <b>\$ 10,020,808</b> |

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

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

| <b>(Dollars in thousands, except per share amounts)</b>  |    | <b>Three months ended March 31,</b> |                |
|--|----|-------------------------------------|----------------|
|  |    | <b>2009</b>                         | <b>2008</b>    |
| Interest income:   |    |                                     |                |
| Loans  | \$ | 88,251                              | \$ 89,759      |
| Investment securities:   |    |                                     |                |
| Taxable  |    | 14,851                              | 13,770         |
| Non-taxable  |    | 1,061                               | 937            |
| Federal funds sold, securities purchased under agreements to resell and other short-term investment securities |    | 2,376                               | 4,117          |
| <b>Total interest income</b>   |    | <b>106,539</b>                      | <b>108,583</b> |
| Interest expense:  |    |                                     |                |
| Deposits   |    | 6,847                               | 5,269          |
| Borrowings   |    | 8,181                               | 12,536         |
| <b>Total interest expense</b>  |    | <b>15,028</b>                       | <b>17,805</b>  |
| Net interest income  |    | 91,511                              | 90,778         |
| Provision for loan losses  |    | 43,466                              | 7,723          |
| Net interest income after provision for loan losses  |    | 48,045                              | 83,055         |
| Noninterest (loss) income:   |    |                                     |                |
| Foreign exchange fees  |    | 7,466                               | 7,844          |
| Deposit service charges  |    | 6,823                               | 5,891          |
| Client investment fees   |    | 6,248                               | 13,722         |
| Letters of credit and standby letters of credit income   |    | 2,892                               | 2,946          |
| Gains on derivative instruments, net   |    | 1,814                               | 2,599          |
| Corporate finance fees   |    |                                     | 3,640          |
| Losses on investment securities, net   |    | (35,045)                            | (6,112)        |
| Other  |    | 6,192                               | 11,035         |
| <b>Total noninterest (loss) income</b>   |    | <b>(3,610)</b>                      | <b>41,565</b>  |
| Noninterest expense:   |    |                                     |                |
| Compensation and benefits  |    | 48,280                              | 53,781         |
| Professional services  |    | 12,080                              | 8,801          |
| Premises and equipment   |    | 5,407                               | 5,188          |
| Net occupancy  |    | 4,305                               | 4,348          |
| Impairment of goodwill   |    | 4,092                               |                |
| Business development and travel  |    | 3,273                               | 3,422          |
| FDIC assessments   |    | 2,675                               | 436            |
| Correspondent bank fees  |    | 1,913                               | 1,506          |
| (Reduction of) provision for unfunded credit commitments   |    | (2,284)                             | (165)          |
| Other  |    | 7,399                               | 6,120          |
| <b>Total noninterest expense</b>   |    | <b>87,140</b>                       | <b>83,437</b>  |
| <b>(Loss) income before income tax (benefit) expense</b>   |    | <b>(42,705)</b>                     | <b>41,183</b>  |

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

|   |                    |                  |
|---|--------------------|------------------|
| Income tax (benefit) expense                              | (1,702)            | 18,283           |
| Net (loss) income   | (41,003)           | 22,900           |
| Net loss attributable to noncontrolling interests         | 33,993             | 4,218            |
| <b>Net (loss) income attributable to SVBFG</b>            | <b>\$ (7,010)</b>  | <b>\$ 27,118</b> |
| Preferred stock dividend and discount accretion           | (3,536)            |                  |
| <b>Net (loss) income available to common stockholders</b> | <b>\$ (10,546)</b> | <b>\$ 27,118</b> |
| (Loss) earnings per common share basic                    | \$ (0.32)          | \$ 0.84          |
| (Loss) earnings per common share diluted                  | \$ (0.32)          | \$ 0.78          |

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

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

| (Dollars in thousands)  | Three months ended March 31, |           |
|---|------------------------------|-----------|
|   | 2009                         | 2008      |
| <b>Net (loss) income</b>  | \$ (41,003)                  | \$ 22,900 |
| Other comprehensive income, net of tax:   |                              |           |
| Cumulative translation (losses) gains:  |                              |           |
| Foreign currency translation losses   | (1,431)                      | (98)      |
| Related tax effect  | 365                          | 39        |
| Change in unrealized gains (losses) on available-for-sale investment securities:                            |                              |           |
| Unrealized holding gains  | 6,268                        | 4,956     |
| Related tax effect  | (2,571)                      | (2,045)   |
| Reclassification adjustment for realized (losses) gains included in net (loss) income attributable to SVBFG | (7)                          | 821       |
| Related tax effect  | 3                            | (337)     |
| Other comprehensive income, net of tax  | 2,627                        | 3,336     |
| <b>Comprehensive (loss) income</b>  | (38,376)                     | 26,236    |
| Net loss attributable to noncontrolling interests   | 33,993                       | 4,218     |
| <b>Comprehensive (loss) income attributable to SVBFG</b>  | \$ (4,383)                   | \$ 30,454 |

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



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

| (Dollars in thousands)  | Preferred Stock |            | SVBFG Stockholders' Common Stock |        |                            | Retained Earnings | Accumulated Other Comprehensive Losses | Total SVBFG Stockholders' Equity | Noncontrolling Interests | Total Equity |
|---|-----------------|------------|----------------------------------|--------|----------------------------|-------------------|--|----------------------------------|--------------------------|--------------|
|   | Shares          | Amount     | Shares                           | Amount | Additional Paid-in Capital |                   |  |                                  |                          |              |
| <b>Balance at December 31, 2007</b>   |                 | \$         | 32,670,557                       | \$ 33  | \$ 13,167                  | \$ 669,703        | \$ (6,290)                             | \$ 676,613                       | \$ 240,102               | \$ 916,715   |
| Common stock issued under employee benefit plans, net of restricted stock cancellations |                 |            | 188,693                          |        | 5,510                      |                   |  | 5,510                            |                          | 5,510        |
| Income tax benefit from stock options exercised, vesting of restricted stock and other  |                 |            |                                  |        | 2,022                      |                   |  | 2,022                            |                          | 2,022        |
| Net income (loss)   |                 |            |                                  |        |                            | 27,118            |  | 27,118                           | (4,218)                  | 22,900       |
| Capital calls and (distributions), net  |                 |            |                                  |        |                            |                   |  |                                  | 36,845                   | 36,845       |
| Net change in unrealized losses on available-for-sale investment securities             |                 |            |                                  |        |                            |                   | 3,395                                  | 3,395                            |                          | 3,395        |
| Translation adjustments   |                 |            |                                  |        |                            |                   | (59)                                   | (59)                             |                          | (59)         |
| Common stock repurchases  |                 |            | (979,628)                        | (1)    | (11,870)                   | (32,749)          |  | (44,620)                         |                          | (44,620)     |
| Stock-based compensation expense under SFAS 123(R)                                      |                 |            |                                  |        | 3,647                      |                   |  | 3,647                            |                          | 3,647        |
| Other-net   |                 |            |                                  |        | 1,499                      | 13                |  | 1,512                            |                          | 1,512        |
| <b>Balance at March 31, 2008</b>  |                 | \$         | 31,879,622                       | \$ 32  | \$ 13,975                  | \$ 664,085        | \$ (2,954)                             | \$ 675,138                       | \$ 272,729               | \$ 947,867   |
| <b>Balance at December 31, 2008</b>   | 235,000         | \$ 221,185 | 32,917,007                       | \$ 33  | \$ 66,201                  | \$ 712,254        | \$ (5,789)                             | \$ 993,884                       | \$ 320,356               | \$ 1,314,240 |
| 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  |                 |            |                                  |        | 1,342                      |                   |  | 1,342                            |                          | 1,342        |

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

|  |       |         |  |         |          |          |
|--|-------|---------|--|---------|----------|----------|
| Net (loss)   |       | (7,010) |  | (7,010) | (33,993) | (41,003) |
| Capital calls and<br>(distributions), net  |       |         |  |         | 13,911   | 13,911   |
| Net change in<br>unrealized losses on<br>available-for-sale<br>investment securities |       | 3,693   |  | 3,693   |          | 3,693    |
| Translation<br>adjustments   |       | (1,066) |  | (1,066) |          | (1,066)  |
| Stock-based<br>compensation expense<br>under SFAS 123(R)                             | 3,908 |         |  | 3,908   |          | 3,908    |
| Preferred stock<br>dividend and discount<br>accretion                                | 598   | (3,536) |  | (2,938) |          | (2,938)  |
| Other-net  | 225   |         |  | 225     |          | 225      |

**Balance at March 31, 2009**      **235,000**   **\$ 221,783**   **32,935,515**   **\$ 33**   **\$ 71,761**   **\$ 701,708**   **\$ (3,162)**   **\$ 992,123**   **\$ 300,274**   **\$ 1,292,397**

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>2009</b>                         | <b>2008</b>      |
| <b>Cash flows from operating activities:</b>   |                                     |                  |
| Net (loss) income attributable to SVBFG  | \$ (7,010)                          | \$ 27,118        |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                                     |                  |
| Impairment of goodwill   | 4,092                               |                  |
| Provision for loan losses  | 43,466                              | 7,723            |
| (Reduction of) provision for unfunded credit commitments                                 | (2,284)                             | (165)            |
| Changes in fair values of derivatives, net   | (1,452)                             | 2,325            |
| Losses on investment securities, net   | 35,045                              | 6,112            |
| Depreciation and amortization  | 7,239                               | 7,209            |
| Net loss attributable to noncontrolling interests  | (33,993)                            | (4,218)          |
| Tax benefit of original issue discount   | 1,105                               | 627              |
| Tax benefit of share-based compensation and other  | 178                                 | 620              |
| Amortization of share-based compensation   | 3,887                               | 3,647            |
| Amortization of deferred warrant-related loan fees                                       | (2,126)                             | (1,862)          |
| Deferred income tax (benefit) expense  | (2,937)                             | 8,669            |
| Loss on valuation adjustments to other real estate owned property                        | 50                                  | 114              |
| Changes in other assets and liabilities:   |                                     |                  |
| Accrued interest, net  | 5,503                               | 3,928            |
| Accounts receivable  | (4,031)                             | 269              |
| Income tax receivable, net   | (11,930)                            | 2,969            |
| Accrued compensation   | (16,313)                            | (42,914)         |
| Foreign exchange spot contracts, net   | (8,106)                             | 4,050            |
| Other, net   | 2,807                               | 2,109            |
| <b>Net cash provided by operating activities</b>   | <b>13,190</b>                       | <b>28,330</b>    |
| <b>Cash flows from investing activities:</b>   |                                     |                  |
| Purchases of available-for-sale securities   | (340,303)                           | (27,726)         |
| Proceeds from sales of available-for-sale securities                                     | 7                                   | 910              |
| Proceeds from maturities and pay downs of available-for-sale securities                  | 86,882                              | 43,831           |
| Purchases of nonmarketable securities (cost and equity method accounting)                | (14,035)                            | (15,956)         |
| Proceeds from sales of nonmarketable securities (cost and equity method accounting)      | 648                                 | 1,801            |
| Proceeds from nonmarketable securities (cost and equity method accounting)               |                                     | 354              |
| Purchases of nonmarketable securities (investment fair value accounting)                 | (12,381)                            | (26,847)         |
| Proceeds from sales of nonmarketable securities (investment fair value accounting)       | 2,193                               | 5,767            |
| Net decrease (increase) in loans   | 460,629                             | (204,028)        |
| Proceeds from recoveries of charged-off loans  | 1,161                               | 828              |
| Purchases of premises and equipment  | (2,475)                             | (1,983)          |
| <b>Net cash provided by (used for) investing activities</b>                              | <b>182,326</b>                      | <b>(223,049)</b> |
| <b>Cash flows from financing activities:</b>   |                                     |                  |
| Net increase in deposits   | 1,008,852                           | 158,010          |
| Principal payments of other long-term debt   | (505)                               | (244)            |
| (Decrease) increase in short-term borrowings   | (5,670)                             | 30,000           |
| Capital contributions from noncontrolling interests, net of distributions                | 13,911                              | 37,358           |
| Stock compensation related tax benefits  | 60                                  | 774              |
| Dividends paid on preferred stock  | (2,056)                             |                  |
| Proceeds from issuance of common stock   | 85                                  | 5,510            |

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

|  |                     |                   |
|--|---------------------|-------------------|
| Repurchases of common stock                          |                     | (44,620)          |
| <b>Net cash provided by financing activities</b>     | <b>1,014,677</b>    | <b>186,788</b>    |
| Net increase (decrease) in cash and cash equivalents | 1,210,193           | (7,931)           |
| Cash and cash equivalents at beginning of period     | 2,438,810           | 684,063           |
| <b>Cash and cash equivalents at end of period</b>    | <b>\$ 3,649,003</b> | <b>\$ 676,132</b> |

## Supplemental disclosures:

Noncash items during the period:

|  |          |        |
|--|----------|--------|
| Preferred stock dividends accrued, not yet paid                                | \$ 1,469 | \$     |
| Expense associated with loans issued under the Employee Home Ownership Program | 365      | 180    |
| Unrealized gains on available-for-sale securities                              | 3,697    | 2,911  |
| Net change in fair value of interest rate swaps                                | (31,629) | 17,454 |

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 refer to SVB Financial Group, the Company, we, our, us or use 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 refer to SVB Financial , SVBFG 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, 2009 are not necessarily indicative of results to be expected for any future periods. These interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008 ( 2008 Form 10-K ).

The accompanying interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Consolidated Financial Statements and Supplementary Data Note 2- Summary of Significant Accounting Policies under Part II, Item 8 of our 2008 Form 10-K.

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 adequacy of the allowance for loan losses, valuation of equity warrant assets, the recognition and measurement of income tax assets and liabilities, the adequacy of the reserve for unfunded credit commitments, and share-based compensation.

##### ***Principles of Consolidation and Presentation***

Our consolidated interim financial statements include the accounts of SVB Financial Group and our majority-owned subsidiaries and variable interest entities ( VIEs ) for which we are the primary beneficiary. There have been no significant changes during the three months ended March 31, 2009 to our majority-owned subsidiaries and VIEs. Refer to our Consolidated Financial Statements and Supplementary Data-Note 2- Summary of Significant Accounting Policies under Part II, Item 8 of our 2008 Form 10-K.

##### ***Impact of Adopting SFAS No. 160***

In December 2007, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* ( SFAS No. 160 ). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Our adoption of SFAS No. 160 on January 1, 2009 required us to reclassify our presentation of noncontrolling interests (formerly referred to as minority interests) and had no effect on our results of operations or stockholders' equity.

##### ***Impact of Adopting SFAS No. 161***

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

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS No. 161 ). SFAS No. 161 requires companies with derivative instruments to provide enhanced disclosure information that should enable financial statement users to better understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ) and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. Our adoption of SFAS No. 161 on January 1, 2009 required us to expand our disclosures for our derivative financial instruments. Please refer to Note 9- Derivative Financial Instruments for further details.

**Table of Contents****Impact of Adopting FSP APB No. 14-1**

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

As a result of adopting the requirements of FSP APB No. 14-1, our net loss applicable to common stockholders for the three months ended March 31, 2009 increased by \$0.3 million. Total SVBFG stockholders' equity, based on cumulative adjustments beginning January 1, 2007 through March 31, 2009 increased by \$4.9 million. The following table highlights certain revised items related to the adoption of FSP APB No. 14-1 in our unaudited consolidated statements of income and balance sheets for the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008.

|  | March 31, 2009 | Three months ended     |                  | March 31, 2008         |                              |
|--|----------------|------------------------|------------------|------------------------|------------------------------|
|  |                | December 31, 2008      | March 31, 2008   | December 31, 2008      | March 31, 2008               |
|  |                | As reported            | As reported      | As reported            | As reported                  |
| (Dollars in thousands, except per share amounts)   | As reported    | As adjusted (1/1/2009) | in prior filings | As adjusted (1/1/2009) | As reported in prior filings |
| <b>INCOME STATEMENT</b>                            |                |                        |                  |                        |                              |
| Interest expense - borrowings                      | \$ 8,181       | \$ 10,219              | \$ 9,694         | \$ 12,536              | \$ 11,233                    |
| Income tax (benefit) expense                       | (1,702)        | 2,111                  | 2,319            | 18,283                 | 18,801                       |
| Net (loss) income attributable to SVBFG            | (7,010)        | 2,105                  | 2,422            | 27,118                 | 27,903                       |
| Net (loss) income available to common stockholders | (10,546)       | 1,398                  | 1,715            | 27,118                 | 27,903                       |
| (Loss) earnings per common share - diluted         | (0.32)         | 0.04                   | 0.05             | 0.78                   | 0.81                         |
| <b>BALANCE SHEET</b>                               |                |                        |                  |                        |                              |
| Total assets                                       | \$ 10,958,768  | \$ 10,020,808          | \$ 10,020,892    | \$ 6,897,285           | \$ 6,897,303                 |
| Long-term debt                                     | 964,175        | 995,423                | 1,000,640        | 892,516                | 893,189                      |
| Additional paid-in capital                         | 71,761         | 66,201                 | 45,872           | 13,975                 |                              |
| Retained earnings                                  | 701,708        | 712,254                | 727,450          | 664,085                | 678,078                      |

**Reclassifications**

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

**Recent Accounting Pronouncements**

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP No. 157-4 ). FSP No. 157-4 provides guidance to highlight and expand on factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset or liability. FSP 157-4 also provides guidance on identifying circumstances that may indicate that a transaction is not orderly. FSP No. 157-4 is effective for interim periods ending after June 15, 2009. We are currently assessing the impact of FSP No. 157-4 on our consolidated financial position and results of operations and we do not expect any material changes.

In April 2009, the FASB issued FSP No. 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ( OTTI ) ( FSP No. 115-2 and SFAS No. 124-2 ). FSP No. 115-2 and SFAS No. 124-2 change the methodology for determining whether OTTI exists for debt securities. FSP No. 115-2 and SFAS No. 124-2 require changes to the presentation of OTTI impairment in the statements of income for those impairments involving credit losses, as well as enhanced disclosures regarding the methodology and significant inputs used to measure the amount related to credit losses. FSP No. 115-2 and SFAS No. 124-2 is effective for interim periods ending after June 15, 2009. We are currently assessing the impact of FSP No. 115-2 and SFAS No. 124-2 on our consolidated financial position and results of operations and we do not expect any material changes.

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

In April 2009, the FASB issued FSP No. 107-1 and APB Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP No. 107-1 and APB No. 28-1 ), which require interim disclosures regarding the fair values of all financial instruments within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, as well as the methods and significant assumptions used to estimate the fair value of those financial instruments. FSP No. 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009. The guidance expands the disclosure requirements and has no impact on our consolidated financial position and results of operations.



## Table of Contents

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

#### Common Stock

We did not repurchase any shares of our common stock for the three months ended March 31, 2009. We repurchased 1.0 million shares for the three months ended March 31, 2008 totaling \$44.6 million. In July 2008 upon expiration of our earlier stock repurchase program, our Board of Directors approved a stock repurchase program authorizing us to purchase up to \$150.0 million of our common stock, which expires on December 31, 2009. At March 31, 2009, \$150.0 million of shares remain authorized for repurchase under our current stock repurchase program.

#### Preferred Stock

In connection with our participation in the U.S. Treasury's ( Treasury ) Capital Purchase Program (the CPP ) in the latter part of the fourth quarter of 2008, for the three months ended March 31, 2009, we have accrued dividends of \$2.9 million on our Series B Fixed Rate Cumulative Perpetual Preferred Stock ( Series B Preferred Stock ). At December 31, 2008, accrued dividends were \$0.6 million.

#### Earnings Per Share

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for stock options, our Employee Stock Purchase Plan, restricted stock awards and units, our \$150 million zero-coupon convertible subordinated notes ( 2003 Convertible Notes ) and related warrants, our \$250 million of 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, 2009 and 2008:

| (Dollars and shares in thousands, except per share amounts) | Three months ended March 31, |           |
|---|------------------------------|-----------|
|   | 2009                         | 2008      |
| Numerator:  |                              |           |
| Net (loss) income attributable to SVBFG                     | \$ (7,010)                   | \$ 27,118 |
| Preferred stock dividend and discount accretion             | (3,536)                      |           |
| Net (loss) income available to common stockholders          | \$ (10,546)                  | \$ 27,118 |
| Denominator:  |                              |           |
| Weighted average common shares outstanding-basic            | 32,932                       | 32,280    |
| Weighted average effect of dilutive securities:             |                              |           |
| Stock options   |                              | 1,012     |
| Restricted stock awards and units                           |                              | 73        |
| 2003 Convertible Notes                                      |                              | 1,218     |
| Denominator for diluted calculation                         | 32,932                       | 34,583    |
| Net (loss) income per common share:                         |                              |           |
| Basic   | \$ (0.32)                    | \$ 0.84   |
| Diluted   | \$ (0.32)                    | \$ 0.78   |

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.



**Table of Contents**

The following table summarizes the common shares excluded from the diluted EPS calculation as they were deemed to be anti-dilutive for the three months ended March 31, 2009 and 2008:

| (Shares in thousands)                            | Three months ended March 31, |              |
|--|------------------------------|--------------|
|  | 2009                         | 2008         |
| Stock options                                    | 2,933                        | 880          |
| Restricted stock awards and units                | 847                          | 3            |
| Warrants associated with 2003 Convertible Notes  |                              | 485          |
| 2008 Convertible Notes                           | 7,848                        |              |
| Warrants associated with 2008 Convertible Notes  | 10,544                       |              |
| Warrant associated with Capital Purchase Program | 1,062                        |              |
| <b>Total</b>                                     | <b>23,234</b>                | <b>1,368</b> |

**3. Share-Based Compensation**

For the three months ended March 31, 2009 and 2008, we recorded share-based compensation expense of \$3.9 million and \$3.5 million, respectively, resulting in the recognition of \$1.0 million and \$0.8 million, respectively, in related tax benefits.

**Unrecognized Compensation Expense**

At March 31, 2009, unrecognized share-based compensation expense was as follows:

| (Dollars in thousands)                                     | Unrecognized Expense | Average Expected<br>Recognition Period - in<br>Years |
|--|----------------------|--|
|  |                      |  |
| Stock options  | \$ 5,939             | 1.25   |
| Restricted stock units                                     | 10,821               | 1.25   |
| <b>Total unrecognized share-based compensation expense</b> | <b>\$ 16,760</b>     |  |

**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, 2009:

|                                      | Shares           | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life in Years | Aggregate<br>Intrinsic Value<br>of In-The-<br>Money Options |
|--------------------------------------|------------------|---------------------------------------|--|---|
| Outstanding at December 31, 2008     | 3,130,929        | \$ 37.25                              |  |   |
| Granted                              | 7,088            | 21.75                                 |  |   |
| Exercised                            | (15,562)         | 9.62                                  |  |   |
| Forfeited                            | (2,975)          | 48.90                                 |  |   |
| Expired                              | (15,201)         | 36.53                                 |  |   |
| <b>Outstanding at March 31, 2009</b> | <b>3,104,279</b> | <b>37.34</b>                          | <b>3.38</b>  | <b>\$ 570,227</b>   |

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

|   |           |       |      |         |
|---|-----------|-------|------|---------|
| Vested and expected to vest at March 31, 2009 | 3,020,243 | 37.03 | 3.32 | 569,530 |
| Exercisable at March 31, 2009                 | 2,278,543 | 33.21 | 2.70 | 566,732 |

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value based on our closing stock price of \$20.01 as of March 31, 2009. The total intrinsic value of options exercised during the three months ended March 31, 2009 and 2008 was \$0.2 million and \$3.3 million, respectively.

**Table of Contents**

The table below provides information for restricted stock awards and restricted stock units under the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the three months ended March 31, 2009:

|                                | Shares  | Weighted Average<br>Grant Date Fair Value |
|--------------------------------|---------|---|
| Nonvested at December 31, 2008 | 393,463 | \$ 46.49                                  |
| Granted                        | 3,750   | 22.19                                     |
| Vested                         | (4,952) | 17.95                                     |
| Forfeited                      | (1,259) | 21.46                                     |
| Nonvested at March 31, 2009    | 391,002 | 46.70                                     |

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

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

| (Dollars in thousands)   | March 31, 2009 | December 31, 2008 |
|--|----------------|-------------------|
| Federal funds sold overnight   | \$             | \$ 250,000        |
| Securities purchased under agreements to resell  | 62,142         | 150,910           |
| Interest-earning deposits  | 174,997        | 169,022           |
| Other short-term investment securities   | 49,648         | 77,482            |
| Total federal funds sold, securities purchased under agreements to resell and other short-term investment securities | \$ 286,787     | \$ 647,414        |

In addition to the above, as of March 31, 2009 and December 31, 2008, \$3.1 billion and \$1.1 billion, respectively, of our cash and due from banks was deposited at the Federal Reserve Bank and was earning interest at the Federal Funds target rate.

**5. Investment Securities**

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

|   | March 31, 2009    |                     |                      |                   | December 31, 2008 |                     |                      |                   |
|---|-------------------|---------------------|----------------------|-------------------|-------------------|---------------------|----------------------|-------------------|
| (Dollars in thousands)                        | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Carrying<br>Value | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Carrying<br>Value |
| Marketable securities:                        |                   |                     |                      |                   |                   |                     |                      |                   |
| Available-for-sale securities, at fair value: |                   |                     |                      |                   |                   |                     |                      |                   |
| U.S. agencies and corporations:               |                   |                     |                      |                   |                   |                     |                      |                   |
| Collateralized mortgage obligations           | \$ 549,258        | \$ 8,303            | \$ (20,498)          | \$ 537,063        | \$ 590,876        | \$ 5,609            | \$ (16,736)          | \$ 579,749        |
| Mortgage-backed securities                    | 439,991           | 14,378              | (1,564)              | 452,805           | 459,770           | 9,910               | (2,230)              | 467,450           |
| U.S. agency debentures                        | 430,016           | 3,880               | (129)                | 433,767           | 109,981           | 3,622               |                      | 113,603           |
| Commercial mortgage-backed securities         | 52,773            |                     | (5,956)              | 46,817            | 54,202            |                     | (6,721)              | 47,481            |
| Municipal bonds and notes                     | 104,786           | 1,784               | (1,136)              | 105,434           | 109,405           | 1,384               | (2,034)              | 108,755           |
| Marketable equity securities                  | 443               | 15                  | (12)                 | 446               | 157               |                     | (5)                  | 152               |
| Venture capital fund investments              |                   | 1                   |                      | 1                 |                   | 1                   |                      | 1                 |

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

|   |              |           |             |              |              |           |             |              |
|---|--------------|-----------|-------------|--------------|--------------|-----------|-------------|--------------|
| Total available-for-sale securities                                   | \$ 1,577,267 | \$ 28,361 | \$ (29,295) | \$ 1,576,333 | \$ 1,324,391 | \$ 20,526 | \$ (27,726) | \$ 1,317,191 |
| Marketable securities (investment company fair value accounting) (1)  |              |           |             | 1,297        |              |           |             | 1,703        |
| Non-marketable securities (investment company fair value accounting): |              |           |             |              |              |           |             |              |
| Private equity fund investments (2)                                   |              |           |             | 218,366      |              |           |             | 242,645      |
| Other private equity investments (3)                                  |              |           |             | 82,473       |              |           |             | 82,444       |
| Other investments (4)   |              |           |             | 1,276        |              |           |             | 1,547        |
| Non-marketable securities (equity method accounting):                 |              |           |             |              |              |           |             |              |
| Other investments (5)   |              |           |             | 32,137       |              |           |             | 27,000       |
| Low income housing tax credit funds                                   |              |           |             | 30,381       |              |           |             | 31,510       |
| Non-marketable securities (cost method accounting):                   |              |           |             |              |              |           |             |              |
| Private equity fund investments (6)                                   |              |           |             | 76,755       |              |           |             | 69,971       |
| Other private equity investments                                      |              |           |             | 13,139       |              |           |             | 12,089       |
| Total investment securities   |              |           |             | \$ 2,032,157 |              |           |             | \$ 1,786,100 |

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

## Table of Contents

| (Dollars in thousands)           | March 31, 2009 |             | December 31, 2008 |             |
|----------------------------------|----------------|-------------|-------------------|-------------|
|                                  | Amount         | Ownership % | Amount            | Ownership % |
| Partners for Growth, LP          | \$ 960         | 50.0%       | \$ 1,233          | 50.0%       |
| SVB India Capital Partners I, LP | 337            | 14.4        | 470               | 14.4        |
| Total marketable securities      | \$ 1,297       |             | \$ 1,703          |             |

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

| (Dollars in thousands)                | March 31, 2009 |             | December 31, 2008 |             |
|---------------------------------------|----------------|-------------|-------------------|-------------|
|                                       | Amount         | Ownership % | Amount            | Ownership % |
| SVB Strategic Investors Fund, LP      | \$ 55,464      | 12.6%       | \$ 65,985         | 12.6%       |
| SVB Strategic Investors Fund II, LP   | 80,951         | 8.6         | 94,161            | 8.6         |
| SVB Strategic Investors Fund III, LP  | 79,582         | 5.9         | 80,780            | 5.9         |
| SVB Strategic Investors Fund IV, LP   | 2,369          | 5.0         | 1,719             | 5.0         |
| Total private equity fund investments | \$ 218,366     |             | \$ 242,645        |             |

- (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, 2009 and December 31, 2008:

| (Dollars in thousands)                 | March 31, 2009 |             | December 31, 2008 |             |
|--|----------------|-------------|-------------------|-------------|
|  | Amount         | Ownership % | Amount            | Ownership % |
| Silicon Valley BancVentures, LP        | \$ 23,537      | 10.7%       | \$ 24,188         | 10.7%       |
| SVB Capital Partners II, LP (i)        | 37,253         | 5.1         | 38,234            | 5.1         |
| SVB India Capital Partners I, LP       | 21,683         | 14.4        | 20,022            | 14.4        |
| Total other private equity investments | \$ 82,473      |             | \$ 82,444         |             |

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

| (Dollars in thousands) | March 31, 2009 |             | December 31, 2008 |             |
|------------------------|----------------|-------------|-------------------|-------------|
|                        | Amount         | Ownership % | Amount            | Ownership % |

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

|                                      |           |      |           |      |
|--------------------------------------|-----------|------|-----------|------|
| Gold Hill Venture Lending 03, LP (i) | \$ 17,816 | 9.3% | \$ 18,234 | 9.3% |
| Partners for Growth II, LP           | 10,622    | 24.2 | 8,559     | 24.2 |
| Other fund investment                | 3,699     |      | 207       |      |
| Total other investments              | \$ 32,137 |      | \$ 27,000 |      |

- (i) At March 31, 2009, we had a direct ownership interest of 4.8% in the fund. In addition, we had a 90.7% direct ownership interest in the fund's general partner, Gold Hill Venture Lending Partners 03, LLC ( GHLLC ). GHLLC has a direct ownership interest of 5.0% in Gold Hill Venture Lending 03, LP and its parallel funds. Our indirect interest in the fund through our investment in GHLLC is 4.5%. Our aggregate direct and indirect ownership in the fund is 9.3%.
- (6) Represents investments in 356 and 360 private equity funds at March 31, 2009 and December 31, 2008, respectively, where our ownership interest is less than 5% of the voting stock of each such fund.



## Table of Contents

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, 2009:

| (Dollars in thousands)                    | Less than 12 months       |                   | March 31, 2009<br>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. agencies and corporations:           |                           |                   |                                       |                   |                           |                   |
| Collateralized mortgage obligations (1)   | \$ 16,408                 | \$ (875)          | \$ 86,804                             | \$ (19,623)       | \$ 103,212                | \$ (20,498)       |
| Mortgage-backed securities (1)            | 4,499                     | (12)              | 18,531                                | (1,552)           | 23,030                    | (1,564)           |
| U.S. agency debentures                    | 85,971                    | (129)             |                                       |                   | 85,971                    | (129)             |
| Commercial mortgage-backed securities (1) |                           |                   | 46,817                                | (5,956)           | 46,817                    | (5,956)           |
| Municipal bonds and notes (1)             | 19,695                    | (757)             | 12,502                                | (379)             | 32,197                    | (1,136)           |
| Marketable equity securities              | 38                        | (12)              |                                       |                   | 38                        | (12)              |
| Total temporarily impaired securities     | \$ 126,611                | \$ (1,785)        | \$ 164,654                            | \$ (27,510)       | \$ 291,265                | \$ (29,295)       |

- (1) As of March 31, 2009, we identified a total of 93 investments that were in unrealized loss positions, of which 51 investments totaling \$164.7 million with unrealized losses of \$27.5 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: Collateralized mortgage obligations between May 2002 and July 2005, mortgage-backed securities between June 2003 and April 2005, commercial mortgage-backed securities between April 2005 and July 2005 and municipal bonds and notes between December 2007 and February 2008. All investments with unrealized losses for a period of time greater than 12 months are considered investment graded by either Moody's or S&P or were issued by a government sponsored enterprise. The unrealized losses are due primarily to increases in market interest rate or increase in market spreads to benchmark interest rates relative to rates and spreads at the time of purchase. Based on the underlying credit quality of the investments, we expect these impairments to be temporary, and as such, we expect the market value on these investments to recover over time and we have the intent and ability to hold these investments until recovery or final maturity. Market valuations and impairment analyses on assets in the investment portfolio are reviewed and monitored on an ongoing basis.

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

| (Dollars in thousands)                | Less than 12 months       |                   | December 31, 2008<br>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. agencies and corporations:       |                           |                   |  |                   |                           |                   |
| Collateralized mortgage obligations   | \$ 53,618                 | \$ (2,892)        | \$ 94,550                                | \$ (13,844)       | \$ 148,168                | \$ (16,736)       |
| Mortgage-backed securities            | 4,692                     | (1,433)           | 19,239                                   | (797)             | 23,931                    | (2,230)           |
| Commercial mortgage-backed securities | 9,491                     | (404)             | 37,990                                   | (6,317)           | 47,481                    | (6,721)           |
| Municipal bonds and notes             | 39,694                    | (1,827)           | 4,091                                    | (207)             | 43,785                    | (2,034)           |
| Marketable equity securities          | 152                       | (5)               |  |                   | 152                       | (5)               |
| Total temporarily impaired securities | \$ 107,647                | \$ (6,561)        | \$ 155,870                               | \$ (21,165)       | \$ 263,517                | \$ (27,726)       |

**Table of Contents**

The 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, 2009 and 2008:

| (Dollars in thousands)  | Three months ended March 31, |                   |
|---|------------------------------|-------------------|
|   | 2009                         | 2008              |
| Gross gains on investment securities:                                       |                              |                   |
| Available-for-sale securities, at fair value                                | \$ 7                         | \$ 66             |
| Marketable securities (investment company fair value accounting)            | 488                          |                   |
| Non-marketable securities (investment company fair value accounting):       |                              |                   |
| Private equity fund investments   | 615                          | 10,100            |
| Other private equity investments  | 52                           | 1,718             |
| Other investments   | 364                          |                   |
| Non-marketable securities (equity method accounting):                       |                              |                   |
| Other investments   | 564                          | 369               |
| Non-marketable securities (cost method accounting):                         |                              |                   |
| Private equity fund investments   | 66                           | 284               |
| Other private equity investments  | 22                           |                   |
| <b>Total gross gains on investment securities</b>                           | <b>2,178</b>                 | <b>12,537</b>     |
| Gross losses on investment securities:                                      |                              |                   |
| Available-for-sale securities, at fair value                                |                              | (887)             |
| Marketable securities (investment company fair value accounting)            | (196)                        | (1,913)           |
| Non-marketable securities (investment company fair value accounting):       |                              |                   |
| Private equity fund investments   | (30,810)                     | (7,317)           |
| Other private equity investments  | (5,149)                      | (1,653)           |
| Other investments   |                              | (5,514)           |
| Non-marketable securities (equity method accounting):                       |                              |                   |
| Other investments   | (120)                        | (1,091)           |
| Non-marketable securities (cost method accounting):                         |                              |                   |
| Private equity fund investments   | (948)                        | (274)             |
| Other private equity investments  |                              |                   |
| <b>Total gross losses on investment securities</b>                          | <b>(37,223)</b>              | <b>(18,649)</b>   |
| <b>Losses on investment securities, net</b>                                 | <b>\$ (35,045)</b>           | <b>\$ (6,112)</b> |
| Losses attributable to noncontrolling interests, including carried interest | \$ (30,438)                  | \$ (1,899)        |

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

The composition of loans, net of unearned income of \$42.1 million and \$45.4 million at March 31, 2009 and December 31, 2008, respectively, is presented in the following table:

| (Dollars in thousands)                     | March 31, 2009      | December 31, 2008   |
|--|---------------------|---------------------|
| Commercial loans                           | \$ 4,028,813        | \$ 4,515,019        |
| Premium wine (1)                           | 400,505             | 419,539             |
| Community development loans (2)            | 57,769              | 48,293              |
| Consumer and other (3)                     | 515,982             | 523,402             |
| <b>Total loans, net of unearned income</b> | <b>\$ 5,003,069</b> | <b>\$ 5,506,253</b> |

- (1) Premium wine consists of loans for vineyard development as well as working capital and equipment term loans to meet the needs of our clients – premium wineries and vineyards. At March 31, 2009 and December 31, 2008, \$266.5 million and \$269.6 million, respectively, of such loans were secured by real estate.
- (2) Community development loans consist of low income housing loans made as part of our responsibilities under the Community Reinvestment Act and are primarily secured by real estate.

## Table of Contents

- (3) Consumer and other loans consist of loans to targeted high-net-worth individuals. These products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans and capital call lines of credit. This category also includes loans made to eligible employees through our Employee Home Ownership Plan ( EHOP ). Loans secured by real estate at March 31, 2009, and December 31, 2008 were comprised of the following:

| (Dollars in thousands)                | March 31, 2009 | December 31, 2008 |
|---------------------------------------|----------------|-------------------|
| Home equity lines of credit (i)       | \$ 86,675      | \$ 89,544         |
| Loans to eligible employees (ii)      | 83,771         | 74,759            |
| Loans for personal residence (iii)    | 63,743         | 58,700            |
| Consumer loans secured by real estate | \$ 234,189     | \$ 223,003        |

- (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, 2009 and 2008 was as follows:

| (Dollars in thousands)                       | Three months ended March 31, |           |
|--|------------------------------|-----------|
|  | 2009                         | 2008      |
| Allowance for loan losses, beginning balance | \$ 107,396                   | \$ 47,293 |
| Provision for loan losses                    | 43,466                       | 7,723     |
| Gross loan charge-offs                       | (42,013)                     | (6,208)   |
| Loan recoveries                              | 1,161                        | 828       |
| Allowance for loan losses, ending balance    | \$ 110,010                   | \$ 49,636 |

## Nonaccrual Loans

The aggregate investment in loans for which impairment has been determined in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, totaled \$97.6 million and \$84.9 million at March 31, 2009 and December 31, 2008, respectively. There were no commitments available for funding to any clients with nonaccrual loans at March 31, 2009 and at December 31, 2008. The allocation of the allowance for loan losses related to impaired loans was \$41.7 million and \$25.9 million at March 31, 2009 and December 31, 2008, respectively. Our accruing loans past due 90 days or more were \$3.5 million and \$2.3 million at March 31, 2009 and December 31, 2008, respectively.

## 7. Goodwill

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

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

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

| (Dollars in thousands)              | Maturity         | March 31, 2009 | December 31, 2008 |
|-------------------------------------|------------------|----------------|-------------------|
| <i>Short-term borrowings:</i>       |                  |                |                   |
| Other short-term borrowings         | (1)              | \$ 56,450      | \$ 62,120         |
| Total short-term borrowings         |                  | \$ 56,450      | \$ 62,120         |
| <i>Long-term debt:</i>              |                  |                |                   |
| FHLB advances                       | (2)              | \$ 100,000     | \$ 100,000        |
| 5.70% senior notes                  | June 1, 2012     | 273,664        | 279,370           |
| 6.05% subordinated notes            | June 1, 2017     | 288,220        | 313,953           |
| 3.875% convertible senior notes (3) | April 15, 2011   | 245,329        | 244,783           |
| 7.0% junior subordinated debentures | October 15, 2033 | 55,932         | 55,914            |
| 8.0% long-term notes payable        | (4)              | 1,030          | 1,403             |
| Total long-term debt                |                  | \$ 964,175     | \$ 995,423        |

- (1) Represents cash collateral received from counterparties for our interest rate swap agreements related to our senior and subordinated notes.
- (2) Represents Federal Home Loan Bank ( FHLB ) advances of \$50 million maturing in May 2009 and \$50 million maturing in November 2009.
- (3) Balance as of December 31, 2008 reflects a retrospective adjustment resulting from our adoption of FSP APB No. 14-1 on January 1, 2009 (see Note 1- Basis of Presentation ).
- (4) Represents long-term notes payable at eProsper and was payable beginning January 1, 2008 with the last payment due in November 2009. SVB purchased a 65% interest in eProsper in 2006.

Interest expense related to short-term borrowings and long-term debt was \$8.2 million and \$12.5 million for the three months ended March 31, 2009 and 2008, respectively. Interest expense shown is net of the cash flow impact from our interest rate swap agreements related to our senior and subordinated notes and junior subordinated debentures. In December 2008, our counterparty called the swap on our junior subordinated debentures for settlement in January 2009. As a result, the swap was terminated and is no longer designated as a hedging instrument. Additionally, interest expense for the three months ended March 31, 2008 reflects a retrospective adjustment resulting from our adoption of FSP APB No. 14-1 on January 1, 2009 (see Note 1- Basis of Presentation ).

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

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

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

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

holders of the notes.

For the three months ended March 31, 2009, the effective interest rate for our 2008 Convertible Notes was 5.81 percent and interest expense was \$3.5 million. At March 31, 2009, the unamortized debt discount totaled \$4.7 million, and will be amortized over the remaining contractual term of the debt.

## **Table of Contents**

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

We have certain facilities in place to enable us to access short-term borrowings on a secured (using fixed income securities as collateral) and an unsecured basis. These include repurchase agreements and uncommitted federal funds lines with various financial institutions. As of March 31, 2009, we had not borrowed against our repurchase lines or any of our uncommitted federal funds lines. We also pledge securities to the Federal Home Loan Bank of San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco at March 31, 2009 totaled \$644.4 million, of which \$542.4 million was available to support additional borrowings. The market value of collateral pledged at the discount window of the Federal Reserve Bank at March 31, 2009 totaled \$84.8 million, all of which was unused.

## **9. Derivative Financial Instruments**

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

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

Interest rate risk is our primary market risk and can result from timing and volume differences in the repricing of our interest rate-sensitive assets and liabilities and changes in market interest rates. To manage interest rate risk for our 5.70% senior notes and our 6.05% subordinated notes, we entered into fixed-for-floating interest rate swaps at the time of debt issuance.

Concurrent with the issuance of our 5.70% senior notes and 6.05% subordinated notes, we entered into matched-terms interest rate swap agreements based upon LIBOR with matched-terms. We use the shortcut method to assess hedge effectiveness and evaluate the hedging relationships for qualification under the shortcut method requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ( SFAS No. 133 ), for each reporting period.

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

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

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

We enter into foreign exchange forward contracts to hedge against exposures of our credit facilities that are denominated in foreign currencies to our clients, primarily in Pound Sterling, Euro, and Japanese Yen. We do not designate any foreign exchange forward contracts as derivative instruments that qualify for hedge accounting under SFAS No. 133. In accordance with SFAS No. 52, *Foreign Currency Translation*, changes in currency rates are included in other noninterest income, a component of noninterest income. We may experience ineffectiveness in the hedging relationship, because the credit facilities are revalued based upon changes in the currency's spot rate on the principal value, while the forwards are revalued on a discounted cash flow basis. We record forward agreements in gain positions in Other Assets and loss positions in Other Liabilities , while net changes in fair value are recorded through net 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. We intend to settle any conversions in cash up to the principal amount of the notes and, in shares of our common stock or cash or any combination thereof for any excess conversion value, at our option. The conversion option represents an equity risk exposure for the excess conversion value and is an equity derivative classified in stockholders' equity. We manage equity market price risk of our convertible debt instruments by entering into convertible note hedge and warrant agreements to increase the economic conversion price of our convertible debt instruments and to decrease potential dilution to stockholders resulting from the conversion option. Similar to the conversion option, the hedge and warrant agreements are equity derivatives classified in stockholders' equity.





## **Table of Contents**

Concurrent with the issuance of our \$150 million of Zero Coupon Convertible Subordinated Notes in 2003 ( 2003 Convertible Notes), we entered into a convertible note hedge agreement and a warrant agreement at a net cost of \$21.9 million, which effectively increased the economic conversion price from \$33.63 per common share to \$51.34. The 2003 Convertible Notes and associated note hedge and warrant agreement matured on June 15, 2008.

Concurrent with the issuance of our \$250 million of 3.875% Convertible Senior Notes in 2008 ( 2008 Convertible Notes ), we entered into a convertible note hedge and warrant agreement at a net cost of \$20.6 million, which effectively increased the economic conversion price from \$53.04 per common share to \$64.43. For the three months ended March 31, 2009, there were no note conversions or exercises under the warrant agreement as the notes were not convertible. For more information on the 2003 Convertible Notes and the 2008 Convertible Notes, see our Consolidated Financial Statements and Supplementary Data-Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2008 Form 10-K.

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

#### **Equity Warrant Assets**

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

#### **Other Derivatives**

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

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

## Table of Contents

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

| (Dollars in thousands)                             | Balance sheet location | Notional or contractual amount | March 31, 2009 |            |                  | December 31, 2008              |            |            | Net exposure (1) |
|--|------------------------|--------------------------------|----------------|------------|------------------|--------------------------------|------------|------------|------------------|
|  |                        |                                | Fair value     | Collateral | Net exposure (1) | Notional or contractual amount | Fair value | Collateral |                  |
| Derivatives designated as hedging instruments:     |                        |                                |                |            |                  |                                |            |            |                  |
| Interest Rate Risks:                               |                        |                                |                |            |                  |                                |            |            |                  |
| Interest rate swaps                                | Other assets           | \$ 500,000                     | \$ 62,513      | \$ 56,450  | \$ 6,063         | \$ 550,000                     | \$ 94,142  | \$ 62,120  | \$ 32,022        |
| Derivatives not designated as hedging instruments: |                        |                                |                |            |                  |                                |            |            |                  |
| Currency Exchange Risks:                           |                        |                                |                |            |                  |                                |            |            |                  |
| Foreign exchange forwards                          | Other assets           | 42,742                         | 3,044          |            | 3,044            | 50,393                         | 4,212      |            | 4,212            |
| Foreign exchange forwards                          | Other liabilities      | 11,697                         | (303)          |            | (303)            | 23,193                         | (1,092)    |            | (1,092)          |
| Net exposure                                       |                        |                                | 2,741          |            | 2,741            |                                | 3,120      |            | 3,120            |
| Other Derivative Instruments:                      |                        |                                |                |            |                  |                                |            |            |                  |
| Equity warrant assets                              | Other assets           | 130,151                        | 44,933         |            | 44,933           | 130,401                        | 43,659     |            | 43,659           |
| Other derivatives:                                 |                        |                                |                |            |                  |                                |            |            |                  |
| Foreign exchange forwards                          | Other assets           | 385,297                        | 27,952         |            | 27,952           | 354,399                        | 32,476     |            | 32,476           |
| Foreign exchange forwards                          | Other liabilities      | 376,665                        | (26,352)       |            | (26,352)         | 344,703                        | (31,039)   |            | (31,039)         |
| Foreign currency options                           | Other assets           | 25,024                         | 683            |            | 683              | 25,848                         | 501        |            | 501              |
| Foreign currency options                           | Other liabilities      | 25,024                         | (683)          |            | (683)            | 25,848                         | (501)      |            | (501)            |
| Net exposure                                       |                        |                                | 1,600          |            | 1,600            |                                | 1,437      |            | 1,437            |
| Net  |                        |                                | \$ 111,787     | \$ 56,450  | \$ 55,337        |                                | \$ 142,358 | \$ 62,120  | \$ 80,238        |

- (1) Net exposure for contracts in a gain position reflects the replacement cost in the event of nonperformance by all such counterparties. The credit ratings of our institutional counterparties as of March 31, 2009 remain at A or higher and there have been no material changes in their credit ratings for the three months ended March 31, 2009.

A summary of our derivative activity and the related impact on our consolidated statements of income for the three months ended March 31, 2009 and 2008 is as follows:

| (Dollars in thousands)                                   | Statement of income location        | Three months ended March 31, |        |
|--|-------------------------------------|------------------------------|--------|
|  |                                     | 2009                         | 2008   |
| <b>Derivatives designated as hedging instruments:</b>    |                                     |                              |        |
| <i>Interest Rate Risks:</i>                              |                                     |                              |        |
| Net cash benefit associated with interest rate swaps     | Interest expense - borrowings       | \$ 4,204                     | \$ 809 |
| Changes in fair value of interest rate swap              | Net gains on derivative instruments | (170)                        | (493)  |
| Net gains associated with interest rate risk derivatives |                                     | \$ 4,034                     | \$ 316 |

**Derivatives not designated as hedging instruments:**

*Currency Exchange Risks:*

|   |                                     |    |         |    |         |
|---|-------------------------------------|----|---------|----|---------|
| (Losses) gains on foreign currency loan revaluations, net | Other noninterest income            | \$ | (2,677) | \$ | 3,907   |
| Gains (losses) on foreign exchange forward contracts, net | Net gains on derivative instruments |    | 1,943   |    | (3,091) |
| Net (losses) gains associated with currency risk          |                                     | \$ | (734)   | \$ | 816     |

*Other Derivative Instruments:*

|   |                                     |    |       |    |       |
|---|-------------------------------------|----|-------|----|-------|
| Equity warrant assets                                   | Net gains on derivative instruments | \$ | (455) | \$ | 5,455 |
| Gains on client foreign exchange forward contracts, net | Net gains on derivative instruments | \$ | 496   | \$ | 728   |

**Table of Contents****10. Other Noninterest Income and Other Noninterest Expense**

A summary of other noninterest income for the three months ended March 31, 2009 and 2008, respectively, is as follows:

| (Dollars in thousands)                                    | Three months ended March 31, |                  |
|---|------------------------------|------------------|
|   | 2009                         | 2008             |
| Fund management fees                                      | \$ 2,717                     | \$ 1,920         |
| Gains (losses) on foreign currency revaluation, net       | 2,094                        | (521)            |
| Service-based fee income (1)                              | 1,829                        | 1,990            |
| Credit card fees  | 1,439                        | 1,699            |
| (Losses) gains on foreign currency loans revaluation, net | (2,677)                      | 3,907            |
| Other   | 790                          | 2,040            |
| <b>Total other noninterest income</b>                     | <b>\$ 6,192</b>              | <b>\$ 11,035</b> |

(1) Includes income from SVB Analytics and eProsper.

A summary of other noninterest expense for the three months ended March 31, 2009 and 2008, respectively, is as follows:

| (Dollars in thousands)                 | Three months ended March 31, |                 |
|--|------------------------------|-----------------|
|  | 2009                         | 2008            |
| Telephone                              | \$ 1,380                     | \$ 1,152        |
| Postage and supplies                   | 1,258                        | 754             |
| Tax credit fund amortization           | 1,129                        | 982             |
| Data processing services               | 1,012                        | 1,077           |
| Other                                  | 2,620                        | 2,155           |
| <b>Total other noninterest expense</b> | <b>\$ 7,399</b>              | <b>\$ 6,120</b> |

**11. Segment Reporting**

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

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

An operating segment is separately reportable if it exceeds any one of several quantitative thresholds specified in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. With respect to our operating segments, only Global Commercial Bank, Relationship Management and SVB Capital were determined to be reportable segments as of March 31, 2009.

The summary financial results of our operating segments are presented along with a reconciliation to our consolidated interim results. The Reconciling Items column reflects the adjustments necessary to reconcile the results of the operating segments to the interim consolidated financial statements prepared in conformity with GAAP. Net interest income in the Reconciling Items column is primarily interest income recognized from our fixed income investment portfolio. Noninterest income in the Reconciling Items column is primarily attributable to noncontrolling interests (formerly referred to as minority interests) and gains (losses) on equity warrant assets. Noninterest expense in the

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

Reconciling Items column primarily consists of expenses associated with corporate support functions such as information technology, finance, human resources, loan and deposit operations, and legal, as well as certain corporate wide adjustments related to compensation expenses. Additionally, average assets in the Reconciling Items column primarily consist of our fixed income investment portfolio balances.

### *Changes to Segment Reporting Effective January 1, 2009*

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

**Global Commercial Bank** provides solutions to the financial needs of commercial clients through lending, deposit products, cash management services, and global banking and trade products and services. It also serves

## Table of Contents

the needs of our non-U.S. clients with global banking products, including loans, deposits and global finance, in key foreign entrepreneurial markets. Previously, the operations of SVB Global were aggregated as a part of Other Business Services.

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

**SVB Capital** manages and sponsors venture capital and private equity funds on behalf of SVB Financial Group and other third party limited partners. The SVB Capital family of funds is comprised of funds it manages, including funds of funds, such as our SVB Strategic Investors Funds, and co-investment funds, such as our SVB Capital Partners funds and SVB India Capital Partners fund. Previously, SVB Capital also included our sponsored debt funds, Gold Hill Venture Lending funds, which provide secured debt, typically to emerging-technology clients in their earliest stages, and Partners for Growth funds, which provide secured debt primarily to higher-risk, middle-market clients in their later stages, and certain strategic investments held by SVB Financial.

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

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

| (Dollars in thousands)                      | Global<br>Commercial<br>Banking | Relationship<br>Management | SVB<br>Capital | Other<br>Business<br>Services | Reconciling<br>Items | Total        |
|---|---------------------------------|----------------------------|----------------|-------------------------------|----------------------|--------------|
| <b>Three months ended March 31, 2009</b>    |                                 |                            |                |                               |                      |              |
| Net interest income (loss)                  | \$ 94,259                       | \$ 8,887                   | \$ (2)         | \$ (26)                       | \$ (11,607)          | \$ 91,511    |
| Provision for loan losses                   | (42,815)                        | (649)                      |                |                               | (2)                  | (43,466)     |
| Noninterest income (loss)                   | 26,240                          | 303                        | (2,358)        | 1,597                         | (29,392)             | (3,610)      |
| Noninterest expense(1)                      | (29,562)                        | (3,649)                    | (3,346)        | (7,026)                       | (43,557)             | (87,140)     |
| (Loss) income before income tax expense(2)  | \$ 48,122                       | \$ 4,892                   | \$ (5,706)     | \$ (5,455)                    | \$ (84,558)          | \$ (42,705)  |
| Total average loans, net of unearned income | \$ 4,114,099                    | \$ 989,842                 | \$             | \$                            | \$ 12,311            | \$ 5,116,252 |
| Total average assets(3)                     | 4,199,044                       | 991,605                    | 400,862        | 76,295                        | 4,788,601            | 10,456,407   |
| Total average deposits                      | 7,749,826                       | 172,661                    |                |                               | 5,219                | 7,927,706    |
| <b>Three months ended March 31, 2008</b>    |                                 |                            |                |                               |                      |              |
| Net interest income (loss)                  | \$ 84,649                       | \$ 7,408                   | \$ 13          | \$ 34                         | \$ (1,326)           | \$ 90,778    |
| Provision for (recovery of) loan losses     | (8,149)                         | 455                        |                |                               | (29)                 | (7,723)      |
| Noninterest income (loss)                   | 33,657                          | 409                        | 2,079          | (1,856)                       | 7,276                | 41,565       |
| Noninterest expense(1)                      | (30,216)                        | (4,136)                    | (4,228)        | (2,285)                       | (42,572)             | (83,437)     |
| Income (loss) before income tax expense(2)  | \$ 79,941                       | \$ 4,136                   | \$ (2,136)     | \$ (4,107)                    | \$ (36,651)          | \$ 41,183    |
| Total average loans, net of unearned income | \$ 3,193,371                    | \$ 834,921                 | \$             | \$                            | \$ 84,573            | \$ 4,112,865 |
| Total average assets(4)                     | 3,247,069                       | 839,159                    | 293,612        | 73,248                        | 2,298,901            | 6,751,989    |
| Total average deposits                      | 4,282,395                       | 160,692                    |                |                               | (8,074)              | 4,435,013    |

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

- (1) The Global Commercial Bank segment includes direct depreciation and amortization of \$0.6 million and \$0.7 million for the three months ended March 31, 2009 and 2008, respectively.
- (2) The internal reporting model used by management to assess segment performance does not calculate income tax expense by segment.
- (3) For the three months ended March 31, 2009, total average assets for SVB Capital and Other Business Services included \$315.2 million and \$2.1 million, respectively, attributable to noncontrolling interests.
- (4) For the three months ended March 31, 2008, total average assets for SVB Capital and Other Business Services included \$257.2 million and \$6.5 million, respectively, attributable to noncontrolling interests.

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

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

## Table of Contents

### Commitments to Extend Credit

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

| (Dollars in thousands)  | March 31, 2009 | December 31, 2008 |
|---|----------------|-------------------|
| Commitments available for funding: (1)                                    |                |                   |
| Fixed interest rate commitments   | \$ 803,201     | \$ 689,063        |
| Variable interest rate commitments  | 4,269,403      | 4,941,423         |
| Total commitments available for funding                                   | \$ 5,072,604   | \$ 5,630,486      |
| Commitments unavailable for funding (2)                                   | \$ 1,232,678   | \$ 922,170        |
| Maximum lending limits for accounts receivable factoring arrangements (3) | 462,355        | 476,329           |
| Reserve for unfunded credit commitments                                   | 12,418         | 14,698            |

- (1) Represents commitments which are available for funding, due to clients meeting all collateral, compliance, and financial covenants under loan commitment agreements.
- (2) Represents commitments which are not available for funding, due to clients failing to meet all collateral, compliance, and financial covenants under loan commitment agreements.
- (3) We extend credit under accounts receivable factoring arrangements when our clients' sales invoices are deemed creditworthy under existing underwriting practices.

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

### Commercial and Standby Letters of Credit

The table below summarizes our commercial and standby letters of credit at March 31, 2009. The maximum potential amount of future payments represents the amount that could be remitted under letters of credit if there were 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   | \$ 593,410                  | \$ 45,552              | \$ 638,962               | \$ 638,962                        |
| Performance standby letters of credit | 21,444                      | 9,208                  | 30,652                   | 30,652                            |
| Commercial letters of credit          | 3,444                       |                        | 3,444                    | 3,444                             |
| Total                                 | \$ 618,298                  | \$ 54,760              | \$ 673,058               | \$ 673,058                        |

At both March 31, 2009 and December 31, 2008, deferred fees related to financial and performance standby letters of credit were \$4.8 million. At March 31, 2009, collateral in the form of cash of \$225.8 million and investment securities of \$42.3 million were available to us to reimburse losses, if any, under financial and performance standby letters of credit.



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

We make commitments to invest in venture capital and private equity funds, which in turn make investments generally in, or in some cases make loans to, privately held companies. Commitments to invest in these funds are generally made for a ten-year period from the inception of the fund. Although the limited partnership agreements governing these investments typically do not restrict the general partners from calling 100% of committed capital in one year, it is customary for these funds to generally call most of the capital commitments over 5 to 7 years. The actual timing of future cash requirements to fund such commitments is generally dependent upon the investment cycle, overall market conditions, and the nature and type of industry in which the privately held companies operate. The following table details our total unfunded capital commitments as well as our ownership in each fund based on our total capital commitment at March 31, 2009:

| <b>Our Ownership in Limited Partnership (Dollars in thousands)</b> | <b>Capital Commitments</b> | <b>Unfunded Commitments</b> | <b>Our Ownership of each Fund</b> |
|--|----------------------------|-----------------------------|-----------------------------------|
| Silicon Valley BancVentures, LP                                    | \$ 6,000                   | \$ 270                      | 10.7%                             |
| SVB Capital Partners II, LP (1)                                    | 1,200                      | 546                         | 5.1                               |
| SVB Strategic Investors Fund, LP                                   | 15,300                     | 1,530                       | 12.6                              |
| SVB Strategic Investors Fund II, LP                                | 15,000                     | 4,575                       | 8.6                               |
| SVB Strategic Investors Fund III, LP                               | 15,000                     | 9,000                       | 5.9                               |
| SVB Strategic Investors Fund IV, LP                                | 12,239                     | 11,505                      | 5.0                               |
| Partners for Growth, LP  | 25,000                     | 9,750                       | 50.0                              |
| Partners for Growth II, LP   | 15,000                     | 4,950                       | 24.2                              |
| Gold Hill Venture Lending 03, LP (2)                               | 20,000                     |                             | 9.3                               |
| SVB India Capital Partners I, LP                                   | 7,750                      | 3,953                       | 14.4                              |
| Other Fund Investments (3)   | 451,598                    | 335,354                     |                                   |
| <b>Total</b>   | <b>\$ 584,087</b>          | <b>\$ 381,433</b>           |                                   |

- (1) Our ownership includes 1.3% direct ownership through SVB Capital Partners II, LLC and SVB Financial Group, and 3.8% indirect ownership through our investment in SVB Strategic Investors Fund II, LP.
- (2) Our ownership includes 4.8% direct ownership and 4.5% indirect ownership interest through GHLLC.
- (3) Represents commitments to 357 venture capital and private equity funds where our ownership interest is less than 5% of the voting stock of each such fund. Of the \$335.4 million of unfunded commitments, approximately \$290.1 million represents the remainder of the investment commitments made by SVB Financial on behalf of certain new managed funds of funds that we plan to form ( New Fund Commitments ). As of March 31, 2009, \$42.7 million of the New Fund Commitments has already been funded and is included as a part of our investment securities portfolio in private equity investments (cost method accounting). The New Fund Commitments are intended to be transferred to, and become the financial obligations of, these new funds once they are formed with the binding commitments of outside investors. Upon formation of such funds and transfer of these investments to the new funds, these investments are typically accounted for under the investment company fair value basis and any underlying gains or losses are recognized in earnings according to the ownership interests of all participants in the fund, including SVB Financial.

**13. Income Taxes**

At March 31, 2009, the total amount of unrecognized tax benefits was \$0.3 million, the recognition of which would reduce our income tax expense by \$0.3 million. Total accrued interest and penalties at March 31, 2009 were \$0.1 million. We expect that our unrecognized tax benefit will change in the next 12 months; however, we do not expect the change to have a material impact on our financial position or our results of operations.

We are subject to income tax in the U.S. federal jurisdiction and various state and foreign jurisdictions and have identified our federal tax return and tax returns in California and Massachusetts as major tax filings. U.S. federal tax examinations through 1998 have been concluded. The U.S. federal tax return for 2005 and subsequent years remain open to examination by the Internal Revenue Service. Our California and Massachusetts tax returns for the years 2004 and 2005, respectively, and subsequent years remain open to examination.

**14. Fair Value of Financial Instruments**

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

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

**Table of Contents**

The following fair value hierarchy tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2009, in accordance with SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ):

| (Dollars in thousands)   | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Balance as of<br>March 31, 2009 |
|--|--|---|---|---------------------------------|
| <b>Assets</b>  |  |   |   |                                 |
| Marketable securities:   |  |   |   |                                 |
| Available-for-sale securities:   |  |   |   |                                 |
| U.S. agencies and corporations:  |  |   |   |                                 |
| Collateralized mortgage obligations  | \$   | \$ 537,063  | \$  | \$ 537,063                      |
| Mortgage-backed securities   |  | 452,805   |   | 452,805                         |
| U.S. agency debentures   |  | 433,767   |   | 433,767                         |
| Commercial mortgage-backed securities                                      |  | 46,817  |   | 46,817                          |
| Municipal bonds and notes  |  | 105,434   |   | 105,434                         |
| Marketable equity securities   | 446  |   |   | 446                             |
| Venture capital fund investments   | 1  |   |   | 1                               |
| Total available-for-sale securities  | 447  | 1,575,886   |   | 1,576,333                       |
| Marketable securities (investment company fair value accounting)           | 1,297  |   |   | 1,297                           |
| Total marketable securities  | 1,744  | 1,575,886   |   | 1,577,630                       |
| Non-marketable securities (investment company fair value accounting):      |  |   |   |                                 |
| Private equity fund investments  |  |   | 218,366   | 218,366                         |
| Other private equity investments   |  |   | 82,473  | 82,473                          |
| Other investments  |  |   | 1,276   | 1,276                           |
| Total non-marketable securities (investment company fair value accounting) |  |   | 302,115   | 302,115                         |
| Other assets:  |  |   |   |                                 |
| Interest rate swaps  |  | 62,513  |   | 62,513                          |
| Foreign exchange forward contracts   |  | 31,679  |   | 31,679                          |
| Equity warrant assets  |  | 1,921   | 43,012  | 44,933                          |
| Total assets (1)   | \$ 1,744   | \$ 1,671,999  | \$ 345,127                                      | \$ 2,018,870                    |
| <b>Liabilities</b>   |  |   |   |                                 |
| Foreign exchange forward contracts   | \$   | \$ 27,338   | \$  | \$ 27,338                       |
| Total liabilities  | \$   | \$ 27,338   | \$  | \$ 27,338                       |

(1) Included in Level 1 and Level 3 assets are \$0.8 million and \$275.4 million, respectively, attributable to noncontrolling interests calculated based on the ownership percentages of the noncontrolling interests.



## Table of Contents

The following fair value hierarchy tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008, in accordance with SFAS No. 157:

| (Dollars in thousands)   | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Balance as of<br>December 31, 2008 |
|--|--|---|---|------------------------------------|
| <b>Assets</b>  |  |   |   |                                    |
| Marketable securities:   |  |   |   |                                    |
| Available-for-sale securities:   |  |   |   |                                    |
| U.S. agencies and corporations:  |  |   |   |                                    |
| Collateralized mortgage obligations  | \$   | \$ 579,749  | \$  | \$ 579,749                         |
| Mortgage-backed securities   |  | 467,450   |   | 467,450                            |
| U.S. agency debentures   |  | 113,603   |   | 113,603                            |
| Commercial mortgage-backed securities                                      |  | 47,481  |   | 47,481                             |
| Municipal bonds and notes  |  | 108,755   |   | 108,755                            |
| Marketable equity securities   | 152  |   |   | 152                                |
| Venture capital fund investments   | 1  |   |   | 1                                  |
| Total available-for-sale securities  | 153  | 1,317,038   |   | 1,317,191                          |
| Marketable securities (investment company fair value accounting)           | 1,703  |   |   | 1,703                              |
| Total marketable securities  | 1,856  | 1,317,038   |   | 1,318,894                          |
| Non-marketable securities (investment company fair value accounting):      |  |   |   |                                    |
| Private equity fund investments  |  |   | 242,645   | 242,645                            |
| Other private equity investments   |  |   | 82,444  | 82,444                             |
| Other investments  |  |   | 1,547   | 1,547                              |
| Total non-marketable securities (investment company fair value accounting) |  |   | 326,636   | 326,636                            |
| Other assets:  |  |   |   |                                    |
| Interest rate swaps  |  | 94,142  |   | 94,142                             |
| Foreign exchange forward contracts   |  | 37,189  |   | 37,189                             |
| Equity warrant assets  |  | 1,960   | 41,699  | 43,659                             |
| Total assets (1)   | \$ 1,856   | \$ 1,450,329  | \$ 368,335                                      | \$ 1,820,520                       |
| <b>Liabilities</b>   |  |   |   |                                    |
| Foreign exchange forward contracts   | \$   | \$ 32,632   | \$  | \$ 32,632                          |
| Total liabilities  | \$   | \$ 32,632   | \$  | \$ 32,632                          |

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



## Table of Contents

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis for the three months ended March 31, 2009, and 2008:

|  | Total Realized and Unrealized Gains<br>(Losses) Included in Income |   |  | Total Realized and Unrealized Gains<br>(Losses) Included in Income |   |  | Purchases, Sales,<br>Other<br>Settlements and<br>Issuances, net | Transfers In<br>and/or (Out)<br>of Level<br>3 | Ending<br>Balance |
|--|--|---|--|--|---|--|---|---|-------------------|
| (Dollars in thousands)   | Beginning<br>Balance   | Realized<br>Gains<br>(Losses) Included<br>in Income | Unrealized Gains<br>(Losses) Included<br>in Income | Beginning<br>Balance   | Realized<br>Gains<br>(Losses) Included<br>in Income | Unrealized Gains<br>(Losses) Included<br>in Income |   |   |                   |
| <b>Three months ended March 31, 2009:</b>  |  |   |  |  |   |  |   |   |                   |
| Non-marketable securities<br>(investment company fair value<br>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<br>(investment company fair value<br>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        |
| <b>Three months ended March 31, 2008:</b>  |  |   |  |  |   |  |   |   |                   |
| Non-marketable securities<br>(investment company fair value<br>accounting):          |  |   |  |  |   |  |   |   |                   |
| Private equity fund investments  | \$ 194,862   | \$ 1,885  | \$ 898   | \$ 2,783   | \$ 13,716   |  | \$  |   | \$ 211,361        |
| Other private equity investments   | 44,872   | 548   | (483)  | 65   | 7,350   |  |   |   | 52,287            |
| Other investments  | 3,098  |   | (301)  | (301)  | (146)   |  |   |   | 2,651             |
| Total non-marketable securities<br>(investment company fair value<br>accounting) (1) |  |   |  |  |   |  |   |   |                   |
|  | 242,832  | 2,433   | 114  | 2,547  | 20,920  |  |   |   | 266,299           |
| Other assets:  |  |   |  |  |   |  |   |   |                   |
| Equity warrant assets (2)  | 26,911   | 4,315   | 1,710  | 6,025  | (2,293)   |  | (2)   |   | 30,641            |
| Total assets   | \$ 269,743   | \$ 6,748  | \$ 1,824   | \$ 8,572   | \$ 18,627   | \$ (2)   |   |   | \$ 296,940        |

(1) Realized and unrealized gains (losses) are recorded on the line item losses on investment securities, net a component 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 for the three months ended March 31, 2009 attributable to Level 3 assets still held at March 31, 2009:

| (Dollars in thousands)   | March 31, 2009 |
|--|----------------|
| Non-marketable securities (investment company fair value accounting):      |                |
| Private equity fund investments  | \$ (31,079)    |
| Other private equity investments   | (5,509)        |
| Other investments  | 367            |
| Total non-marketable securities (investment company fair value accounting) | (36,221)       |
| Other assets:  |                |
| Equity warrant assets  | 690            |
| Total unrealized losses  | \$ (35,531)    |

## 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 SFAS No. 5, *Accounting For Contingencies*. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operation.



**Table of Contents**

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

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

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

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

Forecasts of venture capital/private equity and investment funding levels

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

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

Descriptions of assumptions underlying or relating to any of the foregoing

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

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

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

Formation of new managed funds and the transfer of investments to outside investors

The likelihood that our unrecognized tax benefit will change in the next 12 months

Sufficiency of our capital, including in the event of credit losses

Extent to which stronger capital ratios will attract higher levels of deposits

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

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

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

Economic conditions and associated impact on us

Extent to which our products and services will meet changing client needs

Payment of cash dividends on, or our repurchase of, our common stock

Adequacy of reserves and appropriateness of methodology for calculating our reserves

Sensitivity of our interest-earning assets and interest-bearing liabilities to interest rates, and the impact to earnings from a change in interest rates

Realization, timing, valuation and performance of equity or other investments

Our liquidity position

Level of client investment fees

Growth in loan and deposit balances

Credit quality of our loan portfolio

Levels and trends of nonperforming loans

Activities for which capital will be used or required and use of excess capital

Financial impact of continued growth of our funds management business

Expansion and growth of our noninterest income sources

Profitability of our products and services

Venture capital and private equity funding and investment levels

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

Strategic initiatives

Effect of application of certain accounting pronouncements

Effect of lawsuits and claims

Changes in, or adequacy of, our unrecognized tax benefit and any associated impact

Cash requirements of unfunded commitments to certain investments

Financial impact of proposed transaction involving HRJ Capital

Performance by counterparties.

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

## **Table of Contents**

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, 2008 ("2008 Form 10-K"), as filed with the Securities and Exchange Commission ("SEC").

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

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

Our clients were significantly affected by the continuing economic downturn in the first quarter of 2009. The worst economic environment in nearly 60 years led to continued declines in venture capital and private equity activity, continued pressure on valuations in our venture and private equity-related investments, higher-than-normal credit costs, lower demand for venture capital call lines of credit, and lower income from many of our fee-based products. In addition, the continued volatility and deterioration of the economy made it extremely challenging to anticipate the speed and severity of those events.

We recorded a net loss applicable to common stockholders for the three months ended March 31, 2009 of \$10.5 million, or \$0.32 per diluted common share. Despite these conditions, we continued to see strong deposit growth in the latter half of the fourth quarter of 2008 and during the first quarter of 2009 as a result of our deposit initiatives, as well as from the desire of some clients to benefit from the security provided by Federal Deposit Insurance Corporation ("FDIC") insured deposits. Although the growth in deposits significantly increased our cash levels, we have deposited most of this excess cash with the Federal Reserve, earning interest at the Federal Funds target rate. While liquidity will remain a priority, we expect to invest a more significant portion of the excess cash from deposits into investment securities through the remainder of 2009 at higher yields.

Highlights of our first quarter 2009 financial results (compared to the first quarter of 2008) included the following:

Provision for loan losses of \$43.5 million, of which \$32.3 million related to two loans in our hardware industry portfolio, with the remainder primarily from certain loans to early stage companies.

Net losses on investment securities of \$35.0 million due to lower valuations of our venture capital/private equity investments as a result of the continuing effects of the downturn in the overall economy. Net of noncontrolling interests (formerly referred to as minority interests), our net loss was \$4.6 million.

Growth of \$3.5 billion in average deposit balances to \$7.9 billion, which decreased our average loan-to-deposit ratio to 64.5 percent for the first quarter of 2009.

Growth of \$1.0 billion in average loans to \$5.1 billion coming from all client industry segments, with particularly strong growth in loans to software clients and hardware clients.

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

A decrease in our net interest margin from 6.27 percent to 3.97 percent, primarily due to the current low interest rate environment, as well as from a significant increase in our cash as a result of the growth in interest-bearing deposits, which were primarily deposited in overnight funds with the Federal Reserve.

A non-tax deductible goodwill impairment charge of \$4.1 million resulting from changes in our outlook for future financial performance of eProsper, our data management services company.

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

## Table of Contents

The key highlights of our performance for the three months ended March 31, 2009 and 2008, respectively, were as follows:

| (Dollars in thousands, except per share data and ratios)                         | Three months ended March 31, |              |           |
|--|------------------------------|--------------|-----------|
|  | 2009                         | 2008         | Change    |
| Average loans, net of unearned income  | \$ 5,116,252                 | \$ 4,112,865 | 24.4%     |
| Average noninterest-bearing deposits   | 4,636,553                    | 2,899,599    | 59.9      |
| Average interest-bearing deposits  | 3,291,153                    | 1,535,414    | 114.3     |
| Average total deposits   | 7,927,706                    | 4,435,013    | 78.8      |
| Diluted (loss) earnings per share (1)  | \$ (0.32)                    | \$ 0.78      | (141.0)%  |
| Net (loss) income attributable to SVBFG (1)                                      | (7,010)                      | 27,118       | (125.8)   |
| Net (loss) income available to common stockholders (1)                           | (10,546)                     | 27,118       | (138.9)   |
| Net interest income (1)  | 91,511                       | 90,778       | 0.8       |
| Net interest margin (1)  | 3.97%                        | 6.27%        | (230) bps |
| Average SVB prime lending rate   | 4.00                         | 6.26         | (226) bps |
| Allowance for loan losses as a percentage of total gross loans                   | 2.18                         | 1.13         | 105 bps   |
| Provision for loan losses  | \$ 43,466                    | \$ 7,723     | NM%       |
| Gross loan charge-offs as a percentage of average total gross loans (annualized) | 3.30%                        | 0.60%        | 270 bps   |
| Net loan charge-offs as a percentage of average total gross loans (annualized)   | 3.21                         | 0.52         | 269 bps   |
| Noninterest (loss) income (2)  | \$ (3,610)                   | \$ 41,565    | (108.7)%  |
| Noninterest expense (3)  | 87,140                       | 83,437       | 4.4       |
| Return on average common SVBFG stockholders' equity (annualized) (1)(4)          | (5.44)%                      | 15.86%       | (134.3)   |
| Return on average assets (annualized) (1)(5)                                     | (0.27)                       | 1.62         | (116.7)   |
| Tangible common equity to tangible assets (6)                                    | 7.03                         | 9.76         | (28.0)    |
| Tangible common equity to risk-weighted assets                                   | 10.22                        | 9.94         | 2.8       |
| Book value per common share (7)  | 23.39                        | 21.18        | 10.4      |
| Operating efficiency ratio (1)(8)  | 98.49%                       | 62.81%       | 56.8      |
| Period end full-time equivalent employees  | 1,262                        | 1,190        | 6.1       |
| <b>Non-GAAP measures:</b>  |                              |              |           |
| Non-GAAP operating efficiency ratio (1)(9)                                       | 70.33%                       | 60.07%       | 17.1%     |
| Non-GAAP noninterest income, net of noncontrolling interest (10)                 | \$ 26,982                    | \$ 43,281    | (37.7)    |
| Non-GAAP noninterest expense, net of noncontrolling interest (10)                | 83,753                       | 80,678       | 3.8       |

NM- Not meaningful

- (1) Balances and ratios for all periods presented reflect our adoption of FSP APB No. 14. Refer to Critical Accounting Policies and Estimates Impact of Adopting FSP APB No. 14-1 and Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report for further details. Amounts for the three months ended March 31, 2008 have been retrospectively adjusted.
- (2) Noninterest (loss) income included net losses of \$31.9 million and \$1.0 million attributable to noncontrolling interests for the three months ended March 31, 2009 and 2008, respectively. See Results of Operations Noninterest (Loss) Income for a description of noninterest income attributable to noncontrolling interests.
- (3) Noninterest expense included \$3.4 million and \$2.8 million attributable to noncontrolling interests for the three months ended March 31, 2009 and 2008, respectively. See Results of Operations Noninterest (Loss) Income for a description of noninterest expense attributable to noncontrolling interests.
- (4) Ratio represents annualized consolidated net (loss) income available to common stockholders divided by quarterly average SVB Financial Group (SVBFG) stockholders' equity (excluding preferred equity).
- (5) Ratio represents annualized consolidated net (loss) income attributable to SVBFG divided by quarterly average assets.
- (6) Tangible common equity consists of SVB Financial Group (SVBFG) stockholders' equity (excluding preferred equity and unrealized gains and losses from our fixed income investments) less acquired intangibles and goodwill. Tangible assets represent total assets (excluding unrealized gains and losses from our fixed income investments) less acquired intangibles and goodwill.
- (7) Book value per common share is calculated by dividing total SVBFG stockholders' equity (excluding preferred equity) by total outstanding common shares.

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

- (8) The operating efficiency ratio is calculated by dividing noninterest expense by total taxable-equivalent income. Noninterest expense included \$3.4 million and \$2.8 million attributable to noncontrolling interests for the three months ended March 31, 2009 and 2008, respectively.

## **Table of Contents**

- (9) The non-GAAP operating efficiency ratio is calculated by dividing noninterest expense (excluding the portion of noninterest expense attributable to noncontrolling interests of \$3.4 million and \$2.8 million for the three months ended March 31, 2009 and 2008, respectively) by total taxable-equivalent income (excluding taxable-equivalent losses attributable to noncontrolling interests of \$30.6 million and \$1.5 million for the three months ended March 31, 2009 and 2008, respectively).
- (10) See Results of Operations Noninterest (Loss) Income for a description of noninterest income and noninterest expense that is attributable to noncontrolling interests.

## **Critical Accounting Policies and Estimates**

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

There have been no significant changes during the three months ended March 31, 2009 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations under Part II, Item 7 of our 2008 Form 10-K.

## ***Fair Value Measurements***

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

At March 31, 2009, approximately 18.4 percent of our total assets, or \$2.0 billion, consisted of financial assets recorded at fair value on a recurring basis. Of these assets, 82.9 percent used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value, and 17.1 percent of these financial assets were measured using model-based techniques, or Level 3 measurements. Almost all of our financial assets valued using Level 3 measurements at March 31, 2009 represented non-marketable securities. At March 31, 2009, 0.3 percent of total liabilities, or \$27.3 million, consisted of financial liabilities recorded at fair value on a recurring basis, which were valued using market-observable inputs. There were no material transfers in or out of Level 3 during the three months ended March 31, 2009. Our valuation processes include a number of key controls that are designed to ensure that fair value is calculated appropriately. Such controls include a model validation policy requiring that models that provide values used in financial statements be validated by qualified personnel and escalation procedures to ensure that valuations using unverifiable inputs are identified and monitored on a regular basis by senior management.

As of March 31, 2009, our available-for-sale investment portfolio, consisting primarily of U.S. agency debentures, investment grade mortgage securities and municipal bonds and notes, represented \$1.6 billion, or 78.1 percent of our portfolio of assets measured at fair value on a recurring basis. These instruments were classified as Level 2 because their valuations were based on indicator prices corroborated by observable market quotes or pricing models with all significant inputs derived from or corroborated by observable market data. Since our available-for-sale fixed-income investment securities portfolio consisted primarily of fixed rate securities, the fair value of the portfolio is sensitive to changes in levels of market interest rates and market perceptions of credit quality of the underlying securities. Market valuations and impairment analyses on assets in the fixed-income investment portfolio are reviewed and monitored on an ongoing basis.

To the extent available-for-sale investment securities are used to secure borrowings, changes in the fair value of those securities could have an impact on the total amount of secured financing available. We pledge securities to the Federal Home Loan Bank of San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco at March 31, 2009 totaled \$644.4 million, of which \$542.4 million was 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, 2009 totaled \$84.8 million, all of which was unused. 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, 2009, we had not borrowed against our repurchase lines.



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

Financial assets valued using Level 3 measurements consist primarily of our investments in venture capital and private equity funds, direct equity investments in privately held companies and certain investments made by our consolidated sponsored debt fund. These funds are investment companies under the AICPA Audit and Accounting Guide for Investment Companies and accordingly,

**Table of Contents**

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, 2009, the Level 3 assets that are measured at fair value on a recurring basis experienced net unrealized fair value decreases totaling \$36.1 million primarily due to lower valuations in underlying fund investments in our private equity funds. Realized gains related to the Level 3 assets for the three months ended March 31, 2009 of \$0.6 million related primarily to gains from distributions from private equity funds.

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

**Recent Accounting Pronouncements**

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

**Impact of Adopting FSP APB No. 14-1**

Effective January 1, 2009, we adopted the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) Accounting Principles Board ( APB ) Opinion No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ( FSP APB No. 14-1 ). For further details, please refer to Note 1- Basis of Presentation of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

As a result of adopting the requirements of FSP APB No. 14-1, our net loss applicable to common stockholders for the three months ended March 31, 2009 increased by \$0.3 million. Total SVBFG stockholders equity, based on cumulative adjustments beginning January 1, 2007 through March 31, 2009 increased by \$4.9 million. The following table highlights certain revised items related to the adoption of FSP APB No. 14-1 in our overall unaudited consolidated statements of income and balance sheets for the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008.

|  | March 31, 2009 | Three months ended<br>December 31, 2008 |                                    | March 31, 2008            |                                 |
|--|----------------|---|------------------------------------|---------------------------|---------------------------------|
| (Dollars in thousands, except per share amounts)     | As reported    | As adjusted<br>(1/1/2009)               | As reported<br>in<br>prior filings | As adjusted<br>(1/1/2009) | As reported in<br>prior filings |
| <b>INCOME STATEMENT</b>                              |                |   |                                    |                           |                                 |
| Interest expense - borrowings                        | \$ 8,181       | \$ 10,219                               | \$ 9,694                           | \$ 12,536                 | \$ 11,233                       |
| Income tax (benefit) expense                         | (1,702)        | 2,111                                   | 2,319                              | 18,283                    | 18,801                          |
| Net (loss) income attributable to SVBFG              | (7,010)        | 2,105                                   | 2,422                              | 27,118                    | 27,903                          |
| Net (loss) income available to common stockholders   | (10,546)       | 1,398                                   | 1,715                              | 27,118                    | 27,903                          |
| (Loss) earnings per common share diluted             | (0.32)         | 0.04                                    | 0.05                               | 0.78                      | 0.81                            |
| <b>FULLY TAXABLE EQUIVALENT</b>                      |                |   |                                    |                           |                                 |
| Net interest income (fully taxable equivalent basis) | \$ 92,083      | \$ 97,024                               | \$ 97,549                          | \$ 91,283                 | \$ 92,586                       |
| Net interest margin                                  | 3.97%          | 5.39%                                   | 5.42%                              | 6.27%                     | 6.36%                           |
| <b>BALANCE SHEET</b>                                 |                |   |                                    |                           |                                 |
| Total assets   | \$ 10,958,768  | \$ 10,020,808                           | \$ 10,020,892                      | \$ 6,897,285              | \$ 6,897,303                    |

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

|                              |         |         |           |         |         |
|------------------------------|---------|---------|-----------|---------|---------|
| Long-term debt               | 964,175 | 995,423 | 1,000,640 | 892,516 | 893,189 |
| Additional paid-in capital   | 71,761  | 66,201  | 45,872    | 13,975  |         |
| Retained earnings            | 701,708 | 712,254 | 727,450   | 664,085 | 678,078 |
| <b>Results of Operations</b> |         |         |           |         |         |

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

Net interest income is defined as the difference between interest earned on loans, investment securities, federal funds sold, securities purchased under agreements to resell and other short-term investment securities, and interest paid on funding sources

## **Table of Contents**

including deposits and borrowings. Net interest income is our principal source of revenue. Net interest margin is defined as the amount of annualized net interest income, on a fully taxable-equivalent basis, expressed as a percentage of average interest-earning assets. Net interest income and net interest margin are presented on a fully taxable-equivalent basis to consistently reflect income from taxable loans and securities and tax-exempt securities based on the federal statutory tax rate of 35.0 percent.

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

Net interest income increased by \$0.8 million to \$92.1 million for the three months ended March 31, 2009, compared to \$91.3 million for the comparable 2008 period. The increase in net interest income was primarily the result of an increase in average balances of our interest-earning assets and a decrease in the cost of our total funding sources, partially offset by a decrease in yields earned on interest-earning assets.

The main factors affecting interest income and interest expense for the three months ended March 31, 2009, compared to the comparable 2008 period are discussed below:

*Interest income* for the three months ended March 31, 2009 decreased by \$2.0 million primarily due to:

- i A \$1.5 million decrease in interest income on loans driven principally by a 178 basis point decrease in loan yields due primarily to decreases totaling 325 basis points in our prime-lending rate during 2008, in response to certain Federal Fund rate decreases. Our average prime-lending rate was 4.00 percent for the three months ended March 31, 2009, compared to 6.26 percent for the comparable 2008 period. The impact of lower loan yields was partially offset by an increase of \$1.0 billion in average loan balances for the three months ended March 31, 2009, compared to the comparable 2008 period. This growth was driven primarily by increased loan growth from all client industry segments, with particularly strong growth in loans to software clients and hardware clients.
- i A \$1.7 million decrease in interest income on short-term investments primarily due to the decreases in the Federal Funds rates from March 31, 2008 to March 31, 2009, partially offset by an increase in average balances as a result of the growth in our deposits.

These decreases were partially offset by an increase of \$1.3 million in interest income on interest-earning investment securities, primarily due to purchases of U.S. agency securities and mortgage-backed securities as part of our overall investment strategy resulting from the growth in our deposit balances.

*Interest expense* for the three months ended March 31, 2009 decreased by \$2.8 million primarily due to:

- i A decrease in interest expense of \$2.6 million from long-term debt, primarily due to lower London Interbank Offered Rates ( LIBOR ) associated with interest rate swap agreements on the senior and subordinated notes. This decrease in rates was partially offset by an increase in average balances due to the issuance of \$250 million in 3.875% convertible senior notes ( 2008 Convertible Notes ) in April 2008. The proceeds from the issuance of the 2008 Convertible Notes were used primarily to settle the conversion of our zero-coupon convertible subordinated notes ( 2003 Convertible Notes ), which matured in June 2008, and for other general corporate purposes.
- i A decrease in interest expense from short-term borrowings of \$1.8 million, primarily due to declining short-term market interest rates, as well as a decrease in average balances of short-term borrowings. Average short-term borrowings decreased by \$187.9 million to \$47.0 million for the three months ended March 31, 2009, compared to \$234.9 million for the comparable 2008 period due to growth in deposit balances.

These decreases were partially offset by an increase in interest expense of \$1.6 million from interest-bearing deposits, primarily due to a \$1.8 billion increase in average interest-bearing deposits. This increase was driven by growth from all our interest-bearing deposit products, with particularly strong growth from our sweep deposit product, which we introduced in late 2007 to provide funding for our loan growth. This

increase was partially offset by a decrease in deposit rates due to declining market rates.

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

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

| (Dollars in thousands)   | 2009 Compared to 2008<br>Three months ended March 31,<br>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 | \$ 4,758  | \$ (6,499)  | \$ (1,741) |
| Investment securities (Taxable)  | 1,966   | (885)       | 1,081      |
| Investment securities (Non-Taxable)  | 254   | (63)        | 191        |
| Loans, net of unearned income  | 18,905  | (20,413)    | (1,508)    |
| Increase (decrease) in interest income, net  | 25,883  | (27,860)    | (1,977)    |
| <b>Interest expense:</b>   |   |             |            |
| NOW deposits   | 14  | (2)         | 12         |
| Regular money market deposits  | 106   | (226)       | (120)      |
| Bonus money market deposits  | 364   | (1,860)     | (1,496)    |
| Foreign money market deposits  | 174   |             | 174        |
| Time deposits  | 67  | (103)       | (36)       |
| Sweep deposits   | 3,504   | (460)       | 3,044      |
| Short-term borrowings  | (822)   | (968)       | (1,790)    |
| Zero-coupon convertible subordinated notes   | (1,542)   |             | (1,542)    |
| 3.875% convertible senior notes  | 3,505   |             | 3,505      |
| Junior subordinated debentures   | 37  | 24          | 61         |
| Senior and subordinated notes  | 424   | (3,871)     | (3,447)    |
| Other long-term debt   | (427)   | (715)       | (1,142)    |
| Increase (decrease) in interest expense, net   | 5,404   | (8,181)     | (2,777)    |
| Increase (decrease) in net interest income   | \$ 20,479   | \$ (19,679) | \$ 800     |

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

Our net interest margin was 3.97 percent for the three months ended March 31, 2009, compared to 6.27 percent for the comparable 2008 period. The decrease in net interest margin was primarily due to decreases in yields on our loan portfolio resulting from reductions in our prime-lending rate, which we lowered in response to certain Federal Reserve rate cuts in 2008. The decrease in net interest margin was also attributable to an increase in cash as a result of the growth in interest-bearing deposits, which were primarily deposited in overnight funds with the Federal Reserve. These reductions in our net interest margin were partially offset by a decrease in interest expense from borrowings due to lower LIBOR.

**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, 2009 and 2008, respectively.

**Average Balances, Rates and Yields for the Three Months Ended March 31, 2009 and 2008**

|  | Three months ended March 31, |                              |             |                     |                              |             |
|--|------------------------------|------------------------------|-------------|---------------------|------------------------------|-------------|
|  | Average Balance              | 2009 Interest Income/Expense | Yield/Rate  | Average Balance     | 2008 Interest Income/Expense | Yield/Rate  |
| <b>(Dollars in thousands)</b>  |                              |                              |             |                     |                              |             |
| <b>Interest-earning assets:</b>  |                              |                              |             |                     |                              |             |
| Federal funds sold, securities purchased under agreements to resell and other short-term investment securities (1) | \$ 2,825,988                 | \$ 2,376                     | 0.34%       | \$ 475,112          | \$ 4,117                     | 3.49%       |
| Investment securities: (2)   |                              |                              |             |                     |                              |             |
| Taxable  | 1,357,752                    | 14,851                       | 4.44        | 1,173,698           | 13,770                       | 4.72        |
| Non-taxable (3)  | 106,404                      | 1,633                        | 6.22        | 89,360              | 1,442                        | 6.49        |
| Total loans, net of unearned income (4)  | 5,116,252                    | 88,251                       | 7.00        | 4,112,865           | 89,759                       | 8.78        |
| <b>Total interest-earning assets</b>   | <b>9,406,396</b>             | <b>107,111</b>               | <b>4.62</b> | <b>5,851,035</b>    | <b>109,088</b>               | <b>7.50</b> |
| Cash and due from banks  | 321,282                      |                              |             | 276,471             |                              |             |
| Allowance for loan losses  | (111,527)                    |                              |             | (48,276)            |                              |             |
| Goodwill   | 4,048                        |                              |             | 4,092               |                              |             |
| Other assets (5)   | 836,208                      |                              |             | 668,667             |                              |             |
| <b>Total assets (6)</b>  | <b>\$ 10,456,407</b>         |                              |             | <b>\$ 6,751,989</b> |                              |             |
| <b>Funding sources:</b>  |                              |                              |             |                     |                              |             |
| <b>Interest-bearing liabilities:</b>   |                              |                              |             |                     |                              |             |
| NOW deposits   | \$ 52,282                    | \$ 49                        | 0.38%       | \$ 37,148           | \$ 37                        | 0.40%       |
| Regular money market deposits  | 179,099                      | 305                          | 0.69        | 136,485             | 425                          | 1.25        |
| Bonus money market deposits  | 986,034                      | 1,738                        | 0.71        | 873,954             | 3,234                        | 1.49        |
| Foreign money market deposits  | 64,485                       | 174                          | 1.09        |                     |                              |             |
| Time deposits  | 376,833                      | 730                          | 0.79        | 343,571             | 766                          | 0.90        |
| Sweep deposits   | 1,632,420                    | 3,851                        | 0.96        | 144,256             | 807                          | 2.25        |
| <b>Total interest-bearing deposits</b>   | <b>3,291,153</b>             | <b>6,847</b>                 | <b>0.84</b> | <b>1,535,414</b>    | <b>5,269</b>                 | <b>1.38</b> |
| Short-term borrowings  | 47,044                       | 21                           | 0.18        | 234,945             | 1,811                        | 3.10        |
| Zero-coupon convertible subordinated notes (6)   |                              |                              |             | 147,971             | 1,542                        | 4.19        |
| 3.875% convertible senior notes (6)  | 244,789                      | 3,505                        | 5.81        |                     |                              |             |
| Junior subordinated debentures   | 55,921                       | 786                          | 5.70        | 52,969              | 725                          | 5.50        |
| Senior and subordinated notes  | 568,206                      | 3,407                        | 2.43        | 532,376             | 6,854                        | 5.18        |
| Other long-term debt   | 101,269                      | 462                          | 1.85        | 152,636             | 1,604                        | 4.23        |
| <b>Total interest-bearing liabilities</b>  | <b>4,308,382</b>             | <b>15,028</b>                | <b>1.41</b> | <b>2,656,311</b>    | <b>17,805</b>                | <b>2.70</b> |
| Portion of noninterest-bearing funding sources   | 5,098,014                    |                              |             | 3,194,724           |                              |             |
| <b>Total funding sources</b>   | <b>9,406,396</b>             | <b>15,028</b>                | <b>0.65</b> | <b>5,851,035</b>    | <b>17,805</b>                | <b>1.23</b> |

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

## Noninterest-bearing funding sources:

|  |             |             |
|--|-------------|-------------|
| Demand deposits  | 4,636,553   | 2,899,599   |
| Other liabilities  | 184,844     | 245,506     |
| Discount on zero-coupon convertible subordinated notes (6) |             | 1,343       |
| SVBFG stockholders' equity (6)                             | 1,008,102   | 687,566     |
| Noncontrolling interests (7)                               | 318,526     | 261,664     |
| Portion used to fund interest-earning assets               | (5,098,014) | (3,194,724) |

|  |               |              |
|--|---------------|--------------|
| Total liabilities, noncontrolling interest, and SVBFG stockholders' equity | \$ 10,456,407 | \$ 6,751,989 |
|--|---------------|--------------|

|                                    |           |       |           |       |
|------------------------------------|-----------|-------|-----------|-------|
| Net interest income and margin (6) | \$ 92,083 | 3.97% | \$ 91,283 | 6.27% |
|------------------------------------|-----------|-------|-----------|-------|

|                |              |              |
|----------------|--------------|--------------|
| Total deposits | \$ 7,927,706 | \$ 4,435,013 |
|----------------|--------------|--------------|

|  |       |        |
|--|-------|--------|
| Average SVBFG stockholders' equity as a percentage of average assets | 9.64% | 10.18% |
|--|-------|--------|

## Reconciliation to reported net interest income:

|  |       |       |
|--|-------|-------|
| Adjustments for taxable equivalent basis | (572) | (505) |
|--|-------|-------|

|                                  |           |           |
|----------------------------------|-----------|-----------|
| Net interest income, as reported | \$ 91,511 | \$ 90,778 |
|----------------------------------|-----------|-----------|

- (1) Includes average interest-bearing deposits in other financial institutions of \$180.0 million and \$82.9 million for the three months ended March 31, 2009 and 2008, respectively. For the three months ended March 31, 2009, balance also includes \$2.5 billion deposited at the Federal Reserve Bank, earning interest at the Federal Funds target rate.
- (2) Yields on interest-earning investment securities do not give effect to changes in fair value that are reflected in other comprehensive income.



## 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, and related income, if recognized, is included in interest income.
- (5) Average investment securities of \$467.0 million and \$345.2 million for the three months ended March 31, 2009 and 2008, respectively, were classified as other assets as they were noninterest-earning assets. These investments primarily consisted of non-marketable securities.
- (6) Amounts for all periods presented reflect our adoption of FSP APB No. 14-1. Amounts for the three months ended March 31, 2008 have been retrospectively adjusted.
- (7) Our 2009 adoption of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of *Accounting Research Bulletin No. 51* ( SFAS No. 160 ) required us to clarify our presentation of noncontrolling interests and had no effect on our results of operations or stockholders' equity.

### Provision for Loan Losses

Our provision for loan losses is based on our evaluation of the adequacy of the existing allowance for loan losses in relation to total gross loans and on our periodic assessment of the inherent and identified risk dynamics of the loan portfolio resulting from reviews of selected individual loans. We consider our allowance for loan losses of \$110.0 million adequate to cover credit losses inherent in the loan portfolio at March 31, 2009. The following table summarizes our provision for loan losses for the three months ended March 31, 2009 and 2008, respectively:

| (Dollars in thousands)   | Three months ended March 31, |              |
|--|------------------------------|--------------|
|  | 2009                         | 2008         |
| Allowance for loan losses, beginning balance                                     | \$ 107,396                   | \$ 47,293    |
| Provision for loan losses  | 43,466                       | 7,723        |
| Gross loan charge-offs   | (42,013)                     | (6,208)      |
| Loan recoveries  | 1,161                        | 828          |
| Allowance for loan losses, ending balance  | \$ 110,010                   | \$ 49,636    |
| Provision as a percentage of total gross loans (annualized)                      | 3.49%                        | 0.71%        |
| Gross loan charge-offs as a percentage of average total gross loans (annualized) | 3.30                         | 0.60         |
| Net loan charge-offs as a percentage of average total gross loans (annualized)   | 3.21                         | 0.52         |
| Allowance for loan losses as a percentage of total gross loans                   | 2.18                         | 1.13         |
| Total gross loans at period-end  | \$ 5,045,208                 | \$ 4,377,498 |
| Average total gross loans  | 5,159,412                    | 4,141,414    |

Our provision for loan losses increased by \$35.8 million to \$43.5 million for the three months ended March 31, 2009, compared to \$7.7 million for the comparable 2008 period. Our provision of \$43.5 million for the three months ended March 31, 2009 was primarily attributable to the following:

Gross loan charge-offs of \$23.1 million and specific reserves of \$9.2 million related to two loans within our hardware industry portfolio.

Gross loan charge-offs of \$18.9 million, primarily from our early-stage client portfolio.

A reduction of \$7.0 million in general reserves due to the decline in period-end loan balances.

A reversal of \$4.9 million in specific reserves due to the repayment by affiliates of HRJ Capital, LLC ( HRJ ) of certain outstanding balances on capital call lines of credit during the first quarter of 2009.

Loan recoveries of \$1.2 million, primarily from our early-stage and corporate technology client portfolios.

Our net loan charge-offs as a percentage of average total gross loans (annualized) was 3.21 percent for the three months ended March 31, 2009, compared to our allowance for loan losses as a percentage of total gross loans of 2.18 percent for the three months ended March 31, 2009. We expect net charge-offs for the full year 2009 to be lower than the annualized trend indicated by the first quarter 2009 results.

An independent asset management firm recently announced that it had entered into a term sheet with HRJ to assume the management of HRJ's funds of funds. The final transaction is subject to the execution of definitive agreements between the parties and other closing conditions. If the transaction closes based on the proposed terms, we do not expect it to have a material impact on our net income and provision for loan losses.

**Table of Contents*****Noninterest (Loss) Income***

| (Dollars in thousands)                                 | Three months ended March 31, |                  |                |
|--|------------------------------|------------------|----------------|
|  | 2009                         | 2008             | % Change       |
| Foreign exchange fees                                  | \$ 7,466                     | \$ 7,844         | (4.8)%         |
| Deposit service charges                                | 6,823                        | 5,891            | 15.8           |
| Client investment fees                                 | 6,248                        | 13,722           | (54.5)         |
| Letters of credit and standby letters of credit income | 2,892                        | 2,946            | (1.8)          |
| Gains on derivative instruments, net                   | 1,814                        | 2,599            | (30.2)         |
| Corporate finance fees                                 |                              | 3,640            | (100.0)        |
| Losses on investment securities, net                   | (35,045)                     | (6,112)          | NM             |
| Other  | 6,192                        | 11,035           | (43.9)         |
| <b>Total noninterest (loss) income</b>                 | <b>\$ (3,610)</b>            | <b>\$ 41,565</b> | <b>(108.7)</b> |

NM- Not meaningful

Included in net (loss) income is income and expense attributable to noncontrolling interests. We recognize, as part of our investment funds management business through SVB Capital, 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 Loss Attributable to Noncontrolling Interests on our statements of income. The non-GAAP tables presented below, for noninterest income, net losses on investment securities and noninterest expense, 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 superior to, financial measures prepared in accordance with GAAP.

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

| Non-GAAP noninterest income, net of noncontrolling interests                      | Three months ended March 31, |                  |               |
|---|------------------------------|------------------|---------------|
|   | 2009                         | 2008             | % Change      |
| (Dollars in thousands)  |                              |                  |               |
| GAAP noninterest (loss) income  | \$ (3,610)                   | \$ 41,565        | (108.7)%      |
| Less: losses attributable to noncontrolling interests, including carried interest | (30,592)                     | (1,716)          | NM            |
| <b>Non-GAAP noninterest income, net of noncontrolling interests</b>               | <b>\$ 26,982</b>             | <b>\$ 43,281</b> | <b>(37.7)</b> |

NM- Not meaningful

***Foreign Exchange Fees***

Foreign exchange fees were \$7.5 million for the three months ended March 31, 2009, compared to \$7.8 million for the comparable 2008 period. The decrease was primarily due to lower commissioned notional volumes, which decreased to \$1.0 billion for the three months ended March 31,

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

2009, compared to \$1.4 billion for the comparable 2008 period. While commissioned notional volumes decreased, fees remained stable as a substantially higher proportion of that volume came from trades with notional amounts less than \$1 million for the first quarter of 2009, which carry comparatively higher commission rates.

### *Deposit Service Charges*

Deposit service charges were \$6.8 million for the three months ended March 31, 2009, compared to \$5.9 million for the comparable 2008 period. The increase in deposit service charges was primarily attributable to a decrease in the earnings credit rate related to decreases in short-term market interest rates.

### *Client Investment Fees*

Client investment fees were \$6.2 million for the three months ended March 31, 2009, compared to \$13.7 million for the comparable 2008 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 client investment funds.

## Table of Contents

During the latter half of the fourth quarter of 2008, we discontinued offering a third party off-balance sheet sweep product, primarily due to our decision to utilize our own on-balance sheet sweep product. In addition, we continue to face challenges in growing off-balance sheet funds due to the significant decline of initial public offerings ( IPO ), resulting in less client funds available for investment. Based on the expectation of continued lower margins on certain client investment products, we expect to continue to see declining client investment fees throughout 2009. The following table summarizes average client investment funds for the three months ended March 31, 2009 and 2008, respectively:

| (Dollars in millions)                     | Three months ended March 31, |           |          |
|---|------------------------------|-----------|----------|
|   | 2009                         | 2008      | % Change |
| Client directed investment assets (1)     | \$ 11,643                    | \$ 12,774 | (8.9)%   |
| Client investment assets under management | 5,834                        | 6,375     | (8.5)    |
| Sweep money market funds                  | 224                          | 2,746     | (91.8)   |
| Total average client investment funds (2) | \$ 17,701                    | \$ 21,895 | (19.2)   |

(1) Mutual funds and Repurchase Agreement Program assets.

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

Period-end total client investment funds were \$16.9 billion at March 31, 2009, compared to \$18.6 billion at December 31, 2008.

### Gains on Derivative Instruments, Net

A summary of gains on derivative instruments, net, for the three months ended March 31, 2009 and 2008, respectively, is as follows:

| (Dollars in thousands)  | Three months ended March 31, |          |          |
|---|------------------------------|----------|----------|
|   | 2009                         | 2008     | % Change |
| Gains (losses) on foreign exchange forward contracts, net:      |                              |          |          |
| Gains on client foreign exchange contracts, net (1)             | \$ 496                       | \$ 728   | (31.9)%  |
| Gains (losses) on internal foreign exchange contracts, net (2)  | 1,943                        | (3,091)  | (162.9)  |
| Total gains (losses) on foreign exchange forward contracts, net | 2,439                        | (2,363)  | NM       |
| Change in fair value of interest rate swap (3)                  | (170)                        | (493)    | (65.5)   |
| Equity warrant assets:  |                              |          |          |
| Gains on exercise, net  | 210                          | 4,516    | (95.3)   |
| Change in fair value (4):                                       |                              |          |          |
| Cancellations and expirations                                   | (1,198)                      | (457)    | 162.1    |
| Other changes in fair value                                     | 533                          | 1,396    | (61.8)   |
| Total net (losses) gains on equity warrant assets (5)           | (455)                        | 5,455    | (108.3)  |
| Total gains on derivative instruments, net                      | \$ 1,814                     | \$ 2,599 | (30.2)   |

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

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

- item Other as part of noninterest income, a component of consolidated net income.
- (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 is no longer designated as a hedging instrument.
  - (4) At March 31, 2009, we held warrants in 1,303 companies, compared to 1,188 companies at March 31, 2008.
  - (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 Loss Attributable to Noncontrolling Interests .
- Gains on derivative instruments, net, were \$1.8 million for the three months ended March 31, 2009, compared to \$2.6 million for the comparable 2008 period. The decrease of \$0.8 million was primarily due to lower gains on exercise of equity warrant assets, higher terminations and lower valuations of our equity warrant assets, partially offset by higher net gains from changes in the fair value of foreign exchange forward contracts. Net gains from foreign exchange forward contracts included \$1.9 million in net gains from changes in fair value due to the strengthening of the U.S. dollar in the first quarter of 2009 against the Euro and Pound Sterling, used to offset net losses of \$2.7 million from revaluation of our foreign currency denominated loans, which are included in other noninterest income.

## Table of Contents

The lower gains on exercise of equity warrant assets for the three months ended March 31, 2009, compared to the comparable 2008 period was primarily due to the sale of one warrant position in the first quarter of 2008. The higher warrant terminations for the three months ended March 31, 2009, compared to the comparable 2008 period, reflect the continuing effects of the downturn in the overall economy. The changes in the fair value of equity warrant assets for the three months ended March 31, 2009 were primarily attributable to gains due to changes in the volatility of market-comparable public companies. Our methodology used to calculate the fair value of equity warrant assets has been applied consistently.

### Corporate Finance Fees

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

### Losses on Investment Securities, Net

We experience variability in the performance of our consolidated investment funds 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 (losses) from investment securities and cause our results for a particular period not to be indicative of our performance in a future period. The valuation of our consolidated investment funds continues to be affected by a more discerning venture capital environment and a significant slowdown of merger and acquisition (M&A) activities and effectively a halt in IPOs among our portfolio companies in 2008 and first quarter of 2009. The net losses for the three months ended March 31, 2009 were primarily due to lower valuations of private companies from the overall impact of the continued pull-back in investing and fund-raising in the venture capital/private equity communities, particularly in the fourth quarter of 2008, and declines in the public equity markets. As a result, we saw more unrealized losses due to lower valuations in the three months ended March 31, 2009, compared to the comparable 2008 period. The following tables provide a summary of net (losses) gains on investment securities for the three months ended March 31, 2009 and 2008:

| (Dollars in thousands)   | Three months ended March 31, 2009 |                        |                      |          |             |
|--|-----------------------------------|------------------------|----------------------|----------|-------------|
|  | Managed Co-Investment Funds       | Managed Funds Of Funds | Sponsored 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)  |

| (Dollars in thousands)   | Three months ended March 31, 2008 |                        |                      |          |            |
|--|-----------------------------------|------------------------|----------------------|----------|------------|
|  | Managed Co-Investment Funds       | Managed Funds Of Funds | Sponsored Debt Funds | Other    | Total      |
| Unrealized (losses) gains  | \$ (672)                          | \$ 898                 | \$ (7,838)           | \$       | \$ (7,612) |
| Realized gains (losses)  | 548                               | 1,885                  | (124)                | (809)    | 1,500      |
| Total (losses) gains on investment securities, net   | \$ (124)                          | \$ 2,783               | \$ (7,962)           | \$ (809) | \$ (6,112) |
| Less: (losses) income attributable to noncontrolling interests, including carried interest | (56)                              | 2,555                  | (4,398)              |          | (1,899)    |

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

|   |    |      |    |     |    |         |    |       |    |         |
|---|----|------|----|-----|----|---------|----|-------|----|---------|
| Non-GAAP net (losses) gains on investment securities, net of noncontrolling interests | \$ | (68) | \$ | 228 | \$ | (3,564) | \$ | (809) | \$ | (4,213) |
|---|----|------|----|-----|----|---------|----|-------|----|---------|



## Table of Contents

### Other Noninterest Income

A summary of other noninterest income for the three months ended March 31, 2009 and 2008, respectively, is as follows:

| (Dollars in thousands)                                    | Three months ended March 31, |                  |               |
|---|------------------------------|------------------|---------------|
|   | 2009                         | 2008             | % Change      |
| Fund management fees                                      | \$ 2,717                     | \$ 1,920         | 41.5%         |
| Gains (losses) on foreign currency revaluation, net       | 2,094                        | (521)            | NM            |
| Service-based fee income (1)                              | 1,829                        | 1,990            | (8.1)         |
| Credit card fees  | 1,439                        | 1,699            | (15.3)        |
| (Losses) gains on foreign currency loans revaluation, net | (2,677)                      | 3,907            | (168.5)       |
| Other   | 790                          | 2,040            | (61.3)        |
| <b>Total other noninterest income</b>                     | <b>\$ 6,192</b>              | <b>\$ 11,035</b> | <b>(43.9)</b> |

NM- Not meaningful

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

Other noninterest income was \$6.2 million for the three months ended March 31, 2009, compared to \$11.0 million for the comparable 2008 period. The decrease of \$4.8 million was primarily due to revaluations of foreign currency denominated loans. Net losses from revaluation of foreign currency denominated loans of \$2.7 million for the three months ended March 31, 2009 were due primarily to the strengthening of the U.S. dollar against the Euro and Pound Sterling, and were partially offset by net gains from foreign exchange forward contracts of \$1.9 million, which are included in net gains on derivative instruments. Net gains from revaluation of foreign currency denominated loans of \$3.9 million for the three months ended March 31, 2008 were due primarily to the weakening of the U.S. dollar against the Euro and Japanese Yen, partially offset by net losses from foreign exchange forward contracts of \$3.1 million, which are included in net gains on derivative instruments.

### Noninterest Expense

| (Dollars in thousands)                                   | Three months ended March 31, |                  |            |
|--|------------------------------|------------------|------------|
|  | 2009                         | 2008             | % Change   |
| Compensation and benefits                                | \$ 48,280                    | \$ 53,781        | (10.2)%    |
| Professional services                                    | 12,080                       | 8,801            | 37.3       |
| Premises and equipment                                   | 5,407                        | 5,188            | 4.2        |
| Net occupancy  | 4,305                        | 4,348            | (1.0)      |
| Impairment of goodwill                                   | 4,092                        |                  |            |
| Business development and travel                          | 3,273                        | 3,422            | (4.4)      |
| FDIC assessments   | 2,675                        | 436              | NM         |
| Correspondent bank fees                                  | 1,913                        | 1,506            | 27.0       |
| (Reduction of) provision for unfunded credit commitments | (2,284)                      | (165)            | NM         |
| Other  | 7,399                        | 6,120            | 20.9       |
| <b>Total noninterest expense</b>                         | <b>\$ 87,140</b>             | <b>\$ 83,437</b> | <b>4.4</b> |

NM- Not meaningful

The table below provides a summary of non-GAAP noninterest expense, net of noncontrolling interests:

|  | Three months ended March 31, |                  |                 |
|--|------------------------------|------------------|-----------------|
| <b>Non-GAAP noninterest expense, net of noncontrolling interests</b> |                              |                  |                 |
| <b>(Dollars in thousands)</b>  | <b>2009</b>                  | <b>2008</b>      | <b>% Change</b> |
| GAAP noninterest expense   | \$ 87,140                    | \$ 83,437        | 4.4%            |
| Less: amounts attributable to noncontrolling interests               | 3,387                        | 2,759            | 22.8            |
| <b>Non-GAAP noninterest expense, net of noncontrolling interests</b> | <b>\$ 83,753</b>             | <b>\$ 80,678</b> | <b>3.8</b>      |

*Compensation and Benefits*

Compensation and benefits expense was \$48.3 million for the three months ended March 31, 2009, compared to \$53.8 million for the comparable 2008 period. The decrease of \$5.5 million was largely due to a decrease of \$7.9 million in expenses related to our Incentive Compensation Plan and Employee Stock Ownership Plan ( ESOP ), as a result of our actual first quarter 2009 results being below our expectations. These decreases were partially offset by a \$3.4 million increase in salaries and wages expense, primarily related to an

## Table of Contents

increase in the average number of full-time equivalent ( FTE ) personnel. The average number of FTE personnel increased to 1,258 for the three months ended March 31, 2009, compared to 1,174 for the comparable 2008 period. The increase in average FTE was primarily attributable to increases in sales and advisory positions to support our Global Commercial Bank operations, as well as from increases at SVB Capital and SVB Analytics to support our growth in these businesses.

Our variable compensation plans primarily consist of the Incentive Compensation Plans, Direct Drive Incentive Compensation Plan, SVB Financial Group 401(k), ESOP, Retention Program and Warrant Incentive Plan. Total costs incurred under the above plans were \$7.3 million for the three months ended March 31, 2009, compared to \$16.6 million for the comparable 2008 period.

### *Professional Services*

Professional services expense was \$12.1 million for the three months ended March 31, 2009, compared to \$8.8 million for the comparable 2008 period. The increase of \$3.3 million was primarily due to consulting fees related to certain infrastructure projects.

### *Impairment of Goodwill*

We review goodwill for possible impairment on an annual basis, and we also monitor for any impairment triggering events quarterly. As such, as part of our quarterly review of goodwill during the three months ended March 31, 2009, we noted an impairment resulting from a change in our outlook for eProsper's future financial performance. As a result, we recognized a non-cash non-tax deductible charge of \$4.1 million relating to the impairment of goodwill.

### *FDIC Assessments*

FDIC assessments were \$2.7 million for the three months ended March 31, 2009, compared to \$0.4 million for the comparable 2008 period. The increase of \$2.3 million was primarily due to an increase in average deposit balances and an increase in fee rates mandated by the FDIC. We expect higher FDIC assessment fees for the remainder of 2009, particularly from an anticipated one-time fee assessment to be assessed on all banks.

### *(Reduction of) Provision for Unfunded Credit Commitments*

We calculate the (reduction of) 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 of \$2.3 million for the three months ended March 31, 2009, compared to a reduction of provision of \$0.2 million for the comparable 2008 period. The reduction of provision for the three months ended March 31, 2009 was reflective of a decrease in the balance of our total unfunded credit commitments due to expirations and reductions in credit lines to certain clients. Total unfunded credit commitments were \$5.1 billion at March 31, 2009, compared to \$5.6 billion at December 31, 2008.

### *Other Noninterest Expense*

A summary of other noninterest expense for the three months ended March 31, 2009 and 2008, respectively, is as follows:

| (Dollars in thousands)          | Three months ended March 31, |          |          |
|---------------------------------|------------------------------|----------|----------|
|                                 | 2009                         | 2008     | % Change |
| Telephone                       | \$ 1,380                     | \$ 1,152 | 19.8%    |
| Postage and supplies            | 1,258                        | 754      | 66.8     |
| Tax credit fund amortization    | 1,129                        | 982      | 15.0     |
| Data processing services        | 1,012                        | 1,077    | (6.0)    |
| Other                           | 2,620                        | 2,155    | 21.6     |
| Total other noninterest expense | \$ 7,399                     | \$ 6,120 | 20.9     |

**Table of Contents*****Net Loss Attributable to Noncontrolling Interests***

Net loss attributable to noncontrolling interests is primarily related to the noncontrolling interests holders' portion of investment gains or losses and management fees in our managed funds. Noninterest loss consists primarily of investment gains and losses from our consolidated funds. Noninterest expense is primarily related to management fees paid by our managed funds to the general partner entities at SVB Capital and one of our consolidated sponsored debt funds for funds management. Our adoption of SFAS No. 160 requires us to reclassify our presentation of noncontrolling interests. A summary of net loss attributable to noncontrolling interests for the three months ended March 31, 2009 and 2008, respectively, is as follows:

| (Dollars in thousands)                            | Three months ended March 31, |          |          |
|---|------------------------------|----------|----------|
|   | 2009                         | 2008     | % Change |
| Net interest loss (income) (1)                    | \$ 14                        | \$ (257) | (105.4)% |
| Noninterest loss (1)                              | 31,907                       | 975      | NM       |
| Noninterest expense (1)                           | 3,387                        | 2,759    | 22.8     |
| Carried interest (2)                              | (1,315)                      | 741      | NM       |
| Net loss attributable to noncontrolling interests | \$ 33,993                    | \$ 4,218 | NM       |

NM- Not meaningful

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

***Income Taxes***

Effective January 1, 2009, we adopted SFAS No. 160, which requires us to clearly identify and distinguish between the interests of the Company and the interest of the noncontrolling owners by presenting noncontrolling interests after net (loss) income in our interim consolidated statements of income. As a result, our effective tax rate is calculated by dividing income tax (benefit) expense by the sum of (loss) income before income tax (benefit) expense and the net (loss) income attributable to noncontrolling interests.

Our effective tax rate was 19.5 percent for the three months ended March 31, 2009, compared to 40.3 percent for the comparable 2008 period. The decrease in the tax rate was primarily attributable to the higher impact of tax-advantaged investments on our overall pre-tax loss, partially offset by an increase in our tax rate due to the tax impact of the \$4.1 million non-tax deductible goodwill impairment associated with eProsper.

***Operating Segment Results***

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

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

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 funds transfer pricing. 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

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

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 may in the future result, in the inclusion of certain clients in different segments in different periods. Effective January 1, 2009, we have four operating segments for management reporting purposes: Global Commercial Bank, Relationship Management, SVB Capital and Other Business Services. Previously, we reported based on three operating segments: Commercial Banking, SVB Capital, and Other Business Services. We have reclassified all prior period amounts to conform to the current period's presentation. Refer to Note 11- Segment Reporting of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

## Table of Contents

The following is our segment information for the three months ended March 31, 2009 and 2008, respectively.

### Global Commercial Bank

| (Dollars in thousands)           | Three months ended March 31, |              |          |
|----------------------------------|------------------------------|--------------|----------|
|                                  | 2009                         | 2008         | % Change |
| Net interest income              | \$ 94,259                    | \$ 84,649    | 11.4%    |
| Provision for loan losses        | (42,815)                     | (8,149)      | NM       |
| Noninterest income               | 26,240                       | 33,657       | (22.0)   |
| Noninterest expense              | (29,562)                     | (30,216)     | (2.2)    |
| Income before income tax expense | \$ 48,122                    | \$ 79,941    | (39.8)   |
| Total average loans              | \$ 4,114,099                 | \$ 3,193,371 | 28.8     |
| Total average assets             | 4,199,044                    | 3,247,069    | 29.3     |
| Total average deposits           | 7,749,826                    | 4,282,395    | 81.0     |

NM- Not meaningful

### Three months ended March 31, 2009 compared to the three months ended March 31, 2008

Net interest income from the Global Commercial Bank ( GCB ) increased by \$9.6 million for the three months ended March 31, 2009, primarily due to an increase in interest income resulting from growth in GCB's loan portfolio, particularly from loans to software and hardware clients, and an increase in interest income due to decreases in the earnings charge incurred for funded loans. These increases were partially offset by a decrease in interest income from earnings credit received on deposits due primarily to decreases in short-term market interest rates, as well as from a decrease in interest income from loans due to a decrease in our average prime-lending rate to 4.00 percent for the three months ended March 31, 2009, compared to 6.26 percent for the comparable 2008 period.

The provision for loan losses for GCB of \$42.8 million for the three months ended March 31, 2009 was primarily attributable to gross loan charge-offs of \$23.1 million and specific reserves of \$9.2 million related to two loans within our hardware industry portfolio. For more details of the components for our provision for loan losses, please refer to Results of Operations Provision for Loan Losses above.

Noninterest income decreased by \$7.4 million for the three months ended March 31, 2009, primarily due to a decrease in client investment fees of \$7.6 million. The decrease in client investment fees was primarily attributable to lower margins earned on certain products owing to historically low rates in the short-term fixed income markets, as well as a decrease in average balances of client investment funds.

Noninterest expense decreased by \$0.7 million for the three months ended March 31, 2009, primarily due to a decrease in compensation and benefits expense of \$1.9 million, partially offset by an increase in professional services expense of \$1.5 million. The decrease in compensation and benefits expense was primarily a result of a decrease in our incentive compensation related expenses, resulting from our actual first quarter 2009 results being below our expectations, partially offset by an increase in salaries and wages expenses, primarily as a result of growth in the number of average FTE employees at GCB, which increased to 549 for the three months of March 31, 2009, compared to 516 for the comparable 2008 period. The increase in professional services expense was primarily due to consulting fees related to certain infrastructure projects.

## Table of Contents

### Relationship Management

| (Dollars in thousands)                  | Three months ended March 31, |            |          |
|---|------------------------------|------------|----------|
|   | 2009                         | 2008       | % Change |
| Net interest income                     | \$ 8,887                     | \$ 7,408   | 20.0%    |
| Provision for (recovery of) loan losses | (649)                        | 455        | NM       |
| Noninterest income                      | 303                          | 409        | (25.9)   |
| Noninterest expense                     | (3,649)                      | (4,136)    | (11.8)   |
| Income before income tax expense        | \$ 4,892                     | \$ 4,136   | 18.3     |
| Total average loans                     | \$ 989,842                   | \$ 834,921 | 18.6     |
| Total average assets                    | 991,605                      | 839,159    | 18.2     |
| Total average deposits                  | 172,661                      | 160,692    | 7.4      |

NM- Not meaningful

### Three months ended March 31, 2009 compared to the three months ended March 31, 2008

Net interest income increased by \$1.5 million for the three months ended March 31, 2009, primarily due to an increase in interest income from growth in Relationship Managements' loan portfolio, particularly from growth in loans to targeted high-net-worth individuals, as well as an increase in interest income due to decreases in the earnings charge incurred for funded loans. This increase was partially offset by a decrease in interest income from earnings credit received on deposits due to decreases in short-term market interest rates, as well as from a decrease in interest income from loans due to a decrease in our average prime-lending rate.

Noninterest expense decreased by \$0.5 million for the three months ended March 31, 2009, primarily due to a decrease in compensation and benefits expense of \$0.6 million attributable to a decrease in incentive compensation related expenses, as a result of our actual first quarter 2009 results being below our expectations.

### SVB Capital

| (Dollars in thousands)         | Three months ended March 31, |            |          |
|--------------------------------|------------------------------|------------|----------|
|                                | 2009                         | 2008       | % Change |
| Net interest (loss) income     | \$ (2)                       | \$ 13      | (115.4)% |
| Noninterest (loss) income      | (2,358)                      | 2,079      | NM       |
| Noninterest expense            | (3,346)                      | (4,228)    | (20.9)   |
| Loss before income tax expense | \$ (5,706)                   | \$ (2,136) | 167.1    |
| Total average assets           | \$ 400,862                   | \$ 293,612 | 36.5     |

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.

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

We experience variability in the performance of SVB Capital from quarter to quarter due to a number of factors, including changes in the values of our funds' investments, changes in the amount of distributions and general economic and market conditions. Such variability may lead to volatility in the gains and losses from investment securities and cause our results for a particular period not to be indicative of future performance. The valuation of our consolidated investment funds continues to be affected by a more discerning venture capital environment and a significant slowdown of M&A activities and effectively a halt in IPOs among our portfolio companies in 2008 and first quarter of 2009. The net losses for the three months ended March 31, 2009 were primarily due to the continued pull-back in investing and fund-raising in the venture capital/private equity communities, particularly in the fourth quarter of 2008, as well as declines in the public equity markets. As a result, we saw more unrealized losses due to lower valuations in the three months ended March 31, 2009, compared to the comparable 2008 period.

### *Three months ended March 31, 2009 compared to the three months ended March 31, 2008*

Noninterest loss was \$2.4 million for the three months ended March 31, 2009, compared to noninterest income of \$2.1 million for the comparable 2008 period. SVB Capital's components of noninterest (loss) income primarily include:

Net losses on investment securities of \$4.5 million for the three months ended March 31, 2009, compared to net gains of \$0.2 million for the comparable 2008 period. The net losses on investment securities of \$4.5 million for the three months ended March 31, 2009 were primarily due to net losses of \$4.1 million from three of our managed funds of funds due to net decreases of \$2.9 million in the fair value of fund investments and a decrease of \$1.3 million in carried interest due to a decline in the performance of two of our managed funds of funds.



## Table of Contents

Fund management fees of \$2.7 million and \$1.9 million for the three months ended March 31, 2009 and 2008, respectively. The increase in fund management fees was primarily due to the closing of an additional fund in the SVB Strategic Investors Fund family in the latter half of the second quarter of 2008, with subsequent closes in the fourth quarter of 2008 and the first quarter of 2009. Typically, a fund of fund is formed through multiple closing transactions in which limited partners enter into investment commitments.

Noninterest expense decreased by \$0.9 million for the three months ended March 31, 2009, primarily due to a decrease in compensation and benefits expense attributable to a decrease in incentive compensation related expenses, as a result of our actual first quarter 2009 results being below our expectations.

### Other Business Services

| (Dollars in thousands)         | Three months ended March 31, |            |          |
|--------------------------------|------------------------------|------------|----------|
|                                | 2009                         | 2008       | % Change |
| Net interest (loss) income     | \$ (26)                      | \$ 34      | (176.5)% |
| Noninterest income (loss)      | 1,597                        | (1,856)    | (186.0)  |
| Noninterest expense            | (7,026)                      | (2,285)    | NM       |
| Loss before income tax expense | \$ (5,455)                   | \$ (4,107) | 32.8     |
| Total average assets           | \$ 76,295                    | \$ 73,248  | 4.2      |

NM- Not meaningful

Included in noninterest income (loss) are net gains and losses on investment securities, net of noncontrolling interests and carried interest from our sponsored debt funds and strategic investments components of noninterest income (loss). 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 funds and strategic investments from quarter to quarter due to a number of factors, including changes in the values of our funds investments, changes in the amount of distributions and general economic and market conditions. Such variability may lead to volatility in the gains and losses from investment securities and cause our results for a particular period not to be indicative of future performance.

SVB Analytics provides equity valuation and equity management 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.

### Three months ended March 31, 2009 compared to the three months ended March 31, 2008

Noninterest income was \$1.6 million for the three months ended March 31, 2009, compared to noninterest loss of \$1.9 million for the comparable 2008 period. The increase of \$3.5 million was primarily due to net losses from valuations at one of our sponsored debt funds recorded in the first quarter of 2008 mainly attributable to a decrease in the share price of one investment, which was subject to transfer restrictions.

Noninterest expense increased by \$4.7 million for the three months ended March 31, 2009, primarily due to a non-tax deductible charge of \$4.1 million related to impairment of goodwill resulting from changes in our outlook for eProsper's future financial performance.

## **Table of Contents**

### **Consolidated Financial Condition**

Our total assets were \$11.0 billion at March 31, 2009, an increase of \$938.0 million, or 9.4 percent, compared to \$10.0 billion at December 31, 2008. The increase was primarily due to significant increases in cash due to the growth in our deposit balances.

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

Cash and due from banks totaled \$3.4 billion at March 31, 2009, an increase of \$1.6 billion, or 87.7 percent, compared to \$1.8 billion at December 31, 2008. The increase was primarily due to the significant increase in our deposit balances from December 31, 2008 to March 31, 2009. As of March 31, 2009 and December 31, 2008, \$3.1 billion and \$1.1 billion, respectively, of our cash and due from banks was deposited at the Federal Reserve Bank and was earning interest at the Federal Funds target rate.

#### ***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 \$286.8 million at March 31, 2009, a decrease of \$360.6 million, or 55.7 percent, compared to \$647.4 million at December 31, 2008. The decrease was primarily due to cash management strategies.

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

Investment securities totaled \$2.0 billion at March 31, 2009, an increase of \$246.1 million, or 13.8 percent, compared to \$1.8 billion at December 31, 2008. The increase was primarily related to purchases of U.S. agency securities as part of our overall investment strategy.

#### ***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 our asset/liability strategies. All securities in our fixed income investment portfolio are currently held as available-for-sale. Available-for-sale securities were \$1.6 billion at March 31, 2009, an increase of \$259.1 million, or 19.7 percent, compared to \$1.3 billion at December 31, 2008. The increase was primarily due to a \$320.2 million increase in U.S. agency securities as part of our overall investment strategy, partially offset by a \$42.7 million decrease in our collateralized mortgage obligations and a \$14.6 million decrease in mortgage-backed securities due to scheduled paydowns.

The duration of our fixed income investment portfolio decreased to 2.2 years at March 31, 2009, compared to 2.8 years at December 31, 2008. Changes in portfolio duration are impacted by the effect of changing interest rates on mortgage-backed securities and collateralized mortgage obligations as well as changes in the mix of longer versus shorter term to maturity securities.

Marketable securities accounted for under investment company 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 \$1.3 million and \$1.7 million at March 31, 2009, and December 31, 2008, respectively.

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

Non-marketable securities primarily represent investments managed by SVB Capital and Sponsored Funds and Strategic Investments as part of our investment funds management business and include funds of funds and co-investment funds. Included in our non-marketable securities carried under investment company fair value accounting are amounts that are attributable to noncontrolling interests. We are required under GAAP to consolidate 100% of these investments that we are deemed to control, even though we may own less than 100% of such entities. Non-marketable securities were \$454.5 million (\$178.4 million net of noncontrolling interests) as of March 31, 2009, a decrease of \$12.7 million or 2.7 percent, compared to \$467.2 million (\$169.1 million net of noncontrolling interests) as of December 31, 2008. The decrease was primarily attributable to unrealized valuation losses of venture capital/private equity investments, partially offset by new investments.



## Table of Contents

### Loans

Loans, net of unearned income were \$5.0 billion at March 31, 2009, a decrease of \$503.2 million, or 9.1 percent, compared to \$5.5 billion at December 31, 2008. Unearned income was \$42.1 million at March 31, 2009, a decrease of \$3.3 million, or 7.3 percent, compared to \$45.4 million at December 31, 2008. The majority of our loans are commercial in nature. Total gross loans were \$5.0 billion at March 31, 2009, a decrease of \$506.4 million, or 9.1 percent, compared to \$5.6 billion at December 31, 2008. The decrease came primarily from decreases in loans to venture capital/private equity funds for capital calls due to the continuing effects of the downturn in the economic environment causing lower levels of venture capital investments, as well as from a decrease in our technology client portfolio. The breakdown of total gross loans by industry sector is as follows:

| Industry Sector<br>(Dollars in thousands) | March 31, 2009 |            | December 31, 2008 |            |
|---|----------------|------------|-------------------|------------|
|   | Amount         | Percentage | Amount            | Percentage |
| Technology (1)                            | \$ 2,426,082   | 48.1%      | \$ 2,666,372      | 48.0%      |
| Private Equity                            | 824,844        | 16.3       | 1,065,424         | 19.2       |
| Life Sciences (1)                         | 599,930        | 11.9       | 601,690           | 10.8       |
| Private Client Services                   | 515,848        | 10.2       | 523,299           | 9.4        |
| Premium Winery                            | 400,912        | 8.0        | 419,916           | 7.6        |
| All other sectors                         | 277,592        | 5.5        | 274,935           | 5.0        |
| Total gross loans                         | \$ 5,045,208   | 100.0      | \$ 5,551,636      | 100.0      |

(1) Included in the technology and life science niches are loans provided to emerging growth clients, which represent approximately 13 percent of total gross loans at March 31, 2009, compared to 12 percent at December 31, 2008.

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

| (Dollars in thousands)  | March 31, 2009            |   |  |  |                                   | Total        |
|-------------------------|---------------------------|---|--|--|-----------------------------------|--------------|
|                         | Less than<br>Five Million | More<br>than<br>Five to<br>Ten<br>Million | More than<br>Ten to<br>Twenty<br>Million | More<br>than<br>Twenty to<br>Thirty<br>Million | More<br>than<br>Thirty<br>Million |              |
| Technology              | \$ 1,169,135              | \$ 298,924                                | \$ 464,188                               | \$ 225,177                                     | \$ 268,658                        | \$ 2,426,082 |
| Private Equity          | 209,989                   | 131,435                                   | 229,073                                  | 98,126   | 156,221                           | 824,844      |
| Life Sciences           | 328,303                   | 103,180                                   | 139,697                                  | 28,750   |                                   | 599,930      |
| Private Client Services | 281,540                   | 97,461                                    | 34,356                                   | 23,120   | 79,371                            | 515,848      |
| Premium Winery          | 184,045                   | 99,771                                    | 117,096                                  |  |                                   | 400,912      |
| All other sectors       | 94,784                    | 76,669                                    | 57,452                                   | 48,687   |                                   | 277,592      |
| Total gross loans       | \$ 2,267,796              | \$ 807,440                                | \$ 1,041,862                             | \$ 423,860                                     | \$ 504,250                        | \$ 5,045,208 |

At March 31, 2009, gross loans totaling \$928.1 million, or 18.4 percent of our portfolio, were individually greater than \$20 million. These loans represented 29 clients, and of these loans \$64.1 million were on nonaccrual status as of March 31, 2009.

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

| (Dollars in thousands) | December 31, 2008         |              |                     |              |              | Total |
|------------------------|---------------------------|--------------|---------------------|--------------|--------------|-------|
|                        | Less than<br>Five Million | More<br>than | More than<br>Ten to | More<br>than | More<br>than |       |

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

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

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

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

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

| (Dollars in thousands)                                   | March 31, 2009 | December 31, 2008 |
|--|----------------|-------------------|
| Nonperforming loans:                                     |                |                   |
| Loans past due 90 days or more                           | \$ 3,516       | \$ 2,330          |
| Nonaccrual loans   | 97,641         | 84,919            |
| Total nonperforming loans                                | 101,157        | 87,249            |
| OREO   | 1,200          | 1,250             |
| Total nonperforming assets                               | \$ 102,357     | \$ 88,499         |
| Nonperforming loans as a percentage of total gross loans | 2.01%          | 1.57%             |
| Nonperforming assets as a percentage of total assets     | 0.93           | 0.88              |
| Allowance for loan losses                                | \$ 110,010     | \$ 107,396        |
| As a percentage of total gross loans                     | 2.18%          | 1.93%             |
| As a percentage of nonperforming loans                   | 108.75         | 123.09            |
| Reserve for unfunded credit commitments (1)              | \$ 12,418      | \$ 14,698         |

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

***Nonaccrual Loans***

All nonaccrual loans represent impaired loans. Average impaired loans for the three months ended March 31, 2009 and 2008 were \$95.0 million and \$8.2 million, respectively. If these loans had not been impaired, \$1.7 million and \$0.1 million in interest income would have been recorded for the three months ended March 31, 2009 and 2008, respectively.

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

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

| (Dollars in thousands)                             | March 31, 2009 | December 31, 2008 | % Change |
|--|----------------|-------------------|----------|
| Derivative assets, gross (1)                       | \$ 139,125     | \$ 174,990        | (20.5)%  |
| Deferred tax assets and income tax receivable, net | 79,194         | 63,702            | 24.3     |
| FHLB and FRB stock                                 | 35,651         | 35,651            |          |
| Accrued interest receivable                        | 35,269         | 35,218            | 0.1      |
| Foreign exchange spot contract assets, gross       | 30,139         | 21,333            | 41.3     |
| OREO   | 1,200          | 1,250             | (4.0)    |
| Other  | 34,630         | 30,216            | 14.6     |
| Total accrued interest receivable and other assets | \$ 355,208     | \$ 362,360        | (2.0)    |

(1) See Derivatives, Net section below.

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

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

Our deferred tax assets balance was \$64.0 million at March 31, 2009, compared to \$63.2 million at December 31, 2008. We pay quarterly estimated taxes to the Internal Revenue Service and certain state and foreign taxing authorities. At March 31, 2009 and December 31, 2008, we had \$15.2 million and \$0.5 million, respectively, as income taxes receivable from these authorities. The increase was primarily due to 2008 additional tax payments and a tax benefit recorded on the loss at March 31, 2009.

**Table of Contents*****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, 2009 and December 31, 2008:

| (Dollars in thousands)                                    | March 31, 2009 | December 31, 2008 | % Change |
|---|----------------|-------------------|----------|
| <b>Assets (liabilities):</b>                              |                |                   |          |
| Equity warrant assets                                     | \$ 44,933      | \$ 43,659         | 2.9%     |
| Interest rate swaps assets                                | 62,513         | 94,142            | (33.6)   |
| Foreign exchange forward and option contracts assets      | 31,679         | 37,189            | (14.8)   |
| Foreign exchange forward and option contracts liabilities | (27,338)       | (32,632)          | (16.2)   |
| Total derivatives, net                                    | \$ 111,787     | \$ 142,358        | (21.5)   |

***Equity Warrant Assets***

As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of equity warrant assets in certain client companies. At March 31, 2009, we held warrants in 1,303 companies, compared to 1,307 companies at December 31, 2008. The change in fair value of equity warrant assets is recorded in gains on derivatives instruments, net, in noninterest (loss) 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, 2009 and 2008, respectively:

| (Dollars in thousands)           | Three months ended<br>March 31, |           |
|----------------------------------|---------------------------------|-----------|
|                                  | 2009                            | 2008      |
| Balance, beginning of period     | \$ 43,659                       | \$ 31,317 |
| New equity warrant assets        | 2,074                           | 2,174     |
| Non-cash increases in fair value | 533                             | 1,444     |
| Exercised equity warrant assets  | (222)                           | (1,573)   |
| Terminated equity warrant assets | (1,111)                         | (456)     |
| Balance, end of period           | \$ 44,933                       | \$ 32,906 |

***Interest Rate Swaps***

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

***Foreign Exchange Forward and Foreign Currency Option Contracts***

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

At March 31, 2009 and December 31, 2008, the aggregate notional amounts of foreign exchange forward and foreign currency option contracts totaled \$866.4 million and \$824.4 million, respectively. Our net exposure risk for foreign exchange forward and foreign currency option contracts at March 31, 2009 and December 31, 2008 amounted to \$4.3 million and \$4.6 million, respectively.

***Deposits***

Deposits were \$8.5 billion at March 31, 2009, an increase of \$1.0 billion, or 13.5 percent, compared to \$7.5 billion at December 31, 2008. The increase in our deposit balance was primarily due to increases in our noninterest-bearing demand deposits of \$808.9 million and our



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

interest-bearing sweep deposits of \$359.3 million, partially offset by a decrease in money market deposits of \$151.5 million. The overall increase in our deposits was due to the following factors: (i) our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third-party, off-balance sheet product in late 2008; and (ii) the desire for some clients to benefit from the security provided by FDIC insurance in noninterest-bearing accounts. At March 31, 2009, 38.4 percent of our total deposits were interest-bearing deposits, compared to 40.9 percent at December 31, 2008.

At March 31, 2009, the aggregate balance of time deposit accounts individually exceeding \$100,000 totaled \$339.8 million, compared to \$326.8 million at December 31, 2008. At March 31, 2009, substantially all time deposit accounts exceeding \$100,000 in balances were scheduled to mature within one year. No material portion of our deposits has been obtained from a single depositor and the loss of any one depositor would not materially affect our business.

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

At March 31, 2009 and December 31, 2008, we had long-term debt of \$964.2 million and \$995.4 million, respectively. At March 31, 2009, long-term debt included FHLB advances, 5.70% senior notes and 6.05% subordinated notes, 2008 Convertible Notes, junior subordinated debentures, and other long-term debt. The decrease in long-term debt of \$31.2 million at March 31, 2009, compared to December 31, 2008, was primarily attributable to the change in fair value of the interest rate swaps associated with our senior and subordinated notes. For information on our interest rate swaps, see Note 9- Derivative Financial Instruments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

*Other Liabilities*

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

| (Dollars in thousands)                            | March 31, 2009 | December 31, 2008 | % Change |
|---|----------------|-------------------|----------|
| Foreign exchange spot contract liabilities, gross | \$ 34,708      | \$ 34,008         | 2.1%     |
| Derivative liabilities, gross (1)                 | 27,338         | 32,632            | (16.2)   |
| Accrued compensation                              | 19,644         | 35,957            | (45.4)   |
| Reserve for unfunded credit commitments           | 12,418         | 14,698            | (15.5)   |
| Other   | 69,314         | 58,258            | 19.0     |
| Total other liabilities                           | \$ 163,422     | \$ 175,553        | (6.9)    |

(1) See Derivatives, Net section above.

*Accrued Compensation*

Accrued compensation include amounts for our Incentive Compensation Plans, vacation, Direct Drive Incentive Compensation Plan, Retention Program, Warrant Incentive Plan and ESOP. The decrease of \$16.3 million was primarily due to 2008 annual incentive compensation payouts received by employees in March 2009, partially offset by additional compensation accruals made in 2009.

*Reserve for Unfunded Credit Commitments*

The level of reserve for unfunded credit commitments is determined following a methodology that parallels that used for the allowance for loan losses. We recognized a reduction of provision for unfunded credit commitments of \$2.3 million for the three months ended March 31, 2009, compared to a reduction of provision of \$0.2 million for the comparable 2008 period. The reduction of provision for the three months ended March 31, 2009 was reflective of a decrease in the balance of our total unfunded credit commitments due to expirations and reductions in credit lines to certain clients. Total unfunded credit commitments were \$5.1 billion at March 31, 2009, compared to \$5.6 billion at December 31, 2008.

*Other*

Other liabilities increased by \$11.1 million to \$69.3 million at March 31, 2009, compared to \$58.3 million at December 31, 2008. The increase was primarily attributable to an increase in accrued interest associated with our senior and subordinated notes and our 2008 Convertible Notes, which are payable semi-annually in the second and fourth quarters of the fiscal year.

*Noncontrolling Interests*

Noncontrolling interests totaled \$300.3 million and \$320.4 million at March 31, 2009 and December 31, 2008, respectively. The decrease of \$20.1 million was primarily due to net loss attributable to noncontrolling interests of \$34.0 million, primarily from our managed funds of funds and managed co-investment funds, partially offset by equity transactions, which included \$15.0 million of contributed capital, primarily from investors in three of our managed funds for the purpose of investing in limited partnerships and portfolio companies.

**Capital Resources**

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

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

## Table of Contents

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

### Common Stock and Preferred Stock

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

### SVBFG Stockholders' Equity

SVBFG stockholders' equity totaled \$992.1 million at March 31, 2009, compared to \$993.9 million at December 31, 2008. SVB Financial has not paid a cash dividend on our common stock since 1992 and, as of March 31, 2009, there were no plans for any payment of dividends. Under the terms of our participation in the CPP, we may not, without the prior consent of the United States Treasury, pay any dividend on our common stock prior to the earlier of December 12, 2011 and the date on which the outstanding shares of Series B Preferred Stock have been redeemed in whole or have been transferred to a third party. As of March 31, 2009, we had no plans to pay, or to seek consent from the Treasury to pay, cash dividends on our common stock.

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

### Capital Ratios

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

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

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

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

|  | March 31, 2009 | December 31, 2008 |
|--|----------------|-------------------|
| <b>SVB Financial:</b>                                |                |                   |
| Total risk-based capital ratio                       | 18.82%         | 17.58%            |
| Tier 1 risk-based capital ratio                      | 13.74          | 12.51             |
| Tier 1 leverage ratio                                | 10.21          | 13.00             |
| Tangible common equity to tangible assets ratio      | 7.03           | 7.75              |
| Tangible common equity to risk-weighted assets ratio | 10.22          | 9.39              |
| <b>Bank:</b>   |                |                   |
| Total risk-based capital ratio                       | 16.33%         | 13.79%            |
| Tier 1 risk-based capital ratio                      | 11.15          | 8.66              |
| Tier 1 leverage ratio                                | 8.37           | 9.20              |
| Tangible common equity to tangible assets ratio      | 7.97           | 7.45              |
| Tangible common equity to risk-weighted assets ratio | 11.15          | 8.66              |

The increase in the total risk-based and Tier 1 capital ratios for SVB Financial at March 31, 2009, compared to December 31, 2008, was primarily due to a shift in the mix of assets to a lower overall risk-weighting driven by a significant increase in funds held at the Federal Reserve. For the same period, larger increases in the total risk-based and Tier 1 capital ratios for the Bank were affected by the same change in the mix of risk-weighted assets, in addition to an increase in earnings from operations and a capital contribution from the Bank Holding

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

Company. For both SVB Financial and the Bank, decreases in the Tier 1 leverage ratio were reflective of our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third party, off-balance sheet product in late 2008, which resulted in substantial increases in cash balances and deposit liabilities resulting in significant growth in the balance sheet.

## **Table of Contents**

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

### ***Off-Balance Sheet Arrangements***

In the normal course of business, we use financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commercial and standby letters of credit and commitments to invest in private equity fund investments. These instruments involve, to varying degrees, elements of credit risk. Credit risk is defined as the possibility of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract. For details of our commitments to extend credit, and commercial and standby letters of credit, please refer to Note 12- Off-Balance Sheet Arrangements, Guarantees, and Other Commitments of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 of this report.

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

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

Included in our commitments to invest in private equity funds, are commitments to fund 357 venture capital and private equity funds where our ownership interest is less than 5% of the voting stock of each such fund. At March 31, 2009, our unfunded commitments for these funds totaled \$335.4 million. Of the \$335.4 million of unfunded commitments, approximately \$290.1 million represents the remainder of the investment commitments made by SVB Financial on behalf of certain new managed funds of funds that we plan to form ( New Fund Commitments ). As of March 31, 2009, \$42.7 million of the New Fund Commitments has already been funded and is included as a part of our investment securities portfolio in private equity investments (cost method accounting). The New Fund Commitments are intended to be transferred to, and become the financial obligations of, these new funds once they are formed with the binding commitments of outside investors. Upon formation of such funds and transfer of these investments to the new funds, these investments are typically accounted for under the investment company fair value basis and any underlying gains or losses are 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 \$39 million during the remainder of 2009.

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

### ***Liquidity***

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

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

Historically, we have attracted a stable, low-cost deposit base, which has been our primary source of liquidity. From time to time, depending on market conditions, prevailing interest rates or our introduction of additional interest-bearing deposit products, our deposit levels and cost of deposits may fluctuate. We introduced an interest-bearing money market deposit product for early stage clients and an interest-bearing sweep deposit product in 2007. At March 31, 2009, we grew our sweep deposit balance by \$359.3 million to \$1.7 billion, compared to \$1.3 billion at December 31, 2008. Additionally, we grew our noninterest-bearing demand deposits by \$808.9 million to \$5.2 billion at March 31, 2009, compared to \$4.4 billion as of December 31, 2008. We continue to expand on opportunities to increase our liquidity and take steps to carefully

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

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 six months, investment securities eligible and available for financing or pledging purposes with a maturity in excess of six months and anticipated near-term cash flows from investments.

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

**Table of Contents***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, 2009 and 2008, respectively. Please refer to our Interim Statements of Cash Flows for the three months ended March 31, 2009, and 2008 under Part I, Item 1 of this report.

| (Dollars in thousands)   | Three months ended March 31, |            |
|--|------------------------------|------------|
|  | 2009                         | 2008       |
| Average cash and due from banks  | \$ 321,282                   | \$ 276,471 |
| Average federal funds sold, securities purchased under agreements to resell and other short-term investment securities | 2,825,988                    | 475,112    |
| Average cash and cash equivalents  | \$ 3,147,270                 | \$ 751,583 |
| Percentage of total average assets   | 30.1%                        | 11.1%      |
| Net cash provided by operating activities  | \$ 13,190                    | \$ 28,330  |
| Net cash provided by (used for) investing activities   | 182,326                      | (223,049)  |
| Net cash provided by financing activities  | 1,014,677                    | 186,788    |
| Net increase (decrease) in cash and cash equivalents   | \$ 1,210,193                 | \$ (7,931) |

Average cash and cash equivalents increased by \$2.4 billion to \$3.1 billion for the three months ended March 31, 2009, compared to \$751.6 million for the comparable 2008 period, primarily due to our decision to utilize our own on-balance sheet sweep product, and discontinue offering a third-party, off-balance sheet product in late 2008, which resulted in substantial increases in cash balances.

Cash provided by operating activities was \$13.2 million for the three months ended March 31, 2009, which included net loss attributable to SVBFG of \$7.0 million. Significant adjustments for noncash items that increased cash provided by operating activities included \$43.5 million related to the provision for loan losses, \$35.0 million in net losses on investment securities, \$7.2 million of depreciation and amortization, and net changes of \$5.5 million in accrued interest. Significant adjustments for noncash items that decreased cash provided by operating activities included a \$34.0 million of net loss attributable to noncontrolling interests, a \$16.3 million decrease in accrued compensation, net changes of \$11.9 million in income tax receivable, and net changes of \$8.1 million in foreign exchange spot contracts.

Cash provided by investing activities was \$182.3 million for the three months ended March 31, 2009. Net cash inflows included a net decrease in loans of \$460.6 million and proceeds from the sales, maturities, and pay downs of available-for-sale securities of \$86.9 million. Net cash outflows included purchases of available-for-sale securities of \$340.3 million and purchases of non-marketable securities of \$26.4 million.

Cash provided by financing activities was \$1.0 billion for the three months ended March 31, 2009. Net cash inflows included increases in deposits of \$1.0 billion and net capital contributions from noncontrolling interests of \$13.9 million. Net cash outflows included a decrease in short-term borrowings of \$5.7 million and dividends paid on preferred stock of \$2.1 million.

Cash and cash equivalents at March 31, 2009 were \$3.6 billion, compared to \$676.1 million at March 31, 2008.



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

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

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

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

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

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

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

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

| Change in interest rates (basis points) | Estimated<br>MVPE | Estimated Increase/<br>(Decrease) In MVPE |         | Estimated<br>NII | Estimated Increase/<br>(Decrease) In NII |         |
|---|-------------------|---|---------|------------------|--|---------|
|   |                   | Amount                                    | Percent |                  | Amount                                   | Percent |
|   |                   | (Dollars in thousands)                    |         |                  |  |         |
| March 31, 2009:                         |                   |   |         |                  |  |         |
| +200                                    | \$ 1,606,708      | \$ 183,324                                | 12.9%   | \$ 522,248       | \$ 82,565                                | 18.8%   |
| +100                                    | 1,518,105         | 94,721                                    | 6.7     | 469,226          | 29,543                                   | 6.7     |
| -                                       | 1,423,384         |   |         | 439,683          |  |         |
| -100                                    | 1,395,722         | (27,662)                                  | (1.9)   | 436,272          | (3,411)                                  | (0.8)   |
| -200                                    | 1,410,590         | (12,794)                                  | (0.9)   | 435,093          | (4,590)                                  | (1.0)   |
| December 31, 2008:                      |                   |   |         |                  |  |         |
| +200                                    | \$ 1,623,746      | \$ 119,253                                | 7.9%    | \$ 467,955       | \$ 57,865                                | 14.1%   |
| +100                                    | 1,554,708         | 50,215                                    | 3.3     | 425,970          | 15,880                                   | 3.9     |
| -                                       | 1,504,493         |   |         | 410,090          |  |         |
| -100                                    | 1,437,606         | (66,887)                                  | (4.4)   | 403,890          | (6,200)                                  | (1.5)   |
| -200                                    | 1,457,086         | (47,407)                                  | (3.2)   | 401,074          | (9,016)                                  | (2.2)   |

The estimated MVPE in the preceding table is based on a discounted cash flow analysis using market interest rates provided by independent broker/dealers and other publicly available sources that we deem reliable. These estimates are highly assumption-dependent and will change regularly as our asset/liability structure changes, as interest rate environments evolve, and when 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.



## **Table of Contents**

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 basis risk, yield curve risk, and prepayment risk, which cannot be fully modeled and expressed using the above methodology. Accordingly, the results in the preceding table should not be relied upon as a precise indicator of actual results in the event of changing market interest rates. Additionally, the resulting MVPE and NII estimates are not intended to represent, and should not be construed to represent the underlying value.

Our base case MVPE at March 31, 2009 decreased from December 31, 2008 by \$81.1 million primarily due to the increased value of our noninterest-bearing deposit base. MVPE sensitivity declined in simulated downward interest rate movements due to the historically low level of interest rates. Our simulation model embeds floors in our interest rate scenarios, which prevent model benchmark rates from resulting in negative rates. Given the low level of interest rates, these floors contributed to the lower sensitivity in the down 100 and 200 basis point scenarios. MVPE sensitivity increased in simulated upward interest rate movements primarily due to the large increase in rate sensitive cash equivalents that have been deposited with the Federal Reserve. The Federal Reserve account earns interest at the Federal Funds target rate and maintains its value as rates increase.

Conversely, our expected 12-month NII at March 31, 2009 increased from December 31, 2008 by \$29.6 million due to the large increase in our noninterest-bearing deposit accounts and the large increase in our rate sensitive cash equivalents. NII sensitivity decreased in simulated downward interest rate movements and increased in up rate scenarios. The change in sensitivity is due to the factors mentioned above for the MVPE as well as the changes in our balance sheet mix, our deposit repricing assumptions, and the current low interest rate environment. Actual changes in our deposit pricing strategies may differ from our current model assumptions and may have an impact on our overall sensitivity.

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

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

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

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

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

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

## **PART II OTHER INFORMATION**

## **ITEM 1. LEGAL PROCEEDINGS**

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

## **ITEM 1A. RISK FACTORS**

*Our business faces significant risks, including current market environment, credit, market/liquidity, operational, legal/regulatory and strategic/reputation risks. The factors described below may not be the only risks we face and are not intended to serve as a comprehensive*

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

*listing or be applicable only to the category of risk under which they are disclosed. The risks described below are generally applicable to more than one of the following categories of risks. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following factors actually occurs, our business, financial condition and/or results of operations could suffer.*

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

## **Table of Contents**

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

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

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

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

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

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

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

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

### ***Credit Risks***

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

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



## **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-technology, early-stage and mid-stage companies, many of our loans are made to companies with modest or negative cash flows and no established record of profitable operations. Repayment of these loans is dependent upon receipt by borrowers of additional equity financing from venture capitalists or others, or in some cases, a successful sale to a third party or a public offering. In recent periods, due to the overall weakening of the economic environment, venture capital financing activity has slowed, and initial public offerings ( IPOs ) and merger/acquisition ( M&A ) activities have slowed significantly. If economic conditions worsen or do not improve, such activities may slow down even further. Venture capital firms may provide financing at lower levels, more selectively or on less favorable terms, which may have an adverse 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 our technology and life science industry sectors, a borrower's financial position can deteriorate rapidly.

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

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

Additionally, we have been increasing our efforts to lend to corporate technology clients, including some companies with greater levels of debt relative to their equity, and have increased the average size of our loans over time. At March 31, 2009, our gross loan portfolio included a total of \$928.1 million, or 18.4 percent, of individual loans greater than \$20 million. Increasing our larger loan commitments could increase the impact on us of any single borrower default.

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

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

A commitment to extend credit is a formal agreement to lend funds to a client as long as there is no violation of any condition established under the agreement. The actual borrowing needs of our clients under these credit commitments have historically been lower than the contractual amount of the commitments. A significant portion of these commitments expire without being drawn upon. Because of the credit profile of our clients, we typically have a substantial amount of total unfunded credit commitments, which is reflected off our balance sheet. At March 31, 2009, we had \$5.1 billion in total unfunded credit commitments. Actual borrowing needs of our clients may exceed our expected funding requirements, especially during a challenging economic environment when our client companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, the increasing costs of credit, or the limited availability of financings from more discerning and selective venture capital/private equity firms. Or, limited partner investors of our venture capital/private equity fund clients facing liquidity or other financing issues may fail to meet their underlying investment commitments, which may impact our clients' borrowing needs. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our clients, may have a material adverse effect on our business, profitability, results of operations and reputation.

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

income or increase net losses in that period.



## **Table of Contents**

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

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

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

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

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

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

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

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 could increase the interest rates we pay on deposits, or adversely affect perceptions about our creditworthiness or our overall reputation.

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

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



## **Table of Contents**

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

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

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

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

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

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

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

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

### ***Operational Risks***

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

We rely on key personnel, including a substantial number of employees who have technical expertise in their subject matter area and/or a strong network of relationships with individuals and institutions in the markets we serve. If we were to have less success in recruiting and retaining these employees than our competitors, for reasons including regulatory restrictions on compensation practices (such as those under EESA as amended by the ARRA) or the availability of more attractive opportunities elsewhere, our growth and profitability could be adversely affected.

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

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

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.

## **Table of Contents**

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

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

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

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

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

In order to serve our target clients effectively, we have developed a comprehensive array of banking and other products and services. In order to support these products and services, we have developed and purchased or licensed information technology and other systems and processes. As our business continues to grow, we will continue to invest in and enhance these systems, and our people and processes. These investments and enhancements may affect our future profitability and overall effectiveness. From time to time, we may change, consolidate, replace, add or upgrade existing systems or processes, which if not implemented properly to allow for an effective transition, may have an adverse affect on our operations. Or, we may outsource certain operational functions to consultants or other third parties to enhance our overall efficiencies, which if not performed properly, could also have an adverse affect 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 are in the process of implementing our business continuity and disaster recovery program, which is a multi-year effort. We began implementing the program during 2005, but it has not yet been completed. There is no assurance that our business continuity and disaster recovery program can adequately mitigate the risks of such business disruptions and interruptions.

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



## **Table of Contents**

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

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

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

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, under our accounts receivable financing arrangements, we rely on information, such as invoices, contracts and other supporting documentation, provided by our clients and their account debtors to determine the amount of credit to extend. Similarly, in deciding whether to extend credit, we may rely upon our customers' representations that their financial statements conform to U.S. generally accepted accounting principles 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 may require management to make estimates about matters that are uncertain.**

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

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

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

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

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.

## **Table of Contents**

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

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

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

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

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

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

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

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

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

Concentration of risk increases the potential for significant losses in our business. Our clients are concentrated by industry niches: technology, life science, venture capital/private equity and premium wine. Many of our client companies are concentrated by certain stages within their life cycles, such as early-stage or mid-stage, and many of these companies are venture capital-backed. Our loan concentrations are derived from our 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 or results of operations. Due to our concentrations, we may suffer losses even when economic and market conditions are generally favorable for our competitors.



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

Our core strategy is focused on providing banking products and services to companies, including in particular to emerging technology stage to mid-stage companies, that receive financial support from sophisticated investors, including venture capital or private equity firms, angels, and corporate investors. We derive a meaningful share of our deposits from these companies and provide them with loans as well as other banking products and services. In some cases, our lending credit decision is based on our

## **Table of Contents**

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, IPO's or mergers and acquisitions of companies within our technology and life science industry sectors, the availability and return on alternative investments and general economic conditions in the technology, life science and venture capital/private equity industries. Reduced capital markets valuations could reduce the amount of capital available to our client companies, including companies within our technology and life science industry sectors.

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

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

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

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

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

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

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

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

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.**

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

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

## **Table of Contents**

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

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

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

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

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

None.

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

None.

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

None.

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

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

See Index to Exhibits at end of report.

**Table of Contents**

**SIGNATURE**

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

Date: May 8, 2009

SVB Financial Group

/s/ MICHAEL DESCHENEAX  
Michael Descheneaux

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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

| <b>Exhibit</b> |  | <b>Incorporated by Reference</b> |                 |                |                    | <b>Filed<br/>Herewith</b> |
|----------------|--|----------------------------------|-----------------|----------------|--------------------|---------------------------|
| <b>Number</b>  | <b>Exhibit Description</b>   | <b>Form</b>                      | <b>File No.</b> | <b>Exhibit</b> | <b>Filing Date</b> |                           |
| 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            | January 29, 2007   |                           |
| 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,   | 8-A12G/A                         | 000-15637       | 4.20           | February 27, 2004  |                           |

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

N.A.

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

## Table of Contents

| Exhibit |  | Incorporated by Reference |           |         |                   | Filed<br>Herewith |
|---------|--|---------------------------|-----------|---------|-------------------|-------------------|
| Number  | Exhibit Description  | Form                      | File No.  | Exhibit | Filing Date       |                   |
| 4.17    | Letter Agreement re Call Option Transaction, dated as of April 1, 2008, by and between SVB Financial and JPMorgan Chase Bank, National Association.                    | 8-K                       | 000-15637 | 4.2     | April 7, 2008     |                   |
| 4.18    | Letter Agreement re Call Option Transaction, dated as of April 1, 2008, by and between SVB Financial and Bank of America, N.A.   | 8-K                       | 000-15637 | 4.3     | April 7, 2008     |                   |
| 4.19    | Letter Agreement re Warrants, dated as of April 1, 2008, by and between SVB Financial and JPMorgan Chase Bank, National Association.                                   | 8-K                       | 000-15637 | 4.4     | April 7, 2008     |                   |
| 4.20    | Letter Agreement re Warrants, dated as of April 1, 2008, by and between SVB Financial and Bank of America, N.A.  | 8-K                       | 000-15637 | 4.5     | April 7, 2008     |                   |
| 4.21    | Warrant, dated December 12, 2008 to purchase shares of Common Stock of SVB Financial   | 8-K                       | 000-15637 | 4.21    | December 15, 2008 |                   |
| 31.1    | Rule 13a-14(a)/15(d)-14(a) Certification of Principal Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                          |                           |           |         |                   | X                 |
| 31.2    | Rule 13a-14(a)/15(d)-14(a) Certification of Principal Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                          |                           |           |         |                   | X                 |
| 32.1    | 18 U.S.C. Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |                           |           |         |                   | *X                |

\* Furnished herewith