SVB FINANCIAL GROUP
Form 10-Q
May 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File Number: 000-15637

SVB FINANCIAL GROUP

(Exact name of registrant as specified in its charter)

Delaware	**91-1962278**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
3003 Tasman Drive, Santa Clara, California	**95054-1191**
(Address of principal executive offices)	**(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 x 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 x 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 x

At April 30, 2010, 41,740,445 shares of the registrant s common stock ($0.001 par value) were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands, except par value and share data)	March 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 4,614,434	$ 3,454,611
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	77,269	58,242
Cash and cash equivalents	4,691,703	3,512,853
Investment securities	4,939,084	4,491,752
Loans, net of unearned income	4,205,245	4,548,094
Allowance for loan losses	(68,271)	(72,450)
Net loans	4,136,974	4,475,644
Premises and equipment, net of accumulated depreciation and amortization	34,966	31,736
Accrued interest receivable and other assets	322,522	329,414
Total assets	$ 14,125,249	$ 12,841,399
Liabilities and total equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 7,012,310	$ 6,298,988
Negotiable order of withdrawal (NOW)	47,840	53,200
Money market	1,462,661	1,292,215
Money market deposits in foreign offices	73,326	49,722
Time	331,981	332,310
Sweep	2,585,176	2,305,502
Total deposits	11,513,294	10,331,937
Short-term borrowings	39,895	38,755
Other liabilities	163,187	139,947
Long-term debt	859,713	856,650
Total liabilities	12,576,089	11,367,289
Commitments and contingencies (Note 12)		
SVBFG stockholders equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.001 par value, 150,000,000 shares authorized; 41,526,122 shares and 41,338,389 shares outstanding, respectively	42	41
Additional paid-in capital	398,510	389,490

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

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

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

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive (Loss)	Total SVBFG Stockholders	Noncontrolling	
(Dollars in thousands)	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Earnings**	**Income**	**Equity**	**Interests**	**Total Equity**
Balance at December 31, 2008	**235,000**	**$ 221,185**	**32,917,007**	**$ 33**	**$ 66,201**	**$ 709,726**	**$ (5,789)**	**$ 991,356**	**$ 320,356**	**$ 1,311,712**
Common stock issued under employee benefit plans, net of restricted stock cancellations			18,508		85			85		85
Income tax benefit from stock options exercised, vesting of restricted stock and other					238			238		238
Net (loss)						(8,235)		(8,235)	(33,993)	(42,228)
Capital calls and (distributions), net									13,911	13,911
Net change in unrealized losses on available-for-sale investment securities, net of tax							3,693	3,693		3,693
Foreign currency translation adjustments, net of tax							(1,066)	(1,066)		(1,066)
Stock-based compensation expense					3,908			3,908		3,908
Income tax benefit from original issue discount related to 3.875% convertible senior notes					1,105			1,105		1,105
Preferred stock dividend and discount accretion		598				(3,536)		(2,938)		(2,938)
Other-net					223	1		224		224
Balance at March 31, 2009	**235,000**	**$ 221,783**	**32,935,515**	**$ 33**	**$ 71,760**	**$ 697,956**	**$ (3,162)**	**$ 988,370**	**$ 300,274**	**$ 1,288,644**
Balance at December 31, 2009		**$**	**41,338,389**	**$ 41**	**$ 389,490**	**$ 732,907**	**$ 5,905**	**$ 1,128,343**	**$ 345,767**	**$ 1,474,110**
Common stock issued under employee benefit plans, net of restricted stock cancellations			187,733	1	5,065			5,066		5,066
Income tax benefit from stock options exercised, vesting of restricted stock and other					779			779		779
Net income						18,557		18,557	10,653	29,210
Capital calls and (distributions), net									19,260	19,260
Net change in unrealized gains on available-for-sale investment securities, net of tax							16,651	16,651		16,651
Foreign currency translation adjustments, net of tax							900	900		900
Stock-based compensation expense					3,196			3,196		3,196
Other-net					(20)	8		(12)		(12)

Balance at March 31, 2010	**$**	**41,526,122**	**$ 42**	**$ 398,510**	**$ 751,472**	**$ 23,456**	**$ 1,173,480**	**$ 375,680**	**$ 1,549,160**

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

Proceeds from issuance of common stock	5,065	85
Net cash provided by financing activities	1,207,914	1,014,677
Net increase in cash and cash equivalents	1,178,850	1,210,261
Cash and cash equivalents at beginning of period	3,512,853	2,436,725
Cash and cash equivalents at end of period	**$ 4,691,703**	**$ 3,646,986**
Supplemental disclosures:		
Cash paid during the period for:		
Interest paid	$ 5,618	$ 9,475
Income taxes paid	1,129	12,150
Noncash items during the period:		
Preferred stock dividends accrued, not yet paid	$	$ 1,469
Unrealized gains on available-for-sale securities, net of tax	16,667	3,697
Net change in fair value of interest rate swaps	3,137	(31,629)

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

SVB FINANCIAL GROUP AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

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

The accompanying interim consolidated financial statements reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary to fairly present our financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America (GAAP). Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of results to be expected for any future periods. These interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K).

The accompanying unaudited interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Consolidated Financial Statements and Supplementary Data-Note 2- Summary of Significant Accounting Policies under Part II, Item 8 of our 2009 Form 10-K, and with the accounting pronouncements adopted during the three months ended March 31, 2010, as discussed below.

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

Principles of Consolidation and Presentation

Our consolidated financial statements include the accounts of SVB Financial Group and our majority-owned subsidiaries and variable interest entities (VIEs) for which we are the primary beneficiary and our investments in which we have a majority owned voting interest. All significant intercompany accounts and transactions have been eliminated.

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

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

We reassess our initial evaluation of whether an entity is a VIE upon the occurrence of certain events, such as changes in an entity s capital structure or in its activities, known as reconsideration events. Our evaluation of whether we are the primary beneficiary of a VIE is not limited to the occurrence of certain reconsideration events but is instead reassessed on an ongoing basis. We have not provided financial or other support during the periods presented to any VIE that we were not previously contractually required to provide. We are variable interest holders in certain partnerships for which we are the primary beneficiary.

Current Accounting Developments

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

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

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

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

Information about these pronouncements is described in more detail below.

Impact of Adopting ASU No. 2009-16

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

Impact of Adopting ASU No. 2009-17

In June 2009, the FASB issued a new accounting standard which replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling interest in a VIE, with an approach focused on which enterprise has both the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our adoption of this standard as of January 1, 2010 required us to de-consolidate Gold Hill Venture Lending Partners 03, LLC (GHLLC), which resulted in a reduction of total assets and total equity of $1.1 million. The identification of VIE s or changes in our consolidation of entities did not have a material impact on our financial position, results of operations or stockholder s equity.

Impact of Adopting ASU No. 2010-06

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

Reclassifications

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

2. Stockholders Equity and Earnings Per Share (EPS)

Common Stock

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

Earnings Per Share

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued pursuant to stock options and restricted stock units under our equity incentive plan, stock purchases under our employee stock purchase plan, our 3.875% convertible senior notes (2008 Convertible Notes) and related warrants and note hedge, and our warrant under the CPP. Potentially dilutive common shares are excluded from the computation of dilutive earnings per share in periods in which the effect would be antidilutive. The following is a reconciliation of basic EPS to diluted EPS for the three months ended March 31, 2010 and 2009, respectively:

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

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

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

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

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

In addition to the above, at March 31, 2010, 4.7 million shares of our 2008 Convertible Notes and associated warrants were outstanding but also excluded from the diluted EPS calculation as they were deemed to be anti-dilutive. Concurrent with the issuance of our 2008 Convertible Notes, we entered into a convertible note hedge and warrant agreement. For information on our 2008 Convertible Notes and associated convertible note hedge and warrant agreement, see our Consolidated Financial Statements and Supplementary Data- Note 13- Derivative Financial Instruments and Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2009 Form 10-K.

3. Share-Based Compensation

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

Unrecognized Compensation Expense

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

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

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Share-Based Payment Award Activity

The table below provides stock option information related to the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the three months ended March 31, 2010:

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

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

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

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

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

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

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

In addition, as of March 31, 2010 and December 31, 2009, $4.3 billion and $3.1 billion, respectively, of our cash and due from banks was deposited at the Federal Reserve Bank and was earning interest at the Federal Funds target rate, and interest-earning deposits in other financial institutions were $148.1 million and $171.6 million, respectively.

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5. Investment Securities

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

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

(1) Marketable securities (investment company fair value accounting) represent investments managed by us or our consolidated subsidiaries that were originally made within our non-marketable securities portfolio that have been converted into publicly-traded shares.

(2)

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

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

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

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

(i) At March 31, 2010, we had a direct ownership interest of 1.3% and an indirect ownership interest of 3.8% in the fund through our ownership interest of SVB Strategic Investors Fund II, LP.

(4) Other investments within non-marketable securities (investment company fair value accounting) include our ownership in Partners for Growth, LP, a consolidated sponsored debt fund. At March 31, 2010 and December 31, 2009 we had a majority ownership interest of slightly more than 50.0% in the fund. Partners for Growth, LP is managed by a third party, and we do not have an ownership interest in the general partner of this fund.

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

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

(i) At March 31, 2010, we had a direct ownership interest of 4.8% in the fund and an indirect interest in the fund through our investment in GHLLC of 4.5%. Our aggregate direct and indirect ownership in the fund is 9.3%.

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

The following table summarizes our unrealized losses on our available-for-sale investment securities into categories of less than 12 months, or 12 months or longer, at March 31, 2010:

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

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

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

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The following table summarizes our unrealized losses on our available-for-sale investment securities portfolio into categories of less than 12 months, or 12 months or longer, as of December 31, 2009:

	December 31, 2009					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
U.S. agency debentures	$ 287,621	$ (443)	$	$	$ 287,621	$ (443)
Residential mortgage-backed securities:						
Agency-issued mortgage-backed securities	1,034,781	(17,237)			1,034,781	(17,237)
Agency-issued collateralized mortgage obligations (1)	321,388	(5,535)	1,392	(22)	322,780	(5,557)
Non-agency mortgage-backed securities (1)	23,966	(195)	51,276	(5,312)	75,242	(5,507)
Commercial mortgage-backed securities	14,968	(107)			14,968	(107)
Municipal bonds and notes	11,908	(56)			11,908	(56)
Marketable equity securities	3	(5)			3	(5)
Total temporarily impaired securities	$ 1,694,635	$ (23,578)	$ 52,668	$ (5,334)	$ 1,747,303	$ (28,912)

The following table summarizes the remaining contractual principal maturities and fully taxable equivalent yields on debt securities classified as available-for-sale as of March 31, 2010. Interest income on certain municipal bonds and notes (non-taxable investments) are presented on a fully taxable equivalent basis using the federal statutory tax rate of 35.0 percent. The weighted average yield is computed using the amortized cost of debt securities, which are reported at fair value. Expected remaining maturities of U.S. treasury securities, U.S. agency debentures and mortgage-backed securities may differ significantly from their contractual maturities because borrowers have the right to prepay obligations with or without penalties. This is most apparent in mortgage-backed securities as contractual maturities are typically 15 to 30 years, whereas expected average lives of these securities tend to be significantly shorter and vary based upon structure.

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

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The cost of investment securities is determined on a specific identification basis. The following table presents the components of gains and losses on investment securities for the three months ended March 31, 2010 and 2009:

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

6. Loans and Allowance for Loan Losses

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

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

(1) Premium wine consists of loans for vineyard development, as well as working capital and equipment term loans to meet the needs of our clients premium wineries and vineyards. At March 31, 2010 and December 31, 2009, $298.7 million and $298.9 million, respectively, of such loans were secured by real estate.

(2) Community development loans consist of low income housing loans made as part of our responsibilities under the Community Reinvestment Act and are primarily secured by real estate.

(3) Consumer and other loans consist primarily of loans to targeted high-net-worth individuals. These products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans and capital call lines of credit. This category also includes loans made to eligible employees through our Employee Home Ownership Plan (EHOP). Loans secured by real estate at March 31, 2010, and December 31, 2009 were comprised of the following:

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

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

The activity in the allowance for loan losses for the three months ended March 31, 2010 and 2009 was as follows:

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

Impaired Loans and Troubled Debt Restructurings

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

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

7. Goodwill

During the first quarter of 2009, we conducted an assessment of goodwill of eProsper, a data management services company in which we own a 65% interest, based on eProsper s revised forecast of discounted net cash flows for that reporting unit. We concluded that we had an impairment of goodwill resulting from changes in our outlook for eProsper s future financial performance. As a result, $4.1 million of goodwill was expensed as a noncash non tax-deductible charge to continuing operations during the first quarter of 2009. There was no remaining goodwill on our balance sheet as of March 31, 2010 or December 31, 2009.

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8. Short-Term Borrowings and Long-Term Debt

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

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

(1) Represents cash collateral received from counterparties for our interest rate swap agreements related to our senior and subordinated notes.
(2) Represents long-term notes payable related to one of our debt fund investments beginning April 30, 2009 with the last payment due in April 2012.

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

2008 Convertible Notes

In April 2008, we issued our 2008 Convertible Notes, due April 15, 2011, in the aggregate principal amount of $250 million to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The issuance costs related to the 2008 Convertible Notes were $6.8 million, and the net proceeds from the offering were $243.2 million. The 2008 Convertible Notes are initially convertible, subject to certain conditions, into cash up to the principal amount of notes and, into shares of our common stock or cash or any combination thereof for any excess conversion value, at our option. Holders may convert their 2008 Convertible Notes beginning any fiscal quarter commencing after June 30, 2008, if: (i) the price of our common stock issuable upon conversion of the note reaches a specific threshold, (ii) specified corporate transactions occur, or (iii) the trading price for the note falls below certain thresholds. The notes have an initial conversion rate of 18.8525 shares of common stock per $1,000 principal amount of notes, which represents an initial effective conversion price of $53.04 per share. Upon conversion of a note, we will pay the outstanding principal amount in cash as required by the terms of the notes, and to the extent that the conversion value exceeds the principal amount, we have the option to pay cash or shares of our common stock (or a combination of cash and shares) in respect of the excess amount.

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

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

Available Lines of Credit

We have certain facilities in place to enable us to access short-term borrowings on a secured (using fixed income securities as collateral) and an unsecured basis. These include repurchase agreements and uncommitted federal funds lines with various financial institutions. As of March 31, 2010, we had not borrowed against our repurchase lines or any of our uncommitted federal funds lines. We also pledge securities to the Federal Home Loan Bank of San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco (primarily comprised of agency-issued mortgage securities) at March 31, 2010 totaled $180.6 million, all of which was unused and available to support additional

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borrowings. The market value of collateral pledged at the discount window of the Federal Reserve Bank at March 31, 2010 totaled $85.5 million, all of which was unused and available to support additional borrowings.

9. Derivative Financial Instruments

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

Interest Rate Risk

Interest rate risk is our primary market risk and can result from timing and volume differences in the repricing of our interest rate-sensitive assets and liabilities and changes in market interest rates. To manage interest rate risk for our 5.70% senior notes and our 6.05% subordinated notes, we entered into fixed-for-floating interest rate swap agreements at the time of debt issuance based upon London Interbank Offered Rates (LIBOR) with matched-terms. We use the shortcut method to assess hedge effectiveness and evaluate the hedging relationships for qualification under the shortcut method requirements for each reporting period.

For more information on our 5.70% senior notes and our 6.05% subordinated notes, see our Consolidated Financial Statements and Supplementary Data-Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2009 Form 10-K.

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

Currency Exchange Risk

We enter into foreign exchange forward contracts to hedge against exposures of our loans that are denominated in foreign currencies to our clients, primarily in Pound Sterling, Euro, and Japanese Yen. We do not designate any foreign exchange forward contracts as derivative instruments that qualify for hedge accounting. Changes in currency rates on the loans are included in other noninterest income, a component of noninterest income. We may experience ineffectiveness in the economic hedging relationship, because the loans are revalued based upon changes in the currency s spot rate on the principal value, while the forwards are revalued on a discounted cash flow basis. We record forward agreements in gain positions in Other Assets and loss positions in Other Liabilities , while net changes in fair value are recorded through net gains on derivative instruments, in noninterest income, a component of consolidated net income.

Equity Market Price Risk

We have convertible debt instruments that contain conversion options that enable the holders to convert the instruments, subject to certain conditions. Specifically, we currently have outstanding our 2008 Convertible Notes. Upon conversion of a note, we will pay the outstanding principal amount in cash as required by the terms of the notes, and to the extent that the conversion value exceeds the principal amount, we have the option to pay cash or shares of our common stock (or a combination of cash and shares) in respect of the excess amount. The conversion option represents an equity risk exposure for the excess conversion value and is an equity derivative classified in stockholders equity. We manage equity market price risk of our convertible debt instruments by entering into convertible note hedge and warrant agreements to increase the economic conversion price of our convertible debt instruments and to decrease potential dilution to stockholders resulting from the conversion option.

Concurrent with the issuance of our 2008 Convertible Notes, we entered into a convertible note hedge and warrant agreement at a net cost of $20.6 million, which effectively increased the economic conversion price from $53.04 per common share to $64.43. Similar to the conversion option of the excess value of the note, the hedge and warrant agreements are equity derivatives classified in stockholders equity. For the three months ended March 31, 2010 and 2009, there were no note conversions or exercises under the warrant agreement as the notes were not convertible.

For more information on the 2008 Convertible Notes, see our Consolidated Financial Statements and Supplementary Data-Note 12- Short-Term Borrowings and Long-Term Debt under Part II, Item 8 of our 2009 Form 10-K.

Other Derivative Instruments

Equity Warrant Assets

Our equity warrant assets are concentrated in private, venture-backed companies in the technology and life science industries. These warrant agreements contain net share settlement provisions, which permit us to pay the warrant exercise price using shares

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

Other Derivatives

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

Counterparty Credit Risk

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

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

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

(1) Cash collateral received from counterparties for our interest rate swap agreements is recorded as a component of short-term borrowings on our consolidated balance sheets.
(2) Net exposure for contracts in a gain position reflects the replacement cost in the event of nonperformance by all such counterparties. The credit ratings of our institutional counterparties as of March 31, 2010 remain at A or higher and there were no material changes in their credit ratings during the three months ended March 31, 2010.

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

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

10. Other Noninterest Income and Other Noninterest Expense

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

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

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

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

	Three months ended March 31,

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

11. Segment Reporting

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

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

We also evaluate performance based on provision for loan losses, noninterest income and noninterest expense, which are presented as components of segment operating profit or loss. In calculating each operating segment s noninterest expense, we consider the direct costs incurred by the operating segment as well as certain allocated direct costs. As part of this review, we allocate certain corporate overhead costs to a corporate account. We do not allocate income taxes to our segments. Additionally, our management reporting model is predicated on average asset balances; therefore, period-end asset balances are not presented for segment reporting purposes. Changes in an individual client s primary relationship designation have resulted, and in the future may result, in the inclusion of certain clients in different segments in different periods.

Unlike financial reporting, which benefits from the comprehensive structure provided by GAAP, our internal management reporting process is highly subjective, as there is no comprehensive, authoritative guidance for management reporting. Our management reporting process measures the performance of our operating segments based on our internal operating structure and is not necessarily comparable with similar information for other financial services companies.

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

Changes to Segment Reporting Effective January 1, 2010

Effective January 1, 2010, we changed the way we monitor performance and results for certain of our business lines. We made certain changes to the items reported under our Global Commercial Bank, Relationship Management and Other Business Services segments. These changes do not change the four operating segments we currently report. As a result of these changes, our Global Commercial Bank segment s income before income tax expense for 2009 was reduced by $41.0 million. Changes to other operating segments were not significant. We have reclassified all prior period segment information to conform to the current presentation of our reportable segments. The following is a description of the services that our four operating segments provide:

Global Commercial Bank provides solutions to the financial needs of commercial clients through lending, deposit products, cash management services, and global banking and trade products and services. It also serves the needs of our non-U.S. clients with global banking products, including loans, deposits and global finance, in key foreign entrepreneurial markets, where applicable. Effective January 1, 2010, Global Commercial Bank also includes the results of certain other business units that were previously reported as part of Relationship Management and Reconciling Items.

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

SVB Capital manages venture capital and private equity funds on behalf of SVB Financial Group and other third party limited partners. The SVB Capital family of funds is comprised of funds of funds and co-investment funds.

Other Business Services includes the results of our Sponsored Debt Funds & Strategic Investments segment, which is comprised of our sponsored debt funds; Gold Hill Funds, which provide secured debt to private companies of all stages, and Partners for Growth Funds, which provide secured debt primarily to mid-stage and late-stage clients, and certain strategic investments held by SVB Financial. Other Business Services also includes the results of SVB Analytics, which provides equity valuation and equity management services to private companies and venture capital firms. Effective January 1, 2010, SVB Analytics also includes the results of certain other business units that were previously reported as part of Reconciling Items.

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

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

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

(1) SVB Capital s and Other Business Services components of net interest loss, noninterest income (loss), noninterest expense and total average assets are shown net of noncontrolling interests for all periods presented.
(2) The Global Commercial Bank segment includes direct depreciation and amortization of $1.1 million and $0.9 million for the three months ended March 31, 2010 and 2009, respectively.
(3) The internal reporting model used by management to assess segment performance does not calculate income tax expense by segment. Our effective tax rate is a reasonable approximation of the segment rates.

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

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

Commitments to Extend Credit

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

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

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

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

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

Commercial and Standby Letters of Credit

The table below summarizes our commercial and standby letters of credit at March 31, 2010. The maximum potential amount of future payments represents the amount that could be remitted under letters of credit if there was a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from the collateral held or pledged.

(Dollars in thousands)	Expires In One Year or Less	Expires After One Year	Total Amount Outstanding	Maximum Amount of Future Payments
Financial standby letters of credit	$ 543,726	$ 19,919	$ 563,645	$ 563,645
Performance standby letters of credit	27,921	8,810	36,731	36,731
Commercial letters of credit	6,620		6,620	6,620
Total	$ 578,267	$ 28,729	$ 606,996	$ 606,996

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

Commitments to Invest in Venture Capital/Private Equity Funds

We make commitments to invest in venture capital and private equity funds, which in turn make investments generally in, or in some cases make loans to, privately-held companies. Commitments to invest in these funds are generally made for a ten-year period from the inception of the fund. Although the limited partnership agreements governing these investments typically do not restrict the general partners from calling 100% of committed capital in one year, it is customary for these funds to generally call most of the capital commitments over 5 to 7 years. The actual timing of future cash requirements to fund these commitments is generally dependent upon the investment cycle, overall market conditions, and the nature and type of industry in which the privately held companies operate. The following table details our total capital commitments, unfunded capital commitments, and our ownership in each fund at March 31, 2010:

Our Ownership in Limited Partnership (Dollars in thousands)	SVBFG Capital Commitments	SVBFG Unfunded Commitments	SVBFG Ownership of each Fund
Silicon Valley BancVentures, LP	$ 6,000	$ 270	10.7%
SVB Capital Partners II, LP (1)	1,200	456	5.1
SVB India Capital Partners I, LP	7,750	2,945	14.4
SVB Capital Shanghai Yangpu Venture Capital Fund, LP	850	850	6.8
SVB Strategic Investors Fund, LP	15,300	1,530	12.6
SVB Strategic Investors Fund II, LP	15,000	3,750	8.6
SVB Strategic Investors Fund III, LP	15,000	7,050	5.9
SVB Strategic Investors Fund IV, LP	12,239	10,526	5.0
SVB Capital Preferred Return Fund, LP	10,688		20.0
SVB Capital NT Growth Partners, LP	24,670	10,190	33.0
Partners for Growth, LP	25,000	9,750	50.0
Partners for Growth II, LP	15,000	4,950	24.2
Gold Hill Venture Lending 03, LP (2)	20,000		9.3
Other Fund Investments (3)	149,235	45,472	N/A
New Fund Commitments (4)	212,208	153,230	N/A
Total	$ 530,140	$ 250,969	

(1) Our ownership includes 1.3% direct ownership through SVB Capital Partners II, LLC and SVB Financial Group, and 3.8% indirect ownership through our investment in SVB Strategic Investors Fund II, LP.
(2) Our ownership includes 4.8% direct ownership and 4.5% indirect ownership interest through GHLLC.
(3) Represents commitments to 336 venture capital/private equity funds where our ownership interest is generally less than 5% of the voting interests of each such fund.
(4) Represents the investment commitments made by SVB Financial on behalf of certain new managed funds of funds that we have formed or plan to form in the future.

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

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

13. Income Taxes

At March 31, 2010, our unrecognized tax benefit was $0.4 million, the recognition of which would reduce our income tax expense by $0.3 million. Total accrued interest and penalties at March 31, 2010 were $0.1 million. We expect that our unrecognized tax benefit will change in the next 12 months, however, we do not expect the change to have a material impact on our financial position or our results of operations.

We are subject to income tax in the U.S. federal jurisdiction and various state and foreign jurisdictions and have identified our federal tax return and tax returns in California and Massachusetts as major tax filings. U.S. federal tax examinations through 1998 have been concluded. The U.S. federal tax return for 2006 and subsequent years remain open to examination by the Internal Revenue Service. Our California and Massachusetts tax returns for the years 2005 and 2006, respectively, and subsequent years remain open to examination.

14. Fair Value of Financial Instruments

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Our marketable investment securities, derivative instruments and certain non-marketable investment securities are financial instruments recorded at fair value on a recurring basis.

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

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

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

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Valuations for the marketable investment securities are provided by independent external pricing service providers. We review the methodologies used to determine the fair value, including understanding the nature and observability of the inputs used to determine the price. Additional corroboration, such as obtaining a non-binding price from a broker, may be required depending on the frequency of trades of the security and the level of liquidity or depth of the market. The valuation methodology that is generally used for the Level 2 assets is the income approach. Below is a summary of the significant inputs used for each class of Level 2 assets and liabilities:

- **U.S. treasury securities:** U.S. treasury securities are considered by most investors to be the most liquid fixed income investments available. These securities are priced relative to market prices on similar U.S. treasury securities.

- **U.S. agency debentures:** Valuations of U.S. agency debentures are based on the characteristics specific to bonds held, such as issuer name, coupon rate, maturity date and any applicable issuer call option features. Valuations are based on market spreads relative to similar term benchmark market interest rates, generally U.S. treasury securities.

- **Agency-issued mortgage-backed securities:** Agency-issued mortgage-backed securities are pools of individual conventional mortgage loans underwritten to U.S. agency standards with similar coupon rates, tenor, and other attributes such as geographic location, loan size and origination vintage. Valuations of these securities are based on observable price adjustments relative to benchmark market interest rates taking into consideration estimated loan prepayment speeds.

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- **Agency-issued collateralized mortgage obligations:** Agency-issued collateralized mortgage obligations are structured into classes or tranches with defined cash flow characteristics and are collateralized by U.S. agency-issued mortgage pass-through securities. Valuations of these securities incorporate similar characteristics of mortgage pass-through securities such as coupon rate, tenor, geographic location, loan size and origination vintage, in addition to incorporating the effect of estimated prepayment speeds on the cash flow structure of the class or tranche. Valuations incorporate observable market spreads over an estimated average life after considering the inputs listed above.

- **Non-agency mortgage-backed securities:** Non-agency mortgage-backed securities can be structured as pass-through securities or collateralized mortgage-backed securities and are supported by conventional mortgage loans that are underwritten to standards that are considered Prime or Alternative-A. These loans have similar characteristics to loans underwritten to U.S. agency standards but may deviate from those standards in terms of loan size, loan documentation and the ratio of the loan amount to the value of the mortgaged property. Valuations of these securities incorporate similar characteristics of U.S. agency mortgage pass-through securities such as coupon rate, tenor, geographic location, loan size and origination vintage, in addition to incorporating the effect of estimated prepayment speeds on the cash flow structure of the class or tranche. Principal and interest payments from non-agency securities are not guaranteed by the U.S. government or its agencies. Therefore, pricing adjustments may incorporate the potential for adverse credit performance of the underlying mortgage loans. All non-agency mortgage-backed securities are in the senior most position in the securitization capital structure. Valuations incorporate observable market spreads over an estimated average life after considering the inputs listed above.

- **Commercial mortgage-backed securities:** Commercial mortgage-backed securities are collateralized obligations supported by pools of commercial mortgage loans. Commercial mortgage loans are underwritten to standards which consider debt service coverage ratios, loan to property values, real estate capitalization rates and occupancy rates. Valuations of commercial mortgage-backed securities consider estimated cash flows, subordination levels and deal over-collateralization levels. All commercial mortgage-backed securities held by the Company are the senior-most classes in each deal securitization. Valuations of these securities are based on spreads to benchmark market interest rates (usually U.S. treasury rates or rates observable in the swaps market), prepayment speeds, loan default rate assumptions and loan loss severity assumptions on underlying loans.

- **Municipal bonds and notes:** Bonds issued by municipal governments generally have stated coupon rates, final maturity dates and are subject to being called ahead of the final maturity date at the option of the issuer. Valuations of these securities are priced based on spreads to other municipal benchmark bonds with similar characteristics; or, relative to market rates on U.S. treasury bonds of similar maturity.

- **Interest rate swap assets:** Valuations of interest rate swaps are priced considering the coupon rate of the fixed leg of the contract and the variable coupon on the floating leg of the contract. Valuation is based on both spot and forward rates on the swap yield curve.

- **Foreign exchange forward and option contract assets and liabilities:** Valuations of these assets and liabilities are priced based on spot and forward foreign currency rates and option volatility assumptions.

- **Equity warrant assets (public portfolio):** Valuations of equity warrant assets of public portfolio companies are priced based on the Black-Scholes option pricing model that use the publicly-traded equity prices (underlying stock value), stated strike prices, option expiration dates, the risk-free interest rate and market-observable option volatility assumptions.

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

- **Private equity fund investments:** Valuations are based on the information provided by the investee funds management, which reflects our share of the fair value of the net assets of the investment fund on the valuation date. We account for differences between our measurement date and the date of the fund investment s net asset value by using the most recent available financial information available from the investee general partner, adjusted for any contributions paid during the quarter, distributions received from the investment during the quarter, or significant fund transactions or market events.

- **Other private equity investments:** Valuations are based on consideration of a range of factors including, but not limited to, the price at which the investment was acquired, the term and nature of the investment, local market conditions, values for comparable securities, and as it relates to the private company issue, the current and projected operating performance, exit strategies and financing transactions subsequent to the acquisition of the investment.

- **Other investments:** Valuations are based on pricing models that use observable inputs, such as yield curves and publicly-traded equity prices, and unobservable inputs, such as private company equity prices.

- **Equity warrant assets (private portfolio):** Valuations of equity warrant assets of private portfolio companies are priced based on a modified Black-Scholes option pricing model to estimate the underlying asset value, by using stated strike prices, option expiration dates, risk-free interest rates and option volatility assumptions. Option volatility assumptions used in the modified Black-Scholes model are based on public market indices whose members operate in similar industries as

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

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

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

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

The following fair value hierarchy tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2010:

(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2010
Assets				
Marketable securities:				