

SVB FINANCIAL GROUP  
Form 10-Q  
November 10, 2008  
Table of Contents

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from            to            .

Commission File Number: 000-15637

**SVB FINANCIAL GROUP**

(Exact name of registrant as specified in its charter)

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

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

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

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

**95054-1191**  
(Zip Code)

**(408) 654-7400**

(Registrant's telephone number, including area code)

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

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

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

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

At October 31, 2008, 32,790,469 shares of the registrant's common stock (\$0.001 par value) were outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
ITEM 1. <u>INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>	3
<u>INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED) AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007</u>	3
<u>INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007</u>	4
<u>INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007</u>	5
<u>INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007</u>	6
<u>NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>	7
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	27
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	57
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	58
<b><u>PART II - OTHER INFORMATION</u></b>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	59
ITEM 1A. <u>RISK FACTORS</u>	59
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	66
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	66
ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	66
ITEM 5. <u>OTHER INFORMATION</u>	66
ITEM 6. <u>EXHIBITS</u>	66
<u>SIGNATURE</u>	67
<u>INDEX TO EXHIBITS</u>	68

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

(Dollars in thousands, except par value and share data)	September 30, 2008	December 31, 2007
<b>Assets</b>		
Cash and due from banks	\$ 373,510	\$ 325,399
Securities purchased under agreements to resell and other short-term investment securities	379,088	358,664
Investment securities	1,779,978	1,602,574
Loans, net of unearned income	5,285,101	4,151,730
Allowance for loan losses	(60,290)	(47,293)
Net loans	5,224,811	4,104,437
Premises and equipment, net of accumulated depreciation and amortization	32,344	38,628
Goodwill	4,092	4,092
Accrued interest receivable and other assets	277,122	258,662
<b>Total assets</b>	<b>\$ 8,070,945</b>	<b>\$ 6,692,456</b>
<b>Liabilities, Minority Interest and Stockholders Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 3,231,281	\$ 3,226,859
Negotiable order of withdrawal (NOW)	57,231	35,909
Money market	1,334,393	941,242
Time	387,236	335,110
Sweep	422,468	72,083
Total deposits	5,432,609	4,611,203
Short-term borrowings	425,000	90,000
Other liabilities	175,740	199,243
Long-term debt	981,946	875,254
<b>Total liabilities</b>	<b>7,015,295</b>	<b>5,775,700</b>
<b>Commitments and contingencies (Note 14)</b>		
Minority interest in capital of consolidated affiliates	324,998	240,102
<b>Stockholders equity:</b>		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.001 par value, 150,000,000 shares authorized; 32,735,732 and 32,670,557 shares outstanding, respectively	33	33
Additional paid-in capital	23,816	
Retained earnings	725,737	682,911
Accumulated other comprehensive loss	(18,934)	(6,290)
<b>Total stockholders equity</b>	<b>730,652</b>	<b>676,654</b>

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

<b>Total liabilities, minority interest and stockholders equity</b>	\$ 8,070,945	\$ 6,692,456
---	--------------	--------------

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

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

(Dollars in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Interest income:</b>				
Loans	\$ 94,256	\$ 93,243	\$ 268,530	\$ 267,526
<b>Investment securities:</b>				
Taxable	15,321	14,915	43,677	46,990
Non-taxable	1,106	528	3,121	1,692
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	2,712	4,485	10,513	12,660
<b>Total interest income</b>	<b>113,395</b>	<b>113,171</b>	<b>325,841</b>	<b>328,868</b>
<b>Interest expense:</b>				
Deposits	6,267	3,572	16,908	8,328
Borrowings	11,999	13,891	33,859	36,892
<b>Total interest expense</b>	<b>18,266</b>	<b>17,463</b>	<b>50,767</b>	<b>45,220</b>
<b>Net interest income</b>	<b>95,129</b>	<b>95,708</b>	<b>275,074</b>	<b>283,648</b>
Provision for loan losses	13,682	3,155	29,756	10,865
<b>Net interest income after provision for loan losses</b>	<b>81,447</b>	<b>92,553</b>	<b>245,318</b>	<b>272,783</b>
<b>Noninterest income:</b>				
Client investment fees	13,636	13,127	41,006	37,813
Foreign exchange fees	8,641	6,714	24,446	17,778
Deposit service charges	6,129	3,933	18,076	10,711
Gains on derivative instruments, net	6,472	8,790	13,479	15,514
Letter of credit and standby letter of credit income	3,050	2,671	9,138	8,363
Corporate finance fees		5,166	3,640	11,568
(Losses) gains on investment securities, net	(876)	14,719	(4,949)	40,611
Other	4,695	9,914	22,413	25,837
<b>Total noninterest income</b>	<b>41,747</b>	<b>65,034</b>	<b>127,249</b>	<b>168,195</b>
<b>Noninterest expense:</b>				
Compensation and benefits	49,598	56,460	153,438	161,777
Professional services	9,623	7,847	27,556	23,673
Premises and equipment	5,781	4,567	16,424	14,820
Net occupancy	4,135	5,149	12,825	16,238
Business development and travel	3,389	2,429	10,575	8,747
Correspondent bank fees	1,689	1,511	5,011	4,371
Telephone	1,373	1,178	3,870	4,034
Loss from cash settlement of conversion premium of zero-coupon convertible subordinated notes			3,858	
Data processing services	1,082	1,054	3,275	2,940
Reduction of the provision for unfunded credit commitments	(990)	(973)	(355)	(2,778)
Impairment of goodwill				17,204
Other	4,751	3,737	14,580	11,966

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Total noninterest expense	80,431	82,959	251,057	262,992
Income before minority interest in net loss (income) of consolidated affiliates and income tax expense	42,763	74,628	121,510	177,986
Minority interest in net loss (income) of consolidated affiliates	1,693	(10,458)	7,445	(26,639)
Income before income tax expense	44,456	64,170	128,955	151,347
Income tax expense	17,448	26,054	52,749	61,975
Net income	\$ 27,008	\$ 38,116	\$ 76,206	\$ 89,372
Earnings per common share basic	\$ 0.83	\$ 1.12	\$ 2.36	\$ 2.61
Earnings per common share diluted	\$ 0.80	\$ 1.03	\$ 2.22	\$ 2.41

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

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

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	\$ 27,008	\$ 38,116	\$ 76,206	\$ 89,372
Other comprehensive (loss) income, net of tax:				
Foreign currency translation (losses) gains, net of tax	(333)	128	(749)	217
Change in unrealized (losses) gains on available-for-sale investment securities:				
Unrealized holding (losses) gains, net of tax	(5,693)	10,417	(13,409)	3,065
Reclassification adjustment for realized losses (gains) included in net income, net of tax	726	31	1,514	(110)
Other comprehensive (loss) income, net of tax	(5,300)	10,576	(12,644)	3,172
Comprehensive income	\$ 21,708	\$ 48,692	\$ 63,562	\$ 92,544

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



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

(Dollars in thousands)	Nine months ended September 30,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 76,206	\$ 89,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment of goodwill		17,204
Provision for loan losses	29,756	10,865
Reduction of the provision for unfunded credit commitments	(355)	(2,778)
Changes in fair values of derivatives, net	(6,888)	(10,477)
Losses (gains) on investment securities, net	4,949	(40,611)
Depreciation and amortization	18,603	14,332
Minority interest in net (loss) income of consolidated affiliates	(7,445)	26,639
Tax benefit of original issue discount	3,899	2,522
Tax benefits of share-based compensation and other	1,419	1,420
Amortization of share-based compensation	10,870	12,206
Amortization of deferred warrant-related loan fees	(6,105)	(5,474)
Deferred income tax benefit (expense)	16,357	(9,337)
Loss on valuation adjustments and sale of other real estate owned	236	1,368
Changes in other assets and liabilities:		
Accrued interest, net	1,815	7,553
Accounts receivable	851	(3,469)
Income tax receivable, net	(5,919)	1,959
Accrued compensation	(19,821)	3,201
Foreign exchange spot contracts, net	4,689	8,232
Other, net	(9,790)	5,696
<b>Net cash provided by operating activities</b>	<b>113,327</b>	<b>130,423</b>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(302,346)	(40,269)
Proceeds from sales of available-for-sale securities	4,432	7,127
Proceeds from maturities and pay downs of available-for-sale securities	194,158	242,673
Purchases of nonmarketable securities (cost and equity method accounting)	(43,674)	(21,015)
Proceeds from sales of nonmarketable securities (cost and equity method accounting)	7,422	12,614
Proceeds from nonmarketable securities (cost and equity method accounting)	1,498	10,278
Purchases of nonmarketable securities (investment fair value accounting)	(85,997)	(56,656)
Proceeds from sales of nonmarketable securities (investment fair value accounting)	22,083	19,356
Net (increase) in loans	(1,156,978)	(348,756)
Proceeds from recoveries of charged-off loans	5,547	5,366
Proceeds from sale of other real estate owned	287	4,309
Purchases of premises and equipment	(5,959)	(10,484)
<b>Net cash used for investing activities</b>	<b>(1,359,527)</b>	<b>(175,457)</b>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	821,406	(87,917)
Principal payments of other long-term debt	(901)	
Payments for early conversion of zero-coupon convertible subordinated notes	(7,832)	
Payments for settlement of zero-coupon convertible subordinated notes upon maturity	(141,900)	
Proceeds from exercise of call options pursuant to convertible note hedge agreement related to zero coupon convertible subordinated notes	3,857	

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Proceeds from issuance of 3.875% convertible senior notes, net of issuance costs	243,236	
Proceeds from issuance of senior and subordinated notes, net of issuance costs		495,030
Proceeds from issuance of warrants related to 3.875% convertible senior notes	21,200	
Cost of hedge agreement related to 3.875% convertible senior notes	(41,750)	
Increase (decrease) in short-term borrowings	335,000	(313,537)
Capital contributions from minority interest participants, net of distributions	92,341	43,477
Stock compensation related tax benefits	5,882	6,280
Proceeds from issuance of common stock and ESPP	29,813	25,567
Repurchases of common stock	(45,617)	(97,332)
<b>Net cash provided by financing activities</b>	<b>1,314,735</b>	<b>71,568</b>
Net increase in cash and cash equivalents	68,535	26,534
Cash and cash equivalents at beginning of year	684,063	632,585
Cash and cash equivalents at end of period	\$ 752,598	\$ 659,119

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

---

**Table of Contents**

**SVB FINANCIAL GROUP AND SUBSIDIARIES**

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

**1. Basis of Presentation**

SVB Financial Group ( SVB Financial or the Parent ) is a diversified financial services company, as well as a bank holding company and financial holding company. SVB Financial was incorporated in the state of Delaware in March 1999. Through our various subsidiaries and divisions, we offer a variety of banking and financial products and services to support our clients throughout their life cycles. In this Quarterly Report on Form 10-Q, when we refer to SVB Financial Group, the Company, we, our, us or use similar words, we mean SVB Financial Group and all of its subsidiaries collectively, including Silicon Valley Bank (the Bank ), unless the context requires otherwise. When we refer to SVB Financial or the Parent we are referring only to the parent company, SVB Financial Group, unless the context requires otherwise.

The accompanying interim consolidated financial statements reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary to fairly present our financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three and nine months ended September 30, 2008 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, 2007 ( 2007 Form 10-K ).

The accompanying interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Consolidated Financial Statements and Supplementary Data Note 2 (Summary of Significant Accounting Policies) under Part II, Item 8 of our 2007 Form 10-K.

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

In July 2007, we reached a decision to cease operations at SVB Alliant, our investment banking subsidiary, which provided advisory services in the areas of mergers and acquisitions, corporate finance, strategic alliances and private placements. After completion of the remaining client transactions, operations at SVB Alliant were ceased as of March 31, 2008. Accordingly, SVB Alliant was no longer reported as an operating segment as of the second quarter of 2008. We have not presented the results of operations of SVB Alliant in discontinued operations for the three and nine months ended September 30, 2008 or for any comparative period presented based on our assessment of the materiality of SVB Alliant's results to our consolidated results of operations.

***Reclassifications***

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

**2. Recent Accounting Pronouncements**

We adopted Statement of Financial Accounting Standard ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS No. 157 ) on January 1, 2008. SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS No. 157 does not expand or require any new fair value measures. In February 2008, the Financial Accounting Standards Board ( FASB ) decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until 2009. Accordingly, our adoption of this standard in 2008 was limited to financial assets and liabilities. The adoption of SFAS No. 157 did not have a material effect on our financial condition or results of operations. We are still in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore have not yet determined the impact that it may have on our financial statements upon full adoption on January 1, 2009. Nonfinancial assets and liabilities for which we have not applied the provisions of SFAS No. 157 include those measured at fair value in impairment testing and those initially

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

measured at fair value in a business combination. Additionally, in early October 2008, the FASB issued a clarification related to the application of SFAS No. 157 for determining the fair value of a financial asset when a market for that asset is not active. We have applied the

---

**Table of Contents**

guidance from the FASB clarification as it is effective upon issuance and requires retrospective application. There was no material effect on our financial assets as a result of this application.

We adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* ( SFAS No. 159 ) on January 1, 2008. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions. SFAS No. 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. The adoption of SFAS No. 159 did not have an effect on our financial condition or results of operations as we did not elect this fair value option for any financial instruments.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* ( SFAS No. 160 ). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact of SFAS No. 160 on our consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ( SFAS No. 161 ). SFAS No. 161 requires companies with derivative instruments to provide enhanced disclosure information that should enable financial statement users to better understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ) and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The standard expands the disclosure requirements for derivatives and hedged items and has no impact on how we account for these instruments.

In May 2008, the FASB issued FASB Staff Position ( FSP ) Accounting Principles Board ( APB ) Opinion No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ( FSP APB No. 14 ). The FSP requires the proceeds from the issuance of such convertible debt instruments to be allocated between a liability and an equity component in a manner that reflects the entity's non-convertible debt borrowing rate when interest expense is recognized in subsequent periods. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. FSP APB No. 14-1 is effective in fiscal years beginning after December 15, 2008 and requires retrospective application to all prior periods presented. Our 2009 adoption will require historical financial statements for fiscal year 2003 through fiscal year 2008 to be adjusted to conform to the FSP's new accounting treatment for both our Zero-Coupon Convertible Subordinated Notes due June 15, 2008 and 3.875% Convertible Senior Notes due April 15, 2011 (also refer to Note 9). We are evaluating the impact of this new accounting treatment, which will primarily result in an increase to non-cash interest expense reported in our historical financial statements.

**Table of Contents****3. Earnings Per Share ( EPS )**

The following is a reconciliation of basic EPS to diluted EPS:

(Dollars and shares in thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Numerator:</b>				
Net income	\$ 27,008	\$ 38,116	\$ 76,206	\$ 89,372
<b>Denominator:</b>				
Weighted average common shares outstanding-basic	32,534	34,029	32,295	34,255
<b>Weighted average effect of dilutive securities:</b>				
Stock options	994	1,233	998	1,310
Restricted stock awards and units	107	63	94	83
2003 Convertible Notes		1,540	868	1,484
Warrants associated with 2003 Convertible Notes		4		
2008 Convertible Notes	143			
Warrants associated with 2008 Convertible Notes				
Denominator for diluted calculation	33,778	36,869	34,255	37,132
<b>Net income per share:</b>				
Basic	\$ 0.83	\$ 1.12	\$ 2.36	\$ 2.61
Diluted	\$ 0.80	\$ 1.03	\$ 2.22	\$ 2.41

Stock options with exercise prices greater than the average market price of our common stock were excluded from the diluted EPS calculation as their inclusion would have been anti-dilutive. Any dilutive effect of our \$150 million zero-coupon convertible subordinated notes ( 2003 Convertible Notes ) and \$250 million of 3.875% convertible senior notes ( 2008 Convertible Notes ) are included in the calculation of diluted EPS using the treasury stock method, in accordance with the provisions of Emerging Issues Task Force ( EITF ) 04-8, *The Effect of Contingently Convertible Instruments on Diluted EPS*, EITF No. 90-19, *Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion* and SFAS No. 128, *Earnings Per Share*. For the three months ended September 30, 2008, there was no effect of the weighted average 2003 Convertible Notes on our diluted EPS calculation due to their maturity on June 15, 2008. However, we included the weighted average dilutive effect of the 2003 Convertible Notes in our diluted EPS calculation for the nine months ended September 30, 2008. The issuance of the 2008 Convertible Notes in April 2008 impacted our weighted average diluted common shares total for the three months ended September 30, 2008 as the applicable conversion price was lower than the average daily closing price for the three month period. For the nine months ended September 30, 2008, 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 nine month period.

The following table summarizes the common shares excluded from the diluted EPS calculation as they were deemed to be anti-dilutive for the three and nine months ended September 30, 2008, and 2007:

(Shares in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Stock options	827	641	822	715
Restricted stock awards and units	2		1	1
Warrants associated with 2003 Convertible Notes			89	81
2008 Convertible Notes			205	
Warrants associated with 2008 Convertible Notes	838		903	
Total	1,667	641	2,020	797

#### **4. Share-Based Compensation**

For the three months ended September 30, 2008 and 2007, we recorded share-based compensation expense of \$3.5 million and \$3.8 million, respectively, resulting in the recognition of \$1.0 million and \$0.8 million, respectively, in related tax benefits. For the nine months ended September 30, 2008 and 2007, we recorded share-based compensation expense of \$10.9 million and \$12.0 million, respectively, resulting in the recognition of \$2.7 million and \$2.4 million, respectively, in related tax benefits.

##### ***Unrecognized Compensation Expense***

At September 30, 2008, unrecognized share-based compensation expense was as follows:

**Table of Contents**

(Dollars in thousands)	Unrecognized Expense	Average Expected Recognition Period - in Years
Stock options	\$ 7,688	1.53
Restricted stock awards and units	14,701	1.63
<b>Total unrecognized share-based compensation expense</b>	<b>\$ 22,389</b>	

**Share-Based Payment Award Activity**

The table below provides stock option information related to the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the nine months ended September 30, 2008:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The- Money Options
Outstanding at December 31, 2007	3,769,229	\$ 33.74		
Granted	417,912	48.74		
Exercised	(935,099)	29.18		
Forfeited	(16,169)	47.59		
Expired	(14,920)	30.07		
Outstanding at September 30, 2008	3,220,953	36.96	3.82	\$ 67,514,674
Vested and expected to vest at September 30, 2008	3,086,011	36.43	3.71	66,319,184
Exercisable at September 30, 2008	2,324,225	32.51	3.08	59,058,857

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value based on our closing stock price of \$57.92 at September 30, 2008. The total intrinsic value of options exercised during the three and nine months ended September 30, 2008 was \$13.4 million and \$22.0 million, respectively, and the total intrinsic value of options exercised during the three and nine months ended September 30, 2007 was \$4.3 million and \$20.8 million, respectively.

The table below provides information for restricted stock awards and restricted stock units under the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the nine months ended September 30, 2008:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2007	376,181	\$ 44.58
Granted	194,042	48.71
Vested	(71,628)	44.03
Forfeited	(9,743)	48.11
Nonvested at September 30, 2008	488,852	46.23



**Table of Contents****5. 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 September 30, 2008 and December 31, 2007, respectively:

(Dollars in thousands)	September 30, 2008	December 31, 2007
Securities purchased under agreements to resell	\$ 86,982	\$ 62,181
Interest-earning deposits	88,092	81,553
Other short-term investment securities	204,014	214,930
 Total securities purchased under agreements to resell and other short-term investment securities	 \$ 379,088	 \$ 358,664

**6. Investment Securities**

The composition of our investment securities at September 30, 2008 and December 31, 2007 is presented below:

(Dollars in thousands)	September 30, 2008	December 31, 2007
Marketable securities:		
Available-for-sale securities, at fair value	\$ 1,338,778	\$ 1,259,106
Marketable securities (investment company fair value accounting) (1)	2,279	3,591
Non-marketable securities (investment company fair value accounting):		
Private equity fund investments (2)	232,016	194,862
Other private equity investments (3)	79,687	44,872
Other investments (4)	2,237	12,080
Non-marketable securities (equity method accounting):		
Other investments (5)	25,732	21,299
Low income housing tax credit funds	26,414	24,491
Non-marketable securities (cost method accounting):		
Private equity fund investments (6)	59,074	35,006
Other private equity investments	13,761	7,267
 Total investment securities	 \$ 1,779,978	 \$ 1,602,574

- (1) Marketable securities (investment company fair value accounting) represent investments managed by us or our consolidated subsidiaries that were originally made within our non-marketable securities portfolio that have been converted into publicly-traded shares. The following table shows the distributions of these investments by the following funds and our ownership of each fund at September 30, 2008 and December 31, 2007:

(Dollars in thousands)	September 30, 2008		December 31, 2007	
	Amount	Ownership %	Amount	Ownership %
Partners for Growth, LP	\$ 1,387	50.0%	\$ 2,556	50.0%
SVB India Capital Partners I, LP	844	13.9	1,035	13.9
SVB Strategic Investors Fund, LP	48	12.6		12.6
 Total marketable securities	 \$ 2,279		 \$ 3,591	

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

- (2) The following table shows the distributions of these investments by the following consolidated fund of funds and our ownership of each fund at September 30, 2008 and December 31, 2007:

(Dollars in thousands)	September 30, 2008		December 31, 2007	
	Amount	Ownership %	Amount	Ownership %
SVB Strategic Investors Fund, LP	\$ 67,737	12.6%	\$ 68,744	12.6%
SVB Strategic Investors Fund II, LP	92,317	8.6	81,382	8.6
SVB Strategic Investors Fund III, LP	71,522	5.9	44,736	5.9
SVB Strategic Investors Fund IV, LP	440	5.0		
<b>Total private equity fund investments</b>	<b>\$ 232,016</b>		<b>\$ 194,862</b>	

**Table of Contents**

- (3) The following table shows the distributions of these investments by the following consolidated co-investment funds and our ownership of each fund at September 30, 2008 and December 31, 2007:

(Dollars in thousands)	September 30, 2008		December 31, 2007	
	Amount	Ownership %	Amount	Ownership %
Silicon Valley BancVentures, LP	\$ 25,372	10.7%	\$ 28,068	10.7%
SVB Capital Partners II, LP (i)	37,718	5.1	14,458	5.1
SVB India Capital Partners I, LP	16,597	13.9	2,346	13.9
Total other private equity investments	\$ 79,687		\$ 44,872	

- (i) At September 30, 2008, 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 investments made by Partners for Growth, LP, a consolidated sponsored debt fund. At September 30, 2008, we had a majority ownership interest of approximately 50.0% in the fund. Partners for Growth, LP is managed by a third party, and we do not have an ownership interest in the general partner of this fund.
- (5) The following table shows the distributions of these investments by the following sponsored debt funds and our ownership of each fund at September 30, 2008 and December 31, 2007:

(Dollars in thousands)	September 30, 2008		December 31, 2007	
	Amount	Ownership %	Amount	Ownership %
Gold Hill Venture Lending 03, LP (i)	\$ 16,635	9.3%	\$ 15,915	9.3%
Partners for Growth II, LP	9,054	24.2	5,384	24.2
Other fund investment (ii)	43			
Total other investments	\$ 25,732		\$ 21,299	

- (i) At September 30, 2008, we had a direct ownership interest of 4.8% in the fund. In addition, we had a 90.7% direct ownership interest in the fund's general partner, Gold Hill Venture Lending Partners 03, LLC ( GHLLC ). GHLLC has a direct ownership interest of 5.0% in Gold Hill Venture Lending 03, LP and its parallel funds. Our indirect interest in the fund through our investment in GHLLC is 4.5%. Our direct and indirect ownership in the fund is 9.3%.
- (ii) At September 30, 2008, our ownership interest is less than 5% of the voting stock of the fund.
- (6) Represents investments in 356 and 325 private equity funds at September 30, 2008 and December 31, 2007, respectively, where our ownership interest is less than 5% of the voting stock of each such fund.

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, at September 30, 2008:

(Dollars in thousands)	Less than 12 months		September 30, 2008 12 months or longer		Total	
	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
U.S. agencies and corporations:						
Collateralized mortgage obligations (1)	\$ 227,082	\$ (5,613)	\$ 135,370	\$ (11,979)	\$ 362,452	\$ (17,592)

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Mortgage-backed securities (1)	359,018	(5,837)	63,858	(2,712)	422,876	(8,549)
Discount notes and bonds	9,997	(5)			9,997	(5)
Commercial mortgage-backed securities (1)	9,614	(281)	43,252	(2,712)	52,866	(2,993)
Municipal bonds and notes	84,289	(6,815)			84,289	(6,815)
Marketable equity securities	250	(5)			250	(5)
Total temporarily impaired securities	\$ 690,250	\$ (18,556)	\$ 242,480	\$ (17,403)	\$ 932,730	\$ (35,959)

- (1) As of September 30, 2008, we identified a total of 279 investments that were in unrealized loss positions, of which 44 investments totaling \$242.5 million with unrealized losses of \$17.4 million had fair values less than their adjusted cost for a period of time greater than 12 months. Securities classified as collateralized mortgage obligations totaling \$135.4 million with unrealized losses of \$12.0 million were originally purchased between May 2002 and July 2005. Securities classified as mortgage-backed securities totaling \$63.9 million with unrealized losses of \$2.7 million were originally purchased between June

**Table of Contents**

2003 and March 2005. Securities classified as commercial mortgage-backed securities totaling \$43.3 million with unrealized losses of \$2.7 million were originally purchased between April 2005 and July 2005. All investments with unrealized losses for a period of time greater than 12 months are either rated AAA by Moody's or S&P or are issued by a government sponsored enterprise. The unrealized losses are primarily due to increases in market spreads to benchmark interest rates relative to rates and spreads at the time of purchase. Based on the underlying credit quality of the investments, we expect these impairments to be temporary, and as such, we expect to recover impairments prior to maturity and we have the intent and ability to hold these investments until recovery or final maturity. Market valuations and impairment analyses on assets in the investment portfolio are reviewed and monitored on an ongoing basis.

The following table summarizes our unrealized losses on our available-for-sale investment securities portfolio into categories of less than 12 months, or 12 months or longer, as of December 31, 2007:

(Dollars in thousands)	Less than 12 months		December 31, 2007 12 months or longer		Total	
	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
U.S. agencies and corporations:						
Collateralized mortgage obligations	\$	\$	\$ 408,238	\$ (7,828)	\$ 408,238	\$ (7,828)
Mortgage-backed securities	9,759	(12)	331,300	(5,700)	341,059	(5,712)
U.S. agency debentures			74,575	(440)	74,575	(440)
Commercial mortgage-backed securities			51,380	(740)	51,380	(740)
Municipal bonds and notes	24,327	(240)			24,327	(240)
Marketable equity securities	7,391	(884)			7,391	(884)
Total temporarily impaired securities	\$ 41,477	\$ (1,136)	\$ 865,493	\$ (14,708)	\$ 906,970	\$ (15,844)

**Table of Contents**

The following table presents the components of gains and losses on investment securities for the three and nine months ended September 30, 2008 and 2007:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Gross gains on investment securities:</b>				
Available-for-sale securities, at fair value	\$ 1	\$ 100	\$ 206	\$ 496
Marketable securities (investment company fair value accounting)	18	4	630	96
<b>Non-marketable securities (investment company fair value accounting):</b>				
Private equity fund investments	1,723	15,766	18,538	35,859
Other private equity investments	4,694	407	10,134	1,838
Other investments	41	5,786	196	18,770
<b>Non-marketable securities (equity method accounting):</b>				
Other investments	148	1,245	1,679	1,530
<b>Non-marketable securities (cost method accounting):</b>				
Private equity fund investments	318	247	728	1,044
Other private equity investments	4	1	85	233
<b>Total gross gains on investment securities</b>	<b>6,947</b>	<b>23,556</b>	<b>32,196</b>	<b>59,866</b>
<b>Gross losses on investment securities:</b>				
Available-for-sale securities, at fair value	(1,234)	(152)	(2,775)	(306)
Marketable securities (investment company fair value accounting)	(1,348)		(3,274)	
<b>Non-marketable securities (investment company fair value accounting):</b>				
Private equity fund investments	(3,585)	(3,013)	(19,334)	(10,569)
Other private equity investments	(393)	(1,591)	(2,926)	(3,426)
Other investments	(132)	(3,835)	(5,646)	(4,176)
<b>Non-marketable securities (equity method accounting):</b>				
Other investments	(1)		(1,094)	(214)
<b>Non-marketable securities (cost method accounting):</b>				
Private equity fund investments	(1,130)	(246)	(1,838)	(564)
Other private equity investments			(258)	
<b>Total gross losses on investment securities</b>	<b>(7,823)</b>	<b>(8,837)</b>	<b>(37,145)</b>	<b>(19,255)</b>
<b>(Losses) gains on investment securities, net</b>	<b>\$ (876)</b>	<b>\$ 14,719</b>	<b>\$ (4,949)</b>	<b>\$ 40,611</b>
Amounts attributable to minority interests, including carried interest	\$ 1,220	\$ 11,885	\$ (227)	\$ 31,502

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

The composition of loans, net of unearned income of \$38.2 million and \$26.4 million at September 30, 2008 and December 31, 2007, respectively, is presented in the following table:

(Dollars in thousands)	September 30, 2008	December 31, 2007
Commercial loans	\$ 4,313,592	\$ 3,321,911
Premium wine (1)	402,811	375,169
Community development loans (2)	51,668	52,094
Consumer and other (3)	517,030	402,556
<b>Total loans, net of unearned income</b>	<b>\$ 5,285,101</b>	<b>\$ 4,151,730</b>

- (1) Premium wine consists of loans for vineyard development as well as financial solutions to meet the needs of our clients' premium wineries and vineyards. At September 30, 2008 and December 31, 2007, \$267.8 million and \$251.1 million, respectively, of such loans were secured by real estate.
- (2) Community development loans consist of low income housing loans made to fulfill our responsibilities under the Community Reinvestment Act and are primarily secured by real estate.
- (3) Consumer and other loans consist of loans to targeted high-net-worth individuals. These products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans and capital call lines of credit. This category also includes loans made to eligible employees through our Employee Home Ownership Plan. At September 30, 2008 and December 31, 2007, \$219.0 million and \$181.8 million, respectively, of such consumer and other loans were secured by real estate. Loans secured by real estate at September 30, 2008 were comprised of \$87.0 million of home equity lines of credit, which may have been used to finance real estate investments, \$58.5 million of loans used to purchase, renovate or refinance personal residences, and \$73.5 million of loans made to eligible employees through our Employee Home Ownership Plan. Loans secured by real estate at December 31, 2007 were comprised of \$84.8 million of home equity lines of credit, which may have been used to finance real estate investments, \$48.1 million of loans used to purchase, renovate or refinance personal residences, and \$48.9 million of loans made to eligible employees through our Employee Home Ownership Plan.

**Table of Contents**

The activity in the allowance for loan losses for the three and nine months ended September 30, 2008 and 2007 was as follows:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Allowance for loan losses, beginning balance	\$ 52,888	\$ 43,352	\$ 47,293	\$ 42,747
Provision for loan losses	13,682	3,155	29,756	10,865
Loan charge-offs	(7,000)	(4,138)	(22,306)	(14,754)
Loan recoveries	720	1,856	5,547	5,367
Allowance for loan losses, ending balance	\$ 60,290	\$ 44,225	\$ 60,290	\$ 44,225

The aggregate investment in loans for which impairment has been determined in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, totaled \$9.1 million and \$7.6 million at September 30, 2008 and December 31, 2007, respectively. The allocation of the allowance for loan losses related to impaired loans was \$5.9 million and \$1.4 million at September 30, 2008 and December 31, 2007, respectively. Average impaired loans for the three months ended September 30, 2008 and 2007 was \$10.5 million and \$12.3 million, respectively, and average impaired loans for the nine months ended September 30, 2008 and 2007 was \$9.9 million and \$11.1 million, respectively. If these loans had not been impaired, \$0.1 million in interest income would have been recorded for both the three months ended September 30, 2008 and 2007, respectively, and \$0.3 million and \$0.7 million in interest income would have been recorded for the nine months ended September 30, 2008 and 2007, respectively.

**8. Goodwill**

Goodwill at both September 30, 2008 and December 31, 2007 was \$4.1 million, which resulted from our acquisition in 2006 of a majority ownership interest in eProsper, an equity ownership data management services company. During the third quarter of 2008, we conducted our annual impairment analysis of eProsper in accordance with SFAS No. 142, based on forecasted discounted net cash flow analysis. The valuation analysis of eProsper indicated no impairment existed.

During the second quarter of 2007, we conducted our annual assessment of goodwill of SVB Alliant in accordance with SFAS No. 142. We concluded at that time that we had an impairment of goodwill based on forecasted discounted net cash flows for that reporting unit. The impairment resulted from changes in our outlook for SVB Alliant's future financial performance and the entire amount of the remaining \$17.2 million of goodwill was expensed as a noncash charge to continuing operations during the second quarter of 2007. All operations at SVB Alliant were ceased as of March 31, 2008.

**9. Short-Term Borrowings and Long-Term Debt**

The following table represents outstanding short-term borrowings and long-term debt at September 30, 2008 and December 31, 2007:

(Dollars in thousands)	Maturity	September 30, 2008	December 31, 2007
<i>Short-term borrowings:</i>			
Federal funds purchased	Less than One Month (1)	\$ 125,000	\$
FHLB advances	Less than One Month (1)	300,000	90,000
Total short-term borrowings		\$ 425,000	\$ 90,000
<i>Long-term debt:</i>			
FHLB advances	(2)	\$ 150,000	\$ 150,000
5.70% senior notes	June 1, 2012	262,063	259,706
6.05% subordinated notes	June 1, 2017	265,468	261,099
Zero-coupon convertible subordinated notes	June 15, 2008		149,269
3.875% convertible senior notes	April 15, 2011	250,000	
7.0% junior subordinated debentures	October 15, 2033	52,647	52,511



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

8.0% long-term notes payable	(3)	1,768	2,669
Total long-term debt		\$ 981,946	\$ 875,254

- (1) Represents remaining maturity as of the date reported.
- (2) Represents Federal Home Loan Bank ( FHLB ) advances of \$50 million maturing in November 2008, \$50 million maturing in May 2009 and \$50 million maturing in November 2009.

**Table of Contents**

- (3) Long-term notes payable was assumed in relation to the acquisition of a 65% interest in eProsper in 2006 and was repayable beginning January 1, 2008 with the last repayment due in November 2009.

Interest expense related to short-term borrowings and long-term debt was \$12.0 million and \$13.9 million for the three months ended September 30, 2008 and 2007, respectively, and \$33.9 million and \$36.9 million for the nine months ended September 30, 2008 and 2007, respectively. Interest expense shown is net of the cash flow impact from our interest rate swap agreements related to our senior and subordinated notes and junior subordinated debentures. The weighted average interest rates associated with our short-term borrowings and long-term debt outstanding were 3.14 percent and 5.23 percent for the three months ended September 30, 2008 and 2007, respectively, and 3.43 percent and 4.99 percent for the nine months ended September 30, 2008 and 2007, respectively.

***Zero-Coupon Convertible Subordinated Notes ( 2003 Convertible Notes )***

Our 2003 Convertible Notes, previously issued with an original aggregate total principal amount of \$150 million, matured on June 15, 2008. As of the maturity date, convertible notes for the aggregate total principal amount of \$141.9 million were outstanding and had not yet been converted. Based on the conversion terms of these notes, on June 23, 2008, we made an aggregate conversion settlement payment in cash and in shares of our common stock. The total value of both cash and shares as calculated based on the terms of the notes and as of the payment date was \$212.8 million. Of the \$212.8 million, we paid \$141.9 million in cash, representing the portion of the conversion payment as the total principal amount of the notes converted. We also issued 1,406,034 shares of our common stock, valued at \$70.9 million as calculated based on the terms of the notes, representing the portion of the conversion premium value that exceeded the total principal amount of the notes. In connection with this conversion settlement payment, we exercised call options pursuant to a call-spread arrangement with a certain counterparty, under which the counterparty delivered to us 1,406,043 shares of our common stock, valued at \$70.9 million. Accordingly, there was no net impact on our total stockholders' equity with respect to settling the conversion premium value.

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

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

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

Concurrent with the issuance of our 2008 Convertible Notes, we entered into a convertible note hedge and warrant agreement (See Note 10-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.

***Available Lines of Credit***

At September 30, 2008, we had available \$1.40 billion in uncommitted federal funds lines of credit, of which \$1.28 billion were unused. We have repurchase agreements with multiple securities dealers, which allow us to access short-term borrowings by using fixed income securities as collateral. At September 30, 2008, we had not borrowed against our repurchase lines. We also pledge securities to the Federal Home Loan Bank of San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco at September 30, 2008 totaled \$664.7 million, of which \$214.7 million was unused. The market value of collateral pledged at

the discount window of the Federal Reserve Bank in accordance

**Table of Contents**

with our risk management practices totaled \$80.0 million at September 30, 2008. We have not borrowed against this pledged collateral.

**10. Derivative Financial Instruments**

Our derivative contracts are carried at fair value with changes in fair value recorded as gains on derivatives, net, as part of our noninterest income, a component of consolidated net income. The total notional or contractual amount, credit risk amount and estimated net fair value for derivatives at September 30, 2008 and December 31, 2007, respectively, were as follows:

	September 30, 2008			December 31, 2007		
	Notional or contractual amount	Credit risk amount (1)	Estimated net fair value	Notional or contractual amount	Credit risk amount (1)	Estimated net fair value
<b>(Dollars in thousands)</b>						
<b>Fair Value Hedges</b>						
Interest rate swap - senior notes	\$ 250,000	\$ 12,240	\$ 12,240	\$ 250,000	\$ 9,878	\$ 9,878
Interest rate swap - subordinated notes	250,000	15,959	15,959	250,000	11,621	11,621
Interest rate swap - junior subordinated debt	50,000		(847)	50,000		(1,304)
<b>Derivatives - Other</b>						
Foreign exchange forwards	\$ 576,345	\$ 14,816	\$ 4,294	\$ 580,861	\$ 12,290	\$ 1,586
Foreign currency options	9,404	276		63,906	492	
Equity warrant assets	119,980	39,054	39,054	101,035	31,317	31,317
Covered call options (2)	476		(1)			

- (1) Credit risk amounts reflect the replacement cost for those contracts in a gain position in the event of nonperformance by all such counterparties. The credit ratings of our institutional counterparties as of September 30, 2008 remain at A or higher and there have been no material change in their credit ratings during the third quarter of 2008.
- (2) Represents covered call options held by one of our sponsored debt funds.

**Fair Value Hedges**

The interest rate swap agreement for our 5.70% senior notes provided a cash benefit of \$1.5 million and \$3.1 million for the three and nine months ended September 30, 2008, respectively, compared to a cash outlay of \$0.3 million and \$0.4 million, respectively, for the comparable 2007 periods. The interest rate swap agreement for our 6.05% subordinated notes provided a cash benefit of \$1.6 million and \$3.3 million for the three and nine months ended September 30, 2008, respectively, compared to a cash outlay of \$0.2 million and \$0.3 million, respectively, for the comparable 2007 periods. The cash benefit was recognized in the consolidated statements of income as a reduction in interest expense, while the cash outlay was recognized as an increase in interest expense. The 5.70% senior notes and the 6.05% subordinated notes were issued by the Bank in May 2007.

The interest rate swap agreement for our 7.0% junior subordinated debentures provided a cash benefit of \$0.4 million and \$0.9 million for the three and nine months ended September 30, 2008, respectively, compared to \$39 thousand and \$0.1 million for the comparable 2007 periods. The cash benefit was recognized in the consolidated statements of income as a reduction in interest expense. For the three and nine months ended September 30, 2008, we recorded a net loss resulting from a non-cash decrease in fair value of the hedge agreement of \$10 thousand and a net gain resulting from a non-cash increase in the fair value of the hedge agreement of \$0.4 million, respectively, which was reflected in gains on derivative instruments, net. For the three and nine months ended September 30, 2007, we recorded net losses resulting from non-cash decreases in the fair value of the hedge agreement of \$0.3 million and \$0.1 million, respectively, which was reflected in gains on derivative instruments, net. The 7.0% junior subordinated debentures were issued in October 2003.

**Derivatives - Other**

We obtain equity warrant assets to purchase an equity position in a client company's stock primarily in consideration for providing credit facilities and, to a lesser extent, for providing other services. The change in fair value of equity warrant assets is recorded as gains on derivative instruments, net, in noninterest income, a component of consolidated net income. Total net gains on equity warrant assets from gains on exercise and changes in fair value were \$1.4 million and \$9.2 million for the three months ended September 30, 2008 and 2007, respectively, and \$8.9 million and \$15.2 million for the nine months ended September 30, 2008 and 2007, respectively.



**Table of Contents*****Derivative Fair Value Instruments Indexed to and Potentially Settled in a Company's Own Stock******2003 Convertible Notes***

Concurrent with the issuance of our 2003 Convertible Notes, we entered into a convertible note hedge agreement (purchased call option) at a cost of \$39.3 million, and a warrant agreement providing proceeds of \$17.4 million with respect to our common stock, with the objective of decreasing our exposure to potential dilution from conversion of the 2003 Convertible Notes.

At issuance, under the terms of the convertible note hedge, upon the occurrence of conversion events, we had the right to purchase up to 4,460,610 shares of our common stock from the counterparty at a price of \$33.6277 per common share. The cost of the convertible note hedge was included in stockholders' equity in accordance with the guidance in EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (EITF 00-19). Upon maturity of the 2003 Convertible Notes on June 15, 2008, we exercised the right to purchase 1,406,043 shares under the terms of the convertible note hedge agreement. The convertible note hedge agreement expired on June 15, 2008.

At issuance, under the warrant agreement, the counterparty could purchase up to 4,460,608 shares of our common stock at \$51.34 per share, upon the occurrence of conversion events. The remaining warrants under the warrant agreement expired unexercised on June 15, 2008.

***2008 Convertible Notes***

Concurrent with the issuance of our 2008 Convertible Notes, we entered into a convertible note hedge agreement (purchased call option) at a cost of \$41.8 million, and a warrant agreement providing proceeds of \$21.2 million with respect to our common stock, with the objective of decreasing our exposure to potential dilution from conversion of the 2008 Convertible Notes.

At issuance, under the terms of the convertible note hedge, upon the occurrence of conversion events, we have the right to purchase up to 4,713,125 shares of our common stock from the counterparty at a price of \$53.04 per common share. The convertible note hedge agreement will expire on April 15, 2011. We have the option to settle any amounts due under the convertible hedge either in cash or net shares of our common stock. The cost of the convertible note hedge is included in stockholders' equity in accordance with the guidance in EITF 00-19. The call option under the convertible note hedge is exercisable in the event of a note conversion. For the three months ended September 30, 2008, there were no note conversions and, consequently, no exercises under the call option.

At issuance, under the warrant agreement, the counterparty can purchase up to 4,713,125 shares of our common stock at \$64.43 per share, upon the occurrence of certain conversion events. The warrant agreement will expire ratably on a series of expiration dates commencing on July 15, 2011. The warrant is exercisable in the event of a note conversion. For the three months ended September 30, 2008, there were no note conversions and, consequently, no exercises under the warrant.

**11. Other Noninterest Income**

The following table presents the components of other noninterest income for the three and nine months ended September 30, 2008 and 2007, respectively:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Service-based fee income (1)	\$ 2,072	\$ 1,708	\$ 6,329	\$ 3,646
Fund management fees	2,228	1,901	6,105	6,643
Credit card fees	1,473	1,558	4,675	4,322
(Losses) gains on foreign currency loans revaluation, net	(4,741)	2,133	(2,825)	3,016
Other	3,663	2,614	8,129	8,210
Total other noninterest income	\$ 4,695	\$ 9,914	\$ 22,413	\$ 25,837

(1) Includes income from SVB Analytics and eProsper.

**12. Common Stock Repurchases**

We did not repurchase any shares of our common stock for the three months ended September 30, 2008. We repurchased 1.0 million shares of our common stock for the nine months ended September 30, 2008 totaling \$45.6 million, compared to 1.9 million shares for the comparable 2007 period totaling \$97.3 million. On July 24, 2008, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to \$150.0 million of our common stock, which expires on December 31, 2009. At September 30, 2008, \$150.0 million of repurchases remain authorized under our stock repurchase program.

**Table of Contents****13. Segment Reporting**

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ( SFAS No. 131 ), requires that we report certain financial and descriptive information about our reportable operating segments, as well as related disclosures about products and services, geographic areas and major customers. Our reportable operating segments results are regularly reviewed internally by our chief operating decision maker ( CODM ) when evaluating segment performance and deciding how to allocate resources and in assessing performance. Our CODM is our Chief Executive Officer ( CEO ).

For management reporting purposes, we offer clients financial products and services through three strategic operating segments: Commercial Banking, SVB Capital and Other Business Services. Our Other Business Services group includes SVB Global, SVB Private Client Services, SVB Analytics and SVB Wine Division. All operations at SVB Alliant were ceased as of March 31, 2008. Accordingly, SVB Alliant was no longer reported as an operating segment as of the second quarter of 2008. The results of operations for SVB Alliant have been included as part of the Reconciling Items column for all prior periods presented.

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

An operating segment is separately reportable if it exceeds any one of several quantitative thresholds specified in SFAS No. 131. Of our operating segments, only Commercial Banking and SVB Capital were determined to be reportable segments as of September 30, 2008. SVB Global, SVB Private Client Services, SVB Analytics and SVB Wine Division did not separately meet the reporting thresholds and as a result, in the table below, have been aggregated in a column labeled "Other Business Services" for segment reporting purposes.

The Reconciling Items column reflects adjustments necessary to reconcile the results of the operating segments based on our internal profitability reporting process to the consolidated financial statements prepared in conformity with GAAP. Net interest income in the Reconciling Items column primarily consisted of interest income recognized from our fixed income investment portfolio. Noninterest income in the Reconciling Items column primarily consisted of noninterest income attributable to minority interests and gains (losses) on equity warrant assets. Noninterest expense in the Reconciling Items column primarily consisted of expenses associated with corporate support functions such as information technology, finance and legal, as well as certain corporate wide adjustments related to compensation expenses. Additionally, average assets in the Reconciling Items column primarily consisted of our fixed income investment portfolio balances.

Our CODM allocates resources to and assesses the performance of each operating segment based on net interest income, noninterest income and noninterest expense, which are presented as components of segment operating profit or loss before income taxes. Net interest income, our primary source of revenue, is reported net of funds transfer pricing ( 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. In addition, we evaluate assets based on average balances; therefore, period-end asset balances are not presented for segment reporting purposes. We have not reached reportable levels of revenue, net income or assets outside the United States and as such we do not present geographic segment information.

FTP is calculated by applying a transfer rate to pooled, or aggregated, loan and deposit volumes, effective January 1, 2008. Prior to January 1, 2008, FTP was calculated at an instrument level based on account characteristics. Effective January 1, 2008, expenses reported under each operating segment relate only to the direct and allocated direct costs associated with each segment. Prior to January 1, 2008, costs associated with corporate support functions were allocated to the operating segments. Total average assets equals total average assets from the general ledger effective January 1, 2008. Prior to January 1, 2008, total average assets were calculated as the greater of total average assets or total average deposits and total average stockholder's equity combined. We have reclassified all prior period amounts to conform to the current period's presentation.



**Table of Contents**

Our segment information at and for the three and nine months ended September 30, 2008 and 2007 is as follows:

(Dollars in thousands)	Commerical Banking	SVB Capital	Other Business Services	Reconciling Items	Total
<b>Three months ended September 30, 2008</b>					
Net interest income	\$ 79,475	\$ 4	\$ 10,438	\$ 5,212	\$ 95,129
Provision for loan losses				(13,682)	(13,682)
Noninterest income	35,154	1,417	2,783	2,393	41,747
Noninterest expense (1)	(25,711)	(6,055)	(10,897)	(37,768)	(80,431)
Minority interest in net loss of consolidated affiliates				1,693	1,693
Income (loss) before income tax expense (2)	\$ 88,918	\$ (4,634)	\$ 2,324	\$ (42,152)	\$ 44,456
Total average loans, net of unearned income	\$ 3,814,736	\$	\$ 1,003,243	\$ 45,727	\$ 4,863,706
Total average assets	3,848,441	417,630	1,035,262	2,246,738	7,548,071
Total average deposits	4,415,124		400,058	5,074	4,820,256
Goodwill at September 30, 2008			4,092		4,092
<b>Three months ended September 30, 2007</b>					
Net interest income	\$ 86,333	\$ 166	\$ 8,201	\$ 1,008	\$ 95,708
Provision for loan losses				(3,155)	(3,155)
Noninterest income	29,676	5,542	2,525	27,291	65,034
Noninterest expense (1)	(22,853)	(1,756)	(7,856)	(50,494)	(82,959)
Minority interest in net income of consolidated affiliates				(10,458)	(10,458)
Income (loss) before income tax expense (2)	\$ 93,156	\$ 3,952	\$ 2,870	\$ (35,808)	\$ 64,170
Total average loans, net of unearned income	\$ 2,798,173	\$	\$ 800,818	\$ 31,288	\$ 3,630,279
Total average assets	2,822,026	314,043	822,954	2,128,293	6,087,316
Total average deposits	3,694,164		236,710	5,753	3,936,627
Goodwill at September 30, 2007			4,092		4,092
<b>Nine months ended September 30, 2008</b>					
Net interest income	\$ 236,932	\$ 155	\$ 31,052	\$ 6,935	\$ 275,074
Provision for loan losses				(29,756)	(29,756)
Noninterest income	101,930	4,157	8,231	12,931	127,249
Noninterest expense (1)	(76,039)	(15,610)	(31,744)	(127,664)	(251,057)
Minority interest in net loss of consolidated affiliates				7,445	7,445
Income (loss) before income tax expense (2)	\$ 262,823	\$ (11,298)	\$ 7,539	\$ (130,109)	\$ 128,955
Total average loans, net of unearned income	\$ 3,421,455	\$	\$ 937,289	\$ 74,987	\$ 4,433,731
Total average assets	3,457,107	387,241	966,824	2,342,998	7,154,170
Total average deposits	4,213,261		423,794	(1,681)	4,635,374
Goodwill at September 30, 2008			4,092		4,092
<b>Nine months ended September 30, 2007</b>					
Net interest income	\$ 251,173	\$ 531	\$ 24,945	\$ 6,999	\$ 283,648
Provision for loan losses				(10,865)	(10,865)
Noninterest income	82,861	16,647	5,442	63,245	168,195
Noninterest expense, excluding impairment of goodwill (1)	(71,088)	(8,357)	(23,967)	(142,376)	(245,788)
Impairment of goodwill				(17,204)	(17,204)
Minority interest in net income of consolidated affiliates				(26,639)	(26,639)
Income (loss) before income tax expense (2)	\$ 262,946	\$ 8,821	\$ 6,420	\$ (126,840)	\$ 151,347

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

Total average loans, net of unearned income	\$ 2,577,989	\$	\$ 798,907	\$ 62,628	\$ 3,439,524
Total average assets	2,593,091	278,598	820,455	2,223,784	5,915,928
Total average deposits	3,626,022		248,264	5,579	3,879,865
Goodwill at September 30, 2007			4,092		4,092

- (1) The Commercial Banking segment includes direct depreciation and amortization of \$0.6 million and \$1.0 million for the three months ended September 30, 2008 and 2007, respectively, and \$1.7 million and \$2.0 million for the nine months ended September 30, 2008 and 2007, respectively.
- (2) The internal reporting model used by management to assess segment performance does not calculate income tax expense by segment. Our effective tax rate is used as a reasonable approximation of the segment rates.

#### **14. Obligations Under Guarantees**

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, credit card guarantees and commitments to invest in private equity fund investments. These instruments involve, to varying degrees, elements of credit risk. Credit risk is defined as the possibility of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract.

**Table of Contents****Commitments to Extend Credit**

The following table summarizes information related to our commitments to extend credit at September 30, 2008 and December 31, 2007, respectively:

(Dollars in thousands)	September 30, 2008	December 31, 2007
Commitments available for funding: (1)		
Fixed interest rate commitments	\$ 674,257	\$ 498,103
Variable interest rate commitments	4,944,764	4,440,522
Total	5,619,021	4,938,625
Commitments unavailable for funding (2)	818,461	726,359
Maximum lending limits for accounts receivable factoring arrangements (3)	495,215	443,835
Reserve for unfunded credit commitments	\$ 13,091	\$ 13,446

- (1) Represents commitments which are available for funding, due to clients meeting all collateral, compliance, and financial covenants required under loan commitment agreements.
- (2) Represents commitments which are unavailable for funding, due to clients' failure 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 September 30, 2008. The maximum potential amount of future payments represents the amount that could be remitted under letters of credit if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from the collateral held or pledged.

(Dollars in thousands)	Expires In One Year or Less	Expires After One Year	Total Amount Outstanding	Maximum Amount Of Future Payments
Financial standby letters of credit	\$ 618,641	\$ 59,346	\$ 677,987	\$ 677,987
Performance standby letters of credit	23,679	22,493	46,172	46,172
Commercial letters of credit	7,395	690	8,085	8,085
Total	\$ 649,715	\$ 82,529	\$ 732,244	\$ 732,244

At September 30, 2008 and December 31, 2007, deferred fees related to financial and performance standby letters of credit were \$4.7 million and \$3.8 million, respectively. At September 30, 2008, collateral in the form of cash and investment securities available to us to reimburse losses, if any, under financial and performance standby letters of credit was \$293.1 million.

**Credit Card Guarantees**

The total amount of credit card guarantees were \$88.9 million at September 30, 2008 and \$81.8 million at December 31, 2007. We do not believe that any losses that may be incurred by the Bank as a result of these guarantees will be material in nature. Credit card fees totaled \$1.5 million and \$1.6 million for the three months ended September 30, 2008 and 2007, respectively, and \$4.7 million and \$4.3 million for the nine months ended September 30, 2008 and 2007, respectively.

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

The following table details our total unfunded capital commitments as well as our ownership in each fund based on our total capital commitment at September 30, 2008:

<b>Our Ownership in Limited Partnership (Dollars in thousands)</b>	<b>Capital Commitments</b>	<b>Unfunded Commitments</b>	<b>Ownership</b>
Silicon Valley BancVentures, LP	\$ 6,000	\$ 660	10.7%
SVB Capital Partners II, LP (1)	1,200	630	5.1
SVB Strategic Investors Fund, LP	15,300	1,840	12.6
SVB Strategic Investors Fund II, LP	15,000	5,775	8.6
SVB Strategic Investors Fund III, LP	15,000	9,000	5.9
SVB Strategic Investors Fund IV, LP	7,196	7,052	5.0
Partners for Growth, LP	25,000	9,750	50.0
Partners for Growth II, LP	15,000	6,450	24.2
Gold Hill Venture Lending 03, LP (2)	20,000	1,821	9.3
SVB India Capital Partners I, LP	7,500	4,575	13.9
Other Fund Investments (3)	446,386	113,246	
<b>Total</b>	<b>\$ 573,582</b>	<b>\$ 160,799</b>	

- (1) Our ownership includes 1.3% direct ownership through SVB Capital Partners II, LLC and SVB Financial Group, and 3.8% indirect ownership through our investment in SVB Strategic Investors Fund II, LP.
- (2) Our ownership includes 4.8% direct ownership and 4.5% indirect ownership interest through GHLLC.
- (3) Represents commitments to 357 private equity funds where our ownership interest is less than 5% of the voting stock of each such fund.

**15. Income Taxes**

The following table provides a summary of changes in our unrecognized tax benefits (including interest and penalties) for the nine months ended September 30, 2008:

<b>(Dollars in thousands)</b>	<b>Reconciliation of Unrecognized Tax Benefits</b>	<b>Interest &amp; Penalties</b>	<b>Total</b>
Balance at January 1, 2008	\$ 1,114	\$ 89	\$ 1,203
Additions based on tax positions related to current year	42		42
Additions for tax positions for prior year		155	155
Reductions as a result of a lapse of the applicable statute of limitations	(862)	(12)	(874)
<b>Balance at September 30, 2008</b>	<b>\$ 294</b>	<b>\$ 232</b>	<b>\$ 526</b>

At September 30, 2008, the total amount of unrecognized tax benefits was \$0.3 million, the recognition of which would reduce our income tax expense by \$0.3 million. At January 1, 2008, the total amount of unrecognized tax benefits was \$1.1 million, the recognition of which would have reduced our income tax expense by \$0.3 million. The decrease in the amount of unrecognized tax benefits was due to the expiration of the applicable statute of limitations for income tax exposures in California and Maryland. Total accrued interest and penalties at September 30, 2008 were \$0.2 million. We expect that our unrecognized tax benefit will change in the next 12 months; however, we do not expect the change to have a material impact on our financial position or our results of operations.

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

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

tax returns for the years 2003 and 2005, respectively, and subsequent years remain open to examination.

### **16. Fair Value Measurements**

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

**Table of Contents****Fair Value Measurement Definition and Hierarchy**

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure.

SFAS No. 157 establishes 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 products does not entail a significant degree of judgment.

Assets and liabilities 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.

Assets and liabilities utilizing Level 2 inputs include: U.S. treasury and agency securities; mortgage-backed securities (MBS); collateralized mortgage obligations (CMO); commercial mortgage backed securities (CMBS); municipal securities; Over-the-Counter (OTC) derivative instruments (foreign exchange forwards and option contracts, interest rate swaps related to our senior notes, subordinated notes and junior subordinated debentures); and equity warrant assets for shares of public company capital stock.

- Level 3** Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Assets and liabilities utilizing Level 3 inputs include: limited partnership interests in private equity funds, direct equity investments in private companies, and equity warrant assets for shares of private company capital stock.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment that we use to determine fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

**Determination of Fair Value**

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon our own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values. The following is a description of valuation methodologies used by us for assets and liabilities recorded at fair value.

**Marketable Securities**

Marketable securities, consisting of our available-for-sale fixed income investment securities portfolio and marketable securities accounted for under investment company fair value accounting, are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using broker or dealer quotations, independent pricing models or other model-based valuation techniques such as the present value of future cash flows, taking into consideration a security's credit rating,

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

prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the NASDAQ Stock Market. Level 2 securities include U.S. treasuries, U.S. agency debentures, investment grade mortgage securities and state and municipal obligations.

---

## Table of Contents

### Non-Marketable Securities

Our non-marketable securities consist of our investments made by the following funds:

Funds of funds, such as SVB Strategic Investors Fund, LP, SVB Strategic Investors Fund II, LP, SVB Strategic Investors Fund III, LP, and SVB Strategic Investors Fund IV, LP, which make investments in private equity funds;

Co-investment funds, such as Silicon Valley BancVentures, LP, SVB Capital Partners II, LP, and SVB India Capital Partners I, LP, which make equity investments in privately held companies; and

A sponsored debt fund, Partners for Growth, LP, which provides financing to companies in the form of structured loans and equity investments.

For GAAP purposes, these funds are investment companies under the American Institute of Certified Public Accountants ( AICPA ) Audit and Accounting Guide for Investment Companies. Accordingly, these funds report their investments at estimated fair value, with unrealized gains and losses resulting from changes in fair value reflected as investment gains or losses in our consolidated net income. We have retained the specialized accounting of our consolidated funds pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation*. We have valued our investments, in the absence of observable market prices, using the valuation methodologies described below applied on a consistent basis.

Investments in private equity funds are stated at fair value, 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.

For direct private company investments, valuations are based upon 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. These valuation methodologies involve a significant degree of management judgment. Estimating the fair value of these investments requires management to make assumptions regarding future performance, financial condition, and relevant market conditions, along with other pertinent information.

Structured loans made by the sponsored debt fund are measured using pricing models that use observable inputs, such as yield curves and publicly-traded equity prices, and unobservable inputs, such as private company equity prices.

Investments in private equity funds and direct private company investments are categorized within Level 3 of the fair value hierarchy since pricing inputs are unobservable and include situations where there is little, if any, market activity for such investments. Investments in structured loans are categorized within Level 2 or Level 3 of the fair value hierarchy based on the observability and significance of the pricing inputs.

### Derivative Instruments

#### *Interest Rate Swaps, Foreign Currency Forward and Option Contracts*

Our interest rate swaps, foreign currency forward and option contracts are traded in OTC markets where quoted market prices are not readily available. For these derivatives, we measure fair value using pricing models that use primarily market observable inputs, such as yield curves and option volatilities, and, accordingly, classify these as Level 2. When appropriate, valuations are adjusted for various factors such as liquidity and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Consistent with market practice, we have individually negotiated agreements with certain counterparties to exchange collateral ( margining ) based on the level of fair values of the derivative contracts they have executed. Through this margining process, one party or both parties to a derivative contract provides the other party with information about the fair value of the derivative contract to calculate the amount of collateral required. This sharing of fair value information provides additional support for the recorded fair value.

#### *Equity Warrant Assets*



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

As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of equity warrant assets in certain client companies. Our warrant agreements contain net share settlement provisions, which permit us to receive upon exercise a share count equal to the intrinsic value of the warrant divided by the share price (otherwise known as a "cashless" exercise). Because we can net settle our warrant agreements, our equity warrant assets qualify as derivative instruments.

Equity warrant assets for shares of private and public company capital stock are recorded at fair value on the grant date and adjusted to fair value on a quarterly basis through consolidated net income. We value our equity warrant assets using a modified Black-Scholes option pricing model, which incorporates assumptions about underlying asset value, volatility, expected remaining life and risk-free interest rate. Valuation adjustments, such as a marketability discount, are made to equity warrant assets for shares of private company capital stock. These valuation adjustments are estimated based on management's judgment about the general industry environment, combined with specific information about the issuing company.

**Table of Contents**

The valuation of equity warrant assets for shares of public company capital stock is based on market observable inputs and these are classified as Level 2. Since the valuation of equity warrant assets for shares of private company capital stock involves significant unobservable inputs they are categorized as Level 3.

The following fair value hierarchy table presents information about our assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2008:

(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2008
<b>Assets</b>				
Marketable securities:				
Available-for-sale securities:				
U.S. Treasury securities	\$	\$ 10,044	\$	\$ 10,044
U.S. agencies and corporations:				
Collateralized mortgage obligations		582,814		582,814
Mortgage-backed securities		465,795		465,795
U.S. agency debentures		121,380		121,380
Commercial mortgage-backed securities		52,866		52,866
Municipal bonds and notes		105,633		105,633
Marketable equity securities	245			245
Venture capital fund investments	1			1
<b>Total available-for-sale securities</b>	<b>246</b>	<b>1,338,532</b>		<b>1,338,778</b>
Marketable securities (investment company fair value accounting)	2,279			2,279
<b>Total marketable securities</b>	<b>2,525</b>	<b>1,338,532</b>		<b>1,341,057</b>
Non-marketable securities (investment company fair value accounting):				
Private equity fund investments			232,016	232,016
Other private equity investments			79,687	79,687
Other investments			2,237	2,237
<b>Total non-marketable securities (investment company fair value accounting)</b>			<b>313,940</b>	<b>313,940</b>
<b>Other assets:</b>				
Interest rate swaps		28,199		28,199
Foreign exchange forward contracts		15,092		15,092
Equity warrant assets		2,079	36,975	39,054
<b>Total assets (1)</b>	<b>\$ 2,525</b>	<b>\$ 1,383,902</b>	<b>\$ 350,915</b>	<b>\$ 1,737,342</b>
<b>Liabilities</b>				
Interest rate swaps	\$	\$ 847	\$	\$ 847
Foreign exchange forward contracts		10,798		10,798
Covered call options (2)		1		1
<b>Total liabilities</b>	<b>\$</b>	<b>\$ 11,646</b>	<b>\$</b>	<b>\$ 11,646</b>

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

- (1) Included in Level 1 and Level 3 assets are \$1.5 million and \$285.2 million, respectively, attributable to minority interests calculated based on the ownership percentages of the minority interests.
- (2) Represents covered call options held by one of our sponsored debt funds.

**Table of Contents**

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

	Total Realized and Unrealized Gains (Losses) Included in Income			Total Realized and Unrealized Gains (Losses) Included in Income			Purchases, Sales, Other Settlements and Issuances, net	Transfers In and/or (Out) of Level 3	Ending Balance at September 30, 2008
	Beginning Balance	Realized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Realized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income	Unrealized Gains (Losses) Included in Income			
<b>(Dollars in thousands)</b>									
<b>Three months ended September 30, 2008:</b>									
Non-marketable securities (investment company fair value accounting):									
Private equity fund investments	\$ 220,963	\$ 1,525	\$ (3,388)	\$ (1,863)	\$ 12,916	\$	\$	\$	\$ 232,016
Other private equity investments	60,272		4,300	4,300	15,115				79,687
Other investments	2,643		(123)	(123)	(283)				2,237
Total non-marketable securities (investment company fair value accounting) (1)	283,878	1,525	789	2,314	27,748				313,940
Other assets:									
Equity warrant assets (2)	34,494	1,130	362	1,492	1,003	(14)			36,975
Total assets	\$ 318,372	\$ 2,655	\$ 1,151	\$ 3,806	\$ 28,751	\$ (14)	\$	\$	\$ 350,915
<b>Nine months ended September 30, 2008:</b>									
Non-marketable securities (investment company fair value accounting):									
Private equity fund investments	\$ 194,862	\$ 6,708	\$ (7,505)	\$ (797)	\$ 37,951	\$	\$	\$	\$ 232,016
Other private equity investments	44,872	4,672	2,534	7,206	27,609				79,687
Other investments	3,098		(286)	(286)	(575)				2,237
Total non-marketable securities (investment company fair value accounting) (1)	242,832	11,380	(5,257)	6,123	64,985				313,940
Other assets:									
Equity warrant assets (2)	26,911	6,493	3,779	10,272	(235)	27			36,975
Total assets	\$ 269,743	\$ 17,873	\$ (1,478)	\$ 16,395	\$ 64,750	\$ 27	\$	\$	\$ 350,915

(1) Realized and unrealized gains (losses) of our total non-marketable securities are recorded on the line item gains on investment securities, net a component of noninterest income.

(2) Realized and unrealized gains (losses) of our equity warrant assets are recorded on the line item gains on derivative instruments, net a component of noninterest income.

The following table presents the cumulative unrealized gains (losses) for Level 3 assets at September 30, 2008:

(Dollars in thousands)	September 30, 2008
Non-marketable securities (investment company fair value accounting):	
Private equity fund investments	\$ (11,001)
Other private equity investments	2,497
Other investments	(458)

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

Total non-marketable securities (investment company fair value accounting)	(8,962)
Other assets:	
Equity warrant assets	5,869
Total unrealized losses at period end	\$ (3,093)

### 17. Related Party Transactions

SVB Financial has a commitment under a revolving line of credit facility to Gold Hill Venture Lending 03, LP, a venture debt fund ( Gold Hill ), and its affiliated funds. SVB Financial has a 9.3% effective ownership interest in Gold Hill, as well as a 90.7% majority interest in its general partner, GHLLC. The line of credit bears an interest rate of prime plus one percent. In January 2007, SVB Financial increased the revolving line of credit facility to Gold Hill from a total commitment amount of \$40.0 million to \$75.0 million. At the same time, SVB Financial syndicated \$35.0 million, or 46.67% of the total facility, to another lender. The highest outstanding balance under the facility for the nine months ended September 30, 2008 was \$69.0 million. At September 30, 2008, Gold Hill s outstanding balance totaled \$54.0 million.

During the nine months ended September 30, 2008, the Bank made loans to related parties, including companies with which certain of our directors are affiliated. Such loans: (a) were made in the ordinary course of business, (b) were made on substantially the

---

**Table of Contents**

same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and (c) did not involve more than the normal risk of collectibility or present other unfavorable features.

**18. Legal Matters**

On October 4, 2007, a consolidated class action was filed in the United States District Court for the Central District of California, purportedly on behalf of a class of investors who purchased the common stock of Vitesse Semiconductor Corporation ( Vitesse ). The complaint asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, against Vitesse, the Bank and other named defendants in connection with alleged fraudulent recognition of revenue by Vitesse, specifically with respect to sales of certain accounts receivable to the Bank. The relief sought under the complaint included rescission of the Vitesse shares held by plaintiffs and other class members or the appropriate measure of damages, as well as prejudgment and post-judgment interest and certain fees, costs and expenses. On January 28, 2008, the court dismissed with prejudice all claims against the Bank under the action.

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

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

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

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

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

Forecasts of venture capital and private equity funding and investment levels

Forecasts of future interest rates

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

Forecasts of future economic performance

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

Forecasts of future income on investments

Descriptions of assumptions underlying or relating to any of the foregoing

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

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

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

Management of our liquidity position

Growth in loan balances

Credit quality of our loan portfolio

Levels and trends of nonperforming loans

Capital and liquidity provided by funds generated through retained earnings

Activities for which capital will be used or required

Use of excess capital

Financial impact of continued growth of our funds management business

Expansion and growth of our noninterest income sources

Profitability of our products and services

Venture capital and private equity funding and investment levels

Strategic initiatives

**Table of Contents**

Growth of our interest-bearing deposits

Management of interest rate risk

Introduction of new products, including deposit products

Effect of application of certain accounting pronouncements

Effect of lawsuits and claims

Changes in our unrecognized tax benefit and any associated impact

Recovery of unrealized losses from investments

Stock repurchase levels

Incurrence of losses relating to credit card guarantees and any associated impact.

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

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and accompanying notes as presented in Part I, Item 1 in this report and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K), as filed with the Securities and Exchange Commission (SEC).

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

**Management's Overview of Third Quarter 2008 Performance**

Our primary or core business consists of providing banking products and services to our clients in the technology, life science, private equity (including venture capital) and premium wine industries. Notwithstanding the impact of significant interest rate reductions, we believe that our core banking business performed well during the three months ended September 30, 2008, compared to the comparable 2007 period.

Our net income for the three months ended September 30, 2008 was \$27.0 million, or \$0.80 per diluted common share, compared to \$38.1 million, or \$1.03 per diluted common share for the comparable 2007 period. The weighted average diluted shares used to calculate our diluted earnings per share decreased by 3.1 million from September 30, 2007 to September 30, 2008 primarily due to the following:



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

The dilutive impact of our \$150 million zero-coupon convertible subordinated notes ( 2003 Convertible Notes ) for the three months ended September 30, 2007, and

A reduction in the weighted average shares for the three months ended September 30, 2008 as a result of common stock repurchases subsequent to September 30, 2007

Exceptional loan growth, solid deposit growth and contained expenses contributed to this strong performance, despite the impact of significant interest rate reductions, lower valuations and distributions from our investment fund portfolio, and lower gains from valuations of our equity warrant assets.

Average loans grew by \$1.23 billion, or 34.0 percent, to \$4.86 billion for the three months ended September 30, 2008, compared to \$3.63 billion for the comparable 2007 period driven primarily by loan growth increases from all client industry segments, with strong growth in loans to software, hardware and private equity clients. We also had strong growth in average deposit balances, primarily due to our money market deposit product for early stage clients introduced in May 2007 and our sweep deposit product introduced in October 2007.

We continued to maintain good credit quality with net charge-offs in the third quarter of 2008 of 47 basis points (annualized) of total gross loans, compared to 24 basis points for the comparable 2007 period. Gross charge-offs increased by \$2.9 million to \$7.0 million (or 52 basis points annualized) compared to \$4.1 million (or 43 basis points annualized) for the comparable 2007 period, but remained within our expectations. Gross charge-offs of \$7.0 million for the three months ended September 30, 2008 primarily

**Table of Contents**

came from our early-stage client loan portfolio. Our total provision for loan losses was \$13.7 million for the three months ended September 30, 2008, compared to \$3.2 million for the comparable 2007 period. The increase was principally due to our significant loan growth, as well as an increase of \$4.0 million in net charge-offs from September 30, 2007 to September 30, 2008.

Our net interest margin was 5.73 percent for the three months ended September 30, 2008, compared to 7.18 percent for the comparable 2007 period. This decline was consistent with our expectations and primarily reflects the impact of interest rate cuts by the Federal Reserve in late 2007 and 2008.

Noninterest income was \$41.7 million for the three months ended September 30, 2008, compared to \$65.0 million for the comparable 2007 period. This decrease primarily related to lower valuations and lower distributions from our investment securities portfolio, which resulted in net losses of \$0.9 million (or \$2.1 million in net losses after minority interest) on investment securities for the three months ended September 30, 2008, compared to net gains of \$14.7 million (or \$2.8 million after minority interest) for the comparable 2007 period. Net gains on equity warrant assets, a component of net gains on derivatives instruments, also decreased from \$9.2 million for the three months ended September 30, 2007, to \$1.4 million for the three months ended September 30, 2008, mainly attributable to higher net gains recognized in the third quarter of 2007 due to valuation adjustments arising from initial public offerings of stock by certain companies in our warrant portfolio. Although total noninterest income decreased, noninterest income from our core fee-based products, which includes client investment fees, foreign exchange fees, deposit service charges and letter of credit and standby letter of credit income, increased by \$5.1 million, or 19.3 percent, to \$31.5 million for the three months ended September 30, 2008, compared to \$26.4 million for the comparable 2007 period.

Expense growth remained contained, aided by lower incentive compensation expenses in the third quarter of 2008 compared to 2007. Noninterest expense was \$80.4 million for the three months ended September 30, 2008, compared to \$83.0 million for the comparable 2007 period.

We continued to have strong levels of capital during the third quarter of 2008. Our ratio of tangible common equity to tangible assets was 9.20 percent in the three months ended September 30, 2008, compared to 10.80 percent in the comparable 2007 period. The decrease was due largely to strong loan growth in 2007 and the first nine months of 2008, as well as significant share repurchases in late 2007 and early 2008.

The key highlights of our performance for the three and nine months ended September 30, 2008 and 2007, respectively, are as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	Change	2008	2007	Change
Average loans, net of unearned income	\$ 4,863,706	\$ 3,630,279	34.0%	\$ 4,433,731	\$ 3,439,524	28.9%
Average noninterest-bearing deposits	2,826,289	2,867,812	(1.4)	2,852,851	2,838,187	0.5
Average interest-bearing deposits	1,993,967	1,068,815	86.6	1,782,523	1,041,678	71.1
Average total deposits	4,820,256	3,936,627	22.4	4,635,374	3,879,865	19.5
Diluted earnings per share	\$ 0.80	\$ 1.03	(22.3)	\$ 2.22	\$ 2.41	(7.9)
Net income	27,008	38,116	(29.1)	76,206	89,372	(14.7)
Net interest income	95,129	95,708	(0.6)%	275,074	283,648	(3.0)%
Net interest margin	5.73%	7.18%	(145) bps	5.91%	7.38%	(147) bps
Average SVB prime lending rate	5.00%	8.19%	(319) bps	5.44%	8.23%	(279) bps
Provision for loan losses	\$ 13,682	\$ 3,155	333.7%	\$ 29,756	\$ 10,865	173.9%
Gross charge-offs as a percentage of total gross loans (annualized)	0.52%	0.43%	9 bps	0.56%	0.51%	5 bps
Net charge-offs as a percentage of total gross loans (annualized)	0.47	0.24	23 bps	0.42	0.33	9 bps
Noninterest income (1)	\$ 41,747	\$ 65,034	(35.8)%	\$ 127,249	\$ 168,195	(24.3)%
Noninterest expense (2)	80,431	82,959	(3.0)	251,057	262,992	(4.5)
Return on average stockholders' equity (annualized)	15.09%	22.35%	(32.5)	14.70%	17.96%	(18.2)
Return on average assets (annualized)	1.42	2.48	(42.7)	1.42	2.02	(29.7)
Tangible common equity to tangible assets (3)	9.20	10.80	(14.8)	9.20	10.80	(14.8)
Operating efficiency ratio (4)	58.51%	51.52%	13.6	62.14%	58.09%	7.0
Period end full-time equivalent employees	1,237	1,141	8.4%	1,237	1,141	8.4%

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

**Non-GAAP measures:**

Non-GAAP operating efficiency ratio (5)	56.91%	54.29%	4.8%	59.28%	56.85%	4.3%
Non-GAAP noninterest income, net of minority interest	\$ 40,705	\$ 52,268	(22.1)	\$ 127,106	\$ 134,412	(5.4)
Non-GAAP noninterest expense, net of minority interest	77,567	80,874	(4.1)	239,119	237,599	0.6

## **Table of Contents**

- (1) Noninterest income included \$1.4 million and \$1.9 million attributable to minority interests for the three and nine months ended September 30, 2008, respectively, compared to \$12.4 million and \$31.0 million for the comparable 2007 periods. See Results of Operations Noninterest Income for a description of noninterest income attributable to minority interests.
- (2) Noninterest expense included \$2.9 million and \$8.1 million attributable to minority interests for the three and nine months ended September 30, 2008, respectively, compared to \$2.7 million and \$8.2 million for the comparable 2007 periods. See Results of Operations Noninterest Income for a description of noninterest expense attributable to minority interests.
- (3) Tangible common equity consists of total stockholders' equity (excluding unrealized gains and losses on investments) less acquired intangibles and goodwill. Tangible assets represent total assets (excluding unrealized gains and losses on investments) less acquired intangibles and goodwill.
- (4) The operating efficiency ratio is calculated by dividing noninterest expense by total taxable-equivalent revenue. Noninterest expense included a non-tax deductible loss of \$3.9 million related to our cash settlement of the conversion of certain 2003 Convertible Notes for the nine months ended September 30, 2008, as well as a \$17.2 million pre-tax goodwill impairment charge for the nine months ended September 30, 2007. Noninterest expense also included \$2.9 million and \$8.1 million attributable to minority interests for the three and nine months ended September 30, 2008, respectively, compared to \$2.7 million and \$8.2 million for the comparable 2007 periods.
- (5) The non-GAAP operating efficiency ratio is calculated by dividing noninterest expense (excluding (i) the non-tax deductible \$3.9 million loss recorded in the second quarter of 2008 related to our cash settlement of the conversion of certain zero-coupon convertible subordinated notes prior to the notes' maturity, (ii) goodwill impairment charges of \$17.2 million recorded in the second quarter of 2007 and (iii) the portion of noninterest expense attributable to minority interests of \$2.9 and \$2.7 million for the three months ended September 30, 2008 and 2007, respectively, and \$8.1 million and \$8.2 million for the nine months ended September 30, 2008 and 2007, respectively) by total taxable-equivalent income (excluding taxable-equivalent income attributable to minority interests of 1.2 million and \$13.1 million for the three months ended September 30, 2008 and 2007 respectively, and \$0.6 million and \$34.8 million for the nine months ended September 30, 2008 and 2007, respectively).

### **Critical Accounting Policies and Estimates**

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

Other than the adoption of the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), there have been no significant changes during the nine months ended September 30, 2008 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations under Part II, Item 7 of our 2007 Form 10-K.

### ***Fair Value Measurements***

Please refer to the discussion of our fair value measurements in Note 16 (Fair Value Measurements) of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 in this report.

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

Please refer to the discussion of our recent accounting pronouncements in Note 2 (Recent Accounting Pronouncements) of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 in this report.

### **Results of Operations**

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

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

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

on a fully taxable-equivalent basis to consistently reflect income from taxable loans and securities and tax-exempt securities based on the federal statutory tax rate of 35.0 percent.

**Table of Contents**

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

*Three months ended September 30, 2008 and 2007*

Net interest income decreased by \$0.3 million to \$95.7 million for the three months ended September 30, 2008, compared to \$96.0 million for the comparable 2007 period. The decrease in net interest income was the result of a 166 basis point decrease in yields earned on assets, partially offset by a 21 basis point decrease in the cost of our total funding sources.

The main factors affecting interest income and interest expense are discussed below:

*Interest income* for the three months ended September 30, 2008 increased by \$0.5 million primarily due to:

- i A \$1.0 million increase in interest income on loans as a result of a 34.0% increase in our average loan balances for the three months ended September 30, 2008 compared to the comparable 2007 period. However, this interest income increase from loans was offset as our loan yields decreased 248 basis points from 10.19% for the three months ended September 30, 2007 to 7.71% for the three months ended September 30, 2008. The decrease in loan yields was a direct result of a reduction in our Prime lending rate in response to decreases in the Federal Funds rates over the 12 month period from September 30, 2007 to September 30, 2008. Our average Prime lending rate decreased 319 basis points from an average of 8.19% for the three months ended September 30, 2007 to an average of 5.00% for the three months ended September 30, 2008. Subsequent to September 30, 2008, Federal Funds rates decreased by 100 basis points, which will reduce our average Prime lending rate subsequent to September 30, 2008.

- i A \$1.3 million increase in interest income on investment securities due principally to growth in balances. These increases were partially offset by a decrease of \$1.8 million in interest income on short term investments primarily due to the decrease in the Federal Funds rates from September 30, 2007 to September 30, 2008.

*Interest expense* for the three months ended September 30, 2008 increased by \$0.8 million primarily due to:

- i An increase in interest expense of \$2.7 million from deposits, primarily due to a \$925.2 million, or 86.6% increase in average interest bearing deposits as a result of our focus on growing on-balance sheet deposits. This increase was primarily related to growth in our money market deposit product for early stage clients introduced in May 2007 and our sweep deposit product introduced in late October 2007, both of which we introduced to provide funding for our loan growth. For the three months ended September 30, 2008, the average balance of our early stage money market deposit product was \$560.5 million and interest expense was \$2.1 million, compared to \$144.9 million and \$1.4 million, respectively, for the comparable 2007 period. The average balance of our sweep deposit product for the three months ended September 30, 2008 was \$389.2 million and interest expense was \$1.7 million.

- i An increase of \$0.3 million due to an increase in average balances of short-term borrowings to support our loan growth, partially offset by declining short-term market interest rates. Average short-term borrowings increased by \$338.6 million to \$544.3 million for the three months ended September 30, 2008, compared to \$205.7 million for the comparable 2007 period. These increases were partially offset by a decrease in interest expense of \$2.2 million from long-term debt, primarily due to a decrease in average interest rates, partially offset by an increase in average long-term debt balances. Average interest rates on long-term debt decreased due primarily to lower London Interbank Offered Rates ( LIBOR ) rates associated with our interest rate swap arrangements. Average long-term debt increased by \$129.6 million to \$976.8 million for the three months ended September 30, 2008, compared to \$847.2 million for the comparable 2007 period, primarily due to the issuance of \$250 million in 3.875% convertible senior notes ( 2008 Convertible Notes ) in April 2008. The proceeds from the issuance of the 2008 Convertible Notes were used primarily to settle the conversion of our 2003 Convertible Notes, which matured in June 2008, and for other general corporate purposes.

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

*Nine months ended September 30, 2008 and 2007*

Net interest income decreased by \$7.8 million, or 2.7 percent to \$276.8 million for the nine months ended September 30, 2008, compared to \$284.6 million for the comparable 2007 period. The decrease in net interest income was the result of a 155 basis point decrease in yields earned on assets, partially offset by a 9 basis point decrease in the cost of our total funding sources.

The main factors affecting interest income and interest expense are discussed below:

*Interest income* for the nine months ended September 30, 2008 decreased by \$2.3 million primarily due to:

- <sup>i</sup> A \$2.1 million decrease in interest income on short term investments primarily due to the decrease in the Federal Funds rates, partially offset by growth in average short-term investment portfolio balances.

**Table of Contents**

- i A \$1.1 million decrease in interest income on our investment securities portfolio due principally to lower levels of taxable investment securities due to principal prepayments of U.S. agency securities, mortgage-backed securities collateralized mortgage obligations, partially offset by growth in average balances of our non-taxable investment securities portfolio. Average interest-earning investment securities decreased by \$59.4 million to \$1.33 billion for the nine months ended September 30, 2008, compared to \$1.39 billion for the comparable 2007 period.

These decreases were partially offset by a \$1.0 million increase in interest income on loans as a result of a 28.9% increase in our average loan balances for the nine months ended September 30, 2008, compared to the comparable 2007 period. However, this interest income increase from loans was offset as our loan yields decreased 231 basis points from 10.40% for the nine months ended September 30, 2007 to 8.09% for the nine months ended September 30, 2008. The decrease in loan yields was a direct result of a reduction in our Prime lending rate in response to decreases in the Federal Funds rates over the 12 month period from September 30, 2007 to September 30, 2008. Our average Prime lending rate decreased 279 basis points from an average of 8.23% for the nine months ended September 30, 2007 to an average of 5.44% for the nine months ended September, 30, 2008.

*Interest expense* for the nine months ended September 30, 2008 increased by \$5.5 million primarily due to:

- i An increase in interest expense of \$8.6 million from deposits due to a \$740.8 million, or 71.1% increase in average interest bearing deposits as a result of our focus on growing on-balance sheet deposits. The increase in deposits was primarily related to growth in our money market deposit product for early stage clients introduced in May 2007 and our sweep deposit product introduced in late October 2007, which we introduced to provide funding for our loan growth. For the nine months ended September 30, 2008, the average balance of our early stage money market deposit product was \$464.5 million and interest expense was \$5.7 million, compared to \$56.9 million and \$1.6 million, respectively, for the comparable 2007 period. The average balance of our Eurodollar sweep deposit product for the nine months ended September 30, 2008 was \$285.7 million and interest expense was \$3.9 million.
- i An increase of \$6.5 million from long-term debt, primarily due to an increase in average long-term debt balances, partially offset by a decrease in average interest rates. Average long-term debt increased by \$389.0 million to \$987.9 million for the nine months ended September 30, 2008, compared to \$598.9 million for the comparable 2007 period, primarily due to the issuance of \$500 million in senior and subordinated notes in May 2007 and our 2008 Convertible Notes in April 2008, partially offset by the maturity of our 2003 Convertible Notes in June 2008. Average interest rates on long-term debt decreased due primarily to lower LIBOR rates associated with our interest rate swap arrangements.

These increases were partially offset by a decrease of \$9.6 million from short-term borrowings, primarily due to declining short-term market interest rates, as well as a decrease in average balances of short-term borrowings.



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

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

(Dollars in thousands)	2008 Compared to 2007 Three Months Ended September 30, Increase (Decrease) Due to Change in			2008 Compared to 2007 Nine Months Ended September 30, Increase (Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest income:</b>						
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	\$ 377	\$ (2,150)	\$ (1,773)	\$ 4,723	\$ (6,870)	\$ (2,147)
Investment securities (Taxable)	108	298	406	(3,822)	509	(3,313)
Investment securities (Non-Taxable)	939	(51)	888	2,389	(191)	2,198
Loans	26,965	(25,952)	1,013	67,820	(66,816)	1,004
Increase (decrease) in interest income, net	28,389	(27,855)	534	71,110	(73,368)	(2,258)
<b>Interest expense:</b>						
NOW deposits	14	8	22	26	28	54
Regular money market deposits	(38)	55	17	(177)	250	73
Bonus money market deposits	1,487	(681)	806	3,840	403	4,243
Time deposits	168	(15)	153	386	(61)	325
Sweep deposits	1,697		1,697	3,885		3,885
Short-term borrowings	2,543	(2,202)	341	(2,093)	(7,506)	(9,599)
Zero-coupon convertible subordinated notes	(232)		(232)	(272)	36	(236)
3.875% convertible senior notes	2,972		2,972	5,695		5,695
Junior subordinated debentures	44	(383)	(339)	105	(889)	(784)
Senior and subordinated notes	404	(4,015)	(3,611)	9,794	(5,522)	4,272
Other long-term debt	(9)	(1,014)	(1,023)	(13)	(2,368)	(2,381)
Increase (decrease) in interest expense, net	9,050	(8,247)	803	21,176	(15,629)	5,547
Increase (decrease) in net interest income	\$ 19,339	\$ (19,608)	\$ (269)	\$ 49,934	\$ (57,739)	\$ (7,805)

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

Our net interest margin was 5.73 percent and 5.91 percent for the three and nine months ended September 30, 2008, respectively, compared to 7.18 percent and 7.38 percent for the comparable 2007 periods. The decreases in net interest margin were primarily due to decreases in yields on our loan portfolio resulting from reductions in our Prime lending rate and increases in rates paid on our deposits due to our two interest-bearing deposit products introduced in 2007, partially offset by decreases in rates paid on our short-term borrowings and LIBOR rates associated with our interest rate swap agreements. Our net interest margin also decreased due to the impact of our deposit pricing strategies.

*Average Balances, Yields and Rates Paid (Fully Taxable-Equivalent Basis)*

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

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

months ended September 30, 2008 and 2007, respectively.

**Table of Contents***Average Balances, Rates and Yields for the Three Months Ended September 30, 2008 and 2007*

(Dollars in thousands)	Three months ended September 30,					
	2008			2007		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>Interest-earning assets:</b>						
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities (1)	\$ 383,009	\$ 2,712	2.82%	\$ 350,833	\$ 4,485	5.07%
<b>Investment securities:</b>						
Taxable	1,288,039	15,321	4.73	1,277,910	14,915	4.63
Non-taxable (2)	108,115	1,701	6.26	48,486	813	6.65
Total loans, net of unearned income	4,863,706	94,256	7.71	3,630,279	93,243	10.19
<b>Total interest-earning assets</b>	<b>6,642,869</b>	<b>113,990</b>	<b>6.82</b>	<b>5,307,508</b>	<b>113,456</b>	<b>8.48</b>
Cash and due from banks	243,621			283,711		
Allowance for loan losses	(55,998)			(45,174)		
Goodwill	4,092			4,092		
Other assets (3)	713,487			537,179		
<b>Total assets</b>	<b>\$ 7,548,071</b>			<b>\$ 6,087,316</b>		
<b>Funding sources:</b>						
<b>Interest-bearing liabilities:</b>						
NOW deposits	\$ 42,538	\$ 53	0.50%	\$ 30,647	\$ 31	0.40%
Regular money market deposits	139,210	530	1.51	149,580	513	1.36
Bonus money market deposits	1,027,018	3,089	1.20	567,345	2,283	1.60
Time deposits	395,970	898	0.90	321,243	745	0.92
Sweep deposits	389,231	1,697	1.73			
<b>Total interest-bearing deposits</b>	<b>1,993,967</b>	<b>6,267</b>	<b>1.25</b>	<b>1,068,815</b>	<b>3,572</b>	<b>1.33</b>
Short-term borrowings	544,301	3,042	2.22	205,715	2,701	5.21
Zero-coupon convertible subordinated notes				149,011	232	0.62
3.875% convertible senior notes	250,000	2,972	4.73			
Junior subordinated debentures	52,502	514	3.89	49,798	853	6.80
Senior and subordinated notes	522,302	4,381	3.34	495,771	7,992	6.40
Other long-term debt	151,998	1,090	2.85	152,669	2,113	5.49
<b>Total interest-bearing liabilities</b>	<b>3,515,070</b>	<b>18,266</b>	<b>2.07</b>	<b>2,121,779</b>	<b>17,463</b>	<b>3.27</b>
Portion of noninterest-bearing funding sources	3,127,799			3,185,729		
<b>Total funding sources</b>	<b>6,642,869</b>	<b>18,266</b>	<b>1.09</b>	<b>5,307,508</b>	<b>17,463</b>	<b>1.30</b>
<b>Noninterest-bearing funding sources:</b>						
Demand deposits	2,826,289			2,867,812		
Other liabilities	194,426			193,955		
Minority interest in capital of consolidated affiliates	300,305			227,072		
Stockholders equity	711,981			676,698		
Portion used to fund interest-earning assets	(3,127,799)			(3,185,729)		
<b>Total liabilities, minority interest, and stockholders equity</b>	<b>\$ 7,548,071</b>			<b>\$ 6,087,316</b>		

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

Net interest income and margin	\$ 95,724	5.73%	\$ 95,993	7.18%
Total deposits	\$ 4,820,256		\$ 3,936,627	

- (1) Includes average interest-bearing deposits in other financial institutions of \$90.0 million and \$59.4 million for the three months ended September 30, 2008 and 2007, respectively.
- (2) Interest income on non-taxable investments is presented on a fully taxable-equivalent basis using the federal statutory income tax rate of 35.0 percent for all periods presented. The tax equivalent adjustments were \$0.6 million and \$0.3 million for the three months ended September 30, 2008 and 2007, respectively.
- (3) Average investment securities of \$388.2 million and \$250.3 million for the three months ended September 30, 2008 and 2007, respectively, were classified as other assets as they were noninterest-earning assets. These investments primarily consisted of non-marketable securities.

**Table of Contents***Average Balances, Rates and Yields for the Nine Months Ended September 30, 2008 and 2007*

(Dollars in thousands)	Nine months ended September 30,					
	2008			2007		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>Interest-earning assets:</b>						
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities (1)	\$ 484,892	\$ 10,513	2.90%	\$ 326,761	\$ 12,660	5.18%
<b>Investment securities:</b>						
Taxable	1,231,948	43,677	4.74	1,340,953	46,990	4.69
Non-taxable (2)	100,184	4,801	6.40	50,618	2,603	6.88
Total loans, net of unearned income	4,433,731	268,530	8.09	3,439,524	267,526	10.40
<b>Total interest-earning assets</b>	<b>6,250,755</b>	<b>327,521</b>	<b>7.00</b>	<b>5,157,856</b>	<b>329,779</b>	<b>8.55</b>
Cash and due from banks	256,343			276,202		
Allowance for loan losses	(52,363)			(42,979)		
Goodwill	4,092			15,435		
Other assets (3)	695,343			509,414		
<b>Total assets</b>	<b>\$ 7,154,170</b>			<b>\$ 5,915,928</b>		
<b>Funding sources:</b>						
<b>Interest-bearing liabilities:</b>						
NOW deposits	\$ 43,888	\$ 161	0.49%	\$ 36,114	\$ 107	0.40%
Regular money market deposits	142,787	1,487	1.39	161,748	1,414	1.17
Bonus money market deposits	934,253	8,791	1.26	523,636	4,548	1.16
Time deposits	375,914	2,584	0.92	320,180	2,259	0.94
Sweep deposits	285,681	3,885	1.82			
<b>Total interest-bearing deposits</b>	<b>1,782,523</b>	<b>16,908</b>	<b>1.27</b>	<b>1,041,678</b>	<b>8,328</b>	<b>1.07</b>
Short-term borrowings	329,198	5,957	2.42	388,622	15,556	5.35
Zero-coupon convertible subordinated notes	94,146	473	0.67	148,789	709	0.64
3.875% convertible senior notes	160,036	5,695	4.75			
Junior subordinated debentures	52,853	1,779	4.50	50,704	2,563	6.76
Senior and subordinated notes	528,565	16,109	4.07	246,775	11,837	6.41
Other long-term debt	152,339	3,846	3.37	152,669	6,227	5.45
<b>Total interest-bearing liabilities</b>	<b>3,099,660</b>	<b>50,767</b>	<b>2.19</b>	<b>2,029,237</b>	<b>45,220</b>	<b>2.98</b>
Portion of noninterest-bearing funding sources	3,151,095			3,128,619		
<b>Total funding sources</b>	<b>6,250,755</b>	<b>50,767</b>	<b>1.09</b>	<b>5,157,856</b>	<b>45,220</b>	<b>1.17</b>
<b>Noninterest-bearing funding sources:</b>						
Demand deposits	2,852,851			2,838,187		
Other liabilities	227,628			183,440		
Minority interest in capital of consolidated affiliates	281,487			199,927		
Stockholders' equity	692,544			665,137		
Portion used to fund interest-earning assets	(3,151,095)			(3,128,619)		
<b>Total liabilities, minority interest, and stockholders' equity</b>	<b>\$ 7,154,170</b>			<b>\$ 5,915,928</b>		

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

Net interest income and margin	\$ 276,754	5.91%	\$ 284,559	7.38%
Total deposits	\$ 4,635,374		\$ 3,879,865	

- (1) Includes average interest-bearing deposits in other financial institutions of \$90.7 million and \$50.8 million for the nine months ended September 30, 2008 and 2007, respectively.
- (2) Interest income on non-taxable investments is presented on a fully taxable-equivalent basis using the federal statutory income tax rate of 35.0 percent for all periods presented. The tax equivalent adjustments were \$1.7 million and \$0.9 million for the nine months ended September 30, 2008 and 2007, respectively.
- (3) Average investment securities of \$369.0 million and \$233.2 million for the nine months ended September 30, 2008 and 2007, respectively, were classified as other assets as they were noninterest-earning assets. These investments primarily consisted of non-marketable securities.

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

Our provision for loan losses is based on our evaluation of the adequacy of the existing allowance for loan losses in relation to total gross loans and on our periodic assessment of the inherent and identified risk dynamics of the loan portfolio resulting from reviews of selected individual loans. The following table summarizes our provision for loan losses for the three and nine months ended September 30, 2008 and 2007, respectively:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Allowance for loan losses, beginning balance	\$ 52,888	\$ 43,352	\$ 47,293	\$ 42,747
Provision for loan losses	13,682	3,155	29,756	10,865
Gross loan charge-offs	(7,000)	(4,138)	(22,306)	(14,754)
Loan recoveries	720	1,856	5,547	5,367
Allowance for loan losses, ending balance	\$ 60,290	\$ 44,225	\$ 60,290	\$ 44,225
Provision as a percentage of total gross loans (annualized)	1.02%	0.33%	0.75%	0.38%
Gross charge-offs as a percentage of total gross loans (annualized)	0.52	0.43	0.56	0.51
Net charge-offs as a percentage of total gross loans (annualized)	0.47	0.24	0.42	0.33
Allowance for loan losses as a percentage of total gross loans	1.13%	1.15%	1.13%	1.15%

Total gross loans at period end \$ 5,323,323 \$ 3,844,185 \$ 5,323,323 \$ 3,844,185

Our provision for loan losses increased by \$10.5 million to \$13.7 million for the three months ended September 30, 2008, compared to \$3.2 million for the comparable 2007 period. The increase in our provision for loan losses was primarily due to growth in our loan portfolio. Gross loan charge-offs of \$7.0 million and loan recoveries of \$0.7 million for the three months ended September 30, 2008 came primarily from our early-stage client portfolio. We consider our allowance for loan losses of \$60.3 million adequate to cover credit losses inherent in the loan portfolio at September 30, 2008.

Our provision for loan losses increased by \$18.9 million to \$29.8 million for the nine months ended September 30, 2008, compared to a provision of \$10.9 million for the comparable 2007 period. The increase in our provision for loan losses was primarily due to growth in our loan portfolio. For the nine months ended September 30, 2008, we grew total gross loans by \$1.15 billion, compared to \$334.6 million for the comparable 2007 period.

**Noninterest Income**

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Client investment fees	\$ 13,636	\$ 13,127	3.9%	\$ 41,006	\$ 37,813	8.4%
Foreign exchange fees	8,641	6,714	28.7	24,446	17,778	37.5
Deposit service charges	6,129	3,933	55.8	18,076	10,711	68.8
Gains on derivative instruments, net	6,472	8,790	(26.4)	13,479	15,514	(13.1)
Letter of credit and standby letter of credit income	3,050	2,671	14.2	9,138	8,363	9.3
Corporate finance fees		5,166	(100.0)	3,640	11,568	(68.5)
(Losses) gains on investment securities, net	(876)	14,719	(106.0)	(4,949)	40,611	(112.2)
Other	4,695	9,914	(52.6)	22,413	25,837	(13.3)
Total noninterest income	\$ 41,747	\$ 65,034	(35.8)%	\$ 127,249	\$ 168,195	(24.3)%

Included in net income is income and expense that are attributable to minority interests. As part of our investment funds management business, we recognize the entire income or loss from funds where we own significantly less than 100%. We are required under GAAP to consolidate 100% of the results of the funds that we are deemed to control. Similarly, we are required under GAAP to consolidate the results of eProsper, of which we own 65%. The relevant amounts attributable to investors other than us are reflected under Minority Interest in Net Loss (Income) of Consolidated Affiliates. Our net income includes only the portion of income or loss that is attributable to our ownership interest. The non-GAAP

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

tables presented below, for noninterest income, net gains on derivative instruments, net gains (losses) on investment securities and noninterest expense, all exclude minority interest. We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that represent income attributable to investors other than us and our subsidiaries. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results and when planning, forecasting and analyzing future periods. However, these non-GAAP financial measures should be considered in addition to, not as a substitute for or superior to, financial measures prepared in accordance with GAAP.



**Table of Contents**

The following table provides a summary of non-GAAP noninterest income, net of minority interest:

Non-GAAP noninterest income, net of minority interest	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
<b>(Dollars in thousands)</b>						
GAAP noninterest income	\$ 41,747	\$ 65,034	(35.8)%	\$ 127,249	\$ 168,195	(24.3)%
Less: income attributable to minority interests, including carried interest	(1,042)	(12,766)	(91.8)	(143)	(33,783)	(99.6)
<b>Non-GAAP noninterest income, net of minority interest</b>	<b>\$ 40,705</b>	<b>\$ 52,268</b>	<b>(22.1)%</b>	<b>\$ 127,106</b>	<b>\$ 134,412</b>	<b>(5.4)%</b>

*Client Investment Fees*

Client investment fees were \$13.6 million and \$41.0 million for the three and nine months ended September 30, 2008, respectively, compared to \$13.1 million and \$37.8 million for the comparable 2007 periods. The increases in client investment fees were primarily attributable to the growth in average client investment funds, particularly from an increase in deposits from our later-stage technology clients, as well as an increase in deposits from our venture capital and other private equity clients. These increases were partially offset by lower margins earned on repurchase agreements. In addition, we continue to face challenges in growing off-balance sheet funds due to the success of our new on-balance sheet deposit products, as well as the significant decline of initial public offerings ( IPO ). The following table summarizes average client investment funds for the three and nine months ended September 30, 2008 and 2007, respectively.

(Dollars in millions)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Client directed investment assets (1)	\$ 12,948	\$ 12,557	3.1%	\$ 12,819	\$ 12,226	4.9%
Client investment assets under management	6,406	5,734	11.7	6,262	5,467	14.5
Sweep money market funds	2,682	2,414	11.1	2,692	2,379	13.2
<b>Total average client investment funds (2)</b>	<b>\$ 22,036</b>	<b>\$ 20,705</b>	<b>6.4%</b>	<b>\$ 21,773</b>	<b>\$ 20,072</b>	<b>8.5%</b>

(1) Mutual funds and Repurchase Agreement Program assets.

(2) Client funds invested through SVB Financial Group are maintained at third-party financial institutions.

*Foreign Exchange Fees*

Foreign exchange fees were \$8.6 million for the three months ended September 30, 2008, compared to \$6.7 million for the comparable 2007 period. The increase was primarily due to increased client awareness of these products through our continued marketing efforts, as well as the positive impact of recent market volatility.

Foreign exchange fees were \$24.4 million for the nine months ended September 30, 2008, compared to \$17.8 million for the comparable 2007 period. The increase was primarily due to higher volumes of transactions. Commissioned notional volumes were \$4.9 billion and \$4.4 billion for the nine months ended September 30, 2008 and 2007, respectively. Because our clients' demand for foreign currency is driven by the purchase or sale of goods and services, and because more than 80% of our trades occur in only four currencies (Euro, Pound Sterling, Canadian Dollar and Japanese Yen), the higher notional volumes reflect the impact of business conditions in those countries or regions of our clients.

*Deposit Service Charges*

Deposit service charges were \$6.1 million and \$18.1 million for the three and nine months ended September 30, 2008, respectively, compared to \$3.9 million and \$10.7 million for the comparable 2007 periods. The increases in deposit service charges were primarily attributable to a decrease in the earnings credit rate obtained by clients to offset deposit service charges, which was primarily related to decreases in short-term

market interest rates.

**Table of Contents***Gains on Derivative Instruments, Net*

A summary of gains on derivative instruments, net, for the three and nine months ended September 30, 2008 and 2007, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Gains (losses) on foreign exchange forward contracts, net:						
Gains on client foreign exchange forward contracts, net (1)	\$ 561	\$ 360	55.8%	\$ 1,767	\$ 1,265	39.7%
Gains (losses) on internal foreign exchange forward contracts, net (2)	4,452	(450)		1,985	(884)	(324.5)
Total gains (losses) on foreign exchange forward contracts, net	5,013	(90)		3,752	381	884.8
Change in fair value of interest rate swap (3)	(10)	(338)	(97.0)	376	(81)	(564.2)
Gains on covered call options, net (4)	24			402		
Equity warrant assets:						
Gains on exercise, net	1,130	7,689	(85.3)	6,321	11,555	(45.3)
Change in fair value (5):						
Cancellations and expirations	(950)	(514)	84.8	(1,895)	(1,981)	(4.3)
Other changes in fair value	1,265	2,043	(38.1)	4,523	5,640	(19.8)
Total net gains on equity warrant assets (6)	1,445	9,218	(84.3)	8,949	15,214	(41.2)
Total gains on derivative instruments, net	\$ 6,472	\$ 8,790	(26.4)%	\$ 13,479	\$ 15,514	(13.1)%

- (1) Represents the net gains for foreign exchange forward contracts executed on behalf of clients.
- (2) Represents the change in the fair value of foreign exchange forward contracts to economically reduce our foreign exchange exposure risk related to certain foreign currency denominated loans. Revaluations of foreign currency denominated loans are recorded on the line item *Other* as part of noninterest income, a component of consolidated net income.
- (3) Represents the change in the fair value hedge of the hedging relationship from the interest rate swap agreement related to our junior subordinated debentures. Please refer to the discussion of our interest rate swap agreement related to our junior subordinated debentures in Note 10 (Derivative Financial Instruments) of the Notes to Interim Consolidated Financial Statements (unaudited) in Part I, Item 1 in this report.
- (4) Represents net gains on covered call options held by one of our sponsored debt funds.
- (5) As of September 30, 2008, we held warrants to purchase shares of capital stock of 1,258 companies, compared to 1,206 companies as of September 30, 2007.
- (6) Includes net gains on equity warrant assets held by consolidated investment affiliates. Relevant amounts attributable to minority interests are reflected in the interim consolidated statements of income under the caption *Minority Interest in Net Loss (Income) of Consolidated Affiliates*.

Gains on derivative instruments, net, were \$6.5 million for the three months ended September 30, 2008, compared to \$8.8 million for the comparable 2007 period. The decrease of \$2.3 million was primarily due to lower gains on exercises of equity warrant assets and lower gains from valuations of our equity warrant assets, partially offset by net gains from changes in the fair value of foreign exchange forward contracts. Net gains from foreign exchange forward contracts included \$4.5 million in net gains from changes in the fair value of foreign exchange forward contracts, used to offset net losses of \$4.7 million from revaluation of our foreign currency denominated loans, which are included in other noninterest income.

Gains on derivative instruments, net, were \$13.5 million for the nine months ended September 30, 2008, compared to \$15.5 million for the comparable 2007 period. The decrease of \$2.0 million was primarily due to lower gains on exercises of equity warrant assets and lower gains from valuations of our equity warrant assets, partially offset by higher net gains from changes in the fair value of foreign exchange forward contracts. Net gains from foreign exchange forward contracts included \$2.0 million in net gains from changes in the fair value of foreign exchange forward contracts, used to offset net losses of \$2.8 million from revaluation of our foreign currency denominated loans, which are

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

included in other noninterest income.

The lower gains on exercise of equity warrant assets for the three and nine months ended September 30, 2008, compared to the comparable 2007 periods reflect the impact of slowing mergers and acquisitions ( M&A ) and IPO markets. Changes in the fair value of equity warrant assets were primarily attributable to changes in the value of the underlying client companies' stock, changes in the value of the underlying assumptions used to value the equity warrant assets including changes in the risk-free interest rate, changes in the volatility of market-comparable public companies and changes in the expected life of the equity warrant assets. The methodology used to calculate the fair value of equity warrant assets has been applied consistently.

**Table of Contents**

The following table provides a summary of non-GAAP net gains on derivative instruments, net of minority interest:

Non-GAAP net gains on derivative instruments, net of minority interest	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
(Dollars in thousands)						
GAAP net gains on derivative instruments	\$ 6,472	\$ 8,790	(26.4)%	\$ 13,479	\$ 15,514	(13.1)%
Less: income attributable to minority interests (1)	(121)	(760)	(84.1)	(246)	(1,027)	(76.0)
<b>Non-GAAP net gains on derivative instruments, net of minority interest</b>	<b>\$ 6,351</b>	<b>\$ 8,030</b>	<b>(20.9)%</b>	<b>\$ 13,233</b>	<b>\$ 14,487</b>	<b>(8.7)%</b>

(1) Represents gains recognized from the exercise of warrants held by one of our sponsored debt funds.  
(Losses) Gains on Investment Securities, Net

We experience variability in the performance of our consolidated funds from quarter to quarter due to a number of factors, including changes in the values of our funds' investments, changes in the amount of distributions and general economic and market conditions. Such variability may lead to volatility in the gains (losses) from investment securities and cause our results for a particular period not to be indicative of our performance in a future period. The valuation of our consolidated investment funds continues to be affected by a more discerning venture capital environment, a further softening of M&A activity among our portfolio companies in the third quarter of 2008, and a significant decline in IPO's in 2008.

Net losses on investment securities were \$0.9 million for the three months ended September 30, 2008, compared to net gains of \$14.7 million for the comparable 2007 period. The following table provides a summary of net (losses) gains on investment securities for the three months ended September 30, 2008 and 2007:

(Dollars in thousands)	Three months ended					September 30, 2007
	September 30, 2008					
	Managed Co- Investment Funds	Managed Funds Of	Sponsored Debt Funds	Other	Total	Total
Unrealized gains (losses)	\$ 4,669	\$ (3,386)	\$ (2,004)	\$	\$ (721)	\$ 8,206
Realized gains (losses)		1,525	364	(2,044)	(155)	6,513
<b>Total gains (losses) on investment securities, net</b>	<b>\$ 4,669</b>	<b>\$ (1,861)</b>	<b>\$ (1,640)</b>	<b>\$ (2,044)</b>	<b>\$ (876)</b>	<b>\$ 14,719</b>

Net losses on investment securities of \$0.9 million for the three months ended September 30, 2008 were comprised primarily of the following:

Net unrealized losses of \$5.4 million from lower valuations within our managed funds of funds and sponsored debt funds.

Realized losses of \$2.0 million, primarily from the sale of our marketable equity securities, which are publicly traded shares acquired upon exercise of equity warrant assets.

Net unrealized gains of \$4.7 million from higher valuations within our managed co-investment funds.

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

Realized gains of \$1.5 million within our managed funds of funds due to net gains from distributions. Net losses on investment securities were \$4.9 million for the nine months ended September 30, 2008, compared to net gains of \$40.6 million for the comparable 2007 period. The following table provides a summary of net (losses) gains on investment securities for the nine months ended September 30, 2008 and 2007:

(Dollars in thousands)	Nine months ended September 30, 2008					September 30, 2007
	Managed Co- Investment Funds	Managed Funds Of Funds	Sponsored Debt Funds	Other	Total	Total
Unrealized gains (losses)	\$ 2,377	\$ (7,505)	\$ (8,279)	\$	\$ (13,407)	\$ 28,133
Realized gains (losses)	4,672	6,707	924	(3,845)	8,458	12,478
<b>Total gains (losses) on investment securities, net</b>	<b>\$ 7,049</b>	<b>\$ (798)</b>	<b>\$ (7,355)</b>	<b>\$ (3,845)</b>	<b>\$ (4,949)</b>	<b>\$ 40,611</b>

Net losses on investment securities of \$4.9 million for the nine months ended September 30, 2008 were comprised primarily of the following:

Net unrealized losses of \$15.8 million from lower valuations within our managed funds of funds and sponsored debt funds.

Realized losses of \$3.8 million, primarily from the sale of our marketable equity securities, which are publicly traded shares acquired upon exercise of equity warrant assets.

**Table of Contents**

Realized gains of \$11.4 million from our managed funds of funds and managed co-investment funds due to net gains from distributions and liquidity events.

Net unrealized gains of \$2.4 million from higher valuations within our managed co-investment funds.

As of September 30, 2008, we held investments, either directly or through seven of our managed investment funds, in 433 private equity funds, 73 companies and four sponsored debt funds.

The following table provides a summary of non-GAAP net gains (losses) on investment securities, net of minority interest:

Non-GAAP net (losses) gains on investment securities, net of minority interest (Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
GAAP net (losses) gains on investment securities	\$ (876)	\$ 14,719	(106.0)%	\$ (4,949)	\$ 40,611	(112.2)%
Less: (income) losses attributable to minority interests, including carried interest	(1,220)	(11,885)	(89.7)	227	(31,502)	(100.7)
<b>Non-GAAP net (losses) gains on investment securities, net of minority interest</b>	<b>\$ (2,096)</b>	<b>\$ 2,834</b>	<b>(174.0)%</b>	<b>\$ (4,722)</b>	<b>\$ 9,109</b>	<b>(151.8)%</b>

*Other Noninterest Income*

A summary of other noninterest income for the three and nine months ended September 30, 2008 and 2007, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Service-based fee income (1)	\$ 2,072	\$ 1,708	21.3%	\$ 6,329	\$ 3,646	73.6%
Fund management fees	2,228	1,901	17.2	6,105	6,643	(8.1)
Credit card fees	1,473	1,558	(5.5)	4,675	4,322	8.2
(Losses) gains on foreign currency loans revaluation, net	(4,741)	2,133	(322.3)	(2,825)	3,016	(193.7)
Other	3,663	2,614	40.1	8,129	8,210	(1.0)
<b>Total other noninterest income</b>	<b>\$ 4,695</b>	<b>\$ 9,914</b>	<b>(52.6)%</b>	<b>\$ 22,413</b>	<b>\$ 25,837</b>	<b>(13.3)%</b>

(1) Includes income from SVB Analytics and eProsper.

Other noninterest income was \$4.7 million for the three months ended September 30, 2008, compared to \$9.9 million for the comparable 2007 period. The decrease of \$5.2 million was primarily due to a decrease of \$6.9 million from revaluations of foreign currency (primarily Euro and Pounds Sterling) denominated loans, due primarily to the strengthening of the U.S. dollar in the third quarter of 2008, partially offset by a \$1.4 million increase from revaluations of non-loan foreign currency instruments and a \$0.4 million increase in service-based fee income, primarily due to increased activities from SVB Analytics. SVB Analytics revenues increased by \$0.4 million to \$1.5 million for the three months ended September 30, 2008, compared to \$1.1 million for the comparable 2007 period, primarily as a result of an increase in the number of clients. The number of clients increased to 210 for the three months ended September 30, 2008, compared to 148 for the comparable 2007 period.

Other noninterest income was \$22.4 million for the nine months ended September 30, 2008, compared to \$25.8 million for the comparable 2007 period. The decrease of \$3.4 million was primarily due to a decrease of \$5.8 million from revaluations of foreign currency denominated loans, partially offset by a \$2.7 million increase in service-based fee income, primarily due to increased activities from SVB Analytics. SVB Analytics revenues increased by \$2.5 million to \$4.5 million for the nine months ended September 30, 2008, compared to \$2.0 million for the comparable 2007 period, primarily as a result of an increase in the number of clients. The number of clients increased to 604 for the nine months ended September 30, 2008, compared to 260 for the comparable 2007 period.





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

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Compensation and benefits	\$ 49,598	\$ 56,460	(12.2)%	\$ 153,438	\$ 161,777	(5.2)%
Professional services	9,623	7,847	22.6	27,556	23,673	16.4
Premises and equipment	5,781	4,567	26.6	16,424	14,820	10.8
Net occupancy	4,135	5,149	(19.7)	12,825	16,238	(21.0)
Business development and travel	3,389	2,429	39.5	10,575	8,747	20.9
Correspondent bank fees	1,689	1,511	11.8	5,011	4,371	14.6
Telephone	1,373	1,178	16.6	3,870	4,034	(4.1)
Loss from cash settlement of conversion premium of zero-coupon convertible subordinated notes				3,858		
Data processing services	1,082	1,054	2.7	3,275	2,940	11.4
Reduction of the provision for unfunded credit commitments	(990)	(973)	1.7	(355)	(2,778)	(87.2)
Impairment of goodwill					17,204	(100.0)
Other	4,751	3,737	27.1	14,580	11,966	21.8
<b>Total noninterest expense</b>	<b>\$ 80,431</b>	<b>\$ 82,959</b>	<b>(3.0)%</b>	<b>\$ 251,057</b>	<b>\$ 262,992</b>	<b>(4.5)%</b>

The table below provides a summary of non-GAAP noninterest expense, net of minority interest:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
<b>Non-GAAP noninterest expense, net of minority interest</b>						
GAAP noninterest expense	\$ 80,431	\$ 82,959	(3.0)%	\$ 251,057	\$ 262,992	(4.5)%
Less: amounts attributable to minority interests	(2,864)	(2,665)	7.5	(8,080)	(8,189)	(1.3)
Less: loss from conversion of convertible subordinated notes				(3,858)		
Less: impact of impairment of goodwill					(17,204)	
<b>Non-GAAP noninterest expense, net of minority interest</b>	<b>\$ 77,567</b>	<b>\$ 80,294</b>	<b>(3.4)%</b>	<b>\$ 239,119</b>	<b>\$ 237,599</b>	<b>0.6%</b>

**Compensation and Benefits**

Compensation and benefits expense was \$49.6 million for the three months ended September 30, 2008, compared to \$56.5 million for the comparable 2007 period. The decrease was primarily due to a decline in expense related to our incentive compensation plan and Employee Stock Ownership Plan ( ESOP ), partially offset by an increase in salaries and wages expense, primarily related to an increase in the average number of FTE personnel. The average number of FTE personnel increased to 1,227 for the three months ended September 30, 2008, compared to 1,151 for the comparable 2007 period.

Compensation and benefits expense was \$153.4 million for the nine months ended September 30, 2008, compared to \$161.8 million for the comparable 2007 period. The decrease was primarily due to decreases in our incentive compensation plan expense and a decrease in salaries and wages expense paid to temporary employees, primarily related to additional expenses incurred in the beginning of 2007 associated with certain information technology ( IT ) projects. These decreases were partially offset by an increase in salaries and wages expense, primarily related to an increase in the average number of FTE personnel. The average number of FTE personnel increased to 1,200 for the nine months ended September 30, 2008, compared to 1,165 for the comparable 2007 period.

Our compensation plans primarily consist of the Incentive Compensation Plan, Direct Drive Incentive Compensation Plan, SVB Financial Group 401(k), ESOP, Retention Program and Warrant Incentive Plan. Total costs incurred under the above plans were \$12.7 million and \$43.8 million for the three and nine months ended September 30, 2008, respectively, compared to \$20.9 million and \$49.5 million for the comparable 2007 periods. The decrease of \$8.2 million for the three months ended September 30, 2008 was primarily related to a \$7.7 million decrease in our

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

Incentive Compensation Plan expense, a \$1.4 million decrease in our ESOP expense and a \$0.5 million decrease in our Warrant Incentive Plan, partially offset by a \$1.8 million increase in our Direct Drive expense. The decrease of \$5.7 million for the nine months ended September 30, 2008 was primarily related to a \$5.5 million decrease in our Incentive Compensation Plan expense and a \$1.2 million decrease in our ESOP expense, partially offset by a \$1.4 million increase in our Direct Drive expense.

### *Professional Services*

Professional services expense was \$9.6 million and \$27.6 million for the three and nine months ended September 30, 2008, respectively, compared to \$7.8 million and \$23.7 million for the comparable 2007 periods. The increases were primarily attributable to an increase in expenses associated with certain infrastructure projects.

---

**Table of Contents**

*Net Occupancy*

Net occupancy expense was \$4.1 million for the three months ended September 30, 2008, compared to \$5.1 million for the comparable 2007 period. The decrease was primarily attributable to increased amortization of leasehold improvements in the third quarter of 2007 due to a change in the remaining lease terms of certain domestic leases.

Net occupancy expense was \$12.8 million for the nine months ended September 30, 2008, compared to \$16.2 million for the comparable 2007 period. The decrease was primarily attributable to \$1.7 million of lease exit costs recognized in the second quarter of 2007, as we exited three domestic offices in a move to improve synergy and efficiency across business units, as well as increased amortization of leasehold improvements in the third quarter of 2007 due to a change in the remaining lease term of certain domestic leases.

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

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

*Reduction of the Provision for Unfunded Credit Commitments*

We calculate the provision for unfunded credit commitments based on the credit commitments outstanding, as well as the credit quality of our loan commitments. We recorded a reduction of \$1.0 million and \$0.4 million to the reserve for unfunded credit commitments for the three and nine months ended September 30, 2008, respectively, compared to \$1.0 million and \$2.8 million for the comparable 2007 periods. Our reserve for unfunded credit commitments was \$13.1 million at September 30, 2008 compared to \$11.9 million at September 30, 2007.

The reduction of the provision of \$1.0 million and \$0.4 million for the three and nine months ended September 30, 2008, respectively, was primarily due to lower utilization of unfunded credit commitments, as well as a reduction in our historical loss experience.

The reduction of the provision of \$1.0 million for the three months ended September 30, 2007 reflects our historical credit quality experience. The reduction of the provision of \$2.8 million for the nine months ended September 30, 2007 was primarily due to a decrease in our allowance for loan losses as a percentage of total gross loans from 1.22 percent at December 31, 2006 to 1.15 percent at June 30, 2007.

*Impairment of Goodwill*

In connection with our annual assessment of goodwill of SVB Alliant we recognized impairment charges of \$17.2 million during the second quarter of 2007. The impairment resulted from changes in our outlook for SVB Alliant's future financial performance. After completion of remaining client transactions, all operations at SVB Alliant were ceased as of March 31, 2008.

*Other Noninterest Expense*

Other noninterest expense largely consisted of tax credit fund amortization, postage and supplies, Federal Deposit Insurance Corporation ( FDIC ) assessments, dues and publications expense and insurance expense. Other noninterest expense was \$4.8 million for the three months ended September 30, 2008, compared to \$3.7 million for the comparable 2007 period. The increase of \$1.1 million was primarily related to increased FDIC assessments of \$0.6 million due to a one-time credit received in 2007.

Other noninterest expense was \$14.6 million for the nine months ended September 30, 2008, compared to \$12.0 million for the comparable 2007 period. The increase of \$2.6 million was primarily related to increased FDIC assessments of \$1.5 million.

**Table of Contents****Minority Interest in Net Loss (Income) of Consolidated Affiliates**

Minority interest in net loss (income) of consolidated affiliates is primarily related to the minority interest holders' portion of investment gains or losses and management fees in our managed funds. A summary of minority interest in net loss (income) of consolidated affiliates, for the three and nine months ended September 30, 2008 and 2007, respectively, is as follows:

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Net interest income (1)	\$ (129)	\$ (357)	(63.9)%	\$ (492)	\$ (1,045)	(52.9)%
Noninterest income (1)	(1,393)	(12,429)	(88.8)	(1,946)	(30,995)	(93.7)
Noninterest expense (1)	2,864	2,665	7.5	8,080	8,189	(1.3)
Carried interest (2)	351	(337)	(204.2)	1,803	(2,788)	(164.7)
Minority interest in net loss (income) of consolidated affiliates	\$ 1,693	\$ (10,458)	(116.2)%	\$ 7,445	\$ (26,639)	(127.9)%

- (1) Represents minority interest share in net interest income, noninterest income, and noninterest expense of consolidated affiliates.  
(2) Represents the preferred allocation of income earned by the general partners managing one of our sponsored debt funds and two of our managed funds of funds.

Minority interest in net loss of consolidated affiliates was \$1.7 million for the three months ended September 30, 2008, compared to minority interest in net income of \$10.5 million for the comparable 2007 period. Minority interest in net loss of consolidated affiliates of \$1.7 million for the three months ended September 30, 2008 was primarily attributable to the following:

Noninterest expense of \$2.9 million, primarily related to management fees paid by our managed funds to the general partner entities at SVB Capital for funds management.

Net investment losses and carried interest of \$1.9 million from our funds of funds and \$1.1 million in net investment losses and carried interest from our sponsored debt funds.

Net investment gains of \$4.1 million from two of our managed co-investment funds.

Minority interest in net income of consolidated affiliates of \$10.5 million for the three months ended September 30, 2007 was primarily attributable to the following:

Noninterest income of \$12.4 million, primarily related to investment gains from our consolidated funds, particularly related to investment gains from two of our managed funds of funds of \$11.2 million.

Noninterest expense of \$2.7 million primarily related to management fees paid by our managed funds to the general partners at SVB Capital for funds management.

Minority interest in net loss of consolidated affiliates was \$7.4 million for the nine months ended September 30, 2008, compared to minority interest in net income of \$26.6 million for the comparable 2007 period. Minority interest in net loss of consolidated affiliates of \$7.4 million for the nine months ended September 30, 2008 was primarily attributable to noninterest expense of \$8.1 million, primarily related to management fees paid by our managed funds. Minority interest in net income of consolidated affiliates of \$26.6 million for the nine months ended September 30, 2007 was primarily attributable to the following:

Noninterest income of \$31.0 million, largely related to investment gains from our consolidated funds, particularly related to investment gains from three of our managed funds of funds and two of our sponsored debt funds, partially offset by net losses from one of our managed co-investment funds.

Noninterest expense of \$8.2 million primarily related to management fees paid by our managed funds.

***Income Taxes***

Our effective tax rate was 39.25 percent for the three months ended September 30, 2008, compared to 40.60 percent for the comparable 2007 period. The decrease in the tax rate was primarily attributable to the effect of more tax-advantaged investments on our overall pre-tax income.

Our effective tax rate was 40.90 percent for the nine months ended September 30, 2008, compared to 40.95 percent for the comparable 2007 period. The decrease in the tax rate was primarily attributable to the tax impact of lower non-deductible share-based compensation expense and the effect of more tax-advantaged investments on our overall pre-tax income, partially offset by an increase in the tax rate from the \$3.9 million non-tax deductible loss related to our cash settlement of the early conversion of certain of our 2003 Convertible Notes.

At September 30, 2008, the total amount of unrecognized tax benefits was \$0.3 million, the recognition of which would reduce our income tax expense by \$0.3 million. At January 1, 2008, the total amount of unrecognized tax benefits was \$1.1 million, the recognition of which would have reduced our income tax expense by \$0.3 million. The decrease in the amount of unrecognized tax

**Table of Contents**

benefits was due to the expiration of the applicable statute of limitations for income tax exposures in California and Maryland. Total accrued interest and penalties at September 30, 2008 were \$0.2 million.

**Operating Segment Results**

We have three operating segments in which we report our financial information: Commercial Banking, SVB Capital and Other Business Services.

In July 2007, we reached a decision to cease operations at SVB Alliant, our investment banking subsidiary, which provided advisory services in the areas of mergers and acquisitions, corporate finance, strategic alliances and private placements. We elected to have SVB Alliant complete a limited number of client transactions before finalizing its shut-down. As of March 31, 2008, all such client transactions had been completed, and all operations at SVB Alliant were ceased. Accordingly, SVB Alliant was no longer reported as an operating segment as of the second quarter of 2008. The results of operations for SVB Alliant have been included as part of the Reconciling Items column for the current as well as all prior periods presented.

In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, we report segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. Please refer to the discussion of our segment organization in Note 13 (Segment Reporting) of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 in this report.

Our primary source of revenue is from net interest income, which is primarily the difference between interest earned on loans, net of funds transfer pricing, and interest paid on deposits, net of funds transfer pricing. Accordingly, our segments are reported using net interest income, net of funds transfer pricing (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, effective January 1, 2008. Prior to January 1, 2008, FTP was calculated at an instrument level based on account characteristics.

We also evaluate performance based on 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. We are in the process of reviewing our allocation methodology and we may make changes to it in future periods. As part of this review, effective January 1, 2008, we began allocating certain corporate overhead costs to a corporate account. Prior to January 1, 2008, all overhead and support costs were allocated to the operating segments. Additionally, also effective January 1, 2008 we include our actual accrued incentive compensation expense at the segment level. Prior to January 1, 2008 we recorded the budgeted incentive compensation expense for each segment as its actual and any differences between segment budget and actual for incentive compensation was recorded in the Reconciling Items column. See additional discussion below under Reconciliation of Segment and Consolidated Non Interest Expense.

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. Total average assets equals total average assets from the general ledger effective January 1, 2008. Prior to January 1, 2008, total average assets were calculated as the greater of total average assets or total average deposits and total average stockholder's equity combined.

The following is our segment information for the three and nine months ended September 30, 2008 and 2007, respectively. We have reclassified all prior period amounts to conform to the current period's presentation.

**Commercial Banking**

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Net interest income	\$ 79,475	\$ 86,333	(7.9)%	\$ 236,932	\$ 251,173	(5.7)%
Noninterest income	35,154	29,676	18.5	101,930	82,861	23.0
Noninterest expense	(25,711)	(22,853)	12.5	(76,039)	(71,088)	7.0

Edgar Filing: SVB FINANCIAL GROUP - Form 10-Q

Income before income tax expense	\$ 88,918	\$ 93,156	(4.5)	\$ 262,823	\$ 262,946	(0.0)
Total average loans	\$ 3,814,736	\$ 2,798,173	36.3	\$ 3,421,455	\$ 2,577,989	32.7
Total average assets	3,848,441	2,822,026	36.4	3,457,107	2,593,091	33.3
Total average deposits	\$ 4,415,124	\$ 3,694,164	19.5%	\$ 4,213,261	\$ 3,626,022	16.2%

*Three months ended September 30, 2008 and 2007*

Net interest income from the Commercial Bank ( CB ) decreased by \$6.8 million to \$79.5 million for the three months ended September 30, 2008, compared to \$86.3 million for the comparable 2007 period, primarily related to a decrease in earnings credit received on deposit products, partially offset by an increase in interest income from the CB s loan portfolio. The decrease in interest

---

**Table of Contents**

income from earnings credit received on deposits was primarily related to decreases in short-term market interest rates, partially offset by increased volumes of deposits, primarily from our money market deposit product for early stage clients introduced in May 2007 and our sweep deposit product introduced in late October 2007. The increase in interest income from the CB's loan portfolio was primarily due to decreases in the earnings charge incurred by the CB for funded loans and growth in the CB's loan portfolio, partially offset by a decrease in our average base Prime lending rate to 5.00 percent for the three months ended September 30, 2008, compared to 8.19 percent the comparable 2007 period.

Noninterest income increased by \$5.5 million to \$35.2 million for the three months ended September 30, 2008, compared to \$29.7 million for the comparable 2007 period, primarily related to fee income growth, largely driven by a \$2.1 million increase in deposit service charges and a \$1.9 million increase in foreign exchange fees. The increase in deposit service charges was primarily attributable to a decrease in the earnings credit rate obtained by clients to offset deposit service changes, which was primarily related to decreases in short-term market interest rates. The increase in foreign exchange fees was primarily due to increased client awareness of these products through our continued marketing efforts, as well as the positive impact of recent market volatility.

Noninterest expense increased by \$2.8 million to \$25.7 million for the three months ended September 30, 2008, compared to \$22.9 million for the comparable 2007 period. The increase in noninterest expense was primarily related to an increase in compensation and benefits expense of \$3.2 million, partially offset by a decrease in net occupancy expense of \$0.6 million. The increase in compensation and benefits expense was primarily a result of a \$1.1 million increase in our incentive compensation plan expense and a \$2.0 million increase in salaries and wages expense related to an increase in the average number of FTE employees within the CB, which increased to 498 for the three months ended September 30, 2008, compared to 475 for the comparable 2007 period. The decrease in net occupancy expenses was primarily attributable to increased amortization of leasehold improvements in the third quarter of 2007 due to a change in the remaining lease term of certain domestic leases.

*Nine months ended September 30, 2008 and 2007*

The CB's net interest income decreased by \$14.3 million to \$236.9 million for the nine months ended September 30, 2008, compared to \$251.2 million for the comparable 2007 period, primarily related to a decrease in interest income from earnings credit received on deposit products, partially offset by an increase in interest income from the CB's loan portfolio. The decrease in interest income from earnings credit received on deposits was primarily related to decreases in short-term market interest rates, partially offset by increased volumes of deposits, primarily from our money market deposit product for early stage clients introduced in May 2007 and our sweep deposit product introduced in late October 2007. The increase in interest income from the CB's loan portfolio was primarily due to decreases in the earnings charge incurred by the CB for funded loans and growth in the CB's loan portfolio, partially offset by a decrease in our average base Prime lending rate to 5.44 percent for the nine months ended September 30, 2008, compared to 8.23 percent for the comparable 2007 period.

Noninterest income increased by \$19.0 million to \$101.9 million for the nine months ended September 30, 2008, compared to \$82.9 million for the comparable 2007 period, primarily related to fee income growth, largely driven by a \$7.1 million increase in deposit service charges, a \$6.7 million increase in foreign exchange fees and a \$3.2 million increase in client investment fees. The increase in deposit service charges was primarily attributable to a decrease in the earnings credit rate obtained by clients to offset deposit service changes, which was primarily related to decreases in short-term market interest rates. The increase in foreign exchange fees was primarily due to higher volumes of transactions. The increase in client investment fees was primarily attributable to the growth in average client investment funds, particularly from an increase in funds from our later-stage technology clients, as well as an increase in funds from our private equity clients. This increase was partially offset by lower margins earned on repurchase agreements. In addition, we continue to face challenges in growing off-balance sheet funds due to the success of our new on-balance sheet deposit products, as well as the significant decline of IPO's.

Noninterest expense increased by \$4.9 million to \$76.0 million for the nine months ended September 30, 2008, compared to \$71.1 million for the comparable 2007 period, primarily related to an increase in compensation and benefits expense of \$7.5 million, partially offset by a decrease in net occupancy expense of \$1.9 million primarily due to lease exit costs recognized in the second quarter of 2007. The increase in compensation and benefits expense was primarily a result of a \$4.7 million increase in salaries and wages expense related to an increase in the average number of FTE employees at CB, which increased to 490 for the nine months ended September 30, 2008, compared to 467 for the comparable 2007 period, and a \$2.9 million increase in our incentive compensation plan expense.



**Table of Contents***SVB Capital*

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Net interest income	\$ 4	\$ 166	(97.6)%	\$ 155	\$ 531	(70.8)%
Noninterest income	1,417	5,542	(74.4)	4,157	16,647	(75.0)
Noninterest expense	(6,055)	(1,756)	244.8	(15,610)	(8,357)	86.8
(Loss) income before income tax expense	\$ (4,634)	\$ 3,952	(217.3)	\$ (11,298)	\$ 8,821	(228.1)
Total average assets	\$ 417,630	\$ 314,043	33.0%	\$ 387,241	\$ 278,598	39.0%

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

We experience variability in the performance of SVB Capital from quarter to quarter due to a number of factors, including changes in the values of our funds' investments, changes in the amount of distributions and general economic and market conditions. Such variability may lead to volatility in the gains (losses) from investment securities and gains (losses) from derivative instruments and cause our results for a particular period not to be indicative of future performance. The valuation of our consolidated investment funds continues to be affected by a more discerning venture capital environment, a further softening of M&A activity among our portfolio companies in the third quarter of 2008, and a significant decline in IPO's in 2008.

*Three months ended September 30, 2008 and 2007*

Noninterest income decreased by \$4.1 million to \$1.4 million for the three months ended September 30, 2008, compared to \$5.5 million for the comparable 2007 period, primarily related to net losses on investment securities for the three months ended September 30, 2008, compared to net gains on investment securities for the comparable 2007 period.

Net losses on investment securities totaled \$0.9 million for the three months ended September 30, 2008, compared to net gains of \$3.4 million for the comparable 2007 period. The net losses on investment securities of \$0.9 million for the three months ended September 30, 2008 were primarily related to net losses of \$0.6 million from our sponsored debt funds mainly attributable to decreases in the share prices of certain investments within one of our sponsored debt funds and net losses of \$0.8 million from our SVB Financial private equity fund investments primarily from impairments. The net losses were partially offset by unrealized gains from our managed direct co-investment funds of \$0.5 million primarily related to higher valuations in the funds' portfolio companies. The net gains of \$3.4 million for the three months ended September 30, 2007 were primarily related to \$1.8 million of net increases in the fair value of investments from two of our sponsored debt funds and net gains of \$1.2 million from two of our managed funds of funds primarily related to net increases in fair values of fund investments and realized gains from distributions. Net gains on derivative instruments were \$0.1 million for the three months ended September 30, 2008, compared to net gains of \$0.8 million for the comparable 2007 period.

We received fund management fees of \$2.2 million and \$1.9 million for the three months ended September 30, 2008 and 2007, respectively. The increase in fund management fees was primarily from the closing of an additional managed fund of funds in the SVB Strategic Investors Fund family towards the end of the second quarter of 2008.

Noninterest expense increased by \$4.3 million to \$6.1 million for the three months ended September 30, 2008, compared to \$1.8 million for the comparable 2007 period, primarily related to an increase in compensation and benefits expense and an increase in expenses related to professional services. The increase in compensation and benefits expense was primarily a result of growth in the number of average FTE employees at SVB Capital, which increased to 43 for the three months ended September 30, 2008, compared to 24 for the comparable 2007 period.

*Nine months ended September 30, 2008 and 2007*

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

Noninterest income decreased by \$12.4 million to \$4.2 million for the nine months ended September 30, 2008, compared to \$16.6 million for the comparable 2007 period, primarily related to net losses on investment securities for the nine months ended September 30, 2008, compared to net gains on investment securities for the comparable 2007 period.

Net losses on investment securities totaled \$2.2 million for the nine months ended September 30, 2008, compared to net gains of \$8.9 million for the comparable 2007 period. The net losses on investment securities of \$2.2 million for the nine months ended September 30, 2008 were primarily related to net losses of \$3.2 million primarily from valuations at one of our sponsored debt funds mainly attributable to decreases in the share price of certain investments and net losses of \$1.1 million from our SVB Financial private equity fund investments primarily from impairments. The net losses were partially offset by net gains of \$1.7 million from our managed funds, primarily due to realized gains from distributions.

**Table of Contents**

The net gains of \$8.9 million for the nine months ended September 30, 2007 were primarily related to \$5.7 million of gains from our sponsored debt funds and \$2.6 million of net gains from two of our managed funds of funds, primarily related to net increases in the fair value of fund investments and realized gains from distributions. Net gains on derivative instruments were \$0.2 million for the nine months ended September 30, 2008, compared to \$1.0 million for the comparable 2007 period.

We received fund management fees of \$6.1 million and \$6.6 million for the nine months ended September 30, 2008 and 2007, respectively. The decrease in 2008 compared to 2007 was primarily due to closes of three of our managed funds during the second quarter of 2007 which resulted in additional management fees from the new limited partners for the nine months ended September 30, 2007.

Noninterest expense increased by \$7.2 million to \$15.6 million for the nine months ended September 30, 2008, compared to \$8.4 million for the comparable 2007 period, primarily related to an increase in compensation and benefits expense. The increase in compensation and benefits expense was primarily a result of growth in the number of average FTE employees at SVB Capital, which increased to 39 for the nine months ended September 30, 2008, compared to 22 for the comparable 2007 period.

*Other Business Services*

Our Other Business Services group includes SVB Private Client Services, SVB Global, SVB Analytics, and SVB Wine Division.

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
Net interest income	\$ 10,438	\$ 8,201	27.3%	\$ 31,052	\$ 24,945	24.5%
Noninterest income	2,783	2,525	10.2	8,231	5,442	51.2
Noninterest expense	(10,897)	(7,856)	38.7	(31,744)	(23,967)	32.4
Income before income tax expense	\$ 2,324	\$ 2,870	(19.0)	\$ 7,539	\$ 6,420	17.4
Total average loans	\$ 1,003,243	\$ 800,818	25.3	\$ 937,289	\$ 798,907	17.3
Total average assets	1,035,262	822,954	25.8	966,824	820,455	17.8
Total average deposits	400,058	236,710	69.0	423,794	248,264	70.7
Goodwill	\$ 4,092	\$ 4,092	%	\$ 4,092	\$ 4,092	%
<u>Net Interest Income</u> <u>Other Business Services</u>						

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
SVB Private Client Services	\$ 3,681	\$ 3,603	2.2%	\$ 11,185	\$ 10,735	4.2%
SVB Global	3,298	1,728	90.9	9,143	5,598	63.3
SVB Analytics	(30)	(36)	(16.7)	(108)	(107)	0.9
SVB Wine Division	3,489	2,906	20.1	10,832	8,719	24.2
Total Other Business Services	\$ 10,438	\$ 8,201	27.3%	\$ 31,052	\$ 24,945	24.5%

*Three and nine months ended September 30, 2008 and 2007*

The increases in net interest income of \$2.2 million and \$6.2 million to \$10.4 million and \$31.1 million for the three and nine months ended September 30, 2008, respectively, compared to \$8.2 million and \$24.9 million for the comparable 2007 periods, were primarily due to increases from SVB Global and SVB Wine Division. The increases in net interest income for SVB Global were primarily due to our increased focus on serving our international venture fund clients, which resulted in an increase in average deposit balances. The increase in net interest income for SVB Wine Division was primarily due to decreases in the earnings charge incurred by SVB Wine Division for funded loans, primarily related to decreases in short-term market interest rates.



**Table of Contents**Noninterest Income – Other Business Services

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
SVB Private Client Services	\$ 176	\$ 272	(35.3)%	\$ 642	\$ 741	(13.4)%
SVB Global	531	564	(5.9)	1,369	1,054	29.9
SVB Analytics	1,874	1,500	24.9	5,646	3,056	84.8
SVB Wine Division	202	189	6.9	574	591	(2.9)
<b>Total Other Business Services</b>	<b>\$ 2,783</b>	<b>\$ 2,525</b>	<b>10.2%</b>	<b>\$ 8,231</b>	<b>\$ 5,442</b>	<b>51.2%</b>

*Three and nine months ended September 30, 2008 and 2007*

The increases in noninterest income of \$0.3 million and \$2.8 million to \$2.8 million and \$8.2 million for the three and nine months ended September 30, 2008, respectively, compared to \$2.5 million and \$5.4 million for the comparable 2007 periods, were primarily due to increases from SVB Analytics. SVB Analytics' revenues increased by \$0.4 million and \$2.5 million to \$1.9 million and \$5.6 million for the three and nine months ended September 30, 2008, respectively, compared to \$1.5 million and \$3.1 million for the comparable 2007 periods, primarily as a result of an increase in the number of clients. The number of clients (for SVB Analytics only) increased to 210 and 604 for the three and nine months ended September 30, 2008, compared to 148 and 260 for the comparable 2007 periods.

Noninterest Expense – Other Business Services

(Dollars in thousands)	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	% Change	2008	2007	% Change
SVB Private Client Services	\$ 2,440	\$ 1,363	79.0%	\$ 7,691	\$ 5,958	29.1%
SVB Global	4,371	2,754	58.7	12,723	8,110	56.9
SVB Analytics	2,807	2,635	6.5	7,465	6,076	22.9
SVB Wine Division	1,279	1,104	15.9	3,865	3,823	1.1
<b>Total Other Business Services</b>	<b>\$ 10,897</b>	<b>\$ 7,856</b>	<b>38.7%</b>	<b>\$ 31,744</b>	<b>\$ 23,967</b>	<b>32.4%</b>

*Three and nine months ended September 30, 2008 and 2007*

The increases in noninterest expense of \$3.0 million and \$7.7 million to \$10.9 million and \$31.7 million for the three and nine months ended September 30, 2008, respectively, compared to \$7.9 million and \$24.0 million for the comparable 2007 periods were primarily due to increases for SVB Private Client Services, SVB Global and SVB Analytics. The increase in SVB Private Client Services expense was primarily related to the establishment of the SVB Private Equity Relationship group. The increase in SVB Global's expense was primarily related to an increase in allocated compensation and benefits expense as a result of our focus on global initiatives, as well as an increase the average number of FTE employees, which increased to 29 and 26 for the three and nine months ended September 30, 2008, compared to 24 and 23 for the comparable 2007 periods. The increase in SVB Analytics' expense was a result of continued growth in this business.

*Reconciliation of Segment and Consolidated Company Noninterest Expense*

At the consolidated company level, for the three and nine months ended September 30, 2008 compared to the same periods in 2007, the Company's reported compensation and benefits costs decreased (see discussion above under Noninterest Expense – Compensation and Benefits). However, within our business segments, as discussed above, we noted that noninterest expense increased for the three and nine months ended September 30, 2008 when compared to the comparable periods in 2007 due principally to increases in compensation and benefits expense.

The primary drivers for the overall, Company level decrease in compensation and benefits expense from 2007 to 2008 was the result of the following factors which under our management reporting do not get recorded at the business segment level but instead are recorded at the administrative / corporate level and are included in the Reconciling Items column above.

Results for the three and nine months ended September 30, 2007 included the compensation and benefits expense related to Alliant, our former investment banking unit that we shut down in March 2008. Total noninterest expense related to Alliant for the three and nine months ended September 30, 2007 was \$5.6 million and \$33.3 million respectively.

Incentive compensation in 2007 was significantly higher relative to the 2007 budget as the Company's performance substantially exceeded expected targets for incentive compensation plans. However, the 2008 incentive compensation and benefits expense is lower relative to 2007 due to the 2008 Company performance not exceeding targets for incentive compensation plans at the same levels as in 2007.

Additionally, for 2007, we recorded the difference between budget and actual amounts of incentive compensation for all segments in the Reconciling Items column. These amounts were \$6.1 million and \$9.1 million for the three and nine months ended September 30, 2007 respectively.

The above decreases were partially offset by increases in the number of employees to support our growth and annual salary increases in 2008 compared to 2007.

#### **Consolidated Financial Condition SVB Financial Group and Subsidiaries**

Our total assets were \$8.07 billion at September 30, 2008, an increase of \$1.38 billion, or 20.6 percent, compared to \$6.69 billion at December 31, 2007.

#### ***Securities Purchased Under Agreements to Resell and Other Short-Term Investments***

Interest earning deposits, securities purchased under agreements to resell and other short-term investments totaled \$379.1 million at September 30, 2008, an increase of \$20.4 million, or 5.7 percent, compared to \$358.7 million at December 31, 2007. The increase was primarily due to increased levels of money market mutual funds of \$64.5 million, securities purchased under agreements to resell of \$24.8 million and interest bearing deposits of \$6.5 million, partially offset by lower levels of short-term agency discount notes of \$75.4 million.

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

Investment securities totaled \$1.78 billion at September 30, 2008, an increase of \$177.4 million, or 11.1 percent, compared to \$1.60 billion at December 31, 2007. The increase in investment securities was primarily related to increases in our non-marketable securities, mainly due to continued investments by SVB Capital and increases in the balances of our marketable securities, particularly our mortgage-backed securities and collateralized mortgage obligations.

**Table of Contents***Marketable Securities*

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

Our fixed income investment portfolio is managed to maximize portfolio yield over the long-term in a manner consistent with our liquidity, credit diversification and asset/liability strategies. All securities in our fixed income investment portfolio are currently held as available-for-sale. Available-for-sale securities were \$1.34 billion at September 30, 2008, an increase of \$79.7 million, or 6.3 percent, compared to \$1.26 billion at December 31, 2007. The increase was primarily related to a \$74.8 million increase in our mortgage-backed securities, a \$46.4 million increase in our collateralized mortgage obligations and a \$23.8 million increase in our non-taxable investment securities, partially offset by a \$39.7 million decrease in our U.S. agency securities and a \$10.1 million decrease in our U.S. treasury securities, primarily due to scheduled maturities and paydowns. The duration of our fixed income investment portfolio increased to 2.5 years at September 30, 2008, compared to 2.3 years at December 31, 2007. Changes in portfolio duration are impacted by the effect of changing interest rates on mortgage-backed securities and collateralized mortgage obligations as well as changes in the mix of longer versus shorter term to maturity securities. A relative increase in mortgage-backed securities and collateralized mortgage obligations versus other portfolio securities and an increase in longer-term municipal bonds relative to holdings in shorter-term US Treasury and Agency bonds contributed to the increase in portfolio duration.

Marketable securities accounted for under investment company accounting represents investments managed by SVB Capital that were originally made within our non-marketable securities portfolio and have been converted into publicly-traded shares. Marketable securities were \$2.3 million at September 30, 2008, a decrease of \$1.3 million, or 36.1 percent, compared to \$3.6 million at December 31, 2007.

*Non-Marketable Securities*

Non-marketable securities primarily represent investments managed by SVB Capital as part of our investment funds management business and include funds of funds, co-investment funds and sponsored debt funds, as well as direct equity and fund investments. Non-marketable securities were \$438.9 million (\$152.9 million net of minority interests) at September 30, 2008, an increase of \$99.0 million, or 29.1 percent, compared to \$339.9 million (\$115.7 million net of minority interests) at December 31, 2007. The increase of \$99.0 million was primarily related to a \$37.2 million increase in private equity fund investments accounted for using investment company fair value accounting, a \$34.8 million increase in other private equity investments accounted for using investment company fair value accounting, and a \$26.2 million increase in private equity fund investments accounted for using cost method accounting. The increase of \$37.2 million in private equity fund investments was due to additional investments made by each of our managed funds, with particular growth in SVB Strategic Investors Fund III, LP. The increase of \$34.8 million in other private equity investments related primarily to additional investments from SVB Capital Partners II, LP. The increase of \$26.2 million in private equity fund investments related primarily to additional contributions to SVB Financial's direct investment in private equity funds. These increases were partially offset by a decrease of \$9.8 million in other investments accounted for using investment company fair value accounting related primarily to lower valuations and from the conversion of certain loan investments into marketable securities from one of our sponsored debt funds.

*Loans*

Loans, net of unearned income were \$5.29 billion at September 30, 2008, an increase of \$1.14 billion, or 27.5 percent, compared to \$4.15 billion at December 31, 2007. Unearned income was \$38.2 million at September 30, 2008, an increase of \$11.8 million, or 44.7 percent, compared to \$26.4 million at December 31, 2007. The majority of our loans are commercial in nature. Total gross loans were \$5.32 billion at September 30, 2008, an increase of \$1.14 billion, or 27.3 percent, compared to \$4.18 billion at December 31, 2007. The breakdown of total gross loans by industry sector is as follows:

Industry Sector (Dollars in thousands)	September 30, 2008		December 31, 2007	
	Amount	Percentage	Amount	Percentage
Technology (1)	\$ 2,477,221	46.5%	\$ 1,948,925	46.6%
Private Equity	1,111,047	20.9	773,932	18.5
Life Sciences (1)	539,190	10.1	407,856	9.8
Private Client Services	516,950	9.7	402,563	9.6
Premium Wine	403,208	7.6	375,562	9.0
All Other Sectors	275,707	5.2	269,260	6.5

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

Total Gross Loans	\$ 5,323,323	100.0%	\$ 4,178,098	100.0%
-------------------	--------------	--------	--------------	--------

- (1) Included in the technology and life science niches are loans provided to emerging growth clients, which represent approximately 11 percent of total gross loans at September 30, 2008, compared to 14 percent at December 31, 2007.



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

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

(Dollars in thousands)	September 30, 2008	December 31, 2007
<b>Nonperforming loans:</b>		
Loans past due 90 days or more	\$ 247	\$
Nonaccrual loans	9,140	7,634
<b>Total nonperforming loans</b>	<b>9,387</b>	<b>7,634</b>
<b>OREO</b>	<b>1,385</b>	<b>1,908</b>
<b>Total nonperforming assets</b>	<b>\$ 10,772</b>	<b>\$ 9,542</b>
Nonperforming loans as a percentage of total gross loans	0.18%	0.18%
Nonperforming assets as a percentage of total assets	0.13%	0.14%
Allowance for loan losses	\$ 60,290	\$ 47,293
As a percentage of total gross loans	1.13%	1.13%
As a percentage of nonperforming loans	642.27%	619.50%
Reserve for unfunded credit commitments (1)	\$ 13,091	\$ 13,446

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

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

A summary of accrued interest receivable and other assets at September 30, 2008 and December 31, 2007 is as follows:

(Dollars in thousands)	September 30, 2008	December 31, 2007	% Change
Derivative assets, gross (1)	\$ 82,344	\$ 65,598	25.5%
Deferred tax assets and income tax receivable, net	67,142	69,026	(2.7)
Accrued interest receivable	36,354	30,624	18.7
FHLB and FRB stock	33,379	27,210	22.7
OREO	1,385	1,908	(27.4)
Other	56,518	64,296	(12.1)
<b>Total accrued interest receivable and other assets</b>	<b>\$ 277,122</b>	<b>\$ 258,662</b>	<b>7.1%</b>

(1) See Derivatives, Net section below.

***Accrued Interest Receivable***

Accrued interest receivable consists of interest on investment securities and loans. The increase of \$5.8 million from December 31, 2007 was primarily due to an increase in interest receivable on loans due to growth in our loan portfolio.

*Federal Home Loan Bank ( FHLB ) and Federal Reserve Bank ( FRB ) Stock*

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

Our FHLB and FRB stock are restricted, as we are required to hold shares of FHLB and FRB stock under the Bank's borrowing agreements. We had \$23.5 million and \$17.9 million in FHLB stock at September 30, 2008 and December 31, 2007, respectively, and \$9.9 million and \$9.3 million in FRB stock at September 30, 2008 and December 31, 2007, respectively. The increase in FHLB stock was due to higher capital stock requirements at the Federal Home Loan Bank.

**Table of Contents****Derivatives, Net**

Derivative instruments are recorded as a component of other assets and other liabilities on the balance sheet. The following table provides a summary of derivative assets (liabilities), net at September 30, 2008 and December 31, 2007:

(Dollars in thousands)	September 30, 2008	December 31, 2007	% Change
<b>Assets (liabilities):</b>			
Equity warrant assets	\$ 39,054	\$ 31,317	24.7%
Interest rate swaps assets	28,199	21,499	31.2
Interest rate swaps liabilities	(847)	(1,304)	(35.0)
Foreign exchange forward and option contracts assets	15,091	12,782	18.1
Foreign exchange forward and option contracts liabilities	(10,797)	(11,196)	(3.6)
Covered call options liabilities (1)	(1)		
 Total derivatives, net	 \$ 70,699	 \$ 53,098	 33.1%

(1) Represents covered call options held by one of our sponsored debt funds.

**Equity Warrant Assets**

As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of equity warrant assets in certain client companies. The change in fair value of equity warrant assets is recorded in gains on derivatives instruments, net, in noninterest income, a component of consolidated net income. The following table provides a summary of transactions and valuation changes for equity warrant assets for the three and nine months ended September 30, 2008 and 2007, respectively:

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Balance, beginning of period	\$ 36,463	\$ 35,536	\$ 31,317	\$ 37,725
New equity warrant assets	2,646	1,932	7,409	5,291
Non-cash increases in fair value	1,265	2,043	4,523	5,640
Exercised equity warrant assets	(370)	(3,109)	(2,300)	(10,787)
Terminated equity warrant assets	(950)	(514)	(1,895)	(1,981)
 Balance, end of period	 \$ 39,054	 \$ 35,888	 \$ 39,054	 \$ 35,888

**Interest Rate Swaps**

Concurrent with the issuance of \$250.0 million in 5.70% senior notes and \$250.0 million in 6.05% subordinated notes in May 2007, we entered into interest rate swap agreements, whereby we swapped the fixed interest rate of the notes with a variable interest rate based on LIBOR to hedge against the risk of changes in fair values due to changes in interest rates. The interest rate swap agreement for the senior notes provided a cash benefit of \$1.5 million and \$3.1 million for the three and nine months ended September 30, 2008, respectively, compared to interest expense of \$0.3 million and \$0.4 million for the comparable 2007 periods. The interest rate swap agreement for the subordinated notes provided a cash benefit of \$1.6 million and \$3.3 million for the three and nine months ended September 30, 2008, respectively, compared to interest expense of \$0.2 million and \$0.3 million for the comparable 2007 periods. The cash benefits for the senior and subordinated notes were recognized in the consolidated statements of income as a reduction in interest expense.

The interest rate swap agreement related to our 7.0% junior subordinated debentures provided a cash benefit of \$0.4 million and \$0.9 million for the three and nine months ended September 30, 2008, respectively, compared to \$39 thousand and \$0.1 million for the comparable 2007 periods. The cash benefit was recognized in the consolidated statements of income as a reduction in interest expense. For the three and nine months ended September 30, 2008, we recorded a net loss resulting from a non-cash decrease in fair value of the hedge agreement of \$10 thousand and a

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

net gain resulting from a non-cash increase in fair value of the hedge agreement of \$0.4 million, respectively, which was reflected in gains on derivative instruments, net. For the three and nine months ended September 30, 2007, we recorded net losses resulting from non-cash decreases in fair value of the hedge agreement of \$0.3 million and \$0.1 million, respectively, which were reflected in gains on derivative instruments, net.

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

At September 30, 2008 and December 31, 2007, the aggregate notional amounts of our foreign exchange forward contracts were \$576.3 million and \$580.9 million, respectively. Our maximum credit risk for counterparty nonperformance for foreign exchange

---

## **Table of Contents**

forward contracts with both clients and correspondent banks at September 30, 2008 and December 31, 2007 amounted to \$14.8 million and \$12.3 million, respectively.

At September 30, 2008 and December 31, 2007, the aggregate notional amounts of our foreign currency option contracts totaled \$9.4 million and \$63.9 million, respectively. Our maximum credit risk to nonperformance of counterparties at September 30, 2008 and December 31, 2007 was \$0.3 million and \$0.5 million, respectively.

### *Convertible Note Hedges*

#### **2003 Convertible Notes**

Concurrent with the issuance of our 2003 Convertible Notes, we entered into a convertible note hedge agreement (purchased call option) at a cost of \$39.3 million, and a warrant agreement providing proceeds of \$17.4 million with respect to our common stock, with the objective of decreasing our exposure to potential dilution from conversion of the 2003 Convertible Notes.

At issuance, under the terms of the convertible note hedge, upon the occurrence of conversion events, we had the right to purchase up to 4,460,610 shares of our common stock from the counterparty at a price of \$33.6277 per common share. The cost of the convertible note hedge was included in stockholders' equity in accordance with the guidance in Emerging Issues Task Force (EITF) 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's own Stock* (EITF 00-19). Upon maturity of the 2003 Convertible Notes on June 15, 2008, we exercised the right to purchase 1,406,043 shares under the terms of the convertible note hedge agreement. The convertible note hedge agreement expired on June 15, 2008.

At issuance, under the warrant agreement, the counterparty could purchase up to 4,460,608 shares of our common stock at \$51.34 per share, upon the occurrence of conversion events. The remaining warrants under the warrant agreement expired unexercised on June 15, 2008.

#### **2008 Convertible Notes**

Concurrent with the issuance of the 2008 Convertible Notes, we entered into a convertible note hedge agreement (purchased call option) at a cost of \$41.8 million, and a warrant agreement providing proceeds of \$21.2 million with respect to our common stock, with the objective of decreasing our exposure to potential dilution from conversion of the 2008 Convertible Notes.

At issuance, under the terms of the convertible note hedge, upon the occurrence of conversion events, we have the right to purchase up to 4,713,125 shares of our common stock from the counterparty at a price of \$53.04 per common share. The convertible note hedge agreement will expire on April 15, 2011. We have the option to settle any amounts due under the convertible note hedge either in cash or net shares of our common stock. The cost of the convertible note hedge is included in stockholders' equity in accordance with the guidance in EITF 00-19. The call option under the convertible note hedge is exercisable in the event of a note conversion. For the three months ended September 30, 2008, there were no note conversions and, consequently, no exercises under the call option.

At issuance, under the warrant agreement, the counterparty can purchase up to 4,713,125 shares of our common stock at \$64.43 per share, upon the occurrence of the conversion events referenced above. The warrant transaction will expire ratably on a series of expiration dates commencing on July 15, 2011. The warrant is exercisable in the event of a note conversion. For the three months ended September 30, 2008, there were no note conversions and, consequently, no exercises under the warrant.

### *Deposits*

Deposits were \$5.43 billion at September 30, 2008, an increase of \$821.4 million, or 17.8 percent, compared to \$4.61 billion at December 31, 2007. The increase in our deposit balance was primarily due to increases in balances of all our interest-bearing deposits, with particular growth in our sweep deposit product introduced in October 2007 and our money market deposit product for early stage clients introduced in May 2007, partially offset by a decrease in our noninterest-bearing demand deposits. Our sweep deposit product increased by \$350.4 million to \$422.5 million at September 30, 2008, compared to \$72.1 million at December 31, 2007. Our money market deposit product for early stage clients increased by \$217.7 million to \$607.0 million at September 30, 2008, compared to \$389.3 million at December 31, 2007. At September 30, 2008, 40.5 percent of our total deposits were interest-bearing deposits, compared to 30.0 percent at December 31, 2007. We expect this percentage to increase as we continue to grow our interest-bearing deposits.

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

At September 30, 2008, the aggregate balance of time deposit accounts individually exceeding \$100,000, totaled \$336.0 million, compared to \$286.0 million at December 31, 2007. At September 30, 2008, substantially all time deposit accounts exceeding \$100,000 in balances were scheduled to mature within one year. No material portion of our deposits has been obtained from a single depositor and the loss of any one depositor would not materially affect our business.

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

At September 30, 2008 and December 31, 2007, we had short-term borrowings of \$425.0 million and \$90.0 million, respectively. Short-term borrowings include federal funds purchased and FHLB advances and have a remaining maturity of one year or less. The increase in short-term borrowings of \$335.0 million at September 30, 2008, compared to December 31, 2007 was primarily used to fund our loan growth.

*Long-Term Debt*

At September 30, 2008 and December 31, 2007, we had long-term debt of \$981.9 million and \$875.3 million, respectively. At September 30, 2008, long-term debt included FHLB advances, 5.70% senior and 6.05% subordinated notes, 2008 Convertible Notes, junior subordinated debentures, and other long-term debt. The increase in long-term debt of \$106.6 million at September 30, 2008, compared to December 31, 2007, was primarily attributable to the issuance of \$250 million of 2008 Convertible Notes in April 2008, partially offset by the maturity of our 2003 Convertible Notes on June 15, 2008. Please refer to the discussion of the issuance of our 2008 Convertible Notes and the settlement of our 2003 Convertible Notes in Note 9 (Short-Term Borrowings and Long-Term Debt) of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 in this report.

*Other Liabilities*

A summary of other liabilities at September 30, 2008 and December 31, 2007, respectively, is as follows:

(Dollars in thousands)	September 30, 2008	December 31, 2007	% Change
Accrued compensation	\$ 47,664	\$ 67,484	(29.4)%
Reserve for unfunded credit commitments	13,091	13,446	(2.6)
Derivative liabilities, gross (1)	11,645	12,500	(6.8)
Other	103,340	105,813	(2.3)
<b>Total other liabilities</b>	<b>\$ 175,740</b>	<b>\$ 199,243</b>	<b>(11.8)%</b>

(1) See Derivatives, Net section above.

*Accrued Compensation*

Accrued compensation primarily consists of accrued vacation, the Incentive Compensation Plan, Retention Program, ESOP, Direct Drive Incentive Compensation Plan, and the Warrant Incentive Plan. The decrease of \$19.8 million was primarily due to 2007 annual incentive compensation payouts received by employees in February 2008, partially offset by additional compensation accruals made in 2008. Additionally, our incentive compensation accruals as of September 30, 2008 are at lower levels compared to September 30, 2007.

*Minority Interest In Capital of Consolidated Affiliates*

Minority interest in capital of consolidated affiliates totaled \$325.0 million and \$240.1 million at September 30, 2008 and December 31, 2007, respectively. The increase of \$84.9 million was primarily due to equity transactions, which included \$97.4 million of contributed capital, primarily from investors in four of our managed funds for the purpose of investing in limited partnerships and portfolio companies, partially offset by \$5.0 million in distributions to the minority interest holders and \$7.4 million of net losses and carried interest from consolidated affiliates, primarily from our managed funds of funds and one of our sponsored debt funds.

**Capital Resources**

Our management seeks to maintain adequate capital to support anticipated asset growth, operating needs and credit risks, and to ensure that SVB Financial and the Bank are in compliance with all regulatory capital guidelines. Our primary sources of new capital include retained earnings and proceeds from the sale and issuance of common stock or other securities.

*Common Stock*

We repurchased 1.0 million shares totaling \$45.6 million for the nine months ended September 30, 2008, compared to 1.9 million shares totaling \$97.3 million for the comparable 2007 period. On July 24, 2008, our Board of Directors approved a stock repurchase program authorizing us to purchase up to \$150 million of our common stock, which expires on December 31, 2009.



**Table of Contents**

From time to time, we may implement a non-discretionary trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, under which we automatically repurchase shares of our common stock pursuant to a predetermined formula for a specified period of time.

As of close of business on November 1, 2008, \$150.0 million of our common stock remain authorized for repurchase under our common stock repurchase program. Given the challenges of the current capital markets environment and our plans for continued investment in our business to support future growth, we are inclined to retain our capital and maintain sufficient liquidity, and as a result, do not currently expect to repurchase shares at a level that is comparable to recent past quarters. We will continue to evaluate this position on an ongoing basis.

**Stockholders Equity**

Stockholders equity totaled \$730.7 million at September 30, 2008, an increase of \$54.0 million, or 8.0 percent, compared to \$676.7 million at December 31, 2007. This increase was primarily the result of net income and the issuance of stock options during the nine months ended September 30, 2008, partially offset by common stock repurchases and the net cost of the convertible note hedge and warrant agreement entered into concurrently with the issuance of our 2008 Convertible Notes. SVB Financial has not paid a cash dividend on our common stock since 1992 and, as of September 30, 2008, there were no plans for any payment of dividends.

Funds generated through retained earnings are a significant source of capital and liquidity and are expected to continue to be so in the future. Our management engages in a regular capital planning process in an effort to make effective use of the capital available to us. The capital plan considers capital needs for the foreseeable future and allocates capital to both existing and future business activities. Expected future activities for which capital may be set aside for include funding for loan growth, potential product and business expansions and strategic or infrastructure investments.

**Capital Ratios**

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

Both SVB Financial and the Bank's capital ratios were in excess of regulatory guidelines for a well-capitalized depository institution at September 30, 2008 and December 31, 2007. Capital ratios for SVB Financial and the Bank are set forth below:

	September 30, 2008	December 31, 2007
<b>SVB Financial:</b>		
Total risk-based capital ratio	14.25%	16.02%
Tier 1 risk-based capital ratio	9.94	11.07
Tier 1 leverage ratio	10.80%	11.91%
<b>Bank:</b>		
Total risk-based capital ratio	13.44%	14.51%
Tier 1 risk-based capital ratio	9.03	9.41
Tier 1 leverage ratio	10.04%	10.19%

The decrease in the total risk-based and Tier 1 capital ratios for SVB Financial at September 30, 2008, compared to December 31, 2007, was primarily due to favorable growth in loans relative to growth in lower risk-weighted assets in conjunction with accumulated share repurchase activity during the period. For the same period, relatively smaller decreases in the total risk-based and Tier 1 capital ratios for the Bank were affected by the same relative increases in risk-weighted assets but were beneficially offset by increases in retained earnings at the Bank. For both SVB Financial and the Bank, decreases in the Tier 1 leverage ratio were reflective of net changes in total and Tier 1 capital (inclusive of share repurchase activity and dividends paid from the Bank to the holding company) and higher average period end assets (driven by favorable loan growth) at September 30, 2008 compared to December 31, 2007.

**Off-Balance Sheet Arrangements**

In the normal course of business, we use financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commercial and standby letters of credit, credit card guarantees and commitments to

invest in private equity fund investments. These instruments involve, to varying degrees, elements of

**Table of Contents**

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. Please refer to the discussion of our off-balance sheet arrangements in Note 14 (Obligations under Guarantees) of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 in this report.

**Liquidity**

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

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

Historically, we have attracted a stable, low-cost deposit base, which has been our primary source of liquidity. From time to time, depending on market conditions, prevailing interest rates or our introduction of additional interest-bearing deposit products, our deposit levels and cost of deposits may fluctuate. We introduced an interest-bearing money market deposit product for early stage clients in the second quarter of 2007 and an interest-bearing sweep deposit product in late October 2007. We continue to expand on opportunities to increase our liquidity and take steps to carefully manage our liquidity.

We have increased our use of other sources of liquidity available to us, primarily our long-term indebtedness. Our long-term debt outstanding increased by \$126.5 million to \$981.9 million at September 30, 2008, compared to \$875.3 million at December 31, 2007, primarily due to the issuance of \$250.0 million in 3.875% convertible senior notes in April 2008. We used \$141.9 million of the net proceeds to settle the conversion of our zero-coupon convertible subordinated notes, which matured in June 2008. All of the remaining proceeds were used for general corporate purposes.

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

On a stand-alone basis, SVB Financial's primary liquidity channels include dividends from the Bank, its investment portfolio assets, cash and cash equivalents, and its ability to raise debt and capital. The ability of the Bank to pay dividends is subject to certain regulations described in Business Supervision and Regulation Restriction on Dividends under Part I, Item 1 of our 2007 Form 10-K.

**Consolidated Summary of Cash Flows**

Below is a summary of our average cash position and statement of cash flows for the nine months ended September 30, 2008 and 2007, respectively. Please refer to our Interim Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2008, and 2007 under Part I, Item 1 in this report.

(Dollars in thousands)	Nine months ended September 30,	
	2008	2007
Average cash and due from banks	\$ 256,343	\$ 276,202
Average federal funds sold, securities purchased under agreements to resell and other short-term investment securities	484,892	326,761
Average cash and cash equivalents	\$ 741,235	\$ 602,963
Percentage of total average assets	10.4%	10.2%

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

Net cash provided by operating activities	\$ 113,327	\$ 130,423
Net cash used for investing activities	(1,359,527)	(175,457)
Net cash provided by financing activities	1,314,735	71,568
 Net increase in cash and cash equivalents	 \$ 68,535	 \$ 26,534

Average cash and cash equivalents increased by \$138.2 million to \$741.2 million for the nine months ended September 30, 2008, compared to \$603.0 million for the comparable 2007 period, primarily to due to net proceeds of \$243.2 million from the issuance of our 2008 Convertible Notes in April 2008. We used \$141.9 million of the net proceeds to settle the conversion of our 2003 Convertible Notes, which matured on June 15, 2008.

---

**Table of Contents**

Cash provided by operating activities was \$113.3 million for the nine months ended September 30, 2008, which included net income of \$76.2 million. Significant adjustments for noncash items that increased cash provided by operating activities included \$29.8 million related to the provision for loan losses, \$18.6 million of depreciation and amortization, \$16.4 million related to deferred income tax benefits and \$10.9 million of share-based compensation amortization. Significant adjustments for noncash items that decreased cash provided by operating activities included \$7.4 million of minority interest in net losses of consolidated affiliates, \$6.9 million of net changes in the fair value of derivatives and \$6.1 million of amortization of deferred warrant-related loan fees. Additionally, cash provided by operating activities decreased by \$19.8 million primarily due to a decrease in accrued compensation related to annual incentive compensation payouts received by employees during the three months ended March 31, 2008.

Cash used for investing activities was \$1.36 billion for the nine months ended September 30, 2008. Net cash outflow was driven primarily by a net increase in loans of \$1.16 billion, purchases of available-for-sale securities of \$302.3 million, purchases of non-marketable securities of \$129.7 million and purchases of premises and equipment of \$6.0 million. Net cash inflows related primarily to proceeds from the sales, maturities and pay downs of available-for-sale securities of \$198.6 million, and non-marketable securities of \$31.0 million.

Cash provided by financing activities was \$1.31 billion for the nine months ended September 30, 2008. Net cash inflow was driven primarily by increases in deposits of \$821.4 million, increases in short-term borrowings of \$335.0 million, net proceeds of \$243.2 million from the issuance of our 2008 Convertible Notes, capital contributions, net of distributions, from minority interests of \$92.3 million and proceeds from the issuance of our common stock and Employee Stock Purchase Plan ( ESPP ) of \$29.8 million. Net cash outflows related primarily to the early conversion and final settlement of our 2003 Convertible Notes of \$149.7 million, common stock repurchases of \$45.6 million and the net cost of the convertible note hedge and warrant agreement related to our 2008 Convertible Notes of \$20.6 million.

***Other Considerations***

In October 2008, the U.S. Department of Treasury ( Treasury ) announced its Troubled Asset Relief Program ( TARP ) Capital Purchase Program (the CPP ) to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Under the CPP, Treasury intends to purchase up to \$250 billion of senior preferred shares and warrants to purchase common stock pursuant to certain standardized terms. The CPP is available to qualifying U.S. controlled banks, savings associations and certain bank and savings and loan holding companies that meet certain eligibility requirements.

The maximum subscription amount available to a participating institution is the lesser of \$25 billion or 3 percent of total risk-weighted assets based on information contained in the latest quarterly supervisory report filed by the institution with its appropriate Federal banking agency. Treasury has announced that it intends to fund the share purchase transaction by the end of 2008.

Based on the Treasury s form agreements and published term sheet, which are publicly available on the Treasury s website, the senior preferred shares will, among other things:

Qualify as Tier 1 capital;

Rank senior to common stock;

Pay a cumulative dividend rate of 5 percent per annum for the first five years, and will reset to a rate of 9 percent per annum after the fifth year;

Be non-voting, other than class voting rights on matters that could adversely affect the shares, including certain mergers or consolidations of the Company;

Be callable at par after three years subject to the approval of the appropriate Federal banking agency with respect to the Company;

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

Prior to the end of three years, be redeemable with proceeds from certain qualifying equity offering of any Tier 1 perpetual preferred stock or common stock subject to the approval of the appropriate Federal banking agency with respect to the Company; and

Be transferable by Treasury to a third party at any time.

Treasury will also receive warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment. The exercise price on the warrants will be the market price of the participating institution's common stock at the time of issuance, based on a 20-trading day trailing average.

Companies participating in the CPP must agree to certain registration obligations, including the filing of a shelf registration statement, with respect to the senior preferred stock and warrants and any securities issued or issuable with respect to such securities. In addition, companies participating in the CPP must also adopt the Treasury's standards for corporate governance and executive compensation for the period during which Treasury holds equity issued under the CPP. Corporate governance standards include certain restrictions on companies from repurchasing its shares and declaring or paying dividends. Executive compensation standards, which generally apply to the Chief Executive Officer ( CEO ), Chief Financial Officer ( CFO ) and the next three most highly compensated executive officers, include the following:

Ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the company;

Required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate;

Prohibition on the financial institution from making any golden parachute payment to a senior executive based on the Internal Revenue Code provision;

Agreement not to deduct for tax purposes executive compensation in excess of \$500,000.

If we were to participate in CPP, we would be subject to these additional standards as well.

### **Fair Value**

Beginning in the first quarter of 2008, the assessment of fair value for our financial instruments is based on the provisions of SFAS No. 157.

At September 30, 2008, approximately 21.5 percent of our total assets, or \$1.74 billion, consisted of financial assets recorded at fair value on a recurring basis. Of these assets, 79.8 percent used valuation methodologies involving market-based or market-derived information, collectively Level 1 and 2 measurements, to measure fair value, and 20.2 percent of these financial assets were measured using model-based techniques, or Level 3 measurements. Almost all of our financial assets valued using Level 3 measurements at September 30, 2008 represented non-marketable securities. At September 30, 2008, 0.2 percent of total liabilities, or \$11.6 million, consisted of financial liabilities recorded at fair value on a recurring basis, which were valued using market-observable inputs. There were no material transfers in/out of Level 3 for the nine months ended September 30, 2008. Our valuation processes include a number of key controls that are designed to ensure that fair value is calculated appropriately. Such controls include a model validation policy requiring that models that provide values used in financial statements be validated by qualified personnel and escalation procedures to ensure that valuations using unverifiable inputs are identified and monitored on a regular basis by senior management.

As of September 30, 2008, our available for sale investment portfolio, consisting primarily of U.S. treasuries, U.S. agency debentures, investment grade mortgage securities and municipal bonds and notes, represented \$1.34 billion, or 77.0 percent of our portfolio of assets measured at fair value on a recurring basis. These instruments were classified as Level 2 because their valuations were based on indicator prices corroborated by observable market quotes or pricing models with all significant inputs derived from or corroborated by observable market data. Since our available-for-sale debt securities portfolio consisted primarily of fixed rate securities, the fair value of the portfolio is sensitive to changes in level of market interest rates and market perceptions of credit quality of the underlying securities. Market valuations and impairment analyses on assets in the investment portfolio are reviewed and monitored on an ongoing basis.

To the extent available-for-sale investment securities are used to secure borrowings, changes in the fair value of those securities could have an impact on the total amount of secured financing availability. We pledge securities to the Federal Home Loan Bank of



---

**Table of Contents**

San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco at September 30, 2008 totaled \$664.7 million, of which \$214.7 million was unused. The market value of collateral pledged at the discount window of the Federal Reserve Bank in accordance with our risk management practices at September 30, 2008 totaled \$80.0 million. We have not borrowed against this pledged collateral. We have repurchase agreements with multiple securities dealers, which allow us to access short-term borrowings by using fixed income securities as collateral. At September 30, 2008, we had not borrowed against our repurchase lines.

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

During the nine months ended September 30, 2008, the Level 3 assets that are measured at fair value on a recurring basis experienced net unrealized fair value decreases totaling \$1.5 million primarily due to lower valuations in underlying companies in our private equity funds. Realized gains (losses) related to the Level 3 assets for the nine months ended September 30, 2008 of \$17.9 million related primarily to gains from distributions from private equity funds as well as gains on sale and exercises of equity warrant assets.

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

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

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

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

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

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

For further information, see **Quantitative and Qualitative Disclosures About Market Risk** under Part II, Item 7A of our 2007 Form 10-K for disclosure of the quantitative and qualitative information regarding the interest rate risk inherent in interest rate risk sensitive instruments at December 31, 2007. At September 30, 2008, there have been no significant changes to the interest rate risk information contained in our 2007 Form 10-K or to our policies for managing interest rate risk.





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

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

The following table presents our MVPE and NII sensitivity exposure at September 30, 2008 and December 31, 2007, related to an instantaneous and sustained parallel shift in market interest rates of 100 and 200 basis points, respectively.

Change in interest rates (basis points)	Estimated MVPE	Estimated Increase/ (Decrease) In MVPE		Estimated NII	Estimated Increase/ (Decrease) In NII	
		Amount	Percent (Dollars in thousands)		Amount	Percent
September 30, 2008:						
+200	\$ 1,287,037	\$ 46,075	3.7%	\$ 452,766	\$ 54,671	13.7%
+100	1,267,710	26,748	2.2	425,210	27,115	6.8
-	1,240,962			398,095		
-100	1,206,186	(34,776)	(2.8)	364,667	(33,428)	(8.4)
-200	1,177,781	(63,181)	(5.1)	360,207	(37,888)	(9.5)
December 31, 2007:						
+200	\$ 1,151,955	\$ 33,654	3.0%	\$ 461,965	\$ 45,942	11.0%
+100	1,138,790	20,489	1.8	439,489	23,466	5.6
-	1,118,301			416,023		
-100	1,081,469	(36,832)	(3.3)	393,817	(22,206)	(5.3)
-200	1,045,298	(73,003)	(6.5)	367,161	(48,862)	(11.7)

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

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

Our base case MVPE at September 30, 2008 increased from December 31, 2007 by \$122.7 million primarily due to growth in our loan and investment securities portfolios and lower short-term interest rates. MVPE sensitivity declined in simulated downward interest rate movements due to an increase in the investment portfolio in mortgage-backed securities, collateralized mortgage obligations, and municipal securities, the increase in our short-term funding levels, and the increase in our interest-bearing deposits. Our simulation model embeds floors in our interest rate change scenarios, which prevent model benchmark rates from resulting in negative rates. Given the low level of interest rates these floors contributed to the lower sensitivity in both the down 100 and 200 basis point scenarios. MVPE increased in simulated upward interest rate movements primarily due to the seasoning of the mortgage-backed securities and collateralized mortgage obligation investment portfolios, whose cash flows are stable and less sensitive to changes in interest rates due to their mature structures.

Conversely, our expected 12-month NII at September 30, 2008 decreased from December 31, 2007 by \$17.9 million due to declining interest rates, the variable rate nature of a significant portion of our loan portfolio, and the increased cost of our deposit and funding base. Similar to MVPE, NII sensitivity decreased in simulated downward interest rate movements and increased in simulated up rate scenarios. The change in sensitivity is due to the factors mentioned above as well as the changes in our balance sheet mix, our deposit repricing assumptions, and the current low interest rate environment. Actual changes in our deposit pricing strategies may differ from our current model assumptions and may have an impact on our overall sensitivity.

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

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

---

## **Table of Contents**

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

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

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

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Please refer to the discussion of our legal proceedings in Note 18 (Legal Matters) of the Notes to Interim Consolidated Financial Statements (unaudited) under Part I, Item 1 in this report.

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

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

In light of the current market environment, particularly within the financial sector, we have added certain risk factors under the section entitled Risks Relating to Current Market Environment below. Other than these new risk factors, there are no material changes from the risk factors set forth in our 2007 Form 10-K.

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

##### **Current market developments may adversely affect our industry, business and results of operations.**

Dramatic declines in the housing market during the prior year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors, concerned about the stability of the financial markets generally and the strength of counterparties, have reduced or ceased to provide funding to borrowers, including other financial institutions. Additionally, over the past several quarters, there has been a significant decline in mergers, acquisitions or initial public offerings of companies' events upon which the venture capital and private equity community relies to exit their investments. If this persists over the longer term, there may be an adverse impact on investment returns, valuations of companies and overall levels of venture capital and private equity investments. In sum, the resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and/or reduced business activity and exit events could materially and adversely affect our business, financial condition and results of operations.

##### **Current levels of market volatility are unprecedented.**

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. Recently, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on

our business, financial condition and results of operations.

---

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

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

**There can be no assurance that the recently enacted Emergency Economic Stabilization Act of 2008 (the EESA) will help stabilize the U.S. financial system.**

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the EESA), which evolved from the U.S. Treasury's (Treasury) initial proposal in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Treasury and banking regulators are implementing a number of programs under this legislation to address capital and liquidity issues in the banking system, including a Troubled Asset Relief Program (TARP), which gives Treasury the authority to deploy into the U.S. financial system up to \$700 billion. \$250 billion of this authority is available to eligible financial institutions through the Treasury's TARP Capital Purchase Program (CPP) as a capital infusion through the Treasury's purchase of preferred stock and warrants of these financial institutions. There can be no assurance, however, as to the actual impact that the EESA, TARP or CPP will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

**Additional requirements under our regulatory scheme could adversely affect us.**

Recent government efforts to strengthen the U.S. financial system, including the implementation of EESA, TARP, CPP and the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guaranty Program (TLGP), would subject participants to additional regulatory requirements. Participants in the CPP must adopt Treasury's standards for corporate governance and executive compensation, such as, among other things, restrictions on declaring or paying dividends, restrictions on share repurchases, limits on executive compensation tax deductions or prohibitions against golden parachute payments. Participants in the TLGP, which provides unlimited deposit insurance until December 31, 2009 on funds in noninterest-bearing deposit accounts, will be assessed additional fees. If we participated in any of these programs, we would be subject to additional requirements that may have a material and adverse effect on our business, financial condition or results of operations. Other regulatory changes resulting from recent market events may have an adverse impact on us. Due to recent bank failures, the FDIC has announced an increase in deposit insurance premiums to aid in rebuilding its Deposit Insurance Fund. Depending on the frequency and severity of bank failures, future increases in premiums could have an adverse effect on our earnings. Additionally, increased legislative focus on the overall financial industry may result in the imposition of additional regulatory requirements, which may have a material and adverse effect on our business, financial condition, results of operations.

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

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

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

Our loan portfolio has a credit profile different from that of most other banking companies. Many of our loans are made to companies in the early stages of development with negative cash flows and no established record of profitable operations. Repayment of many of our loans is dependent upon receipt by borrowers of additional equity financing from venture capitalists or others. Collateral for many of our loans often includes intellectual property, which is difficult to value and may not be readily salable in the case of default. Because of the intense competition

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

and rapid technological change that characterizes the companies in our technology and life sciences industry sectors, a borrower's financial position can deteriorate rapidly. Additionally, we are increasing our lending to larger private equity firms and corporate technology clients, including some companies with greater levels of debt relative to their equity, and have increased the average size of our loans over time. These changes could affect the risk of borrower default and increase the impact on us of any single borrower default.

## **Table of Contents**

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

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

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

A major portion of our net income comes from our interest rate spread, which is the difference between the interest rates paid by us on amounts used to fund assets and the interest rates and fees we receive on our interest-earning assets. We fund assets using deposits and other borrowings. While we offer some interest-bearing deposit products, most of our deposit products are non-interest bearing. Our interest-earning assets include loans extended to our clients and securities held in our investment portfolio.

Changes in interest rates impact our interest rate spread. Increases in market interest rates will likely cause our interest rate spread to increase. Conversely, if interest rates decline, our interest rate spread will likely decline. Recent decreases in market interest rates have caused our interest rate spread to decline, which reduces our net income. Unexpected interest rate declines may also adversely affect our business forecasts and expectations. Interest rates are highly sensitive to many factors beyond our control, such as inflation, recession, global economic disruptions, unemployment and the fiscal and monetary policies of the federal government and its agencies.

In addition to changes in the level of interest rates, changes in the composition of our funding sources could affect our interest rate spread. For example, since 2006 we have funded our loan growth primarily through short- and long-term borrowings. These funds carry meaningfully higher interest rate costs than our current deposit base. If we significantly increase the amount of our assets that we fund through borrowings rather than deposits, our interest rate spread will likely decline. Similarly, if we significantly increase the amount of our assets that we fund through interest-bearing deposits, or increase the rates we pay on those deposits, our interest rate spread likely would decline. Interest rates paid by us could be affected by competitive, legislative or other developments. For example, in 2007 we introduced two new interest-bearing deposit products, intended to enhance our deposit levels to support our loan growth, and in the future, we may introduce additional interest-bearing deposit products. In addition, Congress has for many years debated repealing a law that prohibits banks from paying interest on checking accounts. If this law were to be repealed, we would be subject to competitive pressure to pay interest on our clients' checking accounts.

The interest rates we receive on our interest-earning assets could be affected by a variety of factors, including market interest rates, competition, a change over time in the mix of loans comprising our loan portfolio and the mix of loans and investment securities on our balance sheet. Any material reduction in our interest rate spread could have a material adverse effect on our business, profitability and financial condition.

**Our business is dependent upon access to funds on attractive terms. Consequently, a reduction in our credit ratings could adversely affect our business, profitability and financial condition.**

We derive our net interest income through lending or investing capital on terms that provide returns in excess of our costs for obtaining that capital. As a result, our credit ratings are important to our business. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs or increase the interest rates we pay on deposits. Further, our credit ratings and the terms upon which we have access to capital may be influenced by circumstances beyond our control, such as overall trends in the general market environment, perceptions about our creditworthiness or market conditions in the industries in which we focus.

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

We obtain rights to acquire stock in the form of equity warrant assets in certain clients for negotiated credit facilities and other services. We also make investments in private equity funds and direct investments in companies. The fair value of these warrants and investments are reflected in our financial statements and adjusted on a quarterly basis, as necessary. Fair value changes are generally recorded as unrealized gains or losses through consolidated net income. The timing and amount of changes in fair value, if any, of these financial instruments depend upon factors beyond our control, including the performance of the underlying companies, fluctuations in the market prices of the preferred or common stock of the underlying companies, general volatility and interest rate market factors, and legal and contractual restrictions. The timing and amount of actual net proceeds, if any, from the disposition of these financial instruments depend upon factors beyond our control, including investor demand for initial public offerings, levels of merger and acquisition activity, legal and contractual restrictions on our ability to sell, and the



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

perceived and actual performance of portfolio companies. Because of the inherent variability of these financial instruments and the markets in which they are made, the fair market value of these financial instruments might increase or decrease materially, and the net proceeds realized on disposition might be less than the then-current recorded fair market value.

## **Table of Contents**

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

### **Public equity offerings and mergers and acquisitions involving our clients can cause loans to be paid off early, which could adversely affect our business, profitability and financial condition.**

While an active market for public equity offerings and mergers and acquisitions generally has positive implications for our business, one negative consequence is that our clients may pay off or reduce their loans with us if they complete a public equity offering, are acquired by or merge with another entity or otherwise receive a significant equity investment. Any significant reduction in our outstanding loans could have a material adverse effect on our business, profitability and financial condition.

### ***Operational Risks***

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

We rely on key personnel, including a substantial number of employees who have technical expertise in their subject matter area and a strong network of relationships with individuals and institutions in the markets we serve. If we were to have less success in recruiting and retaining these employees than our competitors, our growth and profitability could be adversely affected. We believe that our employees frequently have opportunities for alternative employment with other organizations, including competing financial institutions and our clients.

#### **Changes to our employee compensation structure could adversely affect our results of operations and cash flows, as well as our ability to attract, recruit and retain certain key employees.**

In May 2006, in an effort to align our option grant rate to that of other financial institutions similar to us, we committed to restrict the total number of shares of our common stock issued under stock options, restricted stock awards, restricted stock unit awards, stock bonus awards and any other equity awards granted during a fiscal year as a percentage of the total number of shares outstanding on a prospective basis. We may in the future consider taking other actions to modify employee compensation structures, such as granting cash compensation or other forms of equity compensation. Our decision to reduce the number of option shares to be granted on a prospective basis, and any other future changes we may adopt in our employee compensation structures, could adversely affect our results of operations and cash flows, as well as our ability to attract, recruit and retain certain key employees.

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

We offer various internet-based services to our clients, including online banking services. The secure transmission of confidential information and execution of transactions over the Internet is essential to protect us and our clients against fraud and to maintain our clients' confidence in our online services. Increases in criminal activity levels, advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology, processes and controls we use to prevent fraudulent transactions and to protect client transaction data, as well as the technology used by our clients to access our systems. Although we have developed systems and processes that are designed to prevent security breaches and periodically test our security, failure to mitigate breaches of security could result in losses to us or our clients, result in a loss of business and/or clients, cause us to incur additional expenses, affect our ability to grow our online services business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations. More generally, publicized security problems could inhibit the growth of the Internet as a means of conducting commercial transactions. Our ability to provide financial services over the Internet would be severely impeded if clients became unwilling to transmit confidential information online. As a result, our business, financial condition and results of operations could be adversely affected.

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

Our operations can be subject to natural disasters and other external events beyond our control, such as earthquakes, fires, severe weather, public health issues, power failures, telecommunication loss, major accidents, terrorist attacks, acts of war, and other natural and man-made events. Our corporate headquarters and a portion of our critical business offices are located in California near major earthquake faults. Such events of disaster, whether natural or attributable to human beings, could cause severe destruction, disruption or interruption to our operations or property. Financial institutions, such as us, generally must resume operations promptly following any interruption. If we were to suffer a disruption or

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

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

## **Table of Contents**

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

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

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

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

In order to serve our target clients effectively, we have developed a comprehensive array of banking and other products and services. In order to support these products and services, we have developed and purchased or licensed information technology and other systems and processes. As our business continues to grow, we will continue to invest in these systems and processes. These investments may affect our future profitability. In addition, there can be no assurance that we will be able to effectively and timely improve our systems and processes to meet our business needs efficiently, whether by improving existing systems and processes or adding or transitioning to new systems and processes. Any interruption, failure or security breach in our information technology systems or processes, or any failure to effectively and timely improve these systems and processes to meet our business needs, could adversely affect our operations, financial condition, results of operations, future growth and reputation.

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

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, under our accounts receivable financing arrangements, we rely on information, such as invoices, contracts and other supporting documentation, provided by our clients and their account debtors to determine the amount of credit to extend. Similarly, in deciding whether to extend credit, we may assume that when we receive a customer's audited financial statements that they conform to U.S. generally accepted accounting principles ( GAAP ) and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on the audit report covering those financial statements. Our financial condition and results of operations could be negatively affected if we rely on financial statements or other information that do not comply with GAAP or that are materially misleading or inaccurate.

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

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

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

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

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

---

## **Table of Contents**

If we identify material weaknesses in our internal control over financial reporting or are otherwise required to restate our financial statements, we could be required to implement expensive and time-consuming remedial measures and could lose investor confidence in the accuracy and completeness of our financial reports. This could have an adverse effect on our business, financial condition and results of operations, including our stock price, and could potentially subject us to litigation.

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

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

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

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

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

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

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

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

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

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

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

Historically, our strategy has focused on providing banking products and services to emerging-growth companies receiving financial support from sophisticated investors, including venture capitalists, angels, and corporate investors. We derive a meaningful share of our deposits from

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

these emerging growth companies and provide them with loans as well as other banking products and services. In some cases, our lending credit decision is based on our analysis of the likelihood that our venture capital or angel-backed client will receive a second or subsequent round of equity capital from investors. If the amount of capital available to such companies decreases, it is likely that the number of new clients and investor financial support to our existing borrowers could decrease, which could have an adverse effect on our business, profitability and growth prospects.

---

## **Table of Contents**

Among the factors that have affected and could in the future affect the amount of capital available to startup and emerging-growth companies are the receptivity of the capital markets, IPOs or mergers and acquisitions of companies within our technology and life science industry sectors, the availability and return on alternative investments and general economic conditions in the technology, life science and private equity (including venture capital) industries. Reduced capital markets valuations could reduce the amount of capital available to startup and emerging-growth companies, including companies within our technology and life science industry sectors. Additionally, such reduced valuations may decrease the value of our investment portfolio, in which we hold direct equity investments and warrants in these companies, as well as investments in funds that invest in these companies, which could have an adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

Our ability to execute strategic activities successfully will depend on a variety of factors. These factors likely will vary based on the nature of the activity but may include our success in integrating the operations, services, products, personnel and systems of an acquired company into our business, operating effectively with any partner with whom we elect to do business, retaining key employees, achieving anticipated synergies, meeting management's expectations and otherwise realizing the undertaking's anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management's attention from ongoing business operations and may subject us to additional regulatory scrutiny. If we do not successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations.

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

One component of our strategy is to expand internationally. To date, we have opened offices in China, India, Israel and the United Kingdom. We plan to expand our operations in those locations and may expand beyond these countries. Our efforts to expand our business internationally carry with it certain risks, including risks arising from the uncertainty regarding our ability to generate revenues from foreign operations. In addition, there are certain risks inherent in doing business on an international basis, including, among others, legal, regulatory and tax requirements and restrictions, uncertainties regarding liability, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, differing



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

technology standards or customer requirements, political and economic risks and financial risks, including currency and payment risks. These risks could adversely affect the success of our international operations and could have a material adverse effect on our overall business, results of operation and financial condition. In addition, we face risks that our employees may fail to comply with applicable laws and regulations governing our international operations, including the U.S. Foreign Corrupt Practices Act and foreign laws and regulations, which could have a material adverse effect on us.

**Table of Contents**

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

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

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**  
**Recent Sales of Unregistered Securities**

None.

**Issuer Purchases of Equity Securities**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**  
None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**  
None

**ITEM 5. OTHER INFORMATION**  
None.

**ITEM 6. EXHIBITS**  
See Index to Exhibits at end of report.

**Table of Contents**

**SIGNATURE**

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

SVB Financial Group

Date: November 10, 2008

/s/ MICHAEL DESCHENEUX  
Michael Descheneaux  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

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

Exhibit		Incorporated by Reference				Filed Herewith
Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	
2.1	Asset Purchase Agreement between the Company and SVB Alliant	8-K	000-15637	2.1	October 2, 2001	
3.1	Restated Certificate of Incorporation	8-K	000-15637	3.1	May 31, 2005	
3.2	Amended and Restated Bylaws	8-K	000-15637	3.2	January 29, 2007	
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	8-A12G/A	000-15637	3.4	February 27, 2004	
4.1	Indenture for Zero-Coupon Subordinated Notes Due June 15, 2008, dated as of May 20, 2003, between the Company and Wells Fargo Bank Minnesota, National Association, as trustee	S-3	333-107994	4.1	August 14, 2003	
4.2	Form of Note (included in Exhibit 4.1)	S-3	333-107994	4.1	August 14, 2003	
4.3	Registration Rights Agreement dated as of May 20, 2003, between the Company and the initial purchasers named therein	S-3	333-107994	4.3	August 14, 2003	
4.4	Junior Subordinated Indenture, dated as of October 30, 2003 between the Company and Wilmington Trust Company, as trustee	8-K	000-15637	4.12	November 19, 2003	
4.5	7.0% Junior Subordinated Deferrable Interest Debenture due October 15, 2033 of the Company	8-K	000-15637	4.13	November 19, 2003	
4.6	Amended and Restated Trust Agreement, dated as of October 30, 2003, by and among Silicon Valley Bancshares as depositor, Wilmington Trust Company as property trustee, Wilmington Trust Company as Delaware trustee, and the Administrative Trustees named therein	8-K	000-15637	4.14	November 19, 2003	
4.7	Certificate Evidencing 7% Cumulative Trust Preferred Securities of SVB Capital II, dated October 30, 2003	8-K	000-15637	4.15	November 19, 2003	
4.8	Guarantee Agreement, dated October 30, 2003, between the Company, as guarantor, and Wilmington Trust Company, as trustee	8-K	000-15637	4.16	November 19, 2003	
4.9	Agreement as to Expenses and Liabilities, dated as of October 30, 2003, between the Company and SVB Capital II	8-K	000-15637	4.17	November 19, 2003	
4.10	Certificate Evidencing 7% Common Securities of SVB Capital II, dated October 30, 2003	8-K	000-15637	4.18	November 19, 2003	
4.11	Officers Certificate and Company Order, dated October 30, 2003, relating to the 7.0% Junior Subordinated Deferrable Interest Debentures due October 15, 2033	8-K	000-15637	4.19	November 19, 2003	
4.12	Amended and Restated Preferred Stock Rights Agreement, dated as of January 29, 2004, between the	8-A12G/A	000-15637	4.20	February 27, 2004	

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

Company and Wells Fargo Bank Minnesota, N.A.

4.13	Amendment No. 1 to Amended & Restated Preferred Stock Rights Agreement, dated as of August 2, 2004, by and between the Company and Wells Fargo Bank, N.A.	8-A12G/A	000-15637	4.13	August 3, 2004
4.14	Amendment No. 2 to Amended & Restated Preferred Stock Rights Agreement, dated as of January 29, 2008, by and between the Company and Wells Fargo Bank, N.A.	8-A/A	000-15637	4.14	January 29, 2008
4.15	Indenture for 3.875% Convertible Senior Notes Due 2011, dated as of April 7, 2008, by and between Wells Fargo Bank, N.A., as Trustee, and the Company	8-K	000-15637	4.1	April 7, 2008

**Table of Contents**

Exhibit		Incorporated by Reference				Filed Herewith
Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	
4.16	Letter Agreement re Call Option Transaction, dated as of April 1, 2008, by and between the Company and JPMorgan Chase Bank, National Association.	8-K	000-15637	4.2	April 7, 2008	
4.17	Letter Agreement re Call Option Transaction, dated as of April 1, 2008, by and between the Company and Bank of America, N.A.	8-K	000-15637	4.3	April 7, 2008	
4.18	Letter Agreement re Warrants, dated as of April 1, 2008, by and between the Company and JPMorgan Chase Bank, National Association.	8-K	000-15637	4.4	April 7, 2008	
4.19	Letter Agreement re Warrants, dated as of April 1, 2008, by and between the Company and Bank of America, N.A.	8-K	000-15637	4.5	April 7, 2008	
4.20	Amendment No. 3 to Amended and Restated Preferred Stock Rights Agreement, dated as of April 30, 2008 by and between the Company and Wells Fargo Bank, N.A.	8-A12G/A	000-15637	4.20	April 30, 2008	
10.7 <sup>+</sup>	Form of Indemnification Agreement					X
10.15 <sup>+</sup>	2006 Equity Incentive Plan					X
10.18 <sup>+</sup>	Form of Restricted Stock Unit Agreement under 2006 Equity Incentive Plan (for Executives)					
10.23 <sup>+</sup>	Form of Restricted Stock Unit Agreement under 2006 Equity Incentive Plan (for Directors)					X
10.24 <sup>+</sup>	Form of Restricted Stock Unit Election to Defer Settlement under 2006 Equity Incentive Plan (for Directors)					X
10.27 <sup>+</sup>	Form of Restricted Stock Unit Election to Defer Settlement under 2006 Equity Incentive Plan (for Executives)					X
31.1	Rule 13a-14(a)/15(d)-14(a) Certification of Principal Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Rule 13a-14(a)/15(d)-14(a) Certification of Principal Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	18 U.S.C. Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					*

\* Furnished herewith

+ Denotes management contract or any compensatory plan, contract or arrangement