

SVB FINANCIAL GROUP  
Form 10-Q/A  
December 30, 2005

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

Washington, D.C. 20549

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**FORM 10-Q/A**

(Amendment No. 1 to 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 March 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from        to        .

Commission File Number: 000-15637

**SVB FINANCIAL GROUP**

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(formerly Silicon Valley Bancshares)

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**91-1962278**

(I.R.S. Employer Identification No.)

**3003 Tasman Drive, Santa Clara, California  
95054 1191**

(Address of principal executive offices including  
zip code)

**[http://www.svb.com/company/investor\\_fs.asp](http://www.svb.com/company/investor_fs.asp)**

(Registrant's URL)

**(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At April 30, 2005, 35,486,738 shares of the registrant's common stock (\$0.001 par value) were outstanding.

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### Explanatory Note

SVB Financial Group (formerly known as Silicon Valley Bancshares) (the Company) has restated its interim consolidated financial statements as of and for the three-month period ended March 31, 2005, the consolidated annual financial statements for the years 2004, 2003 and 2002, interim consolidated financial information for each of the quarters within fiscal 2004 and 2003, and selected financial data for fiscal years 2004, 2003, 2002, 2001 and 2000 (the Restatement). As previously disclosed, the Board of Directors decided on July 18, 2005 that the Company should restate these financial statements after concluding that the Company's accounting for its warrant portfolio should conform to certain accounting pronouncements for derivative instruments interpreting Statement of Financial Accounting Standard No. 133, as amended. The restated financial statements reflect changes in the Company's derivative equity warrant accounting and other related changes. Additionally, in connection with the Restatement process, the Company reviewed, corrected and modified, where appropriate, certain of its accounting policies and practices which were not in accordance with generally accepted accounting principles in the U.S. (GAAP). Changes made as a result of such corrections are also included in the restated financial statements and the selected financial data as applicable. For a description of the changes made in connection with the Restatement, see Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement of Financial Statements below, and Note 3, Restatement of Financial Statements, to the accompanying interim consolidated financial statements contained in this report.

Additionally, effective as of May 31, 2005, the Company changed its name from Silicon Valley Bancshares to SVB Financial Group. The Company's new name is reflected in this document.

This Amendment No. 1 on Form 10-Q/A (the Form 10-Q/A) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, initially filed with the Securities and Exchange Commission (the SEC) on May 10, 2005 (the Original Form 10-Q), is being filed to reflect restatements of the Company's Interim Consolidated Balance Sheets as of March 31, 2005, the related Interim Consolidated Statements of Income, Comprehensive Income and Cash Flows for the three month periods ended March 31, 2005 and March 31, 2004, and the notes related thereto. For a more detailed description of these restatements, see Note 3, Restatement of Financial Statements, to the accompanying interim consolidated financial statements, and the section entitled Restatement of Financial Statements under Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in this Form 10-Q/A.

For the convenience of the reader, this Form 10-Q/A sets forth the Original Form 10-Q in its entirety. However, this Form 10-Q/A only amends and restates Items 1, 2, 3 and 4 of Part I and Item 3 of Part II, in each case as a result of, and to reflect, the Restatement and related matters. No other information in the Original Form 10-Q is amended hereby, except for the Company's name change and certain updated risk factors in Item 3 of Part I. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Form 10-Q or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Form 10-Q has been amended to contain currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except for the foregoing amended information, this Form 10-Q/A continues to speak as of the date of the Original Form 10-Q and the Company has not updated the disclosure contained herein to reflect events that occurred as of a later date. Other events occurring after the filing of the Original Form 10-Q or other disclosures necessary to reflect subsequent events have been or will be addressed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, and/or the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, all of which will be filed after the filing of this Form 10-Q/A, and any reports filed with the SEC subsequent to the date of this filing.

Prior to the filing of this Form 10-Q/A, the Company filed Amendment No. 1 on Form 10-K/A (the 2004 Form 10-K/A) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the Original 10-K) to reflect restatements of the Company's consolidated financial statements and selected financial data as of and for the periods included in the Original 10-K. With the exception of the 2004 Form 10-K/A, the Company has not amended and does not intend to amend its previously filed Annual Reports on Form 10-K or its Quarterly Reports on

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Form 10-Q for the periods affected by the Restatement that ended prior to December 31, 2004. For this reason, the consolidated financial statements, report of independent registered public accounting firm and related financial information for the affected periods contained in such reports should no longer be relied upon.

## PART I - FINANCIAL INFORMATION

## ITEM 1 - INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## SVB FINANCIAL GROUP AND SUBSIDIARIES

## INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

| (Dollars in thousands, except par value)                                                                                                                           | March 31,<br>2005<br>(As Restated) | December 31,<br>2004 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                      |                                    |                      |
| Cash and due from banks                                                                                                                                            | \$ 257,606                         | \$ 284,208           |
| Federal funds sold, securities purchased under agreement to resell and other short-term investments                                                                | 197,426                            | 343,010              |
| Investment securities                                                                                                                                              | 2,129,568                          | 2,074,967            |
| Loans, net of unearned income                                                                                                                                      | 2,339,547                          | 2,308,588            |
| Allowance for loan and lease losses                                                                                                                                | (35,698)                           | (37,613)             |
| Loans, net                                                                                                                                                         | 2,303,849                          | 2,270,975            |
| Premises and equipment, net of accumulated depreciation and amortization                                                                                           | 16,088                             | 14,641               |
| Goodwill                                                                                                                                                           | 35,639                             | 35,639               |
| Accrued interest receivable and other assets                                                                                                                       | 129,848                            | 122,239              |
| <b>Total assets</b>                                                                                                                                                | <b>\$ 5,070,024</b>                | <b>\$ 5,145,679</b>  |
| <b>Liabilities, Minority Interest, and Stockholders Equity</b>                                                                                                     |                                    |                      |
| <b>Liabilities:</b>                                                                                                                                                |                                    |                      |
| <b>Deposits:</b>                                                                                                                                                   |                                    |                      |
| Noninterest-bearing demand                                                                                                                                         | \$ 2,642,591                       | \$ 2,649,853         |
| Negotiable order of withdrawal (NOW)                                                                                                                               | 29,320                             | 32,009               |
| Money market                                                                                                                                                       | 1,191,474                          | 1,206,078            |
| Time                                                                                                                                                               | 292,890                            | 331,574              |
| <b>Total deposits</b>                                                                                                                                              | <b>4,156,275</b>                   | <b>4,219,514</b>     |
| Contingently convertible debt                                                                                                                                      | 146,975                            | 146,740              |
| Junior subordinated debentures                                                                                                                                     | 48,706                             | 49,470               |
| Other borrowings                                                                                                                                                   | 11,915                             | 9,820                |
| Other liabilities                                                                                                                                                  | 94,035                             | 107,502              |
| <b>Total liabilities</b>                                                                                                                                           | <b>4,457,906</b>                   | <b>4,533,046</b>     |
| <b>Commitments and contingencies</b>                                                                                                                               |                                    |                      |
| Minority interest in capital of consolidated affiliates                                                                                                            | 85,110                             | 70,685               |
| <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; 35,406,732 and 35,970,095 shares outstanding at March 31, 2005 and December 31, 2004, respectively | 35                                 | 36                   |
| Additional paid-in capital                                                                                                                                         | 21,088                             | 45,226               |

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|                                                                |              |              |
|----------------------------------------------------------------|--------------|--------------|
| Retained earnings                                              | 522,847      | 499,911      |
| Unearned compensation                                          | (3,995)      | (4,512)      |
| Accumulated other comprehensive income (loss)                  | (12,967)     | 1,287        |
| Total stockholders' equity                                     | 527,008      | 541,948      |
| Total liabilities, minority interest, and stockholders' equity | \$ 5,070,024 | \$ 5,145,679 |

See accompanying notes to interim unaudited consolidated financial statements.

## SVB FINANCIAL GROUP AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (Dollars in thousands, except per share amounts)                                                       | For the three months ended      |                                 |
|--------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
|                                                                                                        | March 31, 2005<br>(As Restated) | March 31, 2004<br>(As Restated) |
| Interest income:                                                                                       |                                 |                                 |
| Loans                                                                                                  | \$ 47,456                       | \$ 35,508                       |
| Investment securities:                                                                                 |                                 |                                 |
| Taxable                                                                                                | 20,974                          | 13,494                          |
| Non-taxable                                                                                            | 1,023                           | 1,461                           |
| Federal funds sold, securities purchased under agreement to resell and other short-term investments    | 2,959                           | 1,973                           |
| Total interest income                                                                                  | 72,412                          | 52,436                          |
| Interest expense:                                                                                      |                                 |                                 |
| Deposits                                                                                               | 2,262                           | 2,014                           |
| Other borrowings                                                                                       | 795                             | 726                             |
| Total interest expense                                                                                 | 3,057                           | 2,740                           |
| Net interest income                                                                                    | 69,355                          | 49,696                          |
| (Recovery of) provision for loan and lease losses                                                      | (3,814)                         | 645                             |
| Net interest income after (recovery of) provision for loan and lease losses                            | 73,169                          | 49,051                          |
| Noninterest income:                                                                                    |                                 |                                 |
| Client investment fees                                                                                 | 7,396                           | 6,268                           |
| Corporate finance fees                                                                                 | 4,814                           | 4,382                           |
| Letter of credit and standby letter of credit income                                                   | 2,370                           | 2,671                           |
| Deposit service charges                                                                                | 2,504                           | 3,713                           |
| Gains (losses) on derivative instruments, net                                                          | 4,026                           | 2,565                           |
| Gains (losses) on investment securities, net                                                           | 1,202                           | 1,469                           |
| Other                                                                                                  | 2,828                           | 2,859                           |
| Total noninterest income                                                                               | 25,140                          | 23,927                          |
| Noninterest expense:                                                                                   |                                 |                                 |
| Compensation and benefits                                                                              | 40,268                          | 33,407                          |
| Professional services                                                                                  | 5,070                           | 3,339                           |
| Net occupancy                                                                                          | 4,658                           | 4,601                           |
| Furniture and equipment                                                                                | 2,719                           | 2,909                           |
| Business development and travel                                                                        | 2,090                           | 1,991                           |
| Correspondent bank fees                                                                                | 1,221                           | 1,281                           |
| Data processing services                                                                               | 1,013                           | 1,085                           |
| Telephone                                                                                              | 889                             | 782                             |
| Provision for (reduction of) unfunded credit commitments                                               | (185)                           | (719)                           |
| Other                                                                                                  | 3,072                           | 3,156                           |
| Total noninterest expense                                                                              | 60,815                          | 51,832                          |
| Income before minority interest in net (income) loss of consolidated affiliates and income tax expense | 37,494                          | 21,146                          |
| Minority interest in net (income) loss of consolidated affiliates                                      | 441                             | (481)                           |
| Income before income tax expense                                                                       | 37,935                          | 20,665                          |
| Income tax expense                                                                                     | 14,999                          | 7,444                           |
| Net income                                                                                             | \$ 22,936                       | \$ 13,221                       |
| Earnings per common share basic                                                                        | \$ 0.64                         | \$ 0.38                         |



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|                           |         |    |      |    |      |
|---------------------------|---------|----|------|----|------|
| Earnings per common share | diluted | \$ | 0.59 | \$ | 0.36 |
|---------------------------|---------|----|------|----|------|

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| (Dollars in thousands)                                                           | For the three months ended         |                                    |
|----------------------------------------------------------------------------------|------------------------------------|------------------------------------|
|                                                                                  | March 31,<br>2005<br>(As Restated) | March 31,<br>2004<br>(As Restated) |
| Net income                                                                       | \$ 22,936                          | \$ 13,221                          |
| Other comprehensive income, net of tax:                                          |                                    |                                    |
| Change in unrealized gains (losses) on available-for-sale investment securities: |                                    |                                    |
| Unrealized holding gains (losses)                                                | (14,051)                           | 6,844                              |
| Reclassification adjustment for gains (losses) included in net income            | (203)                              | 722                                |
| Other comprehensive income (loss), net of tax                                    | (14,254)                           | 7,566                              |
| Comprehensive income                                                             | \$ 8,682                           | \$ 20,787                          |

See accompanying notes to interim unaudited consolidated financial statements.

## SVB FINANCIAL GROUP AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (Dollars in thousands)                                                                    | For the three months ended         |                                    |
|-------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|
|                                                                                           | March 31,<br>2005<br>(As Restated) | March 31,<br>2004<br>(As Restated) |
| <b>Cash flows from operating activities:</b>                                              |                                    |                                    |
| Net income                                                                                | \$ 22,936                          | \$ 13,221                          |
| Adjustments to reconcile net income to net cash provided by operating activities:         |                                    |                                    |
| (Recovery of) provision for loan and lease losses                                         | (3,814)                            | 645                                |
| (Gains) on investment securities, net                                                     | (1,202)                            | (1,469)                            |
| Changes in fair values of derivatives                                                     | 462                                | 2,295                              |
| Depreciation and amortization                                                             | 2,136                              | 2,038                              |
| Minority interest                                                                         | (441)                              | 481                                |
| Tax benefit of stock compensation                                                         | 3,284                              | 1,860                              |
| Amortization of stock-based compensation                                                  | 1,245                              | 225                                |
| Amortization of deferred warrant related loan fees                                        | (1,746)                            | (1,377)                            |
| Deferred income tax expense                                                               | 2,806                              |                                    |
| Changes in other assets and liabilities:                                                  |                                    |                                    |
| (Increase) in accrued interest receivable                                                 | (1,117)                            | (1,208)                            |
| (Increase) decrease in accounts receivable                                                | 396                                | (296)                              |
| (Increase) decrease in income tax receivable                                              | 5,568                              | (5,003)                            |
| (Decrease) in accrued retention, incentive plans, and other compensation benefits payable | (25,169)                           | (10,869)                           |
| Other, net                                                                                | 6,596                              | 3,435                              |
| Net cash provided by operating activities                                                 | 11,940                             | 3,978                              |
| <b>Cash flows from investing activities:</b>                                              |                                    |                                    |
| Purchases of investment securities                                                        | (186,992)                          | (422,831)                          |
| Proceeds from sales of investment securities                                              | 5,053                              | 87,390                             |
| Proceeds from maturities and paydowns of investment securities                            | 104,721                            | 233,121                            |
| Net (increase) in loans                                                                   | (34,781)                           | (7,809)                            |
| Proceeds from recoveries of charged-off loans                                             | 5,959                              | 2,838                              |
| Purchases of premises and equipment                                                       | (3,583)                            | (1,277)                            |
| Net cash (used by) investing activities                                                   | (109,623)                          | (108,568)                          |
| <b>Cash flows from financing activities:</b>                                              |                                    |                                    |
| Net increase (decrease) in deposits                                                       | (63,239)                           | 9,442                              |
| Increase in other borrowings, net                                                         | 2,095                              | 567                                |
| Capital contributions from minority interest participants, net of distributions           | 14,866                             | 4,710                              |
| Proceeds from issuance of common stock                                                    | 4,831                              | 4,690                              |
| Repurchase of common stock                                                                | (33,056)                           |                                    |
| Net cash (used) provided by financing activities                                          | (74,503)                           | 19,409                             |
| Net (decrease) in cash and cash equivalents                                               | (172,186)                          | (85,181)                           |
| Cash and cash equivalents at beginning of year                                            | 627,218                            | 835,313                            |
| Cash and cash equivalents at end of period                                                | \$ 455,032                         | \$ 750,132                         |
| <b>Supplemental disclosures:</b>                                                          |                                    |                                    |
| Cash paid during the period for:                                                          |                                    |                                    |
| Interest paid                                                                             | \$ 3,035                           | \$ 2,599                           |
| Income taxes paid                                                                         | \$ 3,673                           | \$ 7,548                           |

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See accompanying notes to interim unaudited consolidated financial statements.

**SVB FINANCIAL GROUP AND SUBSIDIARIES**

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

**1. Nature of Business**

SVB Financial Group (formerly known as Silicon Valley Bancshares) (individually referred to as SVB Financial) and its subsidiaries (collectively, including SVB Financial, referred to as the Company) offer clients financial products and services through five lines of banking and financial services (see Note 10. Segment Reporting). SVB Financial is a bank holding company and a financial holding company whose principal subsidiary is Silicon Valley Bank (the Bank), a California-chartered bank founded in 1983, and headquartered in Santa Clara, California.

The Bank serves more than 10,000 clients across the country, through its 26 regional offices in the United States, and through two foreign subsidiaries located in London, England and Bangalore, India. The Bank has 12 offices throughout California and operates regional offices across the country in Arizona, Colorado, Georgia, Illinois, Massachusetts, Minnesota, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia, and Washington. The Bank serves clients in all stages of maturity ranging from emerging-growth companies to established middle market corporate companies in the technology and life science markets and the premium wine industry. The Company defines emerging-growth clients as companies in the start-up or early stages of their lifecycle; these companies tend to be privately held and backed by venture capital; they generally have few employees, are primarily engaged in research and development, have brought relatively few products or services to market, and have no or little revenue. By contrast, the Company defines middle market clients as companies that tend to be more mature; these companies may be publicly traded, and more established in the markets in which they participate. Additionally, merger, acquisition, private placement, and corporate partnering services are provided through the Company's wholly-owned investment banking subsidiary, SVB Alliant, whose offices are in California and Massachusetts.

## 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements contain all adjustments (of a normal and recurring nature) that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company in accordance with accounting principles generally accepted in the United States of America (GAAP). Such interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results for any future periods. These interim consolidated financial statements should be read in conjunction with the Company's Amendment No. 1 to its Annual Report on Form 10-K/A for the year ended December 31, 2004 (the 2004 Form 10-K/A), which was filed prior to this Form 10-Q/A.

The consolidated balance sheet at December 31, 2004 has been derived from the audited consolidated financial statements, as restated at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Note 2 to the Consolidated Financial Statements that are presented in the Company's 2004 Form 10-K/A.

The preparation of interim consolidated financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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.

Prior to fourth quarter of 2004, the Company aggregated its allowance for loan and lease losses and its liability for unfunded credit commitments and reflected the aggregate allowance in its allowance for loan and lease losses (ALLL) balance. Commencing in the fourth quarter of 2004, the Company reflected its allowance for loan and lease losses in its ALLL balance and its liability for unfunded credit commitments in other liabilities. These reclassifications were also made to prior periods' balance sheets to conform to current periods' presentations. Additionally, the Company reclassified expense related to the ALLL to provision for loan losses and expense related to changes in the liability for unfunded credit commitments into noninterest expense for all periods presented. Such reclassifications had no effect on our results of operations or stockholders equity.

### *Federal Funds Sold, Securities Purchased under Agreement to Resell and Other Short-Term Investments*

Federal funds sold, securities purchased under agreement to resell and other short-term investments as reported in the interim consolidated balance sheets include interest-bearing deposits in other financial institutions of \$23.7 million and \$11.4 million at March 31, 2005 and December 31, 2004, respectively.

### *Stock-Based Compensation*



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The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and related interpretations, to account for its employee stock options rather than the alternative fair value accounting allowed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. APB No. 25 provides that the compensation expense relative to the Company's employee stock options be measured based on the intrinsic value of the stock option. SFAS No. 123 as amended by SFAS No. 148 requires those companies that continue to follow APB No. 25 to provide pro forma disclosure of the impact of applying the fair value method of SFAS No. 123.

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation.

The Company records compensation expense for the cost of restricted stock and restricted stock units by amortizing the grant date fair value of such grants over their vesting period.

Compensation expense related to the Employee Stock Purchase Plan (ESPP), used in determining the proforma net income and basic and diluted earnings per share amounts, is calculated in accordance with the provisions of FASB Technical Bulletin No. 97-1, Accounting under Statement 123 for certain Employee Stock Purchase Plans with a look-back option.

If compensation cost related to both the Company's stock option awards to employees and directors and to the ESPP had been determined under the fair value method prescribed under SFAS No. 123, the Company's net income, basic earnings per share, and diluted earnings per share would have been the pro forma amounts shown below for the three months ended March 31, 2005 and March 31, 2004:



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| (Dollars in thousands, except per share amounts)                                                           | For the three months ended |               |
|------------------------------------------------------------------------------------------------------------|----------------------------|---------------|
|                                                                                                            | March 31,                  |               |
|                                                                                                            | 2005                       | 2004          |
|                                                                                                            | (As Restated)              | (As Restated) |
| Net income, as reported                                                                                    | \$ 22,936                  | \$ 13,221     |
| Add: Stock-based compensation expense, net of tax reported in the net income                               | 662                        | 144           |
| Less: Total stock-based employee compensation expense determined under fair value based method, net of tax | (5,318)                    | (5,488)       |
| Net income, pro forma                                                                                      | \$ 18,280                  | \$ 7,877      |
| Earnings per common share basic:                                                                           |                            |               |
| As reported                                                                                                | \$ 0.64                    | \$ 0.38       |
| Pro forma                                                                                                  | 0.51                       | 0.23          |
| Earnings per diluted share diluted:                                                                        |                            |               |
| As reported                                                                                                | \$ 0.59                    | \$ 0.36       |
| Pro forma                                                                                                  | 0.48                       | 0.22          |

Refer to the Company's 2004 Form 10-K/A under Part II, Item 8, Consolidated Financial Statements and Supplementary Data, Note 19 to the Consolidated Financial Statements - Employee Benefit Plans for assumptions used in calculating the pro forma amounts above.

**Recent Accounting Pronouncements**



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In December 2004, the FASB issued SFAS No. 123, revised 2004, Share-Based Payment (SFAS No. 123(R)) which is a revision of SFAS No. 123 and supersedes APB No. 25. SFAS No. 123(R) requires the Company to measure the cost of employee services received in exchange for an award of equity instruments using a fair value method, and record such expense in the Company's consolidated financial statements for interim or annual reporting periods beginning after June 15, 2005. On April 14, 2005 the U.S. Securities and Exchange Commission (the SEC) provided issuers with an election to defer the adoption date of SFAS No. 123(R) from the first interim or annual reporting period beginning after June 15, 2005 to the first *annual* reporting period beginning after June 15, 2005. The Company elected to defer the effective date of SFAS No. 123(R) until fiscal 2006.

The adoption of SFAS No. 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. The adoption of SFAS No. 123(R) will have a material impact on the Company's consolidated results of operations, financial position, and statement of cash flows as such expense will then be reported in its consolidated financial statements rather than on a pro forma basis in the notes to the consolidated financial statements. The Company expects that the pro forma expense calculated under SFAS No. 123 (above) will approximate the expense to be recognized under SFAS No. 123(R).

### **3. Restatement of Financial Statements**



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As described in the Explanatory Note of this report and in the 2004 Form 10-K/A filed with the SEC prior to the filing of this Form 10-Q/A, the Company has restated its interim consolidated financial statements as of and for the three-month period ended March 31, 2005, the consolidated annual financial statements for the years 2004, 2003 and 2002, interim consolidated financial information for each of the quarters within fiscal 2004 and 2003, and selected financial data for fiscal years 2004, 2003, 2002, 2001 and 2000, for purposes of correcting mis-applications of GAAP (the Restatement). This note should be read in conjunction with Note 3, Restatement of Financial Statements in the Notes to the Company's consolidated financial statements included in Item 8 of Part II, Consolidated Financial Statements and Supplementary Data, of the 2004 Form 10-K/A, which provides further information on the nature and impact of the Restatement.

The primary restatement adjustments recorded due to the misapplication of GAAP are described below.

*Derivative equity warrant assets with net share settlement provisions were not accounted for as derivatives in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS No. 133).*

Derivative equity warrant assets with net share settlement provisions were not accounted for as derivatives in accordance with the provisions of SFAS No. 133, as amended. This misapplication of GAAP resulted in a change to the Company's interest income, provision for loan and lease losses, noninterest income and net income for the years ended December 31, 2004, 2003 and 2002 and for all quarterly periods during the years ended December 31, 2004 and 2003. The total impact, including all adjustments, increased (decreased) income before income tax expense by \$(1.2) million, \$6.1 million and \$5.0 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company often obtains derivative equity warrant assets to purchase an interest in a client's stock in connection with providing credit facilities and, less frequently, for providing other services. In general, the derivative equity warrant assets that it holds entitle the Company to buy a specific number of shares of stock at a specific price over a specific time period. Certain warrants obtained by the Company include contingent provisions, which set the underlying number of shares or strike price based upon certain future events. For example, the number of shares exercisable for some warrants is contingent upon the related lending facility, such as the extent of utilization of the facility, including draw frequency or amount. Or, in some cases, the underlying strike price of some warrants may be contingent upon resolution of an event such as the share price of a subsequent future round of equity financing of the issuer.

Previously, the Company recorded these equity warrant assets on its balance sheet at a nominal value until the date they became marketable, the date of expiration, or the date the issuer was acquired or completed an initial public offering. However, the Company determined that its accounting treatment of equity warrant assets in its private and public client companies should conform to a 2001 interpretation of SFAS No. 133 as amended. In April 2001, the FASB issued Statement 133 Derivative Implementation Group Issue No. A17, Contracts That Provide for Net Share Settlement, as revised (DIG A17), which was effective with the first financial quarter, after the cleared guidance was posted to the FASB website and remains effective for all subsequent periods.

As a result, the Company's accounting for equity warrant assets with net share settlement provisions has been revised beginning as of the third quarter of 2001. The net share settlement provision contained in each of the Company's warrant agreements allows it to realize value without a capital investment. Under such a provision, the client company delivers to the Company, upon its exercise of the warrant, the amount of shares with a current fair value equal to the net gain of the warrant agreement (sometimes described as a cashless exercise). Because the Company's warrant agreements contain such net share settlement provisions, its warrants are required to be accounted for as derivative instruments under SFAS No. 133, as amended.

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Under the revised accounting treatment, equity warrant assets in the Company's private and public client companies, which include net share settlement provisions are recorded at fair value and are classified as derivative assets, a component of other assets on the Company's balance sheet at the time they are obtained. The grant date fair values of these equity warrant assets are deemed to be loan fees and, as such, are required to be recognized as an adjustment of loan yield through interest income, as prescribed by SFAS No. 91 Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Indirect Costs of Leases (SFAS No. 91). Similar to other loan fees, the yield adjustment related to the grant date fair value of equity warrant assets, received directly in connection with the issuance of a credit facility, is recognized over the life of the related credit facility in interest income. Any changes in value of the warrant derivative assets subsequent to the grant date fair value are recognized in gains (losses) on derivative instruments, net in the Company's consolidated statements of income. If the warrant is in the money, the Company exercises these equity warrants for shares when a portfolio company completes an initial public offering on a publicly reported market or is acquired by a publicly traded company. On the date a warrant is exercised and exchanged for equity securities, it is marked to market as a derivative asset with the resulting change in value recognized in gains (losses) on derivative instruments, net, in noninterest income, a component of consolidated net income. As of the exercise date, the basis or value in the equity securities is reclassified from Other Assets to the Investment Securities line item on the balance sheet. The equity securities are classified as available-for-sale securities under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Instruments (SFAS No. 115). In accordance with the provisions of SFAS No. 115, changes in fair value of securities designated as available for sale are excluded from net income and reported in accumulated other comprehensive income after applicable taxes, which is a separate component of stockholders' equity.

The initial implementation of the 2001 interpretation of SFAS No. 133, as amended, caused us to recognize the fair value of the equity warrant assets on the Company's consolidated balance sheet as of the beginning of the third quarter of 2001. The Company recorded as unearned loan fees the estimated grant date fair value of the equity warrant assets that, as of July 1, 2001, would not yet have been amortized to interest income had this accounting policy been in place since the equity warrant assets were first received. The unearned loan fees recorded as of July 1, 2001 were amortized, as a loan yield adjustment, over the remaining life of the related credit facilities. In accordance with the implementation provisions of SFAS No. 133 as amended, the fair value of the equity warrant asset portfolio, less the amount recorded as unearned loan fees at July 1, 2001, is reported as a cumulative effect of a change in accounting principle.

*Initial non-refundable corporate finance fees were not reported in accordance with the provisions of Staff Accounting Bulletin No. 104, Revenue Recognition (SAB No. 104).*

Initial non-refundable corporate finance fees were not reported in accordance with the provisions of SAB No. 104. This misapplication of GAAP resulted in a change to the Company's consolidated noninterest income and net income for the years ended December 31, 2004, 2003 and 2002.

The Company is engaged by clients to provide merger and acquisition advisory services. The income from these engagements is typically comprised of an initial non-refundable fee due upon execution of the engagement letter and a contingent fee due upon a merger or acquisition event, if any. The engagement letters generally do not include a termination date. Corporate finance fees on mergers and acquisitions advisory services, a component of noninterest income, have been restated to defer the recognition of the initial upfront non-refundable retainer until the completion of all contractual obligations pursuant to the terms of the engagement letters or upon receipt or notification of an engagement termination letter. Therefore, the change in accounting resulted in a net increase (decrease) in corporate finance fees of \$0.1 million, \$(0.9) million and \$(1.2) million for the years ended December 31, 2004, 2003 and 2002, respectively, and a corresponding change in deferred revenue for the same periods, which has been or will be recognized in future periods.

*Non-refundable loan fees and costs associated with our lending products and fees associated with letters of credit were not reported in accordance with the provisions of SFAS No. 91.*

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Non-refundable loan fees and costs associated with the Company's lending products were not reported in accordance with the provisions of SFAS No. 91. This misapplication of GAAP resulted in a change to its interest income and net income for the years ended December 31, 2004, 2003 and 2002.

Through the Company's lending products and services, it extends loans and other credit facilities to its commercial clients, most often secured by the assets of its clients. The Company often obtains loan fees and incurs capitalizable costs in relation to the extension of these credit facilities to its clients. Net loan fee income, a component of interest income, has been restated to revise revenue recognition in accordance with the appropriate straight-line or interest method, as prescribed by SFAS No. 91. In addition, the Company inappropriately recognized non-refundable loan fees it receives for factoring loans immediately rather than deferring and amortizing fees over the term of the facility granted. In addition, the Company reclassified certain letters of credit fee income from loan interest income to noninterest income, as the probability of the commitment being exercised was deemed to be remote. The Company did not properly defer direct loan origination costs associated with originating certain loan products. Therefore, the Company restated its recognition of net loan fee income by reducing loan interest income by \$2.5 million, \$4.7 million and \$3.0 million for the years ended December 31, 2004, 2003 and 2002, respectively. These amounts were deferred and are recognized into income using the appropriate loan fee recognition methodology over the lives of the corresponding loans. In addition, we reclassified certain letters of credit fee income of \$7.6 million, \$7.0 million and \$8.4 million for the years ended December 31, 2004, 2003 and 2002, respectively, from loan interest income to non-interest income, as the probability of the commitment being exercised was deemed to be remote.

*Certain investment securities that were readily convertible to known amounts of cash and present insignificant risk of changes in value with original or purchased maturity dates of 90 days or less, were not reported as cash equivalents in accordance with the provisions of SFAS No. 95, Statement of Cash Flows (SFAS No. 95).*

Certain investment securities that were readily convertible to known amounts of cash and present insignificant risk of changes in value with original or purchased maturity dates of 90 days or less, were not reported as cash equivalents in accordance with the provisions of SFAS No. 95. This reclassification did not result in any change to the Company's revenue or net income for the years ended December 31, 2004, 2003 and 2002 or for any quarterly period during the years ended December 31, 2004 and 2003.

A reclassification has been made to the Company's consolidated balance sheets of money market mutual fund investments and commercial paper investments from Investment securities to the Federal funds sold, securities purchased under agreement to resell and other short-term investment securities line item. These investment securities were deemed to meet the definition of cash equivalents as they are readily convertible to known amounts of cash and present insignificant risk of changes in value with original or purchased maturity dates of 90 days or less. Cash equivalents are required to be reflected separately from investment securities pursuant to SFAS No. 95. Therefore, the Company reclassified these investment securities to Federal funds sold, securities purchased under agreement to resell and other short-term investment securities in the amounts of \$181.3 million and \$40.3 million as of December 31, 2004 and 2003, respectively.

*Current federal income taxes receivable and current federal income taxes payable were not reflected net on the Company's balance sheets in accordance with the provisions of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts (FIN No. 39).*

Current federal income taxes receivable and current federal income taxes payable were not reflected net on the Company's balance sheets. This misapplication of GAAP resulted in a change to the Company's Other assets and Other liabilities as of December 31, 2004 and 2003. Current federal income taxes receivable and current federal income taxes payable should be netted as the Company has the legal right of offset, as defined by FIN No. 39. Therefore, Other assets and Other liabilities have been restated to reflect the net current federal income taxes receivable or net current federal income taxes payable at each of these period ends. This correction of the accounting resulted in a decrease to both Other assets and Other liabilities of \$22.5 million and \$24.6 million as of December 31, 2004 and 2003, respectively.

*Impact of the Restatement of Financial Statements.*

The cumulative impact of the restatement, including all adjustments, increased the Company's opening retained earnings by \$11.7 million at January 1, 2002. Net income for 2003 and 2002 increased by, \$1.1 million and \$1.1 million, respectively, and decreased in 2004 by \$1.5 million.

The Company also recorded various other adjusting entries as part of the Restatement.

The impact of the restatement on the Company's interim consolidated balance sheet, statements of income, comprehensive income and condensed cash flows is shown in the accompanying tables.



## SVB FINANCIAL GROUP AND SUBSIDIARIES

## INTERIM CONSOLIDATED BALANCE SHEET

(Unaudited)

| (Dollars in thousands, except par value)                                                            | March 31,<br>2005         |                  |                     |
|-----------------------------------------------------------------------------------------------------|---------------------------|------------------|---------------------|
|                                                                                                     | As Previously<br>Reported | Adjustments      | As Restated         |
| <b>Assets</b>                                                                                       |                           |                  |                     |
| Cash and due from banks                                                                             | \$ 252,659                | \$ 4,947         | \$ 257,606          |
| Federal funds sold, securities purchased under agreement to resell and other short-term investments | 144,048                   | 53,378           | 197,426             |
| Investment securities                                                                               | 2,188,182                 | (58,614)         | 2,129,568           |
| Loans, net of unearned income                                                                       | 2,344,022                 | (4,475)          | 2,339,547           |
| Allowance for loan and lease losses                                                                 | (35,698)                  |                  | (35,698)            |
| Net loans                                                                                           | 2,308,324                 | (4,475)          | 2,303,849           |
| Premises and equipment, net of accumulated depreciation and amortization                            | 16,476                    | (388)            | 16,088              |
| Goodwill                                                                                            | 35,639                    |                  | 35,639              |
| Accrued interest receivable and other assets                                                        | 102,308                   | 27,540           | 129,848             |
| <b>Total assets</b>                                                                                 | <b>\$ 5,047,636</b>       | <b>\$ 22,388</b> | <b>\$ 5,070,024</b> |
| <b>Liabilities, Minority Interest, and Stockholders Equity</b>                                      |                           |                  |                     |
| Liabilities:                                                                                        |                           |                  |                     |
| Deposits:                                                                                           |                           |                  |                     |
| Noninterest-bearing demand                                                                          | \$ 2,642,591              | \$               | \$ 2,642,591        |
| NOW                                                                                                 | 29,320                    |                  | 29,320              |
| Money market                                                                                        | 1,191,474                 |                  | 1,191,474           |
| Time                                                                                                | 292,890                   |                  | 292,890             |
| Total deposits                                                                                      | 4,156,275                 |                  | 4,156,275           |
| Contingently convertible debt                                                                       | 146,975                   |                  | 146,975             |
| Junior subordinated debentures                                                                      | 50,272                    | (1,566)          | 48,706              |
| Other borrowings                                                                                    | 11,915                    |                  | 11,915              |
| Other liabilities                                                                                   | 80,409                    | 13,626           | 94,035              |
| Total liabilities                                                                                   | 4,445,846                 | 12,060           | 4,457,906           |
| Commitments and contingencies                                                                       |                           |                  |                     |
| Minority interest in capital of consolidated affiliates                                             | 84,924                    | 186              | 85,110              |
| Stockholders equity:                                                                                |                           |                  |                     |
| Preferred stock, \$0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding  |                           |                  |                     |
| Common stock, \$0.001 par value, 150,000,000 shares authorized; 35,406,732 shares outstanding       | 35                        |                  | 35                  |
| Additional paid-in capital                                                                          | 20,079                    | 1,009            | 21,088              |
| Retained earnings                                                                                   | 511,659                   | 11,188           | 522,847             |
| Unearned compensation                                                                               | (3,995)                   |                  | (3,995)             |
| Accumulated other comprehensive income                                                              | (10,912)                  | (2,055)          | (12,967)            |
| Total stockholders equity                                                                           | 516,866                   | 10,142           | 527,008             |
| <b>Total liabilities, minority interest, and stockholders equity</b>                                | <b>\$ 5,047,636</b>       | <b>\$ 22,388</b> | <b>\$ 5,070,024</b> |

## SVB FINANCIAL GROUP AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

| (Dollars in thousands, except per share amounts)                                                         | For the Three Months ended March 31, 2005 |             |             |
|----------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------|-------------|
|                                                                                                          | As Previously Reported                    | Adjustments | As Restated |
| <b>Interest Income:</b>                                                                                  |                                           |             |             |
| Loans                                                                                                    | \$ 48,029                                 | \$ (573)    | \$ 47,456   |
| Investment securities:                                                                                   |                                           |             |             |
| Taxable                                                                                                  | 21,736                                    | (762)       | 20,974      |
| Non-Taxable                                                                                              | 1,023                                     |             | 1,023       |
| Federal funds sold, securities purchased under agreement to resell and other short-term investments      | 2,197                                     | 762         | 2,959       |
| Total interest income                                                                                    | 72,985                                    | (573)       | 72,412      |
| Interest expense                                                                                         |                                           |             |             |
| Deposits                                                                                                 | 2,262                                     |             | 2,262       |
| Other borrowings                                                                                         | 795                                       |             | 795         |
| Total interest expense                                                                                   | 3,057                                     |             | 3,057       |
| Net interest income                                                                                      | 69,928                                    | (573)       | 69,355      |
| (Recovery of) provision for loan and lease losses                                                        | (3,843)                                   | 29          | (3,814)     |
| Net interest income after (recovery of) provision for loan and lease losses                              | 73,771                                    | (602)       | 73,169      |
| Noninterest income:                                                                                      |                                           |             |             |
| Client investment fees                                                                                   | 7,396                                     |             | 7,396       |
| Corporate finance fees                                                                                   | 4,748                                     | 66          | 4,814       |
| Letter of credit and standby letter of credit income                                                     | 4,693                                     | (2,323)     | 2,370       |
| Deposit service charges                                                                                  | 2,504                                     |             | 2,504       |
| Income from client warrants                                                                              | 1,723                                     | (1,723)     |             |
| Gains (losses) on derivative instruments, net                                                            |                                           | 4,026       | 4,026       |
| Gains (losses) on investment securities, net                                                             | 1,599                                     | (397)       | 1,202       |
| Other                                                                                                    | 3,512                                     | (684)       | 2,828       |
| Total noninterest income                                                                                 | 26,175                                    | (1,035)     | 25,140      |
| Noninterest expense:                                                                                     |                                           |             |             |
| Compensation and benefits                                                                                | 40,154                                    | 114         | 40,268      |
| Professional services                                                                                    | 5,070                                     |             | 5,070       |
| Net occupancy                                                                                            | 4,580                                     | 78          | 4,658       |
| Furniture and equipment                                                                                  | 2,719                                     |             | 2,719       |
| Business development and travel                                                                          | 2,090                                     |             | 2,090       |
| Correspondent bank fees                                                                                  | 1,221                                     |             | 1,221       |
| Data processing services                                                                                 | 1,013                                     |             | 1,013       |
| Telephone                                                                                                | 889                                       |             | 889         |
| Provision for (reduction of) unfunded credit commitments                                                 | (185)                                     |             | (185)       |
| Other                                                                                                    | 3,072                                     |             | 3,072       |
| Total noninterest expense                                                                                | 60,623                                    | 192         | 60,815      |
| Income before minority interest in net (income) losses of consolidated affiliates and income tax expense | 39,323                                    | (1,829)     | 37,494      |
| Minority interest in net (income) losses of consolidated affiliates                                      | 616                                       | (175)       | 441         |
| Income (loss) before income tax expense                                                                  | 39,939                                    | (2,004)     | 37,935      |
| Income tax expense (benefit)                                                                             | 15,789                                    | (790)       | 14,999      |

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|                                   |    |        |    |         |    |        |
|-----------------------------------|----|--------|----|---------|----|--------|
| Net income                        | \$ | 24,150 | \$ | (1,214) | \$ | 22,936 |
| Earnings per common share-basic   | \$ | 0.68   | \$ | (0.04)  | \$ | 0.64   |
| Earnings per common share-diluted | \$ | 0.62   | \$ | (0.03)  | \$ | 0.59   |

**SVB FINANCIAL GROUP AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENT OF INCOME**  
**(UNAUDITED)**

| (Dollars in thousands, except per share amounts)                                                         | Three Months Ended March 31, 2004 |             |             |
|----------------------------------------------------------------------------------------------------------|-----------------------------------|-------------|-------------|
|                                                                                                          | As Previously<br>Reported         | Adjustments | As Restated |
| <b>Interest Income:</b>                                                                                  |                                   |             |             |
| Loans                                                                                                    | \$ 36,632                         | \$ (1,124)  | \$ 35,508   |
| Investment securities:                                                                                   |                                   |             |             |
| Taxable                                                                                                  | 14,023                            | (529)       | 13,494      |
| Non-Taxable                                                                                              | 1,461                             |             | 1,461       |
| Federal funds sold, securities purchased under agreement to resell and other short-term investments      | 1,444                             | 529         | 1,973       |
| Total interest income                                                                                    | 53,560                            | (1,124)     | 52,436      |
| <b>Interest expense</b>                                                                                  |                                   |             |             |
| Deposits                                                                                                 | 2,014                             |             | 2,014       |
| Other borrowings                                                                                         | 726                               |             | 726         |
| Total interest expense                                                                                   | 2,740                             |             | 2,740       |
| Net interest income                                                                                      | 50,820                            | (1,124)     | 49,696      |
| (Recovery of) provision for loan and leases losses                                                       | 736                               | (91)        | 645         |
| Net interest income after (recovery of) provision for loan and lease losses                              | 50,084                            | (1,033)     | 49,051      |
| <b>Noninterest income:</b>                                                                               |                                   |             |             |
| Client investment fees                                                                                   | 6,268                             |             | 6,268       |
| Corporate finance fees                                                                                   | 4,087                             | 295         | 4,382       |
| Letter of credit and standby letter of credit income                                                     | 3,729                             | (1,058)     | 2,671       |
| Deposit service charges                                                                                  | 3,713                             |             | 3,713       |
| Income from client warrants                                                                              | 2,908                             | (2,908)     |             |
| Gains (losses) on derivative instruments, net                                                            |                                   | 2,565       | 2,565       |
| Gains (losses) on investment securities, net                                                             | 1,322                             | 147         | 1,469       |
| Other                                                                                                    | 2,859                             |             | 2,859       |
| Total noninterest income                                                                                 | 24,886                            | (959)       | 23,927      |
| <b>Noninterest expense:</b>                                                                              |                                   |             |             |
| Compensation and benefits                                                                                | 34,103                            | (696)       | 33,407      |
| Professional services                                                                                    | 3,339                             |             | 3,339       |
| Net occupancy                                                                                            | 4,523                             | 78          | 4,601       |
| Furniture and equipment                                                                                  | 2,909                             |             | 2,909       |
| Business development and travel                                                                          | 1,991                             |             | 1,991       |
| Correspondent bank fees                                                                                  | 1,281                             |             | 1,281       |
| Data processing services                                                                                 | 1,085                             |             | 1,085       |
| Telephone                                                                                                | 782                               |             | 782         |
| Provision for (reduction of) unfunded credit commitments                                                 | (719)                             |             | (719)       |
| Other                                                                                                    | 3,156                             |             | 3,156       |
| Total noninterest expense                                                                                | 52,450                            | (618)       | 51,832      |
| Income before minority interest in net (income) losses of consolidated affiliates and income tax expense | 22,520                            | (1,374)     | 21,146      |
| Minority interest in net (income) losses of consolidated affiliates                                      | (481)                             |             | (481)       |
| Income (loss) before income tax expense                                                                  | 22,039                            | (1,374)     | 20,665      |
| Income tax expense (benefit)                                                                             | 8,029                             | (585)       | 7,444       |
| Net income                                                                                               | \$ 14,010                         | \$ (789)    | \$ 13,221   |

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|                                   |    |      |    |        |    |      |
|-----------------------------------|----|------|----|--------|----|------|
| Earnings per common share-basic   | \$ | 0.40 | \$ | (0.02) | \$ | 0.38 |
| Earnings per common share-diluted | \$ | 0.38 | \$ | (0.02) | \$ | 0.36 |

## SVB FINANCIAL GROUP AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

## For the Three Months ended March 31, 2005

| (Dollars in thousands)                                                            | As Previously<br>Reported | Adjustments | As Restated |
|-----------------------------------------------------------------------------------|---------------------------|-------------|-------------|
| Net income                                                                        | \$ 24,150                 | \$ (1,214)  | \$ 22,936   |
| Other comprehensive income (loss), net of tax:                                    |                           |             |             |
| Cumulative translation gain:                                                      | 422                       | (422)       | 0           |
| Change in unrealized gains on available-for-sale investment securities:           |                           |             |             |
| Unrealized holding gains (losses), net of tax                                     | (13,738)                  | (313)       | (14,051)    |
| Reclassification adjustment for gains (losses) included in net income, net of tax | (1,945)                   | 1,742       | (203)       |
| Other comprehensive income (loss), net of tax                                     | (15,261)                  | 1,007       | (14,254)    |
| Comprehensive income (loss)                                                       | \$ 8,889                  | \$ (207)    | \$ 8,682    |

## For the Three Months ended March 31, 2004

| (Dollars in thousands)                                                            | As Previously<br>Reported | Adjustments | As Restated |
|-----------------------------------------------------------------------------------|---------------------------|-------------|-------------|
| Net income                                                                        | \$ 14,010                 | \$ (789)    | \$ 13,221   |
| Other comprehensive income (loss), net of tax:                                    |                           |             |             |
| Change in unrealized gains on available-for-sale investment securities:           |                           |             |             |
| Unrealized holding gains (losses)                                                 | 8,246                     | (1,402)     | 6,844       |
| Reclassification adjustment for gains (losses) included in net income, net of tax | (2,484)                   | 3,206       | 722         |
| Other comprehensive income (loss), net of tax                                     | 5,762                     | 1,804       | 7,566       |
| Comprehensive income (loss)                                                       | \$ 19,772                 | \$ 1,015    | \$ 20,787   |

## SVB FINANCIAL GROUP AND SUBSIDIARIES

## INTERIM CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

| (Dollars in thousands)                               | For the Three Months ended March 31,<br>2005 |             |             |
|------------------------------------------------------|----------------------------------------------|-------------|-------------|
|                                                      | As Previously<br>Reported                    | Adjustments | As Restated |
| <b>Cash flows from operating activities:</b>         |                                              |             |             |
| Net cash (used) provided by operating activities     | 10,782                                       | 1,158       | 11,940      |
| <b>Cash flows from investing activities:</b>         |                                              |             |             |
| Net cash (used) provided by investing activities     | 14,057                                       | (123,680)   | (109,623)   |
| <b>Cash flows from financing activities:</b>         |                                              |             |             |
| Net cash (used) provided by financing activities     | (74,502)                                     | (1)         | (74,503)    |
| Foreign exchange effect on cash and cash equivalents | 422                                          | (422)       |             |
| Net increase (decrease) in cash and cash equivalents | (49,241)                                     | (122,945)   | (172,186)   |
| Cash and cash equivalents at beginning of period     | 445,948                                      | 181,270     | 627,218     |
| Cash and cash equivalents at end of period           | \$ 396,707                                   | \$ 58,325   | \$ 455,032  |
| <b>Supplemental disclosures:</b>                     |                                              |             |             |
| Cash paid during the period for:                     |                                              |             |             |
| Interest paid                                        | \$ 3,035                                     | \$          | \$ 3,035    |
| Income taxes paid                                    | \$ 3,673                                     | \$          | \$ 3,673    |

| (Dollars in thousands)                               | For the Three Months ended March 31,<br>2004 |             |             |
|------------------------------------------------------|----------------------------------------------|-------------|-------------|
|                                                      | As<br>Previously<br>Reported                 | Adjustments | As Restated |
| <b>Cash flows from operating activities:</b>         |                                              |             |             |
| Net cash (used) provided by operating activities     | 2,912                                        | 1,066       | 3,978       |
| <b>Cash flows from investing activities:</b>         |                                              |             |             |
| Net cash (used) provided by investing activities     | (126,990)                                    | 18,422      | (108,568)   |
| <b>Cash flows from financing activities:</b>         |                                              |             |             |
| Net cash (used) provided by financing activities     | 19,501                                       | (92)        | 19,409      |
| Foreign exchange effect on cash and cash equivalents |                                              |             |             |
| Net increase (decrease) in cash and cash equivalents | (104,577)                                    | 19,396      | (85,181)    |
| Cash and cash equivalents at beginning of period     | 794,996                                      | 40,317      | 835,313     |
| Cash and cash equivalents at end of period           | \$ 690,419                                   | \$ 59,713   | \$ 750,132  |
| <b>Supplemental disclosures:</b>                     |                                              |             |             |
| Cash paid during the period for:                     |                                              |             |             |
| Interest paid                                        | \$ 2,599                                     | \$          | \$ 2,599    |
| Income taxes paid                                    | \$ 7,548                                     | \$          | \$ 7,548    |

Notes 2, 4, 5, 6, 7, 8 and 10 to the consolidated financial statements have also been restated.





**4. Earnings Per Share (EPS)**

The following is a reconciliation of basic EPS to diluted EPS for the three months ended March 31, 2005 and March 31, 2004: (Dollars and shares in thousands, except per share amounts)

| For the three months ended March 31, 2005                       |                                |                                                |                                      |
|-----------------------------------------------------------------|--------------------------------|------------------------------------------------|--------------------------------------|
|                                                                 | Net<br>Income<br>(As Restated) | Weighted<br>Average<br>Shares<br>(As Restated) | Per Share<br>Amount<br>(As Restated) |
| <b>Basic EPS:</b>                                               |                                |                                                |                                      |
| Income available to common stockholders                         | \$ 22,936                      | 35,632                                         | \$ 0.64                              |
| Effect of dilutive securities:                                  |                                |                                                |                                      |
| Stock options, restricted stock and convertible debt            |                                | 3,134                                          |                                      |
| <b>Diluted EPS:</b>                                             |                                |                                                |                                      |
| Income available to common stockholders and assumed conversions | \$ 22,936                      | 38,766                                         | \$ 0.59                              |
| For the three months ended March 31, 2004                       |                                |                                                |                                      |
|                                                                 | Net<br>Income<br>(As Restated) | Weighted<br>Average<br>Shares<br>(As Restated) | Per Share<br>Amount<br>(As Restated) |
| <b>Basic EPS:</b>                                               |                                |                                                |                                      |
| Income available to common stockholders                         | \$ 13,221                      | 34,881                                         | \$ 0.38                              |
| Effect of dilutive securities:                                  |                                |                                                |                                      |
| Stock options, restricted stock and convertible debt            |                                | 1,890                                          |                                      |
| <b>Diluted EPS:</b>                                             |                                |                                                |                                      |
| Income available to common stockholders and assumed conversions | \$ 13,221                      | 36,771                                         | \$ 0.36                              |

In September 2004, the EITF reached final consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share", requiring that contingently convertible securities should be treated as convertible securities and included in the calculation of diluted earnings per common share. The diluted earnings per common share for the three months ended March 31, 2005 and 2004, have been restated to reflect the December 31, 2004 adoption of EITF Issue 04-8. The potentially dilutive effect of the contingently convertible debt using the treasury stock method was 1,029,417 shares as of March 31, 2005. The Company included the dilutive effect of the \$150.0 million zero-coupon, convertible subordinated notes due June 15, 2008 in its fully diluted earnings per share (EPS) calculation using the treasury stock method, in accordance with the provisions of Emerging Issue Task Force (EITF) issue No. 90-19, "Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion" and Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings Per Share". However, the exposure draft of SFAS No. 128R, if adopted in its proposed form, will require the Company to change its accounting for the calculation of EPS on its contingently convertible debt to the if-converted method. The if-converted treatment of the contingently convertible debt would have decreased EPS by \$0.05 per diluted common share, or 8.5% for the three months ended March 31, 2005.

## 5. Investment Securities

The detailed composition of the Company's investment securities is presented as follows:

| (Dollars in thousands)                                                | March 31,<br>2005<br>(As Restated) | December 31,<br>2004 |
|-----------------------------------------------------------------------|------------------------------------|----------------------|
| Available-for-sale securities, at fair value                          | \$ 1,969,265                       | \$ 1,926,685         |
| Marketable securities (investment company fair value accounting)      | 473                                | 480                  |
| Non-marketable securities (investment company fair value accounting): |                                    |                      |
| Venture capital fund investments(1)                                   | 59,606                             | 52,547               |
| Other private equity investments(2)                                   | 18,743                             | 15,720               |
| Other investments(3)                                                  | 12,329                             | 11,247               |
| Non-marketable securities (equity method accounting):                 |                                    |                      |
| Other investments(4)                                                  | 3,089                              | 2,388                |
| Low income housing credit funds                                       | 13,473                             | 14,070               |
| Non-marketable securities (cost method accounting):                   |                                    |                      |
| Fund investments                                                      | 28,102                             | 27,409               |
| Federal Home Loan Bank stock (5)                                      | 12,798                             | 12,798               |
| Federal Reserve Bank stock (5)                                        | 7,954                              | 7,967                |
| Other private equity investments                                      | 3,736                              | 3,656                |
| Total investment securities                                           | \$ 2,129,568                       | \$ 2,074,967         |

(1) Includes \$48.4 million and \$45.3 million related to SVB Strategic Investors Fund, LP, at March 31, 2005, and December 31, 2004, respectively. The Company has a controlling ownership interest of 12.6% and 11.1% in the fund at March 31, 2005 and December 31, 2004, respectively. It also included \$11.2 million and \$7.3 million related to SVB Strategic Investors Fund II, LP, at March 31, 2005 and December 31, 2004, respectively. The Company has a controlling interest of 9.5% and 14.4% in the fund at March 31, 2005 and December 31, 2004, respectively.

(2) Includes \$18.7 million and \$15.7 million related to Silicon Valley BancVentures, LP, at March 31, 2005, and December 31, 2004, respectively. The Company has a controlling ownership interest of 10.7% in the fund for both periods ended March 31, 2005 and December 31, 2004.

(3) Includes \$9.3 million and \$9.0 million related to Partners for Growth, LP, at March 31, 2005 and December 31, 2004, respectively. The Company has a majority ownership interest of 53.2% in the fund for both periods ended March 31, 2005 and December 31, 2004. It also included \$3.0 million and \$2.3 million related to Gold Hill Venture Lending 03, LP, as of March 31, 2005 and December 31, 2004, respectively. The Company has a direct ownership interest of 4.8% in the fund for both periods ended March 31, 2005 and December 31, 2004.

(4) Includes \$3.1 million and \$2.4 million related to Gold Hill Venture Lending Partners 03, LLC, the general partner of Gold Hill Venture Lending 03, LP, as of March 31, 2005 and December 31, 2004, respectively. The Company has a majority interest of 90.7% in Gold Hill Venture Lending Partners 03, LLC. Gold Hill Venture Lending Partners 03, LLC has an ownership interest of 5.0% in the fund for both periods ended March 31, 2005 and December 31, 2004.

(5) Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock are restricted, as the Company is required to hold shares of FHLB and FRB stock under the Bank's borrowing agreements.

The following table presents the components of gains and losses on investment securities, for the three months ended March 31, 2005 and March 31, 2004.

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| (Dollars in thousands)                       | March 31,<br>2005<br>(As Restated) | March 31,<br>2004<br>(As Restated) |
|----------------------------------------------|------------------------------------|------------------------------------|
| Gross gains on investment securities:        |                                    |                                    |
| Available-for-sale securities, at fair value | \$ 50                              | \$ 1,233                           |
| Non-marketable securities                    |                                    |                                    |
| Venture capital fund investments             | 3,646                              | 1,293                              |
| Other private equity investments             | 405                                | 1,494                              |
| Total gross gains on investment securities   | 4,101                              | 4,020                              |
| Gross losses on investment securities:       |                                    |                                    |
| Available-for-sale securities, at fair value | (397)                              | (3)                                |
| Non-marketable securities                    |                                    |                                    |
| Venture capital fund investments             | (2,102)                            | (1,341)                            |
| Other private equity investments             | (400)                              | (1,207)                            |
| Total gross losses on investment securities  | (2,899)                            | (2,551)                            |
| Net gains (losses) on investment securities  | \$ 1,202                           | \$ 1,469                           |

## 6. Loans and Allowance for Loan and Lease Losses

The detailed composition of loans, net of unearned income of \$18.1 million and \$18.4 million, for the periods ended March 31, 2005, and December 31, 2004 is presented in the following table:

| (Dollars in thousands)              | March 31,<br>2005<br>(As Restated) | December 31,<br>2004 |
|-------------------------------------|------------------------------------|----------------------|
| Commercial loans                    | \$ 1,944,089                       | \$ 1,927,271         |
| Vineyard development                | 89,887                             | 80,960               |
| Commercial real estate              | 22,152                             | 18,562               |
| Total real estate construction      | 112,039                            | 99,522               |
| Real estate term consumer           | 27,671                             | 27,124               |
| Real estate term commercial         | 19,604                             | 16,720               |
| Total real estate term              | 47,275                             | 43,844               |
| Consumer and other                  | 236,144                            | 237,951              |
| Total loans, net of unearned income | \$ 2,339,547                       | \$ 2,308,588         |

The activity in the allowance for loan and lease losses for the three months ended March 31, 2005 and March 31, 2004 was as follows:

| (Dollars in thousands)                            | (As Restated)<br>Three months ended March 31, |           |
|---------------------------------------------------|-----------------------------------------------|-----------|
|                                                   | 2005                                          | 2004      |
| Beginning balance                                 | \$ 37,613                                     | \$ 49,862 |
| (Recovery of) provision for loan and lease losses | (3,814)                                       | 645       |
| Loans charged off                                 | (4,060)                                       | (3,964)   |
| Recoveries                                        | 5,959                                         | 2,838     |
| Ending balance                                    | \$ 35,698                                     | \$ 49,381 |

The aggregate recorded investment in loans for which impairment has been determined in accordance with SFAS No. 114 totaled \$13.4 million and \$14.0 million at March 31, 2005 and March 31, 2004, respectively. Allocations of the allowance for loan and lease losses specific to impaired loans totaled \$3.8 million at March 31, 2005, and \$4.7 million at March 31, 2004. Average impaired loans for the three months ended 2005 and 2004 totaled \$13.8 million and \$14.4 million, respectively.

## 7. Borrowings

The following table represents the outstanding borrowings at March 31, 2005 and December 31, 2004:

| (Dollars in thousands)                       | Maturity           | March 31,<br>2005<br>(As Restated) | December 31,<br>2004 |
|----------------------------------------------|--------------------|------------------------------------|----------------------|
| 0% Short-term borrowings(1)                  | September 28, 2005 | \$ 9,192                           | \$ 9,120             |
| Other borrowings                             | Overdraft          | 1,523                              |                      |
| Revolving line of credit - venture debt fund | Due on Demand      | 1,200                              | 700                  |
| <b>Total other borrowings</b>                |                    | <b>\$ 11,915</b>                   | <b>\$ 9,820</b>      |
| Contingently convertible debt                | June 15, 2008      | \$ 146,975                         | \$ 146,740           |
| Junior subordinated debentures               | October 15, 2033   | 48,706                             | 49,470               |

(1) Relates to the acquisition of SVB Alliant (Alliant Partners) in 2001 and are payable to the former owners, who have been employed by the Company. These notes were discounted over their respective terms, based on market interest rates as of September 28, 2001.

Interest expense related to other borrowings was \$0.8 million and \$0.7 million for the three months ended March 31, 2005 and 2004, respectively. The weighted average interest rates associated with the Company's borrowings outstanding for the three months ended March 31, 2005 and the year ended December 31, 2004 was 1.57% and 1.36%, respectively.

### *Contingently Convertible Debt*

On May 20, 2003, the Company issued \$150.0 million of zero-coupon, convertible subordinated notes at face value, due June 15, 2008, to qualified institutional buyers pursuant to Rule 144A under the Securities Act and outside the United States to non-US persons pursuant to Regulation S under the Securities Act. The notes are convertible into the Company's common stock at a conversion price of \$33.6277 per share and are subordinated to all present and future senior debt of the Company. Holders of the notes may convert their notes only if: (i) the price of the Company's common stock issuable upon conversion of a note reaches a specified threshold, (ii) specified corporate transactions occur, or (iii) the trading price for the notes falls below certain thresholds. At the initial conversion price, each \$1,000 principal amount of notes will be convertible into approximately 29.7374 shares of the Company's common stock. This represents 4,460,610 shares of the Company's common stock. On August 14, 2003, the Company filed a shelf registration statement with the Securities and Exchange Commission, with respect to the resale of the notes and the common stock issuable upon the conversion of the notes. The fair value of the convertible subordinated notes at March 31, 2005, was \$196.5 million, based on quoted market prices. The Company intends to settle the principal amount of \$150.0 million (accrued value) in cash. Based on the terms of the notes, if, at any time before June 15, 2007, the per share stock price on the last trading day of the immediately preceding fiscal quarter was 110% or more of the then current conversion price, the notes would become convertible. As of March 31, 2005, the Company was unaware of any note holders exercising their conversion option.

Concurrent with the issuance of the convertible notes, the Company entered into a convertible note hedge and a warrant transaction with respect to its common stock, with the objective of decreasing its exposure to potential dilution from conversion of the notes (see Note 8. Derivative Financial Instruments - Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock).

***7.0% Junior Subordinated Debentures***

On October 30, 2003, the Company issued \$51.5 million in 7.0% junior subordinated debentures to a special-purpose trust, SVB Capital II. The Company's distributions to SVB Capital II are cumulative and are payable quarterly at a fixed rate of 7.0% per annum of the face value of the junior subordinated debentures. The junior subordinated debentures are mandatorily redeemable upon the maturity of the debentures on October 15, 2033, or to the extent the Company redeems any debentures earlier. The Company may redeem the debentures prior to maturity in whole or in part, at its option, at any time on or after October 30, 2008. In addition, the Company may redeem the debentures, in whole but not in part, prior to October 30, 2008 upon the occurrence of certain events. Issuance costs of \$2.2 million related to the junior subordinated debentures were deferred and are being amortized over the period until mandatory redemption of the debentures in October 2033. Also see Note 8. Derivative Financial Instruments below. The fair value of the 7.0% junior subordinated debentures was estimated to be \$49.9 million as of March 31, 2005 and \$50.2 million as of December 31, 2004. The Company has guaranteed the trust preferred securities issued by SVB Capital II.

*Available Lines of Credit*





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As of March 31, 2005, the Company had available \$306.0 million in federal funds and lines of credit, all of which was unused. In addition to the available federal funds lines, the Company has reverse repurchase agreement lines available with multiple securities dealers. Reverse repurchase lines allow the Company to finance short-term borrowings using various fixed income securities as collateral. At March 31, 2005, the Company had not borrowed against any of its reverse repurchase lines.

### **8. Derivative Financial Instruments**



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The Company designates a derivative as held for hedging purposes or as non-hedging when it enters into a derivative contract. The designation may change based upon management's reassessment or changing circumstances. Derivative instruments that the Company obtains or uses include interest rate swaps, forward contracts, options and warrants. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward settlement contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date, rate or price. An option or warrant contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument (including another derivative financial instrument), index, currency or commodity at a predetermined rate or price during a period or at a time in the future. Option or warrant agreements can be transacted on organized exchanges or directly between parties. The Company records period end gross positive fair value of derivative assets in other assets and gross negative fair values of derivative instruments in other liabilities.

The total notional or contractual amounts, credit risk amount and estimated net fair value for derivatives were:

|                                    | Notional or contractual amount | (As Restated)<br>At March 31, 2005               |                          |
|------------------------------------|--------------------------------|--------------------------------------------------|--------------------------|
|                                    |                                | Credit risk Amount (1)<br>(Dollars in thousands) | Estimated net fair value |
| <b>Fair Value Hedge</b>            |                                |                                                  |                          |
| Interest rate swap                 | \$ 50,000                      | \$ 0                                             | \$ (783)                 |
| <b>Derivatives</b>                 |                                |                                                  |                          |
| Foreign exchange spot and forwards | 479,490                        | 5,398                                            | 846                      |
| Foreign currency options           | 17,250                         | 23                                               | 0                        |
| Equity warrant assets              | n/a                            | 28,824                                           | 28,824                   |

|                                    | Notional or contractual amount | (As Restated)<br>At December 31, 2004<br>(Dollars in thousands) |                          |
|------------------------------------|--------------------------------|-----------------------------------------------------------------|--------------------------|
|                                    |                                | Credit risk Amount (1)<br>(Dollars in thousands)                | Estimated net fair value |
| <b>Fair Value Hedge</b>            |                                |                                                                 |                          |
| Interest rate swap                 | \$ 50,000                      | \$ 49                                                           | \$ 49                    |
| <b>Derivatives</b>                 |                                |                                                                 |                          |
| Foreign exchange spot and forwards | 525,434                        | 10,011                                                          | (431)                    |
| Foreign currency options           | 13,460                         | 47                                                              | 0                        |
| Equity warrant assets              | n/a                            | 28,928                                                          | 28,928                   |

(1) Credit risk amounts reflect the replacement cost for those contracts in a gain position in the event of nonperformance by any such counterparties.

### *Fair Value Hedges*

Derivative instruments that the Company holds as part of its interest rate risk management may include interest rate swaps, caps and floors, and forward contracts. On October 30, 2003, the Company entered into an interest rate swap agreement with a notional amount of \$50.0 million. This agreement hedges against the risk of changes in fair values associated with the majority of the Company's 7.0% fixed rate, junior subordinated debentures. For information on the Company's junior subordinated debentures, see Note 7 - Borrowings.

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The terms of this fair value hedge agreement provide for a swap of the Company's 7.0% fixed rate payment for a variable rate based on London Inter-Bank Offer Rate (LIBOR) plus a spread. Because the swap meets the criteria for the short-cut treatment, the benefit or expense is recorded in the period incurred. This derivative agreement provided income of \$0.4 million and \$0.6 million in

the first three months of 2005 and 2004, respectively. The swap agreement mirrors the terms of the junior subordinated debentures and therefore is callable by the counterparty anytime on or after October 30, 2008. The Company assumes no ineffectiveness as the swap agreement meets the short-cut method requirements under SFAS No. 133 for fair value hedges of debt instruments. As a result, changes in the fair value of the swap are offset by changes in the fair value of the junior subordinated debentures, and no net gain or loss is recognized in earnings. Changes in the fair value of the derivative agreement and the junior subordinated debentures are primarily dependent on changes in market interest rates.

### *Derivatives*

The Company enters into various derivatives primarily to provide derivative products or services to customers. These derivatives are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting.

The Company enters into foreign exchange forward contracts and non-deliverable foreign exchange forward contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency at a future date, depending upon the client's need. For each of the foreign exchange forward contracts and non-deliverable foreign exchange forward contracts entered into with its clients, the Company enters into an opposite way foreign exchange forward contract and non-deliverable foreign exchange forward contract with a correspondent bank, which mitigates the risk of fluctuations in foreign currency exchange rates. These contracts are short-term in nature, typically expiring within one year. The Company has not experienced nonperformance by counterparties and therefore has not incurred related losses. Further, the Company anticipates performance by all counterparties to such agreements. Period end fair value of foreign currency forward contracts is included in other assets and other liabilities as of March 31, 2005 and December 31, 2004. The change in fair value of these contracts is recorded in the line item gains (losses) on derivative instruments, net in noninterest income, a component of consolidated net income.

The Company enters into foreign currency option contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency options, depending upon the client's need. For each of the currency option contracts entered into with its clients, the Company enters into an opposite way foreign currency option contract with a correspondent bank, which mitigates the risk of fluctuations in foreign currency exchange rates. These contracts typically expire in less than one year. The Company has not experienced nonperformance by counterparties and therefore has not incurred related losses. Further, the Company anticipates performance by all counterparties. The change in fair value of these contracts is recorded in gains (losses) on derivatives, net in noninterest income, a component of consolidated net income.

The Company enters into foreign exchange forward contracts with correspondent banks to economically hedge the risk of fluctuations in the foreign exchange exposure risk related to certain foreign currency denominated loans. These contracts are short term in nature, typically expiring within one year. The Company has not experienced nonperformance by counterparties and therefore has not incurred related losses. Further, the Company anticipates performance by all counterparties to such foreign exchange forward contracts. The change in fair value of these contracts is recorded in gains (losses) on derivatives, net in noninterest income, a component of consolidated net income.

The Company obtains derivative equity warrant assets to purchase an equity position in a client company's stock in consideration for providing credit facilities and less frequently for providing other services. The purpose of obtaining warrants from client companies is intended to increase future revenue. Period end date fair value is recorded in the Other Assets line item on the balance sheet. The change in

fair value of equity warrant assets is recorded in noninterest income, a component of consolidated net income. The change in fair value of the warrants resulted in a net loss of \$0.1 million and \$2.2 million for the three months ended March 31, 2005 and 2004, respectively. For information on the Company's change in the value of equity warrant assets, see Note 3 Restatement of Financial Statements.

*Derivative Fair Value Instruments Indexed to and Potentially Settled in a Company's Own Stock*

Concurrent with the issuance of the \$150 million principal amount of contingency convertible notes, (See Note 7 Borrowings), the Company entered into a convertible note hedge (purchased call option) at a cost of \$39.3 million and a warrant transaction providing proceeds of \$17.4 million with respect to its common stock, with the objective of decreasing its exposure to potential dilution from conversion of the contingently convertible notes (See Note 7. Borrowings.). Under the terms of the convertible note hedge, upon the occurrence of conversion events, the Company has the right to purchase up to 4,460,610 shares of its common stock from the counterparty at a price of \$33.6277 per common share. The convertible note hedge agreement will expire on June 15, 2008. The Company has the option to settle any amounts due under the convertible hedge either in cash or net shares of its common stock. The cost of the convertible note hedge is included in stockholders' equity in accordance with the guidance in EITF No. 00-19. Under the warrant agreement, the counterparty may purchase up to 4,460,608 shares of the Company's common stock at \$51.34 per share, upon the occurrence of conversion events described above. The warrant transaction will expire on June 15, 2008. The proceeds of the warrant transaction were included in stockholders' equity in accordance with the guidance in EITF

No. 00-19. During the three month periods ending March 31, 2005 and 2004, the warrant was not dilutive to the Company's EPS, as the Company's average common stock price remained below \$51.34 during these periods.

## 9. Common Stock Repurchase

*\$75.0 million share repurchase program authorized by the Company's Board of Directors, effective January 27, 2005*

On January 27, 2005, the Company announced that its Board of Directors authorized the repurchase of up to an additional \$75.0 million of common stock under the Company's stock repurchase program, in conjunction with the \$160.0 million originally approved in May 2003. The additional \$75.0 million of shares may be repurchased at any time, at the Company's discretion, before June 30, 2006, in the open market, through block trades or otherwise, pursuant to applicable securities laws. Depending on market conditions, availability of funds, and other relevant factors, the repurchase of the additional shares may be commenced or suspended at any time prior to June 30, 2006, without any prior notice.

The Company repurchased 767,500 shares of its common stock for \$33.9 million in the first quarter of 2005 under the May 2003 stock repurchase program. During the first quarter, the Company put into effect a 10b5-1 plan which allows the Company to automatically repurchase a predetermined number of shares per day at the market price. Since May 2003 when the program was approved by the Board of Directors, the Company has repurchased 5.6 million shares totaling \$159.8 million as of March 31, 2005. The approximate dollar value of shares that may still be repurchased under this program is \$75.2 million.

Included in the common stock repurchase activity in the first quarter was a block transaction of 400,000 shares of the Company's common stock which was repurchased on March 2, 2005 from one of its principal stockholders, H.A. Schupf & Co., LLC. The shares were repurchased at a price of \$44.20 per share for an aggregate price of \$17.7 million, which reflected a discount from the current asking price, as quoted on the Nasdaq National Market, at the time the transaction was entered into.

## 10. Segment Reporting

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company reports segment information based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing financial performance as the source of the Company's reportable segments.

The Company is organized into five lines of banking and financial services for management reporting: Commercial Banking, SVB Capital, SVB Alliant, Global Financial Services, and Private Client Services and Other. These operating segments are strategic units that offer different services to different clients. The segments are managed separately because they appeal to different markets and, accordingly, require different strategies. The results of operating segments are based on the Company's internal profitability reporting process. This process assigns each client relationship in its entirety, to a primary operating segment. The process assigns income and expenses to the operating segments according to the customer's primary relationship designation. Additionally, working capital and its associated costs are allocated to the operating segments on an economic basis, treating each operating segment as if it were an independent entity. 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,



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authoritative guidance for management reporting. The management reporting process measures the performance of operating segments based on the Company's internal operating structure and is not necessarily comparable with similar information for other financial services companies. Changes in the management structure and/or the allocation process have resulted, and may in the future result in changes in the Company's allocation methodology as this process is under constant refinement. In the event of such changes, results for prior periods have been, and may be restated for comparability. Changes in an individual client's primary relationship designation have resulted, and may in the future result, in certain client's inclusion in different segments in different periods.

As of March 31, 2005, based on the quantitative threshold for determining reportable segments as required by SFAS No. 131, the Company's reportable segments are: Commercial Banking and SVB Capital. SVB Alliant, Private Client Services and Global Financial Services do not meet the separate reporting thresholds as defined by SFAS No. 131 and as such, have been aggregated in a column labeled Other Business Services for segment reporting purposes. For further information, please see the Company's 2004 Form 10-K/A under Part II, Item 8. Consolidated Financial Statements and Supplementary Data - Note 25. Segment Reporting.

Commercial Banking provides solutions to the needs of the Company's commercial clients in the technology, life science, and premium wine industry niches, through the Company's lending, cash and deposit management, and global banking and trade products and services.

SVB Capital focuses on the business needs of the Company's venture capital and private equity clients while establishing and maintaining relationships with those firms domestically and internationally. Through this segment, the Bank provides banking services and financial solutions, including traditional deposit and checking accounts, loans, letters of credit, and cash management services.

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The Other Business Services segment is principally comprised of Private Client Services, SVB Alliant, and Global Financial Services and other business service units that are not part of the Commercial Bank or SVB Capital segments. The Private Client Services group provides a wide range of credit services to high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. Those products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans, airplane loans, and capital call lines of credit. SVB Alliant provides investment banking products and services including, merger and acquisition services, strategic alliances services, and specialized financial studies such as valuations and fairness opinions. Global Financial Services serves the needs of the Company's domestic clients with global banking products, including foreign exchange and global finance and access to SVB Financial Group's international banking network for in-country services abroad. Global Financial Services also supports venture capital and commercial banking clients with business services through subsidiaries in India and the United Kingdom.

The other business services units provide various products and services. The Other Business Services segment also reflects those adjustments necessary to reconcile the results of operating segments based on the Company's internal profitability reporting process to the interim consolidated financial statements prepared in conformity with GAAP.

The Company's primary source of revenue is from net interest income. Accordingly, the Company's segments are reported using net interest income. The Company also evaluates performance based on noninterest income and noninterest expense, which are presented as components of segment operating profit or loss. The Company does not allocate income taxes to its segments. Additionally, the Company's management reporting model is predicated on average asset balances; therefore it is not possible to provide period-end asset balances for segment reporting purposes.

The Company's segment information at and for the three months ended March 31, 2005 and 2004 are as follows:

|                                                                     | Commercial<br>Banking | SVB<br>Capital | Other Business<br>Services | Total        |
|---------------------------------------------------------------------|-----------------------|----------------|----------------------------|--------------|
| <b>Three months ended March 31, 2005 (As Restated)</b>              |                       |                |                            |              |
| Net interest income                                                 | \$ 50,955             | \$ 4,096       | \$ 14,304                  | \$ 69,355    |
| (Recovery of) provision for loan and lease losses (1)               | (3,413)               |                | (401)                      | (3,814)      |
| Noninterest income (2)                                              | 18,646                | 3,118          | 3,376                      | 25,140       |
| Noninterest expense (3)                                             | 42,586                | 4,696          | 13,533                     | 60,815       |
| Minority interest in net (income) loss of consolidated affiliates   |                       |                | 441                        | 441          |
| Income (loss) before income tax expense (5)                         | \$ 30,428             | \$ 2,518       | \$ 4,989                   | \$ 37,935    |
| Total average loans                                                 | \$ 1,852,900          | \$ 82,245      | \$ 237,770                 | \$ 2,172,915 |
| Total average assets (4)                                            | 1,875,453             | 207,115        | 3,049,313                  | 5,131,881    |
| Total average deposits                                              | 3,443,374             | 601,927        | 151,843                    | 4,197,144    |
| Goodwill at March 31, 2005                                          |                       |                | 35,639                     | 35,639       |
| <b>Three months ended March 31, 2004 (As Restated)</b>              |                       |                |                            |              |
| Net interest income                                                 | \$ 38,046             | \$ 2,434       | \$ 9,216                   | \$ 49,696    |
| (Recovery of) provision for loan and lease losses(1)                | 1,218                 | 4              | (577)                      | 645          |
| Noninterest income (2)                                              | 18,574                | 847            | 4,506                      | 23,927       |
| Noninterest expense(3)                                              | 37,823                | 3,720          | 10,289                     | 51,832       |
| Minority interest in net (income) losses of consolidated affiliates |                       |                | (481)                      | (481)        |

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|                                             |    |           |    |         |    |           |    |           |
|---------------------------------------------|----|-----------|----|---------|----|-----------|----|-----------|
| Income (loss) before income tax expense (5) | \$ | 17,579    | \$ | (443)   | \$ | 3,529     | \$ | 20,665    |
| Total average loans                         | \$ | 1,519,373 | \$ | 63,725  | \$ | 221,655   | \$ | 1,804,753 |
| Total average assets (4)                    |    | 1,514,187 |    | 144,167 |    | 2,778,698 |    | 4,437,052 |
| Total average deposits                      |    | 3,003,583 |    | 478,904 |    | 137,624   |    | 3,620,111 |
| Goodwill at March 31, 2004                  |    |           |    |         |    | 35,639    |    | 35,639    |

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(1) For segment reporting purposes, the Company reports net loan charge-offs as provision for loan and lease losses. Thus, the Other Business Services segment includes \$(1.9) million and \$(0.6) million for the three months ended March 31, 2005 and 2004, respectively, which represent the difference between net charge-offs and the provision for loan and lease losses.

(2) Noninterest income presented in the Commercial Banking segment included cash warrant income of \$1.7 million and \$2.9 million, for the three months ended March 31, 2005 and 2004, respectively.

(3) Commercial Banking segment included direct depreciation and amortization of \$0.4 million and \$0.3 million for the three months ended March 31, 2005 and 2004, respectively. Due to the complexity of the Company's cost allocation model, it is not feasible to determine the exact amount of

the remaining depreciation and amortization expense allocated to the various business segments totaling approximately \$1.7 million and \$1.8 million for the three months ended March 31, 2005 and 2004, respectively.

(4) Total assets for the Commercial Banking, SVB Capital, and Other segments equals the greater of total loans or the sum of total deposits and total stockholders' equity for each segment.

(5) The internal reporting model used by the Company's management to assess segment performance does not calculate tax expense by segment. The Company's effective tax rate is a reasonable approximation of the segment rates.

## 11. Obligations Under Guarantees

The Company provides guarantees related to financial and performance standby letters of credit issued to its clients to enhance their credit standings and enable them to complete a wide variety of business transactions. Financial standby letters of credit are conditional commitments issued by the Company to guarantee the payment by a client to a third party (beneficiary). Financial standby letters of credit are primarily used to support many types of domestic and international payments. Performance standby letters of credit are issued to guarantee the performance of a client to a third party when certain specified future events have occurred. Performance standby letters of credit are primarily used to support performance instruments such as bid bonds, performance bonds, lease obligations, repayment of loans, and past due notices. These standby letters of credit have fixed expiration dates and generally require a fee paid by a client at the time the Company issues the commitment. Fees generated from these standby letters of credit are recognized in noninterest income over the commitment period using straight-line method.

The credit risk involved in issuing letters of credit is essentially the same as that involved with extending loan commitments to clients, and accordingly, the Company uses a credit evaluation process and collateral requirements similar to those for loan commitments. The Company's standby letters of credit are often cash-secured by its clients. The actual liquidity needs or the credit risk that the Company has experienced historically have been lower than the contractual amount of letters of credit issued because a significant portion of these conditional commitments expire without being drawn upon.

The table below summarizes the Company's standby letter of credits at March 31, 2005. The maximum potential amount of future payments represents the amount that could be remitted under the standby 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 as of March 31, 2005) | Expires within one year or less | Expires after one year | Total amount outstanding | Maximum amount of future payments |
|---------------------------------------------|---------------------------------|------------------------|--------------------------|-----------------------------------|
| Financial standby                           | \$ 531,846                      | \$ 49,783              | \$ 581,629               | \$ 581,629                        |
| Commercial standby                          | 9,784                           |                        | 9,784                    | 9,784                             |
| Performance standby                         | 8,476                           | 5,311                  | 13,787                   | 13,787                            |
| Total                                       | \$ 550,106                      | \$ 55,094              | \$ 605,200               | \$ 605,200                        |

At March 31, 2005, the carrying amount of the liabilities related to financial and performance standby letters of credit was approximately \$3.5 million. At March 31, 2005, cash and investment securities collateral available to us to reimburse losses under financial and performance standby letters of credits was \$245.2 million.

In addition to standby letter of credit guarantees, the Company has issued additional guarantees as off-balance sheet arrangements. As of March 31, 2005, those guarantees include the following:

The Bank, as a financial provider, routinely guarantees credit cards for some of its customers which have been provided by an unaffiliated financial institution. The Bank has recourse against the customer for any amount it is required to pay to a third party in the event of default under these arrangements. These guarantees are subject to the same credit policies, underwriting standards and approval process as loans made by the Bank. Certain of these amounts are secured by certificates of deposit and other assets which the Bank has rights to in the event of nonperformance by the customers. The contract amount of these credit cards, which represents the maximum potential future payments guaranteed, including interest and principal payments by the Bank was \$46.8 million at March 31, 2005. It is not considered probable that material losses would be incurred by the Bank as a result of these arrangements.

The Company may be required to make contingent payments to the former owners of Woodside Asset Management based on their future revenue growth. During 2004, the Company paid one earn-out payment of \$338,000 to the former owners of Woodside Asset Management. As of March 31, 2005, under the acquisition agreement, the maximum future gross earn-out payments to Woodside Asset Management's former owners are \$1.6 million.

## 12. Legal Matters

On May 24, 2001, Gateway Communications, Inc. (Gateway) filed a lawsuit in the United States Bankruptcy Court for the Southern District of Ohio (Western Division) naming the Bank as a defendant. Gateway (the debtor in the bankruptcy case) alleges that the Bank's actions in connection with a loan resulted in Gateway's bankruptcy, and seeks \$20,000,000 in compensatory damages, punitive damages, interest and attorneys' fees. On June 24, 2003, the Court dismissed four of the five counts in the complaint, including the claim for punitive damages, leaving one breach of contract claim. The Company believes that the sole remaining claim has no merit and intends to defend the lawsuit vigorously. Thus, the Company has not accrued any amount related to potential damages from this case. The action is scheduled for trial in December 2005.

The Company is unable to predict at this time the final outcome of the above matter and the ultimate effect, if any, on the Company's liquidity, consolidated financial position or results of operations.

Additionally, from time to time, the Company is subject to other legal claims and proceedings that are in the normal course of the Company's business. While the outcome of these matters is currently not determinable, based on information available to the Company, its review of such claims to date and consultation with outside counsel, the Company does not currently expect that the ultimate costs to resolve these matters, if any, will have a material adverse effect on the Company's liquidity, consolidated financial position or results of operations.

## 13. Subsequent Event

### *Repurchases under the Company's stock repurchase program*

From April 1, 2005 through April 30, 2005, the Company repurchased 0.2 million shares of its common stock totaling \$7.4 million under the stock repurchase program. Since May 2003 when the program was approved by the Board of Directors, the Company has repurchased 5.8 million shares totaling \$167.1 million as of April 30, 2005. As of such date, the approximate dollar value of shares that may still be repurchased under this program is \$67.9 million.

### *Default upon Zero-Coupon Convertible Subordinated Notes*

On October 12, 2005 and December 16, 2005, the trustee under the note indenture relating to the Company's \$150.0 million zero-coupon convertible subordinated notes due June 15, 2008, provided notice in accordance with the terms of the indenture that the Company was in breach of its covenant to remain current in its SEC filings because of its failure to file its Quarterly Reports on Form 10-Q for the quarters ended June 30, 2005 and September 30, 2005, respectively. The Company's failure to cure this breach within 60 days of the October 12, 2005 notice constituted an event of default under the indenture as of December 11, 2005. As the indenture does not provide for any right of acceleration of the payment of the principal of the notes upon a default in the performance of any covenant or agreement in the notes or in the indenture, the trustee and the holders are not entitled to accelerate the maturity of the notes upon the occurrence of the aforementioned event of default. As a result, this event of default did not constitute a material default with respect to the Company's indebtedness. Upon the occurrence of this event of default, the trustee was entitled, subject to certain limitations and conditions, to seek to enforce the performance of such covenant. In addition, during the period that the event of default was continuing, the Company could not pay cash upon conversion of any note or portion of the note (other than cash for fractional shares). Upon the filing by the Company of its Quarterly Reports on Form 10-Q for the quarters ended June 30,

2005 and September 30, 2005, any default or event of default under these notices will be cured.

**ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis below contain forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in Item 3. Quantitative and Qualitative Disclosures about Market Risk Factors That May Affect Future Results.

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 notes as presented in Part I - Item 1 of this report and in conjunction with our 2004 Form 10-K/A, which was filed with the Securities and Exchange Commission prior to the filing of this 10-Q/A. 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.

All of the numbers impacted by the Restatement in this section are as restated.

**Restatement of Financial Statements**

We have restated our interim consolidated financial statements as of and for the three-month period ended March 31, 2005, the consolidated annual financial statements for the years 2004, 2003 and 2002, quarterly financial data for each of the quarters within fiscal 2004 and 2003, and selected financial data for fiscal years 2004, 2003, 2002, 2001 and 2000, for purposes of correcting misapplications of GAAP (the Restatement).

As previously disclosed, the Board of Directors decided on July 18, 2005 that we should restate these financial statements after concluding that our accounting for our warrant portfolio should conform to certain accounting pronouncements for derivative instruments interpreting Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133). The restated financial statements reflect changes in our derivative equity warrant accounting and other related changes. Additionally, in connection with the Restatement process, we reviewed, corrected and modified, where appropriate, certain of our accounting policies and practices. Changes made as a result of such corrections are also included in the restated financial statements and the selected financial data as applicable.

In connection with the Restatement, we made corrections primarily related to our reporting of: (i) our derivative equity warrant assets pursuant to SFAS 133 and other related changes, (ii) our initial non-refundable corporate finance fees pursuant to Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104), (iii) our non-refundable loan fees and costs associated with our lending products pursuant to SFAS No. 91, *Accounting for Nonrefundable Fees and Costs associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (SFAS No. 91), (iv) certain investment securities that were readily convertible to known amounts of cash and presented insignificant risk of changes in value with original or purchased maturity dates of 90 days or less were reclassified and reported as cash equivalents pursuant to SFAS No. 95, *Statement of Cash Flows* and (v) our current federal income taxes receivable and current federal income taxes payable were not reflected net on our balance sheets in accordance with the provisions of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*.



The Company also recorded various other adjusting entries as part of the Restatement.

For further information on the nature and impact of the Restatement, see Note 3. Restatement of Financial Statements in the notes to our consolidated financial statements included in Item 8 of Part II, Consolidated Financial Statements and Supplementary Data, of our 2004 Form 10-K/A.

### **Overview of Company Operations**

SVB Financial Group is a bank holding company and a financial holding company that was incorporated in the state of Delaware in March 1999. Our principal subsidiary, Silicon Valley Bank, is a California state-chartered bank and a member of the Federal Reserve System. Silicon Valley Bank's deposits are insured by the Federal Deposit Insurance Corporation. Our corporate headquarters is located at 3003 Tasman Drive, Santa Clara, California 95054, and our telephone number is 408.654.7400. When we refer to SVB Financial Group, or we or use similar words, we intend to include SVB Financial Group and all of its subsidiaries collectively, including Silicon Valley Bank. When we refer to SVB Financial, we are referring only to the parent company, SVB Financial.

For over 20 years, we have been dedicated to helping entrepreneurs succeed, specifically focusing on industries where we have deep knowledge and relationships. Our focus is on the technology, life science, private equity, and premium wine industries. We continue to diversify our products and services to support our clients throughout their life cycles, regardless of their age or size. We offer a range of financial services that generate three distinct sources of income.

In part, our income is generated from interest rate differentials. The difference between the interest rates received on interest-earning assets, such as loans extended to clients and securities held in our investment portfolio, and the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, accounts for the major portion of our earnings. Our deposits are

largely obtained from commercial clients within our technology, life science, private equity, and premium wine industry sectors, and, to a lesser extent, from individuals served by our Private Client Services group. We do not obtain deposits from conventional retail sources and have no brokered deposits. As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of warrants in certain client companies.

Fee-based services also generate income for our business. We market our full range of financial services to all of our commercial and private equity firm clients. In addition to commercial banking and private client services, we offer fee-based merger and acquisition services, private placements, and investment and advisory services. Our ability to integrate and cross-sell our diverse financial services to our clients is a strength of our business model.

In addition, we seek to obtain returns through investments in private equity and venture capital fund investments. We manage three limited partnerships: a venture capital fund that invests directly in privately held companies and two funds that invest in other venture capital funds.

## **Business Overview**



SVB Financial Group is organized into groups, which manage the diverse financial services we offer:

*Commercial Banking*



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We provide solutions to the needs of our commercial clients in the technology, life science, private equity and premium wine industries through our lending, deposit account and cash management, and global banking and trade products and services.

Through our lending products and services, we extend loans and other credit facilities to our commercial clients, most often secured by the assets of our clients. Lending products and services include traditional term loans, equipment loans, revolving lines of credit, accounts-receivable based lines of credit, asset-based loans, real estate loans, vineyard development loans, and financing of affordable housing projects. We often obtain warrants to purchase an equity position in a client company's stock in consideration for making loans, or for providing other services.

Our deposit account and cash management products and services provide commercial clients with short and long-term cash management solutions. Deposit account products and services include traditional deposit and checking accounts, certificates of deposit, and money market accounts. In connection with deposit accounts, we also provide lockbox and merchant services that facilitate quicker depositing of checks and other payments to clients' accounts. Cash management products and services include wire transfer and Automated Clearing House (ACH) payment services to enable clients to transfer funds quickly from their deposit accounts. Additionally, the cash management services unit provides collection services, disbursement services, electronic funds transfers, and online banking through SVBeConnect.

Our global banking and trade products and services facilitate our clients' global finance and business needs. These products and services include foreign exchange services that allow commercial clients to manage their foreign currency risks through the purchase and sale of currencies on the global inter-bank market. To facilitate our clients' international trade, we offer a variety of loans and credit facilities guaranteed by the Export-Import Bank of the United States. We also offer letters of credit, including export, import, and standby letters of credit, to enable clients to ship and receive goods globally.

The Commercial Banking group also provides investment services to our clients through our broker-dealer subsidiary, SVB Securities. SVB Securities is registered with the National Association of Securities Dealers, Inc. (NASD). These services, which include money market mutual funds, fixed income securities and repurchase agreements enable our clients to better manage their assets. We also offer investment advisory services through SVB Asset Management, one of our registered investment advisor subsidiaries. SVB Asset Management specializes in outsourced treasury management, customized cash portfolio management and reporting and monitoring for corporations.

### *SVB Capital*



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SVB Capital focuses on the business needs of our venture capital and private equity clients, establishing and maintaining relationships with those firms domestically and internationally. Through this segment, we provide banking services and financial solutions, including traditional deposit and checking accounts, loans, letters of credit, and cash management services.

SVB Capital also makes investments in venture capital and other private equity firms and in companies in the niches we serve. The segment also manages three venture funds that are consolidated into our financial statements: SVB Strategic Investors Fund, LP and SVB Strategic Investors Fund II, LP, which are funds of funds that invest in other venture funds, and Silicon Valley BancVentures, LP, a direct equity venture fund that invests in privately held technology and life-science companies. This segment also includes investments in Gold Hill Venture Lending 03, LP and its parallel funds (collectively known as Gold Hill Venture



Lending 03, LP), which provide secured debt to emerging growth clients in their earlier stages, and Partners for Growth, LP, a fund that provides secured debt to higher risk, emerging growth clients in their later stages. We define emerging-growth clients as companies in the start-up or early stages of their lifecycle. These companies tend to be privately held and backed by venture capital; they generally have few employees, have brought relatively few products or services to market, and have no or little revenue. By contrast, middle market companies tend to be more mature; they may be publicly traded and more established in the markets in which they participate, although not necessarily the leading players in their industries.

SVB Capital also offers services, through the Special Equities Group, to assist private equity firms, and the partners of such firms, with liquidating securities following initial public offerings and mergers and acquisitions, including in-kind stock transactions, restricted stock sales, block trading, and special situations trading such as liquidation of foreign securities and Private Investment in Public Equity (PIPE) positions. The Special Equities Group is a division of SVB Securities, a broker-dealer registered with the NASD.

***Other Business Services***



*The Other Business Services segment is principally comprised of SVB Alliant, Global Financial Services and Private Client Services, and other business service units that are not part of the Commercial Bank or SVB Capital segments. SVB Alliant, Global Financial Services and Private Client Services do not meet the separate reporting thresholds as defined by SFAS No. 131 and as such, have been aggregated as Other Business Services for segment reporting purposes.*



*SVB Alliant*



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Through SVB Alliant, our investment banking subsidiary, we provide merger and acquisition advisory services (M&A), strategic alliance services, and specialized financial studies such as valuations and fairness opinions. In October 2003, we enhanced our investment banking product set by launching a Private Capital Group that provides advisory services for the private placement of securities. SVB Alliant is a broker-dealer registered with the NASD.

### *Global Financial Services*

Global Financial Services serves the needs of the Company's domestic clients with global banking products, including foreign exchange and global finance and access to SVB Financial Group's international banking network for in-country services abroad. Global Financial Services also supports venture capital and commercial banking clients with business services through subsidiaries in India and the United Kingdom.

### *Private Client Services and Other*





Our Private Client Services and Other group is principally comprised of our Private Client Services group and other business services units. Private Client Services provides a wide range of credit services to high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. Those products and services include home equity lines of credit, loans and secured lines of credit, restricted stock purchase loans, airplane loans, and capital call lines of credit. We also help our clients meet their cash management needs by providing deposit account products and services, including checking accounts, deposit accounts, money market accounts, and certificates of deposit. Through our subsidiary, Woodside Asset Management, Inc., we provide individual clients with personal investment advisory services, assisting clients in establishing and implementing investment strategies to meet their individual needs and goals. As a result of the Private Client Services group's recent decision to focus on its core banking and credit products, we are exploring strategic alternatives in relation to Woodside Asset Management, including a possible sale to a third party.

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

The accompanying management's discussion and analysis of results of operations and financial condition are based upon our interim consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and 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.

In our 2004 Form 10-K/A, a summary of significant accounting policies and a description of accounting policies that are considered critical are described in Part II, Item 8. Consolidated Financial Statements and Supplementary Data Note 2. Significant Accounting Policies and in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies.

### **Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123, revised 2004, *Share-Based Payment* (SFAS No. 123(R)) which is a revision of SFAS No. 123 and supersedes APB No. 25. SFAS No. 123(R) requires us to measure the cost of employee services received in exchange for an award of equity instruments using a fair value method, and record such expense in our consolidated financial statements for interim or annual reporting periods beginning after June 15, 2005. On April 14, 2005 the U.S. Securities and Exchange Commission (the SEC) provided issuers with an election to defer the adoption date of SFAS No. 123(R) from the first interim or annual reporting period beginning after June 15, 2005 to the first *annual* reporting period beginning after June 15, 2005. We elected to defer the effective date of SFAS No. 123(R) until fiscal 2006.

The adoption of SFAS No. 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. The adoption of SFAS No. 123(R) will have a material impact on our consolidated results of operations, financial position, and statement of cash flows as such expense will then be reported in our consolidated financial statements rather than on a pro forma basis in the notes to the consolidated financial statements. However, we expect that the pro forma expense calculated under SFAS No. 123(R) (above) will approximate the expense that will be recognized under SFAS No. 123(R).

### **Results of Operations**

#### *Earnings Summary*



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We reported net income of \$22.9 million, or \$0.59 per diluted common share, for the three months ended March 31, 2005. This was \$9.7 million, or 73.5%, higher than net income of \$13.2 million, or \$0.36 per diluted common share, for the three months ended March 31, 2004.

*Dilutive Effect of Contingently Convertible Debt on our Diluted Earnings per Share Calculation*



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We included the dilutive effect of the \$150.0 million zero-coupon, convertible subordinated notes due June 15, 2008 in our fully diluted earnings per share (EPS) calculation using the treasury stock method, in accordance with the provisions of Emerging Issue Task Force (EITF) issue No. 90-19, Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion and Statement of Financial Accounting Standard (SFAS) No. 128, Earnings Per Share. The exposure draft of SFAS No. 128R, if adopted in its proposed form, will require us to change our accounting for the calculation of EPS on our contingently convertible debt to the if converted method. The if converted treatment of the contingently convertible debt would have decreased EPS by \$0.05 per diluted common share, or 8.5% for the three months ended March 31, 2005.

*Quarter ended March 31, 2005 Compared to Quarter ended March 31, 2004*

Consolidated net income increased by \$9.7 million between quarter ended March 31, 2005 and quarter ended March 31, 2004.

Net interest income increased by \$19.7 million due to an increase in interest-earning assets, particularly commercial loans and fixed income securities, and due to an improvement in yields generated from these assets.

An increase in noninterest expense of \$9.0 million was largely attributable to higher compensation expense of \$6.9 million. Additionally, higher professional services expense of \$1.7 million was primarily due to costs associated with commitment of resources to document, enhance and audit internal controls to accomplish compliance with the Sarbanes-Oxley Act of 2002.

The major components and changes of net income are summarized in the following table:

| (Dollars in thousands)                                            | For the three months<br>ended March 31, |                       | %       |
|-------------------------------------------------------------------|-----------------------------------------|-----------------------|---------|
|                                                                   | 2005<br>(As Restated)                   | 2004<br>(As Restated) |         |
| Net interest income                                               | \$ 69,355                               | \$ 49,696             | 39.6%   |
| (Recovery of) provision for loan and lease losses                 | (3,814)                                 | 645                   | (691.3) |
| Noninterest income                                                | 25,140                                  | 23,927                | 5.1     |
| Noninterest expense                                               | 60,815                                  | 51,832                | 17.3    |
| Minority interest in net (income) loss of consolidated affiliates | 441                                     | (481)                 | (191.7) |
| Income before income taxes                                        | 37,935                                  | 20,665                | 83.6    |
| Income tax expense                                                | 14,999                                  | 7,444                 | 101.5   |
| Net income                                                        | \$ 22,936                               | \$ 13,221             | 73.5%   |
| Return on average assets(1)                                       | 1.81%                                   | 1.20%                 |         |
| Return on average stockholders' equity(1)                         | 17.17%                                  | 11.30%                |         |
| Average stockholders' equity to average assets                    | 10.55%                                  | 10.60%                |         |

(1) Quarterly ratios represent annualized net income divided by quarterly average assets or equity.

*Net Interest Income and Margin*





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Net interest income is defined as the difference between interest earned primarily on loans, investment securities, federal funds sold, securities purchased under agreement to resell and other short-term investments, and interest paid on funding sources, primarily deposits. 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. The average yield earned on interest-earning assets is the amount of annualized taxable-equivalent interest income expressed as a percentage of average interest-earning assets. The average rate paid on funding sources is defined as annualized interest expense as a percentage of average funding sources.

The following tables set forth average assets, liabilities, minority interest, stockholders' equity, interest income, interest expense, annualized yields and rates, and the composition of our annualized net interest margin for the three months ended March 31, 2005 and 2004, respectively. (For a description of certain off-balance sheet arrangements, see also Note 11. Obligations Under Guarantees to the interim financial statements contained in this report.)

## AVERAGE BALANCES, RATES AND YIELDS

| (Dollars in thousands)                                                                                  | For the three months ended March 31, |                                               |                             |                                  |                                               |                             |
|---------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------------|-----------------------------|----------------------------------|-----------------------------------------------|-----------------------------|
|                                                                                                         | Average Balance<br>(As Restated)     | 2005 Interest Income/Expense<br>(As Restated) | Yield/Rate<br>(As Restated) | Average Balance<br>(As Restated) | 2004 Interest Income/Expense<br>(As Restated) | Yield/Rate<br>(As Restated) |
| <b>Interest-earning assets:</b>                                                                         |                                      |                                               |                             |                                  |                                               |                             |
| Federal funds sold, securities purchased under agreement to resell, and other short-term investments(1) | \$ 474,359                           | \$ 2,959                                      | 2.53%                       | \$ 758,599                       | \$ 1,973                                      | 1.05%                       |
| <b>Investment securities:</b>                                                                           |                                      |                                               |                             |                                  |                                               |                             |
| Taxable                                                                                                 | 1,899,479                            | 20,974                                        | 4.48                        | 1,296,262                        | 13,494                                        | 4.19                        |
| Non-taxable(2)                                                                                          | 92,079                               | 1,574                                         | 6.93                        | 144,413                          | 2,247                                         | 6.26                        |
| <b>Loans:</b>                                                                                           |                                      |                                               |                             |                                  |                                               |                             |
| Commercial                                                                                              | 1,785,085                            | 42,055                                        | 9.55                        | 1,511,784                        | 32,179                                        | 8.56                        |
| Real estate construction and term                                                                       | 150,532                              | 2,201                                         | 5.93                        | 96,310                           | 1,236                                         | 5.16                        |
| Consumer and other                                                                                      | 237,298                              | 3,200                                         | 5.47                        | 196,659                          | 2,093                                         | 4.28                        |
| Total loans, net of unearned income                                                                     | 2,172,915                            | 47,456                                        | 8.86                        | 1,804,753                        | 35,508                                        | 7.91                        |
| Total interest-earning assets                                                                           | 4,638,832                            | 72,963                                        | 6.38                        | 4,004,027                        | 53,222                                        | 5.35                        |
| Cash and due from banks                                                                                 | 233,533                              |                                               |                             | 212,335                          |                                               |                             |
| Allowance for loan and lease losses                                                                     | (39,242)                             |                                               |                             | (51,824)                         |                                               |                             |
| Goodwill                                                                                                | 35,639                               |                                               |                             | 37,551                           |                                               |                             |
| Other assets (3)                                                                                        | 263,119                              |                                               |                             | 234,963                          |                                               |                             |
| Total assets                                                                                            | \$ 5,131,881                         |                                               |                             | \$ 4,437,052                     |                                               |                             |
| <b>Funding sources:</b>                                                                                 |                                      |                                               |                             |                                  |                                               |                             |
| <b>Interest-bearing liabilities:</b>                                                                    |                                      |                                               |                             |                                  |                                               |                             |
| NOW deposits                                                                                            | \$ 30,594                            | \$ 30                                         | 0.40                        | \$ 23,475                        | \$ 25                                         | 0.43                        |
| Regular money market deposits                                                                           | 498,379                              | 692                                           | 0.56                        | 427,993                          | 537                                           | 0.50                        |
| Bonus money market deposits                                                                             | 740,967                              | 1,048                                         | 0.57                        | 704,511                          | 891                                           | 0.51                        |
| Time deposits                                                                                           | 313,870                              | 492                                           | 0.64                        | 370,177                          | 560                                           | 0.61                        |
| Contingently convertible debt                                                                           | 146,844                              | 236                                           | 0.65                        | 145,892                          | 236                                           | 0.65                        |
| Junior subordinated debentures                                                                          | 48,733                               | 484                                           | 4.03                        | 50,521                           | 350                                           | 2.79                        |
| Other borrowings                                                                                        | 9,743                                | 75                                            | 3.12                        | 18,239                           | 141                                           | 3.11                        |
| Total interest-bearing liabilities                                                                      | 1,789,130                            | 3,057                                         | 0.69                        | 1,740,808                        | 2,740                                         | 0.63                        |
| Portion of noninterest-bearing funding sources                                                          | 2,849,702                            |                                               |                             | 2,263,219                        |                                               |                             |
| Total funding sources                                                                                   | 4,638,832                            | 3,057                                         | 0.27                        | 4,004,027                        | 2,740                                         | 0.28                        |
| <b>Noninterest-bearing funding sources:</b>                                                             |                                      |                                               |                             |                                  |                                               |                             |
| Demand deposits                                                                                         | 2,613,334                            |                                               |                             | 2,093,955                        |                                               |                             |
| Other liabilities                                                                                       | 115,275                              |                                               |                             | 84,962                           |                                               |                             |
| Minority interest in capital of consolidated affiliates                                                 | 72,537                               |                                               |                             | 46,968                           |                                               |                             |
| Stockholders equity                                                                                     | 541,605                              |                                               |                             | 470,359                          |                                               |                             |
| Portion used to fund interest-earning assets                                                            | (2,849,702)                          |                                               |                             | (2,263,219)                      |                                               |                             |
| Total liabilities, minority interest and stockholders equity                                            | \$ 5,131,881                         |                                               |                             | \$ 4,437,052                     |                                               |                             |
| Net interest income and margin                                                                          |                                      | \$ 69,906                                     | 6.11%                       |                                  | \$ 50,482                                     | 5.07%                       |
| Total deposits                                                                                          | \$ 4,197,144                         |                                               |                             | \$ 3,620,111                     |                                               |                             |

- (1) Includes average interest-bearing deposits in other financial institutions of \$15.1 million and \$4.5 million for the three months ended March 31, 2005 and 2004, 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% in 2005 and 2004. The tax equivalent adjustments were \$0.6 million and \$0.8 million for the three months ended March 31, 2005 and 2004, respectively.
- (3) Average equity investments of \$151.2 million and \$142.4 million for the three months ended March 31, 2005 and 2004, respectively, were reclassified to other assets as they were noninterest-yielding.

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Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as volume change. Net interest income is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities, referred to as rate change. The following table sets forth changes in interest income and interest expense for each major category of interest-earning assets and interest-bearing liabilities. The table also reflects the amount of simultaneous change attributable to both volumes and rates 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. Changes relating to investments in non-taxable municipal securities are presented on a fully taxable-equivalent basis using the federal statutory rate of 35.0% in 2005 and 2004.

| (Dollars in thousands)                                                                              | 2005 Compared to 2004<br>Three months ended March 31,<br>Increase (Decrease)<br>Due to Change in |                       |                        |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------|------------------------|
|                                                                                                     | Volume<br>(As Restated)                                                                          | Rate<br>(As Restated) | Total<br>(As Restated) |
| <b>Interest income:</b>                                                                             |                                                                                                  |                       |                        |
| Federal funds sold, securities purchased under agreement to resell and other short-term investments | \$ (954)                                                                                         | \$ 1,940              | \$ 986                 |
| Investment securities                                                                               | 5,618                                                                                            | 1,189                 | 6,807                  |
| Loans                                                                                               | 7,539                                                                                            | 4,409                 | 11,948                 |
| Increase (decrease) in interest income                                                              | 12,203                                                                                           | 7,538                 | 19,741                 |
| <b>Interest expense:</b>                                                                            |                                                                                                  |                       |                        |
| NOW deposits                                                                                        | 7                                                                                                | (2)                   | 5                      |
| Regular money market deposits                                                                       | 91                                                                                               | 64                    | 155                    |
| Bonus money market deposits                                                                         | 45                                                                                               | 112                   | 157                    |
| Time deposits                                                                                       | (91)                                                                                             | 23                    | (68)                   |
| Contingently convertible debt                                                                       |                                                                                                  |                       |                        |
| Junior subordinated debentures                                                                      | (13)                                                                                             | 147                   | 134                    |
| Other borrowings                                                                                    | (67)                                                                                             | 1                     | (66)                   |
| (Decrease) increase in interest expense                                                             | (28)                                                                                             | 345                   | 317                    |
| Increase in net interest income                                                                     | \$ 12,231                                                                                        | \$ 7,193              | \$ 19,424              |

*Net Interest Income*

Net interest income, on a fully taxable-equivalent basis, totaled \$69.9 million for the three months ended March 31, 2005, an increase of \$19.4 million, or 38.5% from the comparable 2004 period. The increase in net interest income was the result of a \$19.7 million increase in interest income and slightly offset by a \$0.3 million increase in interest expense.

*Interest Income - Net Increase in Interest-Earning Assets (Volume Variance)*

The \$19.7 million increase in interest income, on a fully taxable-equivalent basis, was primarily the result of a \$12.2 million favorable volume variance. The favorable volume variance resulted from a \$634.8 million, or 15.9% increase, in average interest-earning assets. Increases in our sources of funding, largely deposits, were the main contributors to the increase in average interest-earning assets. We believe deposits increased due to an improved venture capital funding environment and a general improvement in business conditions for many of our clients. This increase was primarily centered in investment securities and loans, which collectively increased \$919.0 million.

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Average investment securities increased by \$550.9 million, resulting in a \$5.6 million favorable volume variance. In particular, relatively higher-yielding mortgage-backed securities and collateralized mortgage obligations increased by \$461.5 million. We estimated the average duration of the investment portfolio at March 31, 2005 to be 2.5 years, compared to 1.6 years at March 31, 2004.

In addition, average loans increased by \$368.2 million resulting in a \$7.5 million favorable volume variance. The volume variance is largely driven by growth in our commercial loan category, which represented \$273.3 million of the increase, followed by smaller increases in the real estate and consumer loan categories. The increase in average loans reflects an improvement in economic activity and in the markets served by us. Our strategy is to grow average loans modestly throughout 2005. Our loan yield in the three months ended March 31, 2005 and 2004 included \$1.7 million and \$1.4 million, respectively, from the accretion of warrant loan fees.

Average federal funds sold, securities purchased under agreement to resell and other short-term investment securities for the three months ended March 31, 2005 decreased, resulting in a \$1.0 million unfavorable volume variance. The decrease was mainly due to our shifting funds into our investment portfolio.

*Interest Income - Change in Market Interest Rates and Shift in Investment Portfolio Mix (Rate Variance)*

Favorable rate variances associated with each component of interest earning assets caused a \$7.5 million increase in interest income. The yield on average interest-earning assets increased 103 basis points overall, largely driven by higher yields generated by average taxable investment securities and loans. The increase in yields on interest-earning assets was primarily caused by:

a shift in the average investment portfolio mix,

a shift in the loan portfolio mix, and

an increase in our weighted-average prime lending rate and in short-term market rates.

The average yield on taxable investment securities for the three months ended March 31, 2005 increased 29 basis points to 4.48% from 4.19% in the comparable prior year period, causing a \$1.2 million favorable rate variance associated with our average investment securities. This was primarily due to a shift in the composition of a portion of the investment portfolio to relatively higher-yielding, mortgage-backed securities and collateralized mortgage obligations.

We realized a \$4.4 million favorable rate variance associated with our loan portfolio. The increase in loan yields was partially attributable to a shift in the composition of the loan portfolio to higher-yielding, asset-based lending and accounts receivable factoring products, which, on an average balance basis, increased by approximately 61.2% in the 2005 first quarter compared to the first quarter of 2004. In addition, on February 3, 2005 and March 23, 2005, we increased our prime lending rate, each time by 25 basis points, bringing our prime rate to 5.75%, in response to increases in short-term market interest rates. Our weighted-average prime lending rate increased to 5.43% in the 2005 first quarter from 4.00% in the 2004 first quarter. As of March 31, 2005, approximately 76.3%, or \$1.8 billion of our total loan portfolio, were variable rate loans and would reprice with an increase in our prime lending rate.

In addition, we realized a \$1.9 million favorable rate variance associated with federal funds sold, securities purchased under agreement to resell and other short-term investment securities. The aforementioned increases in short-term market interest rates were largely responsible for this favorable rate variance.

Many elements of our interest-earning assets are extremely interest rate sensitive, thus we expect that any future increase in market interest rates will be incremental to our earnings.

*Interest Expense*

Total interest expense for the three months ended March 31, 2005 increased by \$0.3 million which resulted from an unfavorable rate variance of \$0.3 million.

*Provision for (Recovery of) Loan and Lease Losses*





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The provision for (recovery of) loan and lease losses is based on our evaluation of the adequacy of the existing allowance for loan and lease losses in relation to total loans, and on our periodic assessment of the inherent and identified risk dynamics of the loan portfolio resulting from reviews of selected individual loans and loan commitments.

We realized a recovery of loan and lease losses of \$3.8 million for the three months ended March 31, 2005, compared to a provision for loan and lease losses of \$0.6 million for the comparable quarter a year ago.

We realized net recoveries of approximately \$1.9 million for the three months ended March 31, 2005 compared to net charge-offs of \$1.1 million for the three months ended March 31, 2004. Credit quality remained strong with nonperforming loans at 0.59% of total gross loans. See *Financial Condition - Credit Quality and the Allowance for Loan and Lease Losses* for additional related discussion.

### *Noninterest Income*



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The following table summarizes the components of noninterest income for the three months ended March 31, 2005 and 2004, and the percent changes from period to period:

| (Dollars in thousands)                               | For the three months<br>ended March 31, |                       | %<br>Change<br>(As Restated) |
|------------------------------------------------------|-----------------------------------------|-----------------------|------------------------------|
|                                                      | 2005<br>(As Restated)                   | 2004<br>(As Restated) |                              |
| Client investment fees                               | \$ 7,396                                | \$ 6,268              | 18.0%                        |
| Corporate finance fees                               | 4,814                                   | 4,382                 | 9.9                          |
| Letter of credit and standby letter of credit income | 2,370                                   | 2,671                 | (11.3)                       |
| Deposit service charges                              | 2,504                                   | 3,713                 | (32.6)                       |
| Gains (losses) on derivative instruments, net        | 4,026                                   | 2,565                 | 57.0                         |
| Gains (losses) on investment securities, net         | 1,202                                   | 1,469                 | (18.2)                       |
| Other                                                | 2,828                                   | 2,859                 | (1.1)                        |
| Total noninterest income                             | \$ 25,140                               | \$ 23,927             | 5.1%                         |

We offer client directed investment assets, sweep products, and asset management services on which we earn fees. The following table summarizes client investment funds in client directed investment assets, sweep products, and client investment assets under management as of March 31, 2005 and 2004:

| (Dollars in millions)                     | At<br>March 31,<br>2005 | At<br>March 31,<br>2004 |
|-------------------------------------------|-------------------------|-------------------------|
| Client investment funds:                  |                         |                         |
| Client directed investment assets         | \$ 7,452                | \$ 7,836                |
| Sweep money market funds                  | 1,356                   | 1,094                   |
| Client investment assets under management | 2,918                   | 1,085                   |
| Total client investment funds(1)          | \$ 11,726               | \$ 10,015               |

(1) Client funds maintained at third party financial institutions.

Total client investment funds were \$11.7 billion at March 31, 2005, compared to \$10.0 billion at March 31, 2004, an increase of \$1.7 billion, or 17.1%. As of March 31, 2005, SVB Asset Management accounted for \$2.9 billion, or 24.9%, of the total client investment funds. Mutual fund products totaled \$6.1 billion and \$6.7 billion at March 31, 2005 and 2004, respectively.

Client investment fee income for the three months ended March 31, 2005 of \$7.4 million was \$1.1 million higher than the corresponding amount of \$6.3 million for the three months ended March 31, 2004. The increased income in the three months ended March 31, 2005 as compared to March 31, 2004 was largely attributable to the growth in client investment funds generating this income.

Our fees, calculated on client average balances, ranged from 10 to 84 basis points as of March 31, 2005, compared to a range of 12 to 61 basis points as of March 31, 2004.

Corporate finance fees for the three months ended March 31, 2005 were \$4.8 million, compared to \$4.4 million at March 31, 2004, an increase of \$0.4 million, from the three months ended March 31, 2004. SVB Alliant's business is highly variable, thus we expect significant changes in corporate finance fees from period to period.

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Letter of credit and standby letter of credit income for the three months ended March 31, 2005 were \$2.4 million at March 31, 2005, compared to \$2.7 million at March 31, 2004, a decrease of \$0.3 million, from the three months ended March 31, 2004. The decrease was primarily due to lower client demand for our standby letters of credit product.

Deposit service charges for the three months ended March 31, 2005 were \$2.5 million at March 31, 2005, compared to \$3.7 million at March 31, 2004, a decrease of \$1.2 million, from the three months ended March 31, 2004. Clients compensate us for depository services, either through earnings credits computed on their demand deposit balances, or via explicit payments that we recognize as deposit service charges income. Earnings credits are calculated using client average daily deposit balances, less a reserve requirement and a discounted U.S. Treasury bill interest rate. Clients received higher earnings credit in the three months ended March 31, 2005 compared to the respective prior year period due to increased short-term market interest rates in the first three months of 2005, resulting in additional credits to offset deposit service charges.

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The following table presents the components of gains and losses on investment securities, for the three months ended March 31, 2005 and March 31, 2004.

| (Dollars in thousands)                             | March 31,<br>2005<br>(As Restated) | March 31,<br>2004<br>(As Restated) |
|----------------------------------------------------|------------------------------------|------------------------------------|
| <b>Gross gains on investment securities:</b>       |                                    |                                    |
| Available-for-sale securities, at fair value       | \$ 50                              | \$ 1,233                           |
| <b>Non-marketable securities</b>                   |                                    |                                    |
| Venture capital fund investments                   | 3,646                              | 1,293                              |
| Other private equity investments                   | 405                                | 1,494                              |
| <b>Total gross gains on investment securities</b>  | <b>4,101</b>                       | <b>4,020</b>                       |
| <b>Gross losses on investment securities:</b>      |                                    |                                    |
| Available-for-sale securities, at fair value       | (397)                              | (3)                                |
| <b>Non-marketable securities</b>                   |                                    |                                    |
| Venture capital fund investments                   | (2,102)                            | (1,341)                            |
| Other private equity investments                   | (400)                              | (1,207)                            |
| <b>Total gross losses on investment securities</b> | <b>(2,899)</b>                     | <b>(2,551)</b>                     |
| <b>Net gains on investment securities</b>          | <b>\$ 1,202</b>                    | <b>\$ 1,469</b>                    |

Gains (losses) on investment securities during the three months ended March 31, 2005 and 2004 were \$1.2 million and \$1.5 million, respectively, a decrease of \$0.3 million or 18.2%. Investment gains for the three months ended March 31, 2005 were concentrated in our managed funds of funds, our managed venture capital fund, and direct equity investments. Gain on our equity investments, excluding the impact of minority interest, was \$0.9 million for the three months ended March 31, 2005, compared to a net loss of \$0.4 million from the same period a year ago. We expect continued variability in the performance of our equity investment securities portfolios.

The following table summarizes the components of gains (losses) on derivative instruments for the three months ended March 31, 2005 and 2004, and the percentage changes from period to period:

| (Dollars in thousands)                             | For the three months<br>ended March 31, |                       | %            |
|----------------------------------------------------|-----------------------------------------|-----------------------|--------------|
|                                                    | 2005<br>(As Restated)                   | 2004<br>(As Restated) | Change       |
| Foreign exchange forwards                          | \$ 4,819                                | \$ 3,235              | 49.0%        |
| <b>Equity warrant assets change in fair value:</b> |                                         |                       |              |
| Cancellations and expirations                      | (138)                                   | (230)                 | (40.0)%      |
| Other changes in warrant asset fair value          | (655)                                   | (440)                 | 48.9%        |
| <b>Gains (losses) on derivatives, net</b>          | <b>\$ 4,026</b>                         | <b>\$ 2,565</b>       | <b>57.0%</b> |

We enter into foreign exchange forward contracts to decrease the risk associated with certain foreign currency denominated loans issued to clients. The fair value of these contracts increased by \$1.6 million in the three months ended March 31, 2005. The increase in fair value of these foreign exchange forward contracts was due to fluctuations in the market values of the related foreign currencies. We did not have any foreign exchange loans or related forward contracts during the three months ended March 31, 2004. Refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in our 2004 Form 10-K/A.

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The change in fair value of equity warrant assets is primarily attributed to the changes in the value of the underlying assumptions used to value the equity warrants including: changes in the risk-free interest rate, changes in the underlying value of the client companies stock, changes in the volatility of market comparable public companies and changes in the expected life.

*Noninterest Expense*



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The following table presents the detail of noninterest expense including the percent change in noninterest expense for the current year periods compared to the prior year periods:

| (Dollars in thousands)                             | For the three months ended<br>March 31, |                       | %            |
|----------------------------------------------------|-----------------------------------------|-----------------------|--------------|
|                                                    | 2005<br>(As Restated)                   | 2004<br>(As Restated) |              |
| Compensation and benefits                          | \$ 40,268                               | \$ 33,407             | 20.5%        |
| Professional services                              | 5,070                                   | 3,339                 | 51.8         |
| Net occupancy                                      | 4,658                                   | 4,601                 | 1.2          |
| Furniture and equipment                            | 2,719                                   | 2,909                 | (6.5)        |
| Business development and travel                    | 2,090                                   | 1,991                 | 5.0          |
| Correspondent bank fees                            | 1,221                                   | 1,281                 | (4.7)        |
| Data processing services                           | 1,013                                   | 1,085                 | (6.6)        |
| Telephone                                          | 889                                     | 782                   | 13.7         |
| Change in provision for unfunded credit commitment | (185)                                   | (719)                 | (74.3)       |
| Other                                              | 3,072                                   | 3,156                 | (2.7)        |
| <b>Total noninterest expense</b>                   | <b>\$ 60,815</b>                        | <b>\$ 51,832</b>      | <b>17.3%</b> |

The increase in compensation and benefits expense of \$6.9 million was primarily due to an increase in incentive compensation expense of \$2.5 million, or 54.3%, to \$7.1 million for the three months ended March 31, 2005, compared to \$4.6 million for the comparable prior year period. The increase in incentive compensation is largely attributable to our improved consolidated financial performance.

The remainder of the increase in compensation and benefits expense in the first quarter of 2005 was largely due to increases in salaries and wages expense, employee stock ownership plan expense, and equity-based compensation expense. Salaries and wages expense increased by \$2.4 million, or 12.2%, to \$22.0 million for the 2005 first quarter, compared to \$19.6 million for the 2004 first quarter. The increase was primarily attributable to an increase in average full-time equivalent (FTE) personnel and higher rates of employee salaries and wages. FTE personnel were 1,032 for the 2005 first quarter, a 6.5% increase from 969 FTE personnel for the 2004 first quarter.

Equity-based compensation increased by \$1.0 million to \$1.2 million for the 2005 first quarter, compared to \$0.2 million for the 2004 first quarter. This increase reflects our increased use of restricted stock and restricted stock units, in lieu of stock options, as components of our employee compensation structure, as we transition our equity-based compensation programs.

Lastly, employee stock ownership plan expense increased by \$0.4 million, or 40.0%, to \$1.4 million for the 2005 first quarter, compared to \$1.0 million for the 2004 first quarter. The increase was attributable to our improved consolidated financial performance.

Professional services expense totaled \$5.1 million for the three months ended March 31, 2005, an increase of \$1.7 million as compared to \$3.3 million for the three months ended March 31, 2004. The primary components of this net increase were associated with commitment of resources to document, enhance and audit internal controls to accomplish compliance with the Sarbanes-Oxley Act of 2002 and the independent audit thereof.

*Minority Interest in Net (Gains) Losses of Consolidated Affiliates*

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Investment gains or losses related to our managed funds, (see Note 5. Investment Securities), are included in noninterest income.

Minority interest in the net gains or losses of these consolidated managed funds primarily represents net investment gains or losses and management fees expenses attributable to the minority interest holders in these managed funds.

The change from net minority interest gains in the first quarter of 2004 to net minority interest losses in the first quarter of 2005 is primarily attributable to lower returns from our managed funds. Additionally, two managed funds, Taurus LP and Libra LP returned \$0.3 million in investment gains in the first quarter of 2004. These funds were liquidated in the fourth quarter of 2004.

| (Dollars in thousands)                                              | (As Restated)                                |                                              |
|---------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
|                                                                     | For the three months ended<br>March 31, 2005 | For the three months ended<br>March 31, 2004 |
| Minority interest in net losses (income) of consolidated affiliates | \$ 441                                       | \$ (481)                                     |

*Income Taxes*



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Our effective tax rate was 39.5 % for the three months ended March 31, 2005, compared with 36.0% for the three months ended March 31, 2004. The increase in our effective tax rate was primarily attributable to higher pre-tax income which resulted in a lower impact of our federally tax-advantaged, tax-exempt bonds and tax credit funds on the overall pre-tax income.

### *Operating Segment Results*



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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 our 2004 Annual Report on Form 10-K/A, Part I. Item 1. Business Business Overview.

Our primary source of revenue is from net interest income. Accordingly, our segments are reported using net interest income. We also evaluate performance based on noninterest income and noninterest expense, which are presented as components of segment operating profit or loss. We do not allocate income taxes to our segments. Additionally, our management reporting model is predicated on average asset balances and therefore, it is not possible to provide period end asset balances for segment reporting purposes. Our segment information at and for the three months ended March 31, 2005 and 2004 are as follows:

### *Commercial Banking*

#### Net Income (Loss) Before Taxes

Commercial Banking's income before income taxes for the first quarter ended March 31, 2005 of \$30.4 million represented an increase of \$12.8 million, or 73.1%, from \$17.6 million for the same period a year ago. This increase was the result of higher net interest and noninterest income of \$13.0 million and higher net recoveries of \$4.6 million, offset by higher noninterest expenses of \$4.8 million.

Net interest income of \$51.0 million for the first quarter ended March 31, 2005 increased \$12.9 million, or 33.9%, from \$38.0 million for the same period a year ago. Higher loans and deposit volumes along with higher interest rates drove this increase.

Recovery of provision for loan and lease losses of \$3.4 million for the first quarter ended March 31, 2005 represented a net change of approximately \$4.6 million from \$1.2 million in net charge offs for the same period a year ago.

Noninterest expense of \$42.6 million for the first quarter ended March 31, 2005 increased \$4.8 million, or 12.6%, from \$37.8 million for the same period a year ago. The increase in direct noninterest expense was primarily driven by expense related to compensation and benefits. Specifically, incentive compensation increased \$0.8 million, and base compensation increased \$0.9 million. Noninterest expenses related to units supporting Commercial Bank activities were also allocated to Commercial Bank. Increases in base compensation, incentive compensation and professional services related to the support units also contributed to the expense increase.

#### Financial Condition

Commercial Banking had an increase in average deposits of \$439.8 million, or 14.6%, and an increase in average loans of \$333.5 million, or 22.0%, during the first quarter ended March 31, 2005 compared to the same period a year ago. The loan products with the largest growth were asset-based lending, which grew by \$129.3 million, and core commercial lending, which grew by \$95.8 million.



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The increase in average deposits and average loans reflects an improved funding environment for our venture capital-backed commercial clients and other market factors. Additionally, we are engaged in various marketing initiatives to attract and retain commercial clients at all stages of growth.

### *SVB Capital*

#### Net Income (Loss) Before Taxes

SVB Capital's income before taxes for the first quarter ended March 31, 2005 of \$2.5 million represented a \$3.0 million, or 668.4% increase, compared to \$(0.4) million for the same period a year ago. This increase was primarily attributable to increases in interest income and noninterest income, partially offset by an increase in noninterest expense.

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Net interest income for the first quarter ended March 31, 2005 of \$4.1 million represented a \$1.7 million increase, or 68.3%, from \$2.4 million for the same period a year ago. Higher loans and deposit volumes along with higher interest rates drove this increase.

Noninterest income for the first quarter ended March 31, 2005 of \$3.1 million represented a \$2.3 million, or 268.1% increase, from \$0.8 million for the same period a year ago. The increase was primarily a result of gains on securities net of minority interest, and increased fund management fees. The gains were related to SVB Financial distributions from venture fund investments, compared to a loss for the same period a year ago. Minority interest in the net gains or losses of these consolidated managed funds primarily represents net investment gains or losses and management fees expense attributable to the minority interest holders in these managed funds.

Noninterest expense for the first quarter ended March 31, 2005 of \$4.7 million represented a \$1.0 million, or 26.2% increase from \$3.7 million for the same period a year ago. The increase in direct noninterest expense is primarily attributed to compensation and benefits, which increased by \$0.6 million due to higher stock-based compensation and incentive compensation expense. Noninterest expenses related to units supporting SVB Capital activities were also allocated to SVB Capital. Increases in base compensation, incentive compensation, and professional services related to the support units also contributed to the expense increase.

### Financial Condition

SVB Capital had an increase in average deposits of \$123.0 million, or 25.7%, and average loans of \$18.5 million, or 29.1%, during the first quarter ended March 31, 2005 compared to the same period a year ago. The growth in average deposits and average loans was due to various market factors, including an improved funds flow environment for SVB Capital's client base, venture capital, and private equity firms, as well as our initiatives to serve clients at all stages of growth.

### *Other Business Services*

The Other Business Services segment is principally comprised of Private Client Services, SVB Alliant and Global Financial Services and other business service units that are not part of the Commercial Bank or SVB Capital segments. These segments do not meet the separate reporting thresholds as defined by SFAS No. 131 and as such have been combined with other business service units for segment reporting purposes. The Other Business Services segment also reflects those adjustments necessary to reconcile the results of operating segments based on the Company's internal profitability reporting process to the interim unaudited consolidated financial statements prepared in conformity with GAAP. The Private Client Services group provides a wide range of credit services to high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. Those products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans, airplane loans, and capital call lines of credit. SVB Alliant provides investment banking products and services including merger and acquisition services, strategic alliances services, and specialized financial studies such as valuations and fairness opinions. Global Financial Services serves the needs of our domestic clients with global banking products, including foreign exchange and global finance and access to our international banking network for in-country services abroad. Global Financial Services also supports venture capital and commercial banking clients with business services through subsidiaries in India and the United Kingdom.

Net interest income of \$14.3 million for the first quarter ended March 31, 2005 increased \$5.1 million, or 55.2%, from \$9.2 million for the same period a year ago. The increase in net interest income is primarily attributed to an increase of \$4.7 million related to an increased gap between the funds transfer rates utilized for profitability reporting and the realized earnings on the investment portfolio.

**Consolidated Financial Condition**

Our total assets were \$5.1 billion for both March 31, 2005 and December 31, 2004.

*Federal Funds Sold, Securities Purchased Under Agreement to Resell and Other Short-Term Investment Securities*



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Federal funds sold, securities purchased under agreement to resell and other short-term investment securities totaled \$197.4 million at March 31, 2005, a decrease of \$145.6 million, or 42.4%, compared to the \$343.0 million outstanding at December 31, 2004. The decrease was caused by lower total client deposit balances period over period.

### *Investment Securities*



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Investment securities totaled \$2.1 billion at March 31, 2005, an increase of \$54.6 million, or 2.6% from December 31, 2004. The increase was largely attributable to collateralized mortgage obligations, which increased by \$52.0 million.

The increase in certain market interest rates during the three months ended March 31, 2005 resulted in pre-tax unrealized losses

on our available-for-sale fixed income securities investment portfolio of \$22.1 million as of March 31, 2005. This unrealized loss on available-for-sale fixed income securities included a pre-tax unrealized loss of \$0.2 million associated with equity securities, which includes our venture capital fund, private equity, and managed fund investments.

We are typically contractually precluded from hedging any current unrealized gains associated with many of these equity instruments. Hence, the amount of income realized by us from these equity instruments in future periods might vary materially from the current unrealized amount due to fluctuations in the market prices of the common stock of these companies.

Refer to our 2004 Annual Report on Form 10-K/A under Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Part II, Item 8. Consolidated Financial Statements and Supplementary Data Note 2. Significant Accounting Policies Investment Securities for our accounting policies related to investment securities.

*Loans*





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Loans, net of unearned income, at March 31, 2005, totaled \$2.3 billion, an increase of \$31.0 million from the balance at December 31, 2004. Our strategy is to grow loans modestly throughout the remainder of 2005 in line with improved venture capital fund activity and as our later stage corporate technology efforts continue to develop. Our gross loans by industry niche as of March 31, 2005 and December 31, 2004 are as follows:

| (Dollars in thousands)               | March 31, 2005 |           | December 31, 2004 |           |
|--------------------------------------|----------------|-----------|-------------------|-----------|
| Technology                           | \$             | 1,065,763 | \$                | 1,044,906 |
| Life science                         |                | 219,781   |                   | 232,654   |
| Venture capital                      |                | 343,064   |                   | 306,939   |
| Winery                               |                | 327,481   |                   | 329,812   |
| Private Client Services and Other(1) |                | 401,590   |                   | 412,647   |
| Total gross loans                    | \$             | 2,357,679 | \$                | 2,326,958 |

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(1) At March 31, 2005, this balance was predominantly Private Client Services loans. The balance also includes real estate, media and religious niche loans, areas that we exited in 2002 but will continue to service until the loans are paid off.

### *Credit Quality and the Allowance for Loan and Lease Losses*



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For a description of the accounting policies related to the allowance for loan and lease losses, see Part 1. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in our 2004 Annual Report on Form 10-K/A.

We incurred \$4.0 million and \$6.0 million in gross loan charge-offs and recoveries, respectively, during the three months ended March 31, 2005. The gross charge-offs and recoveries for the quarter ended March 31, 2005 represented a diverse portfolio of relatively small loans.

Nonperforming assets consist of well-secured loans that are past due 90 days or more but are still accruing interest, and loans on nonaccrual status. The rise of nonperforming loans was primarily related to loans secured by real estate. Due to the quality of the related collateral, this rise in nonperforming loans did not result in a significant impact on the allowance for loan and lease losses at March 31, 2005. The table below sets forth certain relationships between nonperforming assets and the allowance for loan and lease losses:

| (Dollars in thousands)                                   | March 31,<br>2005 | December 31,<br>2004 |
|----------------------------------------------------------|-------------------|----------------------|
| <b>Nonperforming assets:</b>                             |                   |                      |
| Loans past due 90 days or more                           | \$ 566            | \$ 616               |
| Nonaccrual loans                                         | 13,360            | 14,322               |
| <b>Total nonperforming assets</b>                        | <b>\$ 13,926</b>  | <b>\$ 14,938</b>     |
| Nonperforming loans as a percentage of total gross loans | 0.59%             | 0.64%                |
| Nonperforming assets as a percentage of total assets     | 0.27%             | 0.29%                |
| <b>Allowance for loan and lease losses</b>               | <b>\$ 35,698</b>  | <b>\$ 37,613</b>     |
| As a percentage of total gross loans (As Restated)       | 1.51%             | 1.62%                |
| As a percentage of nonperforming assets                  | 256.34%           | 251.79%              |

In addition to the loans disclosed in the foregoing analysis, we have identified loans which totaled \$7.6 million that, on the basis

of information known to us, were judged to have a higher than normal risk of becoming nonperforming. We are not aware of any other loans where known information about possible problems of the borrower casts serious doubts about the ability of the borrower to comply with the loan repayment terms.

**Derivatives**

*March 31, 2005 compared to December 31, 2004*

Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. Derivatives are recorded as a component of Other Assets and Other Liabilities and are comprised of the following:

| (Dollars in thousands)                        | (As Restated)           |                            |             |  |
|-----------------------------------------------|-------------------------|----------------------------|-------------|--|
|                                               | As of March 31,<br>2005 | As of December 31,<br>2004 | % change    |  |
| <b>Assets (liabilities):</b>                  |                         |                            |             |  |
| Equity warrant assets                         | \$ 28,824               | \$ 28,928                  | (0.4)%      |  |
| Foreign exchange forward and option contracts | 846                     | (431)                      | (296.3)%    |  |
| <b>Total</b>                                  | <b>\$ 29,670</b>        | <b>\$ 28,497</b>           | <b>4.1%</b> |  |

The fair value of equity warrant assets decreased by \$0.1 million. The fair value related to exercise of equity warrant assets into equity securities caused a decrease of \$0.5 million as of the dates of exercise, while \$2.1 million in aggregate grant date fair value of new equity warrant assets was added to the portfolio. Additionally, the decrease in fair value of our equity warrant assets attributable to cancellations and expirations was \$0.1 million. The remaining \$1.6 million decrease was related to changes in the fair value of equity warrant assets attributable to changes in the underlying assumptions used to value the equity warrants including: changes in the risk-free interest rate, changes in the underlying value of our clients' company stock, changes in the volatility of share prices for comparable public companies, and changes in the expected life.

We enter into foreign exchange forward contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency at a future date, depending upon the clients' need. We enter into an opposite way foreign exchange forward contract with a correspondent bank to hedge these contracts, which mitigates the risk of fluctuations in foreign currency exchange rates, for each of the foreign exchange forward contracts entered into with our clients. These contracts are short term in nature, typically expiring within one year. We also enter into foreign exchange forward contracts with correspondent banks to economically hedge foreign exchange risk related to certain foreign currency denominated loans. At March 31, 2005 and December 31, 2004, the aggregate notional amounts of these contracts totaled \$479.5 million and \$525.4 million, respectively. The maximum credit exposure for counter-party nonperformance for foreign exchange forward contracts with both clients and correspondent banks amounted to \$5.4 million at March 31, 2005 and \$10.0 million at December 31, 2004. We have not experienced nonperformance by a counter party and therefore have not incurred related losses. Further, we anticipate performance by all counter-parties to such foreign exchange forward contracts.

We enter into foreign currency option contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency options, depending upon the clients' need. We enter into an opposite way foreign currency option contract with a correspondent bank, which completely mitigates the risk of fluctuations in foreign currency exchange rates, for each of the currency option contracts entered into with our clients. These contracts typically expire in less than one year. At March 31, 2005 and December 31, 2004, the aggregate notional amounts of these contracts totaled \$17.3 million and \$13.5 million, respectively. We have not experienced nonperformance by a counterparty and therefore have not incurred related losses. Further, we anticipate performance by all counter-parties.

*Deposits*



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Deposits decreased by \$63.2 million to \$4.2 billion at March 31, 2005, compared to the balance at December 31, 2004.



*Liabilities*

Other liabilities at March 31, 2005 decreased from December 31, 2004, primarily due to a decrease in accrued incentive compensation.

**Capital Resources**

Our management seeks to maintain adequate capital to support anticipated asset growth and credit risks, and to ensure that SVB Financial and Silicon Valley Bank are in compliance with all regulatory capital guidelines. Our primary sources of new capital include the issuance of common stock, as well as retained earnings.

*Common Stock*



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*\$75.0 million share repurchase program authorized by the Company's Board of Directors, effective January 27, 2005*

On January 27, 2005, we announced that our Board of Directors authorized the repurchase of up to an additional \$75.0 million of common stock under our stock repurchase program, in conjunction with the \$160.0 million originally approved in May 2003. The additional \$75.0 million of shares may be repurchased at any time, at our discretion, before June 30, 2006, in the open market, through block trades or otherwise, pursuant to applicable securities laws. Depending on market conditions, availability of funds, and other relevant factors, the repurchase of the additional shares may be commenced or suspended at any time prior to June 30, 2006, without any prior notice.

We repurchased 767,500 shares of our common stock for \$33.9 million in the first quarter of 2005 under the May 2003 stock repurchase program. During the first quarter, we put into effect a 10b5-1 plan which allows us to automatically repurchase a predetermined number of shares per day at the market price. Since May 2003 when the program was approved by the Board of Directors, we have repurchased 5.6 million shares totaling \$159.8 million as of March 31, 2005. The approximate dollar value of shares that may still be repurchased under this program is \$75.2 million.

Included in the common stock repurchase activity in the first quarter was a block transaction of 400,000 shares of our common stock which was repurchased on March 2, 2005 from one of our principal stockholders, H.A. Schupf & Co., LLC. The shares were repurchased at a price of \$44.20 per share for an aggregate price of \$17.7 million, which reflected a discount from the current asking price, as quoted on the Nasdaq National Market, at the time the transaction was entered into.

***Stockholders Equity***



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Stockholders' equity totaled \$527.0 million at March 31, 2005, a decrease of \$14.9 million, or 2.8%, from the \$541.9 million balance at December 31, 2004. This decrease was primarily a result of our initiative to repurchase our common stock in the first quarter of 2005. We have not paid a cash dividend on our common stock since 1992, and we do not have any material commitments for capital expenditures as of March 31, 2005. As of March 31, 2005, there were no plans for 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 periodic 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 business activities and expected future business activities. Expected future activities for which capital is set aside include potential product expansions and acquisitions of new business lines.

Both SVB Financial and Silicon Valley 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.

The Federal Reserve Board has also established minimum capital leverage ratio guidelines for state member banks. The ratio is determined using Tier 1 capital divided by quarterly average total assets. The guidelines require a minimum of 5.0% for a well-capitalized depository institution. For further information on risk-based capital and leverage ratios as defined by the Federal Reserve Board, see our 2004 Annual Report on Form 10-K/A, under Part I. Item 1. Business Supervision and Regulation Regulatory Capital.

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Both SVB Financial and Silicon Valley Bank's capital ratios were in excess of regulatory guidelines for a well-capitalized depository institution as of March 31, 2005, and December 31, 2004. Capital ratios for SVB Financial are set forth below:

|                                 | March 31<br>2005<br>(As Restated) | December 31,<br>2004 |
|---------------------------------|-----------------------------------|----------------------|
| SVB Financial:                  |                                   |                      |
| Total risk-based capital ratio  | 16.34%                            | 16.09%               |
| Tier 1 risk-based capital ratio | 13.00%                            | 12.75%               |
| Tier 1 leverage ratio           | 10.99%                            | 11.17%               |

The improvement in our total risk-based capital, tier 1 risk-based capital and tier 1 leverage ratios from December 31, 2004, to March 31, 2005, was attributable to an increase in Tier 1 capital from year-to-date earnings and from proceeds from the exercise of employee stock options, partially offset by growth in risk-weighted assets, particularly loans and share repurchases.

A part of the dividends paid by Silicon Valley Bank to SVB Financial in 2003 and the dividend paid in 2004 was in excess of the amount permitted under the California State Department of Financial Institutions (DFI) guidelines. Therefore, SVB Financial was required by the DFI to return to Silicon Valley Bank a portion the 2003 dividend and the 2004 dividend the total amount returned totaled \$28.4 million. Silicon Valley Bank must obtain prior approval from the DFI before paying any further dividends to SVB Financial.

### Liquidity

An important objective of asset/liability management is to manage liquidity. The objective of liquidity management is to ensure that funds are available in a timely manner to meet loan demand, to meet depositors' needs, and to service other liabilities as they become due without causing an undue amount of cost or risk and without 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 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.

The ability to attract a stable, low-cost deposit base is our primary source of liquidity. We continue to expand on opportunities to increase our liquidity and take steps to carefully manage our liquidity. In 2002, we became a member of the Federal Home Loan Bank of San Francisco, thereby adding to our liquidity channels. Other sources of liquidity available to us include federal funds purchased, repurchase agreements, and other short-term borrowing arrangements. 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, federal funds sold, 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.

Our policy guidelines provide that liquid assets as a percentage of total deposits should not fall below 20%. Silicon Valley Bank's ratio of liquid assets to total deposits was 48.5% and 47.6% at March 31, 2005 and December 31, 2004, respectively, both well in excess of our minimum

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policy guidelines. In addition to monitoring the level of liquid assets relative to total deposits, we also utilize other policy measures in liquidity management activities. As of March 31, 2005 and December 31, 2004, we were in compliance with all of these policy measures.

In analyzing our liquidity during the three months ended March 31, 2005 and 2004, reference is made to our interim unaudited consolidated statement of cash flows for the three months ended March 31, 2005 and 2004. See Part I. Item 1. Interim Unaudited Consolidated Financial Statements. The statement of cash flows includes separate categories for operating, investing, and financing activities.

Cash provided by operating activities was \$11.9 million, which included net income of \$22.9 million for the three months ended March 31, 2005. Adjustments for noncash items included \$3.3 million of tax benefits primarily attributable to stock compensation and deferred income tax expense of \$2.8 million offset by a recovery of loan and lease losses of \$3.8 million, amortization of deferred warrant related loan fees of \$1.7 million, and net gains on investment securities of \$1.2 million. Sources of cash from changes in other assets and liabilities included a decrease in income tax receivable of \$5.6 million offset by decreases in accrued retention, incentive plans and other compensation benefits payable of \$25.2 million.

Cash used by investing activities was \$109.6 million for the three months ended March 31, 2005. Net cash outflow was primarily

driven by \$187.0 million in purchases of investment securities and a net increase in loans of \$34.8 million, partially offset by proceeds from maturities and pay-downs of investment securities of \$104.7 million and proceeds from the sale of investment securities of \$5.1 million.

Cash used for financing activities was \$74.5 million for the three months ended March 31, 2005, and was largely driven by net decreases in deposits of \$63.2 million. Capital contributions from minority interest participants and proceeds from the issuance of common stock contributed \$14.9 million and \$4.8 million, respectively, offset by share repurchases totaling \$33.1 million.

Cash and cash equivalents were \$455.0 million on March 31, 2005.

Cash provided by operating activities was \$4.0 million, which included net income of \$13.2 million for the three months ended March 31, 2004. Adjustments for non-cash items included depreciation and amortization of \$2.0 million and change in fair value of derivatives of \$2.3 million, offset primarily by net gains on investment securities of \$1.5 million. Uses of cash from changes in other assets and liabilities included decreases in accrued retention, incentive plans and other compensation benefits payable of \$10.9 million and increases in income tax receivable of \$5.0 million.

Cash used for investing activities totaled \$108.6 million for the three months ended March 31, 2004. Net cash outflow was primarily driven by purchases of investment securities of \$422.8 million, partially offset by \$87.4 million in proceeds from the sale of investment securities and \$233.1 million in proceeds from maturities and pay-downs of investment securities.

Cash provided by financing activities was \$19.4 million for the three months ended March 31, 2004, and was largely driven by net increases in deposits of \$9.4 million. Proceeds from the issuance of common stock and capital contributions from minority interest participants also contributed \$4.7 million, each.

Cash and cash equivalents were \$750.1 million on March 31, 2004.

On a stand-alone basis, SVB Financial's primary liquidity channels include dividends from Silicon Valley Bank, its investment portfolio assets, and its ability to raise debt and equity capital. The ability of Silicon Valley Bank to pay dividends is subject to certain regulations described in Part I. Item 1. Business Supervision and Regulation Restriction on Dividends of our 2004 Form 10-K/A.

### **Forward-Looking Statements**

The foregoing discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our 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, without limitation:



Projections of our revenues, income, earnings per share, 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 future economic performance

Descriptions of assumptions underlying or relating to any of the foregoing

In this amended Quarterly Report on Form 10-Q/A, we make forward-looking statements discussing our management's expectations about:

Sensitivity of our interest-earning assets to interest rates, and impact to earnings from an increase in interest rates

Realization, timing and performance of investments in equity securities

Management of federal funds sold and overnight repurchase agreements at appropriate levels

Development of our later-stage corporate technology lending efforts

Growth in loan balances

Credit quality of our loan portfolio

Levels of nonperforming loans

Liquidity provided by funds generated through retained earnings

Activities for which capital will be required

Ability to meet our liquidity requirements through our portfolio of liquid assets

Ability to expand on opportunities to increase our liquidity

Use of excess capital

Volatility of performance of our equity portfolio

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

For information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see the subsection below Factors that May Affect Future Results. We urge investors to consider all of these factors carefully in evaluating the forward-looking statements contained in this discussion and analysis. 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 do not intend, and undertake no obligation, to update these forward-looking statements.

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk Management**

A key objective of asset/liability management is to manage interest rate risk associated with changing asset and liability cash flows and market interest rate movements. Interest rate risk occurs when interest rate sensitive assets and liabilities do not re-price simultaneously both in timing and volume. Our asset/liability committee provides oversight to our interest rate risk management process and recommends policy guidelines regarding exposure to interest rates for approval by our Board of Directors. Adherence to these policies is monitored on an ongoing basis, and decisions related to the management of interest rate exposure are made when appropriate.

We manage interest rate risk principally through strategies involving our investment securities portfolio. Our policies permit the use of off-balance-sheet derivative instruments in managing interest rate risk.

Our monitoring activities related to managing interest rate risk include both interest rate sensitivity gap analysis and the use of a simulation model. While traditional gap analysis provides a simple picture of the interest rate risk embedded in the balance sheet, it provides only a static view of interest rate sensitivity at a specific point in time and does not measure the potential volatility in forecasted results relating to changes in market interest rates over time. Accordingly, we combine the use of gap analysis with use of a simulation model that provides a dynamic assessment of interest rate sensitivity.

For further information see Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our 2004 Form 10-K/A for disclosure of the quantitative and qualitative information regarding the interest rate risk inherent in interest rate risk sensitive instruments as of December 31, 2004. As of March 31, 2005, there have been no significant changes to the interest rate risk information contained in our 2004 Form 10-K/A and our policies in managing interest rate risk.

**Market Value of Portfolio Equity (MVPE)**

One application of the aforementioned simulation model involves measurement of the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities, and off-balance sheet items, defined as our market value of portfolio equity (MVPE).

The following table presents our MVPE exposure at March 31, 2005 and December 31, 2004, related to an instantaneous and sustained increase or decrease in market interest rates of 100 and 200 basis points, respectively.

| Change in interest rates (basis points) | Estimated<br>MVPE | Estimated Increase/<br>(Decrease) in MVPE |         | Estimated<br>Net<br>Interest<br>Income | Estimated Increase/<br>(Decrease) in Net<br>Interest Income |         |  |
|-----------------------------------------|-------------------|-------------------------------------------|---------|----------------------------------------|-------------------------------------------------------------|---------|--|
|                                         |                   | Amount                                    | Percent |                                        | Amount                                                      | Percent |  |
|                                         |                   | (Dollars in thousands)                    |         |                                        |                                                             |         |  |

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| March 31, 2005:    |    |           |    |           |        |    |         |    |          |        |
|--------------------|----|-----------|----|-----------|--------|----|---------|----|----------|--------|
| +200               | \$ | 993,237   | \$ | 452       | 0.0%   | \$ | 339,630 | \$ | 39,585   | 13.2%  |
| +100               |    | 995,311   |    | 2,526     | 0.3    |    | 320,007 |    | 19,962   | 6.7    |
| -                  |    | 992,785   |    |           |        |    | 300,045 |    |          |        |
| -100               |    | 951,337   |    | (41,448)  | (4.2)  |    | 274,977 |    | (25,068) | (8.4)  |
| -200               |    | 886,411   |    | (106,374) | (10.7) |    | 242,921 |    | (57,124) | (19.0) |
| December 31, 2004: |    |           |    |           |        |    |         |    |          |        |
| +200               | \$ | 1,019,622 | \$ | 20,290    | 2.0%   | \$ | 326,744 | \$ | 41,285   | 14.5%  |
| +100               |    | 1,014,190 |    | 14,858    | 1.5    |    | 306,492 |    | 21,033   | 7.4    |
| -                  |    | 999,332   |    |           |        |    | 285,459 |    |          |        |
| -100               |    | 936,599   |    | (62,733)  | (6.3)  |    | 257,295 |    | (28,164) | (9.9)  |
| -200               |    | 876,445   |    | (122,887) | (12.3) |    | 230,514 |    | (54,945) | (19.2) |

The preceding table indicates that at March 31, 2005, in the event of an instantaneous and sustained increase or decrease in market interest rates, our MVPE would be expected to increase or decrease accordingly.

The market value calculations supporting the results in the preceding table are based on the present value of estimated cash flows using both market interest rates provided by independent broker/dealers and other publicly available sources that we deem reliable. These calculations do not contemplate any changes that we could make to reduce our MVPE exposure in response to a change in market interest rates.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the

preceding table. For example, although certain of our assets and liabilities may have similar maturity or re-pricing profiles, they may react to changes in market interest rates with different magnitudes. Also, actual prepayment rates on loans and investments could vary substantially from the assumptions utilized in the model to derive the results as presented in the preceding table. Further, a change in the shape of the forward yield curve could result in different MVPE estimations from those presented herein. Accordingly, the results in the preceding table should not be relied upon as indicative of actual results in the event of changing market interest rates. Additionally, the resulting MVPE estimates are not intended to represent, and should not be construed to represent the underlying value.

Our MVPE exposure at March 31, 2005 decreased slightly from December 31, 2004, primarily due to changes in the investment portfolio while staying within our policy guidelines. In addition, our net interest income at risk remains within policy limits. These estimates are highly assumption dependent and will change regularly as the company's asset-liability structure changes and as different interest rate environments evolve. We expect to continue to manage our interest rate risk actively utilizing on and off balance sheet strategies as appropriate.

The simulation model also gives us the ability to simulate our net interest income using an interest rate forecast (simple simulation). In order to measure the sensitivity of our forecasted net interest income to changing interest rates utilizing the simple simulation methodology, both a rising and falling interest rate scenario are projected and compared to a base market interest rate forecast derived from the current yield curve. For the rising and falling interest rate scenarios, the base market interest rate forecast is increased or decreased, as applicable, by 200 basis points in 12 equal increments over a one-year period.

We perform net interest income and net income simulations in an interest rate environment whereby we shock the base rate immediately both up and down 300 basis points in 100 basis point increments. The shock scenarios provide us with additional information with respect to our sensitivity to interest rates and the impact on our net income under varied interest rate scenarios.

Our policy guidelines provide that the difference between a base market interest rate forecast scenario over the succeeding one-year period compared with the aforementioned rising and falling interest rate scenarios over the same time period should not result in net interest income degradation exceeding 25.0%. Simulations as of March 31, 2005, indicated that we were within these policy guidelines.

Interest rate risk is the most significant market risk impacting us. Other types of market risk affecting us in the normal course of our business activities include foreign currency exchange risk, equity price risk, and basis risk. The impact resulting from these market risks is not considered significant, and no separate quantitative information concerning market rate and price exposure is presented herein.

### **Factors That May Affect Future Results**

Our business faces significant risks. The factors described below may not be the only risks we face, and are not intended to serve as a comprehensive listing. 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.

**If a significant number of clients fail to perform under their loans, our business, profitability, and financial condition would be adversely affected.**



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As a lender, the largest risk we face is the possibility that a significant number of our client borrowers will fail to pay their loans when due. If borrower defaults cause losses in excess of our allowance for loan and lease losses, it could have an adverse effect on our business, profitability, and financial condition. We have established an evaluation process designed to determine the adequacy of the allowance for loan and lease losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses are dependent to a great extent on our experience and judgment. We cannot assure you that our allowance for loan and lease losses will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, profitability, or financial condition.

**Because of the credit profile of our loan portfolio, our levels of nonperforming assets and charge-offs can be volatile, and 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.**





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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 flow and no established record of profitable operations. In many cases, repayment of the loan is dependent upon receipt of additional equity financing from venture capitalists or others. Collateral for many of the loans often includes intellectual property, which is difficult to value and may not be readily salable in the case of default. Because of the intense competition and rapid technological change that characterizes the companies in our technology and life science industry sectors, a borrower's financial position can deteriorate rapidly. We also make loans that are larger, relative to the revenues of

the borrower, than those made by traditional small business lenders, so the impact of any single borrower default may be more significant to us. Because of these characteristics, our level of nonperforming loans and loan charge-offs can be volatile and can vary materially from period to period. Changes in our level of nonperforming loans may require us to make material provisions for loan losses in any period, which could reduce our net income or cause net losses in that period.

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



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 interest-bearing liabilities, such as deposits and other borrowings, and the interest rates and fees we receive on interest-earning assets, such as loans extended to our clients and interest rates we receive on securities held in our investment portfolio. Interest rates are highly sensitive to many factors beyond our control, such as inflation, recession, global economic disruptions, and unemployment. In addition, legislative changes could affect the manner in which we pay interest on deposits or other liabilities. For example, Congress has for many years debated repealing a law that prohibits banks from paying interest rates 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, which would negatively affect our interest rate spread. Any material decline in our interest rate spread would have a material adverse effect on our business and profitability. Additionally, a portion of our loan fee income, a component of loan interest income, is predicated on the receipt of warrant assets. If we fail to continue to receive warrant assets our future interest margin may decline.

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

Our strategy has focused on providing banking products and services to emerging-growth and corporate technology companies receiving financial support from sophisticated investors, including venture capitalists, angels, and corporate investors. 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 third round of equity infusion 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 would have an adverse effect on our business, profitability and growth prospects.

Among the factors that have and could in the future affect the amount of capital available to startup and emerging-growth companies are the receptivity of the capital markets to initial public offerings 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 and life science 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.

**Our business is dependent upon access to funds on attractive terms.**



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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 trigger obligations under certain existing borrowings and other contracts), or increase the interest rates we pay our depositors. 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.

**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.**



We account for our employee stock options in accordance with Accounting Principles Board Opinion No. 25 and related interpretations, which provide that any compensation expense relative to employee stock options be measured based on the intrinsic value of the stock options. As a result, when options are granted at fair market value of the underlying stock on the date of grant, as is our practice, we incur no compensation expense. In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123 and supersedes APB No. 25. SFAS No. 123(R) requires us to record compensation expense for all employee stock grants. Such expense will have a material impact on our results of operations. In October 2004, in an effort to align our option grant rate to that of other financial institutions similar to us, we significantly decreased the number of shares subject to options granted to our employees 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.



**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.**



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SVB Financial, Silicon Valley Bank, and their subsidiaries are extensively regulated under federal and state law. These regulations are intended primarily for the protection of depositors, other clients, and the deposit insurance fund not for the benefit of stockholders or security holders. Federal and state laws and regulations limit or otherwise affect the activities in which SVB Financial, Silicon Valley Bank, and their subsidiaries may engage. A change in the applicable statutes, regulations, or regulatory policy may have a material effect on our business and that of our subsidiaries. In addition, SVB Financial, Silicon Valley Bank, and their subsidiaries are required to maintain certain minimum levels of capital. Federal and state banking regulators possess broad powers to take supervisory action, as they deem appropriate, with respect to SVB Financial and Silicon Valley Bank. SVB Alliant and SVB Securities, both broker-dealer subsidiaries, are regulated by the SEC and the National Association of Securities Dealers, Inc. (NASD). Violations of the stringent regulations governing the actions of a broker-dealer can result in the revocation of broker-dealer licenses, the imposition of censures or fines, the issuance of cease and desist orders, and the suspension or expulsion from the securities business of a firm, its officers or employees. Supervisory actions can result in higher capital requirements, higher insurance premiums, and limitations on the activities of SVB Financial, Silicon Valley Bank or their subsidiaries. These supervisory actions could have a material adverse effect on our business and profitability.

**Warrant, venture capital fund, 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 is uncertain.**



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We have historically obtained rights to acquire stock, in the form of equity warrants, in certain clients as part of negotiated credit facilities and for other services. In future periods we may not be able to ultimately realize gains from the sale of securities to third parties related to the exercise of warrants, or our realized gains may be materially less than the current level of fair value of derivative warrants and unrealized gains disclosed in this filing. We also have made investments in venture capital funds as well as direct equity investments in companies. The timing and amount of income, if any, from the disposition of client warrants, venture capital funds, and direct equity investments typically depend upon factors beyond our control, including the performance of the underlying portfolio companies, investor demand for initial public offerings, fluctuations in the market prices of the underlying common stock of these companies, levels of mergers and acquisitions activity, and legal and contractual restrictions on our ability to sell the underlying securities. In addition, our investments in venture capital funds and direct equity investments have lost value and could continue to lose value or become worthless, which would reduce our net income or could cause a net loss in any period. All of these factors are difficult to predict. Additionally, due to the nature of investing in private equity venture-backed technology and life science companies, it is likely that additional investments within our existing portfolio will become impaired. However, we are not in a position to know at the present time which specific investments, if any, are likely to be impaired or the extent or timing of individual impairments. Therefore, we cannot predict future investment gains or losses with any degree of accuracy, and any gains or losses are likely to vary materially from period to period.

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



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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 or are acquired or merge with another company. Any significant reduction in our outstanding loans could have a material adverse effect on our business and profitability.

**Adverse changes in domestic or global economic conditions, especially in the technology sector and particularly in California, could have a material adverse effect on our business, growth, and profitability.**





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If conditions deteriorate in the domestic or global economy, especially in the technology, life science, private equity, and premium wine industry niches, our business, growth, and profitability are likely to be materially adversely affected. Our clients may be particularly sensitive to disruptions in the growth of the technology sector of the U.S. economy. In addition, a substantial number of our clients are geographically concentrated in California, and adverse economic conditions in California could harm the businesses of a disproportionate number of our clients. To the extent that our clients' underlying businesses are harmed, they are more likely to default on their loans.

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



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We rely on experienced client relationship managers and on officers and employees with strong relationships with the venture capital community to generate new business. If a significant number of these employees were to leave us, our growth and profitability could be adversely affected. We believe that our employees frequently have opportunities for alternative employment with competing financial institutions and with our clients.

**We cannot assure that we will be able to maintain our historical levels of profitability in the face of sustained competitive pressures.**



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Other banks and specialty and diversified financial services companies, many of which are larger and have more capital than we do, offer lending, leasing, other financial products and advisory services to our client base. 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/or credit terms prevalent in that market. Our pricing and credit terms could deteriorate if we act to meet these competitive challenges.

**We face risks in connection with completed or potential acquisitions.**



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We completed one acquisition in each of 2002 and 2001 and, if appropriate opportunities present themselves, we intend to acquire businesses, technologies, services or products that we believe are strategic. There can be no assurance that we will be able to identify, negotiate or finance future acquisitions successfully or integrate such acquisitions with our current business.

Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, and/or contingent liabilities, which could have a material adverse effect on our business, results of operations, and/or financial condition. Any such future acquisitions of other businesses, technologies, services, or products might require us to obtain additional equity or debt financing, which might not be available on terms favorable to us, or at all; and such financing, if available, might be dilutive.

Upon completion of an acquisition, we are faced with the challenges of integrating the operations, services, products, personnel, and systems of acquired companies into our business, which may divert management's attention from ongoing business operations. In addition, acquisitions of new businesses may subject us to regulatory scrutiny. We cannot assure that we will be successful in integrating any acquired business effectively into the operations of our business. Moreover, there can be no assurance that the anticipated benefits of any acquisition will be realized.

The success of our acquisitions is dependent on the continued employment of several key employees. If acquired businesses do not meet projected revenue targets, or if certain key employees were to leave the businesses, we could conclude that the value of the businesses has decreased and that the related goodwill has been impaired. If we were to conclude that goodwill has been impaired that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations.

**We could be liable for breaches of security in our online banking services. Fear of security breaches could limit the growth of our online services.**





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We offer various Internet-based services to our clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain our clients' confidence in our online services. Advances in computer capabilities, new discoveries, or other developments could result in a compromise or breach of the technology we use to protect client transaction data. 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 adversely affect our ability to offer and grow our online services and could harm our business.

People generally are concerned with security and privacy on the Internet and any 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 operations and financial condition could be adversely affected.

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



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A component of our strategy is to expand internationally on a limited basis. Expansion into international markets, albeit on a limited basis, requires management's attention and resources. We have limited experience in internationalizing our service, and we believe that many of our competitors are also undertaking expansion into foreign markets. There can be no assurance that we will be successful in expanding into international markets. In addition to the uncertainty regarding our ability to generate revenues from foreign operations and to expand our international presence, there are certain risks inherent in doing business on an international basis, including, regulatory requirements, legal uncertainty regarding liability, tariffs, and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, different accounting practices, problems in collecting loan or other types of payments, political instability, seasonal reductions in business activity, and potentially adverse tax consequences, any of which could adversely affect the success of our international operations. To the extent we continue to expand our international operations and have additional portions of our international revenues denominated in foreign currencies, we could become subject to increased risks relating to foreign currency exchange rate fluctuations. There can be no assurance that one or more of the factors discussed above will not have a material adverse effect on our business, results of operations, and/or financial condition.

**Maintaining or increasing our market share depends on market acceptance and regulatory approval of new products and services.**



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Our success depends, in part, upon our ability to adapt our products and services to evolving industry standards and client demands. There is increasing pressure on financial services companies to provide products and services at lower prices. In addition, the widespread adoption of new technologies, including Internet-based services, could require us to make substantial expenditures to modify or adapt our existing products or services. A failure to achieve market acceptance of any new products we introduce, or a failure to introduce products that the market may demand, could have an adverse effect on our business, profitability, or growth prospects.

**Business interruptions due to natural disasters and other events beyond our control can adversely affect our business.**





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Our operations can be subject to natural disasters and other events beyond our control, such as earthquakes, fires, power failures, telecommunication loss, terrorist attacks, and acts of war. 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 manmade, could cause severe destruction or interruption to our operations and as a result, our business could suffer serious harm. To mitigate these risks we have begun a phased business continuity program, with initial capabilities scheduled to become available during 2005 and additional work continuing throughout 2006.

**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.**

Our management has determined that as of December 31, 2004, the Company did not maintain effective internal controls over financial reporting based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework as a result of identified material weaknesses in the Company's internal control over financial reporting. Specifically, the Company did not have adequately designed internal controls in its financial reporting process related to the selection and application of generally accepted accounting principles in that (a) accounting policies, procedures and practices were not consistently developed, maintained or updated in a manner ensuring that financial statements were prepared in accordance with U.S. generally accepted accounting principles, (b) these policies and procedures were not designed to consistently ensure the preparation and retention of adequate documentation to support key judgments made in connection with the selection and application of significant accounting policies within the Company's financial reporting process and (c) the Company's policies and procedures did not consistently provide for effective analysis, implementation, and documentation of new accounting pronouncements. In addition, the Company did not maintain sufficient levels of appropriately qualified and trained personnel in its financial reporting processes resulting in management's inability to consistently follow its internal control over financial reporting related to (x) the timely preparation of comprehensive documentation supporting management's analysis of the appropriate accounting treatment for warrant derivatives or other non-routine or complex transactions, and (y) the review of such documentation by qualified internal staff, assisted by external advisors as deemed necessary, to determine its completeness and the propriety of our conclusions. For a detailed description of these material weaknesses and the Company's remediation efforts and plans, see Part I, Item 4. These control deficiencies resulted in material errors in the Company's financial reporting which resulted in a restatement of the Company's financial statements for the years 2002, 2003 and 2004 and for the quarter ended March 31, 2005, as discussed elsewhere in this Quarterly Report on Form 10-Q/A. We have not yet fully remediated these material weaknesses.

In response to these material weaknesses in our internal control over financial reporting, we are implementing additional controls and procedures and are incurring additional related expenses. We cannot be certain that the measures we have taken and are planning to take will sufficiently and satisfactorily remediate the identified material weaknesses in full. Furthermore, we intend to continue improving our internal control over financial reporting and the implementation and testing of these efforts could result in increased cost and could divert management attention away from operating our business.

If we are unable to remediate the identified material weaknesses discussed above, or if additional material weaknesses are identified in our internal control over financial reporting, our management will be unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we could be required to further implement expensive and time-consuming remedial measures and potentially lose investor confidence in the accuracy and completeness of our financial reports which could have an adverse effect on our stock price and potentially subject us to litigation.

**We have received two delisting notices from Nasdaq. Our common stock and 7% cumulative trust preferred securities may become delisted from the Nasdaq National Market, which may have a material adverse effect on us, including an adverse impact on the liquidity of our common stock and on our ability to attract, recruit or retain key employees.**

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On August 16, 2005 and November 15, 2005, we received notices from the staff of the Nasdaq Stock Market stating that the Company's securities are subject to delisting because it was not in compliance with Nasdaq's Marketplace Rule 4310(c)(14) due to the delayed filing of its Quarterly Reports on Form 10-Q for the quarters ended June 30, 2005 and September 30, 2005. Currently, both

the Company's common stock and 7% cumulative trust preferred securities are traded on the Nasdaq National Market, under the symbols SIVBE and SIVOE, respectively.

At an appeal hearing before a Nasdaq Listing Qualifications Panel on September 29, 2005, we submitted a plan to Nasdaq that would bring us back in compliance with Marketplace Rule 4310(c)(14). The plan, which was subsequently approved by the Nasdaq panel in November 2005, requires us to file our restated financials and our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2005 and September 30, 2005 on or before December 28, 2005. We did not file either of these Quarterly Reports by the SEC filing deadline on that date. Once these reports have been filed, the Company expects that it will be back in compliance with Nasdaq marketplace rules, so long as it has not actually been delisted by Nasdaq.

While the Company intends to continue its plan to achieve and sustain compliance as requested by Nasdaq, there can be no guarantee that we will be successful in implementing our plan as intended, or that our common stock will not be delisted by Nasdaq. If our common stock is delisted, the only public market for our common stock is likely to be the pink sheets or the OTC Bulletin Board. Being delisted will likely significantly and adversely impact the liquidity of our common stock and significantly depress its value.

Additionally, if we are delisted, the reduced marketability of our common stock may have a material adverse effect on our ability to attract, recruit and retain key employees, especially since our employee compensation structure includes equity compensation.

#### **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 the Company files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, among other processes, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits 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.

The Company carried out an evaluation, under the supervision and management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2005 pursuant to Exchange Act Rule 13a-15. Based upon that evaluation and as a result of the material weaknesses described below that existed as of December 31, 2004 that were identified in the Company's amended Annual Report on Form 10-K/A on December 28, 2005 filed with the SEC on December 29, 2005 (the Form 10-K/A ) still being present at March 31, 2005, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2005.

##### ***Internal Control Over Financial Reporting***

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Management is responsible for establishing and maintaining adequate internal control over financial reporting at the Company. Our internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). A company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of the company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the company's financial statements.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's internal control over financial reporting pursuant to Rule 13a-15(c), as adopted by the SEC under the Exchange Act. In evaluating the effectiveness of the Company's internal control over financial reporting, management used the framework established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission

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(COSO). In the Company's Annual Report on Form 10-K for the year-ended December 31, 2004 filed with the SEC on March 16, 2005, management concluded that the Company's internal control over financial reporting as of December 31, 2004, was effective.

However, on July 18, 2005, the Company determined that it needed to restate certain of its previously issued consolidated financial statements and accordingly filed the Form 10-K/A. As a result of such restatement, management reassessed the Company's internal control over financial reporting using the COSO criteria and identified material weaknesses in internal control over financial reporting. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management identified the following material weaknesses as of December 31, 2004:

The Company did not have adequately designed internal controls in its financial reporting process related to the selection and application of U.S. generally accepted accounting principles (GAAP). Specifically, accounting policies, procedures and practices were not consistently developed, maintained or updated in a manner ensuring that financial statements were prepared in accordance with GAAP. Also, policies and procedures were not designed to consistently ensure the preparation and retention of adequate documentation to support key judgments made in connection with the selection and application of significant accounting policies within the Company's financial reporting process. Finally, the Company's policies and procedures did not consistently provide for effective analysis, implementation, and documentation of new accounting pronouncements.

The Company did not maintain sufficient levels of appropriately qualified and trained personnel in its financial reporting processes. As a result, the Company did not establish internal control over financial reporting policies and procedures related to (a) the timely preparation of comprehensive documentation supporting management's analysis of the appropriate accounting treatment for equity warrant assets or other non-routine or complex transactions, and (b) the review of such documentation by qualified internal staff, assisted by external advisors as deemed necessary, to determine its completeness and the propriety of the Company's conclusions.

These material weaknesses resulted in the restatement of the Company's previously issued consolidated financial statements as of and for the three-month period ended March 31, 2005, consolidated financial statements as of December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004, and the interim consolidated financial information for each of the quarterly periods in 2004 and 2003. Specifically, the aforementioned material weaknesses in internal control over financial reporting resulted in the following accounting errors:

1) Derivative equity warrant assets with net share settlement provisions were not reported as derivatives in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Specifically, the Company failed to properly reflect the fair value of equity warrant assets with net settlement terms received during lending activity in its consolidated balance sheet, the change in fair value of the equity warrant assets in the income statement and the accretion of the grant date fair value of equity warrant assets to interest income as a yield adjustment. This misapplication of GAAP resulted in a change to the Company's interest income, provision for loan and lease losses, noninterest income and net income for the years ended December 31, 2004, 2003 and 2002, for the first quarter of 2005 and for all quarterly periods during the years ended December 31, 2004 and 2003.

2) Initial non-refundable corporate finance fees were not reported in accordance with the provisions of Staff Accounting Bulletin No. 104, *Revenue Recognition*. Specifically, the Company failed to defer recognition of initial upfront non-refundable retainers received upon execution of engagement letters to provide mergers and acquisitions advisory services until the completion of all contractual obligations pursuant to the terms of the engagement letters or upon receipt or notification of an engagement termination letter. This misapplication of GAAP resulted in a change to the Company's noninterest income and net income for the years ended December 31, 2004, 2003, and 2002, for the first quarter of 2005 and for all quarterly periods during the years ended December 31, 2004 and 2003.

3) Non-refundable loan fees and costs associated with the Company's lending products and fees associated with letters of credit were not reported in accordance with the provisions of SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. Specifically, the Company failed to recognize net fee revenue in accordance with the appropriate straight-line or interest method, as prescribed by SFAS No. 91, for net loan fee income obtained in connection with the extension of lending products. In addition, the Company inappropriately recognized non-refundable loan fees it receives for factoring loans immediately rather than deferring and amortizing fees over the term of the facility granted. The Company had not properly deferred direct loan origination costs associated with originating certain loan products. In addition, the Company misclassified fees on certain letters of credit as interest income rather than noninterest income on commitments where the probability of exercise was deemed remote. These misapplications of GAAP resulted in a change to the Company's interest income, noninterest income and net income for the years ended December 31, 2004, 2003, and 2002 and for all quarterly periods during the years ended December 31, 2004 and 2003.

4) Certain investment securities that were readily convertible to known amounts of cash and present insignificant risk of changes in value with original or purchased maturity dates of 90 days or less, were not reported as cash equivalents in accordance with the provisions of SFAS No. 95, *Statement of Cash Flows*. This misapplication of GAAP resulted in a reclassification in the Company's consolidated balance sheets of money market mutual fund investments and commercial paper investments

from investment securities line item to federal funds sold and securities purchased under agreement to resell and other short-term investments. This reclassification did not result in any change to the Company's revenue or net income for the years ended December 31, 2004, 2003 and 2002, for the first quarter of 2005 or for any quarterly period during the years ended December 31, 2004 and 2003.

5) Current federal income taxes receivable and current federal income taxes payable were not reflected net on the Company's balance sheet. This misapplication of GAAP resulted in a change to the Company's other assets and other liabilities as of December 31, 2004 and 2003. Current federal income taxes receivable and current federal income taxes payable should be netted as the Company has the legal right of offset, as defined by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*. Therefore, other assets and other liabilities have been restated to reflect the net current federal income taxes receivable or net current federal income taxes payable at each of these period ends. This correction of the accounting resulted in a decrease to both the Company's other assets and other liabilities as of December 31, 2004 and 2003.

Also, as a result of the aforementioned material weaknesses, there were other errors in previously issued financial statements that were corrected as part of the restatement.

#### ***Remediation of Material Weaknesses***

The Company's management has identified the steps necessary to address the aforementioned material weaknesses, including:

Documenting of processes and procedures, along with appropriate training, to ensure that the Company's accounting policies, which have been corrected to conform with GAAP, are consistently applied going forward;

Hiring additional accounting personnel to ensure that accounting personnel with adequate experience, skills and knowledge particularly in relation to complex or non-routine transactions are directly involved in the review and accounting evaluation of such transactions;

Involving internal personnel assisted by external advisors, as deemed necessary, early in the process, particularly in complex or non-routine transactions, to obtain additional guidance as to the application of GAAP to any such proposed transaction;

Ensuring comprehensive documentation supporting management's analysis of the appropriate accounting treatment for warrant derivatives or other non-routine or complex transactions and the related review thereof are completed to standards established by senior accounting personnel and the principal accounting officer.

Requiring senior accounting personnel and the principal accounting officer to review all complex or non-routine transactions to evaluate and approve the accounting treatment for such transactions; and

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Requiring regular periodic review of all significant accounting policies and their adoptions, application, and impact by senior accounting personnel and the principal accounting officer together with the Audit Committee of the Board of Directors.

The Company began to execute the remediation plans identified above in the third quarter of 2005, and we believe our controls and procedures will continue to improve as a result of the further implementation of these actions.

We cannot assure you that these remediation efforts will be successful or that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. See Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk Factors That May Affect Future Results.

### *Changes in Internal Control*

No changes in our internal control over financial reporting occurred during the period covered by this Quarterly Report on 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**PART II - OTHER INFORMATION****ITEM 1 - LEGAL PROCEEDINGS**

On May 24, 2001, Gateway Communications, Inc. (Gateway) filed a lawsuit in the United States Bankruptcy Court for the Southern District of Ohio (Western Division) naming Silicon Valley Bank (the Bank) as a defendant. Gateway (the debtor in the bankruptcy case) alleges that the Bank's actions in connection with a loan resulted in Gateway's bankruptcy, and seeks \$20,000,000 in compensatory damages, punitive damages, interest and attorneys' fees. On June 24, 2003, the Court dismissed four of the five counts in the complaint, including the claim for punitive damages, leaving one breach of contract claim. We believe that the sole remaining claim has no merit and intend to defend the lawsuit vigorously. The action is scheduled for trial in December 2005.

We are unable to predict at this time the final outcome of the above matter and the ultimate effect, if any, on our liquidity, consolidated financial position or results of operations.

Additionally, from time to time, we are subject to other legal claims and proceedings that are in the normal course of our business. While the outcome of these matters is currently not determinable, based on information available to us, our review of such claims to date and consultation with outside counsel, we do not currently expect that the ultimate costs to resolve these matters, if any, will have a material adverse effect on our liquidity, consolidated financial position or results of operations.

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

| Period                               | (a)<br>Total Number of<br>Shares Purchased | (b)<br>Average Price Paid<br>per Share | (c)<br>Total Number of<br>Shares Purchased<br>as<br>Part of Publicly<br>Announced Plans or<br>Programs(1) | (d)<br>Maximum Approximate<br>Dollar Value of Shares that<br>May Yet Be Purchased<br>Under the Plans or<br>Programs(1) |
|--------------------------------------|--------------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| January 1, 2005 - January 31, 2005   |                                            |                                        | \$                                                                                                        | 109,200,000                                                                                                            |
| February 1, 2005 - February 28, 2005 | 272,500                                    | \$ 44.18                               | 272,500                                                                                                   | 97,200,000                                                                                                             |
| March 1, 2005 - March 31, 2005       | 495,000                                    | 44.24                                  | 495,000                                                                                                   | 75,200,000                                                                                                             |
| Total                                | 767,500                                    | \$ 44.22                               | 767,500                                                                                                   | \$ 75,200,000                                                                                                          |

(1) On May 7, 2003, the Company announced that its Board of Directors authorized a stock repurchase program of up to \$160.0 million, with no specified expiration date. This program became effective immediately and replaced previously announced stock repurchase programs. Stock repurchases under this program may be made from time to time. On January 27, 2005, the Company announced that its Board of Directors authorized the repurchase of up to an additional \$75.0 million of common stock under the stock repurchase program, in conjunction with the \$160.0 million originally approved in May 2003. This \$75.0 million of shares under this program may still be repurchased at any time, at our

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*discretion, before June 30, 2006, in the open market, through block trades or otherwise, pursuant to applicable securities laws. Under this program, the Company repurchased in aggregate 5.6 million shares of common stock totaling \$159.8 million as of March 31, 2005. The approximate dollar value of shares that may still be repurchased under this program totaled \$75.2 million as of March 31, 2005.*

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

On October 12, 2005 and December 16, 2005, the trustee under the note indenture relating to the Company's \$150.0 million zero-coupon convertible subordinated notes due June 15, 2008, provided notice in accordance with the terms of the indenture that the Company was in breach of its covenant to remain current in its SEC filings because of its failure to file its Quarterly Reports on Form 10-Q for the quarters ended June 30, 2005 and September 30, 2005, respectively. The Company's failure to cure this breach within 60 days of the October 12, 2005 notice constituted an event of default under the indenture as of December 11, 2005. As the indenture does not provide for any right of acceleration of the payment of the principal of the notes upon a default in the performance of any covenant or agreement in the notes or in the indenture, the trustee and the holders are not entitled to accelerate the maturity of the notes upon the occurrence of the aforementioned event of default. As a result, this event of default did not constitute a material default with respect to the Company's indebtedness. Upon the occurrence of this event of default, the trustee was entitled, subject to certain limitations and conditions, to seek to enforce the performance of such covenant. In addition, during the period that the event of default was continuing, the Company could not pay cash upon conversion of any note or portion of the note (other than cash for fractional shares). Upon the filing by the Company of its Quarterly Reports on Form 10-Q for the quarters ended June 30, 2005 and September 30, 2005, any default or event of default under these notices will be cured.

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

None.

### **ITEM 5 - OTHER INFORMATION**

None.

### **ITEM 6 - EXHIBITS**

(a) Exhibits:

See Index to Exhibits at the end of this report.

**SIGNATURES**

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

/s/ DONAL D. DELANEY  
Donal D. Delaney  
Corporate Controller  
(Principal Accounting Officer)

Date: December 28, 2005

## INDEX TO EXHIBITS

| Exhibit Number | Exhibit Description                                                                                                                                                                                                                                                 | Form  | Incorporated by Reference |         | Filing Date       | Filed Herewith |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------------|---------|-------------------|----------------|
|                |                                                                                                                                                                                                                                                                     |       | File No.                  | Exhibit |                   |                |
| 2.1            | Asset Purchase Agreement between the registrant and SVB Alliant                                                                                                                                                                                                     | 8-K   | 000-15637                 | 2.1     | October 2, 2001   |                |
| 3.1            | Certificate of Incorporation                                                                                                                                                                                                                                        | 8-K   | 000-15637                 | 3.1     | April 26, 1999    |                |
| 3.2            | Certificate of Amendment to Certificate of Incorporation                                                                                                                                                                                                            | 10-Q  | 000-15637                 | 3.1     | May 13, 2003      |                |
| 3.3            | Amended and Restated Bylaws                                                                                                                                                                                                                                         | 10-K  | 000-15637                 | 3.3     | March 11, 2004    |                |
| 3.4            | Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock                                                                                                                                                          | 8-A/A | 000-15637                 | 3.4     | February 27, 2004 |                |
| 4.1            | Indenture dated as of May 20, 2003 between the Company and Wells Fargo Bank Minnesota, National Association                                                                                                                                                         | S-3   | 333-107994                | 4.1     | August 14, 2003   |                |
| 4.2            | Form of Note (included in Exhibit 4.9)                                                                                                                                                                                                                              | S-3   | 333-107994                | 4.2     | 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 Silicon Valley Bancshares and Wilmington Trust Company, as trustee                                                                                                                              | 8-K   | 000-15637                 | 4.12    | November 19, 2003 |                |
| 4.5            | Junior Subordinated Deferrable Debenture due October 15, 2033 of Silicon Valley Bancshares                                                                                                                                                                          | 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                                                                                                                                                                                   | 8-K   | 000-15637                 | 4.15    | November 19, 2003 |                |
| 4.8            | Guarantee Agreement, dated October 30, 2003 between Silicon Valley Bancshares and Wilmington Trust Company, as trustee                                                                                                                                              | 8-K   | 000-15637                 | 4.17    | November 19, 2003 |                |
| 4.9            | Agreement as to Expenses and Liabilities, dated as of October 30, 2003, between Silicon Valley Bancshares and SVB Capital II                                                                                                                                        | 8-K   | 000-15637                 | 4.17    | November 19, 2003 |                |

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|      |                                                                                                                                                                                                        |       |           |       |                    |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-----------|-------|--------------------|
| 4.10 | Certificate Evidencing 7%<br>Common Securities of SVB<br>Capital II                                                                                                                                    | 8-K   | 000-15637 | 4.18  | November 19, 2003  |
| 4.11 | Silicon Valley Bancshares<br>Officers Certificate and<br>Company Order, dated<br>October 30, 2003                                                                                                      | 8-K   | 000-15637 | 4.19  | November 19, 2003  |
| 4.12 | Amended and Restated Preferred<br>Stock Rights Agreement dated as<br>of January 29, 2004, between<br>Silicon Valley Bancshares and<br>Wells Fargo Bank Minnesota,<br>N.A.                              | 8-A/A | 000-15637 | 4.20  | February 27, 2004  |
| 4.13 | Amendment No. 1 to Amended<br>& Restated Preferred Stock<br>Rights Agreement, dated as of<br>August 2, 2004, by and between<br>Silicon Valley Bancshares and<br>Wells Fargo Bank, N.A.                 | 8-A/A | 000-15637 | 4.13  | August 3, 2004     |
| 10.1 | Office Lease Agreement, dated<br>as of September 15, 2004,<br>between CA-Lake Marriott<br>Business Park Limited<br>Partnership and Silicon Valley<br>Bank: 3003 Tasman Drive, Santa<br>Clara, CA 95054 | 8-K   | 000-15637 | 10.28 | September 20, 2004 |

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|        |                                                                                                                                                                           |         |           |       |                   |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-----------|-------|-------------------|
| 10.2   | Amended and Restated Lease Termination Agreement, dated as of October 20, 2004, by and between CA-Lake Marriott Business Park Limited Partnership and Silicon Valley Bank | 8-KA    | 000-15637 | 99.1  | October 22, 2004  |
| *10.3  | Amended and Restated Silicon Valley Bancshares 1989 Stock Option Plan                                                                                                     | 10-Q    | 000-15637 | 10.28 | August 13, 1996   |
| *10.4  | Silicon Valley Bank Money Purchase Pension Plan                                                                                                                           | 10-Q    | 000-15637 | 10.29 | August 13, 1996   |
| *10.5  | Amendment and Restatement of the Silicon Valley Bank Money Purchase Pension Plan                                                                                          | 10-Q    | 000-15637 | 10.30 | August 13, 1996   |
| *10.6  | Silicon Valley Bank 401(k) and Employee Stock Ownership Plan, as amended and restated                                                                                     | 10-K    | 000-15637 | 10.6  | March 16, 2005    |
| *10.7  | Form of Change in Control Severance Benefits Policy for Non-Executives                                                                                                    | 10-Q    | 000-15637 | 10.33 | November 13, 1996 |
| *10.8  | Amended and Restated Silicon Valley Bancshares Retention Program Plan                                                                                                     | 10-Q    | 000-15637 | 10.8  | August 9, 2004    |
| *10.9  | Severance Agreement between the Company and John C. Dean related to Garage.com as of August 12, 1998                                                                      | 10-Q    | 000-15637 | 10.40 | November 13, 1998 |
| *10.10 | Severance Agreement between the Company and Harry W. Kellogg related to Garage.com as of August 12, 1998                                                                  | 10-Q    | 000-15637 | 10.41 | November 13, 1998 |
| *10.11 | 1999 Employee Stock Purchase Plan                                                                                                                                         | 10-K    | 000-15637 | 10.44 | March 17, 2000    |
| *10.12 | Silicon Valley Bancshares 1998 Equity Incentive Plan, amended as of July 20, 2000                                                                                         | 10-Q    | 000-15637 | 10.45 | November 14, 2000 |
| *10.13 | Change in Control Severance Benefits Policy of Silicon Valley Bank                                                                                                        | 10-Q    | 000-15637 | 10.46 | November 14, 2000 |
| *10.14 | Consulting Agreement between Silicon Valley Bancshares and John C. Dean, effective as of May 1, 2001                                                                      | 10-Q    | 000-15637 | 10.47 | May 15, 2001      |
| *10.15 | Silicon Valley Bancshares 1997 Equity Incentive Plan, as amended                                                                                                          | DEF 14A | 000-15637 | B-1   | March 16, 2005    |
| *10.16 | Form of Indemnity Agreement between the Company and its directors and officers                                                                                            | 10-Q    | 000-15637 | 10.50 | November 14, 2003 |
| *10.17 | Severance Agreement between the Company and Lauren Friedman                                                                                                               | 10-Q    | 000-15637 | 10.51 | November 14, 2003 |
| *10.18 | Promissory Note Between Silicon Valley Bancshares and Marc Verissimo dated August 4, 2000                                                                                 | 10-K    | 000-15637 | 10.52 | March 11, 2004    |
| *10.19 | Bonus Agreement Between Silicon Valley Bank and Marc Verissimo dated September 20, 2000                                                                                   | 10-K    | 000-15637 | 10.53 | March 11, 2004    |
| *10.20 | Promissory Note Between Silicon Valley Bancshares and Ken Wilcox dated April 4, 2002                                                                                      | 10-K    | 000-15637 | 10.54 | March 11, 2004    |

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|        |                                                                                          |      |           |       |                |
|--------|------------------------------------------------------------------------------------------|------|-----------|-------|----------------|
| *10.21 | Promissory Note Between Silicon Valley Bancshares and Marc Verissimo dated April 2, 2002 | 10-K | 000-15637 | 10.55 | March 11, 2004 |
| *10.22 | Promissory Note Between Silicon Valley Bancshares and Greg Becker dated May 6, 2002      | 10-K | 000-15637 | 10.56 | March 11, 2004 |
| *10.23 | Promissory Note Between Silicon Valley Bancshares and Greg Becker dated January 16, 2003 | 10-K | 000-15637 | 10.57 | March 11, 2004 |
| *10.24 | Silicon Valley Bancshares Senior Management Incentive Compensation Plan                  | 10-K | 000-15637 | 10.58 | March 11, 2004 |
| *10.25 | Separation Agreement Between Silicon Valley Bank and Leilani Gayles dated July 16, 2003  | 10-K | 000-15637 | 10.59 | March 11, 2004 |
| *10.26 | Offer Letter to Jack Jenkins-Stark dated February 20, 2004                               | 10-Q | 000-15637 | 10.26 | May 7, 2004    |

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|        |                                                                              |      |           |       |                   |   |
|--------|------------------------------------------------------------------------------|------|-----------|-------|-------------------|---|
| *10.27 | Offer Letter to David C. Webb dated May 25, 2004                             | 10-Q | 000-15637 | 10.27 | August 9, 2004    |   |
| *10.28 | Silicon Valley Bank Deferred Compensation Plan, as amended and restated      | 8-K  | 000-15637 | 10.29 | November 3, 2004  |   |
| *10.29 | Form of Restricted Stock Unit Agreement under 1997 Equity Incentive          | 8-K  | 000-15637 | 10.30 | November 5, 2004  |   |
| *10.30 | Form of Incentive Stock Option Agreement under 1997 Equity Incentive Plan    | 10-Q | 000-15637 | 10.31 | November 9, 2004  |   |
| *10.31 | Form of Nonqualified Stock Option Agreement under 1997 Equity Incentive Plan | 10-Q | 000-15637 | 10.32 | November 9, 2004  |   |
| *10.32 | Form of Restricted Stock Award under 1997 Equity Incentive Plan              | 10-Q | 000-15637 | 10.33 | November 9, 2004  |   |
| *10.33 | Offer Letter to David Ketsdever dated November 13, 2004                      | 8-K  | 000-15637 | 10.34 | November 30, 2004 |   |
| 14.1   | Code of Ethics                                                               | 10-K | 000-15637 | 14.1  | March 16, 2005    |   |
| 21.1   | Subsidiaries of Silicon Valley Bancshares                                    | 10-K | 000-15637 | 21.1  | March 16, 2005    |   |
| 31.1   | Rule 13a-14(a)/ 15d-14(a) Certification of Principal Executive Officer       |      |           |       |                   | ý |
| 31.2   | Rule 13a-14(a)/ 15d-14(a) Certification of Principal Financial Officer       |      |           |       |                   | ý |
| 32.1   | Section 1350 Certifications                                                  |      |           |       |                   | ý |

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