GRIFFON CORP
Form SC 13D/A
December 21, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

(Amendment No. 2)*

Griffon Corporation

(Name of Issuer)

Common Stock, par value $0.25 per share

(Title of Class of Securities)

398433102

(CUSIP Number)

Ronald J. Kramer

712 Fifth Avenue, 18th Floor

New York, New York 10019

Copy to:

Martin Nussbaum

Dechert LLP

1095 Avenue of the Americas

New York, NY 10036

(212) 698-3500

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

December 20, 2018

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP Number: 398433102

1.	Names of Reporting Person Ronald J. Kramer	
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) o (b) o	
3.	SEC Use Only	
4.	Source of Funds (See Instructions) [OO]	
5.	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	o
6.	Citizenship or Place of Organization United States of America	

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 3,667,448* shares
	8.	Shared Voting Power 0 shares
	9.	Sole Dispositive Power 2,037,564 shares
	10.	Shared Dispositive Power 0 shares

11.	Aggregate Amount Beneficially Owned by Each Reporting Person 3,667,448** shares of Common Stock	
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	x
13.	Percent of Class Represented by Amount in Row (11) 7.9%***	
14.	Type of Reporting Person (See Instructions) IN	

* This includes 1,884 shares of the common stock, par value $0.25 per share (“Common Stock”), of Griffon Corporation, a Delaware corporation (the “Issuer”), allocated to Mr. Kramer’s account under the Griffon Corporation Employee Stock Ownership Plan (“ESOP”). The ESOP trustee will vote these shares in accordance with Mr. Kramer’s voting instructions, subject to the ESOP trustee’s fiduciary duties under ERISA. In addition, the ESOP trustee votes both (i) the shares of Common Stock in the ESOP allocated to participants for which voting instructions are not received, as well as (ii) the unallocated shares of Common Stock in the ESOP, in the same manner and proportion as those allocated shares with respect to which votes are timely cast by all

participants in the ESOP; accordingly, Mr. Kramer may be deemed to have voting control over a portion of the shares referred to in clauses (i) and (ii) above. However, the number of these shares over which Mr. Kramer is deemed to have voting control depends at any time not only on the amount of unallocated shares in the ESOP, but also on the portion of allocated shares with respect to which timely voting instructions are provided; therefore, it is not possible to provide a meaningful estimate of this amount.

** This does not include 40,298 shares of Common Stock owned by Mr. Kramer's wife and children. Mr. Kramer has disclaimed beneficial ownership of such shares of Common Stock.

*** Percentage of class calculation is based on 46,790,845 shares of Common Stock outstanding as of December 20, 2018.

This Amendment No. 2 supplements and amends certain information in the Schedule 13D filed on February 10, 2014, as amended by Amendment No 1. filed on February 2, 2017, on behalf of Ronald J. Kramer (the "Schedule 13D").

Except as set forth below, all Items of the Schedule 13D remain unchanged. All capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Schedule 13D.

Item 2. Identity and Background

Item 2(c) of the Schedule 13D is hereby amended and restated in its entirety as follows:

(c) Mr. Kramer is the Chairman of the Board of Directors and Chief Executive Officer of the Issuer. The Issuer is a diversified management and holding company that conducts business through wholly-owned subsidiaries.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 of the Schedule 13D is hereby amended and restated in its entirety as follows:

Mr. Kramer acquired the Common Stock he beneficially owns through (i) the purchase of shares of Common Stock from the Issuer, (ii) open market purchases, (iii) grants of restricted shares and (iv) shares allocated to his account under the ESOP.

Item 4. Purpose of Transaction

Item 4 of the Schedule 13D is hereby amended and supplemented by adding the following information:

On each of December 20, 2017 and December 20, 2018, Mr. Kramer received an award of 396,000 shares of restricted Common Stock (for an aggregate total of 792,000 shares) pursuant to the Issuer's 2016 Equity Incentive Plan (the "Plan") as compensation for his services as Chief Executive Officer of the Issuer, the vesting of which is subject to the achievement of certain absolute and relative performance conditions relating to the price of the Issuer's Common Stock. The terms of each of these awards also restrict Mr. Kramer from transferring the shares for a two year period following vesting. Mr. Kramer acquired the Common Stock he beneficially owns for investment purposes. Mr.

Kramer does not currently have any plans or proposals (other than those he may have from time to time in his role as an officer of the Issuer) that relate to or that would result in any of the transactions or other matters specified in clauses (a) through (j) of Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer

Item 5 of the Schedule 13D is hereby amended and restated in its entirety as follows:

(a) Mr. Kramer beneficially owns 3,667,448 shares of Common Stock of the Issuer. The shares of Common Stock owned by Mr. Kramer equal approximately 7.9% of the Issuer’s outstanding shares of Common Stock, based on 46,790,845 shares outstanding as of December 20, 2018.

(b) Mr. Kramer has sole voting power over the 3,667,448 shares of Common Stock beneficially owned by him (which includes 1,628,000 shares of restricted Common Stock with respect to which Mr. Kramer does not have dispositive power), and has sole dispositive power over 2,037,564 of such shares.

(c) Mr. Kramer effected the following transactions with respect to the Common Stock of the Issuer within the past sixty (60) days:

From November 16, 2018 through November 29, 2018, Mr. Kramer purchased an aggregate of 59,997 shares of Common Stock in a series of open market transactions, as set forth in greater detail on Annex I.

On December 7, 2018, Mr. Kramer donated 25,000 shares of Common Stock to a charitable organization.

On December 20, 2018, Mr. Kramer received an award of 396,000 shares of restricted Common Stock pursuant to the Plan as compensation for his services as Chief Executive Officer of the Issuer.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Item 6 of the Schedule 13D is hereby amended and restated in its entirety as follows:

Mr. Kramer is party to certain Award Agreements for Restricted Share Awards with the Issuer (each such agreement, an "Award Agreement") with respect to the 1,628,000 shares of restricted Common Stock owned beneficially by Mr. Kramer. These shares of restricted Common Stock were awarded to Mr. Kramer as compensation for his services as Chief Executive Officer of the Issuer. Each Award Agreement is in substantially the same form as the Form of Award Agreement for Restricted Share Award filed as Exhibit 99.2 to the Current Report on Form 8-K dated February 9, 2011. Subject to Mr. Kramer's continued employment, these restricted shares will vest on the dates set forth in each Award Agreement, conditioned, however, on the achievement of certain performance criteria relating to the absolute and relative performance of the price of the Issuer's Common Stock (provided, however, that with respect to 298,667 of these restricted shares, the applicable performance criteria has been achieved). The terms of each of these Award Agreements also restrict Mr. Kramer from transferring the shares for a two year period following vesting.

Mr. Kramer was also party to an award agreement under which he was awarded an option to purchase 350,000 shares of Common Stock at an exercise price of $20.00 per share, which expired on October 1, 2018.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

/s/ RONALD J. KRAMER
Ronald J. Kramer

Dated: December 21, 2018

Annex I

Open Market Purchases

Date	Number of Shares	Weighted Average Price Per Share	Purchase Price Range[1]
November 16, 2018	19,997	$12.20	$11.97 to $12.43
November 19, 2018	10,000	$11.97	$11.69 to $12.52
November 21, 2018	5,000	$12.72	$12.59 to $12.84
November 23, 2018	5,000	$11.86	$11.72 to $11.92
November 26, 2018	5,000	$12.12	$12.00 to $12.22
November 27, 2018	5,000	$11.96	$11.83 to $12.03
November 28, 2018	5,000	$12.41	$11.90 to $12.58
November 29, 2018	5,000	$12.24	$12.10 to $12.47

1 The price reported in the prior column is a weighted average price. Mr. Kramer undertakes to provide the Issuer, any security holder of the Issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares purchased at each price within the range set forth in this column.

ns-serif;font-size:10pt;"> is as follows:

	December 31,			
(Dollars in thousands)	2015	2014	% Change	
Derivative assets, gross (1)	$175,083	$157,990	10.8	%
Accrued interest receivable	107,604	94,180	14.3	
FHLB and Federal Reserve Bank stock	56,991	53,496	6.5	
Foreign exchange spot contract assets, gross	142,832	51,972	174.8	
Net deferred tax assets (2)	73,941	45,979	60.8	
Accounts receivable	48,662	20,092	142.2	
Other assets	104,594	129,499	(19.2	)
Total accrued interest receivable and other assets	$709,707	$553,208	28.3	

(1) See “Derivatives” section below.

(2) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2—

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"Summary of Significant Accounting Policies” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 of this report for additional details.

Accrued Interest Receivable

The increase of $13.4 million in accrued interest during 2015 is primarily reflective of the strong growth in our fixed income investment securities portfolio as well as our increase in net loans. Period-end investment securities, excluding non-marketable and other securities increased $4.2 billion, or 20.1 percent during 2015. Period-end loan balances were $16.7 billion, an increase of $2.4 billion, or 16.4 percent, when compared to 2014.

Foreign Exchange Spot Contract Assets

Foreign exchange spot contract assets represent unsettled client trades at the end of the period. The increase of $90.9 million was primarily due to increased client trade activity at period-end.

Net Deferred Tax Assets

The increase of $28.0 million in net deferred tax assets primarily relates to an increase in the allowance for loan and lease losses and a decrease in the fair value of our available-for-sale securities portfolio.

Accounts Receivable

The increase of $28.6 million in accounts receivable primarily relates to receivables from our SVB Capital funds management business.

Derivatives

Derivative instruments are recorded as a component of other assets and other liabilities on the balance sheet. The following table provides a summary of derivative assets and liabilities, net at December 31, 2015 and 2014:

	December 31,		
(Dollars in thousands)	2015	2014	% Change
Assets:			
Equity warrant assets	$137,105	$116,604	17.6 %
Foreign exchange forward and option contracts	31,237	34,231	(8.7)
Interest rate swaps	2,768	4,609	(39.9)
Client interest rate derivatives	3,973	2,546	56.0
Total derivatives assets	$175,083	$157,990	10.8
Liabilities:			
Foreign exchange forward and option contracts	$(26,353)	$(28,363)	(7.1)
Client interest rate derivatives	(4,384)	(2,748)	59.5
Total derivatives liabilities	$(30,737)	$(31,111)	(1.2)

Equity Warrant Assets

In connection with negotiating credit facilities and certain other services, we often obtain rights to acquire stock in the form of equity warrant assets in primarily private, venture-backed companies in the technology and life science/healthcare industries. At December 31, 2015, we held warrants in 1,652 companies, compared to 1,478 companies at December 31, 2014. Warrants in 21 companies had values greater than $1.0 million and represented 34 percent of the fair value of the total warrant portfolio. The change in fair value of equity warrant assets is recorded in gains on derivatives instruments, net, in noninterest income, a component of consolidated net income. The following table provides a summary of transactions and valuation changes for the years ended December 31, 2015 and 2014:

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(Dollars in thousands)	Year ended December 31, 2015	2014
Balance, beginning of period	$116,604	$103,513
New equity warrant assets	12,486	16,073
Non-cash increases in fair value	30,548	33,106
Exercised equity warrant assets (1)	(21,493)	(35,232)
Terminated equity warrant assets	(1,040)	(856)
Balance, end of period	$137,105	$116,604

(1) Includes the exercise of several public equity warrants in FireEye and Twitter during the year ended December 31, 2014.

Foreign Exchange Forward and Foreign Currency Option Contracts

We enter into foreign exchange forward contracts and foreign currency option contracts with clients involved in international activities, either as the purchaser or seller, depending upon the clients' need. We also enter into an opposite-way forward or option contract with a correspondent bank to economically hedge client contracts to mitigate the fair value risk to us from fluctuations in currency rates. Settlement, credit, and operational risks remain. We also enter into forward contracts with correspondent banks to economically hedge currency exposure risk related to certain foreign currency denominated assets and liabilities. Revaluations of foreign currency denominated instruments are recorded on the line item “Other” as part of noninterest income, a component of consolidated net income. We have not experienced nonperformance by any counterparty to such forward or option contracts and therefore have not incurred any related losses. Further, we anticipate performance by all counterparties. Our net exposure for foreign exchange forward and foreign currency option contracts at December 31, 2015 and 2014 was $3.0 million and $1.1 million, respectively. For additional information on our foreign exchange forward contracts and foreign currency option contracts, see Note 14–“Derivative Financial Instruments” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 in this report.

Interest Rate Derivatives

For information on our interest rate derivatives, please refer to Note 14–“Derivative Financial Instruments” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 in this report.

Deposits

The following table presents the composition of our deposits as of December 31, 2015, 2014, and 2013:

(Dollars in thousands)	December 31, 2015	2014	2013
Noninterest-bearing demand	$30,867,497	$24,583,682	$15,894,360
Interest bearing checking and savings accounts	330,525	262,800	165,210
Money market	6,128,442	6,177,706	4,360,510
Money market deposits in foreign offices	88,656	242,526	181,299
Sweep deposits in foreign offices	1,657,177	2,948,658	1,657,740
Time	70,479	128,127	213,860
Total deposits	$39,142,776	$34,343,499	$22,472,979

The increase in deposits of $4.8 billion in 2015 was driven by increases in our noninterest-bearing demand accounts reflective of growth from new domestic and foreign clients and a result of strong M&A activity during the year resulting in increased balances from existing clients. No material portion of our deposits has been obtained from a single depositor and the loss of any one depositor would not materially affect our business.

The increase in deposits of $11.9 billion in 2014 was primarily driven by increases in our noninterest-bearing demand, money market deposits, and sweep deposits in foreign offices of $8.7 billion, $1.8 billion, and $1.3 billion, respectively, reflective of growth from new domestic and foreign clients and strong IPO and M&A activity during the year resulting in increased balances from existing clients.

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At December 31, 2015, 21.1 percent of our total deposits were interest-bearing deposits, compared to 28.4 percent at December 31, 2014 and 29.3 percent at December 31, 2013.

At December 31, 2015, the aggregate balance of time deposit accounts individually equal to or greater than $250,000 totaled $54 million, compared to $106 million at December 31, 2014 and $183 million at December 31, 2013. At December 31, 2015, all time deposit accounts individually equal to or greater than $250,000 were scheduled to mature within one year. The maturity profile of our time deposits as of December 31, 2015 is as follows:

	December 31, 2015				
(Dollars in thousands)	Three months or less	More than three months to six months	More than six months to twelve months	More than twelve months	Total
Time deposits, $250,000 and over	$31,866	$8,756	$13,311	$—	$53,933
Other time deposits	9,346	2,460	4,538	202	16,546
Total time deposits	$41,212	$11,216	$17,849	$202	$70,479

Short-Term Borrowings

The following table summarizes our short-term borrowings that mature in one month or less:

	December 31,					
	2015		2014		2013	
(Dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Short-term FHLB advances	$638,000	0.25 %	$—	— %	$—	— %
Federal funds purchased	135,000	0.64	—	—	—	—
Other short-term borrowings	1,900	0.20	7,781	0.08	5,080	0.08
Total short-term borrowings	$774,900	0.32	$7,781	0.08	$5,080	0.08

On December 31, 2015, we borrowed $638 million from our available line of credit with the FHLB and purchased $135 million of federal funds in order to maintain minimum cash balances as a result of ordinary deposit outflows at year end.

Average daily balances and maximum month-end balances for our short-term borrowings in 2015, 2014 and 2013 were as follows:

	Year ended December 31,		
(Dollars in thousands)	2015	2014	2013
Average daily balances:			
Federal Funds purchased (1)	$8,477	$167	$13,729
FHLB advances	6,542	1,096	7,959
Securities sold (purchased) under agreements to repurchase	1,222	—	(435)
Other short-term borrowings (2)	6,985	5,001	5,765
Total average short-term borrowings	$23,226	$6,264	$27,018
Maximum month-end balances:			
Federal Funds purchased	$135,000	$—	$15,000
FHLB advances	638,000	—	—
Securities sold (purchased) under agreements to repurchase	—	—	(5,120)
Other short-term borrowings	21,561	7,781	7,460

(1) As part of our liquidity risk management practices, we periodically test availability and access to overnight borrowings in the Fed Funds market. These balances represent short-term borrowings.

(2) Represents cash collateral received from certain counterparties in relation to market value exposures of derivative contracts in our favor and our interest rate swap agreement related to our 6.05% Subordinated Notes.

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Long-Term Debt

The following table represents outstanding long-term debt at December 31, 2015, 2014 and 2013:

(Dollars in thousands)	Principal value at December 31, 2015	December 31, 2015	2014	2013
3.50% Senior Notes	$350,000	$346,667	$—	$—
5.375% Senior Notes	350,000	347,016	346,477	345,966
6.05% Subordinated Notes	45,964	48,350	50,040	51,820
Junior Subordinated Debentures	50,000	54,669	54,845	55,020
Total long-term debt	$795,964	$796,702	$451,362	$452,806

The increase in our long-term debt in 2015 was due to the issuance on January 29, 2015, of $350 million of 3.50% Senior Notes due in January 2025.

For more information on our long-term debt outstanding at December 31, 2015, please refer to Note 13–"Short-Term Borrowings and Long-Term Debt" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report.

Other Liabilities

A summary of other liabilities at December 31, 2015 and 2014 is as follows:

(Dollars in thousands)	December 31, 2015	2014	% Change
Accrued compensation	$151,134	$120,841	25.1 %
Foreign exchange spot contract liabilities, gross	154,699	94,999	62.8
Reserve for unfunded credit commitments	34,415	36,419	(5.5)
Derivative liabilities, gross (1)	30,737	31,111	(1.2)
Other	268,109	200,123	34.0
Total other liabilities	$639,094	$483,493	32.2

(1) See "Derivatives" section above.

Foreign Exchange Spot Contract Liabilities

Foreign exchange spot contract liabilities represent unsettled client trades at the end of the period. The increase of $59.7 million was primarily due to increased client trade activity at period-end.

Accrued Compensation

Accrued compensation includes amounts for our Incentive Compensation Plan, Direct Drive Incentive Compensation Plan, Retention Program, Warrant Incentive Plan, ESOP and other compensation arrangements. The increase of $30.3 million was primarily the result of larger incentive compensation accruals at December 31, 2015 due to an increase in average FTEs and increased financial performance for 2015. For a description of our variable compensation plans please refer to Note 17—"Employee Compensation and Benefit Plans" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report.

Other

Other liabilities increased $68.0 million to $268.1 million at December 31, 2015, compared to $200.1 million at December 31, 2014, primarily due to a $25.0 million increase in payables related to our investments in tax credit funds.

Noncontrolling Interests

Noncontrolling interests totaled $0.1 billion and $1.2 billion at December 31, 2015 and 2014, respectively. The large decrease was due to the deconsolidation of 16 limited partnership entities as part of our adoption of ASU 2015-02. Additionally, net capital distributions of $65 million to investors in our managed funds were partially offset by net income attributable to noncontrolling interests of $31 million for the year ended December 31, 2015, primarily related to valuation increases in our

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managed funds of funds. For more information, refer to Note 2—"Summary of Significant Accounting Policies—Principles of Consolidation and Presentation" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report.

Capital Resources

We maintain an adequate capital base to support anticipated asset growth, operating needs and credit and other business risks, and to ensure that SVB Financial and the Bank are in compliance with all regulatory capital guidelines, including the "Basel III" capital rules. Our primary sources of new capital include retained earnings and proceeds from the sale and issuance of our capital stock or other securities. In consultation with the Finance Committee of our Board of Directors, management engages in regular capital planning processes in an effort to optimize the use of the capital available to us and to appropriately plan for our future capital needs. The capital plan considers capital needs for the foreseeable future and allocates capital to both existing and future business activities. Expected future use or activities for which capital may be set aside include balance sheet growth and associated relative increases in market or credit exposure, investment activity, potential product and business expansions, acquisitions and strategic or infrastructure investments. In addition, we conduct capital stress tests as part of our annual capital planning process. The stress tests allow us to assess the impact of adverse changes in the economy and interest rates on our capital adequacy position.

SVBFG Stockholders' Equity

SVBFG stockholders' equity totaled $3.2 billion at December 31, 2015, an increase of $385 million, or 13.7 percent compared to $2.8 billion at December 31, 2014. This increase was primarily the result of net income of $344 million in 2015 and an increase in additional-paid-in-capital of $69 million primarily reflective of the issuance of common stock under our equity incentive plans. These increases were partially offset by the decrease in the net balance of our accumulated other comprehensive income to $15 million from $43 million at December 31, 2014, which was primarily driven by a $37 million decrease in the fair value of our available-for-sale securities portfolio ($22 million net of tax), from increases in period-end market interest rates.

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

Capital Ratios

Regulatory capital ratios for SVB Financial and the Bank exceeded minimum federal regulatory guidelines for a well-capitalized bank holding company and insured depository institution, respectively, as of December 31, 2015, 2014 and 2013. See Note 21–"Regulatory Matters" of the "Notes to the Consolidated Financial Statements" under Part II, Item 8 in this report for further information. Capital ratios for SVB Financial and the Bank, compared to the minimum regulatory ratios to be considered "well capitalized" and "adequately capitalized", are set forth below:

	December 31,						Minimum Ratios under Applicable Regulatory Capital Adequacy Requirements			
	2015		2014		2013		"Well Capitalized"		"Adequately Capitalized"	
SVB Financial:										
CET 1 risk-based capital ratio (1)	12.28	%	—	%	—	%	6.5	%	4.5	%
Tier 1 risk-based capital ratio (2)	12.83		12.91		11.94		8.0		6.0	
Total risk-based capital ratio (2)	13.84		13.92		13.13		10.0		8.0	
Tier 1 leverage ratio (2)	7.63		7.74		8.31		N/A		4.0	
Tangible common equity to tangible assets ratio (3)(4)(5)	7.16		7.15		7.43		N/A		N/A	
Tangible common equity to risk-weighted assets ratio (3)(4)(5)	12.34		12.93		11.61		N/A		N/A	
Bank:										
CET 1 risk-based capital ratio (1)	12.52	%	—	%	—	%	6.5	%	4.5	%
Tier 1 risk-based capital ratio (2)	12.52		11.09		10.11		8.0		6.0	

Total risk-based capital ratio (2)	13.60	12.12	11.32	10.0	8.0
Tier 1 leverage ratio (2)	7.09	6.64	7.04	5.0	4.0
Tangible common equity to tangible assets ratio (3)(4)(5)	6.95	6.38	6.58	N/A	N/A
Tangible common equity to risk-weighted assets ratio (3)(4)(5)	12.59	11.19	9.84	N/A	N/A

(1) Effective January 1, 2015, CET 1 is a new ratio requirement under the "Basel III" Capital Rules and represents, common stock, plus related surplus and retained earnings, plus limited amounts of minority interest in the form of common stock, less certain regulatory deductions, divided by total risk-weighted assets.

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(2) Ratios as of December 31, 2015 reflect the adoption of the "Basel III" Capital Rules in effect beginning January 1, 2015. Ratios for prior periods represent the previous capital rules under Basel I.

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

(4) The FRB has not issued any minimum guidelines for the tangible common equity to tangible assets ratio or the tangible common equity to risk-weighted assets ratio. However, we believe these ratios provide meaningful supplemental information regarding our capital levels and are therefore provided above.

(5) Prior period ratios have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01).

2015 compared to 2014

The total risk-based capital and tier 1 capital ratios as of December 31, 2015, for SVB Financial decreased compared to December 31, 2014. The decrease in SVB Financial's risk-based capital was primarily due to the impact of the Basel III risk-weighting standards on unused loan commitments with original maturities of one year or less and certain equity investments related to our noncontrolling interests as well as a proportionally higher increase in risk-weighted and average assets compared to the increase in our capital during 2015. SVB Financial's tier 1 leverage ratio decreased compared to December 31, 2014 primarily due to the increase in average assets, driven by the growth in deposits. For the Bank, the total risk-based capital, tier 1 capital, and tier 1 leverage ratios as of December 31, 2015, increased compared to the same ratios as of December 31, 2014. This increase was a result of SVB Financial's contribution of capital to the Bank totaling $350 million, which was funded primarily by the net proceeds from the issuance of our 3.50% Senior Notes. The capital contribution from SVB Financial to the Bank was provided to support our clients' continued growth during 2015. The increases in the Bank's ratios, resulting from the contribution, were partially offset by the impact of the new regulatory requirements related to unused commitments as discussed above. All of our capital ratios are above the levels to be considered “well capitalized" under banking regulations.

2014 compared to 2013

Our total risk-based capital (includes tier 1 and tier 2 capital components) and tier 1 risk-based capital ratios for both SVB Financial and the Bank increased compared to December 31, 2013, primarily reflective of growth in retained earnings and our public offering of 4,485,000 shares of common stock during the second quarter of 2014, which resulted in net proceeds of $435 million, of which $400 million was contributed to the Bank and had a positive impact on Bank level capital ratios. The increase in our total risk-based capital ratios and tier 1 risk-based capital ratios reflect the increase in regulatory capital partially offset by the increase in risk-weighted assets during the period, primarily due to growth in our loans and our period-end unfunded commitments. The tier 1 leverage ratio for both SVB Financial and the Bank decreased compared to December 31, 2013 due to the increase in total average assets during the period, primarily due to the significant growth in client deposits that flowed into our investment securities portfolio, cash and loans, which more than offset the increase in regulatory capital. All of our capital ratios were above the levels to be considered “well capitalized" during these years.

Non-GAAP Tangible Common Equity to Tangible Assets and Non-GAAP Tangible Common Equity to Risk-weighted Assets

The tangible common equity to tangible assets ratio and the tangible common equity to risk-weighted assets ratios are not required by GAAP or applicable bank regulatory requirements. However, we believe these ratios provide meaningful supplemental information regarding our capital levels. Our management uses, and believes that investors benefit from referring to, these ratios in evaluating the adequacy of the Company’s capital levels; however, this financial measure should be considered in addition to, not as a substitute for or preferable to, comparable financial measures prepared in accordance with GAAP. These ratios are calculated by dividing total SVBFG stockholder’s equity, by total period-end assets and risk-weighted assets, after reducing both amounts by acquired intangibles, if any. The manner in which this ratio is calculated varies among companies. Accordingly, our ratio is not necessarily comparable to similar measures of other companies. The following table provides a reconciliation of non-GAAP financial measures with financial measures defined by GAAP:

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Non-GAAP tangible common equity and tangible assets (dollars in thousands, except ratios)	SVB Financial December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
GAAP SVBFG stockholders' equity (1)	$3,198,134	$2,813,072	$1,961,635	$1,827,256	$1,569,392
Less:					
Intangible assets	—	—	—	—	601
Tangible common equity (1)	$3,198,134	$2,813,072	$1,961,635	$1,827,256	$1,568,791
GAAP Total assets (1)	$44,686,703	$39,337,869	$26,410,144	$22,762,824	$19,968,894
Less:					
Intangible assets	—	—	—	—	601
Tangible assets (1)	$44,686,703	$39,337,869	$26,410,144	$22,762,824	$19,968,293
Risk-weighted assets (2)(3)	$25,919,594	$21,755,091	$16,901,501	$13,532,984	$11,837,902
Non-GAAP tangible common equity to tangible assets (1)	7.16 %	7.15 %	7.43 %	8.03 %	7.86 %
Non-GAAP tangible common equity to risk-weighted assets (1) (2)	12.34	12.93	11.61	13.50	13.25

Non-GAAP tangible common equity and tangible assets (dollars in thousands, except ratios)	Bank December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Tangible common equity (1)	$3,059,045	$2,399,411	$1,634,389	$1,588,344	$1,346,854
Tangible assets (1)	$44,045,967	$37,607,973	$24,849,484	$21,467,812	$18,758,813
Risk-weighted assets (2)(3)	$24,301,043	$21,450,480	$16,612,870	$13,177,887	$11,467,401
Tangible common equity to tangible assets (1)	6.95 %	6.38 %	6.58 %	7.40 %	7.18 %
Tangible common equity to risk-weighted assets (1)(2)	12.59	11.19	9.84	12.05	11.75

(1) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01).

(2) Amounts and ratios as of December 31, 2015 reflect the adoption of the Basel III Capital Rules in effect beginning January 1, 2015. Amounts and ratios for prior periods represent the previous capital rules under Basel I.

(3) Our risk-weighted assets for 2012 reflect a refinement in our determination of risk rating for certain unfunded credit commitments related to the contractual borrowing base.

2015 compared to 2014

The tangible common equity to tangible assets ratio increased for SVB Financial and the Bank due to increases in total equity. See "SVBFG Stockholders' Equity above for further details on changes to the individual components of our equity balance.

For SVB Financial, the tangible common equity to risk-weighted assets ratio decreased due to increases in risk-weighted assets, as a result of the new Basel III regulatory requirements, partially offset by increases in common equity. For the Bank, the tangible common equity to risk-weighted assets ratio increased due to increases in tangible common equity, partially offset by increases in risk-weighted assets. These increases were a result of SVB Financial's contribution of capital to the Bank, partially offset by the impact on risk-weighted assets from the new Basel III regulatory requirements.

2014 compared to 2013

For both SVB Financial and the Bank, the tangible common equity to tangible assets ratios decreased due to increases in tangible assets. The growth in tangible assets exceeded the growth in equity, which primarily was a result of our growth in 2014 in investment securities and period-end loan balances. For both SVB Financial and the Bank, the tangible common equity to risk-weighted assets ratios increased due to increases in total equity, partially offset by increases in risk-weighted assets, which primarily reflects growth in our period-end loan balances.

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

In the normal course of business, we use financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commercial and standby letters of credit and commitments to invest in venture capital and private equity fund investments. These instruments involve, to varying degrees, elements of credit risk. Credit risk is defined as the possibility of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract. Please refer to the discussion of our off-balance sheet arrangements in Note 19-“Off-Balance Sheet Arrangements, Guarantees and Other Commitments” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 in this report.

As of December 31, 2015, we, or the funds in which we have an ownership interest and/or control, had the following unfunded contractual obligations and commercial commitments:

	Payments Due By Period				
(Dollars in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
SVBFG contractual obligations:					
Borrowings	$1,571,602	$774,900	$48,350	$347,016	$401,336
Non-cancelable operating leases, net of income from subleases	188,410	21,260	43,799	43,923	79,428
Remaining unfunded commitments to other fund investments (1)	13,319	13,319	—	—	—
Commitments to low income housing tax credit funds	90,978	42,901	42,420	1,320	4,337
Other obligations	8,606	6,265	2,341	—	—
SVBFG unfunded commitments to our managed funds:					
SVB Strategic Investors Fund, LP (1)	688	688	—	—	—
SVB Strategic Investors Fund II, LP (1)	1,050	1,050	—	—	—
SVB Strategic Investors Fund III, LP (1)	1,275	1,275	—	—	—
SVB Strategic Investors Fund IV, LP (1)	2,325	2,325	—	—	—
Strategic Investors Fund V Funds (1)	142	142	—	—	—
SVB Capital - NT Growth Partners, LP (1)	1,340	1,340	—	—	—
Silicon Valley BancVentures, LP (1)	270	270	—	—	—
SVB Capital Partners II, LP (1)	162	162	—	—	—
Total obligations attributable to SVBFG	$1,880,167	$865,897	$136,910	$392,259	$485,101
Remaining unfunded commitments to venture capital and private equity funds by our consolidated managed funds of funds:					
SVB Strategic Investors Fund, LP (1)	$2,250	$2,250	$—	$—	$—
SVB Capital Preferred Return Fund, LP (1)	1,514	1,514	—	—	—
SVB Capital - NT Growth Partners, LP (1)	3,285	3,285	—	—	—
Total obligations to venture capital and private equity funds by our consolidated managed funds of funds	$7,049	$7,049	$—	$—	$—

	Amount of commitment expiring per period				
(Dollars in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Other commercial commitments:					
Total loan commitments available for funding	$14,135,195	$9,309,931	$3,841,342	$863,644	$120,278

Standby letters of credit	1,473,898	1,381,231	86,442	721	5,504
Commercial letters of credit	5,266	5,266	—	—	—

(1) See Note 8–“Investment Securities” of the “Notes to the Consolidated Financial Statements” under Part II, Item 8 in this report, for further disclosure related to non-marketable and other securities. Subject to applicable regulatory requirements, including the Volcker Rule (See "Business - Supervision and Regulation" under Part I, Item 1 in this report), we make

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commitments to invest in venture capital and private equity funds, which in turn make investments generally in, or in some cases make loans to, privately-held companies. Commitments to invest in these funds are generally made for a 10-year period from the inception of the fund. Although the limited partnership agreements governing these investments typically do not restrict the general partners from calling 100% of committed capital in one year, it is customary for these funds to generally call most of the capital commitments over 5 to 7 years; however in certain cases, the funds may not call 100% of committed capital over the life of the fund. The actual timing of future cash requirements to fund these commitments is generally dependent upon the investment cycle, overall market conditions, and the nature and type of industry in which the privately held companies operate.

Liquidity

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

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

Our deposit base is, and historically has been, our primary source of liquidity. Our deposit levels and cost of deposits may fluctuate from time to time due to a variety of factors, including market conditions, prevailing interest rates, changes in client deposit behaviors, availability of insurance protection, and our offering of deposit products. At December 31, 2015, our period-end total deposit balances increased by $4.8 billion to $39.1 billion, compared to $34.3 billion at December 31, 2014. The overall increase in deposit balances came primarily from our Accelerator/Early-stage and private equity/venture capital clients resulting from continued venture capital funding activity in 2015.

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, short-term investment securities maturing within one year, available-for-sale securities eligible and available for financing or pledging purposes with a maturity in excess of one year and anticipated near-term cash flows from investments.

On a stand-alone basis, SVB Financial's primary liquidity channels include dividends from the Bank, its portfolio of liquid assets, and its ability to raise debt and capital. The ability of the Bank to pay dividends is subject to certain regulations described in "Business—Supervision and Regulation—Restriction on Dividends" under Part I, Item 1 in this report.

Consolidated Summary of Cash Flows

Below is a summary of our average cash position and statement of cash flows for 2015, 2014 and 2013, respectively: (For further details, see our Consolidated Statements of Cash Flows under "Consolidated Financial Statements and Supplementary Data" under Part II, Item 8 in this report.)

	Year ended December 31,					
(Dollars in thousands)	2015		2014		2013	
Average cash and cash equivalents	$2,569,482		$2,697,926		$1,584,042	
Percentage of total average assets	6.3	%	8.2	%	6.8	%
Net cash provided by operating activities	$339,813		$255,517		$171,778	
Net cash used for investing activities	(6,496,352	)	(12,233,931	)	(2,838,988	)
Net cash provided by financing activities	5,848,782		12,250,649		3,197,006	
Net (decrease) increase in cash and cash equivalents	$(307,757	)	$272,235		$529,796	

Average cash and cash equivalents decreased by $0.1 billion to $2.6 billion in 2015, compared to $2.7 billion for 2014. In 2015, our average deposits increased $8.0 billion and were used to fund the $5.7 billion growth of our fixed income securities portfolio and the $3.3 billion growth of our loan portfolio.

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2015

Cash provided by operating activities of $340 million in 2015 included net income before noncontrolling interests of $375 million. These net inflows were partially offset by $56.5 million of adjustments to reconcile net income to net cash, which consisted mostly of non-cash adjustments for our gains from AFS securities, gains from derivative instruments and amortization of deferred loan fees and non-cash expenses for our loan loss provision and depreciation/amortization.

Cash used for investing activities of $6.5 billion in 2015 included $7.5 billion for purchases of fixed income securities and $2.3 billion from the net increase in loans. These cash outflows were partially offset by $3.2 billion from sales, maturities and paydowns of our fixed income securities portfolio.

Cash provided by financing activities of $5.8 billion in 2015 included a $4.7 billion increase in deposits, a $767 million increase in short-term borrowings and $346 million from the issuance of our 3.50% Senior Notes in late January 2015.

Cash and cash equivalents at December 31, 2015 were $1.5 billion, compared to $1.8 billion at December 31, 2014.

2014

Cash provided by operating activities of $256 million in 2014 included net income before noncontrolling interests of $479 million, partially offset by non-cash net gains on investment securities of $267 million.

Cash used for investing activities of $12.2 billion in 2014 included $11.1 billion for purchases of fixed income securities and $3.5 billion from the net increase in loans. These cash outflows were partially offset by $2.2 billion from sales, maturities and paydowns of our fixed income securities portfolio.

Cash provided by financing activities of $12.3 billion in 2014 included an $11.9 billion increase in deposits and $435 million in net proceeds from our common stock offering in the second quarter of 2014.

Cash and cash equivalents at December 31, 2014 were $1.8 billion, compared to $1.5 billion at December 31, 2013.

2013

Cash provided by operating activities of $172 million in 2013 included net income before noncontrolling interests of $545 million, partially offset by non-cash net gains on investment securities of $419 million.

Cash used for investing activities of $2.8 billion in 2013 included $3.3 billion for purchases of available-for-sale securities and $1.9 billion from the net increase in loans. These cash outflows were partially offset by $2.4 billion from sales, maturities and paydowns of available-for-sale securities.

Cash provided by financing activities of $3.2 billion in 2013 included a $3.3 billion increase in deposits, partially offset by a decrease of $161 million from short-term borrowings, primarily due to pay-offs of Federal funds purchased during the year.

Cash and cash equivalents at December 31, 2013 were $1.5 billion, compared to $1.0 billion at December 31, 2012.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

Market risk is defined as the risk of adverse fluctuations in the market value of financial instruments due to changes in market interest rates. Interest rate risk is our primary market risk and can result from timing and volume differences in the repricing of our rate-sensitive assets and liabilities, widening or tightening of credit spreads, changes in the general level of market interest rates and changes in the shape and level of the benchmark LIBOR/SWAP yield curve. Additionally, changes in interest rates can influence the rate of principal prepayments on mortgage securities, which affects the rate of amortization of purchase premiums and discounts. Other market risks include foreign currency exchange risk and equity price risk. These risks are not considered significant interest rate sensitive risks and no separate quantitative information concerning them is presented herein.

Interest rate risk is managed by our ALCO. ALCO reviews the sensitivity of the market value of our assets and liabilities and 12-month forward looking net interest income to changes in interest rates, structural changes in investment and funding portfolios, loan and deposit activity and current market conditions. Adherence to relevant policies, which are approved by the Finance Committee of our Board of Directors, is monitored on an ongoing basis. Management of interest rate risk is carried out primarily through strategies involving our available-for-sale securities, available funding channels and capital market activities. In addition, our policies permit the use of off-balance sheet derivative instruments to assist in managing interest rate risk.

We utilize a simulation model to perform a sensitivity analysis on the economic value of equity and net interest income under a variety of interest rate scenarios, balance sheet forecasts and proposed strategies. The simulation model provides a dynamic assessment of interest rate sensitivity embedded in our balance sheet which measures the potential variability in forecasted results relating to changes in market interest rates over time. We review our interest rate risk position on a quarterly basis at a minimum.

Model Simulation and Sensitivity Analysis

One application of the aforementioned simulation model involves measurement of the impact of changes in market interest rates on our economic value of equity ("EVE"). EVE is defined as the market value of assets, less the market value of liabilities, adjusted for any off-balance sheet items. EVE is based on a snapshot of the balance sheet at a specific point in time. A second application of the simulation model measures the impact of changes in market interest rates on our net interest income ("NII") assuming a static balance sheet over a 12-month period following the period-end reporting date. Changes in market interest rates that affect us are principally short-term interest rates and include the following: (1) National Prime and SVB Prime rates; (2) 1-month and 3-month LIBOR; and (3) the Fed Funds target rate. Changes in these short-term rates impact interest earned on our variable rate loans, variable rate available-for-sale securities and balances held as cash and cash equivalents. Deposit pricing in the simulation model is generally associated with changes in short-term interest rates. However, modeled assumptions may differ from our actual pricing behavior in a rising rate environment depending on the market environment and business conditions.

The following table presents our EVE and NII sensitivity exposure at December 31, 2015 and December 31, 2014, related to an instantaneous and sustained parallel shift in market interest rates of 100 and 200 basis points.

Change in interest rates (basis points) (Dollars in thousands)	Estimated EVE	Estimated Increase/(Decrease) In EVE		Estimated NII	Estimated Increase/ (Decrease) In NII	
		Amount	Percent		Amount	Percent
December 31, 2015:						
+200	$6,007,061	$ 1,783,649	42.2 %	$1,454,889	$268,242	22.6 %
+100	5,166,410	942,998	22.3	1,318,584	131,937	11.1
—	4,223,412	—	—	1,186,647	—	—
-100	4,350,421	127,009	3.0	1,127,223	(59,424)	(5.0)
-200	4,548,417	325,005	7.7	1,095,854	(90,793)	(7.7)
December 31, 2014:						
+200	$6,201,773	$ 1,237,900	24.9 %	$1,242,321	$223,059	21.9 %
+100	5,598,887	635,014	12.8	1,124,643	105,381	10.3
—	4,963,873	—	—	1,019,262	—	—

-100	4,927,749	(36,124)	(0.7)