

SVB FINANCIAL GROUP
Form 10-K
February 29, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-15637

SVB FINANCIAL GROUP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

91-1962278
(I.R.S. Employer)

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of incorporation or organization)

Identification No.)

3003 Tasman Drive, Santa Clara, California 95054-1191

(Address of principal executive offices)

http://www.svb.com

(Registrant's URL)

including zip code)

Registrant's telephone number, including area code: **(408) 654-7400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	NASDAQ Global Select Market
Junior subordinated debentures issued by SVB Capital II and the guarantee with respect thereto	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing price of its common stock on such date, on the NASDAQ Global Select Market was \$1,826,314,282.

At January 31, 2008, 32,364,515 shares of the registrant's common stock (\$0.001 par value) were outstanding.

**Parts of Form 10-K
Into Which
Incorporated**

Documents Incorporated by Reference

Definitive proxy statement for the Company's 2008 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year ended December 31, 2007

Part III

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Forward-Looking Statements

This Annual Report on Form 10-K, including in particular Management's Discussion and Analysis of Financial Condition and Results of Operations under Part II, Item 7 in this report, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Management has in the past and might in the future make forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements are statements that are not historical facts. Broadly speaking, forward-looking statements include, without limitation, the following:

- Projections of our revenues, income, earnings per share, noninterest expenses, including professional service, compliance, compensation and other costs, cash flows, balance sheet, capital expenditures, capital structure or other financial items
- Descriptions of strategic initiatives, plans or objectives of our management for future operations, including pending acquisitions
- Forecasts of private equity funding levels
- Forecasts of future interest rates
- Forecasts of expected levels of provisions for loan losses, loan growth and client funds
- Forecasts of future economic performance
- Forecasts of future income on investments
- Descriptions of assumptions underlying or relating to any of the foregoing

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

- Business and financial performance of our business
- Future interest rates and the sensitivity of our interest-earning assets and interest-earning liabilities to interest rates, and impact to earnings from a change in interest rates
- Realization, timing and performance of investments in equity securities and investment funds
- Management of federal funds sold and overnight repurchase agreements at appropriate levels
- Development of our later-stage corporate technology lending efforts
- Growth in loan and deposit balances, including levels of interest-bearing deposits
- Credit quality of our loan portfolio, including levels of non-performing loans and charge-offs
- Liquidity provided by funds generated through retained earnings
- Ability to meet our liquidity requirements through our portfolio of liquid assets
- Ability to expand on opportunities to increase our liquidity
- Use of capital
- Volatility of performance of our equity portfolio
- Introduction of new products, including deposit products
- Effect of application of certain accounting pronouncements
- Effect of certain lawsuits and claims
- Impact of changes in tax benefits
- Realization of tax assets
- Performance of obligations by counterparty
- Timing for ceasing operations of SVB Alliant

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. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we have based these expectations on our beliefs as well as our assumptions, and such expectations may prove to be incorrect. Our actual results of operations and financial performance could differ significantly from those expressed in or implied by our management's forward-looking statements.

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

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PART I.

ITEM 1. BUSINESS

General

SVB Financial Group is a diversified financial services company, as well as a bank holding company and financial holding company. The company was incorporated in the state of Delaware in March 1999. Through our various subsidiaries and divisions, we offer a variety of banking and financial products and services. For 25 years, we have been dedicated to helping entrepreneurs succeed, especially in the technology, life science, private equity and premium wine industries. We provide our clients with a diversity of products and services to support them throughout their life cycles, regardless of their size or stage of maturity.

We offer commercial banking products and services through our principal subsidiary, Silicon Valley Bank (the Bank), which is a California state-chartered bank founded in 1983 and a member of the Federal Reserve System. Through its subsidiaries, the Bank also offers brokerage, investment advisory and asset management services. We also offer non-banking products and services, such as funds management, private equity investment and equity valuation services, through our other subsidiaries and divisions.

As of December 31, 2007, we had total assets of \$6.69 billion, total loans, net of unearned income of \$4.15 billion, total deposits of \$4.61 billion and total stockholders' equity of \$676.7 million.

We operate through 27 offices in the United States and five internationally in China, India, Israel and the United Kingdom. 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, the Company, we, our, us or use similar words, we mean SVB Financial Group and all of its subsidiaries collectively, including the Bank. When we refer to SVB Financial or the Parent we are referring only to the parent company, SVB Financial Group.

Business Overview

For reporting purposes, SVB Financial Group has four operating segments in which we report our financial information in this Annual Report: Commercial Banking, SVB Capital, SVB Alliant, and Other Business Services. Financial information and results of operation for our operating segments are set forth in Note 23 (Segment Reporting) of the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report, and in Management's Discussion and Analysis of Financial Condition and Results of Operations Operating Segment Results under Part II, Item 7 in this report.

Commercial Banking

Our commercial banking products and services are provided by the Bank and its subsidiaries. The Bank provides solutions to the financial needs of commercial clients through lending, deposit account and cash management, and global banking and trade products and services.

Through lending products and services, the Bank extends loans and other credit facilities to commercial clients. These loans are most often secured by clients' assets. Lending products and services include traditional term loans, equipment loans, revolving lines of credit, accounts-receivable-based lines of credit and asset-based loans.

The Bank's 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

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deposit and checking accounts, certificates of deposit, and money market accounts. In connection with deposit accounts, the Bank also provides lockbox and merchant services that facilitate timely 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.

The Bank's global banking and trade products and services facilitate 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 clients' international trade, the Bank offers a variety of loans and credit facilities guaranteed by the Export-Import Bank of the United States. It also offers letters of credit, including export, import, and standby letters of credit, to enable clients to ship and receive goods globally.

The Bank offers a variety of investment services and solutions to its clients that enable companies to better manage their assets. The Bank's Repurchase Agreement Program, which is targeted to those clients who seek interest income with minimal tolerance for loss of principal, offers the ability to enter into secure overnight investments that are fully collateralized. Through its broker-dealer subsidiary, SVB Securities, the Bank offers money market mutual funds and fixed-income securities. SVB Securities is registered with the U.S. Securities Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). Finally, through its registered investment advisory subsidiary, SVB Asset Management, the Bank offers investment advisory services, including outsourced treasury services, with customized cash portfolio management and reporting.

SVB Capital

SVB Capital is the private equity division of SVB Financial Group. This division focuses primarily on funds management. SVB Capital manages, sponsors and invests in private equity and venture capital funds, as well as invests in portfolio companies, on behalf of SVB Financial and the investors in the funds managed by SVB Capital. The SVB Capital family of funds is comprised of funds it manages, including funds of funds, such as our SVB Strategic Investors funds, and co-investment funds, such as our SVB Capital Partners funds and SVB India Capital Partners fund. It also includes sponsored debt funds, such as Gold Hill Venture Lending funds, which provide secured debt, typically to emerging-growth clients in their earliest stages, and Partners for Growth funds, which primarily provide secured debt to higher-risk, middle-market clients in their later stages. Most of the funds actively managed or sponsored by SVB Capital are consolidated into our financial statements. See Note 2 (Summary of Significant Accounting Policies) of the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report.

SVB Alliant

SVB Alliant, a broker-dealer registered with the SEC and a member of the FINRA, was our investment banking division, which provided advisory services in the areas of mergers and acquisitions, corporate finance, strategic alliances and private placements. In July 2007, we announced that we had reached a decision to cease operations at SVB Alliant. We elected to have SVB Alliant complete a limited number of client transactions before finalizing its shut-down. Accordingly, we have classified the results of operations of SVB Alliant as continuing operations in the Consolidated Statement of Income for the year ended December 31, 2007 in Part II, Item 8 in this report. As of the date of this report, all such client transactions have been completed. Other than the completion of wind-down activities, we expect to cease operations by the end of the first quarter of 2008.

Other Business Services

The Other Business Services segment is principally comprised of SVB Private Client Services, SVB Global, SVB Analytics and SVB Wine Division. These business units do not individually meet the separate reporting

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thresholds as defined by Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131) and, as a result, we have aggregated them together as Other Business Services for segment reporting purposes.

SVB Private Client Services

SVB Private Client Services is a division of the Bank that provides a range of credit services to targeted high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. These 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. We also help our private clients meet their cash management needs by providing deposit account products and services, including checking accounts, money market accounts and certificates of deposit.

SVB Global

SVB Global includes our subsidiaries focused on our foreign activities, which facilitate our clients' global expansion into major technology centers around the world. SVB Global serves the needs of some of our non-U.S. clients with global banking products, including loans, deposits and global finance. SVB Global provides a variety of services, including consulting and business services, referrals, and knowledge sharing, and identifies global business opportunities for us.

SVB Analytics

During the second quarter of 2006, we commenced operations of SVB Analytics, which provides equity valuation and equity management services to private companies. We offer equity management services, including capitalization data management, through eProsper, Inc., a company in which SVB Analytics holds a controlling ownership stake.

SVB Wine Division

SVB Wine Division is a division of the Bank that provides banking products and services to our premium wine industry clients, including vineyard development loans. We offer a variety of financial solutions focused specifically on the needs of our clients' premium wineries and vineyards.

Income Sources

Our business generates three distinct primary sources of income: interest rate differentials, fee-based services and investments in private equity funds, equity warrant assets and other securities.

We generate income 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 borrowings, accounts for the major portion of our earnings. Our deposits are largely obtained from commercial clients within our technology, life sciences and private equity industry sectors. Deposits are also obtained from the premium wine industry commercial clients and individual clients served by our Private Client Services group. We do not obtain deposits from conventional retail sources and currently have no brokered deposits.

Fee-based services also generate income for our business. We market our full range of financial services to our commercial and private equity firm clients, including commercial banking, private client, investment advisory, asset management, global banking and equity valuation services. Our ability to integrate and cross-sell our diverse financial services to our clients is a strength of our business model.

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We also seek to obtain returns by making investments. We manage and invest in private equity funds that generally invest directly in privately held companies, as well as funds that invest in other private equity funds. We also invest directly in privately held companies. Additionally, as part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of equity warrant assets in certain client companies.

Industry Niches

In each of the industry niches we serve, we provide services to meet the needs of our clients throughout their life cycles, from early stage through maturity.

Technology and Life Sciences

We serve a variety of clients in the technology and life science industries. A key component of our technology and life science business strategy is to develop relationships with clients at an early stage and offer them banking services that will continue to meet their needs as they mature and expand. We define *emerging-growth* clients as companies in the start-up or early stages of their life cycles. 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 little or no revenue. By contrast, we define *mature* or *later-stage* clients as companies that tend to be more established; these companies may be publicly traded.

Our technology clients generally tend to be in the industries of hardware (semiconductors, communications and electronics), software and related services, and cleantech. Our life science clients generally tend to be in the industries of biotechnology and medical devices.

Private Equity

We provide financial services to clients in the private equity community. Since our founding, we have cultivated strong relationships with the private equity community, particularly with venture capital firms worldwide, many of which are also clients. We serve more than 500 venture capital firms in the United States, as well as other private equity firms, facilitating deal flow to and from these private equity firms and participating in direct investments in their portfolio companies.

Premium Wine

We are one of the leading providers of financial services to premium wine producers in the Western United States, with over 300 winery and vineyard clients. We focus on vineyards and wineries that produce grapes and wines of the highest quality.

Competition

The banking and financial services industry is highly competitive, and evolves as a result of changes in regulation, technology, product delivery systems, and the general market and economic climate. Our current competitors include other banks, debt funds and specialty and diversified financial services companies that offer lending, leasing, other financial products, and advisory services to our target client base. The principal competitive factors in our markets include product offerings, service, and pricing. Given our established market position with the client segments that we serve, and our ability to integrate and cross-sell our diverse financial services to extend the length of our relationships with our clients, we believe we compete favorably in all our markets in these areas.

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Employees

As of December 31, 2007, we employed approximately 1,128 full-time equivalent employees.

Supervision and Regulation

General

Our bank and holding company operations are subject to extensive regulation by federal and state regulatory agencies. This regulation is intended primarily for the protection of depositors and the deposit insurance fund, and secondarily for the stability of the U.S. banking system. It is not intended for the benefit of stockholders of financial institutions. As a bank holding company that elected to become a financial holding company in November 2000, SVB Financial is subject to inspection, supervision, regulation, and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) under the Bank Holding Company Act of 1956 (the BHC Act). The Bank, as a California state-chartered bank and a member of the Federal Reserve System, is subject to primary supervision and examination by the Federal Reserve Board, as well as the California Department of Financial Institutions (the DFI). In addition, the Bank's deposits are insured by the Federal Deposit Insurance Corporation (the FDIC). SVB Financial's other nonbank subsidiaries are subject to regulation by the Federal Reserve Board and other applicable federal and state agencies, such as the SEC and FINRA, and, for our foreign-based subsidiaries, applicable regulatory bodies, such as those promulgated by the Financial Services Authority in the United Kingdom. SVB Financial, the Bank and their subsidiaries are required to file periodic reports with these regulators and provide any additional information that they may require.

The following summary describes some of the more significant laws, regulations, and policies that affect our operations; it is not intended to be a complete listing of all laws that apply to us. From time to time, federal, state and foreign legislation is enacted and regulations are adopted which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. We cannot predict whether or when potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations.

Regulation of Holding Company

The Federal Reserve Board requires SVB Financial to maintain minimum capital ratios, as discussed below under *Regulatory Capital*. Under Federal Reserve Board policy, a bank holding company is also required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board's policy that, in serving as a source of strength to its subsidiary bank(s), a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary bank(s) during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary bank(s). A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary bank(s) or to observe established guidelines with respect to the payment of dividends by bank holding companies generally will be considered by the Federal Reserve Board to be an unsafe and unsound banking practice, a violation of the Federal Reserve Board's regulations, or both.

Bank holding companies are generally prohibited, except in certain statutorily prescribed instances including exceptions for financial holding companies, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, subject to prior notice or Federal Reserve Board approval, bank holding companies may engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper

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incident thereto. Pursuant to our election as a financial holding company, SVB Financial may make acquisitions and engage in these nonbanking and certain other activities without prior Federal Reserve Board approval. Additionally, as a financial holding company, SVB Financial may affiliate with securities firms and insurance companies and engage in other activities determined by the Federal Reserve Board to be financial in nature or are incidental or complementary to activities that are financial in nature, which include, among other things, merchant banking investments.

In order to elect or retain financial holding company status, all depository institution subsidiaries of a bank holding company must be well capitalized, well managed, and, except in limited circumstances, in satisfactory compliance with the Community Reinvestment Act. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could require us to divest the Bank or to conform all of our activities to those permissible for a bank holding company.

In March 2000, the Gramm-Leach-Bliley Act (the GLB Act) or Financial Services Modernization Act of 1999 became effective and created the category of financial holding companies. Under the GLB Act, banks, subject to various requirements, are permitted to engage through financial subsidiaries in certain financial activities permissible for affiliates of financial holding companies. However, to be able to engage in such activities banks must also be well capitalized and well managed and have received at least a satisfactory rating in its most recent Community Reinvestment Act examination.

SVB Financial is also treated as a bank holding company under the California Financial Code. As such, SVB Financial and its subsidiaries are subject to periodic examination by, and may be required to file reports with, the DFI.

Regulatory Capital

The federal banking agencies have adopted risk-based capital guidelines for bank holding companies and banks that are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. Under these capital guidelines, banking organizations are required to maintain certain minimum capital ratios, which are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. In general, the dollar amounts of assets and certain off-balance sheet items are risk-adjusted and assigned to various risk categories. Qualifying capital is classified in one of three tiers, depending on the type of capital:

Tier 1 capital consists of common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Qualifying Tier 1 capital may consist of trust-preferred securities, subject to certain criteria and quantitative limits for inclusion of restricted core capital elements in Tier 1 capital.

Tier 2 capital includes, among other things, hybrid capital instruments, perpetual debt, mandatory convertible debt securities, subordinated debt, preferred stock that does not qualify as Tier 1 capital, a limited amount of allowance for loan and lease losses.

Tier 3 capital consists of qualifying unsecured subordinated debt.

Under the capital guidelines, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. The minimum required ratios for bank holding companies and banks are eight percent, four percent and four percent, respectively. Additionally, for SVB Financial to remain a financial holding company, the Bank must at all times be well-capitalized, which requires the Bank to have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively. Moreover, although not a requirement to maintain

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financial holding company status, maintaining the financial holding company at well-capitalized status provides certain benefits to the company, such as the ability to repurchase stock without prior regulatory approval. To be well-capitalized, the holding company must at all times have a total risk-based and Tier 1 risk-based capital ratio of at least ten percent and six percent, respectively. There is no Tier 1 leverage requirement for a holding company to be deemed well-capitalized. At December 31, 2007, the respective capital ratios of SVB Financial and the Bank exceeded these minimum percentage requirements for well-capitalized institutions. See Note 21 (Regulatory Matters) of the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report.

SVB Financial is also subject to rules that govern the regulatory capital treatment of equity investments in non-financial companies made on or after March 13, 2000 and held under certain specified legal authorities by a bank or bank holding company. Under the rules, these equity investments will be subject to a separate capital charge that will reduce a bank holding company's Tier 1 capital and, as a result, will remove these assets from being taken into consideration in establishing a bank holding company's required capital ratios discussed above. The rules provide for the following incremental Tier 1 capital charges: 8% of the adjusted carrying value of the portion of aggregate investments that are up to 15% of Tier 1 capital; 12% of the adjusted carrying value of the portion of aggregate investments that are between 15% and 25% of Tier 1 capital; and 25% of the adjusted carrying value of the portion of aggregate investments that exceed 25% of Tier 1 capital.

Further, the federal banking agencies have also adopted a joint agency policy statement, which states that the adequacy and effectiveness of a bank's interest rate risk management process and the level of its interest rate exposures are critical factors in the evaluation of the bank's capital adequacy. A bank with material weaknesses in its interest rate risk management process or high levels of interest rate exposure relative to its capital will be directed by the federal banking agencies to take corrective actions.

The current risk-based capital guidelines are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision. A new international accord, referred to as Basel II, which emphasizes internal assessment of credit, market and operational risk, supervisory assessment and market discipline in determining minimum capital requirements, will become mandatory for large international banks outside the U.S. in 2008, and must be complied with in a parallel run for two years along with the existing Basel I standards. Other banks may adopt the Basel II framework, but are not required to do so. The U.S. federal regulatory agencies are expected to release separate rules in 2008 to offer U.S. banks that do not adopt Basel II an alternative standardized approach under Basel II option to address concerns that the Basel II framework may offer significant competitive advantages for the largest U.S. and international banks. The U.S. banking agencies have indicated, however, that they will retain the minimum leverage requirement for all U.S. banks.

Prompt Correction Action and Other General Enforcement Authority

Federal banking agencies possess broad powers to take corrective and other supervisory action against an insured bank and its holding company. Federal laws require each federal banking agency to take prompt corrective action to resolve the problems of insured banks.

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Each federal banking agency has issued regulations defining five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. At each successive lower-capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends.

In addition to measures taken under the prompt corrective action provisions, bank holding companies and insured banks may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by the agency or term of a written agreement with the agency. In more serious cases, enforcement actions may include the appointment of a conservator or receiver for the bank; the issuance of a cease and desist order that can be judicially enforced; the termination of the bank's deposit insurance; the imposition of civil monetary penalties; the issuance of directives to increase capital; the issuance of formal and informal agreements; the issuance of removal and prohibition orders against officers, directors, and other institution-affiliated parties; and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Regulation of Silicon Valley Bank

The Bank is a California state-chartered bank and a member of the Federal Reserve System. The Bank is subject to primary supervision, periodic examination and regulation by the DFI and the Federal Reserve Bank of San Francisco. If the DFI or the Federal Reserve Board should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory, or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the DFI and the Federal Reserve Board, depending on the severity of the violation. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to impair SVB Financial's financial holding company status, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, and to remove officers and directors. In addition, the FDIC may also terminate the Bank's deposit insurance, which for a California state-chartered bank would result in a revocation of the Bank's charter. Various requirements and restrictions under the laws of the State of California and the United States affect the operations of the Bank. State and federal statutes and regulations relate to most aspects of the Bank's operations, including reserves against deposits, ownership of deposit accounts, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, investment in nonfinancial enterprises and capital requirements. Further, the Bank is required to maintain certain levels of capital. (See *Regulatory Capital* above.)

Because California permits commercial banks chartered by the state to engage in any activity permissible for national banks, the bank can form subsidiaries to engage in the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries, subject to applicable state or FDIC requirements. However, in order to form a financial subsidiary, the Bank must be well-capitalized, well-managed and in satisfactory compliance with the Community Reinvestment Act. Further, the Bank must exclude from its assets and equity all equity investments, including retained earnings, in a financial subsidiary, for regulatory reporting purposes. The assets of the subsidiary may not be consolidated with the Bank's assets. The Bank must also have policies and procedures to assess financial subsidiary risk and protect the Bank from such risks and potential liabilities and is subject to the same capital deduction, risk management and affiliate transaction rules as applicable to national banks. Generally, a financial subsidiary is permitted to engage in activities that are financial in nature or incidental thereto, even though they are not permissible for the national bank to conduct directly within the bank. The definition of financial in nature includes, among other

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items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds.

Restrictions on Dividends

A Federal Reserve Board policy statement provides that a bank holding company may pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The policy statement also provides that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the federal prompt corrective action regulations, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as undercapitalized.

Dividends from the Bank constitute the principal source of cash revenues for SVB Financial. The Bank is subject to various federal and state statutory and regulatory restrictions on its ability to pay dividends. In addition, the banking agencies have the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

Transactions with Affiliates

Transactions between the Bank and its operating subsidiaries (such as SVB Securities, Inc. or SVB Asset Management) on the one hand, and the Bank's affiliates (such as SVB Financial, SVB Analytics, or an SVB Global entity) are subject to restrictions imposed by federal and state law, designed to protect the Bank and its subsidiaries from engaging in unfavorable behavior with their affiliates. More specifically, these restrictions, contained in Federal Reserve Board Regulation W, prevent SVB Financial and other affiliates from borrowing from, or entering into other credit transactions with, the Bank or its operating subsidiaries unless the loans or other credit transactions are secured by specified amounts of collateral. All loans and credit transactions and other covered transactions by the Bank and its operating subsidiaries with any one affiliate are limited, in the aggregate, to 10% of the Bank's capital and surplus; and all loans and credit transactions and other covered transactions by the Bank and its operating subsidiaries with all affiliates are limited, in the aggregate, to 20% of the Bank's capital and surplus. For this purpose, a covered transaction generally includes, among other things, a loan or extension of credit to an affiliate; a purchase of or investment in securities issued by an affiliate; a purchase of assets from an affiliate; the acceptance of a security issued by an affiliate as collateral for an extension of credit to any borrower; and the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. In addition, the Bank and its operating subsidiaries generally may not purchase a low-quality asset from an affiliate. Moreover, covered transactions and other specified transactions by the Bank and its operating subsidiaries with an affiliate must be on terms and conditions, including credit standards, that are substantially the same, or at least as favorable to the Bank or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. An entity that is a direct or indirect subsidiary of the Bank would not be considered to be an affiliate of the Bank or its operating subsidiaries for these purposes unless it fell into one of certain categories, such as a financial subsidiary authorized under the GLB Act.

Loans to Insiders

Extensions of credit by the Bank to insiders of both the Bank and SVB Financial are subject to prohibitions and other restrictions imposed by federal regulations. For purposes of these limits, insiders include directors, executive officers and principal shareholders of the Bank or SVB Financial and their related interests. The term related interest means a company controlled by a director, executive officer or principal shareholder of the Bank or SVB Financial. The Bank may not extend credit to an insider of the Bank or SVB Financial unless the loan is made on substantially the same terms as, and subject to credit underwriting procedures that are no less stringent than, those prevailing at the time for comparable transactions with non-insiders. Under federal banking

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regulations, the Bank may not extend a loan to insiders in an amount greater than \$500,000 without prior board approval (with any interested person abstaining from participating directly or indirectly in the voting). The federal regulations place additional restrictions on loans to executive officers, and generally prohibit loans to executive officers other than for certain specified purposes. The Bank is required to maintain records regarding insiders and extensions of credit to them.

Safety and Soundness Guidelines

Banking regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. In addition, the banking regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves.

Premiums for Deposit Insurance

The FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the Deposit Insurance Fund (DIF) in 2006. Through the DIF, the FDIC insures the Bank's customer deposits up to prescribed limits for each depositor. The Bank is a member of the DIF.

The FDIC has established a system for setting deposit insurance premiums based upon the risks a particular bank poses to the insurance fund. The FDIC has established a risk-based system assessment system to determine the deposit insurance assessment to be paid by insured depository institutions based upon capital levels and supervisory ratings assigned by the Bank's primary federal regulator, and other risk measures. Assessment rates for the insurance of DIF deposits in 2007 ranged between a minimum of 5 cents for well-managed, well-capitalized banks to a maximum of 43 cents for institutions posing the most risk to the DIF, per \$100 in assessable deposits. Institutions in Risk Category I were charged a rate between 5 and 7 cents. The FDIC may increase or decrease the assessment rate schedule quarterly. As of December 31, 2007, the Bank's assessment rate was between 5 and 7 cents per \$100 in assessable deposits. We received a one-time credit from the FDIC to offset assessments in 2007.

In addition, all federally insured institutions are required to pay assessments to the FDIC at an annual rate of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. The assessment rate relating to these bonds effective for 2007 was between 1.14 and 1.22 basis points of assessable deposits. These assessments cannot be offset with any one time credits and are expected to continue until the Financing Corporation bonds mature by 2019.

USA Patriot Act of 2001

As part of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act), Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (IMLAFATA). IMLAFATA amended the Bank Secrecy Act (BSA) and adopted certain additional measures that established or increased existing obligations of financial institutions, including the Bank, to identify their customers, monitor and report suspicious transactions, respond to requests for information by federal banking regulatory authorities and law enforcement agencies, and, at the option of the Bank, share information with other financial institutions. The U.S. Secretary of the Treasury has adopted several regulations to implement these provisions. Pursuant to these regulations, the Bank is required to implement appropriate policies and procedures relating to anti-money laundering matters, including compliance with applicable regulations, suspicious activities, currency transaction reporting and customer due diligence. Our BSA compliance program is subject to federal regulatory review.

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Consumer Protection Laws and Regulations

The Bank is subject to many federal consumer protection statutes and regulations, such as the Community Reinvestment Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the National Flood Insurance Act and various federal and state privacy protection laws. Penalties for violating these laws could subject the Bank to lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and SVB Financial are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

In recent years, examination and enforcement by the state and federal banking agencies for non-compliance with consumer protection laws and their implementing regulations have become more intense. Due to these heightened regulatory concerns, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Sarbanes-Oxley Act of 2002

We are subject to the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), which implemented a broad range of corporate governance and accounting measures, generally to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties at publicly-traded companies, and protect investors by improving the accuracy and reliability of disclosures under federal securities laws. Under Sarbanes-Oxley, we are required to file periodic reports with the SEC under the Securities and Exchange Act of 1934. Among other things, Sarbanes-Oxley and/or its implementing regulations have established new membership requirements and additional responsibilities for our audit committee, imposed restrictions on the relationship between us and our outside auditors, imposed additional responsibilities for our external financial statements on our chief executive officer and chief financial officer, expanded the disclosure requirements for our corporate insiders, and required our management to evaluate our disclosure controls and procedures and our internal control over financial reporting. The Nasdaq Stock Market, Inc. has also imposed corporate governance requirements as well.

Regulation of Certain Subsidiaries

Our subsidiaries that are registered as broker-dealers, such as SVB Securities, are subject to regulation by the SEC and FINRA. SVB Asset Management, our investment advisor subsidiary, is registered with the SEC under the Investment Advisers Act of 1940, as amended, and is subject to its rules and regulations.

Our broker-dealer subsidiaries are subject to Rule 15c3-1 under the Securities Exchange Act of 1934, as amended, which is designed to measure the general financial condition and liquidity of a broker-dealer. Under this rule, our broker-dealer subsidiaries are required to maintain the minimum net capital deemed necessary to meet their continuing commitments to customers and others. Under certain circumstances, this rule could limit the ability of the Bank to withdraw capital from SVB Securities.

Additionally, our foreign-based subsidiaries are also subject to foreign laws and regulations, such as those promulgated by the Financial Services Authority in the United Kingdom and the Reserve Bank of India.

Available Information

We make available free of charge through our Internet website, <http://www.svb.com>, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The contents of our website are not incorporated herein by reference and the website address provided is intended to be an inactive textual reference only.

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ITEM 1A. RISK FACTORS

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

Credit Risks

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

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

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

Our loan portfolio has a credit profile different from that of most other banking companies. Many of our loans are made to companies in the early stages of development with negative cash flows and no established record of profitable operations. In many cases, repayment of the loan is dependent upon receipt of additional equity financing from venture capitalists or others. Collateral for many of our loans often includes intellectual property, which is difficult to value and may not be readily salable in the case of default. Because of the intense competition and rapid technological change that characterizes the companies in our technology and life sciences industry sectors, a borrower's financial position can deteriorate rapidly. Additionally, we are increasing our lending to larger private equity firms and corporate technology clients, including some companies with greater levels of debt relative to their equity, and have increased the average size of our loans over time. These changes could affect the risk of borrower default and increase the impact on us of any single borrower default. For all of these reasons, our level of nonperforming loans, loan charge-offs and additional allowance for loan losses can be volatile and can vary materially from period to period. Increases in our level of nonperforming loans may require us to increase our provision for loan losses in any period, which could reduce our net income or cause net losses in that period. Additionally, such increases in our level of nonperforming loans may also have an adverse effect on our credit ratings and market perceptions of us.

Market/Liquidity Risks

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

A major portion of our net income comes from our interest rate spread, which is the difference between the interest rates paid by us on amounts used to fund assets and the interest rates and fees we receive on our interest-earning assets. We fund assets using deposits and other borrowings. While we offer some interest-bearing deposit

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products, most of our deposit products are non-interest bearing. Our interest-earning assets include loans extended to our clients and securities held in our investment portfolio.

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

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

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

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

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

Equity warrant asset, private equity 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 are uncertain and may vary materially by period.

We historically have obtained rights to acquire stock, in the form of equity warrant assets, in certain clients as part of negotiated credit facilities and for other services. We also have made investments in private equity funds as well as direct equity investments in companies. The timing and amount of income, if any, from the disposition of equity warrant assets, securities obtained through the exercise of equity warrant assets, private equity funds and direct equity investments, as well as the fair market value of these rights and investments, typically depend upon factors beyond our control, including the performance of the underlying portfolio companies, investor demand for initial public offerings (IPOs), fluctuations in the market prices of the

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underlying common stock of these companies, levels of merger and acquisition activity and legal and contractual restrictions on our ability to sell securities and investments. In future periods, we may not be able to continue to obtain equity warrant assets to the same extent we historically have achieved, we may not realize gains from the exercise of equity warrant assets, the gains realized upon the sale of the securities obtained through the exercise of equity warrant assets and the gains realized upon the sale of our fund or direct equity investments may be materially less than the current fair value of equity warrant assets reflected in our financial statements, or the fair market value of some or all of these equity warrant assets could decline. Each of these developments could have a material adverse effect on our profitability and financial condition. All of these factors are difficult to predict. Due to the nature of investing and holding equity warrant assets in private equity venture-backed technology and life science companies, it is likely that investments within our 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 become 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, profitability and financial condition.

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

Operational Risks

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

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

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

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

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

We offer various internet-based services to our clients, including online banking services. The secure transmission of confidential information and execution of transactions over the Internet is essential to protect us and our clients against fraud and to maintain our clients' confidence in our online services. Increases in criminal

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

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

Our operations can be subject to natural disasters and other external events beyond our control, such as earthquakes, fires, severe weather, public health issues, power failures, telecommunication loss, major accidents, terrorist attacks, acts of war, and other natural and man-made events. Our corporate headquarters and a portion of our critical business offices are located in California near major earthquake faults. Such events of disaster, whether natural or attributable to human beings, could cause severe destruction, disruption or interruption to our operations or property. Financial institutions, such as us, generally must resume operations promptly following any interruption. If we were to suffer a disruption or interruption and were not able to resume normal operations within a period consistent with industry standards, our business could suffer serious harm. In addition, depending on the nature and duration of the disruption or interruption, we might be vulnerable to fraud, additional expense or other losses, or to a loss of business Times New Roman, Times, Serif; margin: 0 0 12pt; text-align: justify">**Board Leadership and Risk Oversight**

We have maintained separate individuals in the position of CEO and non-executive Chairman of the Board of Solitario since our inception. Our non-executive Chairman serves as liaison between the CEO and other independent directors, approves meeting agendas and schedules and notifies other members of the Board of Directors regarding any significant concerns of shareholders or interested parties of which he becomes aware. Our non-executive Chairman presides at all Board meetings he attends and provides advice and counsel to the CEO. We believe the separation of these positions, with an independent non-executive Chairman, provides Solitario with valuable independent direction and advice for our CEO and our other executive officers.

Our Board of Directors is responsible for the overall risk oversight of Solitario. Directors are entitled to rely on management and the advice of the Company's outside advisors and auditors but must at all times have a reasonable basis for such reliance. The Board of Directors delegates the day-to-day risk management of Solitario to the CEO and Chief Financial Officer, each of whom periodically report to the Board of Directors and to certain committees of the Board of Directors. The Audit Committee oversees our financial and reporting risks, including our short-term investing and hedging risks and these risks are discussed at no less than one Audit Committee meeting per year, providing the Audit Committee members the opportunity to discuss the risks and the risk mitigation process. The Compensation Committee oversees the risks arising from our compensation policies and practices and provides a report to the Board of Directors regarding the compensation of the CEO and executive officers. The Nominating Committee evaluates and recommends individuals for nomination to the Board of Directors in the event of a vacancy in the Board of Directors.

We are dependent upon information technology systems in the conduct of our operations. Our information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, computer viruses, security breaches, cyber-attacks, natural disasters and defects in design. Management has implemented cybersecurity safeguards to Solitario's systems, and periodically reports to the Audit Committee and the full board updates and changes to its cybersecurity systems as well as risks and any cybersecurity incidents. Solitario has not experienced any material cybersecurity breaches during 2017 or 2016.

Compensation of Directors

In addition to any equity awards our directors receive the following compensation in their capacities as directors:

Annual Director retainer fee: \$12,000 (\$3,000 per quarter)

Additional Chairman fee: \$4,000 (\$1,000 per quarter)

Additional Audit Committee Chairman fee: \$3,000 (\$750 per quarter)

All the above referenced fees were as of December 31, 2017. Director fees are paid quarterly during the year. Fees cover participation in all board and committee meetings, including the position of all committee chairmen (excluding audit chairman who receives an additional fee). A deduction of \$1,000 is made for any regularly scheduled board meeting (four quarterly meetings) that is missed. The above director fees were reduced during 2017 from \$13,000 per annum and from \$6,000 per annum additional Chairman fee.

The following table provides summary information regarding compensation earned by our directors during the fiscal year ended December 31, 2017:

Name (1)	Fees earned or paid in cash (\$)	Stock Awards (\$)	Option Awards (2) (\$)	Non-equity incentive plan compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Mr. Labadie, Chairman (4)	17,250	—	—	—	—	—	17,250
Mr. Atzmon (3)	6,000	—	56,087	—	—	—	62,087
Mr. Crumb (3)	6,000	—	6,054	—	—	—	12,054
Mr. Hesketh (3)(4)	6,000	—	—	—	—	—	6,000
Mr. Labate (4)	16,000	—	—	—	—	—	16,000
Mr. Harris (5)	7,000	—	—	—	—	—	7,000

Mr. Herald served as a director during 2017 and as the Chief Executive Officer. He received a salary and other (1) compensation for his services as an officer of Solitario during the year ended December 31, 2017, which are shown below under the “Summary Compensation Table”.

The amount represents the grant date fair value of option awards granted during the year in accordance with FASB ASC No. 718. In accordance with the terms of the Acquisition, Zazu options held by all Zazu option holders were replaced by Solitario options from the 2013 Plan, with similar terms and conditions (the “Replacement Options”). (2) The Replacement Options were granted from the 2013 Plan on July 12, 2017 and were fully vested on the date of grant. Replacement Options of 464,360 options and 125,020 options were granted to Mr. Atzmon and Mr. Crumb, respectively. The grant date fair value of the Replacement Options was determined by a Black-Scholes Model, with terms between 10 and 18 months, exercise prices between \$0.74 per share and \$2.24 per share, historical volatility of 67%, and a risk-free interest rate of 1.0%.

(3) Mr. Atzmon, Mr. Crumb and Mr. Hesketh were elected to serve as directors on June 29, 2017.

(4) Mr. Hesketh, Mr. Labate and Mr. Labadie have no stock options outstanding as of December 31, 2017.

(5) Mr. Harris was a former director whose term ended on June 29, 2017.

EXECUTIVE OFFICERS

The following biographies describe the business experience of our executive officers (each also being a "**Named Executive Officer**" as defined in Item 402 of Regulation S-K):

Christopher E. Herald - See biography above under the heading "Identification of Directors."

Walter H. Hunt (67) has been Chief Operating Officer of Solitario since June 2008 and Vice President - Operations and President - South American Operations of Solitario since June 1999. He also served as Vice President - Peru Operations from July 1994 until June 1999. Mr. Hunt was also Vice President - Operations of Crown from 1994 until completion of the Crown - Kinross Merger in August of 2006. Mr. Hunt has over 40 years of exploration, development and operational experience with Anaconda Minerals, Noranda and Echo Bay Mines where he served as Superintendent, Technical Services and Chief Geologist at Echo Bay's Kettle River Operations. Mr. Hunt received his M.S. degree in Geology from the Colorado School of Mines and a B.S. degree from Furman University.

James R. Maronick (62) has served as Chief Financial Officer, Secretary and Treasurer of Solitario since 1999 and was Chief Financial Officer of Crown from June 1999 until completion of the Crown - Kinross Merger in August of 2006. Prior to that, Mr. Maronick served as Vice President - Finance and Secretary/Treasurer of Consolidated Nevada Gold Fields Corporation from November 1994 to September 1997. Mr. Maronick graduated with honors from the University of Notre Dame in 1977 with a BA in accounting and received his Masters' degree in Finance with highest honors from the University of Denver in 1986.

Family Relationships

There are no family relationships among any director, executive officer, or person nominated or chosen by the Company to become a director of Solitario.

Business Experience

The business experience of each of our directors is set forth above under “Identification of Directors” and the business experience of those executive officers who are not also our directors is set forth above under “Executive Officers.”

The directorships held by each of our directors in any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act, or subject to Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940, as amended, are set forth above under “Identification of Directors.”

Involvement in Certain Legal Proceedings

During the past ten years, except as disclosed below regarding Mr. Hesketh, none of the persons serving as executive officers and/or directors of the Company has been the subject matter of any of the following legal proceedings that are required to be disclosed pursuant to Item 401(f) of Regulation S-K including: (a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b) any criminal convictions; (c) any order, judgment, or decree permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (d) any finding by a court, the SEC or the U.S. Commodity Future Trading Commission to have violated a federal or state securities or commodities law, any law or regulation respecting financial institutions or insurance companies, or any law or regulation prohibiting mail or wire fraud; or (e) any sanction or order of any self-regulatory organization or registered entity or equivalent exchange, association or entity. Further, no such legal proceedings are believed to be contemplated by governmental authorities against any director or executive officer.

Mr. Hesketh previously held the position of President, CEO and Director of Atna Resources Ltd, a British Columbia Corporation listed on the TSX (“*Atna*”). Long-term weakness and declining gold prices commencing in 2012 caused Atna to experience several years of operating losses. On November 18, 2015, Atna filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Colorado (the “*Bankruptcy Court*”). On November 30, 2016, a motion was entered with the Bankruptcy Court titled, “*Findings of Fact, Conclusions of Law and Order under Section 1129 of the Bankruptcy Code and Bankruptcy Rule 3020 Confirming Debtor’s Joint Chapter 11 Plan of Liquidation*”. The Plan of Liquidation was effective December 31, 2016. On that date, Mr. Hesketh was terminated as an employee and officer of Atna.

EXECUTIVE COMPENSATION

The following discussion provides information regarding the compensation program for Solitario's Named Executive Officers for 2017.

Objectives of the Company’s Compensation Program

The Compensation Committee has responsibility for approving the compensation program for Solitario's Named Executive Officers and acts according to a charter that has been approved by the Board and is available on the Company website at www.solitarioxr.com. The compensation program is designed to attract, retain and reward our executives who contribute to Solitario's long-term success. This in turn is intended to build value for Solitario and its shareholders. The program is based upon three fundamental principles:

(1) A substantial portion of Solitario's Named Executive Officer compensation should be performance and equity-based to achieve alignment with shareholder interests.

This principle is accomplished in two primary ways: first, through the award of stock options or, other equity awards contemplated in the equity compensation plans adopted by Solitario, in an amount and with such terms that are intended to encourage our Named Executive Officers to promote the long-term growth and performance of Solitario as may be reflected in the price of our Common Stock as quoted on the TSX and the NYSE American.

Second, this is also reflected in terms of cash compensation in the form of cash bonuses. These bonuses are set by the Compensation Committee, in its sole discretion, in a range of zero to 100% of base salary. The extent to which bonuses are paid depends entirely on the extent to which the Compensation Committee believes Solitario has met its development, exploration, budget and shareholder goals, as set by the Compensation Committee and the current and expected financial condition of the Company. No bonuses were awarded to our Named Executive Officers during 2017. Although Solitario completed the Acquisition of Zazu in July of 2017, the performance of the price of the Company's Common Stock during 2017, which the Compensation Committee felt was impacted by a number of factors, many of which were not in the control of our named executive officers, nonetheless was a major factor in the decision of the Compensation Committee not to award any bonuses during 2017. In March 2016 the Compensation Committee awarded a \$60,000 bonus to Mr. Herald, a \$44,000 bonus to Mr. Hunt and a \$40,000 bonus to Mr. Maronick for their performance and the achievement of certain Company goals during 2015. The Compensation Committee considered the milestones achieved during 2015 by the Company, including (i) completion of the sale of our former interest in the Mt. Hamilton project through the sale of our interest in MHLIC to Waterton Nevada Splitter, Ltd. for gross proceeds of \$24,000,000 (the "**Transaction**"), (ii) the refinancing and eventual repayment, upon the closing of the Transaction, of \$5,000,000 short-term debt due to RMB Australia Holdings, Ltd., and (iii) successful marketing of our interest in MH-LLC, including obtaining approval of the Transaction by holders of over 90% of our outstanding shares at our annual meeting held in August 2015. The Compensation Committee considered the bonuses paid in 2016 as earned in 2015 and these bonuses were previously included in the 2015 summary compensation table for each Named Executive Officer for the year ended December 31, 2015. The Compensation Committee did not award any bonuses for the year ended December 31, 2016 to any Named Executive Officer based upon their review of the performance of the price of the Company's Common Stock during the 2016 and upon the lack of a major mineral property acquisition and / or strategic investment during the year ended December 31, 2016.

(2) Solitario's compensation program for Named Executive Officers is intended to enable the Company to compete for the best executive talent available.

The Compensation Committee believes shareholders are best served when the Company can attract and retain the highest caliber executives appropriate for a company of our size and complexity. This is done with compensation packages we believe to be fair and competitive. Our Named Executive Officers have served Solitario for many years. During 2017 and 2016 the Compensation Committee reviewed published compensation surveys and publicly available compensation disclosures of several of our peer group companies ("Peer Group Companies") for which Solitario competes for executive talent as the Compensation Committee believes that each of these public companies share some attributes of Solitario with regard to similar size, and in a similar industry as Solitario. These Peer Group Companies included the following companies:

Vista Gold Corp. Tinka Resources Limited
Entree Gold Corp. Riverside Resources Inc.

These reviews were not used to create specific benchmarks applicable to our Named Executive Officer compensation levels. These reviews were used to inform the Compensation Committee of current standards in the industry as such standards may relate, in their independent judgment, to appropriate modifications to Solitario's existing compensation

levels. During 2017, Solitario's activities were generally focused on (i) the completion of the Acquisition; (ii) the exploration planning and evaluation of the potential of the Lik deposit acquired in the Acquisition; (iii) the completion of a preliminary economic analysis on our Florida Canyon project and (iv) the evaluation of mineral properties for acquisition and on junior mining companies with mineral properties for strategic investment in the form of potential merger, acquisition or sale. During most of 2016, Solitario's activities were related to the evaluation of mineral properties for acquisition and potential strategic investments, which led to the Acquisition. As the focus of Solitario during the two most recent fiscal years did not directly compare in all cases to the activities of the Peer Group Companies, the Compensation Committee took the difference in focus into consideration when reviewing compensation of Solitario's Named Executive Officers compared to the peer companies. Additionally, Solitario has traditionally maintained a very minimal staff and the difference in the number of total employees of Solitario, which currently has six employees world-wide, compared to the Peer Group Companies, does not lend itself to effective use of specific benchmarks.

Subsequent to the completion of the Transaction, the Compensation Committee, in consultation with the Named Executive Officers, in light of the then difficult financial conditions in the junior mining sector as a result of continued low precious and base metal prices as well as the reduction in Mt. Hamilton related Company activities, decided to reduce the annual salaries of its Named Executive Officers, as of October 1, 2015; with the salary of Mr. Herald being reduced from \$230,000 to \$198,000, the salary of Mr. Maronick being reduced from \$160,000 to \$150,000 and the salary of Mr. Hunt being reduced from \$178,000 to \$158,000. The Named Executive Officers' salaries remained at the reduced amount during 2016 and 2017, except for an increase in September 2016 to Mr. Hunt's salary of \$1,000 per month and an increase to Mr. Herald's salary in June 2017 of \$500 per month related to an increase in health care costs.

(3) Solitario's compensation program for the Named Executive Officers should be fair to the executive, the Company and all its employees and perceived as such, both internally and externally.

The Compensation Committee strives to create a compensation program that promotes good corporate practice, encourages our Named Executive Officers to perform at a high level and promotes teamwork among our employees. The Compensation Committee takes these goals into consideration by comparison of executive pay in relation to all other Solitario salary costs for internal consistency, and by comparison to both Peer Group Companies and industry salaries for external consistency. In addition, the compensation program is intended to enhance shareholder value and the Compensation Committee strives to provide transparency and full disclosure to all interested parties.

The Compensation Committee has no authority to recover salary, bonuses or stock option awards or other equity awards made to Named Executive Officers. Although the Compensation Committee has the ability to consider prior compensation (e.g. gains from prior option grants or other equity awards) in setting current compensation, it has no formal procedure or requirement to do so. The Compensation Committee does not set or utilize benchmarks of any kind to set, evaluate or allocate compensation. There have been no actions taken or adjustments made to the process of setting executive compensation discussed herein by the Compensation Committee subsequent to December 31, 2017.

Key Elements of Executive Compensation

The elements of the Company's compensation program are intended to balance long term and short-term compensation for its executives and attempt to motivate executives to provide excellent leadership and achieve Company goals by linking short-term (such as salaries and benefits) and long-term incentives (such as equity-based compensation) to the achievement of business objectives, thereby aligning the interests of executives and shareholders. In addition, the Compensation Committee recognizes the performance of the Company's Common Stock is often influenced by the general investment climate of the junior mining industry and other macro-economic factors, which are not within the control of the specific performance of the Named Executive Officers in achieving the objectives set by the Company. The key elements of the compensation of the Named Executive Officers are outlined below. The Compensation Committee considers shareholder input when setting compensation for Named Executive Officers. At our 2017 annual meeting of shareholders, greater than 95% of the votes cast on the advisory vote on executive compensation were in favor of our executive compensation program. The Board of Directors and the Compensation Committee reviewed these vote results and determined that, given the significant level of support, no major re-examination of our executive compensation program was necessary at that time.

(1)

Base Salary

The Compensation Committee attempts to provide base salary to the Named Executive Officers that is commensurate with their review of our Peer Group Companies. The Compensation Committee fixed the base salary for the Named Executive Officers for 2017 (which commenced on January 1, 2017) during its meeting in December 2016. Increases or decreases in base salary are dependent on the Compensation Committee's evaluation of each individual Named Executive Officer performance, the effect of a peer group review, the performance of the entire Company relative to the Company's general goals and objectives, and the Company's current and projected financial resources. No Named Executive Officers receive minimum base salary payments pursuant to any employment agreement, or other agreement. The Compensation Committee has authority from the Board to set the base salary at any amount it believes is appropriate. Although the Compensation Committee, reviews the accomplishments of the Named Executive Officers against general goals of the Company, including planned exploration programs, potential mineral property acquisitions, evaluation of strategic opportunities for a corporate merger, acquisition or sale; the Acquisition in 2017; the 2015 Transaction, corporate financing activities and market price of Solitario's Common Stock, among other things, the Compensation Committee has full discretion to set compensation levels and has not set specific compensation levels to specific criteria. Some of the general criteria are discussed below.

(2)

Bonuses

The Compensation Committee may provide bonuses to the Named Executive Officers, in its sole discretion, based upon their evaluation of the individual Named Executive Officer in light of the certain parameters, including the following:

- (i) Bonuses based upon operational goals and parameters;
- (ii) The desire, discussed above, to provide a substantial portion of compensation based on performance;
- (iii) The performance of the Company relative to Company goals including exploration success;
- (iv) The share price performance of the Company's Common Stock.
- (v) The financial strength of the Company, including liquid financial assets;
- (vi) The quality of mineral property assets, including exploration assets and mineral properties under joint venture; and
- (vii) The financial strength and prospects for the smaller (junior) exploration mining industry.

In establishing its goals for any particular year, the Compensation Committee strives to ensure that the goals provide both an incentive and an attainable goal that provides shareholders with the opportunity for return on their investment while minimizing corporate and shareholder risk to the extent possible. Although certain targets and goals related to certain operational goals including such as potential property acquisitions and/or potential merger or acquisition activities, if any, are confidential, the Compensation Committee has structured these types of goals to be reasonable and obtainable by our Named Executive Officers, without undue risk to the assets of Solitario. Due to the nature of Solitario's corporate activities relating to (i) the evaluation of mineral properties for acquisition; (ii) the evaluation of strategic opportunities for a corporate merger, acquisition or sale, including the Acquisition; (iii) the Transaction during 2015 and (iv) early-stage exploration of mineral properties located in Peru, the goals for our Named Executive Officers are not specifically related to traditional financial metrics, such as revenue growth, earnings or earnings per share. The operational targets and goals are more subjective and generally include (i) the evaluation, negotiation and acquisition of mineral property agreements; (ii) evaluation of strategic opportunities; (iii) land and royalty joint ventures on our existing properties, (iv) exploration activities and success, both on our own and through joint

ventures; (v) training and retaining employees, (vi) operational activities including: maintaining adequate liquidity to fund future exploration activities, financial reporting and disclosure, and shareholder return. The Compensation Committee also evaluates the financial strength and prospects for the junior exploration segment of the mining industry. The Compensation Committee reviews the annual goals with the Named Executive Officers at or near the start of each year. The evaluation of the performance of our Named Executive Officers, relative to the goals outlined herein, has been and is expected to continue to be at the discretion of the Compensation Committee. As discussed above, in December of 2017 and 2016, the Compensation Committee determined that no bonus was earned during the years ended December 31, 2017 and 2016 and the Named Executive Officers would not be paid a bonus for the year ended 2017 during 2018.

(3)

Equity

The only equity compensation our Named Executive Officers have historically received is in the form of stock options granted pursuant to the 2006 Stock Option Incentive Plan (the “**2006 Plan**”) and the 2013 Solitario Exploration & Royalty Corp. Omnibus Stock and Incentive Plan (as defined above, the “**2013 Plan**”), with the exercise price of such options equal to the current market value of our Common Stock at the date of grant. The 2006 Plan terminated in 2016, and no option grants were made in 2016 or 2017 under the 2006 Plan and there are no outstanding options under the 2006 Plan. The Compensation Committee believes that a portion of our Named Executive Officers’ compensation should be performance based and tied to the long-term value of the Company. The Compensation Committee also believes that our compensation policies should be fair to our shareholders and be focused on our long-term viability. The Compensation Committee believes the granting of stock options or other forms of equity-based compensation aligns the interests of the Named Executive Officers and our shareholders and provides the incentive to manage the Company from the perspective of an owner of the Company. In addition, the Compensation Committee believes the vesting terms of the stock options granted from the 2013 Plan, discussed below, provide that a significant portion of the compensation will be received at a future date, which provides a tempered longer-term incentive for our Named Executive Officers as well as an incentive for them to remain with the Company.

The amount of all individual grants and the grant date of the stock options have been determined periodically by the Compensation Committee or by the full Board. All grants to date, excluding the Replacement Options, discussed above, have been, as of the date of the approval by the Compensation Committee (or the full Board, if requested by the Compensation Committee), with the option exercise price at the fair market value on the date of grant. Generally, all option grants from the 2006 Plan and the 2013 Plan vest 25% on the date of grant and the remaining options vest at 25% per year on the anniversary of the grant over a three-year period. In connection with the Acquisition, on July 12, 2017 Solitario granted the Replacement Options exercisable for 1782,428 shares of Solitario Common Stock. The terms of the Replacement Options, in accordance with the terms of the Acquisition, were fully vested on the date of grant, have exercise prices of between \$0.70 per share and \$2.24 per share and had terms of ten months to 18 months.

As discussed above, on September 1, 2017 Solitario granted the Conditional Options exercisable to acquire an aggregate of 2,300,000 shares of Common Stock. The Conditional Options were granted subject to shareholder approval and have a five-year life, an exercise price of \$0.77 per share and a grant date fair value of \$970,000, based upon a Black-Scholes model with a volatility of 64%, and a risk-free interest rate of 1.70%. The Compensation Committee, in their full discretion along with the Board of Directors granted the options subject to shareholder approval to provide the shareholders with additional input to the 2017 compensation of our directors and officers in light of the 2017 shareholder approval of the expansion of the number of shares of Common stock reserved under the 2013 Plan and the Acquisition. Future grants from the 2013 Plan, including those to officers and directors are not expected to be made subject to shareholder approval. Upon approval, the Conditional Options will be issued and will vest 25% on approval, 25% on September 1, 2018, 25% on September 1, 2019 and 25% September 1, 2020. The Conditional Options may not be exercised in whole or in part unless Solitario shareholders approve the grants at this Annual Meeting and the option grants will be void if Solitario shareholders do not approve the grants. As the Conditional Options were subject to shareholder approval, none of the Conditional Options were considered outstanding or exercisable as of December 31, 2017.

In the future, our officers and directors may receive additional equity- based awards pursuant to the 2013 Plan, which may take the form of stock options or the other forms of awards including restricted stock awards, restricted stock units or stock appreciation rights.

Allocation between the Key Elements of Compensation

The Compensation Committee has complete discretion in allocating total compensation between the key elements of compensation discussed above. Each of the individual components of compensation is evaluated by the Compensation Committee independently and each component is not evaluated based upon the other components. The Compensation Committee has not developed a set formula (such as fair value of equity compensation to equal 50% of base salary) to allocate the elements of compensation to each individual Named Executive Officer.

Employment Agreements

None of our Named Executive Officers have ongoing employment agreements other than individual Change in Control Severance Benefits Agreements, discussed under “Change in Control Agreements” below.

Change in Control Agreements

The Compensation Committee and Solitario consider it essential to the best interest of its shareholders to foster the continuous employment of key management personnel. In this regard, the Compensation Committee and Board recognize that, as is the case with many publicly held corporations and their subsidiaries, the possibility of a change in control may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders.

Accordingly, on March 14, 2007, the Compensation Committee approved separate Change in Control Severance Benefits Agreements (each a "**CIC**") for each of the persons serving as our Named Executive Officers, Mr. Herald, Mr. Maronick and Mr. Hunt. Each CIC provides for the payment of severance benefits if the employment of one of the Named Executive Officers is terminated during a period of three years following the last day of the month in which a Change in Control of Solitario (as defined in the CIC) occurs equal to 2.5 times the base salary of the Named Executive Officer. In addition, any unvested stock options held by the Named Executive Officer will vest upon the Change in Control. The CIC provides an additional gross up for any taxes due as a result of Excise Tax, as defined by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code").

Generally, the CIC defines a "Change in Control" as (i) a person acquiring more than 50% of the outstanding stock of the Company, (ii) the shareholders of the Company approving a merger or acquisition whereby more than 50% of the outstanding shares held prior to the vote will be held by a new person or corporation, (iii) the shareholders of the Company approving the sale or disposition of substantially all of the company's assets or (iv) the shareholders of the Company approving a plan of liquidation or dissolution of the Company.

Benefits are payable under each CIC after a Change in Control if the Named Executive Officer terminates his employment for "good reason," or is terminated by the Company, other than for "cause." "Good reason" is generally defined as a reduction in the compensation, or level of responsibility or forced relocation, among other things. "Cause" is generally defined in the CIC as the conviction of a felony, gross and willful failure to perform assigned duties, and dishonest conduct that is intentional and materially injurious to the Company.

Tax Implications of Executive Compensation

Under Section 162(m) of the Code, the Company generally receives a tax deduction for compensation on payments which total less than \$1,000,000 paid to our Named Executive Officers, unless that compensation is performance based. The total non-performance-based compensation for any of our Named Executive Officers did not exceed \$1,000,000 during 2017, nor do we anticipate it will exceed \$1,000,000 for the foreseeable future.

Stock Ownership Guidelines

Solitario has not established formal stock ownership guidelines for our Named Executive Officers. The Company's Insider Trading Policy prohibits the Named Executive Officers, as well as other insiders, who may have access to material inside information, from purchasing, selling, entering into short sale transactions, or engaging in hedging or offsetting transactions regarding Solitario's Common Stock during periods where such persons have access to material inside information.

Compensation Policies with Regard to Risk Management

The Board is responsible for the overall risk management of the Company. Solitario is subject to the inherent risks involved in the exploration and development of mineral properties and shareholders should carefully review Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2017. However, Solitario does not have any compensation plans or incentives for our Named Executive Officers or any employee for any risk-taking activity or risk management activities. Solitario does not engage in activities that have traditional incentives for financial risk-taking activities, such as buying or selling derivatives or other similar instruments, other than our limited use of derivatives to reduce our exposure to our holdings of Kinross Gold Corporation common stock and our holdings of Vendetta Mining Corp.

Role of the Chief Executive Officer in Compensation Decisions

The *CEO* annually reviews the performance of all other Named Executive Officers. The performance of the CEO is reviewed by the Chairman of the Compensation Committee. The conclusions and recommendations, which include salary, bonus and equity grants, if any, are presented to the Compensation Committee, which has absolute discretion in modifying or applying any of the recommendations for the Named Executive Officers. The Compensation Committee presents its conclusions and recommendations to the Board for their input and review.

Summary Compensation Table

The following table provides summary information regarding compensation earned by our Named Executive Officers for the fiscal years ended December 31, 2017 and 2016:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(4)	Non-equity incentive plan compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(3)	Total (\$)
Mr. Herald, CEO	2017	201,000	—	—	—	—	—	28,596	229,596
	2016	201,000	—	—	225,036	—	—	28,596	454,632
Mr. Maronick, CFO	2017	150,000	—	—	—	—	—	28,596	178,596
	2016	150,000	—	—	154,525	—	—	28,596	333,121
Mr. Hunt, COO	2017	170,000	—	—	—	—	—	28,596	198,962
	2016	163,000	—	—	165,026	—	—	27,212	355,238

(1) No bonus amount was earned during 2017 or 2016.

(2) The amount represents the grant date fair value of option awards granted during the year in accordance with FASB ASC No. 718. See Note 9, "Employee Stock Compensation Plans" to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion regarding assumptions used to calculate fair value.

(3) The 2016 options were granted from the 2013 Plan on July 28, 2016, had a five-year term and vested 25% on grant date and 25% on the next three anniversary dates. The assumptions used in determining our 2016 grant date fair value are based upon a Black-Scholes model using a five-year term, historical volatility of 63% and a risk-free interest rate of 0.9%.

(4) On August 24, 2016, holders of option awards from the 2013 Plan voluntarily cancelled awards for 1,699,000 options with an option price of \$.072 with an expiration date of July 27, 2021 to allow Solitario to have additional financial flexibility. No consideration was given or received by the holders of the options to cancel the awards.

(5) Included in the cancellation of those awards were all of the options granted during 2016 to the Named Executive Officers, including 450,000 options to Mr. Herald, 330,000 options to Mr. Hunt and 309,000 options to Mr. Maronick.

(6) Mr. Herald, Mr. Maronick and Mr. Hunt each received \$24,000 401(K) matches during 2017 and 2016. Mr. Herald and Mr. Maronick and Mr. Hunt each received \$4,200 for contributions to their health savings account and \$396 for group term life insurance during 2017 and 2016.

(7) As the Conditional Options were subject to shareholder approval at the 2018 Annual Meeting, they are not considered granted during 2017 or outstanding as of December 31, 2017. Mr. Herald, Mr. Maronick and Mr. Hunt have no outstanding options at December 31, 2017.

Option Exercises and Stock Vested

There were no exercises of stock options during the year ended December 31, 2017 or 2016 by our Named Executive Officers.

Outstanding Equity Award at Fiscal Year End

There are no outstanding equity awards at December 31, 2017 held by our Named Executive Officers. See Proposal 2, "Approval of Conditional Options," above.

Potential Payments Upon Termination or Change in Control

As noted under "Compensation Discussion and Analysis" in this Proxy Statement, the Company entered into certain change in control agreements on March 14, 2007 with the following Named Executive Officers. The terms of the CICs are more fully described under "Change in Control Agreements" in the "Compensation Discussion and Analysis" section above. The potential payments to each Named Executive Officer are described below in the event of an assumed change in control as defined in the applicable CIC as of December 31, 2017.

Name	Salary (1)	Stock option vesting (2)	Tax gross up (3)	Total
Christopher E. Herald, CEO	\$502,500	\$ —	\$ —	\$502,500
James R. Maronick, CFO	375,000	—	—	375,000
Walter H. Hunt, COO	407,500	—	—	407,500

(1) Two and one-half times base salary as of December 31, 2017. Paid as a lump sum payment.

None of our Named Executive Officers have any outstanding options or equity awards at December 31, 2017.

(2) Accordingly, there was no intrinsic value from the acceleration of any unvested options owned by the Named Executive Officer as of December 31, 2017.

The change in control provides for a gross-up for taxes in the event the combined salary and all other compensation, triggered by a change in control, results in Excise Tax, as defined by Section 4999 of the Code. The CIC provide for additional cash compensation to pay the Named Executive Officer for the Excise Tax, which is 20% of all compensation in excess of the base salary amount, when the total payments, including the fair value from acceleration of vesting for unvested options, under the CIC exceed three times base salary. We have estimated that no tax gross up would have been due or payable as of December 31, 2017 because the total compensation, including the fair value from the acceleration of any outstanding unvested options would not exceed three times the base salary.

PAY RATIO OF CHIEF EXECUTIVE OFFICER COMPENSATION TO MEDIAN EMPLOYEE COMPENSATION

Solitario has determined that the 2017 annual total compensation of the estimated median compensated employee who was employed as of October 3, 2017, excluding the CEO, Christopher E. Herald, was \$88,762. Mr. Herald's annual total compensation for 2017 was \$229,596. Mr. Herald's annual total compensation is 2.6 times (or a ratio of 2.6 to 1) that of the estimated median compensated Solitario employee. This pay ratio is a reasonable estimate calculated in accordance with SEC rules based on our payroll and employment records and the methodology described below.

As of October 3, 2017, Solitario had six total employees and no seasonal and temporary employees. We identified the median compensated employee, based upon the knowing the identity of each of our employees. The compensation has been defined as base salary excluding overtime and other incentives which provides a reasonable estimate of compensation received. Salaries are annualized for the employee starting employment in 2017. There were no part-time status employees during 2017. This is reported in United States currency based upon the location and pay of Solitario employees. No cost of living adjustment was applied.

Solitario's compensation practices and programs ensure compensation programs are fair, equitable, globally compliant and are aligned with Solitario's business objectives. The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, exclusions, and assumptions that reflect their compensation practices. As such, the pay ratio reported above may not be comparable to the pay ratio reported by other companies, even those in a related industry or of a similar size and scope. Other companies may have different employment practices, regional demographics or may utilize different methodologies and assumptions in calculating their pay ratios.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

To our knowledge, as of April 27, 2018, no person beneficially owns, directly or indirectly, or exercises control or direction over, more than five percent of our issued and outstanding Common Stock with the exception of Zebra Holdings and Investments, S.A.R.L., which directly owns 3,937,873 shares representing approximately 6.5 percent of our issued and outstanding Common Stock.

The following table sets forth, as of April 27, 2018, the beneficial ownership of our outstanding Common Stock by each of our shareholders owning more than five percent, our directors, each Named Executive Officer and all of our executive officers and directors as a group. Unless otherwise indicated, the persons listed in the table below have sole voting and investment powers with respect to the shares indicated. Except as indicated below the mailing address for each person is 4251 Kipling Street, Suite 390, Wheat Ridge, CO 80033.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership*(4)	Percent of Class*
Gil Atzmon, Director (1)	3,136,571	5.2 %
Christopher E. Herald, CEO and Director	1,550,000	2.6 %
Brian Labadie, Director	192,857	**
Joshua Crumb, Director (2)	142,880	**
Jim Hesketh, Director	—	**
John Labate, Director	—	**
Walter H. Hunt, COO	409,962	**
James R. Maronick, CFO	583,048	1.0 %
All directors and executive officers as a group	6,015,318	10.0%
Zebra Holdings and Investments, S.A.R.L (3) PO Box 6208, CH – 1211 Geneva	3,937,873	6.5 %

* Calculated in accordance with Rule 13d-3 under the Exchange Act and Item 403of Regulation S-K.

** Indicates holdings of less than 1%.

(1) The beneficial shares include 464,360 Replacement Options held by Mr. Atzmon exercisable within 60 days.

(2) The beneficial shares include 125,020 Replacement Options held by Mr. Crumb exercisable within 60 days.

(3) Shares issued in the Acquisition.

(4) Unless and until the shareholders approve the Conditional Options, such options are not deemed outstanding. No portion of the Conditional Options are included in any officer or director's beneficial ownership.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no material interests, direct or indirect, of current directors, executive officers, or any shareholder who beneficially owns, directly or indirectly, more than 10% of the outstanding shares of Solitario Common Stock, or any known associates or affiliates of such persons, in any transaction since the beginning of the Company's last fiscal year or in any proposed transaction which has materially affected or would materially affect the Company and in which the amount involved exceeded \$120,000.

Policy Regarding Related Party Transactions

The Board of Directors has adopted a written Related Party Transaction Policy. Pursuant to that policy, Solitario may enter into transactions with certain "related persons." Related persons include the Company's executive officers, directors, 5% or more beneficial owners of the Company's Common Stock, immediate family members of these persons and entities in which one of these persons has a direct or indirect material interest. These transactions are referred to as "related party transactions." All related party transactions are subject to the following related party transaction policy requirements:

the transaction must be approved by disinterested members of the Board;
the Audit Committee must approve or ratify such transaction and the terms of the transaction are comparable to that which could be attained in an arm's-length dealing with unrelated third parties; or
a transaction that involves compensation must be approved by the Compensation Committee.

Director Independence

Solitario's Board has determined Mr. Atzmon, Mr. Crumb, Mr. Hesketh, Mr. Labadie and Mr. Labate are independent members of the Board of Directors in accordance with Section 803(A) of the NYSE American Company Guide. Mr. Labate, Mr. Crumb and Mr. Hesketh are members of the Audit Committee.

Mr. Labadie, Mr. Labate and Mr. Hesketh are members of the Compensation Committee.

Mr. Atzmon, Mr. Labadie and Mr. Labate are members of the Nominating Committee.

INCORPORATION BY REFERENCE

The following information is incorporated by reference into this Proxy Statement from our Annual Report on Form 10-K for the year ended December 31, 2017: Our financial statements included in such Annual Report on Form 10-K. Upon the written or oral request of any stockholder entitled to vote at the Annual Meeting, we will provide, without charge, a copy of any document incorporated by reference into this Proxy Statement by first class mail or other equally prompt means. Shareholders may request copies of such documents may contact Solitario at mail at 4251 Kipling Street, Suite 390, Wheat Ridge, CO 80033 or by telephone (303) 534-1030.

The reports of the Compensation Committee and Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act or the Exchange Act, except to the extent we specifically incorporate this information by reference and shall not otherwise be deemed filed under the Securities Act or the Exchange Act.

PROPOSALS OF SHAREHOLDERS

Shareholder proposals intended to be included in Solitario's proxy statement for the 2019 Annual Meeting of Shareholders must be received by Solitario prior to February 7, 2019 in order for the proposal to be considered for inclusion in the proxy statement and form of proxy relating to the 2019 annual meeting. If the date of next year's annual meeting is changed by more than 30 days from June 19, 2019, the deadline will be a reasonable time before we print and mail our proxy materials. However, we are not required to include in our proxy statement and form of proxy for the 2019 annual meeting any stockholder proposal that does not meet all of the requirements for inclusion established by the SEC in effect at the time the proposal is received. Under Solitario's Bylaws, in order for any stockholder proposal that is not included in such proxy statement and form of proxy to be brought before the 2019 annual meeting, such proposal must be received by the Secretary of Solitario at our principal executive offices at 4251 Kipling Street, Suite 390, Wheat Ridge, CO 80033 not less than 60 days nor more than 90 days before the annual meeting; however, if less than 70 days' notice or public disclosure of the date of the 2019 meeting is given, the written notice must be delivered to the Corporate Secretary no later than the close of business on the 10th day after notice of the meeting was mailed or notice was publicly disclosed, whichever is earlier. The notice must contain certain information as to the proposal and the shareholder, including the share ownership of the shareholder and any financial interest in the proposal. If a timely proposal is received, the Board may exercise any discretionary authority granted by the proxies to be solicited on behalf of the Board in connection with such proposal at the 2018 annual meeting.

No shareholder proposals for the 2018 Annual Meeting had been received by Solitario prior to the date of this Proxy Statement.

OTHER BUSINESS

Solitario knows of no other business to be presented at the meeting. If any other business properly comes before the meeting, it is intended that the shares represented by proxies will be voted with respect thereto in accordance with the best judgment of the person named in the accompanying form of proxy.

DELIVERY OF DOCUMENTS TO SHAREHOLDERS SHARING AN ADDRESS

Only one Proxy Statement and Annual Report is being delivered to shareholders sharing an address unless we have received contrary instructions from one or more of the shareholders. Upon the written or oral request of a shareholder, we will deliver promptly a separate copy of the Proxy Statement and Annual Report to shareholders at a shared

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address to which a single copy was delivered. Shareholders desiring to receive a separate copy in the future may contact us by mail at 4251 Kipling Street, Suite 390, Wheat Ridge, CO 80033 or by telephone (303) 534-1030.

By Order of the Board of Directors

/s/James R. Maronick

Secretary

April 30, 2018

Wheat Ridge, Colorado

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Appendix A

(Form of Proxy Card)