

SVB FINANCIAL GROUP
Form 10-K
March 02, 2009
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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, 2008

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

http://www.svb.com

(Address of principal executive offices

(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 (§229.405 of this chapter) 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

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

Yes No

The aggregate market value of the voting and non-voting common equity securities held by non-affiliates of the registrant as of June 30, 2008, 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 \$1,551,661,376.

At January 31, 2009, 32,933,162 shares of the registrant's common stock (\$0.001 par value) were outstanding.

Documents Incorporated by Reference

Definitive proxy statement for the Company's 2009 Annual Meeting of Stockholders to be filed within 120 days
of the end of the fiscal year ended December 31, 2008

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 net interest income, noninterest income, earnings per share, noninterest expenses, including professional service, compliance, compensation and other costs, cash flows, balance sheet positions, capital expenditures, and capitalization or other financial items
- Descriptions of strategic initiatives, plans or objectives of our management for future operations, including pending acquisitions
- Forecasts of venture capital/private equity funding levels
- Forecasts of future interest rates, economic performance, and income on investments
- Forecasts of expected levels of provisions for loan losses, loan growth and client funds
- 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:

- Economic conditions and associated impact on us
- Extent to which our products and services will meet changing client needs
- Our ability to compete in various markets
- The suitability of our properties for the conduct of our business
- The payment of cash dividends on, or our repurchase of, our common stock
- The adequacy of reserves and appropriateness of methodology
- Sensitivity of our interest-earning assets and interest-bearing liabilities to interest rates, and the impact to earnings from a change in interest rates
- Realization, timing, valuation and performance of equity or other investments
- Our liquidity position
- Level of client investment fees
- Growth in loan and deposit balances
- Credit quality of our loan portfolio
- Levels and trends of nonperforming loans
- Capital and liquidity provided through retained earnings
- Activities for which capital will be used or required, and use of excess capital
- Financial impact of continued growth of our funds management business
- Expansion and growth of our noninterest income sources
- Profitability of our products and services
- Venture capital and private equity funding and investment levels
- Strategic initiatives
- Effect of application of certain accounting pronouncements
- Effect of lawsuits and claims
- Changes in, or adequacy of, our unrecognized tax benefit and any associated impact
- Adequacy of valuation allowance on deferred tax assets
- Incurrence of losses relating to credit card guarantees and any associated impact
- Cash requirements of unfunded commitments to certain investments
- Manner of satisfaction of stock option exercises

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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.

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 over 25 years, we have been dedicated to helping entrepreneurs succeed, especially in the technology, life science, venture capital/private equity and premium wine industries. We provide our clients with a diversity of products and services to support them throughout their life cycles of all sizes and stages.

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 subsidiaries and divisions.

As of December 31, 2008, we had total assets of \$10.02 billion, total loans, net of unearned income of \$5.51 billion, total deposits of \$7.47 billion and total stockholders' equity of \$988.8 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 three operating segments for which we report our financial information in this report: Commercial Banking, SVB Capital and Other Business Services. A discussion about our segment reporting, including financial information and results of operation for our operating segments, is set forth in Note 21 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.

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

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 products, cash management services, and global banking and trade products and services.

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Through lending products and services, the Bank extends loans and other credit facilities to commercial clients. These loans are 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 and cash management products and services provide commercial clients with short- and long-term cash management solutions. Deposit products include traditional deposit and checking accounts, certificates of deposit, money market accounts and sweep accounts. In connection with deposit services, the Bank 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 needs and risks through the purchase and sale of currencies, swaps and hedges 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 and its subsidiaries offer a variety of investment services and solutions to its clients that enable companies to effectively manage their assets. 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 and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). Additionally, 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 arm of SVB Financial Group, which focuses primarily on funds management. SVB Capital manages and sponsors venture capital and private equity funds on behalf of SVB Financial Group and other third party limited partners. The SVB Capital family of funds is comprised of funds 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-technology clients in their earliest stages, and Partners for Growth funds, which provide secured debt primarily to higher-risk, middle-market clients in their later stages. We manage funds which generate income for the Company primarily through management fees, carried interest arrangements and returns through our own investments in the funds. We sponsor debt funds in connection with our strategic or other partnering opportunities primarily for our core banking business. 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.

Other Business Services

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

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SVB Private Client Services

SVB Private Client Services is the private banking division of the Bank, which 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 mortgages, home equity lines of credit, restricted stock purchase loans, airplane loans, capital call lines of credit, and other secured and unsecured 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, and other personalized banking services.

SVB Global

SVB Global serves the needs of our non-U.S. clients with global banking products, including loans, deposits and global finance, in key foreign entrepreneurial markets, such as the United Kingdom, India, China and Israel. SVB Global includes our subsidiaries focused on our foreign activities, which support our clients and facilitate their activities in those markets.

SVB Analytics

SVB Analytics is our subsidiary that provides equity valuation and equity management services to private companies and venture capital firms. We offer equity management services, including capitalization data management, through eProsper, Inc., a company in which SVB Analytics holds a controlling ownership interest.

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 total revenue is comprised of our net interest income and noninterest income. Net interest income on a fully taxable equivalent basis and noninterest income for the year ended December 31, 2008 were \$374.3 million and \$156.1 million, respectively.

Net interest income is primarily income generated from interest rate differentials. The difference between the interest rates received on interest-earning assets, such as loans extended to clients and securities held in our investment portfolio, and the interest rates paid by us on interest-bearing liabilities, such as deposits and borrowings, accounts for the major portion of our earnings. Our deposits are largely obtained from commercial clients within our technology, life sciences and venture capital/private equity industry sectors. Deposits are also obtained from the premium wine industry commercial clients and individual clients served by our SVB Private Client Services group. We do not obtain deposits from conventional retail sources.

Noninterest income is primarily income generated from our fee-based services and returns on our investments. We market our full range of fee-based financial services to our commercial and venture capital/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.

We also seek to obtain returns by making investments. We manage and invest in venture capital/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. As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of equity warrants in certain client companies.

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Industry Niches

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

Technology and Life Sciences

We serve a variety of clients in the technology and life science industries. 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. 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. Very generally, we define our technology and life science clients as follows:

Our **emerging technology** clients are companies in the start-up or very early stage of their life cycles. These companies typically are privately-held and funded by friends and family, or seed or angel investors. They are primarily in the research and development stage and generally have nominal or no revenue. For example, an emerging technology hardware company may be comprised of its founders engaged in the initial development of its product, funded by modest capital raised from friends and family investors.

Our **early-stage** clients are companies in the early stage of their life cycles. These companies are privately-held and are generally dependent on initial rounds of venture capital financing for funding. They typically are primarily engaged in research and development, have brought relatively few products or services to market, and have little or no revenue. For example, an early-stage software company may be comprised of its founders and a limited number of employees engaged in the development and initial marketing of its product, funded by one or two rounds of venture capital financings.

Our **mid-stage** clients are companies in the intermediate stage of their life cycles. These companies tend to be privately-held, and many are dependent on venture capital for funding. They typically have brought some products or services to market, with modest or meaningful revenue. For example, a mid-stage software company may have had some success with licensing its initial products to its customers and is engaged in developing additional products to bring to market.

Our **late-stage** clients are companies in the more advanced stages of their life cycles, but generally have not yet fully matured. These companies may be privately or publicly held. They generally are in the advanced stage of their research and development, and may have brought solid product or service offering to market, with more meaningful or considerable revenue. For example, a late-stage semiconductor company may have a suite of semiconductor chip products on the market and be financially dependent on the sale of the products.

Our **corporate technology** clients are mature companies that tend to be more established. These companies tend to be publicly held or poised to become publicly held. They generally may have a more sophisticated product or service offering in the market, with significant revenue. For example, a corporate technology semiconductor company may be a publicly-traded company with a broad product offering and an established record of profitability.

Venture Capital/Private Equity

We provide financial services to clients in the venture capital/private equity community. Since our founding, we have cultivated strong relationships with the venture capital/private equity community, particularly with venture capital firms worldwide, many of which are also clients. We serve more than 550 venture capital firms worldwide, 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. Unless the context requires otherwise, when we refer to our private equity clients, we mean our clients in the venture capital and private equity community.

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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 high 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.

Employees

As of December 31, 2008, we employed 1,244 full-time equivalent employees.

Supervision and Regulation

Recent Developments

In response to the current economic downturn and financial industry instability, legislative and other governmental initiatives have been, and will likely continue to be, introduced and implemented, which could substantially intensify the regulation of the financial services industry (including a possible comprehensive overhaul of the financial institutions regulatory system). SVB Financial cannot predict whether or when potential legislation will be enacted, and if enacted, the effect that it, or any implemented regulations and supervisory policies, would have on our financial condition or results of operations. Moreover, especially in the current economic environment, bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement orders to other financial institutions requiring action to address credit quality, liquidity and risk management and capital adequacy, as well as other safety and soundness concerns. See *Risks Relating to Current Market Environment* in the *Risk Factors* section under Item 1A of Part I of this report.

Through its authority under the Emergency Economic Stabilization Act of 2008 (the *EESA*), the U.S. Treasury (*Treasury*) announced in October 2008 the TARP Capital Purchase Program (the *CPP*), a program designed to bolster eligible healthy institutions, like SVB Financial, by injecting capital into these institutions. We participated in the CPP in December 2008 so that we could continue to lend and support our current and prospective clients, especially during this unstable economic environment. Under the terms of our participation, we received \$235 million in exchange for the issuance of preferred stock and a warrant to purchase common stock, and became subject to various requirements, including certain restrictions on paying dividends on our common stock and repurchasing our equity securities, unless the U.S. Treasury has consented. Additionally, in order to participate in the CPP, we were required to adopt certain standards for executive compensation and corporate governance. These standards generally apply to the Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, and include: (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate;

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(3) limiting golden parachute payments to certain senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive. To date, SVB Financial has complied with these requirements, but the Secretary of the Treasury is empowered under EESA to adopt other standards, with which SVB Financial would be required to comply. Additionally, the bank regulatory agencies, Treasury and the Office of Special Inspector General, also created by the EESA, have issued guidance and requests to the financial institutions that participated in the CPP to document their plans and use of CPP funds and their plans for addressing the executive compensation requirements associated with the CPP. SVB Financial will respond to such requests accordingly.

In February 2009, the American Recovery and Reinvestment Act of 2009 (the *ARRA*) was enacted. Among other provisions, the *ARRA* amended the EESA and contains requirements imposed on financial institutions like us which have already participated in the CPP. These requirements expand the initial executive compensation restrictions under the CPP to include, among other things, application of the required clawback provision to our top 25 most highly compensated employees, prohibition of certain bonuses to our top five most highly compensated employees, expanded limitations on golden parachute payments to top ten most highly compensated employees, implementation of a company-wide policy regarding excessive and luxury expenditures, and requirement of a shareholder advisory vote on our executive compensation. Under the new *ARRA* requirements, we may early redeem the shares issued to the Treasury under the CPP without any early penalty or requirement to raise new capital, as previously required under the original terms of the CPP. However, until the shares are redeemed and for so long as we continue to participate in the CPP, we will remain subject to these expanded requirements, and any other requirements applicable to CPP participants that may be subsequently adopted.

The EESA also increased Federal Deposit Insurance Corporation (*FDIC*) deposit insurance on most accounts from \$100,000 to \$250,000. This increase is currently in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. The *FDIC* has recently proposed that Congress extend the \$250,000 limit to 2016. In addition, the *FDIC* has implemented two temporary programs under the Temporary Liquidity Guaranty Program (*TLGP*) to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. The Bank is participating in the deposit insurance program and has the ability to issue guaranteed debt under the program. The *FDIC* charges systemic risk special assessments to depository institutions that participate in the *TLGP*. The *FDIC* has recently proposed that Congress give the *FDIC* expanded authority to charge fees to the holding companies which benefit directly and indirectly from the *FDIC* guarantees. See *FDIC Deposit Insurance* below.

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 *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 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.

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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 and is qualified in its entirety by reference to the applicable laws and regulations. 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

Under the BHC Act, SVB Financial is subject to the Federal Reserve's regulations and its authority to:

- Require periodic reports and such additional information as the Federal Reserve may require;
- Require SVB Financial to maintain certain levels of capital (See *Regulatory Capital* below);
- Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of Federal Reserve regulations or both;
- Terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;
- Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem our securities in certain situations;
- Approve acquisitions and mergers with banks and consider certain competitive, management, financial and other factors in granting these approvals. Similar California and other state banking agency approvals may also be required.

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 incident thereto. SVB Financial may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be financial in nature or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval pursuant to our election to become a financial holding company in November, 2000. Pursuant to the Gramm-Leach-Bliley Act of 1999 (GLBA), in order to elect and 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, be in satisfactory compliance with the Community Reinvestment Act (CRA). Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company.

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.

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Securities Registration and Listing

SVB Financial's securities are registered with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act), and listed on the NASDAQ Global Select Market. As such, SVB Financial is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act, as well as the Marketplace Rules and other requirements promulgated by the Nasdaq Stock Market, Inc.

The Sarbanes-Oxley Act

SVB Financial is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, increased requirements for board audit committees and their members, and enhanced disclosure of controls and procedures and internal control over financial reporting.

Regulation of Silicon Valley Bank

The Bank is a California state-chartered bank and a member and stockholder of the Federal Reserve Bank of San Francisco (Federal Reserve). The Bank is subject to primary supervision, periodic examination and regulation by the DFI and the Federal Reserve, as the Bank's primary federal regulator. In general, under the California Financial Code, California banks have all the powers of a California corporation, subject to the general limitation of state bank powers under the Federal Deposit Insurance Act (FDIA) to those permissible for national banks. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. The regulatory structure also gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. If, as a result of an examination, the DFI or the Federal Reserve 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, the DFI and the Federal Reserve, and separately the FDIC as insurer of the Bank's deposits, have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of specific minimum capital ratios;
- Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions;
- Enter into informal or formal enforcement orders, including memoranda of understanding, written agreements and consent or cease and desist orders to take corrective action and enjoin unsafe and unsound practices;
- Remove officers and directors and assess civil monetary penalties; and
- Take possession of and close and liquidate the Bank.

California law permits state chartered commercial banks to engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries, and further, pursuant to GLBA, the Bank may conduct certain financial activities in a subsidiary to the same extent as may a national bank, provided the Bank is and remains well-capitalized, well-managed and in satisfactory compliance with the CRA. SVB Asset Management and SVB Securities are financial subsidiaries of the Bank.

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Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank (FHLB) of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region and makes available loans or advances to its members. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2008, the Bank was in compliance with the FHLB s stock ownership requirement and our investment in FHLB capital stock totaled \$25.8 million.

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 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. The capital received from the U.S. Treasury under the CPP qualifies as Tier 1 capital.

Tier 2 capital includes, among other things, hybrid capital instruments, perpetual debt, mandatory convertible debt securities, qualifying term 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 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, 2008, the respective capital ratios of SVB Financial and the Bank exceeded these minimum percentage requirements for well-capitalized institutions. See Note 20 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

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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.

Basel and Basel II Accords

The current risk-based capital guidelines which apply to SVB Financial and the Bank are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. A new international accord, referred to as Basel II, became mandatory for large or core international banks outside the U.S. in 2008 (total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more). Basel II emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. It is optional for other banks, and if adopted, must first be complied with in a parallel run for two years along with the existing Basel I standards. In January 2009, the Basel Committee proposed to reconsider regulatory-capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen the Basel II framework in response to recent worldwide developments.

In July 2008, the U.S. federal banking agencies issued a proposed rule for banking organizations that do not use the advanced approaches under Basel II. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where U.S. markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. A definitive final rule has not yet been issued. 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.

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

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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.

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.

Restrictions on Dividends

Dividends from the Bank constitute a primary source of cash 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. 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.

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Under the terms of the CPP, for so long as any preferred stock issued under the CPP remains outstanding, SVB Financial is restricted from paying cash dividends on our common stock, and from making certain repurchases of equity securities, including common stock, without the U.S. Treasury's consent until the third anniversary of the U.S. Treasury's investment in our preferred stock or until the U.S. Treasury has transferred all of the preferred stock it purchased under the CPP to third parties.

Transactions with Affiliates

Transactions between the Bank and its operating subsidiaries (such as SVB Securities 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

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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 GLBA.

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 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.

Premiums for Deposit Insurance

The FDIC insures our customer deposits through the Deposit Insurance Fund (the DIF) up to prescribed limits for each depositor. Pursuant to the EESA, the maximum deposit insurance amount has been increased from \$100,000 to \$250,000 through the end of 2009. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.5% of estimated insured deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. In an effort to restore capitalization levels and to ensure the DIF will adequately cover projected losses from future bank failures, the FDIC, in October 2008, proposed a rule to alter the way in which it differentiates for risk in the risk-based assessment system and to revise deposit insurance assessment rates, including base assessment rates. First quarter 2009 assessment rates were increased to between 12 and 50 cents for every \$100 of domestic deposits, with most banks between 12 and 14 cents. The FDIC finalized its proposed rule on risk-based assessments in February 2009 and increased second quarter 2009 assessment rates, with most banks between 12 and 16 cents. It also instituted a special assessment of 20 cents for every \$100 of domestic deposits to restore the DIF reserves, and reserved the right to charge an additional special assessment of up to 10 cents for every \$100 of domestic deposits, should DIF reserves continue to decline. As of December 31, 2008, the Bank's assessment rate was between 5 and 7 cents per \$100 in assessable deposits.

Beginning on November 13, 2008, banks participating in the TLGP become temporarily subject to systemic risk special assessments of 10 basis points for transaction account balances in excess of \$250,000 and assessments up to 100 basis points of the amount of TLGP debt issued. Further, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (FICO), an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO

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assessment rates, which are determined quarterly, averaged 0.0113% of insured deposits in fiscal 2008. These assessments will continue until the FICO bonds mature in 2017.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DFI.

USA PATRIOT Act of 2001

The USA PATRIOT Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws, including the Bank Secrecy Act. The Bank has adopted comprehensive policies and procedures to address the requirements of the USA PATRIOT Act. Material deficiencies in anti-money laundering compliance can result in public enforcement actions by the banking agencies, including the imposition of civil money penalties and supervisory restrictions on growth and expansion. Such enforcement actions could also have serious reputation consequences for SVB Financial and the Bank.

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.

Securities Activities

Federal Reserve's Regulation R implements exceptions provided in GLBA for securities activities which banks may conduct without registering with the SEC as securities broker or moving such activities to a broker-dealer affiliate. Regulation R provides exceptions for networking arrangements with third-party broker-dealers and authorizes compensation for bank employees who refer and assist retail and high net worth bank customers with their securities, including sweep accounts to money market funds, and with related trust, fiduciary, custodial and safekeeping needs. The current securities activities which the Bank and its subsidiaries provide customers are conducted in conformance with these rules and regulations.

Regulation of Certain Subsidiaries

SVB Asset Management