SVB FINANCIAL GROUP
Form 10-K
February 28, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

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	**91-1962278**
(State or other jurisdiction	(I.R.S. Employer

of incorporation or organization)	Identification No.)
3003 Tasman Drive, Santa Clara, California 95054-1191 (Address of principal executive offices including zip code)	**http://www.svb.com** (Registrant s URL)

Registrant s telephone number, including area code: **(480) 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 x 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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

The aggregate market value of the voting and non-voting common equity securities held by non-affiliates of the registrant as of June 30, 2011, 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 $2,575,663,039.

At January 31, 2012, 43,636,049 shares of the registrant s common stock ($0.001 par value) were outstanding.

Documents Incorporated by Reference	Parts of Form 10-K Into Which Incorporated
Definitive proxy statement for the Company s 2011 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year ended December 31, 2011	Part III

Table of Contents

TABLE OF CONTENTS

			Page
PART I	Item 1	Business	3
	Item 1A	Risk Factors	17
	Item 1B	Unresolved Staff Comments	28
	Item 2	Properties	28
	Item 3	Legal Proceedings	28
	Item 4	Mine Safety Disclosures	28
PART II	Item 5	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
	Item 6	Selected Consolidated Financial Data	31
	Item 7	Management s Discussion and Analysis of Financial Condition and Results of Operations	32
	Item 7A	Quantitative and Qualitative Disclosures about Market Risk	90
	Item 8	Consolidated Financial Statements and Supplementary Data	94
	Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	172
	Item 9A	Controls and Procedures	172
	Item 9B	Other Information	173
PART III	Item 10	Directors, Executive Officers and Corporate Governance	173
	Item 11	Executive Compensation	173
	Item 12	Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters	173
	Item 13	Certain Relationships and Related Transactions, and Director Independence	174
	Item 14	Principal Accounting Fees and Services	174
PART IV	Item 15	Exhibits and Financial Statement Schedules	175
SIGNATURES			176
Index to Exhibits			178

Table of Contents

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 services, compliance, compensation and other costs), cash flows, balance sheet positions, capital expenditures, liquidity and capitalization or other financial items
- Descriptions of our strategic initiatives, plans or objectives for future operations, including pending acquisitions
- Forecasts of venture capital/private equity funding and investment levels
- Forecasts of future interest rates, economic performance, and income from 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:

- Market and economic conditions (including interest rate environment, and levels of public offerings, mergers/acquisitions and venture capital financing activities) and the associated impact on us
- The sufficiency of our capital, including sources of capital (such as funds generated through retained earnings) and the extent to which capital may be used or required
- The adequacy of our liquidity position, including sources of liquidity (such as funds generated through retained earnings)
- Our overall investment plans, strategies and activities, including venture capital/private equity funding and investments, and our investment of excess cash/liquidity
- The realization, timing, valuation and performance of equity or other investments
- The likelihood that the market value of our impaired investments will recover
- Our intent to sell our investment securities prior to recovery of our cost basis, or the likelihood of such
- Expected cash requirements for unfunded commitments to certain investments, including capital calls
- Our overall management of interest rate risk, including managing the sensitivity of our interest-earning assets and interest-bearing liabilities to interest rates, and the impact to earnings from a change in interest rates
- The credit quality of our loan portfolio, including levels and trends of nonperforming loans, impaired loans, criticized loans and troubled debt restructurings
- The adequacy of reserves (including allowance for loan and lease losses) and the appropriateness of our methodology for calculating such reserves
- The level of loan and deposit balances
- The level of client investment fees and associated margins
- The profitability of our products and services
- Our market share growth strategy
- Our strategic initiatives, including the expansion of operations in China, India, Israel, the United Kingdom (U.K.) and elsewhere (such as establishing our joint venture bank in China and a branch in the U.K.)
- The expansion and growth of our noninterest income sources
- Distributions of venture capital, private equity or debt fund investment proceeds; intentions to sell such fund investments

- Condition of our properties
- The changes in, or adequacy of, our unrecognized tax benefits and any associated impact
- The impact from the IRS audit examination results
- The extent to which counterparties, including those to our forward and option contracts, will perform their contractual obligations
- The effect of application of certain accounting pronouncements
- The effect of lawsuits and claims
- Regulatory developments, including the nature and timing of the adoption and effectiveness of new requirements under the Dodd-Frank Act (as defined below), Basel guidelines, and other applicable laws and regulations

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. Al 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 on 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.

Table of Contents

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 to clients across the United States, as well as in key international entrepreneurial markets. For nearly 30 years, we have been dedicated to helping entrepreneurs succeed, primarily in the technology, life science, venture capital/private equity and premium wine industries. We provide our clients of all sizes and stages with a diverse set of products and services to support them throughout their life cycles.

We offer commercial and private banking products and services through our principal subsidiary, Silicon Valley Bank (the Bank), which is a California state-chartered bank founded in 1983 and is a member of the Federal Reserve System. Through its subsidiaries, the Bank also offers brokerage, investment advisory and asset management services. Through our other subsidiaries and divisions, we also offer non-banking products and services, such as funds management, venture capital/private equity investments, business valuation and equity management services. Additionally, we focus on cultivating strong relationships with firms within the venture capital and private equity community worldwide, many of which are also our clients and may invest in our corporate clients.

As of December 31, 2011, we had, on a consolidated basis, total assets of $20.0 billion, investment securities of $11.5 billion, total loans, net of unearned income, of $7.0 billion, total deposits of $16.7 billion and total SVB Financial Group (SVBFG) stockholders equity of $1.6 billion.

We operate through 26 offices in the United States, as well as offices 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, SVBFG, the Company, we, our, us or use similar words, we mean SVB Financial Group and all 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 financial information in this report: Global Commercial Bank, SVB Private Bank and SVB Capital.

Global Commercial Bank

Our Global Commercial Bank segment is comprised of results primarily from our Commercial Bank, and to a lesser extent, from SVB Specialty Lending, SVB Analytics and our Debt Fund Investments, each as further described below.

Commercial Bank. Our Commercial Bank products and services are provided by the Bank and its subsidiaries to commercial clients in the technology, venture capital/private equity, life science and cleantech industries. The Bank provides solutions to the financial needs of commercial clients through lending, deposit products, cash management services, global banking and trade products and services, and investment services. It also serves the needs of our non-U.S. clients with global banking products, including loans, deposits and global finance, in key international entrepreneurial markets, where applicable.

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, asset-based loans, revolving lines of credit, accounts-receivable-based lines of credits, capital call lines of credits and credit cards.

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 payment services to enable clients to transfer funds quickly. Additionally, the cash management services unit provides collection services, disbursement services, electronic funds transfers, and online banking.

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 loan and credit facilities guaranteed by the Export-Import Bank of the United States. The Bank 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 clients access to investments in third party money market mutual funds and fixed-income securities. 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 Specialty Lending. SVB Specialty Lending provides banking products and services to our premium wine industry clients, including vineyard development loans, as well as community development loans made as part of our responsibilities under the Community Reinvestment Act.

SVB Analytics. SVB Analytics provides equity valuation and equity management services to private companies and venture capital/private equity firms.

Debt Fund Investments. Debt Fund Investments include our investment in debt funds in which we are a strategic investor: (i) Gold Hill funds, which provide secured debt to private companies of all stages, and (ii) Partners for Growth funds, which provide secured debt primarily to mid-stage and late-stage clients.

SVB Private Bank

SVB Private Bank is the private banking division of the Bank, which provides a range of personal financial solutions primarily to venture capital/private equity professionals. We offer a customized suite of private banking services, including mortgages, home equity lines of credit, restricted stock purchase loans, capital call lines of credit, and other secured and unsecured lending. We also help our private banking clients meet their cash management needs by providing deposit account products and services, including checking, money market, certificates of deposit accounts, online banking, credit cards and other personalized banking services.

SVB Capital

SVB Capital is the venture capital investment arm of SVB Financial Group, which focuses primarily on funds management. SVB Capital manages approximately $1.4 billion of funds, largely venture capital funds, primarily on behalf of third party limited partner investors, as well as SVB Financial Group. The SVB Capital family of funds is comprised of funds of funds and direct venture funds (or co-investment funds). SVB Capital generates income for the Company primarily through management fees, carried interest arrangements and returns through the

Company s investments in the funds. Most of the funds managed by SVB Capital are consolidated into our financial statements. See Note 2 Summary of Significant Accounting Policies Principles of Consolidation and Presentation of the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report.

For more information about our three operating segments, including financial information and results of operations, see Management s Discussion and Analysis of Financial Condition and Results of Operations Operating Segment Results under Part II, Item 7 in this report, and Note 20 Segment Reporting of the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report.

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, 2011 were $528.2 million and $382.3 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 available-for-sale securities 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 science, venture capital and private equity industry sectors. Deposits are also obtained from the premium wine industry commercial clients and from our Private Bank clients. 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 offer a wide range of fee-based financial services to our clients, including global commercial banking, private banking and other business services. Our ability to integrate and cross-sell our diverse financial services to our clients is a strength of our business model. Additionally, we seek to obtain returns by making investments. We manage and invest in venture capital/private equity funds that invest directly in privately-held companies, as well as funds that invest in other venture capital/private equity funds. We also invest directly in privately-held companies. Additionally, we recognize gains from warrants to acquire stock in client companies, which we obtain in connection with negotiating credit facilities and certain other services.

We derive substantially all of our income from U.S. clients. We derived less than 5 percent of our total revenues from foreign clients for each of 2011, 2010 and 2009.

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 the emerging, start-up stage.

Technology and Life Sciences

We serve a variety of clients in the technology and life science industries. Our technology clients tend to be in the industries of hardware (semiconductors, communications and electronics), software, cleantech (energy generation, storage and efficiency) and related services. Our life science clients 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. We serve these clients primarily through three practices:

Our **SVB Accelerator** practice focuses on serving our emerging or early stage clients. These clients are generally in the start-up or early stages of their life cycles. They are typically privately-held and funded by friends and family, seed or angel investors, or have gone through an initial round of venture capital financing. Typically, they are primarily engaged in research and development, have little or no revenue and may have only brought a few products or services to market. SVB Accelerator practice clients tend to have annual revenues below $5 million.

Table of Contents

Our **SVB Growth** practice serves our mid-stage, late-stage and corporate technology clients. These clients are in the intermediate or later stages of their life cycles and are generally privately-held, and many are dependent on venture capital for funding. Some of our corporate technology clients that are in the more advanced stages of their life cycles may be publicly held or poised to become publicly held. Our SVB Growth clients generally have a solid or more established product or service offering in the market, with more meaningful or considerable revenue. They also may be expanding globally. SVB Growth practice clients tend to have annual revenues between $5 million and $75 million.

Our **SVB Corporate Finance** practice serves primarily our large corporate clients, which are more mature and established companies. These clients are generally publicly-held, have a more sophisticated product or service offering in the market, and significant revenue. They also may be expanding globally. SVB Corporate Finance practice clients tend to have annual revenues over $75 million.

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 within the venture capital/private equity community, particularly with venture capital firms worldwide, many of which are also clients. We serve in the United States and worldwide more than 600 venture capital firms and more than 150 private equity firms, facilitating deal flow to and from these firms. We may also, through SVB Financial or SVB Capital funds, participate in direct investments in their portfolio companies.

Premium Wine

We are one of the leading providers of financial services to premium wine producers across the Western United States, primarily in California s Napa Valley, Sonoma County and Central Coast regions, and the Pacific Northwest, with approximately 300 winery and vineyard clients. We focus on vineyards and wineries that produce grapes and premium wines.

Competition

The banking and financial services industry is highly competitive, and continues to evolve 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 intermediaries that offer lending, leasing, payments, investment, advisory and other financial products and services to our target client base. The principal competitive factors in our markets include product offerings, service, and pricing. Given our established market position within 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, 2011, we employed 1,526 full-time equivalent employees.

Supervision and Regulation

Our bank and bank 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 (DIF), as well as the stability of the U.S. banking system. This regulation is not intended for the benefit of security holders. As a bank holding company and a financial holding company, SVB Financial is subject to primary inspection, supervision, regulation, and examination by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 (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

6

Table of Contents

by the Federal Reserve Board, as well as the California Department of Financial Institutions (DFI). In addition, the Bank s deposits are insured by the Federal Deposit Insurance Corporation. SVB Financial s other nonbank subsidiaries are subject to regulation by the Federal Reserve Board and other applicable federal and state regulatory agencies, including the U.S. Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). Current and future legal and regulatory requirements, restrictions and regulations, including, but not limited to, those imposed under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), may have a material and adverse effect on our business, financial condition, and results of operations and may make it more difficult for us to attract and retain qualified executive officers and employees.

In addition, we are subject to foreign regulatory agencies in international jurisdictions, where we may conduct business, including the U.K., Israel, India and China. (See International Regulation below.)

The following discussion of statutes and regulations is a summary and does not purport to be complete. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion.

The Dodd-Frank Wall Street Reform and Consumer Protection Act General

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. Government actions in recent years have resulted in the imposition of additional regulatory requirements, including expansive financial services regulatory reform legislation. The Dodd-Frank Act was enacted in July 2010, and imposed requirements including, among others: (i) heightened regulation and supervision of bank holding companies and their subsidiaries, including increased capital requirements, mandatory internal stress tests, changes in assessment fees and deposit insurance coverage, and enhanced limitations on transactions with affiliates; (ii) the Volcker Rule, which, among other things, and subject to certain exceptions and a transition period, restricts any banking entity from engaging in proprietary trading or sponsoring or investing in a hedge fund or private equity fund; (iii) corporate governance and executive compensation requirements; (iv) strengthened financial consumer regulation, including the establishment of the Bureau of Consumer Financial Protection, new debit card interchange fee requirements and mortgage reforms; (v) a new derivatives regulatory regime, which, among other things, will impose mandatory clearing, exchange-trading and margin requirements on many derivatives transactions; and (vi) a new systemic regulation regime through the establishment of the Financial Stability Oversight Council and the Office of Financial Research, which could result in heightened prudential standards on activities deemed systemically risky and additional reporting requirements. Certain provisions became effective immediately, while some are the subject of proposed regulations which have not yet become effective, and other provisions of the Dodd-Frank Act are subject to further substantive rulemaking and/or studies. Regulatory agencies are in various stages of the rulemaking process, but the volume and complexity of the regulations expected to be developed may lead to an extended period of time before final regulations are effective. As such, we cannot fully assess the full impact of the Dodd-Frank Act until final rules are issued, which will occur over an uncertain period of time, expected to last for many months, if not years. Following the issuance of final regulations, some provisions of the Dodd-Frank Act will be implemented over an additional extended period, potentially lasting as long as ten years from adoption.

Regulation of Holding Company

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

- Require periodic reports and such additional information as the Federal Reserve may require in its discretion;
- Require the maintenance of certain levels of capital;

- Restrict the ability of bank holding companies to service debt or to receive dividends or other distributions from their subsidiary banks;
- Require prior approval for senior executive officer and director changes under certain circumstances;
- 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 under current law, and will be a statutory violation under the Dodd-Frank Act, as described below;
- 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 serious 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; and
- Approve acquisitions and mergers with banks and consider certain competitive, management, financial, financial stability and other factors in granting these approvals. Similar California and other state banking agency approvals may also be required.

The Dodd-Frank Act codifies bank holding companies obligations to serve as a source of financial strength to any bank subsidiary. In that regard, bank holding companies, such as SVB Financial, must have the ability to provide financial assistance to the Bank in the event of financial distress.

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. As a financial holding company, SVB Financial may engage in these nonbanking activities and certain other 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, subject to the requirement imposed by the Dodd-Frank Act that SVB Financial will be required to obtain prior Federal Reserve approval in order to acquire a nonbanking company with more than $10 billion in consolidated assets.

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, in satisfactory compliance with the Community Reinvestment Act (CRA). In addition, pursuant to the Dodd-Frank Act, a financial holding company will also be required to be well capitalized and well managed. 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.

Because we are a holding company, our rights and the rights of our creditors and security holders to participate in the assets of any of our subsidiaries upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors, except to the extent we may ourselves be a creditor with recognized claims against the subsidiary. In addition, there are various statutory and regulatory limitations on the extent to which the Bank can finance or otherwise transfer funds to us or to our non-bank subsidiaries, including certain investment funds to which the Bank serves as an investment adviser, whether in the form of loans or other extensions of credit, including a purchase of assets subject to an agreement to repurchase,

Table of Contents

securities investments, the borrowing or lending of securities to the extent that the transaction causes the Bank or a subsidiary to have credit exposure to the affiliate, or certain other specified types of transactions, as discussed in further detail below. Furthermore, loans and other extensions of credit by the Bank to us or any of our non-bank subsidiaries are required to be secured by specified amounts of collateral and are required to be on terms and conditions consistent with safe and sound banking practices.

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 California DFI.

Securities Registration and Listing

SVB Financial s securities are registered under the SEC s 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 requirements relating to disclosure 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. 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 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 Federal Deposit Insurance Corporation (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;
- Require prior approval for senior executive officer and director changes;
- Direct an increase in capital and the maintenance of specific minimum capital ratios which may preclude the Bank from being deemed well capitalized for regulatory purposes;
- 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;
- Restrict or prohibit the Bank from paying dividends or making other distributions to SVB Financial;
- Remove officers and directors and assess civil monetary penalties; and
- Take possession of and close and liquidate the Bank.

Table of Contents

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, 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.

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, 2011, the Bank was in compliance with the FHLB s stock ownership requirement and our investment in FHLB capital stock totaled $25.0 million.

Regulatory Capital

The federal banking agencies have adopted guidelines that govern risk-based capital and allowable leverage capital levels 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 current capital guidelines, banking organizations are required to maintain certain minimum risk-based capital ratios, which are calculated by dividing a banking organization s qualifying capital by its risk-weighted assets (including both on- and off-balance sheet assets). Risk-weighted assets are calculated by assigning assets and off-balance sheet items to broad risk categories. Qualifying capital is classified depending on the type of capital. For SVB Financial:

- Tier 1 capital consists of common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock issued prior to May 19, 2010 and noncontrolling interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. As discussed further below, qualifying Tier 1 capital may consist of trust-preferred securities issued prior to May 19, 2010, 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, qualifying term subordinated debt, preferred stock that does not qualify as Tier 1 capital, and a limited amount of allowance for loan and lease losses.

With certain qualifications, the Dodd-Frank Act excludes trust preferred securities issued on or after May 19, 2010 from Tier 1 capital. For depository institution holding companies with total consolidated assets of more than $15 billion at December 31, 2009, trust preferred securities issued before May 19, 2010 will be phased-out of Tier 1 capital over a three-year period. Because SVB Financial s total assets were less than $15 billion as of December 31, 2009, trust preferred securities issued prior to May 19, 2010 (our 7.0% Junior Subordinated debentures) will continue to qualify as Tier 1 capital, subject to any overall regulatory determination to disqualify such securities from Tier 1 capital treatment.

As a bank holding company, SVB Financial is subject to three capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be classified as adequately capitalized , 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, 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 current Tier 1 leverage requirement for a holding company to be deemed well-capitalized . As of December 31, 2011, both SVB Financial and the Bank were considered well-capitalized for regulatory purposes.

The federal banking agencies may change existing capital guidelines or adopt new capital guidelines in the future pursuant to the Dodd-Frank Act, the implementation of Basel III (described below) or other regulatory or supervisory changes. For instance, the Dodd-Frank Act further requires the federal banking agencies to adopt capital requirements which address the risks that the activities of an institution poses to the institution and the public and private stakeholders, including risks arising from certain enumerated activities. Notwithstanding these capital ratio requirements, pursuant to federal regulatory guidance, banking organizations are expected to operate with capital positions well above the minimum or well-capitalized ratios, with the amount of capital held commensurate with its risk exposure.

SVB Financial is also currently 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.

Banking organizations must have appropriate capital planning processes, with proper oversight from the Board of Directors. Accordingly, pursuant to a separate supervisory letter from the Federal Reserve, bank holding companies are expected to conduct and document comprehensive capital adequacy analyses prior to the declaration of any dividends (on common stock, preferred stock, trust preferred securities or other Tier 1 capital instruments), capital redemptions or capital repurchases. Moreover, the federal banking agencies have 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.

In addition, the Dodd-Frank Act requires institutions of our size to conduct annual stress tests.

Proprietary Trading and Certain Relationships with Hedge Funds and Private Equity Funds

The Volcker Rule under the Dodd-Frank Act includes certain prohibitions on banks proprietary trading activities and banks ability to sponsor or invest in hedge or private equity funds. Proposed implementing regulations for the Volcker Rule have been issued, and certain final regulations are expected to become effective in July 2012. In a separate rulemaking process, regulators issued a final rule setting forth the schedule for affected entities to bring their activities and investments into conformance with the prohibitions and restrictions of the Volcker Rule. Pursuant to that conformance period rulemaking, banking entities generally have two years from the effective date of the Volcker Rule to bring their activities into compliance with the Volcker Rule. The conformance period applicable to investment in or sponsorship of covered funds may be extended, and in the case of certain illiquid funds, may extend to as long as ten years from the effective date of the Volcker Rule.

Subject to certain exceptions, the Volcker Rule prohibits a banking entity from engaging in proprietary trading, which is defined as engaging as principal for the trading account of the banking entity in securities or

other instruments. Certain forms of proprietary trading may qualify as permitted activities, and thus not be subject to the ban on proprietary trading, such as trading in U.S. government or agency obligations, or certain other U.S. state or municipal obligations, and the obligations of Fannie Mae, Freddie Mac or Ginnie Mae. Based on this definition and the exceptions provided under the currently proposed regulations, we do not believe that we engage in any proprietary trading that would be prohibited under the Volcker Rule.

Additionally, subject to certain exceptions, the rule prohibits a banking entity from sponsoring or investing in a hedge fund or private equity fund. While a banking entity may organize and offer a hedge fund or private equity fund if certain conditions are met, it may not sponsor a covered fund, nor may it acquire or retain an equity partnership or other ownership interest in a fund except for certain limited investments. The Volcker Rule also imposes certain investment limits on banking entities. When effective, the Volcker Rule is expected to limit covered banking entities to a *de minimis* investment in a hedge fund or private equity fund. Such a *de minimis* investment will be defined by the rules to be immaterial to the banking entity but in no case may the aggregate investments of a banking entity in hedge funds and private equity funds comprise more than three percent of the institution s Tier 1 capital. During the transition period, Federal banking regulators may impose additional capital requirements and other restrictions on any equity, partnership, or ownership interest in or sponsorship of a hedge fund or private equity fund by a banking entity.

Based on the regulations as currently proposed, the Volcker Rule prohibitions would apply to a banking entity such as SVB Financial, the Bank or any affiliate of SVB Financial or the Bank (including SVB Capital and our strategic fund investments), unless an exception applies. Based on the proposed rules, SVB Financial maintains investments in certain venture capital and private equity funds that may exceed three percent of its Tier 1 capital and/or may be determined to be material. In the absence of a change to the current Volcker Rule proposal, SVB Financial (including its affiliate SVB Capital) may be required to reduce the level of its investments in covered funds, would be prohibited from serving as the sponsor of funds and would be required to forego investment opportunities in certain funds in the future. SVB Financial would be obligated to come into conformance with all these requirements in a period of time to be determined by regulators but not to exceed ten years from the effective date of the Dodd-Frank Act.

Basel, Basel II and Basel III Accords

The current risk-based capital guidelines that 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, as implemented by the Federal Reserve. In 2008, the Federal Reserve began to phase-in capital standards based on a second capital accord, referred to as Basel II, for large or core international banks (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.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as the Basel Capital Adequacy Accords or Basel III. Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7.0%. Basel III increases (a) the minimum Tier 1 capital ratio to 8.5% inclusive of the capital conservation buffer, (b) increases the minimum total capital ratio to 10.5% inclusive of the capital buffer and (c) introduces a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3.0%, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards are expected to be phased in over a multi-year period. The final package of Basel III reforms was endorsed at the Seoul G20 Leaders Summit in November 2010, and is subject to individual adoption by member nations, including the United States.

Table of Contents

On December 20, 2011, the Federal Reserve issued proposed regulations requiring bank holding companies with assets in excess of $50 billion to meet certain capital and liquidity requirements. Under the proposed regulations, subject institutions would be subject to the Federal Reserve Board s capital plan rule, which was issued in November 2011. That rule requires firms to develop annual capital plans, conduct stress tests, and maintain adequate capital, including a tier one common risk-based capital ratio greater than 5 percent, under both expected and stressed conditions. In the second phase, the Federal Reserve Board would issue a proposal to implement a risk-based capital surcharge based on the framework and methodology developed by the Basel Committee. Although SVB Financial and the Bank are currently not large enough to be subject to the terms of such proposed regulations, we believe the Federal Reserve will likely implement changes to the capital adequacy standards applicable to SVB Financial and the Bank in light of Basel III and the overall regulatory environment which could increase the capital requirements of financial institutions generally, including SVB Financial and the Bank.

Prompt Corrective Action and Other General Enforcement Authority

State and 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. 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. 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.

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.

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.

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.

Table of Contents

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, including applicable provisions of the California Financial Code and the prompt corrective action regulations. 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.

Transactions with Affiliates

Transactions between the Bank and its operating subsidiaries (such as SVB Securities and SVB Asset Management) on the one hand, and the Bank s affiliates (such as SVB Financial, SVB Analytics, or an entity affiliated with SVB Capital) on the other, 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. The Dodd-Frank Act further extended the definition of an affiliate to include any investment fund to which the Bank or an affiliate serves as an investment adviser. More specifically, these restrictions, contained in the Federal Reserve s 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, including a purchase of assets subject to an agreement to repurchase; a purchase of or investment in securities issued by an affiliate; the acceptance of a security issued by an affiliate as collateral for an extension of credit to any borrower; the borrowing or lending of securities where the Bank has credit exposure to the affiliate; the acceptance of other debt obligations of an affiliate as collateral for a loan to a third party; any derivative transaction that causes the Bank to have credit exposure to an affiliate; and the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. After a transition period, the Dodd-Frank Act treats credit exposure from derivative transactions as a covered transaction. It expands the transactions for which collateral is required to be maintained, and for all such transactions, it requires collateral to be maintained at all times.

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.

Table of Contents

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 the Federal Reserve s Regulation O. For purposes of these limits, insiders include directors, executive officers and principal stockholders 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 stockholder 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 credit to insiders in an amount, when aggregated with all other extensions of credit, is greater than $500,000 without prior approval from the Bank s Board of Directors approval (with any interested person abstaining from participating directly or indirectly in the voting). California law, the federal regulations and the Dodd-Frank Act 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 DIF up to prescribed limits for each depositor. In recent years, due to higher levels of bank failures, the FDIC s resolution costs increased, which depleted the DIF. In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured institutions and may continue to do so in the future. In 2009, the FDIC also adopted a requirement of institutions to prepay their assessment fees through 2012. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. Any changes in FDIC insurance premiums may have a material affect on our results of operations.

All FDIC-insured institutions are also 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. These assessments will continue until the FICO bonds mature in 2017 through 2019.

During 2010, the Bank s FDIC and FICO assessment rates were based on its domestic deposits. Effective as of April 1, 2011, however, under final rules adopted by the FDIC and as mandated under the Dodd-Frank Act, FDIC and FICO assessment rates will be based on the average total consolidated assets minus the average consolidated tangible equity during the assessment period. The reduction in current assessment rates reflects this change from an assessment base computed on deposits to an assessment base computed on assets.

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 Company 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 CRA, 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 and orders to halt expansion/existing activities. 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.

The Dodd-Frank Act has established a new Bureau of Consumer Financial Protection (the Bureau) within the Federal Reserve, with broad powers to regulate consumer financial services. The Bureau has extensive authority to prescribe rules under any consumer financial protection law and has supervisory and enforcement authority with respect to Federal consumer financial laws. Under the Dodd-Frank Act, the Bureau has the authority to prescribe rules that address unfair, deceptive or abusive acts in connection with the provision of consumer financial products and services and to ensure that consumers are provided with full, accurate and effective disclosure to make responsible decisions about financial transactions. The Bureau has the authority to bring enforcement actions and to commence civil litigation actions or seek civil monetary or equitable relief in connection with violations of consumer finance law.

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. The advent of the Bureau will further heighten oversight and review of compliance with consumer protection laws and regulations. Due to these heightened regulatory concerns and new powers and authority of the Bureau, the Bank and its affiliates may incur additional compliance costs or be required to expend additional funds for investments in their local community.

Securities Activities

Federal Reserve s Regulation R implements exceptions provided in the 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 institutional 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 is registered with the SEC under the Investment Advisers Act of 1940, as amended, and is subject to its rules and regulations. SVB Securities is registered as a broker-dealer with the SEC and is subject to regulation by the SEC and FINRA. SVB Securities is also a member of the Securities Investor Protection Corporation. As a broker-dealer, it is 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, SVB Securities is required to maintain the minimum net capital deemed necessary to meet its continuing commitments to customers and others. Under certain circumstances, this rule could limit the ability of the Bank to withdraw capital from SVB Securities. The Dodd-Frank Act includes a number of investor related initiatives, including the creation of a new Investor Advisory Committee and Investor Advocate to advise and consult with the SEC on investor issues. In addition, the Dodd-Frank Act requires the SEC to conduct a study to examine the efficacy of the existing system of legal or regulatory standards of care for brokers, dealers, investment advisors and persons associated therewith and whether gaps, shortcomings or overlaps exist in the protection of retail/individual investors. The SEC is also required to study whether enhanced examination and enforcement resources are needed for investment advisers and whether investment advisers should be under self-regulatory organization oversight.

International Regulation

Our international-based subsidiaries and global activities, including our plans to establish a banking branch in the United Kingdom, a joint venture bank in China and our non-bank financial company in India, are subject

to the respective laws and regulations of those countries. This includes those promulgated by the Financial Services Authority in the United Kingdom, the China Banking Regulatory Commission 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.

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 be materially and adversely affected.

Credit Risks

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 and/or increase net losses in that period.

Our loan portfolio has a credit profile different from that of most other banking companies. The credit profile of our clients varies across our loan portfolio, based on the nature of the lending we do for different market segments. In our portfolios for emerging, early-stage and mid-stage companies, many of our loans are made to companies with modest or negative cash flows and no established record of profitable operations. Repayment of these loans may be dependent upon receipt by borrowers of additional equity financing from venture capitalists or others, or in some cases, a successful sale to a third party, public offering or other form of liquidity event. Over the past few years, due to the overall weakening of the economic environment, venture capital financing activity, as well as mergers and acquisitions (M&A) and initial public offerings (IPOs) activities on which venture capital firms rely to exit investments to realize returns, slowed in a meaningful manner. While there has been some improvement in overall economic conditions since 2008, particularly during 2010 and 2011, if economic conditions worsen or do not continue to improve, such activities may slow down even further, which may impact the financial health of our client companies. Venture capital firms may continue to provide financing in a more selective manner, at lower levels, and/or on less favorable terms, any of which may have an adverse effect on our borrowers that are otherwise dependent on such financing to repay their loans to us. Moreover, 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 the technology and life science industry sectors, a borrower s financial position can deteriorate rapidly.

In our portfolios of corporate technology and other large corporate clients, some of our loans may be made to companies with greater levels of debt relative to their equity. We have been increasing our efforts to lend to larger clients, as well as to make larger loans. These larger loans include loans equal to or greater than $20 million to a single client, which has over time represented an increasingly larger proportion of our total loan portfolio. Moreover, we have increased the average size of our overall loans. Increasing our loan commitments, especially larger loans, could increase the impact on us of any single borrower default.

Table of Contents

We may also enter into financing arrangements with our clients, the repayment of which may be dependent on third parties financial condition or ability to meet their payment obligations. For example, we enter into factoring arrangements which are secured by our clients accounts receivable from third parties with whom they do business. Or, we make loans secured by letters of credit issued by other third party banks, or we enter into letters of credit discounting arrangements, the repayment of which may be dependent on the reimbursement by third party banks. These third parties may not meet their financial obligations to our clients or to us, which could have an adverse impact on us.

In our portfolio of venture capital and private equity firm clients, many of our clients have lines of credit, the repayment of which is dependent on the payment of capital calls or management fees by the underlying limited partner investors in the funds managed by these firms. These limited partner investors may face liquidity issues or have difficulties meeting their financial commitments, especially during unstable economic times, which may lead to our clients inability to meet their repayment obligations to us.

We also lend primarily to venture capital/private equity professionals through our Private Bank. These individual clients may face difficulties meeting their financial commitments, especially during a challenging economic environment, and may be unable to repay their loans. We also lend to premium wineries and vineyards through our SVB Wine group. Repayment of loans made to these clients may be dependent on overall grape supply (which may be adversely affected by poor weather or other natural conditions) and overall wine demand and sales, or other sources of financing or income (which may be adversely affected by a challenging economic environment).

See Loans under Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Financial Condition under Item 7 of Part II of this report.

Based on the credit profile of our overall loan portfolio, our level of nonperforming loans, loan charge-offs and allowance for loan losses can be volatile and can vary materially from period to period. Increases in our level of nonperforming loans or loan charge-offs 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 or loan charge-offs may also have an adverse effect on our capital ratios, credit ratings and market perceptions of us.

Our allowance for loan losses is determined based upon both objective and subjective factors, and may not be adequate to absorb loan losses.

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, results of operations and financial condition. We reserve for such losses by establishing an allowance for loan losses, the increase of which results in a charge to our earnings as a provision for loan losses. 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 also dependent on our subjective assessment based upon our experience and judgment. Actual losses are difficult to forecast, especially if such losses stem from factors beyond our historical experience or are otherwise inconsistent or out of pattern with regards to our credit quality assessments. 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, financial condition and results of operations.

The borrowing needs of our clients may be unpredictable, especially during a challenging economic environment. We may not be able to meet our unfunded credit commitments, or adequately reserve for losses associated with our unfunded credit commitments, which could have a material effect on our business, financial condition, results of operations and reputation.

A commitment to extend credit is a formal agreement to lend funds to a client as long as there is no violation of any condition established under the agreement. The actual borrowing needs of our clients under

these credit commitments have historically been lower than the contractual amount of the commitments. A significant portion of these commitments expire without being drawn upon. Because of the credit profile of our clients, we typically have a substantial amount of total unfunded credit commitments, which is reflected off our balance sheet. Actual borrowing needs of our clients may exceed our expected funding requirements, especially during a challenging economic environment when our client companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, the increasing costs of credit, or the limited availability of financings from more discerning and selective venture capital/private equity firms. In addition, limited partner investors of our venture capital/private equity fund clients may fail to meet their underlying investment commitments due to liquidity or other financing issues, which may impact our clients borrowing needs. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our clients may have a material adverse effect on our business, financial condition, results of operations and reputation.

Additionally, we establish a reserve for losses associated with our unfunded credit commitments. The level of the reserve for unfunded credit commitments is determined by following a methodology similar to that used to establish our allowance for loan losses in our funded loan portfolio. The reserve is based on credit commitments outstanding, credit quality of the loan commitments, and management s estimates and judgment, and is susceptible to significant changes. There can be no assurance that our reserve for unfunded credit commitments will be adequate to provide for actual losses associated with our unfunded credit commitments. An increase in the reserve for unfunded credit commitments in any period may result in a charge to our earnings, which could reduce our net income or increase net losses in that period.

Market/Liquidity Risks

Our current level of interest rate spread may decline in the future. Any material reduction in our interest rate spread, or a sustained period of low market interest rates, could have a material effect on our business, results of operations or 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 are increasingly offering more interest-bearing deposit products, a majority of our deposit balances are from our noninterest bearing products. Our interest-earning assets include outstanding loans extended to our clients and securities held in our investment portfolio. Overall, the interest rates we pay on our interest-bearing liabilities and receive on our interest-earning assets, and our level of interest rate spread, could be affected by a variety of factors, including changes in market interest rates, competition, regulatory requirements (such as the repeal of the interest payment restrictions under Regulation Q), and a change over time in the mix of the types of loans, investment securities, deposits and other liabilities on our balance sheet.

Changes in market interest rates, such as the Federal Funds rate, generally impact our interest rate spread. While changes in interest rates do not produce equivalent changes in the revenues earned from our interest-earning assets and the expenses associated with our interest-bearing liabilities, increases in market interest rates will nevertheless likely cause our interest rate spread to increase. Conversely, if interest rates decline, our interest rate spread will likely decline. Sustained low levels of market interest rates could continue to place downward pressure on our net income levels. Unexpected or further interest rate changes may 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.

Any material reduction in our interest rate spread or the continuation of sustained low levels of market interest rates could have a material adverse effect on our business, results of operations and financial condition.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business, both at the SVB Financial and the Bank level. We require sufficient liquidity to meet our expected, as well as unexpected, financial obligations and requirements. Primary liquidity resources for SVB Financial include dividends from the Bank, its main operating subsidiary, and periodic capital market transactions offering debt and equity instruments in the public and private markets. Client deposits are the primary source of liquidity for the Bank. When needed, wholesale borrowing capacity supplements our liquidity in the form of short- and long-term borrowings secured by our portfolio of high quality investment securities, long-term capital market debt issuances and, finally, through unsecured overnight funding channels available to us in the Fed Funds market. An inability to maintain or raise funds through these sources could have a substantial negative effect, individually or collectively, on SVB Financial and the Bank s liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include an increase in costs of capital in financial capital markets, a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us, or a decrease in depositor or investor confidence in us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe volatility or disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Any failure to manage our liquidity effectively could have a material adverse effect on our financial condition.

Additionally, our credit ratings are important to our liquidity and our business. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, and limit our access to the capital markets. Moreover, a reduction in our credit ratings could increase the interest rates we pay on deposits, or adversely affect perceptions about our creditworthiness and business, or our overall reputation.

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

In connection with negotiated credit facilities and certain other services, we often obtain equity warrant assets giving us the right to acquire stock in private, venture-backed companies in the technology and life science industries. We also make investments through SVB Financial or our SVB Capital family of funds primarily in venture capital funds and direct investments in companies, many of which are required to be carried at fair value. The fair value of these warrants and investments are reflected in our financial statements and are adjusted on a quarterly basis. Fair value changes are generally recorded as unrealized gains or losses through consolidated net income. The timing and amount of changes in fair value, if any, of these financial instruments depend upon factors beyond our control, including the performance of the underlying companies, fluctuations in the market prices of the preferred or common stock of the underlying companies, the timing of our receipt of relevant financial information, general volatility and interest rate market factors, and legal and contractual restrictions. The timing and amount of our realization of actual net proceeds, if any, from the disposition of these financial instruments depend upon factors beyond our control, including investor demand for IPOs, levels of M&A activity, legal and contractual restrictions on our ability to sell, and the perceived and actual performance and future value of portfolio companies. Because of the inherent variability of these financial instruments and the markets in which they are bought and sold, the fair market value of these financial instruments might increase or decrease materially, and the net proceeds realized upon disposition might be less than the then-current recorded fair market value.

We cannot predict future realized or unrealized gains or losses, and any such gains or losses are likely to vary materially from period to period. Additionally, the value of our equity warrant asset portfolio depends on the underlying value of the issuing companies, which may also vary materially from period to period.

Public equity offerings and mergers and acquisitions involving our clients or a slowdown in venture capital investment levels may reduce the borrowing needs of our clients, which could adversely affect our business, results of operations 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. Moreover, our capital call lines of credit are typically utilized by our venture capital fund clients to make investments prior to receipt of capital called from their respective limited partners. A slowdown in overall venture capital investment levels may reduce the need for our clients to borrow from our capital call lines of credit. Any significant reduction in the outstanding amounts of our loans or under our lines of credit could have a material adverse effect on our business, results of operations and financial condition.

The soundness of other financial institutions could adversely affect us.

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

Operational Risks

If we fail to retain our key employees or recruit new employees, our growth and results of operations 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/or a strong network of relationships with individuals and institutions in the markets we serve. In addition, as we expand into new markets internationally, we will need to hire local personnel within those new markets. If we were to have less success in recruiting and retaining these employees than our competitors, for reasons including domestic or foreign regulatory restrictions on compensation practices or the availability of more attractive opportunities elsewhere, our growth and results of operations could be adversely affected.

Moreover, equity awards are an important component of our compensation program, especially for our executive officers and other members of senior management. The extent of available equity for such awards is subject to stockholder approval. If we do not have sufficient shares to grant to existing or new employees, there could be an adverse affect on our recruiting and retention efforts, which could impact our growth and results of operations.

The occurrence of fraudulent activity, breaches of our information security or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses to us or our clients, misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other

dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, and malware or other cyber attacks. In recent periods, there has been a rise in electronic fraudulent activity, security breaches and cyber attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods.

Information pertaining to us and our clients is maintained, and transactions are executed, on the networks and systems of us, our clients and certain of our third party partners, such as our online banking or reporting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain our clients confidence. Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we have developed systems and processes that are designed to detect and prevent security breaches and cyber attacks 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, disrupt our business, affect our ability to grow our online services or other businesses, 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 information concerning security and cyber-related problems could inhibit the use or growth of the Internet as a means of conducting commercial transactions, or cause damage to our reputation. As a result, our business, financial condition and results of operations could be adversely affected.

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

In order to serve our target clients effectively, we have developed a comprehensive array of banking and other products and services. In order to support these products and services, we have developed and purchased or licensed information technology and other systems and processes. As our business continues to grow, we will continue to invest in and enhance these systems, and our people and processes. These investments and enhancements may affect our future profitability and overall effectiveness. From time to time, we may change, consolidate, replace, add or upgrade existing systems or processes, which if not implemented properly to allow for an effective transition, may have an adverse effect on our operations, including business interruptions which may result in inefficiencies, revenue losses, client losses, exposure to fraudulent activities, regulatory enforcement actions, or damage to our reputation. For example, we are in the process of implementing a new universal banking system that will replace our current platform, as well as other systems to support specific business units, including our international operations. We may also outsource certain operational functions to consultants or other third parties to enhance our overall efficiencies. If we do not implement our systems effectively or if our outsourcing business partners do not perform their functions properly, there could be an adverse effect on us. There can be no assurance that we will be able to effectively maintain or improve our systems and processes, or utilize outsourced talent, to meet our business needs efficiently. Any failure of such could adversely affect our operations, financial condition, results of operations, future growth and reputation.

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 and/or clients. We have implemented a business continuity management program and we continue to enhance it on an ongoing basis. There is no assurance that our business continuity management program can adequately mitigate the risks of such business disruptions and interruptions.

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

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

We rely on third parties, both in the United States and internationally in countries such as India, China, Israel, and the United Kingdom, in a variety of ways, including to provide key components of our business infrastructure or to further our business objectives. These third parties may provide services to us and our clients or serve as partners in business activities. We rely on these third parties to fulfill their obligations to us, to accurately inform us of relevant information and to conduct their activities professionally and in a manner that reflects positively on us. Any failure of our business partners, service providers or other third parties to meet their commitments to us or to perform in accordance with our expectations could result in operational issues, increased expenditures, damage to our reputation or loss of clients, which could harm our business and operations, financial performance, strategic growth or reputation.

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

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, under our accounts receivable financing arrangements, we rely on information, such as invoices, contracts and other supporting documentation, provided by our clients and their account debtors to determine the amount of credit to extend. Similarly, in deciding whether to extend credit, we may rely upon our customers representations that their financial statements conform to U.S. GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on materially misleading, false, inaccurate or fraudulent information.

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

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with U.S. GAAP and reflect management s judgment of the

most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in our reporting materially different amounts than would have been reported under a different alternative.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board (FASB) or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Also, our global initiatives, as well as continuing trends towards the convergence of international accounting standards, such as rules that may be adopted under the International Financial Reporting Standards (IFRS), may result in our Company being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our revising or restating prior period financial statements.

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

If we identify material weaknesses in our internal control over financial reporting or are otherwise required to restate our financial statements, we could be required to implement expensive and time-consuming remedial measures and could lose investor confidence in the accuracy and completeness of our financial reports. We may also face regulatory enforcement or other actions, including the potential delisting of our securities from Nasdaq Stock Market. This could have an adverse effect on our business, financial condition and results of operations, including our stock price, and could potentially subject us to litigation.

Legal/Regulatory Risks

We are subject to extensive regulation that could limit or restrict our activities, impose financial requirements or limitations on the conduct of our business, or result in higher costs to us.

SVB Financial Group, including the Bank, is extensively regulated under federal and state laws and regulations governing financial institutions, including those imposed by the FDIC, the Federal Reserve, the newly-established Consumer Financial Protection Bureau (CFPB), and the California Department of Financial Institutions, as well as the international regulatory authorities that govern our global activities. Federal and state laws and regulations govern, limit or otherwise affect the activities in which we may engage, may affect our ability to expand our business over time and may result in an increase in our compliance costs, including higher FDIC insurance premiums. In addition, a change in the applicable statutes, regulations or regulatory policy could have a material effect on our business, including limiting the types of financial services and products we may offer or increasing the ability of nonbanks to offer competing financial services and products. These laws and regulations also require financial institutions, including SVB Financial and the Bank, to maintain certain minimum levels of capital, which may require us to raise additional capital in the future or affect our ability to use our capital resources for other business purposes. Moreover, recent government efforts to strengthen the U.S. financial system have resulted in the imposition of additional regulatory requirements, including the adoption of the Dodd-Frank Act. These laws and regulations will impose more regulatory requirements on us, including new capital requirements, and may also increase our costs. For example, the Dodd-Frank Act repealed the interest payment restrictions on demand deposit accounts under Regulation Q, which could result in a material increase in our deposit costs. In addition, the Dodd-Frank Act established the

Table of Contents

CFPB, which will promulgate rules and regulations that will effect how we operate our business and the environment in which we operate. The Dodd-Frank Act also restricts banks investments in, and sponsorship of, private equity and hedge funds, which could, over time, require us to make changes to the way we sponsor and invest in funds. Furthermore, the Bank for International Settlement s Basel Committee on Banking Supervision recently adopted new capital, leverage and liquidity guidelines under the Basel Accord which, when implemented in the United States, may have the effect of raising our capital requirements beyond those required by current law and the Dodd-Frank Act. Increased regulatory requirements (and the associated compliance costs), whether due to the adoption of new laws and regulations, changes in existing laws and regulations, or more expansive or aggressive interpretations of existing laws and regulations, may have a material adverse effect on our business, financial condition and results of operations. See generally Business Supervision and Regulation under Item 1 of Part I of this report.

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

International, federal and state banking regulators possess broad powers to take supervisory or enforcement action with respect to financial institutions. Other regulatory bodies, including the SEC, the Nasdaq Stock Market, FINRA, and state securities regulators, regulate broker-dealers, including our subsidiary, SVB Securities. If SVB Financial Group were to violate, even if unintentionally or inadvertently, the laws governing public companies, financial institutions and broker-dealers, the regulatory authorities could take various actions against us, depending on the severity of the violation, such as imposing restrictions on how we conduct our business, revoking necessary licenses or authorizations, imposing censures, civil money penalties or fines, issuing cease and desist or other supervisory orders, and suspending or expelling from the securities business a firm, its officers or employees. Supervisory actions could result in higher capital requirements, higher insurance premiums, higher levels of liquidity available to meet the Bank s financial needs and limitations on the activities of SVB Financial Group. These remedies and supervisory actions could have a material adverse effect on our business, financial condition, results of operations and reputation.

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

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

Strategic/Reputation Risks

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our business while there may exist a great deal of diversity within each industry, our clients are concentrated by these general industry niches: technology, life science, venture capital/private equity and premium wine. Many of our client companies are concentrated by certain stages within their life cycles, such as early-stage or mid-stage, and many of these companies are venture capital-backed. Our loan concentrations are derived from our borrowers engaging in similar activities or types of loans extended to a diverse group of borrowers that could cause those borrowers to be similarly impacted by economic or other conditions. Any adverse effect on any of our areas of concentration could have a material impact on our business, results of operations and financial condition. Due to our

Table of Contents

concentrations, we may suffer losses even when economic and market conditions are generally favorable for our competitors.

Decreases in the amount of equity capital available to our portfolio companies could adversely affect our business, growth and profitability.

Our core strategy is focused on providing banking products and services to companies, including in particular to emerging stage to mid-stage companies, that receive financial support from sophisticated investors, including venture capital or private equity firms, angels, and corporate investors. We derive a meaningful share of our deposits from these companies and provide them with loans as well as other banking products and services. In some cases, our lending credit decision is based on our analysis of the likelihood that our venture capital or angel-backed client will receive additional rounds of equity capital from investors. If the amount of capital available to such companies decreases, it is likely that the number of new clients and investor financial support to our existing borrowers could decrease, which could have an adverse effect on our business, profitability and growth prospects.

Among the factors that have affected and could in the future affect the amount of capital available to our portfolio companies are the receptivity of the capital markets, the prevalence of IPO s or M&A activity of companies within our technology and life science industry sectors, the availability and return on alternative investments, economic conditions in the technology, life science and venture capital/private equity industries, and overall general economic conditions. Reduced capital markets valuations could reduce the amount of capital available to our client companies, including companies within our technology and life science industry sectors.

Because our business and strategy are largely based on this venture capital/private equity financing framework focused on our particular client niches, any material changes in the framework, including unfavorable economic conditions and adverse trends in investment or fundraising levels, may have a materially adverse effect on our business, strategy and overall profitability.

We face competitive pressures that could adversely affect our business, results of operations, financial condition and future growth.

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

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

Our success depends, in part, upon our ability to adapt our products and services to evolving industry standards and to meet the needs of existing and potential future clients. A failure to achieve market acceptance for any new products we introduce, a failure to introduce products that the market may demand, or the costs

associated with developing, introducing and providing new products and services could have an adverse effect on our business, results of operations, growth prospects and financial condition.

We face risks in connection with our strategic undertakings.

We are engaged, and may in the future engage, in strategic activities domestically or internationally, including acquisitions, joint ventures, partnerships, investments or other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

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

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

We face risks associated with international operations.

One important component of our strategy is to expand internationally. To date, we have opened offices in China, India, Israel and the United Kingdom. We plan to expand our operations in those locations. To date, we have applied for a banking license in the United Kingdom and have begun to form a joint venture bank in China. We may expand our business beyond these countries. Our efforts to expand our business internationally carry with them certain risks, including risks arising from the uncertainty regarding our ability to generate revenues from foreign operations, risks associated with leveraging and doing business with local business partners and other general operational risks. In addition, there are certain risks inherent in doing business on an international basis, including, among others, legal, regulatory and tax requirements and restrictions, uncertainties regarding liability, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, incremental requirement of management s attention and resources, differing technology standards or customer requirements, cultural differences, political and economic risks, and financial risks, including currency and payment risks. These risks could adversely affect the success of our international operations and could have a material adverse effect on our overall business, results of operations and financial condition. In addition, we face risks that our employees may fail to comply with applicable laws and regulations governing our international operations, including the U.S. Foreign Corrupt Practices Act, U.K. Anti-Bribery Act and foreign laws and regulations, which could have a material adverse effect on us.

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

Our reputation is very important to sustain our business, as we rely on our relationships with our current, former and potential clients and stockholders, the venture capital and private equity communities, and the industries that we serve. Any damage to our reputation, whether arising from regulatory, supervisory or

enforcement actions, matters affecting our financial reporting or compliance with SEC and exchange listing requirements, negative publicity, our conduct of our business or otherwise could have a material adverse effect on our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters facility consists of three buildings and is located at 3003 Tasman Drive, Santa Clara, California. The total square footage of the premises leased under the current lease arrangement is approximately 213,625 square feet. The lease will expire on September 30, 2014, unless terminated earlier or extended.

We currently operate 26 regional offices, including an administrative office, in the United States as well as offices outside the United States. We operate throughout the Silicon Valley with offices in Santa Clara, Menlo Park and Palo Alto. Other regional offices in California include Irvine, Sherman Oaks, San Diego, San Francisco, St. Helena, Santa Rosa and Pleasanton. Office locations outside of California but within the United States include: Tempe, Arizona; Broomfield, Colorado; Atlanta, Georgia; Chicago, Illinois; Newton, Massachusetts; St. Louis Park, Minnesota; New York, New York; Morrisville, North Carolina; Beaverton, Oregon; Radnor, Pennsylvania; Austin, Texas; Dallas, Texas; Salt Lake City, Utah; Vienna, Virginia; and Seattle, Washington. Our international offices are located in: Beijing, Shanghai and Hong Kong, China; Bangalore and Mumbai, India; Herzliya Pituach, Israel; and London, England. All of our properties are occupied under leases, which expire at various dates through 2021, and in most instances include options to renew or extend at market rates and terms. We also own leasehold improvements, equipment, furniture, and fixtures at our offices, all of which are used in our business activities.

Our Global Commercial Bank operations are principally conducted out of our corporate headquarters in Santa Clara, and the lending teams operate out of the various regional and international offices. SVB Capital principally operates out of our office in Palo Alto. SVB Private Bank principally operates out of our Palo Alto office.

We believe that our properties are in good condition and suitable for the conduct of our business.

Item 3. Legal Proceedings

The information set forth under Note 23 Legal Matters in the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol SIVB. The per share range of high and low sale prices for our common stock as reported on the NASDAQ Global Select Market, for each full quarterly period over the years ended December 31, 2011 and 2010, was as follows:

	2011		2010	
Three months ended:	**Low**	**High**	**Low**	**High**
March 31	$ 51.47	$ 57.99	$ 39.50	$ 48.71
June 30	55.27	60.73	40.78	52.28
September 30	35.70	63.40	36.72	46.17
December 31	33.15	49.15	41.48	55.70

Holders

As of February 7, 2012, there were 893 registered holders of our stock, and we believe there were approximately 15,822 beneficial holders of common stock whose shares were held in the name of brokerage firms or other financial institutions. We are not provided with the number or identities of all of these stockholders, but we have estimated the number of such stockholders from the number of stockholder documents requested by these brokerage firms for distribution to their customers.

Dividends

SVB Financial has not paid cash dividends on its common stock since 1992. Currently, we have no plans to pay cash dividends on our common stock. Our Board of Directors may periodically evaluate whether to pay cash dividends, taking into consideration such factors as it considers relevant, including our current and projected financial performance, our projected sources and uses of capital, general economic conditions, considerations relating to our current and potential stockholder base, and relevant tax laws. Our ability to pay cash dividends is also limited by generally applicable corporate and banking laws and regulations. See Business Supervision and Regulation Restrictions on Dividends under Part I, Item 1 of this report, and Note 19 Regulatory Matters of the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report for additional discussion on restrictions and limitations on the payment of dividends imposed on us by government regulations.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item regarding equity compensation plans is incorporated by reference to the information set forth in Part III, Item 12 of this report.

Stock Repurchases and Preferred Stock

SVB Financial did not repurchase any of its common stock during 2011. As of December 31, 2011, SVB Financial had no preferred stock outstanding.

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Table of Contents

Performance Graph

The following information is not deemed to be soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act, and the report shall not be deemed to be incorporated by reference into any prior or subsequent filing by the Company under the Securities Act or the Exchange Act.

The following graph compares, for the period from December 31, 2006 through December 31, 2011, the cumulative total stockholder return on the common stock of the Company with (i) the cumulative total return of the Standard and Poor s 500 (S&P 500) Index, (ii) the cumulative total return of the NASDAQ Composite index, and (iii) the cumulative total return of the NASDAQ Bank Index. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is not necessarily indicative of future stock price performance.

Comparison of 5 Year Cumulative Total Return*

Among SVB Financial Group, the S&P 500 Index, the NASDAQ Composite Index, and the NASDAQ Bank Index

* $100 invested on 12/31/06 in stock & index-including reinvestment of dividends.
Fiscal year ending December 31.

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	December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
SVB Financial Group	$ 100.00	$ 108.11	$ 56.26	$ 89.36	$ 113.79	$ 102.30
S&P 500	100.00	105.49	66.46	84.05	96.71	98.75
NASDAQ Composite	100.00	110.26	65.65	95.19	112.10	110.81
NASDAQ Bank	100.00	76.94	64.14	53.93	61.47	54.83

Table of Contents

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and supplementary data as presented under Part II, Item 8 of this report. Information as of and for the years ended December 31, 2011, 2010, and 2009 is derived from audited financial statements presented separately herein, while information as of and for the years ended December 31, 2008 and 2007 is derived from audited financial statements not presented separately within.

	Year ended December 31,				
(Dollars in thousands, except per share data and ratios)	**2011**	**2010**	**2009**	**2008**	**2007**
Income statement summary:					
Net interest income	$ 526,277	$ 418,135	$ 382,150	$ 368,595	$ 375,842
Provision for loan losses	(6,101)	(44,628)	(90,180)	(100,713)	(16,836)
Noninterest income	382,332	247,530	97,743	152,365	220,969
Noninterest expense excluding impairment of goodwill	(500,628)	(422,818)	(339,774)	(312,887)	(329,265)
Impairment of goodwill			(4,092)		(17,204)
Income before income tax expense	401,880	198,219	45,847	107,360	233,506
Income tax expense	(119,087)	(61,402)	(35,207)	(52,213)	(84,581)
Net income before noncontrolling interests	282,793	136,817	10,640	55,147	148,925
Net (income) loss attributable to noncontrolling interests	(110,891)	(41,866)	37,370	19,139	(28,596)
Net income attributable to SVBFG	$ 171,902	$ 94,951	$ 48,010	$ 74,286	$ 120,329
Preferred stock dividend and discount accretion			(25,336)	(707)	
Net income available to common stockholders	$ 171,902	$ 94,951	$ 22,674	$ 73,579	$ 120,329
Common share summary:					
Earnings per common share basic	$ 4.00	$ 2.27	$ 0.67	$ 2.27	$ 3.54
Earnings per common share diluted	3.94	2.24	0.66	2.16	3.28
Book value per common share	36.07	30.15	27.30	23.40	20.70
Weighted average shares outstanding basic	43,004	41,774	33,901	32,425	33,950
Weighted average shares outstanding diluted	43,637	42,478	34,183	34,015	36,738
Year-end balance sheet summary:					
Investment securities	$ 11,540,486	$ 8,639,487	$ 4,491,719	$ 1,784,397	$ 1,602,574
Loans, net of unearned income	6,970,082	5,521,737	4,548,094	5,506,253	4,151,730
Total assets	19,968,894	17,527,761	12,841,399	10,018,280	6,692,171
Deposits	16,709,536	14,336,941	10,331,937	7,473,472	4,611,203
Short-term borrowings		37,245	38,755	62,120	90,000
Long-term debt	603,648	1,209,260	856,650	995,423	873,241
SVBFG stockholders equity	1,569,392	1,274,350	1,128,343	991,356	676,369
Average balance sheet summary:					
Available-for-sale securities	$ 9,350,381	$ 5,347,327	$ 2,282,331	$ 1,338,516	$ 1,364,461
Loans, net of unearned income	5,815,071	4,435,911	4,699,696	4,633,048	3,522,326
Total assets	18,670,499	14,858,236	11,326,341	7,418,303	6,019,974
Deposits	15,568,801	12,028,327	8,794,099	4,896,324	3,962,260
Short-term borrowings	16,994	49,972	46,133	304,896	320,129
Long-term debt	796,823	968,378	923,854	980,694	664,581
SVBFG stockholders equity	1,448,398	1,230,569	1,063,175	720,851	669,190
Capital ratios:					
Total risk-based capital ratio	13.95%	17.35%	19.94%	17.58%	16.02%
Tier 1 risk-based capital ratio	12.62	13.63	15.45	12.51	11.07
Tier 1 leverage ratio	7.92	7.96	9.53	13.00	11.91
Tangible common equity to tangible assets (1)	7.86	7.27	8.78	7.64	10.03
Tangible common equity to risk-weighted assets (1)	13.25	13.54	15.05	9.31	10.28
Bank tier 1 leverage ratio	6.87	6.82	7.67	9.20	10.19
Average SVBFG stockholders equity to average assets	7.76	8.28	9.39	9.72	11.12
Selected financial results:					
Return on average assets	0.92%	0.64%	0.42%	1.00%	2.00%

Return on average common SVBFG stockholders equity	11.87	7.72	2.68	10.38	17.98
Net interest margin	3.08	3.08	3.73	5.72	7.19
Gross loan charge-offs to average total gross loans	0.41	1.15	3.03	1.02	0.55
Net loan (recoveries) charge-offs to average total gross loans	(0.02)	0.77	2.64	0.87	0.35
Nonperforming assets as a percentage of total assets	0.18	0.23	0.41	0.88	0.14
Allowance for loan losses as a percentage of total gross loans	1.28	1.48	1.58	1.93	1.13

(1) See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources Capital Ratios under Part II, Item 7 in this report for a reconciliation of non-GAAP tangible common equity to tangible assets and tangible common equity to risk-weighted assets.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations contains forward-looking statements. These statements are based on current expectations and assumptions, which are subject to risks and uncertainties. See our cautionary language at the beginning of this report under Forward Looking Statements . Actual results could differ materially because of various factors, including but not limited to those discussed in Risk Factors, under Part I, Item 1A.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and supplementary data as presented in Item 8 of this report. Certain reclassifications have been made to prior years results to conform to the current period s presentations. Such reclassifications had no effect on our results of operations or stockholders equity.

Overview of Company Operations

SVB Financial is a diversified financial services company, as well as a bank holding company and financial holding company. SVB Financial was incorporated in the state of Delaware in March 1999. Through our various subsidiaries and divisions, we offer a variety of banking and financial products and services. For nearly 30 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 of all sizes and stages with a diverse set of products and services to support them through all stages of their life cycles.

We offer commercial banking products and services through our principal subsidiary, 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, venture capital and private equity investment and equity valuation services, through our subsidiaries and divisions.

Management s Overview of 2011 Financial Performance

Overall we experienced an outstanding 2011 year in which we achieved several Company record high milestones. We had record net income available to common stockholders of $171.9 million and record diluted earnings per common share of $3.94. In 2011, compared to 2010, we experienced growth in our interest-earning assets as a result of strong loan growth, continued growth of client deposits and the addition of new clients. As a result, we recognized record net interest income from growth in average loan balances and the investment of excess deposits into available-for-sale securities. In addition to higher net interest income, we saw continued strong overall credit quality, resulting in a lower provision for 2011. We also recognized higher noninterest income, primarily due to sales of available-for-sale securities and increased gains from equity warrant assets and our managed funds due to increased initial public offering (IPO) and merger and acquisition (M&A) activity, as well as from higher valuations due to improved market conditions. Additionally, our overall capital and liquidity continued to remain strong.

2011 results (compared to 2010, where applicable) reflected strong performance across all areas of our businesses and included:

- Strong growth in our lending business with record high average loan balances of $5.8 billion, an increase of $1.4 billion, or 31.1 percent, from 2010. This growth was driven by our ongoing strategy of growing our larger, later stage client portfolio.
- Average deposit balances of $15.6 billion, an increase of $3.5 billion, or 29.4 percent, from 2010.
- An increase in net interest income (fully taxable equivalent basis) of $108.0 million, or 25.7 percent, primarily due to an increase in interest income from loans due to growth in average balances, as well as an increase in interest income from our available-for-sale securities as a result of investing our excess cash from deposit growth. These increases were partially offset by lower investment yields available on new purchases of securities in the current rate environment, as well as lower overall yields on our loan portfolio.

- Strong overall credit quality, as reflected by a decrease in our allowance for loan losses as a percentage of gross loans to 1.28 percent at December 31, 2011, compared to 1.48 percent at December 31, 2010. Additionally, we had net recoveries of $1.2 million in 2011, compared to net charge-offs of $34.5 million in 2010. Our provision for loan losses of $6.1 million in 2011 was primarily due to an increase in the allowance from the increase in period-end loan balances, partially offset by a decrease in the allowance for our performing loans.
- Core fee income (foreign exchange fees, deposit service charges, credit card fees, client investment fees and letters of credit and standby letters of credit income) increased by $9.5 million, or 8.7 percent, to $118.5 million, compared to $109.0 million in 2010. This increase reflects increased client activity and continued growth in our business.
- An increase in net gains on investment securities to $195.0 million, compared to net gains of $93.4 million in 2010, primarily due to increased valuations and liquidity events from internet and social networking companies. Non-GAAP net gains on investment securities, net of noncontrolling interests and excluding gains on sales of certain available-for-sale securities were $32.7 million in 2011, compared to $16.1 million in 2010. See Results of Operations Gains (Losses) on Investment Securities, Net for a reconciliation of non-GAAP net gains on investment securities.
- An increase in net gains on equity warrant assets to $37.4 million, compared to net gains of $6.6 million in 2010. The net gains of $37.4 million in 2011 reflect increased IPO and M&A activity within the technology industry.
- An increase of $77.8 million in noninterest expense to $500.6 million, primarily reflecting higher incentive compensation costs based on our strong performance in 2011, as well as increased expenses to support continued growth in our business through increased headcount and ongoing initiatives.
- Overall, our liquidity remained strong based on our period end available-for-sale securities portfolio of $10.5 billion at December 31, 2011, compared to $7.9 billion at December 31, 2010. The increase provided additional liquidity resources through current expected cash flow and through the ability to secure wholesale borrowings, if needed.
- Overall, SVB Financial and the Bank continued to maintain strong capital positions. The Bank s Tier 1 leverage ratio increased by 5 basis points to 6.87 percent at December 31, 2011, compared to 6.82 percent at December 31, 2010. The increase in the Bank s Tier 1 leverage capital ratio was primarily the result of strong earnings, partially offset by growth of average deposits.

Table of Contents

A summary of our performance in 2011 compared to 2010 is as follows:

	Year ended December 31,		
(In thousands, except per share data and ratios)	2011	2010	% change
Income statement:			
Diluted earnings per share	$ 3.94	$ 2.24	75.9%
Net income available to common stockholders	171,902	94,951	81.0
Net interest income	526,277	418,135	25.9
Net interest margin	3.08%	3.08%	
Provision for loan losses	6,101	44,628	(86.3)
Noninterest income	382,332	247,530	54.5
Noninterest expense	500,628	422,818	18.4
Non-GAAP net income available to common stockholders (1)	147,515	80,082	84.2
Non-GAAP diluted earnings per common share (1)	3.38	1.89	78.8
Non-GAAP noninterest income, net of noncontrolling interest and excluding gains on sales of available-for-sale securities (2)	222,682	168,645	32.0
Non-GAAP noninterest expense, net of noncontrolling interest and excluding net gains from debt repurchases (3)	492,184	410,470	19.9
Balance sheet:			
Average loans, net of unearned income	$ 5,815,071	$ 4,435,911	31.1%
Average noninterest-bearing deposits	10,237,844	7,216,968	41.9
Average interest-bearing deposits	5,330,957	4,811,359	10.8
Average total deposits	15,568,801	12,028,327	29.4
Earnings ratios:			
Return on average assets (4)	0.92%	0.64%	43.8%
Return on average common SVBFG stockholders equity (5)	11.87	7.72	53.8
Asset quality ratios			
Allowance for loan losses as a percentage of total period end gross loans	1.28%	1.48%	(20)bps
Gross loan charge-offs as a percentage of average total gross loans	0.41	1.15	(74)bps
Net loan (recoveries) charge-offs as a percentage of average total gross loans	(0.02)	0.77	(79)bps
Other ratios:			
Operating efficiency ratio (6)	54.98%	63.32%	(13.2)%
Non-GAAP operating efficiency ratio (3)	65.56	69.71	(6.0)
Tangible common equity to tangible assets (7)	7.86	7.27	8.1
Tangible common equity to risk-weighted assets (7)	13.25	13.54	(2.1)
Book value per common share (8)	36.07	30.15	19.6
Other statistics:			
Average SVB prime lending rate	4.00%	4.00%	
Average full-time equivalent employees	1,451	1,305	11.2
Period end full-time equivalent employees	1,526	1,357	12.5

(1) To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles in the United States (GAAP), we use certain non-GAAP measures. See Non-GAAP Net Income and Non-GAAP Diluted Earnings Per Common Share below for a reconciliation of these measures.

(2) See Results of Operations Noninterest Income for a description and reconciliation of non-GAAP noninterest income.

(3) See Results of Operations Noninterest Expense for a description and reconciliation of the non-GAAP noninterest expense and non-GAAP operating efficiency ratio.
(4) Ratio represents consolidated net income attributable to SVBFG divided by average assets.
(5) Ratio represents consolidated net income available to common stockholders divided by average SVB Financial Group (SVBFG) stockholders equity.
(6) The operating efficiency ratio is calculated by dividing total noninterest expense by total taxable equivalent net interest income plus noninterest income.
(7) See Capital Resources Capital Ratios for a reconciliation of non-GAAP tangible common equity to tangible assets and tangible common equity to risk-weighted assets.
(8) Book value per common share is calculated by dividing total SVBFG stockholders equity by total outstanding common shares at period end.

Non-GAAP Net Income and Non-GAAP Diluted Earnings Per Common Share

We use and report non-GAAP net income and non-GAAP diluted earnings per common share, which excludes (when applicable) gains from the sale of certain available-for-sale securities, as well as net gains from debt repurchases and termination of corresponding interest rate swaps. We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that do not occur every reporting period. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results and related trends, and when planning, forecasting and analyzing future periods. However, these non-GAAP financial measures should be considered in addition to, not as a substitute for or preferable to, financial measures prepared in accordance with GAAP.

Table of Contents

A reconciliation of GAAP to non-GAAP net income available to common stockholders and non-GAAP diluted earnings per common share for 2011 and 2010 is as follows:

(Dollars in thousands, except share amounts)	Year ended December 31, 2011	2010
Net income available to common stockholders	$ 171,902	$ 94,951
Less: gains on sales of available-for-sale securities (1)	(37,314)	(24,699)
Tax impact of gains on sales of available-for-sale securities	14,810	9,830
Less: net gain from note repurchases and termination of corresponding interest rate swaps (2)	(3,123)	
Tax impact of net gain from note repurchases and termination of corresponding interest rate swaps	1,240	
Non-GAAP net income available to common stockholders	$ 147,515	$ 80,082
GAAP earnings per common share diluted	$ 3.94	$ 2.24
Impact of gains on sales of available-for-sale securities (1)	(0.86)	(0.58)
Tax impact of gains on sales of available-for-sale securities	0.34	0.23
Impact of net gain from note repurchases and termination of corresponding interest rate swaps (2)	(0.07)	
Tax impact of net gain from note repurchases and termination of corresponding interest rate swaps	0.03	
Non-GAAP earnings per common share diluted	$ 3.38	$ 1.89
Weighted average diluted common shares outstanding	43,636,871	42,478,340

(1) Gain on the sales of $1.4 billion and $650.8 million of certain available-for-sale securities in 2011 and 2010, respectively.

(2) Net gains of $3.1 million from the repurchase of $108.6 million of our 5.70% Senior Notes and $204.0 million of our 6.05% Subordinated Notes and the termination of the corresponding portions of interest rate swaps in 2011.

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding our financial condition and results of operations. We have identified five policies as being critical because they require us to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain, and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. We evaluate our estimates and assumptions on an ongoing basis and we base these estimates on historical experiences and various other factors and assumptions that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions.

Our critical accounting policies include those that address the adequacy of the allowance for loan losses and reserve for unfunded credit commitments, measurements of fair value, the valuation of non-marketable securities and the recognition and measurement of income tax assets and liabilities. Our senior management has discussed and reviewed the development, selection, application and disclosure of these critical accounting policies with the Audit Committee of our Board of Directors.

Allowance for Loan Losses and Reserve for Unfunded Credit Commitments

Allowance for Loan Losses

The allowance for loan losses is management s estimate of credit losses inherent in the loan portfolio at the balance sheet date. We consider our accounting policy for the allowance for loan losses to be critical as

Table of Contents

estimation of the allowance involves material estimates by our us and is particularly susceptible to significant changes in the near term. Determining the allowance for loan losses requires us to make forecasts that are highly uncertain and require a high degree of judgment. Our loan loss reserve methodology is applied to our loan portfolio and we maintain the allowance for loan losses at levels that we believe are appropriate to absorb estimated probable losses inherent in our loan portfolio.

Our allowance for loan losses is established for loan losses that are probable but not yet realized. The process of anticipating loan losses is imprecise. We apply a systematic process for the evaluation of individual loans and pools of loans for inherent risk of loan losses. On a quarterly basis, each loan in our portfolio is assigned a credit risk rating through an evaluation process, which includes consideration of such factors as payment status, the financial condition of the borrower, borrower compliance with loan covenants, underlying collateral values, potential loan concentrations, and general economic conditions.

The allowance for loan losses is based on a formula allocation for similarly risk-rated loans by client industry sector and individually for impaired loans. Our formula allocation is determined on a quarterly basis by utilizing a historical loan loss migration model, which is a statistical model used to estimate an appropriate allowance for outstanding loan balances by calculating the likelihood of a loan being charged-off based on its credit risk rating using historical loan performance data from our portfolio. The historical loan loss migration statistical model considers: (i) our quarterly historical loss experience since the year 2000, both by risk-rating category and client industry sector, and (ii) our quarterly loss experience for the one-, three-, and five-year periods preceding the applicable reporting period. The resulting loan loss factors for each risk-rating category and client industry sector are ultimately applied to the respective period-end client loan balances for each corresponding risk-rating category by client industry sector to provide an estimation of the allowance for loan losses.

We apply qualitative allocations to the results we obtained through our historical loan loss migration model to ascertain the total allowance for loan losses. These qualitative allocations are based upon management s assessment of the risks that may lead to a loan loss experience different from our historical loan loss experience. These risks are aggregated to become our qualitative allocation. Based on management s prediction or estimate of changing risks in the lending environment, the qualitative allocation may vary significantly from period to period and includes, but is not limited to, consideration of the following factors:

- Changes in lending policies and procedures, including underwriting standards and collections, and charge-off and recovery practices;
- Changes in national and local economic business conditions, including the market and economic condition of our clients industry sectors;
- Changes in the nature of our loan portfolio;
- Changes in experience, ability, and depth of lending management and staff;
- Changes in the trend of the volume and severity of past due and classified loans;
- Changes in the trend of the volume of nonaccrual loans, troubled debt restructurings, and other loan modifications;
- Reserve floor for portfolio segments that would not draw a minimum reserve based on the lack of historical loan loss experience;
- Reserve for large funded loan exposure; and
- Other factors as determined by management from time to time.

A committee comprised of senior management evaluates the adequacy of the allowance for loan losses.

Reserve for Unfunded Credit Commitments

The level of the reserve for unfunded credit commitments is determined following a methodology that parallels that used for the allowance for loan losses. We consider our accounting policy for the reserve for unfunded credit commitments to be critical as estimation of the reserve involves material estimates by our

management and is particularly susceptible to significant changes in the near term. We record a liability for probable and estimable losses associated with our unfunded credit commitments. Each quarter, every unfunded client credit commitment is allocated to a credit risk-rating category in accordance with each client s credit risk rating. We use the historical loan loss factors described under our allowance for loan losses to calculate the possible loan loss experience if unfunded credit commitments are funded. Separately, we use historical trends to calculate the probability of an unfunded credit commitment being funded. We apply the loan funding probability factor to risk-factor adjusted unfunded credit commitments by credit risk-rating to derive the reserve for unfunded credit commitments. The reserve for unfunded credit commitments may also include certain qualitative allocations as deemed appropriate by management.

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Our available-for-sale securities, derivative instruments, marketable securities and certain non-marketable securities are financial instruments recorded at fair value on a recurring basis. We disclose our method and approach for fair value measurements of assets and liabilities in Note 2 Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements under Part II, Item 8 in this report.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. Accounting Standards Codification (ASC) 820, Fair Value *Measurements and Disclosures,* establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the significant inputs to the valuation methodology used for measurement are observable or unobservable and the significance of the level of the input to the entire measurement. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. The three levels for measuring fair value are defined in Note 2 Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements under Part II, Item 8 in this report.

It is our practice to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When available, we use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon valuation techniques that use relevant inputs derived from primarily market-based or independently-sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates. Substantially all of our financial instruments use either of the foregoing methodologies, collectively Level 1 and Level 2 measurements, to determine fair value adjustments recorded to our financial statements. However, in certain cases, when market observable inputs for valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of the financial instrument, and the significance of those inputs in the entire measurement.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. For inactive markets, there is little information, if any, to evaluate if individual transactions are orderly. Accordingly, we are required to estimate, based upon all available facts and circumstances, the degree to which orderly transactions are occurring and provide more weighting to price quotes that are based upon orderly transactions. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we use valuation techniques

requiring more management judgment to estimate the appropriate fair value measurement. Accordingly, the degree of judgment exercised by management in determining fair value is greater for financial assets and liabilities categorized as Level 3. Our valuation processes include a number of key controls that are designed to ensure that fair value is measured appropriately.

The following table summarizes our financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011 and 2010:

	December 31,			
	2011		2010	
(Dollars in thousands)	**Total Balance**	**Level 3**	**Total Balance**	**Level 3**
Assets carried at fair value	$ 11,372,081	$ 799,962	$ 8,546,528	$ 547,608
As a percentage of total assets	56.9%	4.0%	48.8%	3.1%
Liabilities carried at fair value	$ 16,868	$	$ 10,267	$
As a percentage of total liabilities	0.1%	%	0.1%	%
	Level 1 and 2	Level 3	Level 1 and 2	Level 3
Percentage of assets measured at fair value	93.0%	7.0%	93.6%	6.4%

As of December 31, 2011, our available-for-sale securities portfolio, consisting of agency-issued mortgage-backed securities, agency-issued collateralized mortgage obligations, U.S. agency debentures, U.S. treasury securities and municipal bonds and notes, represented $10.5 billion, or 92.6 percent of our portfolio of assets measured at fair value on a recurring basis, compared to $7.9 billion, or 92.6 percent, as of December 31, 2010. These instruments were classified as Level 2 because their valuations were based on indicative prices corroborated by observable market quotes or valuation techniques with all significant inputs derived from or corroborated by observable market data. The fair value of our available-for-sale securities portfolio is sensitive to changes in levels of market interest rates and market perceptions of credit quality of the underlying securities. Market valuations and impairment analyses on assets in the available-for-sale securities portfolio are reviewed and monitored on a quarterly basis. Assets valued using Level 2 measurements also include equity warrant assets in shares of public company capital stock, marketable securities, interest rate swaps, foreign exchange forward and option contracts, loan conversion options and client interest rate derivatives.

To the extent available-for-sale securities are used to secure borrowings, changes in the fair value of those securities could have an impact on the total amount of secured financing available. We pledge securities to the Federal Home Loan Bank of San Francisco and the discount window at the Federal Reserve Bank. The market value of collateral pledged to the Federal Home Loan Bank of San Francisco (comprised entirely of U.S. agency debentures) at December 31, 2011 totaled $1.5 billion, all of which was unused and available to support additional borrowings. The market value of collateral pledged at the discount window of the Federal Reserve Bank in accordance with our liquidity risk management practices at December 31, 2011 totaled $100.5 million, all of which was unused and available to support additional borrowings. We have repurchase agreements in place with multiple securities dealers, which allow us to access short-term borrowings by using available-for-sale securities as collateral. At December 31, 2011, we had not utilized any of our repurchase lines to secure borrowed funds.

Financial assets valued using Level 3 measurements consist primarily of our investments in venture capital and private equity funds and direct equity investments in privately held companies. Our managed funds and debt fund that hold these investments qualify as investment companies under the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Investment Companies and accordingly, these funds report their investments at estimated fair value, with unrealized gains and losses resulting from changes in fair value reflected as investment gains or losses in our consolidated statements of income. Assets valued using Level 3 measurements also include equity warrant assets in shares of private company capital stock.

During 2011, the Level 3 assets that are measured at fair value on a recurring basis experienced net realized and unrealized gains of $176.9 million (which is inclusive of noncontrolling interest), primarily due to valuation increases in underlying fund investments in our managed funds, as well as gains from liquidity events and distributions. Additionally, we had strong net gains in 2011 from our equity warrant assets. The gains from our managed funds and equity warrant assets in 2011 reflect increased IPO and M&A activity within the technology industry. During 2010 and 2009, the Level 3 assets that are measured at fair value on a recurring basis experienced net realized and unrealized gains of $67.2 million and net realized and unrealized losses of $32.0 million (which is inclusive of noncontrolling interest), respectively.

The valuation of non-marketable securities and equity warrant assets in shares of private company capital stock is subject to significant judgment. The inherent uncertainty in the process of valuing securities for which a ready market does not exist may cause our estimated values of these securities to differ significantly from the values that would have been derived had a ready market for the securities existed, and those differences could be material. The timing and amount of changes in fair value, if any, of these financial instruments depend upon factors beyond our control, including the performance of the underlying companies, fluctuations in the market prices of the preferred or common stock of the underlying companies, general volatility and interest rate market factors, and legal and contractual restrictions. The timing and amount of actual net proceeds, if any, from the disposition of these financial instruments depend upon factors beyond our control, including investor demand for IPOs, levels of M&A activity, legal and contractual restrictions on our ability to sell, and the perceived and actual performance of portfolio companies. All of these factors are difficult to predict. (See Risk Factors under Item 1A of Part I above.)

Non-Marketable Securities

Non-marketable securities include investments in venture capital and private equity funds, venture debt funds, direct equity investments in companies and low income housing tax credit funds. Our accounting for investments in non-marketable securities depends on several factors, including our level of ownership/control and the legal structure of our subsidiary making the investment. Based on these factors, we account for our non-marketable securities using one of three different methods: (i) fair value accounting; (ii) equity method accounting; or (iii) cost method accounting. Our non-marketable securities carried under fair value accounting include amounts that are attributable to noncontrolling interests. We are required under GAAP to consolidate 100 percent of investments made by our managed funds or consolidated debt fund that we are deemed to control, even though we may own less than 100 percent of such entities.

Our non-marketable securities carried under fair value accounting consist of investments in venture capital and private equity funds and direct equity investments in privately held companies. Our managed funds and consolidated debt fund that hold these investments qualify as investment companies under the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Investment Companies, and accordingly, these funds report their investments at estimated fair value.

Our non-marketable securities carried under fair value accounting are carried at estimated fair value at each balance sheet date based primarily on financial information obtained as the general partner of the fund or obtained from the funds respective general partner.

For direct private company investments, valuations are based upon consideration of a range of factors including, but not limited to, the price at which the investment was acquired, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, exit strategies and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment.

The valuation of our venture capital and private equity funds is primarily based upon our pro-rata share of the fair market value of the net assets of a fund as determined by such fund on the valuation date. We utilize the most recent available financial information from the investee general partner. We account for differences

between our measurement date and the date of the fund investment s net asset value by using the most recent available financial information available from the investee general partner, for example September 30th, for our December 31st consolidated financial statements, adjusted for any contributions paid, distributions received from the investment, and significant fund transactions or market events during the reporting period.

Under our equity method accounting, we recognize our proportionate share of the results of operations of each equity method investee in our results of operations.

Under our cost method accounting, we record investments at cost and recognize as income distributions or returns received from net accumulated earnings of the investee since the date of acquisition.

We review our equity and cost method securities at least quarterly for indications of impairment, which requires significant judgment. Indications of impairment include an analysis of facts and circumstances of each investment, the expectations of the investment s future cash flows and capital needs, variability of its business and the company s exit strategy. For fund investments, we account for differences between our measurement date and the date of the fund investment s net asset value by using the most recent available financial information from the investee general partner, for example September 30th, for our December 31st consolidated financial statements, adjusted for any contributions paid, distributions received from the investment, and significant fund transactions or market events during the reporting period. Investments identified as having an indication of impairment are reviewed further to determine if the investment is other than temporarily impaired. We reduce the investment value when we consider declines in value to be other than temporary and we recognize the estimated loss as a loss on investment securities, which is a component of noninterest income.

We consider our accounting policy for our non-marketable securities to be critical because the valuation of our non-marketable securities is subject to management judgment and information reasonably available to us. Estimating the fair value of non-marketable securities carried under fair value accounting requires management to make assumptions regarding the future performance, financial condition, and relevant market conditions, along with other pertinent information related to the underlying investment. In addition, the inherent uncertainty in the process of valuing securities for which a ready market is unavailable may cause our estimated values of these securities to differ significantly from the values that would have been derived had a ready market for the securities existed, and those differences could be material. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in their carrying value, thereby possibly requiring an impairment charge in the future. There can be no assurances that we will realize the full value of our non-marketable securities, which could result in significant losses.

Derivative Assets Equity Warrant Assets

In connection with negotiated credit facilities and certain other services, we often obtain equity warrant assets giving us the right to acquire stock in primarily private, venture-backed companies in the technology and life science industries. Equity warrant assets for shares of private and public companies are recorded at fair value on the grant date and adjusted to fair value on a quarterly basis through consolidated net income.

We account for equity warrant assets with net settlement terms in certain private and public client companies as derivatives. In general, equity warrant assets entitle us to buy a specific number of shares of stock at a specific price within a specific time period. Certain equity warrant assets contain contingent provisions, which adjust the underlying number of shares or purchase price upon the occurrence of certain future events. Our warrant agreements typically contain net share settlement provisions, which permit us to receive at exercise a share count equal to the intrinsic value of the warrant divided by the share price (otherwise known as a cashless exercise).

Table of Contents

The fair value of our equity warrant assets portfolio is reviewed quarterly. We value our equity warrant assets using a modified Black-Scholes option pricing model, which incorporates the following significant inputs:

- An underlying asset value, which is estimated based on current information available, including any information regarding subsequent rounds of funding for the equity issuing the warrant.
- Stated strike price, which can be adjusted for certain warrants upon the occurrence of subsequent funding rounds or other future events.
- Price volatility or the amount of uncertainty or risk about the magnitude of the changes in the warrant price. The volatility assumption is based on historical price volatility of publicly traded companies within indices similar in nature to the underlying client companies issuing the warrant. The actual volatility input is based on the median volatility for an individual public company within an index averaged for the past 16 quarters. The weighted average quarterly median volatility assumption used for the warrant valuation at December 31, 2011 was 52.5 percent, compared to 50.7 percent at December 31, 2010.
- Actual data on cancellations and exercises of our equity warrant assets are utilized as the basis for determining the expected remaining life of the equity warrant assets in each financial reporting period. Equity warrant assets may be exercised in the event of acquisitions, mergers or IPOs, and cancelled due to events such as bankruptcies, restructuring activities or additional financings. These events cause the expected remaining life assumption to be shorter than the contractual term of the warrants.
- The risk-free interest rate is derived from the Treasury yield curve and is calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant. The risk-free interest rate used for the warrant valuation at December 31, 2011 was 0.4 percent, compared to 1.0 percent at December 31, 2010.
- Other adjustments, including a lack of marketability discount, are estimated based on management s judgment about the general industry environment.

The fair value of our equity warrant assets recorded on our balance sheets represents our best estimate of the fair value of these instruments. Changes in the above inputs may result in significantly different valuations. For example, the following table demonstrates the effect of changes in the risk-free interest rate and volatility assumptions on the valuation of equity warrant assets directly held by SVB Financial Group at December 31, 2011:

	Volatility Factor		
(Dollars in millions)	**10% Lower (47.3%)**	**Current (52.5%)**	**10% Higher (57.8%)**
Risk free interest rate:			
Less 50 basis points	$ 63.5	$ 66.5	$ 69.5
Current weighted average rate (0.4%)	63.9	66.7	69.9
Plus 50 basis points	64.5	67.5	70.4

The timing and value realized from the disposition of equity warrant assets depend upon factors beyond our control, including the performance of the underlying portfolio companies, investor demand for IPOs, fluctuations in the market prices of the underlying common stock of these companies, levels of M&A activity, and legal and contractual restrictions on our ability to sell the underlying securities. All of these factors are difficult to predict. Many equity warrant assets may be terminated or may expire without compensation and may incur valuation losses from lower-priced funding rounds. We are unable to predict future gains or losses with accuracy, and gains or losses could vary materially from period to period.

We consider our accounting policy for equity warrant assets to be critical as the valuation of these assets is complex and subject to a certain degree of management judgment. Management has the ability to select from several valuation techniques and has alternative approaches in the calculation of significant inputs. The

Table of Contents

selection of alternative valuation techniques or alternative approaches used to calculate significant inputs in the current methodology may cause our estimated values of these assets to differ significantly from the values recorded. Additionally, the inherent uncertainty in the process of valuing these assets for which a ready market is unavailable may cause our estimated values of these assets to differ significantly from the values that would have been derived had a ready market for the assets existed, and those differences could be material. Further, the fair value of equity warrant assets may never be realized, which could result in significant losses.

Income Taxes

We are subject to income tax laws of the United States, its states and municipalities and those of the foreign jurisdictions in which we operate. Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax-basis carrying amount. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when management assesses available evidence and exercises their judgment that it is more likely than not that some portion of the deferred tax asset will not be realized.

We consider our accounting policy relating to income taxes to be critical as the determination of current and deferred income taxes is based on complex analyses of many factors including interpretation of federal, state and foreign income tax laws, the difference between tax and financial reporting bases of assets and liabilities (temporary differences), estimates of amounts due or owed, the timing of reversals of temporary differences and current financial accounting standards. Actual results could differ significantly from the estimates due to tax law interpretations used in determining the current and deferred income tax liabilities. Additionally, there can be no assurances that estimates and interpretations used in determining income tax liabilities may not be challenged by federal and state taxing authorities.

In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions, both domestic and foreign. We evaluate our uncertain tax positions in accordance with ASC 740, *Income Taxes.* We believe that our unrecognized tax benefits, including related interest and penalties, are adequate in relation to the potential for additional tax assessments.

We are also subject to routine corporate tax audits by the various tax jurisdictions. In the preparation of income tax returns, tax positions are taken based on interpretation of federal and state income tax laws as well as foreign tax laws. We review our uncertain tax positions quarterly, and we may adjust these unrecognized tax benefits in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Results of Operations

Net Interest Income and Margin (Fully Taxable Equivalent Basis)

Net interest income is defined as the difference between interest earned on loans, available-for-sale securities and short-term investment securities, and interest paid on funding sources. Net interest income is our principal source of revenue. Net interest margin is defined as the amount of annualized net interest income, on a fully taxable equivalent basis, expressed as a percentage of average interest-earning assets. Net interest income and net interest margin are presented on a fully taxable equivalent basis to consistently reflect income from taxable loans and securities and tax-exempt securities based on the federal statutory tax rate of 35.0 percent.

Table of Contents

Analysis of Net Interest Income Changes Due to Volume and Rate (Fully Taxable Equivalent Basis)

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

	2011 compared to 2010 Year ended December 31, increase (decrease) due to change in			2010 compared to 2009 Year ended December 31, increase (decrease) due to change in		
(Dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest income:						
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	$ (6,017)	$ 1,543	$ (4,474)	$ 1,530	$ (360)	$ 1,170
Available-for-sale securities (taxable)	78,196	(40,169)	38,027	82,585	(36,699)	45,886
Available-for-sale securities (non-taxable)	(224)	(62)	(286)	(344)	(94)	(438)
Loans, net of unearned income	93,713	(23,423)	70,290	(18,982)	2,716	(16,266)
Increase (decrease) in interest income, net	165,668	(62,111)	103,557	64,789	(34,437)	30,352
Interest expense:						
NOW deposits	119	(57)	62	37	11	48
Money market deposits	1,668	(1,845)	(177)	2,466	(3,310)	(844)
Money market deposits in foreign offices	124	(102)	22	110	(254)	(144)
Time deposits	(462)	(222)	(684)	43	(702)	(659)
Sweep deposits in foreign offices	(411)	(4,728)	(5,139)	3,277	(8,246)	(4,969)
Total increase (decrease) in deposits expense	1,038	(6,954)	(5,916)	5,933	(12,501)	(6,568)
Short-term borrowings	(52)	(15)	(67)	6	14	20
5.375% Senior Notes	13,814	85	13,899	5,345		5,345
3.875% Convertible Notes	(10,457)	520	(9,937)	131	(27)	104
Junior Subordinated Debentures	(13)	277	264	(15)	(389)	(404)
5.70% Senior Notes and 6.05% Subordinated Notes	(2,418)	(326)	(2,744)	(8)	(3,263)	(3,271)
Other long-term debt	(95)	111	16	(1,381)	675	(706)
Total increase (decrease) in borrowings expense	779	652	1,431	4,078	(2,990)	1,088
Increase (decrease) in interest expense, net	1,817	(6,302)	(4,485)	10,011	(15,491)	(5,480)
Increase (decrease) in net interest income	$ 163,851	$ (55,809)	$ 108,042	$ 54,778	$ (18,946)	$ 35,832

Net Interest Income (Fully Taxable Equivalent Basis)

2011 compared to 2010

Net interest income increased by $108.0 million to $528.2 million in 2011, compared to $420.2 million in 2010. Overall, we saw an increase in our net interest income primarily due to higher average loan balances and growth in our available-for-sale securities portfolio, which has increased as a result of our continued growth in deposits. Growth in loans is reflective of a strengthening in our clients markets and an increase in borrowing needs from both new and existing clients. Growth in deposits is reflective of growth from new clients and the continued lack of attractive market investment opportunities for our deposit clients. These increases were partially offset by lower rates earned on our available-for-sale securities and loans, primarily attributable to the low interest rate environment and changes in loan composition.

The main factors affecting interest income and interest expense for 2011 compared to 2010 are discussed below:

Interest income for 2011 increased by $103.6 million primarily due to:

- A $70.3 million increase in interest income from loans, primarily related to a $1.4 billion increase in average loan balances. This increase was partially offset by a decrease in overall yield on the loan portfolio resulting from changes in loan composition, which is reflective of our ongoing strategy of growing our larger, later stage client portfolio that typically has lower credit risk and therefore lower relative yield.
- A $37.7 million increase in interest income from available-for-sale securities, primarily related to the growth in average balances of $4.0 billion due to new investments, which were purchased as a result of our continued deposit growth. This increase was partially offset by lower investment yields available on new purchases of securities in the current rate environment and the effect of sales of $1.4 billion and $650.8 million in higher-yielding securities in 2011 and 2010, respectively, which resulted in pre-tax gains of $37.3 million and $23.6 million, respectively.

Interest expense for 2011 decreased by $4.5 million primarily due to:

- A $5.9 million decrease in interest expense from interest-bearing deposits, primarily due to decreases in rates paid on deposits throughout 2010 and 2011, reflective of current low market rates. This decrease was partially offset by an increase in interest expense related to an increase of $519.6 million in average interest-bearing deposit balances during 2011.
- This decrease was partially offset by an increase in interest expense of $1.5 million related to our long-term debt, primarily due to a $13.9 million increase in interest expense from the issuance of $350 million in 5.375% Senior Notes in September 2010, partially offset by a $9.9 million decrease due to the maturity of our 3.875% Convertible Notes in April 2011 and a $2.7 million decrease due to the repurchase of $108.6 million of our 5.70% Senior Notes and $204.0 million of our 6.05% Subordinated Notes in May 2011.

2010 compared to 2009

Net interest income increased by $35.8 million to $420.2 million in 2010, compared to $384.4 million in 2009. Overall, we saw an increase in our net interest income primarily due to growth in our available-for-sale securities portfolio, which has increased as a result of growth in our deposit balances (growth in deposits is reflective of the continued low interest rate environment and the lack of attractive market investment opportunities for our clients). In addition, we saw an increase in net interest income due to lower costs of deposits and London Interbank Offered Rates (LIBOR) associated with certain interest rate swaps. These increases in net interest income were partially offset by lower average loan balances and higher average deposit balances.

The main factors affecting interest income and interest expense for 2010 compared to 2009 are discussed below:

Interest income for 2010 increased by $30.4 million primarily due to:

- A $45.4 million increase in interest income on available-for-sale securities, primarily related to the growth in average balances of $3.1 billion due to new investments purchased due to deposit growth. This increase was partially offset by sales and paydowns of available-for-sale securities being reinvested at market rates in the low rate environment.
- This increase was also partially offset by a $16.3 million decrease in interest income on loans driven principally by a $263.8 million decrease in average loan balances.

Interest expense for 2010 decreased by $5.5 million primarily due to:

- A $6.6 million decrease in interest expense from interest-bearing deposits, primarily due to decreases in rates paid on deposits throughout 2009 and 2010. This decrease was partially offset by an increase in interest expense related to an increase of $1.3 billion in average interest-bearing deposit balances.
- This decrease was also partially offset by an increase in interest expense of $1.1 million related to our long-term debt, primarily due to a $5.3 million increase in interest expense from the issuance of $350 million in 5.375% Senior Notes in September 2010, partially offset by a $3.3 million decrease in interest expense due to lower LIBOR rates associated with interest rate swap agreements on our 5.70% Senior Notes and 6.05% Subordinated Notes.

Net Interest Margin (Fully Taxable Equivalent Basis)

Our net interest margin remained stable at 3.08 percent in 2011, compared to 3.08 percent in 2010 and 3.73 percent in 2009. The main factors affecting our net interest margin in 2011 were as follows:

- An increase in net interest margin from an increase of $1.4 billion in average loan balances (higher-yielding assets).
- An increase in net interest margin from a decrease in rates paid on our deposits.
- A decrease in net interest margin from significant growth in deposits, the majority of which were invested in available-for-sale securities (lower-yielding assets), as well as paydowns and sales of higher-yielding securities throughout 2011 being reinvested in lower-yielding securities given the current interest rate environment.
- A decrease in net interest margin from a decrease in the overall yield on our loan portfolio resulting from changes in loan composition, which is reflective of our ongoing strategy of growing our larger, later stage client portfolio that typically has lower credit risk and therefore lower relative yield.

The decrease in net interest margin in 2010 compared to 2009 was primarily due to the significant growth of our deposits, the majority of which were invested in available-for-sale securities or deposited at the Federal Reserve. As such, the overall mix of our interest-earning assets shifted to a higher proportion of lower-yielding assets. These declines in our net interest margin were partially offset by a decrease in rates paid on our deposits and borrowings.

Table of Contents

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

The average yield earned on interest-earning assets is the amount of annualized fully taxable equivalent interest income expressed as a percentage of average interest-earning assets. The average rate paid on funding sources is the amount of annualized interest expense expressed as a percentage of average funding sources. The following tables set forth average assets, liabilities, noncontrolling interests and SVBFG stockholders equity, interest income, interest expense, annualized yields and rates, and the composition of our annualized net interest margin in 2011, 2010 and 2009.

	Year ended December 31,								
	2011			2010			2009		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:									
Federal Reserve deposits, federal funds sold, securities purchased under agreements to resell and other short-term investment securities (1)	$ 1,974,001	$ 6,486	0.33%	$ 3,869,781	$ 10,960	0.28%	$ 3,333,182	$ 9,790	0.29%
Available-for-sale securities: (2)									
Taxable	9,256,688	165,449	1.79	5,249,884	127,422	2.43	2,179,181	81,536	3.74
Non-taxable (3)	93,693	5,574	5.95	97,443	5,860	6.01	103,150	6,298	6.11
Total loans, net of unearned income (4)	5,815,071	389,830	6.70	4,435,911	319,540	7.20	4,699,696	335,806	7.15
Total interest-earning assets	17,139,453	567,339	3.31	13,653,019	463,782	3.40	10,315,209	433,430	4.20
Cash and due from banks	283,596			232,058			238,911		
Allowance for loan losses	(88,104)			(77,999)			(107,512)		
Goodwill							1,000		
Other assets (5)	1,335,554			1,051,158			878,733		
Total assets	$ 18,670,499			$ 14,858,236			$ 11,326,341		
Funding sources:									
Interest-bearing liabilities:									
NOW deposits	$ 87,099	$ 270	0.31%	$ 51,423	$ 208	0.40%	$ 42,022	$ 160	0.38%
Money market deposits	2,508,279	5,131	0.20	1,818,113	5,308	0.29	1,183,848	6,152	0.52
Money market deposits in foreign offices	130,693	294	0.22	83,253	272	0.33	62,440	416	0.67
Time deposits	258,810	1,102	0.43	361,921	1,786	0.49	355,602	2,445	0.69
Sweep deposits in foreign offices	2,346,076	2,065	0.09	2,496,649	7,204	0.29	1,860,899	12,173	0.65
Total interest-bearing deposits	5,330,957	8,862	0.17	4,811,359	14,778	0.31	3,504,811	21,346	0.61
Short-term borrowings	16,994	25	0.15	49,972	92	0.18	46,133	72	0.16
5.375% Senior Notes	347,689	19,244	5.53	98,081	5,345	5.45			
3.875% Convertible Notes	71,108	4,210	5.92	248,056	14,147	5.70	245,756	14,043	5.71
Junior Subordinated Debentures	55,467	3,325	5.99	55,706	3,061	5.49	55,948	3,465	6.19
5.70% Senior Note and 6.05% Subordinated Notes	317,855	3,151	0.99	559,915	5,895	1.05	560,398	9,166	1.64
Other long-term debt	4,704	294	6.25	6,620	278	4.20	61,752	984	1.59
Total interest-bearing liabilities	6,144,774	39,111	0.64	5,829,709	43,596	0.75	4,474,798	49,076	1.10
Portion of noninterest-bearing funding sources	10,994,679			7,823,310			5,840,411		
Total funding sources	17,139,453	39,111	0.23	13,653,019	43,596	0.32	10,315,209	49,076	0.47
Noninterest-bearing funding sources:									
Demand deposits	10,237,844			7,216,968			5,289,288		
Other liabilities	268,721			189,475			179,795		

SVBFG stockholders equity	1,448,398			1,230,569			1,063,175		
Noncontrolling interests	570,762			391,515			319,285		
Portion used to fund interest-earning assets	(10,994,679)			(7,823,310)			(5,840,411)		
Total liabilities, noncontrolling interest, and SVBFG stockholders equity stockholders equity	$ 18,670,499			$ 14,858,236			$ 11,326,341		
Net interest income and margin		$ 528,228	3.08%		$ 420,186	3.08%		$ 384,354	3.73%
Total deposits	$ 15,568,801			$ 12,028,327			$ 8,794,099		
<u>Reconciliation to reported net interest income:</u>									
Adjustment for tax-equivalent basis		(1,951)			(2,051)			(2,204)	
Net interest income, as reported		$ 526,277			$ 418,135			$ 382,150	

(1) Includes average interest-earning deposits in other financial institutions of $324.2 million, $217.4 million and $176.5 million in 2011, 2010 and 2009, respectively. For 2011, 2010 and 2009, balances also include $1.4 billion, $3.5 billion and $3.1 billion, respectively, deposited at the Federal Reserve Bank, earning interest at the Federal Funds target rate.

(2) Yields on interest-earning investment securities are based on amortized cost, therefore do not give effect to unrealized changes in fair value that are reflected in other comprehensive income.
(3) Interest income on non-taxable investment securities is presented on a fully taxable equivalent basis using the federal statutory income tax rate of 35.0 percent for all years presented.
(4) Nonaccrual loans are reflected in the average balances of loans.
(5) Average investment securities of $957.7 million, $686.8 million and $505.5 million in 2011, 2010 and 2009, respectively, were classified as other assets as they were noninterest-earning assets. These investments primarily consisted of non-marketable securities.

Provision for Loan Losses

Our provision for loan losses is based on our evaluation of the adequacy of the existing allowance for loan losses in relation to total gross loans using historical and other objective information, and on our periodic assessment of the inherent and identified risk dynamics of the loan portfolio resulting from reviews of selected individual loans. For a more detailed discussion of credit quality and the allowance for loan losses, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and Consolidated Financial Condition Credit Quality and the Allowance for Loan Losses below. The following table summarizes our allowance for loan losses for 2011, 2010 and 2009, respectively:

	Year ended December 31,		
(Dollars in thousands, except ratios)	**2011**	**2010**	**2009**
Allowance for loan losses, beginning balance	$ 82,627	$ 72,450	$ 107,396
Provision for loan losses	6,101	44,628	90,180
Gross loan charge-offs	(23,904)	(51,239)	(143,570)
Loan recoveries	25,123	16,788	18,444
Allowance for loan losses, ending balance	$ 89,947	$ 82,627	$ 72,450
Provision as a percentage of period-end total gross loans	0.09%	0.80%	1.97%
Gross loan charge-offs as a percentage of average total gross loans	0.41	1.15	3.03
Net loan (recoveries) charge-offs as a percentage of average total gross loans	(0.02)	0.77	2.64
Allowance for loan losses as a percentage of period-end total gross loans	1.28	1.48	1.58
Period-end total gross loans	$ 7,030,321	$ 5,567,205	$ 4,582,966
Average total gross loans	5,863,319	4,471,706	4,739,210

We had a provision of loan losses of $6.1 million in 2011, compared to a provision of $44.6 million in 2010. The provision of $6.1 million was primarily due to an increase in the allowance for the increase in period-end loans, partially offset by a decrease in the allowance for our performing loans. Our allowance for loan losses for total gross performing loans as a percentage of total gross performing loans decreased to 1.23 percent at December 31, 2011, compared to 1.37 percent at December 31, 2010, primarily due to the strong overall credit quality of our clients.

Gross loan charge-offs of $23.9 million in 2011 came primarily from our technology and life science client portfolios. Loan recoveries of $25.1 million in 2011 were primarily from our technology and life sciences client portfolios.

Our provision for loan losses decreased by $45.6 million to $44.6 million in 2010, compared to $90.2 million in 2009. Gross loan charge-offs of $51.2 million in 2010 came primarily from our hardware, software and life science client portfolios. Loan recoveries of $16.8 million in 2010 were primarily from our hardware, software and life sciences client portfolios.

Table of Contents

Noninterest Income

A summary of noninterest income for the year ended December 31, 2011, 2010 and 2009 is as follow:

	Year ended December 31,				
(Dollars in thousands)	2011	2010	% Change 2011/2010	2009	% Change 2010/2009
Gains (losses) on investment securities, net	$ 195,034	$ 93,360	108.9%	$ (31,209)	NM%
Foreign exchange fees	43,891	36,150	21.4	30,735	17.6
Gains (losses) on derivative instruments, net	38,681	9,522	NM	(753)	NM
Deposit service charges	31,208	31,669	(1.5)	27,663	14.5
Credit card fees	18,741	12,685	47.7	9,314	36.2
Client investment fees	12,421	18,020	(31.1)	21,699	(17.0)
Letters of credit and standby letters of credit fees	12,201	10,482	16.4	10,333	1.4
Other	30,155	35,642	(15.4)	29,961	19.0
Total noninterest income	$ 382,332	$ 247,530	54.5	$ 97,743	153.2

NM Not meaningful

Included in net income is income and expense attributable to noncontrolling interests. We recognize, as part of our investment funds management business through SVB Capital and Debt Fund Investments, the entire income or loss from funds where we own significantly less than 100% of the investment. We are required under GAAP to consolidate 100% of the results of entities that we are deemed to control, even though we may own less than 100% of such entities. The relevant amounts attributable to investors other than us are reflected under Net (Income) Loss Attributable to Noncontrolling Interests on our consolidated statements of income. The non-GAAP tables presented below, for noninterest income and net gains (losses) on investment securities, all exclude noncontrolling interests. We believe these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that represent income attributable to investors other than us and our subsidiaries. Additionally, for 2011 and 2010, we have also excluded the gains from sales of certain available-for-sale securities from our non-GAAP noninterest income as these events do not occur in every reporting period. Our management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing our operating results and when planning, forecasting and analyzing future periods. However, these non-GAAP financial measures should be considered in addition to, not as a substitute for or preferable to, financial measures prepared in accordance with GAAP.

The following table provides a summary of non-GAAP noninterest income, net of noncontrolling interests:

Non-GAAP noninterest income, net of noncontrolling interests	Year ended December 31,				
(Dollars in thousands)	2011	2010	% Change 2011/2010	2009	% Change 2010/2009
GAAP noninterest income	$ 382,332	$ 247,530	54.5%	$ 97,743	153.2%
Less: income (losses) attributable to noncontrolling interests, including carried interest	122,336	54,186	125.8	(24,901)	NM
Non-GAAP noninterest income, net of noncontrolling interests	259,996	193,344	34.5	122,644	57.6
Less: gains on sales of certain available-for-sale securities	37,314	24,699	51.1		
Non-GAAP noninterest income, net of noncontrolling interests and excluding gains on sales of certain	$ 222,682	$ 168,645	32.0	$ 122,644	37.5

available-for-sale securities

NM Not meaningful

Table of Contents

Gains (Losses) on Investment Securities, Net

Net gains (losses) on investment securities include both gains (losses) from our non-marketable and marketable securities, as well as gains from sales of our available-for-sale securities portfolio.

Our available-for-sale securities portfolio is a fixed income investment portfolio that is managed to optimize portfolio yield over the long-term consistent with our liquidity, credit diversification and asset/liability strategies. Though infrequent, the sale of securities from our available-for-sale portfolio results in net gains or losses on investment securities. We sold $1.4 billion and $650.8 million in certain available-for-sale securities resulting in pre-tax gains of $37.3 million and $24.7 million during 2011 and 2010, respectively. These securities were sold as part of our portfolio management strategy of managing duration risk.

Our non-marketable securities portfolio primarily represents investments in venture capital funds, venture debt funds and private portfolio companies. We experience variability in the performance of our non-marketable securities from period to period, which results in net gains or losses on investment securities. This variability is due to a number of factors, including changes in the values of our investments, changes in the amount of distributions or liquidity events and general economic and market conditions. Such variability may lead to volatility in the gains or losses from investment securities and as such our results for a particular period are not necessarily indicative of our expected performance in a future period. Throughout 2009, as a result of the economic downturn, the valuations of our investments were affected by a more challenging venture capital/private equity environment and a significant slowdown of M&A and IPOs among our portfolio companies. In 2010 and 2011, we saw improvement in venture capital/private equity investment levels and increased M&A and IPO activity among these portfolio companies.

The following tables provide a summary of net gains (losses) on investment securities, net of noncontrolling interests, for 2011, 2010 and 2009:

	Year ended December 31, 2011					
(Dollars in thousands)	**Managed Funds Of Funds**	**Managed Direct Venture Funds**	**Debt Funds**	**Available-For-Sale Securities**	**Strategic and Other Investments**	**Total**
Total gains on investment securities, net	$ 119,095	$ 20,629	$ 7,774	$ 37,127	$ 10,409	$ 195,034
Less: income attributable to noncontrolling interests, including carried interest	106,870	18,147	25			125,042
Non-GAAP net gains on investment securities, net of noncontrolling interests	12,225	2,482	7,749	37,127	10,409	69,992
Less: gains on sales of certain available-for-sale securities				37,314		37,314
Non-GAAP net gains (losses) on investment securities, net of noncontrolling interests and excluding gains on sales of certain available-for-sale securities	$ 12,225	$ 2,482	$ 7,749	$ (187)	$ 10,409	$ 32,678

	Year ended December 31, 2010					
(Dollars in thousands)	Managed Funds Of Funds	Managed Direct Venture Funds	Debt Funds	Available-For-Sale Securities	Strategic and Other Investments	Total
Total gains on investment securities, net	$ 41,198	$ 19,127	$ 4,745	$ 24,823	$ 3,467	$ 93,360
Less: income attributable to noncontrolling interests, including carried interest	36,069	16,496	21			52,586
Non-GAAP net gains on investment securities, net of noncontrolling interests	5,129	2,631	4,724	24,823	3,467	40,774
Less: gains on sales of certain available-for-sale securities				24,699		24,699
Non-GAAP net gains on investment securities, net of noncontrolling interests and excluding gains on sales of certain available-for-sale securities	$ 5,129	$ 2,631	$ 4,724	$ 124	$ 3,467	$ 16,075

	Year ended December 31, 2009					
(Dollars in thousands)	Managed Funds Of Funds	Managed Direct Venture Funds	Debt Funds	Available-For-Sale Securities	Strategic and Other Investments	Total
Total (losses) gains on investment securities, net	$ (28,894)	$ (2,467)	$ 4,490	$ (168)	$ (4,170)	$ (31,209)
Less: (losses) income attributable to noncontrolling interests, including carried interest	(24,569)	(2,938)	869			(26,638)
Non-GAAP net (losses) gains on investment securities, net of noncontrolling interests	$ (4,325)	$ 471	$ 3,621	$ (168)	$ (4,170)	$ (4,571)

In 2011 we had net gains on investment securities of $195.0 million, compared to net gains of $93.4 million and net losses of $31.2 million in 2010 and 2009, respectively. Non-GAAP gains on investment securities, net of noncontrolling interests, were $32.7 million in 2011, compared to net gains of $16.1 million and net losses of $4.6 million in 2010 and 2009, respectively (amounts also exclude gains of $37.3 million and $24.7 million from the sales of certain available-for-sale securities in 2011 and 2010, respectively).

The gains, net of noncontrolling interests and excluding gains from the sale of certain available-for-sale securities, of $32.7 million in 2011 were primarily attributable to the following:

Net gains of $14.7 million from our managed funds, primarily due to increased valuations and liquidity events from companies (primarily internet and social networking).
Net gains of $10.4 million from our strategic and other investments, which included gains of $6.5 million from the sale of private company shares that were originally acquired through the exercise of equity warrant assets.
Net gains of $7.7 million from our debt funds due primarily to unrealized gains related to our share of debt fund operating income and gains from distributions.

Table of Contents

The gains, net of noncontrolling interests and excluding gains from the sale of certain available-for-sale securities, of $16.1 million in 2010 were due to the following:

Net gains of $7.8 million from our managed funds primarily related to increased valuations.
Net gains of $4.7 million from our debt funds primarily related to gains from distributions and our share of debt fund operating income.

Foreign Exchange Fees

Foreign exchange fees represent the income differential between purchases and sales of foreign currency on behalf of our clients. Foreign exchange fees were $43.9 million in 2011, compared to $36.2 million and $30.7 million in 2010 and 2009, respectively. The increases in foreign exchange fees in 2011 and 2010 were primarily due to improving business conditions for our clients and increased volatility in foreign markets, which has resulted in higher commissioned notional volumes. Commissioned notional volumes were $9.3 billion in 2011, compared to $6.7 billion and $5.0 billion in 2010 and 2009, respectively.

Gains (Losses) on Derivative Instruments, Net

A summary of gains (losses) on derivative instruments, net, for 2011, 2010 and 2009 is as follows:

	Year ended December 31,				
(Dollars in thousands)	**2011**	**2010**	**% Change 2011/2010**	**2009**	**% Change 2010/2009**
Gains (losses) on foreign exchange forward contracts, net:					
Gains on client foreign exchange forward contracts, net (1)	$ 2,259	$ 1,914	18.0%	$ 1,730	10.6%
Gains (losses) on internal foreign exchange forward contracts, net (2)	1,973	710	177.9	(2,258)	(131.4)
Total gains (losses) on foreign exchange forward contracts, net	4,232	2,624	61.3	(528)	NM
Change in fair value of interest rate swaps	(470)			(170)	(100.0)
Net (losses) gains on other derivatives (3)	(2,520)	342	NM		
Equity warrant assets (4):					
Gains on exercise, net	17,864	5,524	NM	933	NM
Change in fair value:					
Cancellations and expirations	(1,806)	(3,488)	(48.2)	(4,515)	(22.7)
Other changes in fair value	21,381	4,520	NM	3,527	28.2
Total net gains (losses) on equity warrant assets (5)	37,439	6,556	NM	(55)	NM
Total gains (losses) on derivative instruments, net	$ 38,681	$ 9,522	NM	$ (753)	NM

NM Not meaningful

(1) Represents the net gains for foreign exchange forward contracts executed on behalf of clients.
(2) Represents the change in the fair value of foreign exchange forward contracts used to economically reduce our foreign exchange exposure related to certain foreign currency denominated loans. Revaluations of foreign currency denominated loans are recorded in the line item Other as part of noninterest income, a component of consolidated net income.
(3) Primarily represents the change in fair value of loan conversion options. For more information, refer to Note 12 Derivative Financial Instruments of the Notes to the Consolidated Financial Statements under Part II, Item 8 in this report.
(4) At December 31, 2011, we held warrants in 1,174 companies, compared to 1,157 companies at December 31, 2010 and 1,225 companies at December 31, 2009.

(5) Net gains on equity warrant assets are included in the line item Gains on derivative instruments, net as part of noninterest income.

Net gains on derivative instruments were $38.7 million in 2011, compared to net gains of $9.5 million in 2010 and net losses of $0.8 million in 2009. The increase of $29.2 million in 2011 was primarily due to the following:

- Net gains on equity warrant assets of $37.4 million in 2011, compared to net gains of $6.6 million in 2010. The net gains of $37.4 million in 2011 reflect the strength of IPO and M&A activity within the technology industry. These gains were driven by gains of $21.4 million from valuation increases in our equity warrant assets and gains of $17.9 million from the exercise of equity warrant assets, partially offset by losses of $1.8 million from warrant cancellations and expirations.
- Net gains of $2.0 million on foreign exchange forward contracts hedging our foreign currency denominated loans in 2011, compared to net gains of $0.7 million in 2010. The net gains of $2.0 million in 2011 were primarily due to the strengthening of the U.S. dollar against the Pound Sterling and Euro, and were partially offset by net losses of $1.8 million from the revaluation of foreign currency denominated loans that are included in the line item Other as part of noninterest income (as discussed below).

The increase of $10.3 million in 2010 was primarily due to the following:

- Net gains on equity warrant assets of $6.6 million in 2010, compared to net losses of $0.1 million in 2009. The net gains of $6.6 million in 2010 were primarily driven by gains of $5.5 million from the exercise of equity warrant assets and gains of $4.5 million from valuation increases in our equity warrant assets, partially offset by losses of $3.5 million from warrant cancellations and expirations.
- Net gains from foreign exchange forward contracts hedging our foreign currency denominated loans of $0.7 million, compared to net losses of $2.3 million in 2009. The net gains of $0.7 million in 2010 were primarily due to the strengthening of the U.S. dollar against the Pound Sterling and Euro, and were partially offset by net losses of $0.4 million from revaluation of foreign currency denominated loans that are included in the line item Other as part of noninterest income.

Credit Card Fees

Credit card fees were $18.7 million in 2011, compared to $12.7 million in 2010 and $9.3 million in 2009. The increases were primarily due to the addition of new credit card clients, as well as an increase in client activity.

Client Investment Fees

We offer a variety of investment products on which we earn fees. These products include money market mutual funds, overnight repurchase agreements, sweep money market funds and fixed income securities available through client-directed accounts offered through SVB Securities, our broker dealer subsidiary, and fixed income management services offered through SVB Asset Management, our investment advisory subsidiary.

Client investment fees were $12.4 million in 2011, compared to $18.0 million in 2010 and $21.7 million in 2009. The decreases were primarily attributable to lower margins earned on certain products owing to historically low rates in the short-term fixed income markets. In 2011, this decrease was partially offset by an increase in average client investment funds. The following table summarizes average client investment funds for 2011, 2010 and 2009:

	Year ended December 31,				
(Dollars in millions)	**2011**	**2010**	**% Change 2011/2010**	**2009**	**% Change 2010/2009**
Client directed investment assets (1)	$ 8,683	$ 9,279	(6.4)%	$ 10,879	(14.7)%
Client investment assets under management	8,803	6,432	36.9	5,659	13.7
Sweep money market funds	250			56	(100.0)
Total average client investment funds (2)	$ 17,736	$ 15,711	12.9	$ 16,594	(5.3)

(1) Comprised of mutual funds and Repurchase Agreement Program assets.
(2) Client investment funds are maintained at third party financial institutions and are not recorded on our balance sheet.

Table of Contents

The following table summarizes period-end client investment funds at December 31, 2011, 2010 and 2009:

	December 31,				
(Dollars in millions)	**2011**	**2010**	**% Change 2011/2010**	**2009**	**% Change 2010/2009**
Client directed investment assets	$ 7,709	$ 9,479	(18.7)%	$ 9,693	(2.2)%
Client investment assets under management	9,919	7,415	33.8	5,905	25.6
Sweep money market funds	1,116				
Total period end client investment funds	$ 18,744	$ 16,894	11.0	$ 15,598	8.3

The increases in average and period-end balances in 2011 of $2.0 billion and $1.9 billion, respectively, were primarily due to an increase in client investment assets under management, mainly attributable to a steadily improving funding environment for both private and public clients, as well as our increased efforts to guide clients towards products that are more appropriate for them, resulting in a modest shift of deposits off the balance sheet. In addition, we re-introduced a sweep product in May 2011, and have accumulated $1.1 billion in balances at December 31, 2011.

The increase in period-end balances at December 31, 2010 from December 31, 2009 was primarily due to an increase in client investment assets under management, mainly attributable to a combination of a stronger M&A and IPO environment and an increase in existing client funding.

Other Noninterest Income

A summary of other noninterest income for 2011, 2010 and 2009 is as follows:

	Year ended December 31,				
(Dollars in thousands)	**2011**	**2010**	**% Change 2011/2010**	**2009**	**% Change 2010/2009**
Fund management fees	$ 10,730	$ 10,753	(0.2)%	$ 10,328	4.1%
Service-based fee income (1)	9,717	8,840	9.9	7,554	17.0
Unused commitment fees	7,095	6,833	3.8	3,534	93.4
Loan syndication fees	1,020	1,775	(42.5)		
(Losses) gains on revaluation of foreign currency loans, net	(1,821)	(427)	NM	1,945	(122.0)
Currency revaluation (losses) gains	(4,275)	959	NM	764	25.5
Other	7,689	6,909	11.3	5,836	18.4
Total other noninterest income	$ 30,155	$ 35,642	(15.4)	$ 29,961	19.0

NM Not meaningful

(1) Represents income from SVB Analytics

Other noninterest income was $30.2 million in 2011, compared to $35.6 million in 2010 and $30.0 million in 2009. The decrease of $5.4 million in 2011 was primarily due to currency revaluation losses of $4.3 million in 2011, compared to a gain of $1.0 million in 2010. These losses were primarily due to the strengthening of the U.S. dollar against the Indian Rupee. Additionally, we had losses on revaluation of foreign currency loans of $1.8 million in 2011, compared to $0.4 million in 2010. These losses were primarily due to the strengthening of the U.S. dollar against the Euro, and were partially offset by gains from our internal forward exchange forward contracts that are included in the line item Gains (losses) on derivative instruments, net as part of noninterest income (as discussed above).

54

Table of Contents

The increase of $5.6 million in 2010 was primarily due to an increase in unused commitment fees of $3.3 million and an increase in loan syndication fees of $1.8 million. The increase in unused commitment fees was primarily due to an increase in our unfunded credit commitments balance, which increased from $5.3 billion at December 31, 2009 to $6.3 billion at December 31, 2010.

Noninterest Expense

	Year ended December 31,				
(Dollars in thousands)	**2011**	**2010**	**% Change 2011/2010**	**2009**	**% Change 2010/2009**
Compensation and benefits	$ 313,043	$ 248,606	25.9%	$ 189,631	31.1%
Professional services	60,807	56,123	8.3	46,540	20.6
Premises and equipment	28,335	23,023	23.1	23,270	(1.1)
Business development and travel	24,250	20,237	19.8	14,014	44.4
Net occupancy	19,624	19,378	1.3	17,888	8.3
FDIC assessments	10,298	16,498	(37.6)	17,035	(3.2)
Correspondent bank fees	9,052	8,379	8.0	8,040	4.2
Provision for (reduction of) unfunded credit commitments	4,397	4,083	7.7	(1,367)	NM
Impairment of goodwill				4,092	(100.0)
Other	30,822	26,491	16.3	24,723	7.2
Total noninterest expense	$500,628	$422,818	18.4	$343,866	23.0

NM Not meaningful

Included in noninterest expense is expense attributable to noncontrolling interests. See below for a summary of non-GAAP noninterest expense and non-GAAP operation efficiency ratio, both of which exclude noncontrolling interests.

Compensation and Benefits

Compensation and benefits expense was $313.0 million in 2011, compared to $248.6 million in 2010 and $189.6 million in 2009. The following table provides a summary of our compensation and benefits expense:

	Year ended December 31,				
(Dollars in thousands)	**2011**	**2010**	**% Change 2011/2010**	**2009**	**% Change 2010/2009**
Compensation and benefits					
Salaries and wages	$ 134,719	$ 116,639	15.5%	$ 108,417	7.6%
Incentive compensation	88,613	57,484	54.2	25,163	128.4
ESOP	8,652	8,019	7.9		
Other employee benefits (1)	81,059	66,464	22.0	56,051	18.6