SVB FINANCIAL GROUP
Form 10-Q
December 30, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

OR

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

For the transition period from to .

Commission File Number: 000-15637

SVB FINANCIAL GROUP

(formerly Silicon Valley Bancshares)

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**91-1962278** (I.R.S. Employer Identification No.)
3003 Tasman Drive, Santa Clara, California 95054 1191 (Address of principal executive offices including zip code)	**http://www.svb.com/company/investor_fs.asp** (Registrant s URL)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes o Noý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yesý Noo

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

Yes o No ý

At December 23, 2005, 34,910,915 shares of the registrant s common stock ($0.001 par value) were outstanding.

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ITEM 1 - INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except par value)	June 30, 2005	December 31, 2004
Assets		
Cash and due from banks	$ 259,824	$ 284,208
Federal funds sold, securities purchased under agreement to resell and other short-term investments	278,421	343,010
Investment securities	2,201,016	2,074,967
Loans, net of unearned income	2,423,965	2,308,588
Allowance for loan and lease losses	(36,372)	(37,613)
Loans, net	2,387,593	2,270,975
Premises and equipment, net of accumulated depreciation and amortization	18,782	14,641
Goodwill	35,639	35,639
Accrued interest receivable and other assets	126,551	122,239
Total assets	$ 5,307,826	$ 5,145,679
Liabilities, Minority Interest, and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 2,728,646	$ 2,649,853
Negotiable order of withdrawal (NOW)	38,446	32,009
Money market	1,315,850	1,206,078
Time	290,177	331,574
Total deposits	4,373,119	4,219,514
Contingently convertible debt	147,195	146,740
Junior subordinated debentures	50,304	49,470
Other borrowings	11,418	9,820
Other liabilities	94,780	107,502
Total liabilities	4,676,816	4,533,046
Commitments and contingencies		
Minority interest in capital of consolidated affiliates	98,080	70,685
Stockholders equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.001 par value, 150,000,000 shares authorized; 35,097,064 and 35,970,095 shares outstanding at June 30, 2005 and December 31, 2004, respectively	35	36
Additional paid-in capital	5,263	45,226
Retained earnings	539,035	499,911
Unearned compensation	(9,171)	(4,512)

Accumulated other comprehensive income (loss)		(2,232)		1,287
Total stockholders equity		532,930		541,948
Total liabilities, minority interest, and stockholders equity	$	5,307,826	$	5,145,679

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)	For the three months ended June 30, 2005	For the three months ended June 30, 2004 (As Restated)	For the six months ended June 30, 2005	For the six months ended June 30, 2004 (As Restated)
Interest income:				
Loans	$ 51,306	$ 35,614	$ 98,762	$ 71,122
Investment securities:				
Taxable	21,191	17,578	42,165	31,072
Non-taxable	947	1,290	1,970	2,751
Federal funds sold, securities purchased under agreement to resell and other short-term investments	2,025	1,717	4,984	3,690
Total interest income	75,469	56,199	147,881	108,635
Interest expense:				
Deposits	2,848	2,124	5,110	4,138
Other borrowings	931	712	1,726	1,438
Total interest expense	3,779	2,836	6,836	5,576
Net interest income	71,690	53,363	141,045	103,059
(Recovery of) provision for loan and lease losses	814	(6,175)	(3,000)	(5,530)
Net interest income after (recovery of) provision for loan and lease losses	70,876	59,538	144,045	108,589
Noninterest income:				
Client investment fees	7,805	6,399	15,201	12,667
Letter of credit and standby letter of credit income	2,423	2,343	4,793	5,014
Corporate finance fees	6,935	10,759	11,749	15,141
Deposit service charges	2,378	3,695	4,882	7,408
Gains on derivative instruments, net	10,115	3,593	14,141	6,158
Gains (losses) on investment securities, net	(1,631)	755	(429)	2,224
Other	2,108	2,924	4,936	5,783
Total noninterest income	30,133	30,468	55,273	54,395
Noninterest expense:				
Compensation and benefits	44,280	40,673	84,548	74,080
Professional services	5,653	4,876	10,723	8,215
Net occupancy	4,215	4,665	8,873	9,266
Furniture and equipment	3,300	3,450	6,019	6,359
Business development and travel	2,702	2,180	4,792	4,171
Correspondent bank fees	1,475	1,243	2,696	2,524
Data processing services	952	789	1,965	1,874
Telephone	1,061	902	1,950	1,684
Provision for (reduction of) unfunded credit commitments	(1,074)	3,101	(1,259)	2,382
Other	3,761	4,470	6,833	7,626
Total noninterest expense	66,325	66,349	127,140	118,181
Income before minority interest in net (income) loss of consolidated affiliates and income tax expense	34,684	23,657	72,178	44,803
	372	(67)	813	(548)

Minority interest in net (income) loss of consolidated affiliates								
Income before income tax expense		35,056		23,590		72,991		44,255
Income tax expense		14,160		9,129		29,159		16,573
Net income	$	20, 896	$	14,461	$	43,832	$	27,682
Earnings per common share basic	$	0.60	$	0.41	$	1.24	$	0.79
Earnings per common share diluted	$	0.54	$	0.39	$	1.13	$	0.75

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	For the three months ended June 30, 2005	For the three months ended June 30, 2004 (As Restated)	For the six months ended June 30, 2005	For the six months ended June 30, 2004 (As Restated)
Net income	$ 20,896	$ 14,461	$ 43,832	$ 27,682
Other comprehensive income (loss), net of tax:				
Cumulative translation gains (losses):				
Translation gain (loss), net	(32)		(32)	
Change in unrealized gains (losses) on available-for-sale investment securities:				
Unrealized holding gains (losses), net	11,854	(23,847)	(2,197)	(17,003)
Reclassification adjustment for gains (losses) included in net income, net of tax	(1,087)	(12)	(1,290)	710
Other comprehensive income (loss), net of tax	10,735	(23,859)	(3,519)	(16,293)
Comprehensive income (loss)	$ 31,631	$ (9,398)	$ 40,313	$ 11,389

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	For the six months ended June 30, 2005	June 30 2004 (As Restated)
Cash flows from operating activities:		
Net income	$ 43,832	$ 27,682
Adjustments to reconcile net income to net cash provided by operating activities:		
(Recovery of) provision for loan and lease losses	(3,000)	(5,530)
(Gains) losses on investment securities, net	429	(2,224)
Changes in fair values of derivatives	1,601	3,460
Depreciation and amortization	4,173	4,323
Minority interest	(813)	548
Tax benefit of stock compensation	7,198	3,507
Amortization of stock-based compensation	3,441	773
Amortization of deferred warrant related loan fees	(3,504)	(2,610)
Deferred income tax expense (benefit)	1,310	(112)
Changes in other assets and liabilities:		
(Increase) in accrued interest receivable	(4,624)	(2,224)
(Increase) decrease in accounts receivable	867	(7,557)
(Increase) in income tax receivable	(6,442)	(735)
Increase (decrease) in accrued retention, incentive plans, other compensation benefits payable	(14,037)	2,333
Other, net	12,445	5,550
Net cash provided by operating activities	42,876	27,184
Cash flows from investing activities:		
Purchases of investment securities	(349,232)	(1,023,375)
Proceeds from sales of investment securities	210,120	141,134
Proceeds from maturities and pay downs of investment securities	7,902	390,989
Net (increase) in loans	(123,415)	(133,376)
Proceeds from recoveries of charged-off loans	7,829	7,263
Purchases of premises and equipment	(8,245)	(3,252)
Net cash (used by) investing activities	(255,041)	(620,617)
Cash flows from financing activities:		
Net increase in deposits	153,605	338,525
Increase in other borrowings, net	1,598	25,000
Capital contributions from minority interest participants, net of distributions	28,208	17,400
Proceeds from issuance of common stock	12,921	11,756
Repurchase of common stock	(73,140)	
Net cash provided by financing activities	123,192	392,681
Net (decrease) in cash and cash equivalents	(88,973)	(200,752)
Cash and cash equivalents at beginning of year	627,218	835,313
Cash and cash equivalents at end of period	$ 538,245	$ 634,561
Supplemental disclosures:		
Cash paid during the period for:		
Interest paid	$ 6,799	$ 5,512
Income taxes paid	$ 27,043	$ 13,920

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Nature of Business

SVB Financial Group (formerly known as Silicon Valley Bancshares) (individually referred to as SVB Financial) and its subsidiaries (collectively, including SVB Financial, referred to as the Company) offer clients financial products and services through five lines of banking and financial services (see Note 10. Segment Reporting). SVB Financial is a bank holding company and a financial holding company whose principal subsidiary is Silicon Valley Bank (the Bank), a California chartered bank founded in 1983. The Company is headquartered in Santa Clara, California. As of May 31, 2005, the Company changed its name from Silicon Valley Bancshares to SVB Financial Group.

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

2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements contain all adjustments (of a normal and recurring nature) that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company in accordance with accounting principles generally accepted in the United States of America (GAAP). Such interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three months and six months ended June 30, 2005, are not necessarily indicative of the results for any future periods. These interim consolidated financial statements should be read in conjunction with the Company s Amendment No. 1 to its Annual Report on Form 10-K/A for the year ended December 31, 2004 (2004 Form 10-K/A).

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

The preparation of interim consolidated financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Federal funds sold, securities purchased under agreement to resell and other short-term investments as reported in the consolidated balance sheets include interest-bearing deposits in other financial institutions of $23.1 million and $11.4 million at June 30, 2005 and December 31, 2004, respectively.

Stock-Based Compensation

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

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

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

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

If compensation cost related to both the Company s stock option awards to employees and directors and to the ESPP had been determined under the fair value method prescribed under SFAS No. 123, the Company s net income, basic earnings per share, and diluted earnings per share would have been the pro forma amounts shown below for the three months and six months ended June 30, 2005 and June 30, 2004:

(Dollars in thousands, except per share amounts)	**For the three months ended June 30, 2005**	**For the three months ended June 30, 2004 (As restated)**	**For the six months ended June 30, 2005**	**For the six months ended June 30, 2004 (As restated)**
Net income, as reported	$ 20,896	$ 14,461	$ 43,832	$ 27,682
Add: Stock-based compensation expense, net of tax reported in net income	1,257	301	1,919	445
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax	(5,591)	(8,686)	(10,909)	(14,174)
Net income, pro forma	$ 16,562	$ 6,076	$ 34,842	$ 13,953
Earnings per common share basic:				
As reported	$ 0.60	$ 0.41	$ 1.24	$ 0.79
Pro forma	0.48	0.17	0.99	0.40
Earnings per diluted share diluted:				
As reported	$ 0.54	$ 0.39	$ 1.13	$ 0.75
Pro forma	0.45	0.17	0.93	0.39

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

Recent Accounting Pronouncements

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

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

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154), which replaces APB No. 20 Accounting Changes and SFAS No. 3 Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 also changes the requirements for the accounting for and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for the Company beginning January 1, 2006. The Company does not expect the adoption of SFAS No. 154 to have a material impact on its results of operations or financial condition.

3. Restatement of Financial Statements

As described in the Company s 2004 Form 10-K/A and its Amendment No. 1 on Form 10-Q/A for the three months ended March 31, 2005 (Q1 Form 10-Q/A), both of which were filed with the SEC prior to the filing of this report on Form 10-Q, the Company has restated its interim consolidated financial statements as of and for the three-month period ended March 31, 2005, the consolidated annual financial statements for the years 2004, 2003 and 2002, interim consolidated financial information for each of the quarters within fiscal 2004 and 2003, and selected financial data for fiscal years 2004, 2003, 2002, 2001 and 2000, for purposes of correcting misapplications of GAAP (the Restatement). This note should be read in conjunction with Note 3, Restatement of Financial Statements in the Notes to the Company s consolidated financial statements included in Item 8, Consolidated Financial Statements and Supplementary Data of the 2004 Form 10-K/A, which provides further information on the nature and impact of the Restatement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impact of the Restatement of Financial Statements.

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

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

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

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30, 2004		
(Dollars in thousands, except per share amounts)	**As Previously Reported**	**Adjustments**	**As Restated**
Interest Income:			
Loans	$ 37,280	$ (1,666)	$ 35,614
Investment securities:			
Taxable	17,989	(411)	17,578
Non-Taxable	1,290		1,290
Federal funds sold, securities purchased under agreement to resell and other short-term investments	1,306	411	1,717
Total interest income	57,865	(1,666)	56,199
Interest expense			
Deposits	2,124		2,124
Other borrowings	712		712
Total interest expense	2,836		2,836
Net interest income	55,029	(1,666)	53,363
(Recovery of) provision for loan and lease losses	(5,860)	(315)	(6,175)
Net interest income after (recovery of) provision for loan and lease losses	60,889	(1,351)	59,538
Noninterest income:			
Client investment fees	6,399		6,399
Letter of credit and standby letter of credit income	3,805	(1,462)	2,343
Corporate finance fees	10,897	(138)	10,759
Deposit service charges	3,695		3,695
Income from client warrants	3,310	(3,310)	
Gains (losses) on derivative instruments, net		3,593	3,593
Gains (losses) on investment securities, net	478	277	755
Other	2,924		2,924
Total noninterest income	31,508	(1,040)	30,468
Noninterest expense:			
Compensation and benefits	41,153	(480)	40,673
Professional services	4,876		4,876
Net occupancy	4,587	78	4,665
Furniture and equipment	3,450		3,450
Business development and travel	2,180		2,180
Correspondent bank fees	1,243		1,243
Data processing services	789		789
Telephone	902		902
Provision for (reduction of) unfunded credit commitments	3,101		3,101
Other	4,470		4,470
Total noninterest expense	66,751	(402)	66,349
Income before minority interest in net (income) losses of consolidated affiliates and income tax expense	25,646	(1,989)	23,657
Minority interest in net (income) losses of consolidated affiliates	(67)		(67)
Income (loss) before income tax expense	25,579	(1,989)	23,590
Income tax expense (benefit)	9,871	(742)	9, 129

Net income	$	15,708	$	(1,247)	$	14,461
Earnings per common share-basic	$	0.45	$	(0.04)	$	0.41
Earnings per common share-diluted	$	0.43	$	(0.04)	$	0.39

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Six Months ended June 30, 2004		
(Dollars in thousands, except per share amounts)	**As Previously Reported**	**Adjustments**	**As Restated**
Interest Income:			
Loans	$ 73,912	$ (2,790)	$ 71,122
Investment securities:			
Taxable	32,012	(940)	31,072
Non-Taxable	2,751		2,751
Federal funds sold, securities purchased under agreement to resell and other short term investments	2,750	940	3,690
Total interest income	111,425	(2,790)	108,635
Interest expense			
Deposits	4,138		4,138
Other borrowings	1,438		1,438
Total interest expense	5,576		5,576
Net interest income	105,849	(2,790)	103,059
(Recovery of) provision for loan and lease losses	(2,742)	(2,788)	(5,530)
Net interest income after (recovery of) provision for loan and lease losses	108,591	(2)	108,589
Noninterest income:			
Client investment fees	12,667		12,667
Letter of credit and standby letter of credit income	14,984	157	15,141
Corporate finance fees	7,534	(2,520)	5,014
Deposit service charges	7,408		7,408
Income from client warrants	6,218	(6,218)	
Gains (losses) on derivative instruments, net		6,158	6,158
Gains (losses) on investment securities, net	1,800	424	2,224
Other	5,783		5,783
Total noninterest income	56,394	(1,999)	54,395
Noninterest expense:			
Compensation and benefits	75,256	(1,176)	74,080
Professional services	9,110	156	9,266
Net occupancy	8,215		8,215
Furniture and equipment	6,359		6,359
Business development and travel	4,171		4,171
Correspondent bank fees	2,524		2,524
Data processing services	1,874		1,874
Telephone	1,684		1,684
Provision for (reduction of) unfunded credit commitments		2,382	2,382
Other	7,626		7,626
Total noninterest expense	116,819	1,362	118,181
Income before minority interest in net (income) losses of consolidated affiliates and income tax expense	48,166	(3,363)	44,803
Minority interest in net (income) losses of consolidated affiliates	(548)		(548)
Income (loss) before income tax expense	47,618	(3,363)	44,255
Income tax expense (benefit)	17,900	(1,327)	16,573
Net income	$ 29,718	$ (2,036)	$ 27,682

Earnings per common share-basic	$	0.85	$	(0.06)	$	0.79
Earnings per common share-diluted	$	0.81	$	(0.06)	$	0.75

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months ended June 30, 2004		
(Dollars in thousands)	**As Previously Reported**	**Adjustments**	**As Restated**
Net income	$ 15,708	$ (1,247)	$ 14,461
Other comprehensive income (loss), net of tax:			
Change in unrealized gains (losses) on available-for-sale investment securities:			
Unrealized holding gains (losses), net of tax	(25,952)	2,105	(23,847)
Reclassification adjustment for gains (losses) included in net income, net of tax	(1,979)	1,967	(12)
Other comprehensive income (loss), net of tax	(27,931)	4,072	(23,859)
Comprehensive income (loss)	$ (12,223)	$ 2,825	$ (9,398)

	For the Six Months ended June 30, 2004		
(Dollars in thousands)	**As Previously Reported**	**Adjustments**	**As Restated**
Net income	$ 29,718	$ (2,036)	$ 27,682
Other comprehensive income (loss), net of tax:			
Change in unrealized gains (losses) on available-for-sale investment securities:			
Unrealized holding gains (losses), net of tax	(17,511)	508	(17,003)
Reclassification adjustment for gains (losses) included in net income, net of tax	(4,658)	5,368	710
Other comprehensive income (loss), net of tax	(22,169)	5,876	(16,293)
Comprehensive income (loss)	$ 7,549	$ 3,840	$ 11,389

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months ended June 30, 2004		
(Dollars in thousands)	**As Previously Reported**	**Adjustments**	**As Restated**
Cash flows from operating activities:			
Net cash (used) provided by operating activities	$ 19,442	$ 7,742	$ 27,184
Cash flows from investing activities:			
Net cash (used) provided by investing activities	(668,813)	48,196	(620,617)
Cash flows from financing activities:			
Net cash (used) provided by financing activities	399,009	(6,328)	392,681
Foreign exchange effect on cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents	(250,362)	49,610	(200,752)
Cash and cash equivalents at beginning of period	794,996	40,317	835,313
Cash and cash equivalents at end of period	$ 544,634	$ 89,927	$ 634,561
Supplemental disclosures:			
Cash paid during the period for:			
Interest paid	$ 5,512	$	$ 5,512
Income taxes paid	$ 13,920	$	$ 13,920

4. Earnings Per Share (EPS)

The following is a reconciliation of basic EPS to diluted EPS for the three months and six months ended June 30, 2005 and June 30, 2004.

(Dollars and shares in thousands, except per share amounts)	For the three months ended June 30, Net Income	Weighted Average Shares	Per Share Amount	For the six months ended June 30, Net Income	Weighted Average Shares	Per Share Amount
2005:						
Basic EPS:						
Income available to common stockholders	$ 20,896	35,010	$ 0.60	$ 43,832	35,339	$ 1.24
Effect of dilutive securities:						
Stock options, restricted stock and convertible debt		3,464			3,288	
Diluted EPS:						
Income available to common stockholders and assumed conversions	$ 20,896	38,474	$ 0.54	$ 43,832	38,627	$ 1.13
2004: (As Restated)						
Basic EPS:						
Income available to common stockholders	$ 14,461	35,049	$ 0.41	$ 27,682	34,965	$ 0.79
Effect of dilutive securities:						
Stock options, restricted stock and convertible debt		2,078			1,983	
Diluted EPS:						
Income available to common stockholders and assumed conversions	$ 14,461	37,127	$ 0.39	$ 27,682	36,948	$ 0.75

In September 2004, the EITF reached final consensus on EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share, requiring that contingently convertible securities should be treated as convertible securities and included in the calculation of diluted earnings per common share. The diluted earnings per common share for the three and six months ended June 30, 2005 and 2004, have been restated to reflect the December 31, 2004 adoption of EITF Issue 04-8. The potentially dilutive effect of the contingently convertible debt using the treasury stock method was 1,152,143 shares as of June 30, 2005. The Company included the dilutive effect of the $150.0 million zero-coupon, convertible subordinated notes due June 15, 2008 in its fully diluted earnings per share (EPS) calculation using the treasury stock method, in accordance with the provisions of Emerging Issue Task Force (EITF) issue No. 90-19, Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion and Statement of Financial Accounting Standard (SFAS) No. 128, Earnings Per Share . However, the exposure draft of SFAS No. 128R, if adopted in its proposed form, will require the Company to change its accounting for the calculation of EPS on its contingently convertible debt to the if converted method. The if converted treatment of the contingently convertible debt would have decreased EPS by $0.04 per diluted common share, or 7.4 percent and $0.08 per diluted common share or 7.1 percent, for the three and six months ended June 30, 2005, respectively.

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5. Investment Securities

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

(Dollars in thousands)	June 30, 2005	December 31, 2004
Available-for-sale securities, at fair value	$ 2,016,012	$ 1,926,685
Marketable securities (investment company fair value accounting)	344	480
Non-marketable securities (investment company fair value accounting):		
Venture capital fund investments(1)	66,428	52,547
Other private equity investments(2)	20,018	15,720
Other investments(3)	24,161	11,247
Non-marketable securities (equity method accounting):		
Other investments (4)	3,590	2,388
Low income housing tax credit funds	12,876	14,070
Non-marketable securities (cost method accounting):		
Fund investments	28,059	27,409
Federal Home Loan Bank stock (5)	17,512	12,798
Federal Reserve Bank stock (5)	8,220	7,967
Other private equity investments	3,796	3,656
Total investment securities	$ 2,201,016	$ 2,074,967

(1) Includes $52.1 million and $45.3 million related to SVB Strategic Investors Fund, LP, at June 30, 2005, and December 31, 2004, respectively. The Company has a controlling ownership interest of 12.6% and 11.1% in the fund at June 30, 2005 and December 31, 2004, respectively. It also includes $14.3 million and $7.3 million related to SVB Strategic Investors Fund II, LP, at June 30, 2005 and December 31, 2004, respectively. The Company has a controlling interest of 8.6% and 14.4 % in the fund at June 30, 2005 and December 31, 2004, respectively.

(2) Includes $20.0 million and $15.7 million related to Silicon Valley BancVentures, LP, at June 30, 2005, and December 31, 2004, respectively. The Company has a controlling ownership interest of 10.7% in the fund for both the periods ended June 30, 2005 and December 31, 2004.

(3) Includes $20.7 million and $9.0 million related to Partners For Growth, LP, at June 30, 2005 and December 31, 2004, respectively. The Company has a majority ownership interest of slightly above 50.0% and 53.2% in the fund at June 30, 2005 and December 31, 2004, respectively. It also included $3.4 million and $2.3 million related to Gold Hill Venture Lending 03, LP, a venture debt fund, as of June 30, 2005 and December 31, 2005, respectively. The Company has a direct ownership interest of 4.8% in the fund for both periods ended June 30, 2005 and December 31, 2004.

(4) Includes $3.6 million and $2.4 million related to Gold Hill Venture Lending Partners 03, LLC, the general partner of Gold Hill Venture Lending 03, LP, at June 30, 2005 and December 31, 2004, respectively. The Company has a majority interest of 90.7% in Gold Hill Venture Lending Partners 03, LLC. Gold Hill Venture Lending Partners 03, LLC has an ownership interest of 5.0% in the fund for both periods ended June 30, 2005 and December 31, 2004.

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

The following table presents the components of gains and losses on investment securities, for the three months and six months ended June 30, 2005 and June 30, 2004.

(Dollars in thousands)	For the three months ended June 30, 2005	For the three months ended June 30, 2004 (As Restated)	For the six months ended June 30, 2005	For the six months ended June 30, 2004 (As Restated)
Gross gains on investment securities:				
Available-for-sale securities, at fair value	$ 71	$ 15	$ 123	$ 1,213
Non-marketable securities (investment company fair value accounting):				
Venture capital fund investments	1,256	1,199	4,902	2,642
Other private equity investments	540	757	945	2,101
Other investments	22		22	
Non-marketable securities (cost method accounting):				
Venture capital fund investments	527	119	527	119
Other private equity investments	50	755	48	790
Total gross gains on investment securities	2,466	2,845	6,567	6,865
Gross losses on investment securities:				
Available-for-sale securities, at fair value	(1,929)	(36)	(2,355)	(3)
Non-marketable securities (investment company fair value accounting):				
Venture capital fund investments	(1,453)	(848)	(1,453)	(2,189)
Other private equity investments	(51)	(155)	(51)	(1,362)
Other investments				
Non-marketable securities (cost method accounting):				
Venture capital fund investments	(643)	(937)	(2,745)	(937)
Other private equity investments	(21)	(114)	(392)	(150)
Total gross losses on investment securities	(4,097)	(2,090)	(6,996)	(4,641)
Net gains (losses) on investment securities	$ (1,631)	$ 755	$ (429)	$ 2,224

6. Loans and Allowance for Loan and Lease Losses

The detailed composition of loans, net of unearned income of $20.3 million and $18.4 million, for the periods ended June 30, 2005, and December 31, 2004, respectively, is presented in the following table:

(Dollars in thousands)	June 30, 2005	December 31, 2004
Commercial loans	$ 2,034,263	$ 1,927,271
Vineyard development	88,019	80,960
Commercial real estate	20,253	18,562
Total real estate construction	108,272	99,522
Real estate term consumer	31,306	27,124
Real estate term commercial	19,378	16,720
Total real estate term	50,684	43,844
Consumer and other	230,746	237,951
Total loans, net of unearned income	$ 2,423,965	$ 2,308,588

The activity in the allowance for loan and lease losses for the three months and six months ended June 30, 2005 and 2004 was as follows:

(Dollars in thousands)	Three months ended June 30, 2005	Three months ended June 30, 2004 (As Restated)	Six months ended June 30, 2005	Six months ended June 30, 2004 (As Restated)
Beginning balance	$ 35,698	$ 49,381	$ 37,613	$ 49,862
(Recovery of) provision for loan and lease losses	814	(6,175)	(3,000)	(5,530)
Loans charged off	(2,010)	(2,751)	(6,070)	(6,715)
Recoveries	1,870	4,425	7,829	7,263
Ending balance	$ 36,372	$ 44,880	$ 36,372	$ 44,880

The aggregate recorded investment in loans for which impairment has been determined in accordance with SFAS No. 114 totaled $15.8 million and $12.6 million at June 30, 2005, and June 30, 2004, respectively. Allocations of the allowance for loan and lease losses specific to impaired loans totaled $1.0 million at June 30, 2005, and $3.8 million at June 30, 2004. Average impaired loans for the second quarter of 2005 and 2004 totaled $14.8 million and $13.7 million, respectively.

7. Borrowings

The following table represents the outstanding borrowings at June 30, 2005 and December 31, 2004:

(Dollars in thousands)	Maturity		June 30, 2005		December 31, 2004
0% Short-term borrowings(1)	September 28, 2005	$	9,262	$	9,120
Other borrowings	Overdraft		1,756		
Revolving line of credit venture debt fund	Due on Demand		400		700
Total other borrowings		$	11,418	$	9,820
Contingently convertible debt	June 15, 2008	$	147,195	$	146,740
Junior subordinated debentures	October 15, 2033		50,304		49,470

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

Interest expense related to other borrowings was $0.9 million and $0.7 million for the three months ended June 30, 2005 and June 30, 2004, and $1.7 million and $1.4 million for the six months ended June 30, 2005 and June 30, 2004, respectively. The weighted average interest rates associated with the Company s borrowings outstanding for the three and six months ended June 30, 2005 were 1.74% and 1.66%, respectively.

Contingently Convertible Debt

On May 20, 2003, the Company issued $150.0 million of zero-coupon, convertible subordinated notes at face value, due June 15, 2008, to qualified institutional buyers pursuant to Rule 144A under the Securities Act and outside the United States to non-US persons pursuant to Regulation S under the Securities Act. The notes are convertible into the Company s common stock at a conversion price of $33.6277 per share and are subordinated to all present and future senior debt of the Company. Holders of the notes may convert their notes only if: (i) the price of the Company s common stock issuable upon conversion of a note reaches a specified threshold, (ii) specified corporate transactions occur, or (iii) the trading price for the notes falls below certain thresholds. At the initial conversion price, each $1,000 principal amount of notes will be convertible into approximately 29.7374 shares of the Company s common stock. This represents 4,460,610 shares of the Company s common stock. On August 14, 2003, the Company filed a shelf registration statement with the SEC, with respect to the resale of the notes and the common stock issuable upon the conversion of the notes. The fair value of the convertible debt at June 30, 2005, was $216.0 million, based on quoted market prices. The Company intends to settle the principal amount of $150.0 million (accreted value) in cash. Based on the terms of the notes, if, at any time before June 15, 2007, the per share stock price on the last trading day of the immediately preceding fiscal quarter was 110% or more of the then current conversion price, the notes would become convertible. The per share closing price of $44.06 of the Company s common stock on March 31, 2005, the last trading day of first quarter of 2005, was 110% or more than the then current conversion price of $33.6277. Accordingly, during the second quarter of 2005, our note holders held the right, at their option, to convert their notes, in whole or in part, into shares of the Company s common stock, subject to certain limitations, at the conversion price of $33.6277. The Company settled in cash its obligations relating to the conversion of notes in an aggregate principal amount of $35,000 for which the Company had received conversion notice during the second quarter of 2005.

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

7.0% Junior Subordinated Debentures

On October 30, 2003, the Company issued $51.5 million in 7.0% junior subordinated debentures to a special-purpose trust, SVB Capital II. The Company s distributions to SVB Capital II are cumulative and are payable quarterly at a fixed rate of 7.0% per annum of the face value of the junior subordinated debentures. The junior subordinated debentures are mandatorily redeemable upon the maturity of the debentures on October 15, 2033, or to the extent that the Company redeems any debentures earlier. The Company may redeem the debentures prior to maturity in whole or in part, at its option, at any time on or after October 30, 2008. In addition, the Company may redeem the debentures, in whole but not in part, prior to October 30, 2008 upon the occurrence of certain events. Issuance costs of $2.2 million related to the junior subordinated debentures were deferred and are being amortized over the period until mandatory redemption of the debentures in October 2033. Also see Note 8. Derivative Financial Instruments below. The fair value of the 7.0% junior subordinated debentures was estimated to be $51.0 million as of June 30, 2005 and $50.2 million as of December 31, 2004. The Company has guaranteed the trust preferred securities issued by SVB Capital II.

Available Lines of Credit

As of June 30, 2005, the Company had available $430.0 million in federal funds and lines of credit, all of which were unused. In addition to the available federal funds lines the Company has repurchase agreement lines available with multiple securities dealers. Reverse repurchase lines allow the Company to finance short term borrowings using various fixed income securities as collateral. At June 30, 2005, the Company had not borrowed against any of its reverse repurchase lines.

8. Derivative Financial Instruments

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

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

	At June 30, 2005		
	Notional or contractual amount	Credit risk Amount (1)	Estimated net fair value Asset (liability)
	(Dollars in thousands)		
Fair Value Hedge			
Interest rate swap	$ 50,000	$ 797	$ 797
Derivatives			
Foreign exchange spot and forwards	496,627	6,311	2,750
Foreign currency options	19,538	164	
Equity warrant assets	N/A	27,291	27,291
	At December 31, 2004 (Dollars in thousands)		
Fair Value Hedge			
Interest rate swap	$ 50,000	$ 49	$ 49
Derivatives			
Foreign exchange spot and forwards	525,434	10,011	(431)
Foreign currency options	13,460	47	
Equity warrant assets	N/A	28,928	28,928

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

Fair Value Hedges

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

The terms of this fair value hedge agreement provide for a swap of the Company s 7.0% fixed rate payment for a variable rate based on London Inter-Bank Offer Rate (LIBOR) plus a spread. Because the swap meets the criteria for the short-cut treatment, the benefit or expense is recorded in the period incurred. This derivative agreement provided net income of $0.3 million and $0.6 million in the three months ended June 30, 2005 and 2004, and $0.7 million and $1.2 million in the six months ended June 30, 2005 and 2004, respectively. The swap agreement mirrors the terms of the junior subordinated debentures and therefore is callable by the counterparty anytime on or after October 30, 2008. The Company assumes no ineffectiveness as the swap agreement meets the short-cut method requirements under SFAS No. 133 for fair value hedges of debt instruments. As a result, changes in the fair value of the swap are offset by changes in the fair value of the junior subordinated debentures, and no net gain or loss is recognized in earnings. Changes in the fair value of the derivative agreement and the junior subordinated debentures are primarily dependent on changes in market interest rates.

Derivatives

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

The Company enters into foreign exchange forward contracts and non-deliverable foreign exchange forward contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency at a future date, depending upon the clients need. For each of the foreign exchange forward contracts and non-deliverable foreign exchange forward contracts entered into with its clients, the Company enters into an opposite way foreign exchange forward contract and non-deliverable foreign exchange forward contract with a correspondent bank, which mitigates the risk of fluctuations in foreign currency exchange rates. These contracts are short-term in nature, typically expiring within one year. The Company has not experienced nonperformance by counterparties and therefore has not incurred related losses. Further, the Company anticipates performance by all counterparties to such agreements. Period end fair value of foreign currency forward contracts is included in Other Assets and Other Liabilities as of June 30, 2005 and December 31, 2004. The change in fair value of these contracts is recorded in the line item gains on derivative instruments, net in noninterest income, a component of consolidated net income.

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

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

The Company obtains derivative equity warrant assets to purchase an equity position in a client company s stock in consideration for providing credit facilities and less frequently for providing other services. The purpose of obtaining warrants from client companies is intended to increase the Company s future noninterest income. The change in fair value of equity warrant assets is recorded in gains on derivative instruments in noninterest income, a component of consolidated net income. The change in fair value of the warrants resulted in a net loss of $1.5 million, and $2.5 million for the three months ended June 30, 2005 and 2004, and $1.6 million and $4.7 million for the six months ended June 30, 2005 and 2004, respectively. For information on the Company s change in the value of warrant assets, see Note 3 Restatement of Financial Statements.

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

Concurrent with the issuance of the $150 million principal amount of contingently convertible notes, (see Note 7 Borrowings), the Company entered into a convertible note hedge (purchased call option) at a cost of $39.3 million and a warrant transaction providing proceeds of $17.4 million with respect to its common stock, with the objective of decreasing its exposure to potential dilution from conversion of the contingently convertible notes, (see Note 7. Borrowings). Under the terms of the convertible note hedge, upon the occurrence of conversion events, the Company has the right to purchase up to approximately 4,460,610 shares of its common stock from the counterparty at a price of $33.6277 per common share. The convertible note hedge agreement will expire on June 15, 2008. The Company has the option to settle any amounts due under the convertible hedge either in cash or net shares of its common stock. The cost of the convertible note hedge is included in stockholders equity in accordance with the guidance in EITF No. 00-19. Under the warrant agreement, the counterparty may purchase up to approximately 4,460,608 shares of the Company s common stock at $51.34 per share, upon the occurrence of conversion events defined above. The warrant transaction will expire on June 15, 2008. The proceeds of the warrant transaction were included in stockholders equity in accordance with the guidance in EITF No. 00-19. During the three and six month periods ending June 30, 2005 and 2004, the warrant was not dilutive to the Company s EPS, as the Company s average common stock price remained below $51.34 during these periods.

9. Common Stock Repurchase

On January 27, 2005, the Company announced that its Board of Directors authorized the repurchase of up to an additional $75.0 million of common stock under the Company s stock repurchase program, in conjunction with the $160.0 million originally approved in May 2003. The additional $75.0 million of shares may be repurchased at any time, at the Company s discretion, before June 30, 2006, in the open market, through block trades or otherwise, pursuant to applicable securities laws. Depending on market conditions, availability of funds, and other relevant factors, the repurchase of the additional shares may be commenced or suspended at any time prior to June 30, 2006, without any prior notice. Since May 2003 when the program was approved by the Board of Directors, the Company has repurchased 6.4 million shares totaling $199.0 million as of June 30, 2005. The approximate dollar value of shares that may still be repurchased under this program is $31.5 million.

Under the May 2003 stock repurchase program, the Company repurchased (i) during the three-month period ending June 30, 2005, 831,300 shares of its common stock for $39.2 million in, and (ii) during the six-month period ending June 30, 2005, 1,598,800 shares of its common stock for $73.2 million.

From time to time, the Company may implement a non-discretionary Rule 10b5-1 trading plan, under which the Company will automatically repurchase shares of its common stock pursuant to a predetermined formula for a specified period of time.

10. Segments Reporting

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

The Company is organized into five lines of banking and financial services for management reporting: Commercial Banking, SVB Capital, SVB Alliant, Global Financial Services, and Private Client Services and Other. These operating segments are strategic units that offer different services to different clients. The segments are managed separately because they appeal to different markets and, accordingly, require different strategies. The results of operating segments are based on the Company s internal profitability reporting process. This process assigns each client relationship in its entirety, to a primary operating segment. The process assigns income and expenses to the operating segments according to the customer s primary relationship designation. Additionally, working capital and its associated costs are allocated to the operating segments on an economic basis, treating each operating segment as if it were an independent entity. Unlike financial reporting, which benefits from the comprehensive structure provided by generally accepted accounting principles of the United States of America, the internal profitability reporting process is highly subjective, as there is no comprehensive, authoritative guidance for management reporting. The management reporting process measures the performance of operating segments based on the Company s internal operating structure and is not necessarily comparable with similar information for other financial services companies. Changes in the management structure and/or the allocation process have resulted, and may in the future result in, changes in the Company s allocation methodology as this process is under constant refinement. In the event of such changes, results for prior periods have been, and may be, restated for comparability. Changes in an individual client s primary relationship designation have resulted, and may in the future result, in certain clients inclusion in different segments in different periods.

As of June 30, 2005, based on the quantitative threshold for determining reportable segments as required by SFAS No. 131, the Company s reportable segments are: Commercial Banking, and SVB Capital. SVB Alliant, Private Client Services and Global Financial Services do not meet the separate reporting thresholds as defined by SFAS No. 131 and as such, have been aggregated in a column labeled Other Business Services for segment reporting purposes. For further information, please see the Company s 2004 Form 10-K/A under Part II. Item 8. Consolidated Financial Statements and Supplementary Data - Note 25. Segment Reporting.

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

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

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

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

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

The Company s segment information at and for the three months and six months ended June 30, 2005 and 2004 are as follows:

	Commercial Banking	SVB Capital	Other Business Services	Total
	(Dollars in thousands)			
Three Months ended June 30, 2005				
Net interest income	$ 54,667	$ 4,936	$ 12,087	71,690
(Recovery of) provision for loan and lease losses(1)	259		555	814
Noninterest income(2)	22,847	2,132	5,154	30,133
Noninterest expense (3)	45,197	4,723	16,405	66,325
Minority interest in net (income) loss of consolidated affiliates			372	372
Income (loss) before income tax expense(5)	$ 32,058	$ 2,345	$ 653	$ 35,056
Total average loans	$ 1,923,893	$ 79,868	$ 249,387	$ 2,253,148
Total average assets(4)	3,770,905	669,759	600,015	5,040,679
Total average deposits	3,315,236	627,399	171,259	4,113,894
Goodwill at June 30, 2005			35,639	35,639
Three Months ended June 30, 2004 (As Restated)				
Net interest income	$ 39,641	$ 2,617	$ 11,105	$ 53,363
(Recovery of) provision for loan and lease losses(1)	(1,355)	(4)	(4,816)	(6,175)
Noninterest income (2)	20,156	982	9,330	30,468
Noninterest expense(3)	42,874	3,943	19,532	66,349
Minority interest in net (income) losses of consolidated affiliates			(67)	(67)
Income (loss) before income tax expense(5)	$ 18,278	$ (340)	$ 5,652	$ 23,590
Total average loans	$ 1,564,401	$ 81,872	$ 232,029	$ 1,878, 302
Total average assets(4)	3,649,626	542,229	557,003	4,748,858
Total average deposits	3,236,317	508,127	154,004	3,898,448
Goodwill at June 30, 2004			37,549	37,549
Six Months ended June 30, 2005				
Net interest income	$ 105,622	$ 9,032	$ 26,391	$ 141,045
(Recovery of) provision for loan and lease losses(1)	(3,154)		154	(3,000)
Noninterest income (2)	41,493	5,251	8,529	55,273
Noninterest expense (3)	87,784	9,419	29,937	127,140
Minority interest in net (income) loss of consolidated affiliates			813	813
Income (loss) before income tax expense(5)	$ 62,485	$ 4,864	$ 5,642	$ 72,991
Total average loans	$ 1,888,593	$ 81,050	$ 243,606	$ 2,213,249
Total average assets(4)	3,829,859	655,352	597,698	5,082,909
Total average deposits	3,378,951	614,734	161,605	4,155,290
Goodwill at June 30, 2005			35,639	35,639
Six Months ended June 30, 2004 (As Restated)				
Net interest income	$ 77,686	$ 5,051	$ 20,322	$ 103,059

(Recovery of) provision for loan and lease losses(1)		(137)				(5,393)		(5,530)
Noninterest income (2)		38,731		1,829		13,835		54,395
Noninterest expense (3)		80,698		7,664		29,819		118,181
Minority interest in net (income) loss of consolidated affiliates						(548)		(548)
Income (loss) before income tax expense(5)	$	35,856	$	(784)	$	9,183	$	44,255
Total average loans	$	1,542,011	$	72,849	$	226,696	$	1,841,556
Total average assets(4)		3,516,650		528,077		547,050		4,591,777
Total average deposits		3,120,593		493,596		145,091		3,759,280
Goodwill at June 30, 2004						37,549		37,549

(1) For segment reporting purposes, the Company reports net loan charge-offs as the provision for loan losses. Thus, the Other Business Services segment includes $0.6 million and $(4.8) million for the three-month periods ended June 30, 2005 and 2004, respectively, and includes $(1.3) million and $(5.4) million for the six-month periods ended June 30, 2005 and 2004, respectively, which represent the difference between net charge-offs and the provision for loan losses..

(2) Noninterest income presented in the Commercial Bank segment included cash warrant income of $5.6 million and $3.3 million, for the three months ended June 30, 2005 and 2004, respectively and $7.3 million and $6.2 million, for the six months ended June 30, 2005 and

2004, respectively.

(3) Commercial Banking segment includes direct depreciation and amortization of $0.5 million for the three months ended June 30, 2005 and 2004, and $0.9 million and $0.7 million for the six months ended June 30, 2005 and 2004, respectively. Due to the complexity of the Company s cost allocation model, it is not feasible to determine the exact amount of the remaining depreciation and amortization expense allocated to the various business segments (totaling approximately $1.5 million and $1.8 million for the three months ended June 30, 2005 and 2004, respectively, and approximately $3.2 million and $3.6 million for the six months ended June 30, 2005 and 2004, respectively.

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

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

11. Obligations Under Guarantees

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

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

The table below summarizes the Company s standby letter of credits at June 30, 2005. The maximum potential amount of future payments represents the amount that could be remitted under the standby letters of credit if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from the collateral held or pledged.

(Dollars in thousands as of)	**Expires within one year or less**	**Expires after one year**	**Total amount outstanding**	**Maximum amount of future payments**
Financial standby	$ 526,134	$ 87,518	$ 613,652	$ 613,652
Commercial standby	11,616		11,616	11,616
Performance standby	8,875	5,793	14,668	14,668

Total	$	546,625	$	93,311	$	639,936	$	639,936

At June 30, 2005, the carrying amount of the liabilities related to financial and performance standby letters of credit was approximately $3.9 million. At June 30, 2005, cash and investment securities collateral available to us to reimburse losses under financial and performance standby letters of credits was $243.3 million.

In addition to standby letter of credit guarantees, the Company has issued additional guarantees as off-balance sheet arrangements. As of June 30, 2005, those guarantees include the following:

The Bank, as a financial provider, routinely guarantees credit cards for some of its customers which have been provided by an unaffiliated financial institution. The Bank has recourse against the customer for any amount it is required to pay to a third party in the event of default under these arrangements. These guarantees are subject to the same credit policies, underwriting standards and approval process as loans made by the Bank. Certain of these amounts are secured by certificates of deposit and other assets which the Bank has rights to in the event of nonperformance by the customers. The contract amount of these credit cards, which represents the maximum potential future payments guaranteed, including interest and principal payments, by the Bank, was $49.8 million at June 30, 2005. It is not considered probable that material losses would be incurred by the Bank as a result of these arrangements.

The Company may be required to make contingent payments to the former owners of Woodside Asset Management based on their future revenue growth. During 2004, the Company paid one earn-out payment of $338,000 to the former owners of Woodside Asset Management. As of June 30, 2005, under the acquisition agreement, the maximum future gross earn-out payments to Woodside Asset Management s former owners are $1.6 million.

12. Related Party Transactions

In April 2005, the Company formed the SVB Qualified Investors Fund II, LLC (QIF II), a $5.1 million investment fund for employees that met certain eligibility requirements. To be eligible to participate in QIF II, an employee must be of a certain seniority level and must be a qualified investor as such term is defined by the SEC. QIF II was capitalized by commitments from certain eligible employees, including certain of the Company s executive officers. All employee participants are required to invest in the fund with their own money, but the Company manages the fund and pays all associated administrative costs. QIF II s principal purpose is to invest in a select number of private equity funds managed primarily by the Company or its affiliates. The following individuals who were executive officers in 2005 participated in QIF II, each with individual commitment amounts between $100,000 and $250,000: Greg Becker, Tim Hardin, Jack Jenkins-Stark, Harry Kellogg, Lynda Ward Pierce, Marc Verissimo, Ken Wilcox and Derek Witte.

Additionally, the final closing for SVB Strategic Investors Fund II, L.P. (SIF II), a venture investment fund formed by the Company, took place in June 2005. SIF II is a $175.0 million venture fund of funds that invests in other venture funds and is managed by its general partner, SVB Strategic Investors Fund II, LLC, a wholly-owned subsidiary of the Company. The Company holds a minority interest in SIF II. The following two directors of the Company have also invested in SIF II and hold minority interests in the following commitment amounts: Felda Hardymon (through a family limited partnership), $1,000,000 and James Porter, $100,000.

13. Legal Matters

Refer to the Company s amended Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2005 under Part I. Item 1. Interim Consolidated Financial Statements Note 12 to the Interim Consolidated Financial Statements Legal Matters for a description regarding a certain litigation matter involving Gateway Communications, Inc. The trial date has been postponed from December 2005 to April 2006. As previously disclosed, the Company believes that the sole remaining claim has no merit and intends to defend the lawsuit vigorously. Accordingly, the Company has not recorded an accrual related to this litigation.

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

14. Subsequent Events

Repurchases under the Company s stock repurchase program

Under the Company s stock repurchase program, which was approved by its Board of Directors in May 2003, the Company repurchased 90,000 shares for a total cost of $4.5 million early in the third quarter of 2005 pursuant to a non-discretionary 10b-5-1 plan established during the second quarter. No shares have been repurchased subsequent to the expiration of the 10b-5-1 plan. To date, the Company has repurchased a total of 6.5 million shares for a total cost of $203.5 million. Approximately $31.5 million remains available for repurchase under the current approved program.

Default upon Zero-Coupon Convertible Subordinated Notes

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

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and notes as presented in Part I - Item 1 of this report and in conjunction with the Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2004 (2004 Form 10-K/A), as filed with the Securities and Exchange Commission (SEC). Certain reclassifications have been made to prior years results to conform to the current period s presentations. Such reclassifications had no effect on our results of operations or stockholders equity.

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

Restatement of Financial Statements

As described in our 2004 Form 10-K/A and our Amendment No. 1 on Form 10-Q/A for the quarter ended March 31, 2005 (Q1 Form 10-Q/A), we have restated our interim consolidated financial statements as of and for the three-month period ended March 31, 2005, the consolidated annual financial statements for the years 2004, 2003 and 2002, quarterly financial data for each of the quarters within fiscal 2004 and 2003, and selected financial data for fiscal years 2004, 2003, 2002, 2001 and 2000, for purposes of correcting misapplications of GAAP (the Restatement). This note should be read in conjunction with Note 3, Restatement of Financial Statements in the Notes to our consolidated financial statements included in Item 8, Consolidated Financial Statements and Supplementary Data of the 2004 Form 10-K/A, which provides further information on the nature and impact of the Restatement.

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

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

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

Overview of Company Operations

SVB Financial is a bank holding company and a financial holding company that was incorporated in the state of Delaware in March 1999. As of May 31, 2005, we changed our name from Silicon Valley Bancshares to SVB Financial. Our principal subsidiary, Silicon Valley Bank, is a California state-chartered bank and a member of the Federal Reserve System. Silicon Valley Bank s deposits are insured by the Federal Deposit Insurance Corporation. Our corporate headquarters is located at 3003 Tasman Drive, Santa Clara, California 95054, and our telephone number is 408.654.7400. When we refer to SVB Financial Group or we or use similar words, we intend to include SVB Financial and all of its subsidiaries collectively, including Silicon Valley Bank. When we refer to SVB Financial , we are referring only to the parent company, SVB Financial Group.

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

In part, our income is generated from interest rate differentials. The difference between the interest rates received on interest-earning assets, such as loans extended to clients and securities held in our investment portfolio, and the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, accounts for the major portion of our earnings. Our deposits are largely obtained from commercial clients within our technology, life science, private equity, and premium wine industry sectors, and, to a lesser extent, from individuals served by our Private Client Services group. We do not obtain deposits from conventional retail sources and have no brokered deposits. As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of warrants in certain client companies.

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

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

Business Overview

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

Commercial Banking

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

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

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

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

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

SVB Capital

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

SVB Capital also makes investments in venture capital and other private equity firms and in companies in the niches we serve. The segment also manages three venture funds that are consolidated into our financial statements: SVB Strategic Investors Fund, LP and SVB Strategic Investors Fund II, LP, which are funds of funds that invest in other venture funds, and Silicon Valley BancVentures, LP, a direct equity venture fund that invests in privately held technology and life science companies. This segment also includes investments in Gold Hill Venture Lending 03, LP and its parallel funds (collectively known as Gold Hill Venture Lending 03, LP), which provide secured debt to emerging growth clients in their earlier stages, and Partners for Growth, LP, a fund that provides secured debt to higher risk, emerging growth clients in their later stages. We define emerging growth clients as companies in the start-up or early stages of their life cycle. These companies tend to be privately held and backed by venture capital; they generally have few employees, have brought relatively few products or services to market, and have little or no revenue. By contrast, middle market companies tend to be more mature; they may be publicly traded and more established in the markets in which they participate, although not necessarily the leading players in their industries.

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

Other Business Services

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

SVB Alliant

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

Global Financial Services

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

Private Client Services and Other

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

Critical Accounting Policies and Estimates

The accompanying management s discussion and analysis of results of operations and financial condition are based upon our interim consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. Management evaluates estimates on an ongoing basis. Management bases its estimates on historical experiences and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

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

Recent Accounting Pronouncements

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

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

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154), which replaces APB No. 20 Accounting Changes and SFAS No. 3 Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 also changes the requirements for the accounting for and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for the Company beginning January 1, 2006. The Company does not expect the adoption of SFAS No. 154 to have a material impact on its results of operations or financial condition.

Results of Operations

Earnings Summary

We reported net income of $20.9 million for the three months ended June 30, 2005. This was $6.4 million, or 44.5%, higher than net income of $14.5 million for the three months ended June 30, 2004. Net income totaled $43.8 million for the six months ended June 30, 2005. This was $16.2 million, or 58.3%, higher than net income of $27.7 million for the six months ended June 30, 2004.

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

We included the dilutive effect of the $150.0 million zero-coupon, convertible subordinated notes due June 15, 2008 in our diluted earnings per share (EPS) calculation using the treasury stock method, in accordance with the provisions of Emerging Issue Task Force (EITF) issue No. 90-19, Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion and Statement of Financial Accounting Standard (SFAS) No. 128, Earnings Per Share . The exposure draft of SFAS No. 128R, if adopted in its proposed form, will require us to change our accounting for the calculation of EPS on our contingently convertible debt to the if-converted method . The if-converted treatment of the contingently convertible debt would have decreased EPS by $0.04 per diluted common share, or 7.4% for the three months ended June 30, 2005, and by $0.08 per diluted common share, or 7.1% for the six months ended June 30, 2005, respectively.

Three Months ended June 30, 2005 Compared to Three Months ended June 30, 2004

Consolidated net income increased by $6.4 million for the three months ended June 30, 2005 versus the three months ended June 30, 2004.

Net interest income increased by $18.3 million due to an increase in average interest-earning assets, particularly commercial loans and investment securities, and due to an improvement in yields generated from these assets.

This increase in net interest income was partially offset by an increase of $7.0 million in the provision for loan and lease losses. In the second quarter of 2005, we recorded a provision for loan and lease loss expense of $0.8 million, compared to a $6.2 million recovery recorded in the second quarter of 2004.

Six Months ended June 30, 2005 Compared to Six Months ended June 30, 2004

Consolidated net income increased by $16.2 million between the six months ended June 30, 2005 and the six months ended June 30, 2004.

Net interest income increased by $38.0 million due to an increase in average interest-earning assets, particularly commercial loans and investment securities, and due to an improvement in yields generated from these assets.

An increase in noninterest expense of $9.0 million was largely attributable to higher compensation expense of $10.5 million due to higher employee head count and higher equity compensation costs. Additionally, higher professional services expense of $2.5 million was primarily due to costs associated with the restatement of the Company s financial statements and other business initiatives. These increases were offset by a reduction of unfunded credit commitments of $1.3 million in 2005 compared to a provision of unfunded credit commitments of $2.4 million in 2004.

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

(Dollars in thousands)	For the three months ended June 30, 2005	2004 (As Restated)	% Change	For the six months ended June 30, 2005	2004 (As Restated)	% Change
Net interest income	$ 71,690	$ 53,363	34.3%	$ 141,045	$ 103,059	36.9%
(Recovery of) provision for loan and lease losses	814	(6,175)	(113.2)	(3,000)	(5,530)	(45.8)
Noninterest income	30,133	30,468	(1.1)	55,273	54,395	1.6
Noninterest expense	66,325	66,349	0.0	127,140	118,181	7.6
Minority interest in net (income) loss (income) of consolidated affiliates	372	(67)	(655.2)	813	(548)	(248.4)
Income before income tax expense	35,056	23,590	48.6	72,991	44,255	64.9
Income tax expense	14,160	9,129	55.1	29,159	16,573	75.9
Net income	$ 20,896	$ 14,461	44.5	$ 43,832	$ 27,682	58.3
Return on average assets(1)	1.66%	1.22%		1.74%	1.21%	
Return on average stockholders equity(1)	15.90	12.20		16.55	11.72	
Average stockholders equity to average assets	10.46	10.02		10.51	10.32	

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

Net Interest Income and Margin

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

The following tables set forth average assets, liabilities, minority interest, stockholders equity, interest income, interest expense, annualized yields and rates, and the composition of our annualized net interest margin for the three months and six months ended June 30, 2005 and 2004, respectively. (For a description of certain off-balance sheet arrangements, see also Note 11. Obligations under guarantees to the interim financial statements contained in this report.)

AVERAGE BALANCES, RATES AND YIELDS

	For the three months ended June 30,					
	2005			2004		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance (As Restated)	Interest Income/ Expense (As Restated)	Yield/ Rate (As Restated)
Interest-earning assets:						
Federal funds sold, securities purchased under agreement to resell and other short-term investment securities(1)	$ 376,359	$ 2,025	2.16%	$ 642,036	$ 1,717	1.08%
Investment securities:						
Taxable	1,839,543	21,191	4.62	1,650,228	17,578	4.28
Non-taxable(2)	86,193	1,457	6.78	144,244	1,986	5.54
Loans:						
Commercial	1,854,716	45,129	9.76	1,553,402	31,891	8.26
Real estate construction and term	158,023	2,567	6.52	110,302	1,446	5.27
Consumer and other	240,409	3,610	6.02	214,598	2,277	4.27
Total loans, net of unearned income	2,253,148	51,306	9.13	1,878,302	35,614	7.63
Total interest-earning assets	4,555,243	75,979	6.69	4,314,810	56,895	5.30
Cash and due from banks	226,902			208,297		
Allowance for loan and lease losses	(36,358)			(50,142)		
Goodwill	35,639			37,551		
Other assets(3)	259,253			237,813		
Total assets	$ 5,040,679			$ 4,748,329		
Funding sources:						
Interest-bearing liabilities:						