

SVB FINANCIAL GROUP
Form 10-K
March 01, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2006

OR

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: **000-15637**

SVB FINANCIAL GROUP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
3003 Tasman Drive, Santa Clara, California 95054-1191
(Address of principal executive offices including zip code)

91-1962278
(I.R.S. Employer Identification No.)
http://www.svb.com
(Registrant's URL)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing price of its common stock on such date, on the NASDAQ Global Select Market was \$1,603,785,343

At January 31, 2007, 34,505,990 shares of the registrant's common stock (\$0.001 par value) were outstanding.

Documents Incorporated by Reference

Definitive proxy statement for the Company's 2007 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year ended December 31, 2006

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

Part III

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Forward-Looking Statements

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

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

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

- Sensitivity of our interest-earning assets to interest rates, and impact to earnings from an increase in interest rates
- Realization, timing and performance of investments in equity securities
- Management of federal funds sold and overnight repurchase agreements at appropriate levels
- Development of our later-stage corporate technology lending efforts
- Growth in loan balances
- Credit quality of our loan portfolio
- Levels of nonperforming loans
- Liquidity provided by funds generated through retained earnings
- Activities for which capital will be required
- Ability to meet our liquidity requirements through our portfolio of liquid assets

- Ability to expand on opportunities to increase our liquidity
- Use of excess capital
- Volatility of performance of our equity portfolio

You can identify these and other forward-looking statements by the use of words such as becoming , may , will , should , predicts , potential continue , anticipates , believes , estimates , seeks , expects , plans , intends , the negative of such words, or comparable terminology. All believe

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

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

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PART I.

ITEM 1. BUSINESS

General

SVB Financial Group is a diversified financial services company, as well as a bank holding company and financial holding company. The company was incorporated in the state of Delaware in March 1999. Through our various subsidiaries and divisions, we offer a variety of banking and financial products and services. For over 20 years, we have been dedicated to helping entrepreneurs succeed, especially in the technology, life sciences, private equity and premium wine industries. We provide our clients with a diversity of products and services to support them throughout their life cycles, regardless of their size or stage of maturity.

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

Our corporate headquarters are located at 3003 Tasman Drive, Santa Clara, California 95054 and our telephone number is 408.654.7400. We operate through 27 offices in the United States and three internationally in the United Kingdom, India and China.

When we refer to SVB Financial Group, the Company, or we, or use similar words, we intend to include SVB Financial Group and all of its subsidiaries collectively, including the Bank. When we refer to SVB Financial or the Parent we are referring only to the parent company, SVB Financial Group.

Business Overview

For reporting purposes, SVB Financial Group has four operating segments in which we report our financial information: Commercial Banking, SVB Capital, SVB Alliant, and Other Business Services. Financial information and results of operation for our operating segments are set forth in Note 23 to the Notes to the Consolidated Financial Statements in Item 8, Part II of this Annual Report on Form 10-K, and in Item 7, Management's Discussion and Analysis and Results of Operations Operating Segment Results.

Commercial Banking

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

Through lending products and services, the Bank extends loans and other credit facilities to commercial clients. These loans are most often secured by clients' assets. Lending products and services include traditional term loans, equipment loans, revolving lines of credit, accounts-receivable-based lines of credit, asset-based loans, real estate loans, vineyard development loans, and financing of affordable housing projects. The Bank obtains warrants to purchase equity positions in the stock of many of its emerging growth clients in consideration for making loans or providing other services.

The Bank's deposit account and cash management products and services provide commercial clients with short- and long-term cash management solutions. Deposit account products and services include traditional deposit and checking accounts, certificates of deposit, and money market accounts. In connection with deposit accounts, the Bank also provides lockbox and merchant services that facilitate

timely depositing of checks and other payments to clients' accounts. Cash management products and services include wire transfer and Automated Clearing House (ACH) payment services to enable clients to transfer funds quickly from their deposit accounts. Additionally, the cash management services unit provides collection services, disbursement services, electronic funds transfers, and online banking through SVBeConnect.

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

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

Our commercial banking activities and business units are collectively referred to as SVB Silicon Valley Bank across all of the company's marketing communication materials.

SVB Capital

SVB Capital is the private equity division of SVB Financial Group. This division focuses on the needs of private equity clients domestically and internationally. There are two principal lines of business under this segment: banking of private equity firms and funds management.

SVB Capital's Private Equity Group manages relationships with private equity clients on behalf of the Company. This segment includes income generated by the banking services and financial solutions provided to private equity clients. These services and solutions include traditional deposit and checking accounts, loans, letters of credit, and cash management services.

Through managed and sponsored funds, SVB Capital also makes investments in private equity funds and companies in the niches we serve. SVB Capital currently and actively manages five private equity funds that are consolidated into our financial statements. Three of these are funds of funds that invest in other private equity funds: SVB Strategic Investors Fund, LP; SVB Strategic Investors Fund II, LP; and SVB Strategic Investors Fund III, LP. The other two are direct equity funds that invest in privately held technology and life sciences companies: Silicon Valley BancVentures, LP and SVB Capital Partners II, LP. SVB Capital 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, typically to emerging-growth clients in their earliest stages; and the Partners for Growth funds that primarily provide secured debt to higher-risk, middle-market clients in their later stages.

SVB Alliant

SVB Alliant principally provides merger and acquisition advisory services (M&A), private placement advisory services and fairness opinions. SVB Alliant is a broker-dealer registered with the SEC

and is a member of the NASD. Additionally, this segment includes SVB Alliant Europe Limited, a subsidiary based in London, England, which provides investment advisory services to companies in Europe. SVB Alliant Europe Limited commenced full operations on May 2, 2006, when it received its license from the Financial Services Authority, an independent body that regulates the financial services industry in the United Kingdom.

Other Business Services

The Other Business Services segment is principally comprised of SVB Private Client Services, SVB Global, SVB Analytics and other business service units that are not part of the Commercial Banking, SVB Capital or SVB Alliant segments. These business units do not meet the separate reporting thresholds as defined by Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131) and, as a result, have been aggregated as Other Business Services for segment reporting purposes. The Other Business Services segment also reflects those adjustments necessary to reconcile the results of operating segments based on our internal profitability reporting process to the interim unaudited consolidated financial statements prepared in conformity with generally accepted accounting principles in the United States of America (GAAP).

SVB Private Client Services

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

SVB Global

SVB Global includes our foreign subsidiaries, which facilitate our clients' global expansion into major technology centers around the world. SVB Global provides a variety of services, including consulting and business services, referrals, and knowledge sharing; and identifies business opportunities for the Company. SVB Global serves the needs of some of our non-U.S. clients with global banking products, including foreign exchange and global finance and access to our international banking network for in-country services abroad. SVB Global also supports our private equity and commercial banking clients with business services through subsidiaries in India, China and the United Kingdom.

SVB Analytics

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

Income Sources

Our income is principally generated from two sources: interest rate differentials and fees for financial services.

We generate income from interest-rate differentials from our banking products. The difference between the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received on interest-earning assets, such as loans extended to clients and securities

held in our investment portfolio, account for the major portion of our earnings. That income, referred to as net interest income, was \$352.5 million in 2006, \$299.3 million in 2005, and \$229.5 million in 2004.

Our deposits are largely obtained from commercial clients within our technology, life sciences, 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.

We also generate income from fees from our financial services. We market our full range of financial services to all of our commercial clients. In addition to commercial banking and private client services, we offer fee-based services, including investment banking, brokerage and investment advisory services. Our ability to integrate and cross-sell our diverse financial services to our clients is a strength of our business model. As part of negotiated credit facilities and certain other services, we frequently obtain rights to acquire stock in the form of equity warrants in certain client companies. Our noninterest income was \$141.2 million in 2006, \$117.5 million in 2005 and \$107.8 million in 2004.

Industry Niches

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

Technology and Life Sciences

We serve a variety of clients in the technology and life sciences industries. A key component of our technology and life sciences business strategy is to develop relationships with clients at an early stage and offer them banking services that will continue to meet their needs as they mature and expand. We define emerging-growth clients as companies in the start-up or early stages of their life cycles. These companies tend to be privately held and backed by venture capital; they generally have few employees, are primarily engaged in research and development, have brought relatively few products or services to market, and have little or no revenue. By contrast, we define mature clients as companies that tend to be more established; these companies may be publicly traded.

Our technology and life sciences clients generally fall into the following industries:

Hardware: Semiconductors, Communications, and Electronics

Software: Software and Services

Biotechnology

Drug Discovery

Medical Devices

Specialty Pharmaceuticals

Private Equity

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

Premium Wine

Our Wine Division, which is part of the Bank, has become one of the leading providers of financial services to premium wine producers in the Western United States, with over 300 winery and vineyard clients. We focus on vineyards and wineries that produce grapes and wines of the highest quality.

Competition

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

Employees

As of December 31, 2006, we employed approximately 1,140 full-time equivalent employees.

Supervision and Regulation

General

Our bank and bank holding company operations are subject to extensive regulation by federal and state regulatory agencies intended to promote a safe and sound banking system that provides access to credit and protects the insurance fund and depositors. As a bank holding company and financial holding company, SVB Financial is subject to inspection, supervision, regulation, and examination by the Board of Governors of the Federal Reserve System (Federal Reserve Board) under the Bank Holding Company Act of 1956 (BHC Act). The Bank, as a California-chartered bank and a member of the Federal Reserve System, is subject to primary supervision and examination by the Federal Reserve Board, as well as the California Department of Financial Institutions (DFI). SVB Financial's other nonbank subsidiaries are subject to regulation by the Federal Reserve Board and other applicable federal and state agencies, such as the SEC and the NASD. SVB Financial, the Bank and their subsidiaries are required to file periodic reports with these regulators and provide any additional information that they may require. The following summary describes some of the more significant laws, regulations, and policies that affect our operations; it is not intended to be a complete listing of all laws that apply to us. Any change in the statutes, regulations, or policies that apply to our operations may have a material effect on our business.

Regulation of Holding Company

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

Reserve Board to be an unsafe and unsound banking practice, a violation of the Federal Reserve Board's regulations, or both.

Prior to becoming a financial holding company on November 14, 2000, SVB Financial was required under the BHC Act to seek the prior approval of the Federal Reserve Board before acquiring direct or indirect ownership or control of more than 5% of the outstanding shares of any class of voting securities, or substantially all of the assets, of any bank, bank holding company, or non-bank company. In addition, prior to becoming a financial holding company, SVB Financial was generally limited under the BHC Act to engaging, directly or indirectly, only in the business of banking or managing or controlling banks and other activities that were deemed by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto.

The Gramm-Leach-Bliley Act of 1999 (GLB Act) amended the BHC Act to permit a qualifying bank holding company, called a financial holding company, to engage in a broader range of activities than those traditionally permissible for bank holding companies. A financial holding company may affiliate with securities firms and conduct, or acquire companies that conduct, activities that are financial in nature, including insurance, securities underwriting and dealing and market-making, and merchant banking activities, as well as additional activities that the Federal Reserve Board determines (in the case of incidental activities, in conjunction with the U.S. Treasury Department) are incidental or complementary to financial activities, without the prior approval of the Federal Reserve Board. As a financial holding company, SVB Financial no longer requires the prior approval of the Federal Reserve Board to conduct, or to acquire ownership or control of entities engaged in, activities that are financial in nature or activities that are determined to be incidental or complementary to financial activities, although the requirement in the BHC Act for prior Federal Reserve Board approval for the acquisition by a bank holding company of more than 5% of any class of the voting shares of a bank or savings association (or the holding company of either) is still applicable. Additionally, under the merchant banking authority added by the GLB Act, SVB Financial may invest in companies that engage in activities that are not otherwise permissible, subject to certain limitations, including that SVB Financial makes the investment with the intention of limiting the investment in duration and does not manage the company on a day-to-day basis.

To qualify as a financial holding company, a bank holding company's subsidiary depository institutions must be well capitalized (as discussed below in Regulatory Capital) and have at least satisfactory composite, managerial and Community Reinvestment Act of 1977 (CRA) examination ratings. A bank holding company that does not satisfy the criteria for financial holding company status is limited to activities that were permissible under the BHC Act prior to the enactment of the GLB Act. A financial holding company that does not continue to meet all of the requirements for financial holding company status will, depending upon which requirements it fails to meet, lose the ability to undertake new activities or acquisitions that are not generally permissible for bank holding companies and may not continue such activities.

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

Regulatory Capital

The minimum risk-based capital guidelines that have been adopted by federal banking agencies for bank holding companies and banks are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and those recorded as off-balance sheet items. These off-balance sheet items include transactions such as commitments, letters of credit and recourse arrangements. Under these credit guidelines, dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are adjusted

by one of several conversion factors and risk adjustment percentages. The Federal Reserve Board requires bank holding companies and state member banks to maintain a minimum ratio of qualifying total capital to risk-adjusted assets of eight percent, 10 percent to be considered well-capitalized .

Tier 1 capital must comprise at least half of total capital and may consist of items such as common stock, retained earnings, non-cumulative perpetual preferred stock, minority interests including trust preferred securities and, for bank holding companies, a limited amount of qualifying cumulative perpetual preferred stock, less most intangibles including goodwill. Additionally, trust preferred securities are limited to 25 percent of qualifying core capital elements. Regulatory minimums of Tier 1 capital are four percent, six percent to be considered well-capitalized . Tier 2 and Tier 3 comprise the remaining components of capital and may consist of other preferred stock, certain other instruments, subordinated debt subject to maturity restrictions, and the loan loss allowance.

The Federal Reserve Board also requires SVB Financial and the Bank to maintain a minimum amount of Tier 1 capital to total average assets, referred to as the Tier 1 leverage ratio, of three percent, five percent to be considered well-capitalized . In addition to these requirements, the Federal Reserve Board may set individual minimum capital requirements for specific institutions at rates substantially above the minimum guidelines and ratios. Under certain circumstances, SVB Financial must file written notice with, and obtain approval from, the Federal Reserve Board prior to purchasing or redeeming its equity securities.

Upon the issuance by the Financial Accounting Standards Board (FASB) in January 2003 of Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46R), and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS No. 150), in May 2003, the Federal Reserve Board announced in July 2003 that qualifying trust preferred securities will continue to be treated as Tier 1 capital until notice is given to the contrary.

SVB Financial is also subject to rules that govern the regulatory capital treatment of equity investments in non-financial companies made on or after March 13, 2000 and held under certain specified legal authorities by a bank or bank holding company. Under the rules, these equity investments will be subject to a separate capital charge that will reduce a bank holding company's Tier 1 capital and, correspondingly, will remove these assets from being taken into consideration in establishing a bank holding company's required capital ratios discussed above.

The rules provide for the following incremental Tier 1 capital charges: 8% of the adjusted carrying value of the portion of such aggregate investments that are up to 15% of Tier 1 capital; 12% of the adjusted carrying value of the portion of such aggregate investments that are between 15% and 25% of Tier 1 capital; and 25% of the adjusted carrying value of the portion of such aggregate investments that exceed 25% of Tier 1 capital. The rules normally do not apply to equity warrants acquired by a bank for making a loan or to equity securities that are acquired in satisfaction of a debt previously contracted and that are held and divested in accordance with applicable law. The Bank does not currently hold any such equity investments.

The federal banking agencies have also adopted a joint agency policy statement, which provides that the adequacy and effectiveness of a bank's interest rate risk management process and the level of its interest rate exposures are critical factors in the evaluation of the bank's capital adequacy. A bank with material weaknesses in its interest rate risk management process or high levels of interest rate exposure relative to its capital will be directed by the federal banking agencies to take corrective actions. Financial institutions that have substantial amounts of their assets concentrated in high-risk loans or non-traditional banking activities and who fail to adequately manage these risks may be required to set aside capital in excess of the regulatory minimums.

The capital ratios of SVB Financial and the Bank, respectively, exceeded the well-capitalized requirements, as defined above, at December 31, 2006. See Item 8. Consolidated Financial Statements and Supplementary Data Note 21. Regulatory Matters for the capital ratios of SVB Financial and the Bank as of December 31, 2006.

Regulation of Silicon Valley Bank

The Bank is a California-chartered bank and a member of the Federal Reserve System. The Bank is subject to primary supervision, periodic examination and regulation by the DFI and the Federal Reserve Board. If, as a result of an examination of the Bank, the Federal Reserve Board should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory, or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the Federal Reserve Board. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the Bank's deposit insurance, which for a California-chartered bank would result in a revocation of the Bank's charter. The DFI has many of the same remedial powers. Various requirements and restrictions under the laws of the State of California and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, ownership of deposit accounts, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, and capital requirements. Further, the Bank is required to maintain certain levels of capital. (See Regulatory Capital above.) The GLB Act changed the powers of national banks and their subsidiaries, and made similar changes in the powers of state bank subsidiaries. The GLB Act permits a national bank to underwrite, deal in, and purchase state and local revenue bonds. It also allows a subsidiary of a national bank to engage in financial activities that the bank can not, except for general insurance underwriting and real estate development and investment. In order for a subsidiary to engage in new financial activities, the national bank and its depository institution affiliates must be well-capitalized; have at least satisfactory general, managerial, and CRA examination ratings; and meet other qualification requirements relating to total assets, subordinated debt, capital, risk management, and affiliate transactions. Subsidiaries of state banks can exercise the same powers as national bank subsidiaries if they satisfy the same qualifying rules that apply to national banks. For state banks, such as the Bank, that are members of the Federal Reserve System, prior approval of the Federal Reserve Board is required before they can create a subsidiary to capitalize on the additional financial activities empowered by the GLB Act.

Restrictions on Dividends

The ability of SVB Financial and the Bank to pay cash dividends is governed by various applicable statutory and regulatory requirements. The Federal Reserve Board and the DFI have the authority to prohibit the Bank from engaging in activities that, in their opinion, constitute unsafe or unsound practices in conducting its business. Depending upon the financial condition of the Bank and other factors, the regulators could assert that the payment of dividends or other payments might, under some circumstances, be an unsafe or unsound practice. If the Bank fails to comply with its minimum capital requirements, its regulators could restrict its ability to pay dividends using prompt corrective action or other enforcement powers.

Transactions with Affiliates

Transactions between the Bank and its operating subsidiaries (including SVB Securities, Inc. and SVB Asset Management) and the Bank's affiliates (including, but not limited to, SVB Financial Group; SVB Alliant; and SVB Alliant Europe Limited) are subject to restrictions imposed by federal and state law. These restrictions prevent SVB Financial and other affiliates from borrowing from, or entering into other credit transactions with, the Bank or its operating subsidiaries unless the loans or other credit transactions are secured by specified amounts of collateral. All such loans and credit transactions and other covered transactions by the Bank and its operating subsidiaries with any one affiliate are limited, in the aggregate, to 10% of the Bank's capital and surplus; and all such loans and credit transactions and other covered transactions by the Bank and its operating subsidiaries with all affiliates are limited, in the aggregate, to 20% of the Bank's capital and surplus. For this purpose, a covered transaction generally includes, among other things, a loan or extension of credit to an affiliate; a purchase of or investment in securities issued by an affiliate; a purchase of assets from an affiliate; the acceptance of a security issued by an affiliate as collateral for an extension of credit to any borrower; and the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. A company that is a direct or indirect subsidiary of the Bank would not be considered to be an affiliate of the Bank or its operating subsidiaries unless it fell into one of certain categories, such as a financial subsidiary authorized under the GLB Act. In addition, the Bank and its operating subsidiaries generally may not purchase a low-quality asset from an affiliate. Moreover, covered transactions and other specified transactions by the Bank and its operating subsidiaries with an affiliate must be on terms and conditions that are consistent with safe and sound banking practices. The Bank and its operating subsidiaries generally may engage in transactions with affiliates only on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to the Bank or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Prompt Corrective Action and Other Enforcement Mechanisms

Federal banking agencies possess broad powers to take corrective and other supervisory action against an insured bank and its holding company. Federal laws require each federal banking agency to take prompt corrective action to resolve the problems of insured banks. Each federal banking agency has issued regulations defining five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. At each successive lower-capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends. However, the federal banking agencies may not treat an institution as critically undercapitalized unless its capital ratios actually warrant such treatment.

In addition to measures taken under the prompt corrective action provisions, bank holding companies and insured banks may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by the agency or term of a written agreement with the agency. Enforcement actions may include the appointment of a conservator or receiver for the bank; the issuance of a cease and desist order that can be judicially enforced; the termination of the bank's deposit insurance; the imposition of civil monetary penalties; the issuance of directives to increase capital; the issuance of formal and informal agreements; the issuance of removal and prohibition orders against officers, directors, and other institution-affiliated parties; and the enforcement of such actions through injunctions or restraining orders

based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Safety and Soundness Guidelines

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

Premiums for Deposit Insurance

The Bank's deposit accounts are insured by the Bank Insurance Fund (BIF), as administered by the Federal Deposit Insurance Corporation (FDIC), up to the maximum permitted by law. The FDIC may assess premiums to maintain a sufficient fund balance. The amount charged is based on the capital level of an institution and on a supervisory assessment based upon the results of examination findings by the institution's primary federal regulator and other information deemed relevant by the FDIC to the institution's financial condition and the risk posed to the BIF. As of December 31, 2006, the FDIC's semi-annual assessment for the insurance of BIF deposits ranged from zero (0) to twenty seven (27) cents per \$100 of insured deposits. The FDIC may increase or decrease the premium rate on a semi-annual basis. As of December 31, 2006, the Bank's assessment rate was zero.

The Bank is also required to pay an annual assessment of approximately six (6) cents per \$100 of insured deposits toward the retirement of U.S. government-issued financing corporation bonds.

Privacy

SVB Financial and the Bank are subject to various laws and regulations concerning the privacy of their customer information. The GLB Act imposed customer privacy requirements on any company engaged in financial activities, including protection of the security and confidentiality of customers' non-public, personal information and disclosure of its privacy and information sharing policies. Additionally, the California Financial Information Privacy Act (SB1), which became effective on July 1, 2004 and applies to financial institutions doing business in the State of California, tightened existing federal restrictions on the sharing of consumers' non-public personal information with affiliates and nonaffiliated third parties.

USA Patriot Act of 2001

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

Regulation of Certain Subsidiaries

SVB Alliant, a wholly-owned subsidiary of SVB Financial, and SVB Securities, a wholly-owned subsidiary of the Bank, are registered as broker-dealers with the SEC and members of the NASD and as such are subject to regulation by the SEC and the NASD. SVB Asset Management, a wholly-owned investment advisory subsidiary of the Bank, is registered with the SEC under the Investment Advisers Act of 1940, as amended, and is subject to its rules and regulations.

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

Available Information

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

ITEM 1A. RISK FACTORS

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

Credit Risks

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

As a lender, one of the largest risks we face is the possibility that a significant number of our smaller client borrowers, or a smaller number of our larger client borrowers, will fail to pay their loans when due. If borrower defaults cause large losses, it could have a material adverse effect on our business, profitability and financial condition. We have established an evaluation process designed to determine the adequacy of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses are dependent to a great extent on our experience and judgment. We cannot assure you that our allowance for loan losses will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, profitability and financial condition.

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

Our loan portfolio has a credit profile different from that of most other banking companies. Many of our loans are made to companies in the early stages of development with negative cash flows and no

established record of profitable operations. In many cases, repayment of the loan is dependent upon receipt of additional equity financing from venture capitalists or others. Collateral for many of our loans often includes intellectual property, which is difficult to value and may not be readily salable in the case of default. Because of the intense competition and rapid technological change that characterizes the companies in our technology and life sciences industry sectors, a borrower's financial position can deteriorate rapidly. Additionally, we are increasing our lending to larger corporate technology clients, including some companies with greater levels of debt relative to their equity, and have increased the average size of our loans over time. These changes could affect the risk of borrower default and increase the impact on us of any single borrower default. For all of these reasons, our level of nonperforming loans, loan charge-offs and additional allowance for loan losses can be volatile and can vary materially from period to period. Increases in our level of nonperforming loans may require us to increase our provision for loan losses in any period, which could reduce our net income or cause net losses in that period.

Market/Liquidity Risks

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

A major portion of our net income comes from our interest rate spread, which is the difference between the interest rates paid by us on amounts used to fund interest-earning assets and the interest rates and fees we receive on those assets. We fund interest-earning assets using non-interest bearing deposits, interest-bearing deposits and other borrowings. Our interest-earning assets include loans extended to our clients and securities held in our investment portfolio.

Interest rates are highly sensitive to many factors beyond our control, such as inflation, recession, global economic disruptions, unemployment and the fiscal and monetary policies of the federal government and its agencies. In the aggregate, our deposits are less sensitive to interest rate increases than our loans. As a result, recent increases in market interest rates have caused our interest rate spread to increase. However, if interest rates decline, it likely will cause our interest rate spread to decline.

In addition to general changes in the level of interest rates, increases in the interest rates we pay on amounts used to fund interest-earning assets or decreases in the interest rates we receive on our interest-earning assets could affect our interest rate spread. For example, in 2006 we funded our loan growth primarily through short-term borrowings. These funds carry meaningfully higher interest rate costs than our current deposit base. If we significantly increase the amount of our interest-earning assets that we fund through borrowings rather than deposits, our interest rate spread will likely decline. Similarly, if we significantly increase the amount of our interest-earning assets that we fund through interest-bearing deposits, or increase the rates we pay on those deposits, our interest rate spread likely would decline. Interest rates paid by us could be affected by competitive, legislative or other developments. For example, Congress has for many years debated repealing a law that prohibits banks from paying interest rates on checking accounts. If this law were to be repealed, we would be subject to competitive pressure to pay interest on our clients' checking accounts, which would negatively affect our interest rate spread.

The interest rates we receive on our interest-earning assets could be affected by a variety of factors, including market interest rates as noted above, competition, a change over time in the mix of loans comprising our loan portfolio and the mix of loans and investment securities on our balance sheet. Additionally, a portion of our loan fee income, a component of loan interest income, is predicated on the receipt of warrant assets. If we fail to continue to receive warrant assets, our future interest rate spread may decline.

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

We derive our net interest income through lending or investing capital on terms that provide returns in excess of our costs for obtaining that capital. As a result, our credit ratings are important to our

business. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs or increase the interest rates we pay on deposits. Further, our credit ratings and the terms upon which we have access to capital may be influenced by circumstances beyond our control, such as overall trends in the general market environment, perceptions about our creditworthiness or market conditions in the industries in which we focus.

Warrant, private equity fund and direct equity investment portfolio gains or losses depend upon the performance of the portfolio investments and the general condition of the public equity markets, which are uncertain and may vary materially by period.

We historically have obtained rights to acquire stock, in the form of equity warrants, in certain clients as part of negotiated credit facilities and for other services. We also have made investments in private equity funds as well as direct equity investments in companies. The timing and amount of income, if any, from the disposition of client warrants, securities obtained through the exercise of warrants, private equity funds and direct equity investments, as well as the fair market value of these rights and investments, typically depend upon factors beyond our control, including the performance of the underlying portfolio companies, investor demand for initial public offerings (IPOs), fluctuations in the market prices of the underlying common stock of these companies, levels of merger and acquisition activity and legal and contractual restrictions on our ability to sell securities and investments. In future periods, we may not be able to continue to obtain equity warrants to the same extent we historically have achieved, we may not realize gains from the exercise of warrants, the gains realized upon the sale of the securities obtained through the exercise of warrants and the gains realized upon the sale of our fund or direct equity investments may be materially less than the current fair value of such assets reflected in our financial statements, or the fair market value of some or all of these assets could decline. Each of these developments could have a material adverse effect on our profitability and financial condition. All of these factors are difficult to predict. Due to the nature of investing and holding warrants in private equity venture-backed technology and life science companies, it is likely that investments within our portfolio will become impaired. However, we are not in a position to know at the present time which specific investments, if any, are likely to become impaired or the extent or timing of individual impairments. Therefore, we cannot predict future investment gains or losses with any degree of accuracy, and any gains or losses are likely to vary materially from period to period.

Public equity offerings and mergers and acquisitions involving our clients can cause loans to be paid off early, which could adversely affect our business and profitability.

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

Operational Risks

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

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

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

In 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 Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) and requires us to record compensation expense for all employee share-based payments. We adopted SFAS No. 123(R) on January 1, 2006. This expense has had and likely will continue to have a material impact on our results of operations going forward.

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

We could be liable for breaches of security in our online banking services. Fear of security breaches could limit the growth of our online services.

We offer various internet-based services to our clients, including online banking services. The secure transmission of confidential information over the Internet is essential to maintain our clients' confidence in our online services. Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology we use to protect client transaction data. Although we have developed systems and processes that are designed to prevent security breaches and periodically test our security, failure to mitigate breaches of security could adversely affect our ability to offer and grow our online services and could harm our business.

People generally are concerned with security and privacy on the Internet and any publicized security problems could inhibit the growth of the Internet as a means of conducting commercial transactions. Our ability to provide financial services over the Internet would be severely impeded if clients became unwilling to transmit confidential information online. As a result, our operations and financial condition could be adversely affected.

Business interruptions due to natural disasters and other events beyond our control can adversely affect our business.

Our operations can be subject to natural disasters and other events beyond our control, such as earthquakes, fires, public health issues, power failures, telecommunication loss, terrorist attacks and acts of war. Our corporate headquarters and a portion of our critical business offices are located in California near major earthquake faults. Such events of disaster, whether natural or manmade, could cause severe destruction or interruption to our operations. Financial institutions, such as us, generally must resume operations promptly following any interruption. If we were to suffer a disruption and were not able to resume operations within a period consistent with industry standards, our business could suffer serious harm. In addition, depending on the nature and duration of the interruption, we might be vulnerable to fraud or other losses or to a loss of client confidence. Our business continuity program, which we began implementing during 2005, has not yet been completed. There is no assurance that our business continuity program can adequately mitigate the risks of such business interruptions.

We rely on other companies to provide key components of our business infrastructure.

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Third parties provide key components of our business infrastructure, such as transaction processing, Internet connections and network access. Any disruption in services provided by these third parties, or any

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failure of these third parties to handle current or higher volumes of use, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party.

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

In order to serve our target clients effectively, we have developed a comprehensive array of banking and other products and services. In order to support these products and services, we have developed and purchased information technology and other systems and processes that are relatively more complex and costly than those used by other financial institutions of our size. As our business continues to grow, we will continue to invest in these systems and processes. These investments may affect our future profitability. In addition, there can be no assurance that we will be able to effectively and timely improve our systems and processes to meet our business needs efficiently. A failure of our information technology systems or processes to meet our current business needs, or a failure to improve these systems and processes effectively and in a timely manner to meet our future business needs, could adversely affect our operations, financial condition, results of operations and future growth.

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

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit, we may assume that a customer's audited financial statements conform to GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on the audit report covering those financial statements. Our financial condition and results of operations could be negatively affected if we rely on financial statements or other information that do not comply with GAAP or that are materially misleading.

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

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in our reporting materially different amounts than would have been reported under a different alternative.

Changes in accounting standards could materially impact our financial statements.

From time to time, FASB changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

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

If we identify material weaknesses in our internal control over financial reporting, we could be required to implement expensive and time-consuming remedial measures and could lose investor confidence in the accuracy and completeness of our financial reports. This could have an adverse effect on our business, financial condition and results of operations, including our stock price, and could potentially subject us to litigation.

Legal/Regulatory Risks

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business.

SVB Financial Group, including the Bank, is extensively regulated under federal and state laws governing financial institutions. These regulations are intended primarily for the protection of depositors, other clients of financial institutions and the deposit insurance fund. Federal and state laws and regulations govern, limit or otherwise affect the activities in which we may engage and may affect our ability to expand our business over time. In addition, a change in the applicable statutes, regulations or regulatory policy could have a material effect on our business, including limiting the types of financial services and products we may offer or increasing the ability of nonbanks to offer competing financial services and products. These laws and regulations also require financial institutions, including SVB Financial and the Bank, to maintain certain minimum levels of capital, which may affect our ability to use our capital for other business purposes.

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

Federal and state banking regulators possess broad powers to take supervisory or enforcement action with respect to financial institutions. Other regulatory bodies, including the SEC, the NASD and state securities regulators, regulate broker-dealers, including our subsidiaries SVB Alliant and SVB Securities. Violations of the laws governing financial institutions and broker-dealers could result in the revocation of necessary licenses or authorizations, the imposition of censures, civil money penalties or fines, the issuance of cease and desist orders, and the suspension or expulsion from the securities business of a firm, its officers or employees. Supervisory actions could result in higher capital requirements, higher insurance premiums and limitations on the activities of SVB Financial Group. These supervisory actions could have a material adverse effect on our business, financial condition, profitability and reputation. In addition, increased regulatory requirements, whether due to the adoption of new laws and regulations, changes in existing laws and regulations, or more expansive or aggressive interpretations of existing laws and regulations, may have a material adverse effect on our business, financial condition and profitability.

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

SVB Financial is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on SVB Financial's common and preferred stock, should SVB Financial elect to pay dividends, and interest and principal on its debt. Various federal and state laws and regulations limit the amount of dividends that our bank and certain of our nonbank subsidiaries may pay to SVB Financial. Also, SVB Financial's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

Strategic/Reputation Risks

Adverse changes in domestic or global economic conditions, especially in the technology sector, could have a material adverse effect on our business, growth and profitability.

If conditions deteriorate in the domestic or global economy, especially in the technology, life science, private equity and premium wine industry niches, our business, growth and profitability may be materially adversely affected. A global, U.S. or significant regional economic slowdown could harm us by adversely affecting our clients and prospective clients access to capital to fund their businesses, their ability to sustain and grow their businesses, the level of funds they have available to maintain deposits, their demand for loans, their ability to repay loans and otherwise.

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

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

Among the factors that have affected and could in the future affect the amount of capital available to startup and emerging-growth companies are the receptivity of the capital markets IPOs or mergers and acquisitions of companies within our technology and life science industry sectors, the availability and return on alternative investments and general economic conditions in the technology and life science industries. Reduced capital markets valuations could reduce the amount of capital available to startup and emerging-growth companies, including companies within our technology and life science industry sectors.

We face competitive pressures that could adversely affect our business, growth and profitability.

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

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

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

or the costs associated with developing, introducing and providing new products and services could have an adverse effect on our business, profitability and growth prospects.

We face risks in connection with our strategic undertakings.

If appropriate opportunities present themselves, we may engage in strategic activities, which could include acquisitions, joint ventures, partnerships, investments or other undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

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

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

We face risks associated with international operations.

One component of our strategy is to expand internationally. To date, we have opened offices in the United Kingdom, India and China. We plan to expand our operations in those locations and are exploring adding other locations. Our efforts to expand our business internationally carries with it certain risks, including risks arising from the allocation of management time and attention to these efforts and the uncertainty regarding our ability to generate revenues from foreign operations. In addition, there are certain risks inherent in doing business on an international basis, including, among others, legal, regulatory and tax requirements and restrictions, uncertainties regarding liability, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, differing technology standards or customer requirements, political and economic risks and financial risks, including currency and payment risks. These risks could adversely affect the success of our international operations and could have a material adverse effect on our overall business, results of operation and financial condition. In addition, we face risks that our non-U.S. based employees may fail to comply with applicable laws and regulations, which could have a material adverse effect on us.

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

Our reputation is very important to sustain our business, as we rely on our relationships with our current, former and potential clients and stockholders, the private equity community and the industries that we serve. Any damage to our reputation, whether arising from regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with SEC and exchange listing requirements, our conduct of our business or otherwise could have a material adverse effect on our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

We currently operate 27 regional offices in the United States and three offices outside the United States. We operate throughout the Silicon Valley with two offices in Santa Clara, an office in Menlo Park, and three offices in Palo Alto. Other regional offices in California include Irvine, Woodland Hills, San Diego, San Francisco, St. Helena, Santa Rosa, and Pleasanton. Office locations outside of California within the United States include: Tempe, Arizona; Boulder, Colorado; Atlanta, Georgia; Chicago, Illinois; Newton, Massachusetts; Minnetonka, Minnesota; New York, New York; Chapel Hill, North Carolina; Beaverton, Oregon; Randor, Pennsylvania; Austin, Texas; Dallas, Texas; Vienna, Virginia; and Kirkland, Washington. Our three foreign offices are located in: Shanghai, China; Bangalore, India; and London, England. All of our properties are occupied under leases, which expire at various dates through 2014, and in most instances include options to renew or extend at market rates and terms. We also own leasehold improvements, equipment, furniture, and fixtures at our offices, all of which are used in our business activities.

Our Commercial Banking operations principally operate out of our corporate headquarters in Santa Clara, and the lending teams operate out of the various regional offices. SVB Capital principally operates out of our office in Menlo Park, and SVB Alliant out of one of our offices in Palo Alto. Our other businesses, including SVB Global and SVB Private Client Services, principally operate out of our corporate headquarters in Santa Clara; SVB Analytics principally operates out of our office in San Francisco. Local subsidiaries of SVB Global operate out of our offices in Bangalore and Shanghai; SVB Global's European subsidiary operates out of our London office, which it shares with SVB Alliant's European subsidiary.

We also lease an administrative facility in Salt Lake City, Utah, which provides a parallel operating environment for critical bank systems and functions.

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

Item 3. Legal Proceedings

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against us or our affiliates. Based upon information available to us, our review of such claims to date and consultation with our outside legal counsel, management believes the liability relating to these actions, if any, will not have a material adverse effect on our liquidity, consolidated financial position, or results of operations. Where appropriate, as we determine, reserves have been established in accordance with SFAS No. 5, *Accounting for Contingencies* (SFAS No. 5). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, or results of operation.

On May 24, 2001, Gateway Communications, Inc. (Gateway) filed a lawsuit in the United States Bankruptcy Court for the Southern District of Ohio (Western Division) naming the Bank as a defendant. Gateway (the debtor in the bankruptcy case) alleged that the Bank's actions in connection with a loan resulted in Gateway's bankruptcy, and sought \$20 million in compensatory damages, punitive damages, interest and attorneys' fees. On June 24, 2003, the Court dismissed four of the five counts in the complaint, including the claim for punitive damages, leaving one breach of contract claim. The matter was settled in its entirety in October 2006 for an amount previously accrued for in our financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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

Our common stock is traded on the NASD Automated Quotation (NASDAQ) Global Select Market under the symbol SIVB. The per share range of high and low sale prices for our common stock as reported on the NASDAQ Global Select Market, for each full quarterly period over the years ended December 31, 2006 and 2005, were as follows:

	2006	High	2005	High
	Low		Low	
Three Months Ended:				
March 31	\$ 45.70	\$ 53.46	\$ 41.10	\$ 45.69
June 30	44.18	54.52	43.15	48.98
September 30	44.05	46.60	46.25	51.84
December 31	\$ 43.91	\$ 48.60	\$ 46.35	\$ 50.12

Holders

There were 901 registered holders of our stock as of January 31, 2007. Additionally, we believe there were approximately 7,828 beneficial holders of common stock whose shares are held in the name of brokerage firms or other financial institutions. We are not provided with the number or identities of all of these stockholders, but we have estimated the number of such stockholders from the number of stockholder documents requested by these brokerage firms for distribution to their customers.

Dividends

We have not paid cash dividends on our common stock since 1992. Currently, we have no plans to pay cash dividends on our common stock. The Company's Board of Directors may periodically evaluate the decision of paying cash dividends in the context of our performance, general economic conditions, and relevant tax and financial parameters. Our ability to pay cash dividends is limited by generally applicable corporate and banking laws and regulations. See Item 1. Business-Supervision and Regulation Restrictions on Dividends, and Item 8. Consolidated Financial Statements and Supplementary Data Note 21. Regulatory Matters for additional discussion on restrictions and limitations on the payment of dividends imposed on us by government regulations.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item regarding equity compensation plans is incorporated by reference to the information set forth in Item 12 of this Annual Report on Form 10-K.

Stock Repurchases

The following table presents stock repurchases by month during the fourth quarter of 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
October		\$		\$ 77,264,655
November	150,000	47.50	150,000	70,139,184
December	50,000	47.16	50,000	\$ 67,781,111
Total	200,000	\$ 47.42	200,000	

(1) During the year ended December 31, 2006, we repurchased 2.1 million shares of our common stock totaling \$103.8 million. At December 31, 2006, \$67.8 million of shares may still be repurchased under our stock repurchase program, which will expire on June 30, 2008.

Recent Sales of Unregistered Securities

None.

Performance Graph

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

The following graph compares, for the period from December 31, 2001 through December 31, 2006, the cumulative total stockholder return on the Common Stock of the Company with (i) the cumulative total return of the Standard and Poor's 500 (S&P 500) Index, (ii) the cumulative total return of the Nasdaq Stock Market-U.S. index, and (iii) the cumulative total return of The Nasdaq Bank Index. The graph assumes an initial investment of \$100 and reinvestment of dividends. The graph is not necessarily indicative of future stock price performance.

Comparison of 5 Year Cumulative Total Return*

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Among SVB Financial Group, the S&P 500 Index,
the NASDAQ Stock Market-US Index, and the NASDAQ Bank Index

* \$100 invested on 12/31/01 in stock or index-including reinvestment of dividends

Fiscal year ending December 31.

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	December 31,					
	2001	2002	2003	2004	2005	2006
SVB Financial Group	100.00	68.28	134.94	167.68	175.23	174.41
S&P 500	100.00	77.90	100.24	111.15	116.61	135.03
Nasdaq Stock Market U.S.	100.00	71.97	107.18	117.07	120.50	137.02
Nasdaq Bank	100.00	59.14	89.11	103.85	130.57	166.05

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Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and supplementary data as presented in Item 8 of this Annual Report on Form 10-K. Certain reclassifications have been made to our prior years' results to conform to 2006 presentations. Such reclassifications had no effect on the consolidated results of operations or stockholders' equity. Information for the years ended December 31, 2006, 2005 and 2004 is derived from audited financial statements presented separately herein, while information for the years ended December 31, 2003 and 2002 is derived from audited financial statements not presented separately within.

(Dollars in thousands, except per share amounts)	Year Ended December 31,					
	2006	2005	2004	2003	2002	
Income Statement Summary:						
Net interest income	\$ 352,457	\$ 299,293	\$ 229,477	\$ 183,138	\$ 191,777	
Provision for (recovery of) loan losses	9,877	237	(10,289)	(9,892)	5,873	
Noninterest income	141,206	117,495	107,774	81,393	71,916	
Noninterest expense excluding impairment of goodwill	304,069	259,860	239,920	201,896	183,326	
Impairment of goodwill	18,434		1,910	63,000		
Minority interest in net (income)/losses of consolidated affiliates	(6,308)	(3,396)	(3,090)	7,689	7,767	
Income before income tax expense	154,975	153,295	102,620	17,216	82,261	
Income tax expense	65,782	60,758	38,754	4,174	27,761	
Net income before cumulative effect of change in accounting principle	89,193	92,537	63,866	13,042	54,500	
Cumulative effect of change in accounting principle, net of tax	192					
Net income	\$ 89,385	\$ 92,537	\$ 63,866	\$ 13,042	\$ 54,500	
Common Share Summary:						
Earnings per common share - basic before cumulative effect of change in accounting principle	\$ 2.57	\$ 2.64	\$ 1.81	\$ 0.36	\$ 1.24	
Earnings per common share - diluted before cumulative effect of change in accounting principle	2.37	2.40	1.70	0.35	1.21	
Earnings per common share - basic	2.58	2.64	1.81	0.36	1.24	
Earnings per common share - diluted	2.38	2.40	1.70	0.35	1.21	
Book value per share	\$ 18.27	\$ 16.22	\$ 15.07	\$ 13.07	\$ 14.83	
Weighted average shares outstanding - basic	34,680,522	35,114,574	35,215,483	36,109,404	44,000,300	
Weighted average shares outstanding - diluted	37,614,646	38,489,189	37,512,267	37,231,250	45,053,174	
Year-End Balance Sheet Summary:						
Investment securities	\$ 1,692,343	\$ 2,037,270	\$ 2,054,202	\$ 1,519,935	\$ 1,147,868	
Loans, net of unearned income	3,482,402	2,843,353	2,308,588	1,987,146	2,084,099	
Goodwill	21,296	35,638	35,638	37,549	100,549	
Total assets	6,081,452	5,541,715	5,145,679	4,468,410	4,212,031	
Deposits	4,057,625	4,252,730	4,219,514	3,666,841	3,436,050	
Short-term borrowings and other long-term debt	836,206	279,475	9,820	17,961	26,524	
Contingently convertible debt	148,441	147,604	146,740	145,797		
Junior subordinated debentures	51,355	48,228	49,470	49,118		
Trust preferred securities(1)					39,472	
Stockholders' equity	\$ 628,514	\$ 569,301	\$ 541,948	\$ 457,953	\$ 601,938	
Average Balance Sheet Summary:						
Investment securities	\$ 1,684,178	\$ 1,984,178	\$ 1,753,920	\$ 1,125,039	\$ 1,055,447	
Loans, net of unearned income	2,882,088	2,368,362	1,951,655	1,797,990	1,760,639	
Goodwill	27,653	35,638	37,066	91,992	98,252	
Total assets	5,387,435	5,189,777	4,772,909	4,056,468	3,895,870	
Deposits	3,921,857	4,166,476	3,905,408	3,277,566	3,063,456	
Short-term borrowings and other long-term debt	418,654	77,534	16,605	40,903	57,593	
Contingently convertible debt	148,002	147,181	146,255	73,791		
Junior subordinated debentures	50,223	49,309	49,366	23,823		
Trust preferred securities(1)				19,193	38,267	
Stockholders' equity	\$ 589,206	\$ 541,426	\$ 495,203	\$ 504,632	\$ 641,402	
Capital Ratios:						
Total risk-based capital ratio	13.95	% 14.75	% 16.09	% 16.83	% 16.31	%
Tier 1 risk-based capital ratio	12.34	12.39	12.75	12.23	15.00	
Tier 1 leverage ratio	12.46	11.64	11.17	10.62	14.15	
Average stockholders' equity to average assets	10.94	% 10.43	% 10.38	% 12.44	% 16.46	%
Selected Financial Ratios:						
Return on average assets	1.66	% 1.78	% 1.34	% 0.32	% 1.40	%
Return on average stockholders' equity	15.17	17.09	12.90	2.58	8.50	
Net interest margin	7.38	6.46	5.39	5.16	5.64	
Net (charge-offs) recoveries to average total loans	(0.14)	(0.04)	(0.10)	0.08	(0.25))

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Nonperforming assets as a percentage of total assets	0.27	0.25	0.29	0.28	0.48	
Allowance for loan losses as a percentage of total gross loans	1.22	% 1.28	% 1.62	% 2.49	% 2.78	%

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(Dollars in millions)	Year Ended December 31,				
	2006	2005	2004	2003	2002
Other Data:					
Client investment funds:					
Client directed investment assets	\$ 11,221	\$ 8,863	\$ 7,208	\$ 7,615	\$ 7,642
Client investment assets under management	5,166	3,857	2,678	592	
Sweep funds	2,573	2,247	1,351	1,139	853
Total client investment funds	\$ 18,960	\$ 14,967	\$ 11,237	\$ 9,346	\$ 8,495

(1) Adoption of FIN 46R in December 2003 and SFAS No. 150 in May 2003 resulted in a change of classification of trust preferred securities distribution expense from noninterest expense to interest expense on a prospective basis. Additionally, the adoption of FIN 46R and SFAS No. 150 resulted in a change of classification of trust preferred securities from noninterest bearing funding sources to interest-bearing liabilities on a prospective basis. Prior to adoption of FIN 46R and SFAS No. 150, in accordance with accounting rules in effect at that time, we recorded trust preferred securities distribution expense as noninterest expense. On October 30, 2003, \$50.0 million in cumulative 7.0% trust preferred securities were issued through a newly formed special purpose trust, SVB Capital II. We received \$51.5 million in proceeds from the issuance of 7.0% junior subordinated debentures to SVB Capital II. A portion of the net proceeds were used to redeem the existing \$40.0 million of 8.25% trust preferred securities. Approximately \$1.3 million of deferred issuance costs related to redemption of the \$40.0 million 8.25% trust preferred securities were included in interest expense in the fourth quarter of 2003.

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

Management's discussion and analysis of Financial Condition and Results of Operations below contain forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. See our cautionary language at the beginning of this Annual Report on Form 10-K. Actual results could differ materially because of various factors, including but not limited to those discussed in Item 1A. Risk Factors.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and supplementary data as presented in Item 8 of this Annual Report on Form 10-K. Certain reclassifications have been made to our prior years' results to conform to 2006 presentations. Such reclassifications had no effect on our results of operations or stockholders equity.

Overview of Company Operations

SVB Financial Group is a diversified financial services company, as well as a bank holding company and financial holding company. The company was incorporated in the state of Delaware in March 1999. Through our various subsidiaries and divisions, we offer a variety of banking and financial products and services. For over 20 years, we have been dedicated to helping entrepreneurs succeed, especially in the technology, life science, private equity and premium wine industries. We provide our clients with a diversity of products and services to support them throughout their life cycles, regardless of their size or stage of maturity.

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

Critical Accounting Policies and Estimates

The accompanying management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. In preparing our consolidated financial statements, we make estimates and assumptions that can have a significant impact on the reported amounts of assets, liabilities, income, and expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates and assumptions on an ongoing basis and we base these estimates on historical experiences and various other factors and assumptions that are believed to be reasonable under the circumstances, 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. The financial impact of each estimate, to the extent significant to financial results, is discussed in the applicable sections of management's discussion and analysis.

Our critical accounting policies are described below. Our senior management has discussed the development, selection, and disclosure of these critical accounting policies with our Audit Committee of the Board of Directors.

Non-Marketable Securities

Non-marketable securities include investments in private equity funds, venture debt funds and direct equity investments in companies. At December 31, 2006, we had non-marketable securities totaling \$246.9 million, compared to \$186.6 million at December 31, 2005. Our accounting for investments in non-

marketable securities depends on several factors, including our level of ownership/control and the legal structure of our subsidiary making the investment. Based on these factors we account for our non-marketable securities using one of three different methods: (i) investment company fair value accounting; (ii) equity method accounting; or (iii) cost method accounting.

At December 31, 2006, our non-marketable securities carried under investment company fair value accounting totaled \$174.8 million, compared to \$133.3 million at December 31, 2005. These investments are carried at estimated fair value at each balance sheet date based primarily on financial information obtained as the general partner of the fund or obtained from the funds' respective general partner. We utilize the most recent available financial information and valuations generally remain at cost until such time that there is significant evidence of a change in value based upon consideration of the relevant market conditions, offering prices, operating results, financial conditions, exit strategies, and other pertinent information. We consider our accounting policy for our non-marketable securities carried under investment company fair value to be critical as estimating the fair value of these investments requires management to make assumptions regarding future performance, financial condition, and relevant market conditions, along with other pertinent information. In addition, for our private equity fund investments, there is a time lag in our receipt of financial information from the investee's general partner, which we use as the primary basis for valuation of these investments.

Our equity method non-marketable securities totaled \$38.4 million at December 31, 2006, compared to \$22.7 million at December 31, 2005. Under our equity method accounting, we recognize our proportionate share of the results of operations of each equity method investee in its results of operations.

Our cost method non-marketable securities totaled \$33.7 million at December 31, 2006, compared to \$30.6 million at December 31, 2005. Under our cost method accounting, we record investments at cost and recognize as income distributions or returns received from net accumulated earnings of the investee since the date of acquisition.

We consider our accounting policy for our non-marketable securities to be critical because the valuation of these investments is subject to management judgment. The inherent uncertainty in the process of valuing equity securities for which a ready market is unavailable may cause our estimated values of these securities to differ significantly from the values that would have been derived had a ready market for the securities existed, and those differences could be material. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's carrying value, thereby possibly requiring an impairment charge in the future.

We review our equity and cost method securities at least quarterly for indicators of impairment, which requires significant judgment. The indicators that we use include an analysis of facts and circumstances of each investment, the expectations of the investment's future cash flows and capital needs, variability of its business and the company's exit strategy. Investments identified as having an indicator of impairment are reviewed further to determine if the investment is other than temporarily impaired. We reduce the investment value when we consider declines in value to be other than temporary and we recognize the estimated loss as a loss on investment securities, which is a component of noninterest income.

Derivative Assets Equity Warrant Assets for Shares of Privately- and Publicly-held Companies

At December 31, 2006, our equity warrant assets totaled \$37.7 million, compared to \$27.8 million at December 31, 2005. Equity warrant assets for shares of private and public companies are recorded at fair value on the grant date and adjusted to fair value on a quarterly basis through consolidated net income.

We account for equity warrant assets with net settlement terms in certain private and public client companies as derivatives. In general, equity warrant assets entitle us to buy a specific number of shares of stock at a specific price over a specific time period. Certain equity warrant assets contain contingent provisions, which adjust the underlying number of shares or strike price upon the occurrence of certain future events. Our warrant agreements contain net share settlement provisions, which permit us to receive at exercise a share count equal to the intrinsic value of the warrant divided by the share price (otherwise known as a cashless exercise). Because we can net settle our warrant agreements, our equity warrant assets qualify as derivative instruments in accordance with the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS No. 133).

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

- Underlying asset value was estimated based on information available, including any information regarding subsequent rounds of funding.
- Volatility, or the amount of uncertainty or risk about the size of the changes in the warrant price, was based on guidelines for publicly traded companies within indices similar in nature to the underlying client companies issuing the warrant. A total of ten such indices were used. The volatility assumption was based on the median volatility for an individual public company within an index for each quarter from January 1, 2003 to December 31, 2006, from which an average volatility was derived. The weighted average quarterly median volatility assumption used for the warrant valuation at December 31, 2006 was 42.1%, compared to 47.4% at December 31, 2005.
- Actual data on cancellations, expirations and exercises of our equity warrant assets was utilized as the basis for determining the expected remaining life of the equity warrant assets in each financial reporting period. Equity warrant assets may be exercised in the event of acquisitions, mergers or IPOs, and cancelled due to events such as bankruptcies, restructuring activities or additional financings. This assumption reduced the reported value of the warrant portfolio by \$12.4 million at December 31, 2006.
- The risk-free interest rates were derived from the U.S. Treasury yield curve. The risk-free interest rate was calculated based on a weighted average of the risk-free interest rates that correspond closest to the expected remaining life of the warrant.
- Other adjustments were estimated based on management's judgment about the general industry environment combined with specific information about the issuing company, when available.

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The fair value of our equity warrant assets recorded on our balance sheets represents our best estimate of the fair value of these instruments within the framework of existing accounting standards and guidance provided by the SEC on fair value accounting. Changes in the above material assumptions will result in significantly different valuations. For example, the following table demonstrates the effect of changes in the risk-free interest rate and volatility assumptions:

Valuation of equity warrant assets held by SVB Financial Group active at December 31, 2006 is as follows (1):

(Dollars in millions)	Volatility Factor		
	10% Lower	Current (42.1%)	10% Higher
Risk Free Interest Rate			
Less 100 basis points	\$ 31.5	\$ 35.5	\$ 39.5
Current rate (4.8%)	32.4		