SVB FINANCIAL GROUP
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended June 30, 2006
	OR
o	**TRANSITION REPORT PURSUANT TO 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)	**91-1962278** (I.R.S. Employer Identification No.)
3003 Tasman Drive, Santa Clara, California (Address of principal executive offices)	**95054-1191** (Zip Code)

(408) 654-7400

(Registrant s telephone number, including area code)

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

Yes ý No o

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.

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

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

Yes o No ý

At July 31, 2006, 34,531,095 shares of the registrant s common stock ($0.001 par value) were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands, except par value and share data)	June 30, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 321,334	$ 286,446
Federal funds sold, securities purchased under agreement to resell and other short-term investment securities	222,937	175,652
Investment securities	1,759,387	2,037,270
Loans, net of unearned income	2,950,626	2,843,353
Allowance for loan and lease losses	(37,907)	(36,785)
Net loans	2,912,719	2,806,568
Premises and equipment, net of accumulated depreciation and amortization	31,328	25,099
Goodwill	17,204	35,638
Accrued interest receivable and other assets	206,742	175,042
Total assets	$ 5,471,651	$ 5,541,715
Liabilities, Minority Interest, and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 2,758,391	$ 2,934,278
Negotiable order of withdrawal (NOW)	46,489	39,573
Money market	777,327	961,052
Time	331,097	317,827
Total deposits	3,913,304	4,252,730
Federal funds purchased and securities sold under agreement to repurchase	533,811	279,464
Contingently convertible debt	147,990	147,604
Junior subordinated debentures	49,857	48,228
Other borrowings		11
Other liabilities	105,535	124,921
Total liabilities	4,750,497	4,852,958
Commitments and contingencies		
Minority interest in capital of consolidated affiliates	153,033	119,456
Stockholders equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.001 par value, 150,000,000 shares authorized; 34,858,110 and 35,103,145 shares outstanding at June 30, 2006 and December 31, 2005, respectively	35	35
Additional paid-in capital	8,876	8,439
Retained earnings	596,128	587,713
Unearned compensation		(5,792)
Accumulated other comprehensive loss	(36,918)	(21,094)
Total stockholders equity	568,121	569,301
Total liabilities, minority interest, and stockholders equity	$ 5,471,651	$ 5,541,715

See accompanying notes to interim consolidated financial statements (unaudited).

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share amounts)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Interest income:				
Loans	$ 70,219	$ 51,306	$ 136,367	$ 98,762
Investment securities:				
Taxable	19,600	20,935	39,994	41,680
Non-taxable	781	947	1,604	1,970
Federal funds sold, securities purchased under agreement to resell and other short-term investments	2,530	2,025	4,570	4,984
Total interest income	93,130	75,213	182,535	147,396
Interest expense:				
Deposits	2,336	2,848	4,661	5,110
Other borrowings	5,032	931	8,233	1,726
Total interest expense	7,368	3,779	12,894	6,836
Net interest income	85,762	71,434	169,641	140,560
Provision for (recovery of) loan and lease losses	4,602	814	2,128	(3,000)
Net interest income after provision for (recovery of) loan and lease losses	81,160	70,620	167,513	143,560
Noninterest income:				
Client investment fees	10,972	7,805	20,609	15,201
Gains on derivative instruments, net	12,727	10,115	14,954	14,141
Corporate finance fees	2,775	6,935	5,213	11,749
Letter of credit and standby letter of credit income	2,642	2,423	4,992	4,793
Deposit service charges	2,310	2,378	4,488	4,882
Gains (losses) on investment securities, net	4,080	(1,631)	4,019	(429)
Other	5,472	2,364	10,104	5,421
Total noninterest income	40,978	30,389	64,379	55,758
Noninterest expense:				
Compensation and benefits (including share-based payment expense of $5.6, $2.2, $11.5 and $3.4, respectively (in millions))	48,675	44,280	93,196	84,548
Impairment of goodwill	18,434		18,434	
Professional services	10,074	5,653	18,429	10,723
Net occupancy	4,298	4,215	8,503	8,873
Furniture and equipment	3,671	3,300	7,375	6,019
Business development and travel	2,987	2,702	5,741	4,792
Correspondent bank fees	1,452	1,475	2,582	2,696
Data processing services	861	952	1,989	1,965
Telephone	880	1,061	1,787	1,950
(Reduction of) provision for unfunded credit commitments	(3,325)	(1,074)	(3,821)	(1,259)
Other	5,631	3,761	10,111	6,833
Total noninterest expense	93,638	66,325	164,326	127,140
Income before minority interest in net (income) loss of consolidated affiliates, income tax expense and cumulative effect of change in accounting principle	28,500	34,684	67,566	72,178
	(5,814)	372	(6,058)	813

Minority interest in net (income) loss of consolidated affiliates								
Income before income tax expense		22,686		35,056		61,508		72,991
Income tax expense		9,092		14,160		25,835		29,159
Net income before cumulative effect of change in accounting principle		13,594		20,896		35,673		43,832
Cumulative effect of change in accounting principle, net of tax (1)						192		
Net income	$	13,594	$	20,896	$	35,865	$	43,832
Earnings per common share basic, before cumulative effect of change in accounting principle	$	0.39	$	0.60	$	1.02	$	1.24
Earnings per common share diluted, before cumulative effect of change in accounting principle	$	0.36	$	0.54	$	0.93	$	1.13
Earnings per common share basic	$	0.39	$	0.60	$	1.02	$	1.24
Earnings per common share diluted	$	0.36	$	0.54	$	0.94	$	1.13

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(1) The cumulative effect of change in accounting principle and taxes on previously granted share-based compensation for the effect of adopting Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* .

See accompanying notes to interim consolidated financial statements (unaudited).

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net income	$ 13,594	$ 20,896	$ 35,865	$ 43,832
Other comprehensive (loss) income, net of tax:				
Cumulative translation (losses) gains:				
Foreign currency translation gains (losses), net of tax	175	(32)	213	(32)
Change in unrealized (losses) gains on available-for-sale investment securities:				
Unrealized holding (losses) gains, net of tax	(5,571)	11,854	(16,107)	(2,197)
Reclassification adjustment for (gains) losses included in net income, net of tax	(29)	(1,087)	70	(1,290)
Total other comprehensive (loss) income, net of tax	(5,425)	10,735	(15,824)	(3,519)
Total comprehensive income	$ 8,169	$ 31,631	$ 20,041	$ 40,313

See accompanying notes to interim consolidated financial statements (unaudited).

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Six Months Ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 35,865	$ 43,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	2,128	(3,000)
Impairment of goodwill	18,434	
Changes in fair values of derivatives, net	(8,520)	1,601
(Gains) losses on investment securities, net	(4,019)	429
Depreciation and amortization	4,075	4,173
Minority interest	6,058	(813)
Tax benefits of share-based compensation and other	6,807	7,198
Amortization of share-based compensation	11,545	3,441
Amortization of deferred warrant-related loan fees	(3,491)	(3,504)
Deferred income tax (benefit) expense	(672)	1,310
Changes in other assets and liabilities:		
Decrease (increase) in accrued interest receivable	1,600	(4,624)
(Increase) decrease in accounts receivable	(86)	867
Increase in income tax receivable, net	(12,800)	(6,442)
Decrease in accrued retention, incentive plans, other compensation benefits payable	(20,583)	(14,037)
Reduction of provision for unfunded credit commitments	(3,821)	(1,259)
Other, net	6,957	13,704
Net cash provided by operating activities	**39,477**	**42,876**
Cash flows from investing activities:		
Purchases of available-for-sale securities	(11,763)	(306,155)
Proceeds from sales of available-for-sale securities	123,049	1,860
Proceeds from maturities and pay-downs of available-for-sale securities	180,656	207,045
Purchases of nonmarketable securities (cost and equity method accounting)	(15,210)	(9,641)
Proceeds from sales of nonmarketable securities (cost and equity method accounting)	2,335	3,515
Proceeds from maturities of nonmarketable securities (cost and equity method accounting)	1,442	2,404
Purchases of nonmarketable securities (investment fair value accounting)	(37,965)	(33,436)
Proceeds from sales of nonmarketable securities (investment fair value accounting)	8,890	2,527
Proceeds from pay-downs of nonmarketable securities (investment fair value accounting)	7,140	671
Net increase in loans	(115,141)	(123,415)
Proceeds from recoveries of charged-off loans	6,204	7,829
Purchases of premises and equipment	(10,304)	(8,245)
Net cash provided by (used for) investing activities	**139,333**	**(255,041)**
Cash flows from financing activities:		
Net (decrease) increase in deposits	(339,426)	153,605
Increase in borrowings, net	254,336	1,598
Capital contributions from minority interest participants, net of distributions	27,519	28,208
Stock compensation related tax benefits	4,107	
Proceeds from issuance of common stock	26,146	12,921
Repurchases of common stock	(69,319)	(73,140)
Net cash (used for) provided by financing activities	**(96,637)**	**123,192**
Net increase (decrease) in cash and cash equivalents	82,173	(88,973)
Cash and cash equivalents at beginning of year	462,098	627,218
Cash and cash equivalents at end of period	**$ 544,271**	**$ 538,245**

Supplemental disclosures:				
Cash paid during the period for:				
Interest paid	$	12,330	$	6,799
Income taxes paid	$	29,695	$	27,043

See accompanying notes to interim consolidated financial statements (unaudited).

SVB FINANCIAL GROUP AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business

SVB Financial Group and its subsidiaries (collectively referred to as we , our or us in this Form 10-Q) offer clients financial products and services through four primary strategic business groups: Commercial Banking, SVB Capital, SVB Alliant, and Other Business Services, which include SVB Global, Private Client Services and other business service units (see Note 11. Segment Reporting). The Parent company of SVB Financial Group itself is referenced to as SVB Financial Group or the Parent company .

The Parent company is a bank holding company and financial holding company whose principal subsidiary is Silicon Valley Bank (the Bank), a California-chartered bank, founded in 1983, and headquartered in Santa Clara, California. We serve more than 11,000 clients worldwide, through our 28 regional offices in the United States and four subsidiaries outside the United States. The Bank has 13 offices throughout California and operates regional offices across the country in Arizona, Colorado, Georgia, Illinois, Massachusetts, Minnesota, New York, North Carolina, Oregon, Pennsylvania, Utah, Texas, Virginia, and Washington and three international offices located in Bangalore, India; Shanghai, China; and London, England.

Through our Commercial Banking business group which includes the Bank and its subsidiaries, we serve clients in all stages of maturity ranging from emerging-growth companies to established, private and public companies in the technology, life science and premium wine industries. We define emerging-growth clients as companies in the start-up or early stages of their lifecycle; 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 no or little revenue. By contrast, we define established or corporate technology clients as companies that tend to be more mature; these companies may be publicly traded, and more established in the markets in which they participate. In 2006, we began using Silicon Valley Bank to refer to our Commercial Banking activities.

SVB Capital focuses on the business needs of our venture capital and private equity clients, establishing and maintaining relationships with those firms domestically and internationally. Through this segment, we provide banking services and financial solutions, including traditional deposit and checking accounts, loans, letters of credit, and cash management services to venture capital and private equity clients. SVB Capital also makes investments in venture capital and other private equity firms and in companies in the niches we serve. The group manages five venture funds and oversees investments, as well as investments in several sponsored limited partnerships, such as Gold Hill Venture Lending Partners 03, LP, and its parallel funds, which primarily provide secured debt, typically to emerging-growth clients in their earliest stages; and the Partners for Growth funds, which are special situation debt funds that provide secured debt to, primarily, higher-risk, middle market clients in their later stages.

SVB Alliant, our investment banking subsidiary, provides merger and acquisition advisory services, private placement advisory services, strategic alliance services, and specialized financial studies such as valuations and fairness opinions. SVB Alliant is a broker-dealer registered with the U.S. Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers, Inc. In 2005, we established SVB Alliant Europe Limited, a subsidiary based in London, England, in order to provide investment advisory services to companies in Europe. SVB Alliant Europe Limited did not commence full operations until May 2, 2006, when it received its license from the Financial Services Authority, which is an independent body that regulates the financial services industry in the United Kingdom.

Other Business Services include SVB Global, Private Client Services, and other business service units. 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, as well as identifying business opportunities for us. Private Client Services provides a wide range of credit services to high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. Private Client Services helps our clients meet their cash management needs by providing deposit account products and services, including checking accounts, deposit accounts, money market accounts, and certificates of deposit.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements reflect all adjustments (of a normal and recurring nature) that are, in the opinion of management, necessary to fairly present our financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America (GAAP). Such interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant

to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of results to be expected for any future periods. These interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

The consolidated balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Part II, Item 8. Consolidated Financial Statements and Supplementary Data -Note 2. Summary of Significant Accounting Policies presented in our Annual Report on Form 10-K for the year ended December 31, 2005.

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

Recent Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of SFAS 140 . The Statement clarifies when an entity should separately recognize servicing assets and servicing liabilities when it undertakes an obligation to service a financial asset by entering into a servicing contract. The Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value and subsequently measured using either the amortization method as previously permitted under SFAS 140 or the fair value measurement method. Entities are permitted to make an election to subsequently remeasure classes of separately recognized servicing assets and liabilities. Once the fair value measurement method is elected for a class, the election should be applied prospectively to all new and existing separately recognized servicing assets and servicing liabilities within that class. The effect of remeasuring an existing class of separately recognized servicing assets and servicing liabilities at fair value would be reported as a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Statement is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued interim financial statements for that fiscal year. In the first quarter of 2006, we elected not to early adopt this Statement and accordingly, will adopt as of January 1, 2007. We do not expect the adoption of SFAS 156 to have a material impact on our consolidated financial position and results of operations.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (SFAS 155). Hybrid financial instruments are financial instruments that contain an embedded derivative within a single instrument. SFAS 155 permits entities an option to elect to record hybrid financial instruments at fair value as one financial instrument. Prior to this amendment, hybrid financial instruments were required to be separated into two instruments, a derivative and host, and generally only the derivative was recorded at fair value. SFAS 155 requires that beneficial interests in securitized assets be evaluated for derivatives, either freestanding or embedded. SFAS 155 is effective for all financial instruments acquired or issued after January 1, 2007. Additionally, SFAS 155 provides a one-time opportunity to apply the fair value election to hybrid financial instruments existing at the date of implementation at fair value as one financial instrument, with any difference between the carrying amount of the existing hybrid financial instruments and the fair value of the single financial instrument being recorded as a cumulative effect adjustment to beginning retained earnings. We are currently assessing the impact of SFAS 155 on our consolidated financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 , to clarify the accounting for uncertain tax positions. FIN 48 prescribes that a two-step benefit recognition model be applied to initially recognize and measure the benefit amount of a tax position. The first step requires that a tax benefit be recognized only when the tax position is more-likely-than-not of being sustained based on the technical merits of the position. Assuming the first step is met, the second step requires that the benefit amount be measured at the largest amount that has at least a more-likely-than-not likelihood of being the ultimate outcome based on a cumulative-probability approach. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be subsequently recognized in the period in which the threshold is subsequently met, the tax matter is resolved or the statute of limitation for examining the tax position has expired. FIN 48 requires that a previously recognized tax benefit be derecognized in the period it becomes more-likely-than-not that the tax position would not be sustained on audit. The impact of applying FIN 48 should be recognized as a cumulative-effect adjustment to beginning retained earnings

at the adoption date. The Interpretation is effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact of FIN 48 on our consolidated financial position and results of operations.

3. Earnings Per Share (EPS)

The following is a reconciliation of basic EPS to diluted EPS for the three and six months ended June 30, 2006 and 2005:

(Dollars and shares in thousands, except per share amounts)	Three Months Ended June 30, Net Income	Three Months Ended June 30, Weighted Average Shares	Three Months Ended June 30, Per Share Amount	Six Months Ended June 30, Net Income	Six Months Ended June 30, Weighted Average Shares	Six Months Ended June 30, Per Share Amount
2006:						
Basic EPS:						
Income available to common stockholders	$ 13,594	34,968	$ 0.39	$ 35,865	35,030	$ 1.02
Effect of dilutive securities:						
Stock options, restricted stock awards, restricted stock units and convertible debt		3,023			3,186	
Diluted EPS:						
Income available to common stockholders and assumed conversions	$ 13,594	37,991	$ 0.36	$ 35,865	38,216	$ 0.94
2005:						
Basic EPS:						
Income available to common stockholders	$ 20,896	35,010	$ 0.60	$ 43,832	35,339	$ 1.24
Effect of dilutive securities:						
Stock options, restricted stock awards, restricted stock units and convertible debt		3,464			3,288	
Diluted EPS:						
Income available to common stockholders and assumed conversions	$ 20,896	38,474	$ 0.54	$ 43,832	38,627	$ 1.13

For the three months ended June 30, 2006 and 2005, approximately 5.4 million and 4.6 million average potential common stock equivalents (including stock options, restricted stock and warrants), respectively, were excluded from the calculation, as they were anti-dilutive. For the six months ended June 30, 2006 and 2005, approximately 5.3 million and 4.6 million average potential common stock equivalents (including stock options, restricted stock and warrants), respectively, were excluded from the calculation, as they were anti-dilutive.

In September 2004, the Emerging Issues Task Force (EITF) reached final consensus on EITF No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share* , that contingently convertible debt should be treated as convertible debt and included in the calculation of diluted EPS. The potential dilutive effect of our contingently convertible debt using the treasury stock method was approximately 1.4 million shares and 1.3 million shares for the three months ended June 30, 2006 and 2005, respectively, and 1.4 million shares and 1.2 million shares for the six months ended June 30, 2006 and 2005, respectively. The assumed proceeds under the treasury stock method were calculated by subtracting the aggregate weighted average conversion price from the average market price of the shares related to the contingently convertible debt. We included the dilutive effect of the $150.0 million zero-coupon, convertible subordinated notes (see Note 8. Borrowings) in our diluted EPS calculation using the treasury stock method, in accordance with the provisions of EITF No. 90-19, *Convertible Bonds With*

Issuer Option to Settle in Cash Upon Conversion and SFAS No. 128, *Earnings Per Share*. However, the exposure draft of SFAS No. 128(R), if adopted in its proposed form, will require us to change our accounting for the calculation of EPS on our contingently convertible debt to the if converted method. The if converted treatment of the contingently convertible debt would have decreased diluted EPS by $0.03 and $0.07 for the three and six months ended June 30, 2006, respectively.

4. Share-Based Compensation

Impact of Adopting SFAS 123R

Prior to January 1, 2006, we accounted for employee stock-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with APB 25 and SFAS 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosures. Under the intrinsic value method, stock options granted with exercise prices equal to the grant date fair value of our stock have no intrinsic value and therefore no expense was actually recorded for these options under APB 25. For pro forma

disclosure only, we measured the fair value of our stock options using the Black-Scholes option-pricing model and expensed the value over the corresponding service period using the straight-line amortization approach. Equity-based awards for which stock-based compensation expense was actually recorded were generally grants of restricted stock awards and restricted stock units which were measured at fair value on the date of grant based on the number of shares granted and the quoted price of our common stock. Such value was then recognized as an expense over the corresponding service period using an accelerated amortization approach in accordance with FASB Interpretation No. 28 Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

Effective January 1, 2006, we adopted SFAS 123(R) using the modified prospective transition method and accordingly prior periods have not been restated to reflect the impact of SFAS 123(R). Under SFAS 123(R), stock-based awards that were granted prior to January 1, 2006 are being expensed over the remaining portion of their vesting period under the same amortization method and, for stock options, using the same fair value measurements which were used in calculating pro forma stock-based compensation expense under SFAS 123. Under SFAS 123(R), the fair value of stock options are being measured using the Black-Scholes option-pricing model while the fair value for our restricted stock awards and restricted stock units are based on the quoted price of our common stock on the date of grant. For all stock-based awards granted on or after January 1, 2006, stock-based compensation expense is being amortized on a straight-line basis over the requisite service period. SFAS 123(R) requires that the deferred stock-based compensation on the consolidated balance sheet on the date of adoption be netted against additional paid-in capital. As of December 31, 2005, there was a balance of $5.8 million of deferred stock-based compensation that was netted against additional paid-in capital on January 1, 2006.

For the six months ended June 30, 2006, we recorded share-based compensation expense of $11.5 million, resulting in the recognition of $2.5 million in related tax benefits. For the six months ended June 30, 2005, we recognized $3.4 million of share-based compensation expense under the intrinsic value method of APB 25, resulting in the recognition of $1.4 million in related tax benefits. As a result of adopting SFAS 123(R) on January 1, 2006, our income before income taxes and net income for the six months ended June 30, 2006 were $8.5 million and $7.3 million lower, respectively, than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the six months ended June 30, 2006 were $0.24 and $0.19 lower, respectively, than if we had continued to account for share-based compensation under APB 25.

SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense was recorded net of estimated forfeitures for the six months ended June 30, 2006 such that expense was recorded only for those stock-based awards that are expected to vest. Previously under APB 25 to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture. Upon adoption of FAS 123(R) as of January 1, 2006, we recorded a cumulative adjustment of $0.2 million to account for the expected forfeitures of restricted stock awards and restricted stock units granted prior to January 1, 2006, for which we previously recorded an expense.

Equity Incentive Plans

On May 11, 2006, shareholders approved the 2006 Equity Incentive Plan (the 2006 Incentive Plan). Our existing 1997 Equity Incentive Plan was set to expire in December 2006. The 2006 Incentive Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance shares and performance units, and (vi) and other stock awards.

Subject to the provisions of Section 14 of the 2006 Incentive Plan, the maximum aggregate number of shares that may be awarded and sold thereunder is 3,000,000 shares plus 1,488,361 shares comprised of (i) any shares which have been reserved but not issued under our 1997 Equity Incentive Plan as of May 11, 2006, and (ii) any shares subject to stock options or similar awards granted under the 1997 Equity Incentive Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the 1997 Equity Incentive Plan that are forfeited to or repurchased by us. No further awards will be made under the 1997 Equity Incentive Plan, but it will continue to govern awards previously granted thereunder.

Restricted stock awards and restricted stock units will be counted against the numerical limits of the Incentive Plan as two shares for every one share subject thereto. Further, if shares acquired pursuant to any such award are forfeited or repurchased by us and would otherwise return to the Incentive Plan pursuant to the terms thereof, two times the number of shares so forfeited or repurchased will return to the Incentive Plan and will again become available for issuance.

Eligible participants in the 2006 Incentive Plan include directors, employees, and consultants. Options granted under the 2006 Incentive Plan generally expire 7 years after the grant date. Options generally become exercisable over various periods, typically 4 years, from date of grant based on continued employment and typically vest annually. Restricted stock awards generally vest over the passage of time and continued employment through the vesting period. Restricted stock units generally vest upon meeting certain performance-based objectives or the passage of time, or a combination of both, and continued employment through the vesting period. The vesting period for restricted stock units cannot be less than three years unless they are subject to certain performance-based objectives, in which case the vesting period can be 12 months or longer.

Employee Stock Purchase Plan

We maintain an employee stock purchase plan (ESPP) under which participating employees may annually contribute up to 10% of their gross compensation to purchase shares of our common stock at 85% of its fair market value at either the beginning or end of each six-month offering period, whichever price is less. All employees are eligible to participate in the ESPP on the first day of hire. To be eligible, an employee must, among other requirements, be age 18 or above and complete at least one hour of service as an employee of us or any of our affiliates. There were 71,036 shares issued under the ESPP for the period ended June 30, 2006. At June 30, 2006, a total of 915,577 shares of our common stock were still available for future issuance under the ESPP. The next purchase will be on December 29, 2006 at the end of the current six-month offering period. Effective January 1, 2006, we began recognizing compensation expense in accordance with SFAS 123(R).

Pro forma Information for Periods Prior to the Adoption of SFAS No. 123(R)

Prior to the adoption of SFAS No. 123(R), we provided the pro forma disclosures required under SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosures* . Previously reported amounts have not been restated.

(Dollars in thousands, except per share amounts)		Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	$	20,896	43,832
Add: Stock-based compensation expense, net of tax reported in net income		1,257	1,919
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax		(5,591)	(10,909)
Net income, pro forma	$	16,562	34,842
Earnings per common share basic:			
As reported	$	0.60	1.24
Pro forma		0.48	0.99
Earnings per diluted share diluted:			
As reported	$	0.54	1.13
Pro forma		0.45	0.93

Unrecognized Compensation Expense

As of June 30, 2006, unrecognized share-based compensation expense is as follows:

		As of June 30, 2006	
(Dollars in thousands)		Unrecognized Expense	Average Expected Recognition Period in Years
Stock option awards	$	21,181	1.33
Restricted stock awards		1,644	1.03

Restricted stock units		8,224	1.87
Employee stock purchase plan			
Total unrecognized share-based compensation expense	$	31,049	

Valuation Assumptions

As of June 30, 2006 and 2005, the fair values of share-based awards for employee stock options and employee stock

purchases made under our ESPP were estimated using the Black-Scholes option pricing model. The fair values of our restricted stock awards and restricted stock units were based on our closing quoted market price on date of grant. The following weighted average assumptions were used:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Equity Incentive Plan Awards				
Expected term of options in years	5.3	5.1	5.3	5.1
Expected volatility of the Company s underlying common stock	29.3%	37.0%	29.4%	37.1%
Risk-free interest rate	4.82%	4.06%	4.79%	4.05%
Expected dividend yield	%	%	%	%
Weighted average grant date fair value-stock options	$ 18.75	$ 17.58	$ 18.69	$ 17.60
Weighted average grant date fair value-restricted stock awards and restricted stock units	$ 51.21	$ 45.08	$ 51.17	$ 45.09
ESPP				
Expected term in years	0.5	0.5	0.5	0.5
Expected volatility of the Company s underlying common stock	22.5%	24.8%	22.5%	24.8%
Risk-free interest rate	4.40%	2.63%	4.40%	2.63%
Expected dividend yield	%	%	%	%
Weighted average fair value	$ 10.23	$ 10.01	$ 10.23	$ 10.01

The expected term was based on the implied term of the stock options using a lattice option-pricing model with early exercise factors based on historic employee exercise behavior. The expected volatilities for the 2006 Equity Incentive Plan for the three and six months ended June 30, 2006 and 2005 were calculated using a blended rate consisting of equal measures of our historic volatility and our expected volatility over a five-year term. The expected volatilities for the ESPP for the three and six months ended June 30, 2006 and 2005 are equal to the historical volatility for the previous six month periods. The expected risk-free interest rates for all periods were based on the yields of U.S. Treasury Securities, as reported by the Federal Reserve Bank of New York, with maturities equal to the expected terms of the employee stock options.

Share-Based Payment Award Activity

The table below provides stock option information related to the 1989 Stock Option Plan, the 1997 Equity Incentive Plan and the 2006 Equity Incentive Plan for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30, 2006		Six Months Ended June 30, 2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	5,150,631	$ 29.81	6,023,080	$ 28.87

Granted	275,297		52.00	314,847		51.84
Exercised	(253,508)		25.91	(1,046,446)		23.77
Forfeited	(85,469)		37.87	(203,325)		35.63
Cancelled	(500)		48.88	(1,705)		40.56
Outstanding at June 30	5,086,451	$	31.06	5,086,451	$	31.06
Exercisable at June 30	3,273,528	$	27.27	3,273,528	$	27.27

	Three Months Ended June 30, 2005			**Six Months Ended June 30, 2005**		
	Shares		**Weighted-Average Exercise Price**	**Shares**		**Weighted-Average Exercise Price**
Outstanding at beginning of period	6,387,083	$	27.54	6,645,385	$	27.41
Granted	428,790		44.79	446,990		44.78
Exercised	(325,368)		22.58	(540,408)		22.58
Forfeited	(160,794)		30.57	(215,280)		31.20
Cancelled	(4,000)		49.27	(10,976)		51.63
Outstanding at June 30	6,325,711	$	28.87	6,325,711	$	28.87
Exercisable at June 30	3,299,123	$	24.85	3,299,123	$	24.85

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The-Money Options ($)
Outstanding at June 30, 2006	5,086,451	$ 31.06	4.51	$ 75,644,014
Exercisable at June 30, 2006	3,273,528	$ 27.27	4.31	$ 59,875,068

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value as of June 30, 2006. This value is based on our closing stock price of $45.46 as of June 30, 2006. The total intrinsic value of options exercised during the three and six months ended June 30, 2006 was $6.6 million and $28.1 million, respectively, and the total intrinsic value of options exercised during the three and six months ended June 30, 2005 was $8.1 million and $12.7 million, respectively. Cash received from stock option exercises was $6.8 million and $7.2 million during the six months ended June 30, 2006 and 2005, respectively. The tax benefit of stock options exercised was $4.1 million and $0 for the six months ended June 30, 2006 and 2005.

The following table summarizes information regarding stock options outstanding as of June 30, 2006:

Ranges of Exercise Prices		Outstanding Options Shares	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Vested Options Shares	Weighted-Average Exercise Price
$ 8.25-	$ 17.07	642,276	3.94	$ 13.81	546,432	$ 13.31
17.20-	23.69	531,435	4.98	22.36	449,848	22.54
23.90-	25.17	524,486	2.36	25.05	374,518	25.05
25.29-	26.40	528,262	5.06	26.06	526,075	26.07
26.66-	31.29	527,052	5.43	30.93	509,178	30.98
31.40-	35.26	593,293	2.63	34.95	311,411	34.73
35.54-	36.46	508,696	4.70	35.60	245,426	35.61
36.56-	43.49	684,374	5.35	40.87	198,064	40.36
43.62-	53.29	541,077	6.14	49.78	112,576	48.42
53.30-	53.30	5,500	6.76	53.30		
$ 8.25-	$ 53.30	5,086,451	4.51	$ 31.06	3,273,528	$ 27.27

We expect to satisfy the exercise of stock options and future grants of restricted stock by issuing new shares registered under the 2006 Incentive Plan. At June 30, 2006, options for 3,975,341 shares were available for future grant under the 2006 Incentive Plan.

The table below provides information for restricted stock awards and restricted stock units related to the 1989 Stock Option Plan, 1997 Plan and 2006 Incentive Plan for the six months ended June 30, 2006 and 2005:

	June 30, 2006		June 30, 2005	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Nonvested at beginning of period	253,848	$ 42.12	251,113	$ 29.56
Granted	148,091	51.17	173,001	45.09
Vested	(61,649)	53.24	(131,801)	22.55

Forfeited	(18,561)		39.94	(3,523)		38.67
Nonvested at June 30	321,729	$	44.28	288,790	$	41.95

The total fair value of restricted stock grants that vested during the six months ended June 30, 2006 and 2005 was $2.5 million and $3.0 million, respectively.

5. Investment Securities

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

Federal funds sold, securities purchased under agreement to resell and other short-term investment securities as

reported in the interim consolidated balance sheets include interest-bearing deposits in other financial institutions of $32.2 million and $34.7 million at June 30, 2006 and December 31, 2005, respectively.

The detailed composition of our investment securities as of June 30, 2006 and December 31, 2005 is presented as follows:

(Dollars in thousands)	**June 30, 2006**	**December 31, 2005**
Available-for-sale securities, at fair value	$ 1,535,837	$ 1,850,655
Non-marketable securities (investment company fair value accounting):		
Venture capital fund investments(1)	100,927	81,280
Other private equity investments(2)	32,323	26,782
Other investments(3)	25,456	25,300
Non-marketable securities (equity method accounting):		
Other investments (4)	15,778	10,985
Low income housing tax credit funds	18,227	11,682
Non-marketable securities (cost method accounting):		
Fund investments	27,123	26,924
Other private equity investments	3,716	3,662
Total investment securities	$ 1,759,387	$ 2,037,270

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(1) Includes $63.3 million and $58.7 million related to SVB Strategic Investors Fund, LP at June 30, 2006 and December 31, 2005, respectively. We have a controlling ownership interest of 12.6% in the fund. Also includes $35.3 million and $22.1 million related to SVB Strategic Investors Fund II, LP, at June 30, 2006 and December 31, 2005, respectively. We have a controlling interest of 8.6% in the fund. Additionally, it includes $2.3 million and $0.5 million related to SVB Strategic Investors Fund III, LP at June 30, 2006 and December 31, 2005, respectively. Currently, we have a controlling interest of 11.7% in the fund. As of December 31, 2005, we had a controlling interest of 100.0% in the fund.

(2) Includes $29.7 million and $26.8 million related to Silicon Valley BancVentures, LP at June 30, 2006 and December 31, 2005, respectively. We have a controlling ownership interest of 10.7% in the fund. Additionally, includes $2.6 million related to SVB Capital Partners II, LP as of June 30, 2006. We have a direct ownership interest of 1.0% and indirect ownership interest of 8.6% in the fund through our ownership of SVB Strategic Investors Fund II, LP.

(3) Represents $25.5 million and $25.3 million related to Partners for Growth, LP at June 30, 2006 and December 31, 2005, respectively. We have a majority ownership interest of approximately 50.01% in the fund.

(4) Includes $6.9 million and $5.6 million related to Gold Hill Venture Lending Partners 03, LLC, the general partner of Gold Hill Venture Lending 03, LP and its parallel funds, as of June 30, 2006 and December 31, 2005, respectively. We have a majority interest of 90.7% in Gold Hill Venture Lending Partners 03, LLC. Gold Hill Venture

Lending Partners 03, LLC has an ownership interest of 5.0% in the fund. It also includes $6.6 million and $5.4 million related to our direct investment in Gold Hill Venture Lending Partners 03, LP, as of June 30, 2006 and December 31, 2005, respectively. We have a direct ownership interest of 4.8% in the fund. Additionally, it includes $2.3 million to Partners for Growth II, LP as of June 30, 2006. We have an ownership interest of 24.2% in the fund.

The following table breaks out our unrealized losses on our available-for-sale investment securities portfolio into categories of less than 12 months, or 12 months or longer as of June 30, 2006:

	June 30, 2006					
	Less than twelve months		Twelve months or longer		Total	
(dollars in thousands)	Fair Value of Investments	Unrealized Losses	Fair Value of Investments (1)	Unrealized Losses (1)	Fair Value of Investments	Unrealized Losses
U.S. Treasury securities	$ 19,669	$ (195)	$ 9,969	$ (33)	$ 29,638	$ (228)
U.S. agencies and corporations:						
Collateralized mortgage obligations	310,584	(9,042)	371,150	(17,776)	681,734	(26,818)
Mortgage-backed securities	284,169	(14,007)	152,143	(9,671)	436,312	(23,678)
Discount notes and bonds	48,146	(1,822)	188,656	(6,374)	236,802	(8,196)
Asset-backed securities			1,954	(11)	1,954	(11)
Commercial mortgage-backed securities	67,480	(3,694)			67,480	(3,694)
Total temporarily impaired securities	$ 730,048	$ (28,760)	$ 723,872	$ (33,865)	$ 1,453,920	$ (62,625)

(1) As of June 30, 2006, we identified 79 investments totaling $723.9 million with unrealized losses of $33.9 million whose fair value has been less than their adjusted cost for a period of time greater than twelve months. A US Treasury bond totaling $10.0 million with an unrealized loss of $33.0 thousand was purchased in October 2003. Securities classified as collateralized mortgage obligations totaling $371.2 million with unrealized losses of $17.8 million were originally purchased between July 1998 and June 2005. Securities classified as mortgage-backed securities totaling $152.1 million with unrealized losses of $9.7 million were originally purchased between June 2003 and April 2004. Securities classified as discount notes and bonds totaling $188.7 million with unrealized losses of $6.4 million were originally purchased between February 2003 and January 2005. Securities classified as asset backed securities totaling $2.0 million with unrealized losses of $10.7 thousand were originally purchased between October 2002 and September 2003. All investments with unrealized losses for a period of time greater than twelve months are either rated triple AAA by Moody s or S&P or are issued by the US Treasury or a government sponsored enterprise. Because these securities are of superior credit quality, the unrealized losses are due solely to increases in market interest rates and we expect to recover the impairment prior to or at maturity, we deem these impairments to be temporary. We have the intent and ability to hold the securities until the market value recovers. Market valuations and impairment analysis on assets in the investment portfolio are reviewed and monitored on an ongoing basis.

The following table presents the components of gains and losses on investment securities, for the three and six months ended June 30, 2006 and 2005.

(Dollars in thousands)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Gross gains on investment securities:				
Available-for-sale securities, at fair value	$ 3,180	$ 71	$ 3,350	$ 121
Non-marketable securities (investment company fair value accounting):				
Venture capital fund investments.	4,613	1,256	7,180	2,851
Other private equity investments	384	540	386	945
Other investments	1,167	22	1,170	22
Non-marketable securities (equity method accounting)	313		520	
Non-marketable securities (cost method accounting):				
Venture capital fund investments	286	527	362	2,578
Other private equity investments	109	50	109	50
Total gross gains on investment securities	10,052	2,466	13,077	6,567
Gross losses on investment securities:				
Available-for-sale securities, at fair value	(3,230)	(1,929)	(3,230)	(2,326)
Non-marketable securities (investment company fair value accounting):				
Venture capital fund investments	(1,660)	(1,453)	(3,856)	(2,658)
Other private equity investments	(475)	(51)	(475)	(51)
Non-marketable securities (equity method accounting)	(209)		(761)	(51)
Non-marketable securities (cost method accounting):				
Venture capital fund investments	(398)	(643)	(691)	(1,489)
Other private equity investments		(21)	(45)	(421)
Total gross losses on investment securities	(5,972)	(4,097)	(9,058)	(6,996)
Net gains (losses) on investment securities	$ 4,080	$ (1,631)	$ 4,019	$ (429)

6. Loans and Allowance for Loan Losses

The detailed composition of loans, net of unearned income of $21.2 million and $20.6 million, as of June 30, 2006 and December 31, 2005, respectively, is presented in the following table:

(Dollars in thousands)	June 30, 2006	December 31, 2005
Commercial loans	$ 2,498,382	$ 2,410,893
Vineyard development	100,568	104,881
Commercial real estate	8,803	20,657
Total real estate construction	109,371	125,538
Real estate term consumer	55,306	39,906
Real estate term commercial	20,123	10,694

Total real estate term	75,429	50,600
Consumer and other	267,444	256,322
Total loans, net of unearned income	$ 2,950,626	$ 2,843,353

The activity in the allowance for loan losses for the three and six months ended June 30, 2006 and 2005 were as follows:

(Dollars in thousands)	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
Beginning balance	$ 35,982	$ 35,698	$ 36,785	$ 37,613
Provision for (recovery of) loan and lease losses	4,602	814	2,128	(3,000)
Loans charged off	(5,850)	(2,010)	(7,211)	(6,070)
Recoveries	3,173	1,870	6,205	7,829
Ending balance	$ 37,907	$ 36,372	$ 37,907	$ 36,372

The aggregate recorded investment in loans for which impairment has been determined in accordance with SFAS No. 114 totaled $6.9 million and $6.5 million at June 30, 2006 and December 31, 2005, respectively. Allocations of the allowance for loan losses specific to impaired loans totaled $0.1 million at June 30, 2006, and $0 at December 31, 2005. Average impaired loans for the three months ended June 30, 2006 and 2005 totaled $6.1 million and $14.8 million, respectively. Average impaired loans for the six months ended June 30, 2006 and 2005 totaled $5.9 million and $14.3 million, respectively.

7. Goodwill

The goodwill balance at June 30, 2006 and December 31, 2005 was $17.2 million and $35.6 million, respectively. All goodwill pertains to the acquisition of SVB Alliant, our investment banking subsidiary.

During the three months ended June 30, 2006, we recognized an impairment expense of $18.4 million related to goodwill.

SFAS No. 142, Goodwill and Other Intangible Assets, is the authoritative standard on the accounting for the impairment of goodwill. SFAS No. 142 requires that we evaluate on an annual basis (or whenever events occur which may indicate possible impairment) whether any portion of our recorded goodwill is impaired. We performed this analysis at the reporting unit level as defined in SFAS No. 142. As discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, this analysis requires management to make a series of critical assumptions to: (1) evaluate whether any impairment exists, and (2) measure the amount of impairment. As part of this analysis, SFAS No. 142 requires that we estimate the fair value of our reporting units and compare it with their carrying value. If the estimated fair value of a reporting unit is less than the carrying value, then impairment is deemed to have occurred.

We conducted our annual valuation analysis of the SVB Alliant reporting unit during the second quarter of 2006. We concluded at that time that we had an impairment of goodwill based on forecasted discounted net cash flows for that reporting unit. As required by SFAS No. 142, in measuring the amount of goodwill impairment, we made a hypothetical allocation of the reporting unit s estimated fair value to the tangible and intangible assets (other than goodwill) of the reporting unit. Based on this allocation, we concluded that $18.4 million of the related goodwill was impaired and was required to be expensed as a noncash charge to continuing operations during the second quarter of 2006. Thus, the goodwill balance related to SVB Alliant was reduced from $35.6 million at December 31, 2005 to $17.2 million at June 30, 2006.

8. Borrowings

The following table represents the outstanding borrowings at June 30, 2006 and December 31, 2005:

(Dollars in thousands)	Maturity		June 30, 2006		December 31, 2005
Federal funds purchased	Overnight	$	245,000	$	205,000
Securities sold under agreement to repurchase	Less than One Month		288,811		74,464
Total federal funds purchased and securities sold under agreement to repurchase		$	533,811	$	279,464
Contingently convertible debt	June 15, 2008	$	147,990	$	147,604
Junior subordinated debentures	October 15, 2033	$	49,857	$	48,228
Other borrowings	Overdraft	$		$	11

Interest expense related to borrowings was $5.0 million and $0.9 million for the three months ended June 30, 2006 and 2005, and $8.2 and $1.7 million for the six months ended June 30, 2006 and June 30, 2005, respectively.

Contingently Convertible Debt

The fair value of the convertible debt at June 30, 2006 was $198.6 million, based on quoted market prices. We intend to settle the outstanding principal amount in cash. Based on the terms of the notes, if, at any time before June 15, 2007, the per share stock price on the last trading day of the immediately preceding fiscal quarter was 110% or more of the conversion price, the notes would become convertible. The per share closing price of $53.05 of our common stock on March 31, 2006, was 157.8% of the conversion price of $33.6277. Accordingly, during the second quarter of 2006, our note holders held the right, at their option, to convert their notes, in whole or in part, subject to certain limitations, at the conversion price of $33.6277. We received conversion notices relating to the notes in an aggregate principal amount of $52,000 during the second quarter of 2006, increasing the total cumulative amount converted to $155,000. The per share closing price of $45.46 of our common stock on June 30, 2006 was 135.19% of the conversion price of $33.6277, so our noteholders hold the right to convert shares in the third quarter of 2006. After June 15, 2007, if the closing sales price of our common stock on the previous trading day is 110% or more of the conversion price of the notes, then the notes would become convertible.

Concurrent with the issuance of the convertible notes, we entered into a convertible note hedge (see Note 9. Derivative Financial Instruments - Derivative Financial Instruments Indexed to and Potentially Settled in a Company s Own Stock).

Available Lines of Credit

As of June 30, 2006, we have available $741.0 million in federal funds lines of credit, $496.0 million of which were unused. In addition to the available federal funds lines, we have reverse repurchase agreement lines available with multiple securities dealers. Reverse repurchase lines allow us to finance short-term borrowings using various fixed income securities as collateral. At June 30, 2006, we borrowed $288.8 million against our reverse repurchase lines.

9. Derivative Financial Instruments

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

The total notional or contractual amounts, credit risk amount and estimated net fair value for derivatives as of June 30, 2006 and December 31, 2005 were as follows:

(Dollars in thousands)	At June 30, 2006 Notional or contractual amount	Credit risk amount (1)	Estimated net fair value Asset (liability)
Fair Value Hedge			
Interest rate swap	$ 50,000	$	$ (4,179)
Derivatives			
Foreign exchange spot and forward contracts	464,555	8,347	1,248
Foreign currency options	69,322	139	
Equity warrant assets	110,655	37,588	37,588
Equity conversion option	2,210	886	886

(Dollars in thousands)	**At December 31, 2005**		
Derivative - Fair Value Hedge			
Interest rate swap	$ 50,000	$	$ (1,314)
Derivatives - Other			
Foreign exchange spot and forward contracts	432,733	5,701	766
Foreign currency options	18,772	101	
Equity warrant assets	108,574	27,802	27,802
Equity conversion option	1,000	451	451

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

Derivative - Fair Value Hedges

Derivative instruments that we hold as part of our interest rate risk management may include interest rate swaps, caps and floors, and forward contracts. On October 30, 2003, we entered into an interest rate swap agreement with a notional amount of $50.0 million. This agreement hedges against the risk of changes in fair values associated with the majority of our 7.0% fixed rate, junior subordinated debentures, which management evaluates for effectiveness using the statistical regression analysis approach for each reporting period. For information on our junior subordinated debentures, see Note 8. Borrowings.

The terms of this fair value hedge agreement provide for a swap of our 7.0% fixed rate payment for a variable rate based on London Inter-Bank Offer Rate (LIBOR) plus a spread. This derivative agreement provided a cash benefit of $0.1 million and $0.3 million in the three months ended June 30, 2006 and 2005, and a benefit of $0.3 million and $0.7 million in the six months ended June 30, 2006 and 2005, respectively, which was recognized in the consolidated statements of income as a contra to interest expense. The swap agreement largely mirrors the terms of the junior subordinated debentures and therefore is callable by the counterparty anytime on or after October 30, 2008. All components of the swap s gain or loss are included in the assessment of hedge effectiveness. Changes in the fair value of the hedged position, which is primarily dependent on changes in market interest rates, are recognized in net income as a gain or loss on derivative instruments. We recorded a non-cash decrease in fair value of $1.6 million for the three months ended June 30, 2006 and $4.5 million for the six months ended June 30, 2006, which were reflected in the consolidated statements of income within noninterest income under the line item gains on derivative instruments, net.

Derivatives - Other

We enter into various derivative contracts primarily to provide derivative products or services to customers. These derivatives are not linked to specific assets and liabilities on the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting. All of these contracts are carried at fair value with changes in fair value recorded on the statement line item gains on derivatives, net as part of our noninterest income, a component of consolidated income.

We enter into foreign exchange forward contracts and non-deliverable foreign exchange forward contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency at a future date, depending upon the clients need. To mitigate the risk of fluctuations in foreign currency exchange rates on these contracts, we enter into opposite way foreign exchange forward contracts and

non-deliverable foreign exchange forward contracts with correspondent banks. These contracts are short-term in nature, typically expiring within one year. We have not experienced nonperformance by counterparties and therefore have not incurred related losses. Further, we anticipate performance by all counterparties to such agreements.

We enter into foreign exchange forward contracts with correspondent banks to economically reduce foreign exchange exposure risk related to certain foreign currency denominated loans. These contracts are short-term in nature, typically expiring within one year. We have not experienced nonperformance by counterparties and therefore have not incurred related losses. Further, we anticipate performance by all counterparties to such foreign exchange forward contracts.

We enter into foreign currency option contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency options, depending upon the client s need. To mitigate the risk of fluctuations in foreign currency exchange rates on these contracts, we enter into opposite way foreign currency option contracts with correspondent banks. These contracts typically expire in less than one year. We have not experienced nonperformance by counterparties and therefore have not incurred related losses. Further, we anticipate performance by all counterparties.

We obtain derivative equity warrant assets to purchase an equity position in a client company s stock in consideration for providing credit facilities and less frequently for providing other services. The purpose of obtaining warrants from client companies is intended to increase future revenue. The change in fair value of equity warrant assets is recorded in net gains on derivative instruments within noninterest income, a component of consolidated net income. The change in fair value of the warrants resulted in a net gain of $8.2 million and $3.3 million for the three months ended June 30,

2006 and 2005, respectively, and a net gain of $8.5 million and $2.5 million for the six months ended June 30, 2006 and 2005, respectively.

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

On May 20, 2003, we issued $150.0 million of zero-coupon, convertible subordinated notes at face value, due June 15, 2008, (See Note 8. Borrowings). These notes include a conversion feature which is indexed to and could potentially be settled in our stock. The conversion option is an embedded derivative, which, pursuant to paragraphs 11(a) and 12(c) of SFAS No. 133, qualifies as an embedded derivative indexed to our stock. If it was a freestanding derivative, it would be classified in stockholders equity. Thus, the embedded derivative is not considered a derivative for purposes of SFAS No. 133 and is not recorded on our financial statements at fair value.

Concurrent with the issuance of the $150.0 million principal amount of contingently convertible notes, (See Note 8. Borrowings), we entered into a convertible note hedge (purchased call option) at a cost of $39.3 million and a warrant transaction providing proceeds of $17.4 million with respect to our common stock, with the objective of decreasing our exposure to potential dilution from conversion of the contingently convertible notes.

At issuance under the terms of the convertible note hedge, upon the occurrence of certain conversion events, we had the right to purchase up to approximately 4,460,610 shares of our common stock from the counterparty at a price of $33.6277 per common share. The convertible note hedge agreement will expire on June 15, 2008. We have the option to settle any amounts due under the convertible note hedge either in cash or net shares of our common stock. The cost of the convertible note hedge is included in stockholders equity in accordance with the guidance in EITF 00-19.

At issuance under the warrant agreement, the counterparty could purchase up to approximately 4,460,608 shares of our common stock at $51.34 per share, upon the occurrence of certain conversion events. The warrant transaction will expire on June 15, 2008. The proceeds of the warrant transaction were included in stockholders equity in accordance with the guidance in EITF 00-19. Due to conversion events in 2005 and 2006, the counterparty s right to purchase our stock under warrant has been decreased by 4,609 shares. Also see Note 3. Earnings Per Share.

10. Common Stock Repurchase

We currently have in place a program authorizing our repurchase of up to $305.0 million of stock. The repurchase program was initially authorized by our Board of Directors and announced on May 7, 2003 for $160.0 million (with no expiration date), and was subsequently increased by $75.0 million (announced on January 27, 2005 and to be repurchased before June 30, 2006) and $70.0 million (announced on January 26, 2006 and to be repurchased before June 30, 2007). Unless earlier terminated by the Board, the program will expire on June 30, 2007. Our trading window closed at the close of business on June 2, 2006. To continue the repurchase program, we put into effect a 10b5-1 plan which allowed us to automatically repurchase a predetermined number shares per day at the market price on every trading day through August 1, 2006. As of June 30, 2006, we had repurchased 7.9 million shares totaling $272.8 million. During the six months ended June 30, 2006, we repurchased 1,392,615 shares of our common stock. At June 30, 2006, the approximate dollar value of shares that may still be repurchased under this program was $32.2 million.

11. Segment Reporting

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, requires that we report certain financial information about our reportable operating segments as well as related disclosures about products and services, geographic areas and major customers. An operating segment is a component of an enterprise whose operating results are regularly reviewed by our chief operating decision maker (CODM) when deciding how to allocate resources and in assessing performance. Our CODM is our Chief Executive Officer (CEO).

We have chosen to organize our operating segments around four primary lines of businesses in banking and financial services: Commercial Banking, SVB Capital, SVB Alliant, SVB Global and Other Business Services. For descriptive information about the products and services provided by each of our operating segments, please refer to our 2005 Annual Report on Form 10-K, Part I. Item 1. Business Business Overview and Footnote 22 Segment Reporting . Unlike financial reporting, which benefits from the comprehensive structure provided by GAAP, the internal profitability reporting process is highly

subjective, as there is no comprehensive, authoritative guidance for management reporting. The management reporting process measures the performance of operating segments based on our internal operating structure and is not necessarily comparable with similar information for other financial services companies. In addition, changes in an individual client s primary relationship designation have resulted, and may in the future result in the inclusion of certain clients in different segments in different periods. We have reclassified certain prior-period amounts to conform to the current period s presentation.

An operating segment is separately reportable if it exceeds any one of several quantitative thresholds specified in SFAS 131. As of June 30, 2006, of our operating segments, only Commercial Banking, SVB Capital and SVB Alliant were determined to be reportable segments. SVB Global and Private Client Services did not meet the separate reporting thresholds and as such, in the table below, have been aggregated in a column labeled Other Business Services for segment reporting purposes. The Other Business Services column also reflects other business service units and those adjustments necessary to reconcile the results of operating segments based on our internal profitability reporting process to the consolidated financial statements prepared in conformity with GAAP. For the second quarter of 2006, we have presented SVB Alliant as a reportable segment. As a result, prior periods have been restated to conform to the current period s presentation. Our CODM allocates resources to and assesses the performance of each operating segment using information about net interest income, noninterest income and noninterest expense, which are presented as components of segment operating profit or loss before income taxes. Net interest income is reported, net of funds transfer pricing (FTP). FTP is an internal measurement framework designed to assess the financial impact of a financial institution s sources and uses of funds. It is the mechanism by which an earnings credit is given for deposits raised and an earnings charge is made for funded loans. In addition, we evaluate assets based on average balances; therefore it is not possible to provide period-end asset balances for segment reporting purposes.

Our segment information at and for the three and six months ended June 30, 2006 and 2005 are as follows:

(Dollars in thousands)	Commercial Banking	SVB Capital	SVB Alliant	Other Business Services	Total
Three months ended June 30, 2006					
Net interest income	$ 67,305	$ 8,233	$	$ 10,224	$ 85,762
Provision for loan losses(1)	2,677			1,925	4,602
Noninterest income(2)	25,172	6,768	2,772	6,266	40,978
Noninterest expense excluding impairment of goodwill(3)	57,175	5,526	5,379	7,124	75,204
Impairment of goodwill			18,434		18,434
Minority interest in net (income) of consolidated affiliates				(5,814)	(5,814)
Income (loss) before income tax expense(5)	32,625	9,475	(21,041)	1,627	22,686
Total average loans	2,278,923	76,398		375,556	2,730,877
Total average assets(4)	3,533,767	709,239	70,218	983,236	5,296,460
Total average deposits	3,075,220	666,992		222,457	3,964,669
Goodwill at June 30, 2006	$	$	$ 17,204	$	$ 17,204
Three months ended June 30, 2005					
Net interest income	$ 54,418	$ 4,936	$	$ 12,080	$ 71,434
Provision for loan losses(1)	259			555	814
Noninterest income (expense) (2)	22,746	2,132	6,935	(1,424)	30,389
Noninterest expense(3)	44,854	4,723	6,884	9,864	66,325
Minority interest in net losses of consolidated affiliates				372	372
Income before income tax expense(5)					