SVB FINANCIAL GROUP
Form 10-Q
August 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
OR

¨ 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
At July 31, 2014, 50,732,080 shares of the registrant’s common stock ($0.001 par value) were outstanding.

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Glossary of Acronyms that may be used in this Report

ASC — Accounting Standards Codification
ASU – Accounting Standards Update
EHOP – Employee Home Ownership Program of the Company
EPS – Earnings Per Share
ESOP – Employee Stock Ownership Plan of the Company
ESPP – 1999 Employee Stock Purchase Plan of the Company
FASB – Financial Accounting Standards Board
FDIC – Federal Deposit Insurance Corporation
FHLB – Federal Home Loan Bank
FRB - Federal Reserve Bank
FTE - Full-Time Employee
FTP – Funds Transfer Pricing
GAAP - Accounting principles generally accepted in the United States of America
IASB – International Accounting Standards Board
IPO – Initial Public Offering
IRS – Internal Revenue Service
IT – Information Technology
LIBOR – London Interbank Offered Rate
M&A – Merger and Acquisition
OTTI – Other Than Temporary Impairment
SEC – Securities and Exchange Commission
TDR – Troubled Debt Restructuring
UK – United Kingdom
VIE – Variable Interest Entity

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PART I - FINANCIAL INFORMATION
ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value and share data)	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and cash equivalents	$2,649,831	$1,538,779
Available-for-sale securities, at fair value (cost $11,613,679 and $12,055,524, respectively)	11,672,790	11,986,821
Held-to-maturity securities, at cost (fair value $5,454,996 and $0, respectively)	5,463,920	—
Non-marketable and other securities	1,757,235	1,595,494
Total investment securities	18,893,945	13,582,315
Loans, net of unearned income	11,348,711	10,906,386
Allowance for loan losses	(120,728)	(142,886)
Net loans	11,227,983	10,763,500
Premises and equipment, net of accumulated depreciation and amortization	71,465	67,485
Accrued interest receivable and other assets	465,792	465,110
Total assets	$33,309,016	$26,417,189
Liabilities and total equity		
Liabilities:		
Noninterest-bearing demand deposits	$20,235,549	$15,894,360
Interest-bearing deposits	8,116,998	6,578,619
Total deposits	28,352,547	22,472,979
Short-term borrowings	4,910	5,080
Other liabilities	559,073	404,586
Long-term debt	454,462	455,216
Total liabilities	29,370,992	23,337,861
Commitments and contingencies (Note 11 and Note 14)		
SVBFG 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; 50,695,206 shares and 45,800,418 shares outstanding, respectively	51	46
Additional paid-in capital	1,092,582	624,256
Retained earnings	1,532,830	1,390,732
Accumulated other comprehensive income (loss)	50,276	(48,764)
Total SVBFG stockholders' equity	2,675,739	1,966,270
Noncontrolling interests	1,262,285	1,113,058
Total equity	3,938,024	3,079,328
Total liabilities and total equity	$33,309,016	$26,417,189

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands, except per share amounts)	2014	2013	2014	2013
Interest income:				
Loans	$147,680	$131,785	$295,852	$255,529
Investment securities:				
Taxable	63,424	44,657	117,844	90,409
Non-taxable	794	807	1,590	1,606
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	1,943	734	3,579	1,453
Total interest income	213,841	177,983	418,865	348,997
Interest expense:				
Deposits	3,068	2,085	5,972	4,136
Borrowings	5,808	5,817	11,600	11,611
Total interest expense	8,876	7,902	17,572	15,747
Net interest income	204,965	170,081	401,293	333,250
Provision for loan losses	1,947	18,572	2,441	24,385
Net interest income after provision for loan losses	203,018	151,509	398,852	308,865
Noninterest income:				
(Losses) gains on investment securities, net	(57,320)	40,561	166,592	67,999
Foreign exchange fees	17,928	13,667	35,124	27,863
Gains on derivative instruments, net	12,775	8,087	36,942	18,379
Credit card fees	10,249	7,609	20,531	15,057
Deposit service charges	9,611	8,907	19,218	17,700
Lending related fees	5,876	4,596	12,179	8,570
Client investment fees	3,519	3,524	6,937	6,999
Letters of credit and standby letters of credit fees	2,810	3,654	6,950	7,089
Other	8,762	7,634	19,962	7,187
Total noninterest income	14,210	98,239	324,435	176,843
Noninterest expense:				
Compensation and benefits	99,820	84,742	202,327	173,446
Professional services	21,113	16,633	42,302	33,793
Premises and equipment	12,053	11,402	23,635	22,127
Business development and travel	9,249	7,783	19,443	16,055
Net occupancy	7,680	5,795	15,000	11,562
FDIC assessments	4,945	2,853	9,073	6,235
Correspondent bank fees	3,274	3,049	6,477	6,104
Provision for unfunded credit commitments	2,185	1,347	3,308	3,361
Other	13,127	9,688	24,317	19,623
Total noninterest expense	173,446	143,292	345,882	292,306
Income before income tax expense	43,782	106,456	377,405	193,402
Income tax expense	33,582	29,968	92,499	56,369
Net income before noncontrolling interests	10,200	76,488	284,906	137,033
Net loss (income) attributable to noncontrolling interests	40,597	(27,904)	(142,808)	(47,558)
Net income available to common stockholders	$50,797	$48,584	$142,098	$89,475

Earnings per common share—basic	$1.05	$1.08	$3.02	$1.99
Earnings per common share—diluted	1.04	1.06	2.96	1.96

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Net income before noncontrolling interests	$10,200	$76,488	$284,906	$137,033
Other comprehensive income (loss), net of tax:				
Change in cumulative translation Income (loss):				
Foreign currency translation income (loss)	157	(3,975)	1,621	(4,801)
Related tax (expense) benefit	(76)	1,611	(654)	1,908
Change in unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses)	82,064	(172,209)	111,393	(194,311)
Related tax (expense) benefit	(33,203)	69,666	(45,008)	79,332
Reclassification adjustment for losses (gains) included in net income	16,480	(775)	16,421	(730)
Related tax (benefit) expense	(6,653)	296	(6,630)	278
Cumulative-effect adjustment for unrealized gains on securities transferred from available-for-sale to held-to-maturity, net of amortization	36,653	—	36,653	—
Related tax expense, net of amortization	(14,756)	—	(14,756)	—
Other comprehensive income (loss), net of tax	80,666	(105,386)	99,040	(118,324)
Comprehensive income (loss)	90,866	(28,898)	383,946	18,709
Comprehensive loss (income) attributable to noncontrolling interests	40,597	(27,904)	(142,808)	(47,558)
Comprehensive income (loss) attributable to SVBFG	$131,463	$(56,802)	$241,138	$(28,849)

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total SVBFG Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	44,627,182	$45	$547,079	$1,174,878	$108,553	$1,830,555	$774,678	$2,605,233
Common stock issued under employee benefit plans, net of restricted stock cancellations	758,415	—	27,120	—	—	27,120	—	27,120
Common stock issued under ESOP	74,946	—	5,166	—	—	5,166	—	5,166
Income tax benefit from stock options exercised, vesting of restricted stock and other	—	—	1,515	—	—	1,515	—	1,515
Net income	—	—	—	89,475	—	89,475	47,558	137,033
Capital calls, net	—	—	—	—	—	—	1,903	1,903
Net change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	(115,431)	(115,431)	—	(115,431)
Foreign currency translation adjustments, net of tax	—	—	—	—	(2,893)	(2,893)	—	(2,893)
Share-based compensation expense	—	—	12,445	—	—	12,445	—	12,445
Other, net	—	—	3	1	—	4	—	4
Balance at June 30, 2013	45,460,543	$45	$593,328	$1,264,354	$(9,771)	$1,847,956	$824,139	$2,672,095
Balance at December 31, 2013	45,800,418	$46	$624,256	$1,390,732	$(48,764)	$1,966,270	$1,113,058	$3,079,328
Common stock issued under employee benefit plans, net of restricted stock cancellations	379,026	—	8,127	—	—	8,127	—	8,127
Common stock issued under ESOP	30,762	—	3,890	—	—	3,890	—	3,890
Income tax benefit from stock options exercised, vesting of	—	—	6,164	—	—	6,164	—	6,164

restricted stock and other								
Net income	—	—	—	142,098	—	142,098	142,808	284,906
Capital calls, net	—	—	—	—	—	—	6,419	6,419
Net change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	76,176	76,176	—	76,176
Cumulative-effect for unrealized gains on securities transferred from available-for-sale to held-to-maturity, net of tax	—	—	—	—	22,522	22,522	—	22,522
Amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity, net of tax	—	—	—	—	(625)	(625)	—	(625)
Foreign currency translation adjustments, net of tax		—	—		967	967	—	967
Common stock issued in public offering	4,485,000	5	434,861	—	—	434,866	—	434,866
Share-based compensation expense	—	—	15,284	—	—	15,284	—	15,284
Balance at June 30, 2014	50,695,206	$51	$1,092,582	$1,532,830	$50,276	$2,675,739	$1,262,285	$3,938,024

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended June 30,	
(Dollars in thousands)	2014	2013
Cash flows from operating activities:		
Net income before noncontrolling interests	$284,906	$137,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,441	24,385
Provision for unfunded credit commitments	3,308	3,361
Changes in fair values of derivatives, net	14,566	(4,296)
Gains on investment securities, net	(166,592)	(67,999)
Depreciation and amortization	19,036	17,281
Amortization of premiums and discounts on investment securities, net	14,419	14,884
Tax expense from stock exercises	—	(1,346)
Amortization of share-based compensation	14,765	12,222
Amortization of deferred loan fees	(39,071)	(32,066)
Deferred income tax expense	5,123	321
Changes in other assets and liabilities:		
Accrued interest receivable and payable, net	(11,326)	(4,312)
Accounts receivable and payable, net	(3,303)	4,140
Income tax payable and receivable, net	5,176	(11,591)
Accrued compensation	(48,848)	(39,658)
Foreign exchange spot contracts, net	119,577	20,933
Other, net	(12,910)	(40,920)
Net cash provided by operating activities	201,267	32,372
Cash flows from investing activities:		
Purchases of available-for-sale securities	(6,045,269)	(220,031)
Proceeds from sales of available-for-sale securities	23,708	8,293
Proceeds from maturities and pay downs of available-for-sale securities	1,050,927	1,337,107
Purchases of held-to-maturity securities	(120,426)	—
Proceeds from maturities and pay downs of held-to-maturity securities	74,236	—
Purchases of non-marketable and other securities (cost and equity method accounting)	(13,532)	(10,858)
Proceeds from sales and distributions of non-marketable and other securities (cost and equity method accounting)	38,265	20,378
Purchases of non-marketable and other securities (fair value accounting)	(126,907)	(65,943)
Proceeds from sales and distributions of non-marketable and other securities (fair value accounting)	146,509	52,103
Net increase in loans	(440,780)	(671,105)
Proceeds from recoveries of charged-off loans	2,933	5,536
Purchases of premises and equipment	(18,744)	(13,546)
Net cash (used for) provided by investing activities	(5,429,080)	441,934
Cash flows from financing activities:		
Net increase (decrease) in deposits	5,879,568	(486,378)
Decrease in short-term borrowings	(170)	(160,710)
Capital contributions from noncontrolling interests, net of distributions	6,419	1,903
Tax benefit from stock exercises	6,164	2,861
Proceeds from issuance of common stock, ESPP, and ESOP	12,018	32,286
Net proceeds from public equity offering	434,866	—

Net cash provided by (used for) financing activities	6,338,865	(610,038)
Net increase (decrease) in cash and cash equivalents	1,111,052	(135,732)
Cash and cash equivalents at beginning of period	1,538,779	1,008,983
Cash and cash equivalents at end of period	$2,649,831	$873,251
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$17,535	$15,655
Income taxes	75,057	64,423
Noncash items during the period:		
Changes in unrealized gains and losses on available-for-sale securities, net of tax	$76,176	$(115,431)
Transfers from available-for-sale securities to held-to-maturity	5,418,572	—

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

SVB Financial Group is a diversified financial services company, as well as a bank holding company and financial holding company. SVB Financial was incorporated in the state of Delaware in March 1999. Through our various subsidiaries and divisions, we offer a variety of banking and financial products and services to support our clients of all sizes and stages throughout their life cycles. In these notes to our consolidated financial statements, when we refer to “SVB Financial Group,” “SVBFG”, the “Company,” “we,” “our,” “us” or use similar words, we mean SVB Financial Group all of its subsidiaries collectively, including Silicon Valley Bank (the “Bank”), unless the context requires otherwise. When we refer to “SVB Financial” or the “Parent” we are referring only to the parent company, SVB Financial Group, unless the context requires otherwise.

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 GAAP. Such unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the 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, 2014 are not necessarily indicative of results to be expected for any future periods. These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 (“2013 Form 10-K”).

During the second quarter of 2014, we re-designated certain securities from the classification of "available-for-sale" ("AFS") to "held-to-maturity" ("HTM"). Transfers of investment securities into the held-to-maturity category from the available-for-sale category are made at fair value at the date of transfer. The unrealized gains(losses), net of tax, are retained in other comprehensive income, and the carrying value of the held-to-maturity securities are amortized over the life of the securities in a manner consistent with the amortization of a premium or discount. Our decision to re-designate the securities was based on our ability and intent to hold these securities to maturity. Other than the re-designation of securities from AFS to HTM, the accompanying unaudited interim consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Consolidated Financial Statements and Supplementary Data—Note 2—“Summary of Significant Accounting Policies” under Part II, Item 8 of our 2013 Form 10-K.

The preparation of unaudited interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Estimates may change as new information is obtained. Significant items that are subject to such estimates include measurements of fair value, the valuation of non-marketable securities, the valuation of equity warrant assets, the adequacy of the allowance for loan losses and reserve for unfunded credit commitments, and the recognition and measurement of income tax assets and liabilities.

Principles of Consolidation and Presentation

Our consolidated financial statements include the accounts of SVB Financial Group and entities in which we have a controlling financial interest. We determine whether we have a controlling financial interest in an entity by evaluating whether the entity is a voting interest entity or a VIE and whether the applicable accounting guidance requires consolidation. All significant intercompany accounts and transactions have been eliminated.

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that enable them to make significant decisions relating to the entity’s operations. For these types of entities, the Company’s determination of whether it has a controlling interest is based on ownership of the majority of the entities’ voting equity interest or through control of management of the entities.

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. We determine whether we have a controlling financial interest in a VIE by considering whether our involvement with the VIE is significant and whether we are the primary beneficiary based on the following:

1. We have the power to direct the activities of the VIE that most significantly impact the entity's economic performance;

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2. The aggregate indirect and direct variable interests held by the Company have the obligation to absorb losses or the right to receive benefits from the entity that could be significant to the VIE; and,
3. Qualitative and quantitative factors regarding the nature, size, and form of our involvement with the VIE.

Voting interest entities in which we have a controlling financial interest or by which we control through management rights are consolidated into our financial statements.

We have not provided financial or other support during the periods presented to any VIE that we were not previously contractually required to provide. We are variable interest holders in certain partnerships for which we are not the primary beneficiary. We perform on-going reassessments on the status of the entities and whether facts or circumstances have changed in relation to previously evaluated voting interest entities and our involvement in VIEs which could cause our consolidation conclusion to change.

Impact of Adopting ASU No. 2013-08, Amendments to the Scope, Measurement and Disclosure Requirement for Investment Companies

In June 2013, the FASB issued an accounting standards update, which modified the guidance in ASC 946 for determining whether an entity is an investment company, as well as the measurement and disclosure requirements for investment companies. The ASU does not change current accounting where a noninvestment company parent retains the specialized accounting applied by an investment company subsidiary in consolidation. ASU 2013-08 was effective on a prospective basis for the interim and annual reporting periods beginning after December 15, 2013, and was therefore adopted in the first quarter of 2014. This standard did not have any impact on our financial position, results of operations or stockholders' equity.

Impact of Adopting ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued a new accounting standard which requires an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. ASU 2013-11 was effective for, and adopted by the Company, in the first quarter of 2014. The adoption of ASU 2013-11 did not have a material impact on the Company's consolidated financial position, results of operations or stockholders' equity.

Recently Issued Accounting Pronouncements

In January 2014, the FASB issued a new accounting standard (ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects), which permits entities that invest in qualified affordable housing projects through limited liability entities that are flow-through entities for tax purposes to make an accounting policy election to use proportional amortization method or apply an equity or cost method. If the proportional amortization method is elected, retrospective presentation is required for prior periods. The guidance is effective on a retrospective basis for the interim and annual reporting periods beginning after December 15, 2014, with early adoption available. We are currently assessing the impact of this guidance, however, we do not expect it to have a material impact on our financial position, results of operations or stockholders' equity.

In May 2014, the FASB issued a new accounting standard (ASU 2014-09, Revenue from Contracts with Customers (Topic 606)), which does not apply to financial instruments, and is effective on a retrospective basis beginning on January 1, 2017. We do not expect the adoption of this guidance to have a material impact on the Company's consolidated financial position, results of operations or stockholders' equity.

Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentations.

2. Stockholders' Equity and EPS

Common Stock

In the second quarter of 2014, to support the continued growth of our balance sheet, we completed a registered public offering of 4,485,000 shares of our common stock at an offering price of $101.00 per share. We received net proceeds of $434.9 million after deducting underwriting discounts and commissions.

EPS

Basic EPS is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted EPS is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include

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the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for stock options and restricted stock units outstanding under our equity incentive plans and our ESPP. Potentially dilutive common shares are excluded from the computation of dilutive EPS in periods in which the effect would be antidilutive. The following is a reconciliation of basic EPS to diluted EPS for the three and six months ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
(Dollars and shares in thousands, except per share amounts)	2014	2013	2014	2013
Numerator:				
Net income available to common stockholders	$50,797	$48,584	$142,098	$89,475
Denominator:				
Weighted average common shares outstanding-basic	48,168	45,164	47,025	44,985
Weighted average effect of dilutive securities:				
Stock options and ESPP	569	380	601	384
Restricted stock units	308	140	361	168
Denominator for diluted calculation	49,045	45,684	47,987	45,537
Earnings per common share:				
Basic	$1.05	$1.08	$3.02	$1.99
Diluted	$1.04	$1.06	$2.96	$1.96

The following table summarizes the weighted-average common shares excluded from the diluted EPS calculation as they were deemed to be antidilutive for the three and six months ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
(Shares in thousands)	2014	2013	2014	2013
Stock options	167	635	90	693
Restricted stock units	2	—	1	—
Total	169	635	91	693

Accumulated Other Comprehensive Income

The following table summarizes the items reclassified out of accumulated other comprehensive income into the Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2014 and 2013:

		Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	Income Statement Location	2014	2013	2014	2013
Reclassification adjustment for losses (gains) included in net income	(Losses) gains on investment securities, net	$16,480	$(775)	$16,421	$(730)
Related tax (benefit) expense	Income tax expense	(6,653)	296	(6,630)	278
Total reclassification adjustment for losses (gains) included in net income, net of tax		$9,827	$(479)	$9,791	$(452)

3. Share-Based Compensation

For the three and six months ended June 30, 2014 and 2013, we recorded share-based compensation and related tax benefits as follows:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Share-based compensation expense	$7,687	$6,396	$14,765	$12,222
Income tax benefit related to share-based compensation expense	(2,515)	(1,955)	(4,675)	(3,558)

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Unrecognized Compensation Expense

As of June 30, 2014, unrecognized share-based compensation expense was as follows:

(Dollars in thousands)	Unrecognized Expense	Average Expected Recognition Period - in Years
Stock options	$18,118	2.80
Restricted stock units	38,897	2.69
Total unrecognized share-based compensation expense	$57,015	

Share-Based Payment Award Activity

The table below provides stock option information related to the 2006 Equity Incentive Plan for the six months ended June 30, 2014:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The-Money Options
Outstanding at December 31, 2013	1,514,159	$55.27		
Granted	229,476	108.30		
Exercised	(160,652)	46.96		
Forfeited	(13,654)	70.36		
Outstanding at June 30, 2014	1,569,329	63.74	4.38	$ 83,017,236
Vested and expected to vest at June 30, 2014	1,510,886	62.94	4.32	81,128,378
Exercisable at June 30, 2014	820,343	50.28	3.28	54,421,775

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value based on our closing stock price of $116.62 as of June 30, 2014. The total intrinsic value of options exercised during the three and six months ended June 30, 2014 was $3.5 million and $10.7 million, respectively, compared to $7.2 million and $11.9 million for the comparable 2013 period.

The table below provides information for restricted stock units under the 2006 Equity Incentive Plan for the six months ended June 30, 2014:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2013	682,347	$65.93
Granted	180,679	108.06
Vested	(196,253)	64.08
Forfeited	(11,549)	71.33
Nonvested at June 30, 2014	655,224	78.00

4. Cash and Cash Equivalents

The following table details our cash and cash equivalents at June 30, 2014 and December 31, 2013:

(Dollars in thousands)	June 30, 2014	December 31, 2013
Cash and due from banks (1)	$2,589,946	$1,349,688
Securities purchased under agreements to resell (2)	53,764	172,989
Other short-term investment securities	6,121	16,102
Total cash and cash equivalents	$2,649,831	$1,538,779

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(1) At June 30, 2014 and December 31, 2013, $1.7 billion and $715 million, respectively, of our cash and due from banks was deposited at the Federal Reserve Bank and was earning interest at the Federal Funds target rate, and interest-earning deposits in other financial institutions were $443 million and $300 million, respectively.

(2) At June 30, 2014 and December 31, 2013, securities purchased under agreements to resell were collateralized by U.S. Treasury securities and U.S. agency securities with aggregate fair values of $55 million and $176 million, respectively. None of these securities received as collateral were sold or repledged as of June 30, 2014 or December 31, 2013.

5. Investment Securities

Our investment securities portfolio consists of an available-for-sale securities portfolio and a held-to-maturity securities portfolio, both of which represent interest-earning investment securities, and a non-marketable and other securities portfolio, which primarily represents investments managed as part of our funds management business.

Available-for-Sale Securities

The major components of our available-for-sale investment securities portfolio at June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Available-for-sale securities, at fair value:				
U.S. treasury securities	$4,871,469	$11,526	$(823)	$4,882,172
U.S. agency debentures	3,714,346	41,999	(10,472)	3,745,873
Residential mortgage-backed securities:				
Agency-issued collateralized mortgage obligations—fixed rate	2,128,052	28,146	(13,369)	2,142,829
Agency-issued collateralized mortgage obligations—variable rate	887,862	3,073	(23)	890,912
Equity securities	11,950	629	(1,575)	11,004
Total available-for-sale securities	$11,613,679	$85,373	$(26,262)	$11,672,790

	December 31, 2013			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Available-for-sale securities, at fair value:				
U.S. agency debentures	$4,344,652	$41,365	$(40,785)	$4,345,232
Residential mortgage-backed securities:				
Agency-issued mortgage-backed securities	2,472,528	17,189	(16,141)	2,473,576
Agency-issued collateralized mortgage obligations—fixed rate	3,386,670	24,510	(85,422)	3,325,758
Agency-issued collateralized mortgage obligations—variable rate	1,183,333	3,363	(123)	1,186,573
Agency-issued commercial mortgage-backed securities	581,475	552	(17,423)	564,604
Municipal bonds and notes	82,024	4,024	(21)	86,027
Equity securities	4,842	692	(483)	5,051
Total available-for-sale securities	$12,055,524	$91,695	$(160,398)	$11,986,821

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The following table summarizes our unrealized losses on our available-for-sale securities portfolio into categories of less than 12 months and 12 months or longer as of June 30, 2014:

	June 30, 2014					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
Available-for-sale securities:						
U.S. treasury securities	$698,273	$(823)	$—	$—	$698,273	$(823)
U.S. agency debentures	200,773	(290)	555,839	(10,182)	756,612	(10,472)
Residential mortgage-backed securities:						
Agency-issued collateralized mortgage obligations—fixed rate	135,122	(189)	479,641	(13,180)	614,763	(13,369)
Agency-issued collateralized mortgage obligations—variable rate	75,974	(23)	—	—	75,974	(23)
Equity securities	7,335	(1,575)	—	—	7,335	(1,575)
Total temporarily impaired securities: (1)	$1,117,477	$(2,900)	$1,035,480	$(23,362)	$2,152,957	$(26,262)

(1) As of June 30, 2014, we identified a total of 81 investments that were in unrealized loss positions, of which 33 investments totaling $1.0 billion with unrealized losses of $23.4 million have been in an impaired position for a period of time greater than 12 months. As of June 30, 2014, we do not intend to sell any impaired fixed income investment securities prior to recovery of our adjusted cost basis, and it is more likely than not that we will not be required to sell any of our securities prior to recovery of our adjusted cost basis. Based on our analysis as of June 30, 2014, we deem all impairments to be temporary, and therefore changes in value for our temporarily impaired securities as of the same date are included in other comprehensive income. Market valuations and impairment analyses on assets in the available-for-sale securities portfolio are reviewed and monitored on a quarterly basis.

The following table summarizes our unrealized losses on our available-for-sale securities portfolio into categories of less than 12 months and 12 months or longer as of December 31, 2013:

	December 31, 2013					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
U.S. agency debentures	$1,821,045	$(40,785)	$—	$—	$1,821,045	$(40,785)
Residential mortgage-backed securities:						
Agency-issued mortgage-backed securities	1,480,870	(14,029)	19,830	(2,112)	1,500,700	(16,141)
Agency-issued collateralized mortgage obligations—fixed rate	2,098,137	(79,519)	134,420	(5,903)	2,232,557	(85,422)
Agency-issued collateralized mortgage obligations—variable rate	109,699	(123)	—	—	109,699	(123)
Agency-issued commercial mortgage-backed securities	464,171	(17,423)	—	—	464,171	(17,423)
Municipal bonds and notes	3,404	(21)	—	—	3,404	(21)
Equity securities	910	(483)	—	—	910	(483)
	$5,978,236	$(152,383)	$154,250	$(8,015)	$6,132,486	$(160,398)

Total temporarily impaired securities

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The following table summarizes the remaining contractual principal maturities and fully taxable equivalent yields on fixed income investment securities classified as available-for-sale as of June 30, 2014. The weighted average yield is computed using the amortized cost of fixed income investment securities, which are reported at fair value. For U.S. Treasury securities, the expected maturity is the actual contractual maturity of the notes. Expected remaining maturities for certain U.S. agency debentures may occur earlier than their contractual maturities because the note issuers have the right to call outstanding amounts ahead of their contractual maturity. Expected maturities for mortgage-backed securities may differ significantly from their contractual maturities because mortgage borrowers have the right to prepay outstanding loan obligations with or without penalties. Mortgage-backed securities classified as available-for-sale typically have original contractual maturities from 10 to 30 years whereas expected average lives of these securities tend to be significantly shorter and vary based upon structure and prepayments in lower rate environments.

	June 30, 2014									
	Total		One Year or Less		After One Year to Five Years		After Five Years to Ten Years		After Ten Years	
(Dollars in thousands)	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield	Carrying Value	Weighted-Average Yield
U.S. treasury securities	$4,882,172	1.11%	$50,062	0.12%	$4,337,387	1.01%	$494,723	2.03%	$—	— %
U.S. agency debentures	3,745,873	1.62	590,227	1.47	2,231,645	1.55	924,001	1.89	—	—
Residential mortgage-backed securities:										
Agency-issued collateralized mortgage obligations - fixed rate	2,142,829	2.01	—	—	—	—	380,924	2.69	1,761,905	1.87
Agency-issued collateralized mortgage obligations - variable rate	890,912	0.71	—	—	—	—	—	—	890,912	0.71
Total	$11,661,786	1.41	$640,289	1.36	$6,569,032	1.19	$1,799,648	2.10	$2,652,817	1.48

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Held-to-Maturity Securities

During the second quarter of 2014, we re-designated certain securities from the classification of “available-for-sale” to “held-to-maturity”. The securities re-designated primarily consisted of agency-issued mortgage securities and collateralized mortgage obligations ("CMOs") with a total carrying value of $5.4 billion at June 1, 2014. At the time of re-designation the securities had net unrealized gains totaling $22.5 million, net of tax, recorded in other comprehensive income and are being amortized over the life of the securities in a manner consistent with the amortization of a premium or discount. Our decision to re-designate the securities was based on our ability and intent to hold these securities to maturity. Factors used in assessing the ability to hold these securities to maturity were future liquidity needs and sources of funding. Held-to-maturity securities are carried on the balance sheet at amortized cost and the changes in the value of these securities, other than impairment charges, are not reported on the financial statements.

The major components of our held-to-maturity investment securities portfolio at June 30, 2014 are as follows:

(Dollars in thousands)	June 30, 2014 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Held-to-maturity securities, at cost:				
U.S. agency debentures (1)	$318,260	$1,244	$(165)	$319,339
Residential mortgage-backed securities:				
Agency-issued mortgage-backed securities	3,051,644	847	(3,991)	3,048,500
Agency-issued collateralized mortgage obligations—fixed rate	1,309,382	619	(8,939)	1,301,062
Agency-issued collateralized mortgage obligations—variable rate	148,422	19	(1)	148,440
Agency-issued commercial mortgage-backed securities	550,269	2,149	(515)	551,903
Municipal bonds and notes	85,943	16	(207)	85,752
Total held-to-maturity securities	$5,463,920	$4,894	$(13,818)	$5,454,996

(1) Consists of pools of Small Business Investment Company debentures issued and guaranteed by the U.S. Small Business Administration, an independent agency of the United States.

The following table summarizes our unrealized losses on our held-to-maturity securities portfolio into categories of less than 12 months and 12 months or longer as of June 30, 2014:

	June 30, 2014 Less than 12 months		12 months or longer (1)		Total	
(Dollars in thousands)	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
Held-to-maturity securities:						
U.S. agency debentures	$171,001	$(105)	$48,590	$(60)	$219,591	$(165)
Residential mortgage-backed securities:						
Agency-issued mortgage-backed securities	2,473,332	(3,945)	20,180	(46)	2,493,512	(3,991)
Agency-issued collateralized mortgage obligations—fixed rate	383,763	(2,035)	850,606	(6,904)	1,234,369	(8,939)
Agency-issued collateralized mortgage obligations—variable rate	10,799	(1)	—	—	10,799	(1)
Agency-issued commercial mortgage-backed securities	268,818	(515)	—	—	268,818	(515)
Municipal bonds and notes	69,524	(207)	—	—	69,524	(207)

Total temporarily impaired securities (2):	$3,377,237	$(6,808)	$919,376	$(7,010)	$4,296,613	$(13,818)

(1) Represents securities in an unrealized loss position for twelve months or longer in which the amortized cost basis was re-set for those securities re-designated from AFS to HTM effective June 1, 2014.

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(2) As of June 30, 2014, we identified a total of 276 investments that were in unrealized loss positions, of which 31 investments totaling $919.4 million with unrealized losses of $7.0 million have been in an impaired position for a period of time greater than 12 months. As of June 30, 2014, we do not intend to sell any impaired fixed income investment securities prior to recovery of our adjusted cost basis, and it is more likely than not that we will not be required to sell any of our securities prior to recovery of our adjusted cost basis, which is consistent with our classification of these securities. Based on our analysis as of June 30, 2014, we deem all impairments to be temporary. Market valuations and impairment analyses on assets in the held-to-maturity securities portfolio are reviewed and monitored on a quarterly basis.

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The following table summarizes the remaining contractual principal maturities and fully taxable equivalent yields on fixed income investment securities classified as held-to-maturity as of June 30, 2014. Interest income on certain municipal bonds and notes (non-taxable investments) are presented on a fully taxable equivalent basis using the federal statutory tax rate of 35.0 percent. The weighted average yield is computed using the amortized cost of fixed income investment securities, which are reported at fair value. Expected remaining maturities for certain U.S. agency debentures may occur earlier than their contractual maturities because the note issuers have the right to call outstanding amounts ahead of their contractual maturity. Expected maturities for mortgage-backed securities may differ significantly from their contractual maturities because mortgage borrowers have the right to prepay outstanding loan obligations with or without penalties. Mortgage-backed securities classified as held-to-maturity typically have original contractual maturities from 10 to 30 years whereas expected average lives of these securities tend to be significantly shorter and vary based upon structure and prepayments in lower rate environments.

	June 30, 2014									
	Total		One Year or Less		After One Year to Five Years		After Five Years to Ten Years		After Ten Years	
(Dollars in thousands)	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield
U.S. agency debentures	$318,260	2.93 %	$—	— %	$—	— %				