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SVB FINANCIAL GROUP

FORM 10-K
(Annual Report)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **December 31, 2004**

OR

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

Commission File Number: **000-15637**

SILICON VALLEY BANCSHARES

(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
Title of Class: Common Stock, par value $0.001 per share
Title of Class: Junior subordinated debentures issued by SVB Capital II and the guarantee with respect thereto

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 ☒ No ☐

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2004, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing price of its common stock on such date, on the NASDAQ National Market was $1,410,622,539.

At February 28, 2005, 35,901,144 shares of the registrant's common stock ($0.001 par value) were outstanding.

Documents Incorporated	**Parts of Form 10-K Into Which Incorporated**
Definitive proxy statement for the Company's 2005 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year ended December 31, 2004	Part III

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PART I

ITEM 1. B USINESS

General

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

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

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

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

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

We are able to offer our clients financial products and services through four lines of banking and financial services, as discussed in further detail below: Commercial Banking, SVB Capital, SVB Alliant, and Private Client Services and Other Services. These operating segments are strategic units that offer different services to different clients. They are managed separately because each segment appeals to different markets and, accordingly, require different strategies.

Business Overview

Silicon Valley Bancshares is organized into groups, which manage the diverse financial services we offer:

Commercial Banking

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

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

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

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

In 2004, Silicon Valley Bank established SVB Europe Advisors, Limited, a subsidiary in the United Kingdom that provides consulting and business services and access to financial services of Silicon Valley Bank to Europe based clients and prospects in the niches Silicon Valley Bank serves. In 2004, Silicon Valley Bank also established SVB India Advisors Pvt. Ltd., a subsidiary in Bangalore, India that provides consulting and business services to facilitate U.S.-based and Indian technology companies and private equity firms pursuing international business. SVB India Advisors provides services such as educational information, introductions to recommended service providers (lawyers, accountants, real estate brokers, etc.), networking events, and technical and concierge services for commercial and venture fund clients visiting India.

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

SVB Capital

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

SVB Capital also makes investments in venture capital and other private equity firms and in companies in the niches we serve. The segment also manages three venture funds that are consolidated into our financial statements: SVB Strategic Investors Fund, LP and SVB Strategic Investors Fund II, LP, which are funds of funds that invest in other venture funds, and Silicon Valley BancVentures, LP, a direct equity venture fund that invests in privately held technology and life-science companies. This segment also includes 2004 investments in Gold Hill Venture Lending Partners 03, LP and its parallel funds (collectively known as Gold Hill Venture Lending Partners 03. LP), which provide secured debt to emerging growth clients in their earliest stages, and Partners for Growth, LP, a fund that provides secured debt to higher risk, emerging growth clients in their later stages. We define “emerging-growth” clients as companies in the start-up or early stages of their lifecycle. These companies tend to be privately held and backed by venture capital; they generally have few employees, have brought relatively few products or services to market, and have no or little revenue. By contrast, “middle market companies” tend to be more mature; they may be publicly traded and more established in the markets in which they participate, although not necessarily the leading players in the largest industries.

SVB Capital, through Private Equities Services (a division of SVB Securities), also assists private equity firms, and the partners of such firms, with liquidating securities following initial public offerings and mergers and acquisitions, including in-kind stock transactions, restricted stock sales, block trading, and special situations trading such as liquidation of foreign securities.

SVB Alliant

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

Private Client Services and Other

Our Private Client Services and Other group is principally comprised of our Private Client Services group and other business services units. Private Client Services (formerly Private Banking) provides a wide range of credit services to high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. Those products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans, airplane loans, and capital call lines of credit. We also help our clients meet their cash management needs by providing deposit account products and services, including checking accounts, deposit accounts, money market accounts, and certificates of deposit. Through our subsidiary, Woodside Asset Management, Inc., we provide individual clients with personal investment advisory services, assisting clients in establishing and implementing investment strategies to meet their individual needs and goals.

Industry Niches

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

Technology and Life Science

We serve a variety of clients in the technology and life science industries. A key component of our technology and life science business strategy is to develop relationships with clients at an early stage and offer them banking services that will continue to meet their needs as they mature and expand.

Our early stage clients generally keep large cash balances in their deposit accounts and usually do not borrow large amounts under their credit facilities. The primary source of funding for most early stage clients is equity from venture capitalists and public markets. Lending to this market typically involves working capital lines of credit, equipment financing, asset acquisition loans, and bridge financing between funding rounds.

With an extended suite of financial services, we have expanded our business to more mature companies. Our corporate technology practice is a network of senior lenders focused primarily on the specific financial needs of more mature private and public clients. When we refer to “corporate technology,” we are referring to companies that tend to be more mature, better capitalized, possibly publicly traded and more established in the markets in which they participate. Today, we can comfortably address the financial needs of all companies in our niches, whether they are entrepreneurs with innovative ideas or multinational corporations with hundreds of millions of dollars in sales.

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

- Hardware: Semiconductors, Communications, and Electronics
- Software: Software and Services
- Biotechnology
- Drug Discovery
- Medical Devices
- Specialty Pharmaceuticals

Private Equity

Through our SVB Capital group, we have cultivated strong relationships with venture capital firms worldwide, many of which are also clients. SVB Capital provides financial services to a significant portion of the venture capital firms in the United States as well as to other private equity firms, facilitating deal flow to and from these private equity firms and participating in direct investments in their portfolio companies.

Premium Wine

Our premium wine practice has become one of the leading providers of financial services to the U.S. premium wine industry. We focus on vineyards and wineries that produce grapes and wines of the highest quality.

Industry Niches Exited

In keeping with our strategic focus on the technology, life science, private equity, and premium wine industries, we exited three niches in late 2002: real estate, media, and religious lending. While we will continue to service our existing real estate, media, and religious niche loans until they are paid-off, we expect our refined strategic focus on more profitable aspects of our core business will help improve overall profitability.

For further information on our business segments, see Item 8. Consolidated Financial Statements and Supplementary Data—Note 24 Segment Reporting.

Business Combinations

On October 1, 2002, we acquired substantially all of the assets of Woodside Asset Management, Inc., an investment advisor firm, which had approximately $200 million under management for 70 clients. We offer Woodside Asset Management's services as part of our Private Client Services. Additionally, as part of this acquisition, Silicon Valley Bancshares obtained the general partner interests in two limited partnerships: Taurus Growth Partners, LP and Libra Partners, LP. Both of these funds were liquidated and funds were fully disbursed to the limited partners by December 31, 2004. We had less than a 1% ownership interest in each of these funds. The remaining ownership interest represented limited partners' funds invested on their behalf by the general partner in certain fixed income and marketable equity securities. However, due to our ability to control the investing activities of these limited partnerships, we were required to consolidate the related results of operations and financial condition into our consolidated financial statements for all periods presented.

On September 28, 2001, SVB Securities, a subsidiary of Silicon Valley Bank, completed the acquisition of SVB Alliant, an investment banking firm providing merger and acquisition and corporate partnering services. Our investment banking business continues to do business under the name "SVB Alliant." See Item 8. Consolidated Financial Statements and Supplementary Data—Note 3 Business Combinations. On October 1, 2002, SVB Alliant was sold from our Silicon Valley Bank subsidiary to the Silicon Valley Bancshares parent company. This transfer allowed SVB Alliant (formerly Alliant Partners) to operate under less restrictive bank holding company regulations and increased our capital ratios at Silicon Valley Bank.

Competition

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

Employees

As of December 31, 2004, we employed approximately 1,028 full-time equivalent employees. To our knowledge, none of our employees are represented by a labor union. Competition for qualified personnel in our industry is significant, particularly for client relationship manager positions, officers, and employees with strong relationships with the venture capital community. Our future success will depend in part on our continued ability to attract, hire, and retain qualified personnel.

Supervision and Regulation

General

Our operations are subject to extensive regulation by federal and state regulatory agencies. As a bank holding company, Silicon Valley Bancshares is subject to the Federal Reserve Board's supervision, regulation, examination and reporting requirements under the Bank Holding Company Act of 1956 (BHC Act). Silicon Valley Bancshares has also qualified and elected to be treated as a financial holding company under the BHC Act. Silicon Valley Bank, as a California-chartered bank and a member of the Federal Reserve System, is subject to primary supervision and examination by the Federal Reserve Bank of San

Francisco and the California Department of Financial Institutions. Both Silicon Valley Bancshares and Silicon Valley Bank are required to file periodic reports with these regulators and provide any additional information that they may require. The following summary describes some of the more significant laws, regulations, and policies that affect our operations and is not intended to be a complete listing of all laws that apply to us. Any change in the statutes, regulations, or policies that apply to our operations may have a material effect on our business.

Regulation of Holding Company

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

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

The Gramm-Leach-Bliley Act of 1999 (GLB Act) amended the BHC Act to permit a qualifying bank holding company, called a financial holding company, to engage in a broader range of activities than those traditionally permissible for bank holding companies. A financial holding company may conduct activities that are "financial in nature," including insurance, securities underwriting and dealing and market-making, and merchant banking activities, as well as additional activities that the Federal Reserve Board determines (in the case of incidental activities, in conjunction with the Treasury Department) are incidental or complementary to financial activities, without the prior approval of the Federal Reserve Board. The GLB Act also permits financial holding companies to acquire companies engaged in activities that are financial in nature or that are incidental or complementary to financial activities without the prior approval of the Federal Reserve Board. The GLB Act also repealed the provisions of the Glass-Steagall Act that restricted banks and securities firms from affiliating. On November 14, 2000, Silicon Valley Bancshares became a financial holding company. As a financial holding company, Silicon Valley Bancshares no longer requires the prior approval of the Federal Reserve Board to conduct, or to acquire ownership or control of entities engaged in, activities that are financial in nature or activities that are determined to be incidental or complementary to financial activities, although the requirement in the BHC Act for prior Federal Reserve Board approval for the acquisition by a bank holding company of more than 5% of any class of the voting shares of a bank or savings association (or the holding company of either) is still applicable. Additionally, under the merchant banking authority added by the GLB Act, Bancshares may invest in companies that engage in activities that are not otherwise permissible, subject to certain limitations, including that Bancshares make the investment with the intention of limiting the investment in duration and does not manage the company on a day-to-day basis.

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

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

Regulatory Capital

The federal banking agencies have adopted minimum risk-based capital guidelines for bank holding companies and banks intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and those recorded as off-balance sheet items. These off-balance sheet items include transactions such as commitments, letters of credit, and recourse arrangements. Under these guidelines, dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are adjusted by one of several conversion factors and/or risk adjustment percentages. The Federal Reserve Board requires bank holding companies and state member banks generally to maintain a minimum ratio of qualifying total capital to risk-adjusted assets of 8% (10% to be well capitalized). At least half of total capital must consist of items such as common stock, retained earnings, noncumulative perpetual preferred stock, minority interests (including trust preferred securities) and, for bank holding companies, a limited amount of qualifying cumulative perpetual preferred stock, less most intangibles including goodwill ("Tier 1 capital"). The remainder ("Tier 2 capital") may consist of other preferred stock, certain other instruments, and limited amounts of subordinated debt and the loan and lease allowance. Not more than 25% of qualifying Tier 1 capital may consist of trust preferred securities. In order to be well capitalized, a bank holding company must have a minimum ratio of Tier 1 capital to risk-adjusted assets of 6%. The Federal Reserve Board also requires Bancshares and Silicon Valley Bank to maintain a minimum amount of Tier 1 capital to total average assets, referred to as the Tier 1 leverage ratio. For a bank holding company or a bank that meets certain specified criteria, including those in the highest of the five categories used by regulators to rate banking organizations, the minimum Tier 1 leverage ratio is 3%. All other institutions are required to maintain a Tier 1 leverage ratio of at least 3% plus an additional cushion of 100 to 200 basis points (or at least 5% to be well capitalized). In addition to these requirements, the Federal Reserve Board may set individual minimum capital requirements for specific institutions at rates substantially above the minimum guidelines and ratios. Under certain circumstances, Silicon Valley Bancshares must file written notice with, and obtain approval from, the Federal Reserve Board prior to purchasing or redeeming its equity securities. See Item 1. Business—Supervision and Regulation—Prompt Corrective Action and Other Enforcement Mechanisms for additional discussion of capital ratios.

The ability of Silicon Valley Bancshares, like other bank holding companies, to continue to include its outstanding trust preferred securities in Tier 1 capital has been made the subject of some doubt due to the issuance by the Financial Accounting Standards Board (FASB) in January 2003 of Interpretation No. 46 "Consolidation of Variable Interest Entities (VIE)," and in May 2003 of Statement of Financial Accounting Standards (SFAS) No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," although the Federal Reserve Board announced in July 2003 that qualifying trust preferred securities will continue to be treated as Tier 1 capital until notice is given to the contrary.

Silicon Valley Bancshares and Silicon Valley Bank are also subject to rules that govern the regulatory capital treatment of equity investments in nonfinancial companies made on or after March 13, 2000 and held under certain specified legal authorities by a bank or bank holding company. Silicon Valley Bank does not currently hold any such equity investments. Under the rules, these equity investments will be subject to a separate capital charge that will reduce a bank holding company's Tier 1 capital and, correspondingly, will remove these assets from being taken into consideration in establishing a bank holding company's required capital ratios discussed above.

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

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

The capital ratios of Silicon Valley Bancshares and Silicon Valley Bank, respectively, exceeded the well-capitalized requirements, as defined above, at December 31, 2004. See Item 8. Consolidated Financial Statements and Supplementary Data—Note 22. Regulatory Matters for the capital ratios of Silicon Valley Bancshares and Silicon Valley Bank as of December 31, 2004.

Regulation of Silicon Valley Bank

Silicon Valley Bank is a California-chartered bank and a member of the Federal Reserve System. Silicon Valley Bank is subject to primary supervision, periodic examination and regulation by the California Department of Financial Institutions and the Federal Reserve Board. If, as a result of an examination of Silicon Valley Bank, the Federal Reserve Board should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of Silicon Valley Bank's operations are unsatisfactory or that Silicon Valley Bank or its management is violating or has violated any law or regulation, various remedies are available to the Federal Reserve Board. Such remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of Silicon Valley Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate Silicon Valley Bank's deposit insurance, which for a California-chartered bank would result in a revocation of Silicon Valley Bank's charter. The California Department of Financial Institutions has many of the same remedial powers. Various requirements and restrictions under the laws of the State of California and the United States affect the operations of Silicon Valley Bank. State and federal statues and regulations relate to many aspects of Silicon Valley Bank's operations, including reserves against deposits, ownership of deposit accounts, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, and capital requirements. Further, Silicon Valley Bank is required to maintain certain levels of capital. See Regulatory Capital above.

The GLB Act changed the powers of national banks and their subsidiaries, and made similar changes in the powers of state bank subsidiaries. The GLB Act permits a national bank to underwrite, deal in, and purchase state and local revenue bonds. It also allows a subsidiary of a national bank to engage in financial activities that the bank cannot, except for general insurance underwriting and real estate development and investment. In order for a subsidiary to engage in new financial activities, the national bank and its depository institution affiliates must be well capitalized; have at least "satisfactory" general, managerial, and CRA examination ratings; and meet other qualification requirements relating to total assets, subordinated debt, capital, risk management, and affiliate transactions. Subsidiaries of state banks can exercise the same powers as national bank subsidiaries if they satisfy the same qualifying rules that apply to national banks. For state banks that are members of the Federal Reserve System like Silicon Valley Bank, prior approval of the Federal Reserve Board is required before a bank can create a subsidiary to capitalize on the additional financial activities empowered by the GLB Act.

Restrictions on Dividends

Bancshares' ability to pay cash dividends is limited by generally applicable Delaware corporation law limits. In addition, Bancshares is a legal entity separate and distinct from Silicon Valley Bank, and there are statutory and regulatory limitations on the amount of dividends that may be paid to Bancshares by Silicon Valley Bank. During 2004, 2003, and 2002, Silicon Valley Bank paid dividends of $25.0 million, $51.0 million, and $80.0 million, respectively, to Bancshares. However, a part of the dividend paid in 2003 and the dividend paid in 2004 were in excess of the amount permitted under the California State Department of Financial Institutions ("DFI") guidelines. Therefore Bancshares has been required by the DFI to return to Silicon Valley Bank a portion the 2003 dividend and the 2004 dividend—the total amount returned totaled $28.4 million. At this time, Silicon Valley Bank must obtain prior approval from the DFI before paying any further dividends to Bancshares. The Federal Reserve Board and the California Commissioner of Financial Institutions (the Commissioner) have the authority to prohibit Silicon Valley Bank from engaging in activities that, in their opinion, constitute unsafe or unsound practices in conducting its business. Depending upon the financial condition of Silicon Valley Bank and other factors, the regulators could assert that the payment of dividends or other payments might, under some circumstances, be an unsafe or unsound practice. If Silicon Valley Bank fails to comply with its minimum capital requirements, its regulators could restrict its ability to pay dividends using prompt corrective action or other enforcement powers. The Commissioner may impose similar limitations on the conduct of California-chartered banks. See Item 8. Consolidated Financial Statements and Supplementary Data—Note 22. Regulatory Matters for further discussion on dividend restrictions.

Transactions with Affiliates

Transactions between Silicon Valley Bank and its operating subsidiaries, on the one hand, and their affiliates, on the other, are subject to restrictions imposed by federal and state law. These restrictions prevent Bancshares and other affiliates from borrowing from, or entering into other credit transactions with, Silicon Valley Bank or its operating subsidiaries unless the loans or other credit transactions are secured by specified amounts of collateral. All such loans and credit transactions and other "covered transactions" by Silicon Valley Bank and its operating subsidiaries with any one affiliate are limited, in the aggregate, to 10% of Silicon Valley Bank's capital and surplus; and all such loans and credit transactions and other "covered transactions" by Silicon Valley Bank and its operating subsidiaries with all affiliates are limited, in the aggregate, to 20% of Silicon Valley Bank's capital and surplus. For this purpose, a "covered transaction" generally includes, among other things, a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate, the acceptance of a security issued by an affiliate as collateral for an extension of credit to any borrower, and the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. A company that is a direct or indirect subsidiary of Silicon Valley Bank would not be considered to be an "affiliate" of Silicon Valley Bank or its

operating subsidiaries unless it fell into one of certain categories, such as a "financial subsidiary" authorized under the GLB Act. In addition, Silicon Valley Bank and its operating subsidiaries generally may not purchase a low-quality asset from an affiliate, and covered transactions and other specified transactions by Silicon Valley Bank and its operating subsidiaries with an affiliate must be on terms and conditions that are consistent with safe and sound banking practices. Also, Silicon Valley Bank and its operating subsidiaries generally may engage in transactions with affiliates only on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to the Bank or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Prompt Corrective Action and Other Enforcement Mechanisms

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

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

In addition to measures taken under the prompt corrective action provisions, bank holding companies and insured banks may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by the agency or term of a written agreement with the agency. Enforcement actions may include the appointment of a conservator or receiver for the bank; the issuance of a cease and desist order that can be judicially enforced; the termination of the bank's deposit insurance; the imposition of civil monetary penalties; the issuance of directives to increase capital; the issuance of formal and informal agreements; the issuance of removal and prohibition orders against officers, directors, and other institution-affiliated parties; and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Safety and Soundness Guidelines

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

Premiums for Deposit Insurance

Silicon Valley Bank's deposit accounts are insured by the Bank Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum permitted by law. The FDIC may assess premiums to maintain a sufficient fund balance. The amount charged is based on the capital level of an institution and on a supervisory assessment based upon the results of examination findings by the institution's primary federal regulator and other information deemed relevant by the FDIC to the institution's financial condition and the risk posed to the Bank Insurance Fund. As of December 31, 2004, the FDIC's semi-annual assessment for the insurance of BIF deposits ranged from zero (0) to twenty seven (27) cents per $100 of insured deposits. The FDIC may increase or decrease the premium rate on a semi-annual basis. As of December 31, 2004, Silicon Valley Bank's assessment rate was zero.

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

Community Reinvestment Act and Fair Lending

Silicon Valley Bank is subject to a variety of fair lending laws and reporting obligations, including the CRA. The CRA generally requires the federal banking agencies to evaluate the record of a bank in meeting the credit needs of its local communities, including low- to moderate-income neighborhoods. In November 2003, the Federal Reserve Board rated Silicon Valley Bank "satisfactory" in complying with its CRA obligations. A bank can become subject to substantial penalties and corrective measures for any violation of fair lending laws. When regulating and supervising other activities or assessing whether to approve certain applications, the federal banking agencies may consider a bank's record of compliance with such laws and CRA obligations.

Privacy

The GLB Act imposed customer privacy requirements on any company engaged in financial activities. Under these requirements, a financial company is required to protect the security and confidentiality of customer nonpublic personal information. Also, for customers who obtain a financial product such as a loan for personal, family, or household purposes, a financial company is required to disclose its privacy policy to the customer at the time the relationship is established and annually thereafter. The financial company must also disclose its policies concerning the sharing of the customer's nonpublic personal information with affiliates and third parties. If an exemption is not available, a financial company must provide consumers with a notice of its information-sharing practices that allows the consumer to reject the disclosure of its nonpublic personal information to third parties. Third parties that receive such information are subject to the same restrictions as the financial company on the re-use of the information. Finally, a financial company is prohibited from disclosing an account number or similar item to a third party for use in telemarketing, direct mail marketing, or marketing through electronic mail. Financial companies were required to be in compliance with these consumer privacy requirements no later than July 1, 2001.

The California Financial Information Privacy Act (SB1) became effective on July 1, 2004, and applies to financial institutions doing business in the State of California. SB1 tightens existing federal restrictions on the sharing of consumer nonpublic personal information with affiliates and nonaffiliated third parties.

Silicon Valley Bank has written policies with regard to the sharing of consumer nonpublic personal information. Our policies comply with both federal and California rules applicable to the security and confidentiality of consumer nonpublic personal information.

USA Patriot Act of 2001

As part of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act), Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 ("IMLAFATA"). IMLAFATA amended the Bank Secrecy Act and adopted certain additional measures that established or increased already existing obligations of financial institutions, including Silicon Valley Bank, to identify their customers, watch for and report upon suspicious transactions, respond to requests for information by federal banking regulatory authorities and law enforcement agencies, and share information with other financial institutions. The Secretary of the Treasury has adopted several regulations to implement these provisions. Pursuant to certain of these regulations, Silicon Valley Bank may not establish, maintain, administer, or manage a correspondent account in the United States for, or on behalf of, a foreign shell bank. In addition, IMLAFATA expands the circumstances under which funds in a bank account may be forfeited. IMLAFATA also amended the BHC Act and the Bank Merger Act to require the federal banking regulatory authorities to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing an application to expand operations. Silicon Valley Bank has in place a Bank Secrecy Act compliance program.

Regulation of Certain Subsidiaries

Two of our subsidiaries, SVB Alliant and SVB Securities, are registered as broker-dealers with the National Association of Securities Dealers, Inc. (NASD) and as such are subject to regulation by the NASD and the US Securities and Exchange Commission (SEC). Our investment advisory subsidiaries, Woodside Asset Management, Inc., and SVB Asset Management, are registered with the SEC under the Investment Advisers Act of 1940, as amended, and are subject to that act and the rules and regulations promulgated thereunder.

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

As broker-dealers, SVB Alliant and SVB Securities are also subject to other regulations covering the operations of their respective businesses, including sales and trading practices; use of client funds and securities; and conduct of directors, officers, and employees. Broker-dealers are also subject to regulation by state securities administrators in the states where they do business. Violations of the stringent regulations governing the actions of a broker-dealer can result in the revocation of broker-dealer licenses; the imposition of censures or fines; the issuance of cease and desist orders; and the suspension or expulsion from the securities business of a firm, its officers, or its employees. The SEC and the NASD, in particular, emphasize the need for supervision and control by broker-dealers of their employees.

Available Information

We make available free of charge through our Internet website, *http://www.svb.com,* our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. (Our website address is provided solely for informational purposes and is not intended to be part of this Annual Report.)

Item 2. Properties

Our corporate headquarters facility consists of three buildings and is located at 3003 Tasman Drive, Santa Clara, California. On September 15, 2004, we renegotiated the lease related to our corporate headquarters facility, which replaced the original lease, dated March 8, 1995. The new lease covers two buildings, comprising approximately 157,000 square feet of space, which we occupied under the previous lease, as well as a third building, comprising approximately 56,500 square fee of space, within the same facility complex. The total square footage of the premises leased under the new lease arrangement is approximately 213,500 square feet, which is approximately the same square footage of our corporate headquarters under its previous leases. The term of the new corporate headquarters lease began retroactively on August 1, 2004, and will end on September 30, 2014, unless terminated earlier.

In 2002, we exited leased premises, located in Santa Clara, California, totaling approximating 18,000 square feet. The lease on that building will expire in August 2005. Our management determined that the premises would have no future economic value to our operations, except for any potential future sublease arrangement. Therefore, during 2002, we incurred charge-offs of approximately $2.5 million related to the exit of these premises.

We currently operate 25 regional offices. We operate throughout the Silicon Valley with offices in Fremont, Santa Clara, Palo Alto and on Sand Hill Road in Menlo Park. Other regional offices in California include Irvine, Los Angeles, Napa Valley, San Diego, San Francisco, and Sonoma. Office locations outside of California include: Phoenix, Arizona; Boulder, Colorado; Atlanta, Georgia; Chicago, Illinois; Boston, Massachusetts; Minneapolis, Minnesota; New York, New York; Durham, North Carolina; Portland, Oregon; Philadelphia, Pennsylvania; Austin, Texas; Dallas, Texas; Vienna, Northern Virginia; and Seattle, Washington. All of our properties are occupied under leases, which expire at various dates through 2014, and in most instances include options to renew or extend at market rates and terms. We also own leasehold improvements, equipment, furniture, and fixtures at our offices, all of which are used in our business activities.

Item 3. Legal Proceedings

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

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

None.

PART II

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

Market Information

Our common stock is traded over the counter on the National Association of Securities Dealers Automated Quotation (NASDAQ) national market under the symbol SIVB. The per share range of high and low sale prices for our common stock as reported on the NASDAQ national market, as applicable, for each three month period over the years ended December 31, 2004 and 2003, are as follows:

	2004		2003	
	Low	High	Low	High
Three Months Ended:				
March 31	$ 31.02	$ 39.96	$ 15.71	$ 19.63
June 30	$ 31.20	$ 39.65	$ 18.11	$ 27.00
September 30	$ 32.38	$ 39.90	$ 22.66	$ 31.00
December 31	$ 37.15	$ 45.15	$ 27.46	$ 37.25

Stockholders

There were 689 registered holders of our stock as of December 31, 2004. Additionally, we believe there were approximately 7,027 beneficial holders of common stock whose shares are held in the name of brokerage firms or other financial institutions. We are not provided with the number or identities of all of these stockholders, but we have estimated the number of such stockholders from the number of stockholder documents requested by these brokerage firms for distribution to their customers.

Dividends

We have not paid cash dividends on our common stock since 1992. Currently, we have no plan to pay cash dividends on our common stock. Periodically, we evaluate the decision of paying cash dividends in the context of our performance, general economic performance, and relevant tax and financial parameters. Our ability to pay cash dividends is limited by generally applicable corporate and banking laws and regulations. See Item 1. Business-Supervision and Regulation-Restrictions on Dividends, and Item 8. Consolidated Financial Statements and Supplementary Data-Note 22. Regulatory Matters for additional discussion on restrictions and limitations on the payment of dividends imposed on us by government regulations.

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

Stock Repurchases

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
January 1, 2004 – March 31, 2004	—	$ —	—	$ 46,800,000
April 1, 2004 – June 30, 2004	—	—	—	46,800,000
July 1, 2004 – September 30, 2004	—	—	—	46,800,000
October 1, 2004 – December 31, 2004	300,000	41.93	—	34,200,000
2004 Total	300,000	$ 41.93	—	$ 34,200,000

(1) On May 7, 2003, the Company announced that its Board of Directors authorized a stock repurchase program of up to $160.0 million, with no specified expiration date. This program became effective immediately and replaced previously announced stock repurchase programs. Stock repurchases under this program may be made from time to time. Under this program, the Company repurchased in aggregate 4.8 million shares of common stock totaling $125.8 million as of 2004. The approximate dollar value of shares that may still be repurchased under this program totaled $34.2 million as of December 31, 2004.

Recent Sales of Unregistered Securities

None

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and supplementary data as presented in Item 8 of this Annual Report on Form 10-K. Certain reclassifications have been made to our prior years' results to conform to 2004 presentations. Such reclassifications had no effect on the results of operations or stockholders' equity. In addition, the common stock summary information has been restated to reflect a two-for-one stock split on May 15, 2000.

	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars and shares in thousands, except per share amounts)				
Income Statement Summary:					
Net interest income	$ 234,748	$ 188,884	$ 194,708	$ 262,985	$ 329,848
(Recovery of)/provision for loan and lease losses	(9,901)	(8,727)	7,220	17,028	54,175
Noninterest income	106,033	75,060	67,858	70,833	189,630
Noninterest expense	242,486	265,191	183,036	183,184	198,788
Minority interest in net (gains) losses of consolidated affiliates	(3,079)	7,689	7,767	7,546	460
Income before income tax expense	105,117	15,169	80,077	141,152	266,975
Income tax expense	39,741	3,192	26,719	52,998	107,907
Net income	$ 65,376	$ 11,977	$ 53,358	$ 88,154	$ 159,068
Common Share Summary:					
Earnings per share-basic	$ 1.86	$ 0.33	$ 1.21	$ 1.85	$ 3.41
Earnings per share-diluted	1.74	0.32	1.18	1.79	3.23
Book value per share	$ 14.80	$ 12.76	$ 14.55	$ 13.82	$ 12.54
Weighted average shares outstanding-basic	35,215	36,109	44,000	47,728	46,656
Weighted average shares outstanding-diluted	37,595	37,321	45,080	49,155	49,220
Year-End Balance Sheet Summary:					
Investment securities	$ 2,258,207	$ 1,575,434	$ 1,535,694	$ 1,833,162	$ 2,107,590
Loans, net of unearned income	2,312,143	1,989,229	2,086,080	1,767,038	1,716,549
Goodwill	35,639	37,549	100,549	96,380	—
Assets	5,153,600	4,480,008	4,195,315	4,187,549	5,642,551
Deposits	4,219,514	3,666,876	3,436,127	3,380,977	4,862,259
Contingently convertible debt	146,740	145,797	—	—	—
Junior subordinated debentures	49,421	49,652	—	—	—
Trust preferred securities(1)	—	—	39,472	38,641	38,589
Stockholders' equity	$ 532,268	$ 447,005	$ 590,350	$ 627,515	$ 614,121
Average Balance Sheet Summary:					
Investment securities	$ 1,943,132	$ 1,440,517	$ 1,554,035	$ 1,817,379	$ 1,932,461
Loans, net of unearned income	1,954,465	1,800,022	1,762,296	1,656,958	1,580,176
Goodwill	37,066	91,992	98,252	24,955	—
Assets	4,766,721	4,053,909	3,880,045	4,387,624	5,196,313
Deposits	3,905,465	3,277,594	3,063,516	3,581,725	4,572,457
Contingently convertible debt	146,255	73,791	—	—	—
Junior subordinated debentures	49,362	24,490	—	—	—
Trust preferred securities(1)	—	19,193	38,667	38,611	38,559
Stockholders' equity	$ 486,613	$ 494,998	$ 631,005	$ 651,861	$ 478,018
Capital Ratios:					
Total risk-based capital ratio	15.9 %	16.6 %	16.0 %	17.2 %	17.7 %
Tier 1 risk-based capital ratio	12.5 %	12.0 %	14.8 %	15.9 %	16.5 %
Tier 1 leverage ratio	10.9 %	10.2 %	13.8 %	14.7 %	12.0 %
Average stockholders' equity to average assets	10.2 %	12.3 %	16.2 %	14.9 %	9.2 %
Selected Financial Ratios:					
Return on average assets	1.4 %	0.3 %	1.4 %	2.0 %	3.1 %
Return on average stockholders' equity	13.4 %	2.4 %	8.5 %	13.5 %	33.3 %
Net interest margin(1)	5.5 %	5.3 %	5.7 %	6.8 %	6.9 %
Net recoveries (charge-offs) to average total loans	(0.1)%	0.0 %	(0.3)%	(1.1)%	(3.3)%
Nonperforming assets as a percentage of total assets	0.3 %	0.3 %	0.5 %	0.4 %	0.3 %
Allowances for loan and lease losses as a percent of total gross loans(2)	1.6 %	2.5 %	2.8 %	3.2 %	3.4 %
Other Data:					
Client investment funds:					
Private label client investment funds	$ 7,260,320	$ 7,615,307	$ 7,642,090	$ 8,572,910	$ 10,069,607
Client investment assets under management	2,678,042	591,610	—	—	—
Sweep funds	1,351,244	1,139,211	853,231	710,458	736,087
Total client investment funds	$ 11,289,606	$ 9,346,128	$ 8,495,321	$ 9,283,368	$ 10,805,694

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

(2) Historically, we aggregated our allowance for loan losses and allowance for loan loss contingency and reflected the aggregate allowance in our allowance for loan and lease losses (ALLL) balance. Commencing in the fourth quarter of 2004, we reflected our allowance for loan and lease losses in our ALLL balance and allowance for loan loss contingency in other liabilities. These reclassifications were also made to prior periods' balance sheets to conform to current period's presentations. Additionally, we reclassified expense from the provision for loan losses related to changes in the allowance for loan loss contingency into noninterest expense for all periods presented. Such reclassifications had no effect on our results of operations or stockholders' equity but have had the effect of lowering our ALLL to total gross loans. See Credit Quality table included under Credit Quality and the Allowance for Loan and Lease Losses under Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition.

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

Management's discussion and analysis contains forward-looking statements. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Item 7A. Quantitative and Qualitative Disclosures about Market Risk—Factors That May Affect Future Results".

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and supplementary data as presented in Item 8 of this Annual Report on Form 10-K. Certain reclassifications have been made to our prior years' results to conform to 2004 presentations. Such reclassifications had no effect on our results of operations or stockholders' equity.

Overview of Company Operations

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

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

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

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

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

Critical Accounting Policies

The accompanying management's discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements, which have been prepared in accordance

with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. Management evaluates estimates on an ongoing basis. Management bases its estimates on historical experiences and various other factors and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

We believe the accounting policies and estimates discussed below are the most critical to our audited consolidated financial statements because their application places the most significant demands on our management regarding matters that are inherently uncertain. The financial impact of each estimate, to the extent significant to financial results, is discussed in the applicable sections of the management’s discussion and analysis. As of December 31, 2004, there have been no material changes to these policies since the last reporting period.

Our senior management discussed the development, selection, and disclosure of these critical accounting policies with our audit committee on January 26, 2005.

Marketable Equity Securities

Our investments in marketable equity securities include:

- By receipt of warrants for shares of publicly traded companies.

- Investments in shares of publicly traded companies. Equity securities in our warrant, direct equity, and venture capital fund portfolios generally become marketable when a portfolio company completes an initial public offering on a publicly reported market or is acquired by a publicly traded company.

Unrealized gains on warrants and unrealized gains or losses on equity investment securities are recorded upon the establishment of a readily determinable fair value of the underlying security, as defined by Statement of Financial Accounting Standards (SFAS) No. 115, “Accounting for Certain Investments in Debt and Equity Instruments.”

- Unrealized gains or losses after applicable taxes, on available-for-sale marketable equity securities that result from initial public offerings are excluded from earnings and are reported in accumulated other comprehensive income, which is a separate component of stockholders’ equity. We are often contractually restricted from selling equity securities for a certain period of time subsequent to the portfolio company’s initial public offering. Often equity securities held by us for sale are not registered under the Securities Act of 1933 (the Securities Act). In such cases, we often seek exemption from the registration requirements of the Securities Act by effecting sales of equity securities of the portfolio company in compliance with the current public information, holding period, volume limitation and manner of sale requirements of Rule 144 under the Securities Act. In addition, as an inducement to the underwriter(s) to underwrite such an offering, security holders, including us, typically enter into an agreement with the underwriter(s) and/or the portfolio company, pursuant to which the security holder agrees to refrain from selling the securities held by such holder for a period of time, often 180 days, after the initial public offering. As a result of such regulatory and contractual requirements, we are frequently restricted for some period of time in our ability to liquidate portfolio securities even after a portfolio company has completed an initial public offering. Gains or losses on these marketable equity instruments are recorded in our consolidated net income in the period the underlying securities are sold to a third party.

- If we possess a warrant that can be settled with a net cash payment to us, the warrant meets the definition of a derivative instrument. Changes in fair value of such derivative instruments are recognized as securities gains or losses in our consolidated net income.

Marketable equity securities are recorded at fair value, which initially is the purchase cost of the securities. However, a decline in the fair value of any of these securities that is considered other-than-temporary is recorded in our consolidated net income in the period the impairment occurs. The cost basis of the underlying security is written down to fair value as a new cost basis.

Marketable equity securities held through our venture capital fund, Silicon Valley BancVentures, LP, are recorded at fair value, which initially is the purchase cost of the securities. Holdings that are saleable without restriction are valued at the most recent stock exchange closing price prior to the valuation. In addition, holdings that are subject to limitations under Rule 144 and/or Rule 145 or underwriter lock-ups, or in cases where Bancshares and its affiliates could be considered an affiliate of the issuer are discounted to allow for possible price reduction due to restrictions on liquidity. Discounts will range dependent upon many factors, including but not limited to co-investor discount(s), trading volume, and price volatility.

We consider our marketable equity securities accounting policies to be critical, as the timing and amount of income, if any, from these instruments typically depend upon factors beyond our control. These factors include the general condition of the public equity markets, levels of mergers and acquisitions activity, fluctuations in the market prices of the underlying common stock of these companies, and legal and contractual restrictions on our ability to sell the underlying securities.

Non-Marketable Equity Securities

We invest in non-marketable equity securities in several ways:

- By receipt of warrants for shares of privately held companies.
- By direct purchases of preferred or common stock in privately held companies.
- By capital contributions to venture capital funds, which in turn make investments in preferred or common stock of privately held companies.
- Through our venture capital fund, Silicon Valley BancVentures, LP, which makes investments in preferred or common stock of privately held companies.
- Through our funds of funds, SVB Strategic Investors Fund, LP and SVB Strategic Investors Fund II, LP, which make investments in venture capital funds, which in turn, invest in privately held companies.
- Through our investments in Partners for Growth, LP and Gold Hill Venture Lending 03, LP, which provide financing to privately held companies in the form of loans and equity.

Unexercised warrant securities in private companies are initially recorded at a nominal value on our consolidated balance sheets. They are carried at this value until they become marketable or expire, except in the following circumstance:

Gains on warrant and gains or losses on equity investment securities that result from a portfolio company being acquired by a publicly traded company are marked-to-market when the acquisition occurs. The resulting gains or losses are recognized into consolidated net income on that date, in accordance with Emerging Issues Task Force, Issue No. 91-5, “Nonmonetary Exchange of Cost—Method Investments.” Further fluctuations in the market value of these marketable equity securities are excluded from consolidated net income and are reported in accumulated other comprehensive income, which is a separate component of stockholders’ equity. Upon the sale of these equity securities to a third party, gains and losses, which are measured from the adjusted cost basis, are recognized in our consolidated net income.

We account for non-marketable equity investment securities, including warrants, other than those held by the SVB Strategic Investors Fund, LP, SVB Strategic Investors Fund II, LP, Silicon Valley BancVentures, LP, Partners for Growth, LP, and Gold Hill Venture Lending 03, LP, on a cost basis. In the event of a stock-based acquisition of a non-publicly traded issuer by a publicly traded company, we will realize gains or losses on these securities in our consolidated net income when the transaction occurs.

A summary of our accounting policies for other non-marketable equity securities is presented in the following table. A complete description of the accounting policies follows the table.

Private Equity and Venture Capital Fund Investments	
Wholly-Owned by Bancshares	Cost basis less identified impairment, if any
Owned by SVB Strategic Investors Fund, LP, SVB Strategic Investors Fund II, LP, Silicon Valley BancVentures, LP, Partners for Growth, LP, and Gold Hill Venture Lending 03, LP	Investment company accounting, adjusted to fair value on a quarterly basis through consolidated net income

Bancshares' wholly-owned non-marketable venture capital fund investments and other direct equity investments are recorded on a cost basis as our interests are considered minor because we own less than 5.0% of the company and have no influence over the company's operating and financial policies. Our cost basis in each investment is reduced by returns until the cost basis of the individual investment is fully recovered. Returns in excess of the cost basis are recorded as investment gains in noninterest income.

The values of the investments are reviewed at least quarterly, giving consideration to the facts and circumstances of each individual investment. Management's review of private equity investments typically includes the relevant market conditions, offering prices, operating results, financial conditions, and exit strategies. A decline in the fair value that is considered other-than-temporary is recorded in our consolidated net income in the period the impairment occurs. Any estimated loss is recorded in noninterest income as investment losses.

Investments held by Silicon Valley BancVentures, LP are recorded at fair value using investment accounting rules. The investments consist principally of stock in private companies that are not traded on a public market and are subject to restrictions on resale. These investments are carried at estimated fair value as determined by the general partner. The valuation generally remains at cost until such time that there is significant evidence of a change in value based upon consideration of the relevant market conditions, offering prices, operating results, financial conditions, exit strategies, and other pertinent information. The general partner, Silicon Valley BancVentures, Inc. is owned and controlled by Bancshares and has an ownership interest of 10.7% in Silicon Valley BancVentures, LP. The limited partners do not have substantive participating rights. Therefore, Silicon Valley BancVentures, LP is consolidated and any gains or losses resulting from changes in the estimated fair value of the investments are recorded as investment gains or losses in our consolidated net income. The portion of any gains or losses belonging to the limited partners is reflected in minority interest in net gains or losses of consolidated affiliates and adjusts Bancshares' consolidated net income to reflect its percentage ownership.

The SVB Strategic Investors Fund, LP and SVB Strategic Investors Fund II, LP (SIF I and II) portfolios consist primarily of investments in venture capital funds, which are recorded at fair value using investment company accounting rules. The carrying value of the investments is determined by the general partners based on the percentage of SIF I and II's interest in the total fair market value as provided by each venture capital fund investment. SVB Strategic Investors, LLC and SVB Strategic Investors II, LLC generally utilize the fair values assigned to the underlying respective portfolio investments by the

management of the venture capital funds. The estimated fair value of the investments is determined after giving consideration to the relevant market conditions, offering prices, operating results, financial conditions, exit strategy, and other pertinent information. The general partner of SVB Strategic Investors Fund, LP, SVB Strategic Investors, LLC, is owned and controlled by Bancshares and has an ownership interest of 11.1%. The general partner of SVB Strategic Investors Fund II, LP, SVB Strategic Investors II, LLC, is owned and controlled by Bancshares and has an ownership interest of 14.4%. The limited partners of these funds do not have substantive participating rights. Therefore, SIF I and II are consolidated and any gains or losses resulting from changes in the estimated fair value of the venture capital fund investments are recorded as investment gains or losses in our consolidated net income. The other limited partners share of any gains or losses is reflected in minority interest in net gains or losses of consolidated affiliates and adjusts Bancshares' consolidated net income to reflect its percentage ownership.

Investments held by Partners for Growth, LP and Gold Hill Venture Lending 03, LP are recorded at fair value using investment accounting rules. The investments consist principally of loans and equity investments in private companies that are not traded on a public market and are subject to restrictions on resale. These investments are carried at estimated fair value as determined by the general partner. The general partner of Partners for Growth, LP, Partners for Growth GP, L.L.C, is not owned by Bancshares. Bancshares has an ownership interest of 53.2% in Partners for Growth, LP and therefore, the fund is consolidated and any gains or losses resulting from changes in the estimated fair value of the investments are recorded as investment gains or losses in our consolidated net income. The portion of any gains or losses belonging to the limited partners is reflected in minority interest in net gains or losses of consolidated affiliates and adjusts Bancshares' consolidated net income to reflect its percentage ownership. Bancshares has a 90.7% ownership interest in the general partner of Gold Hill Venture Lending 03, LP, Gold Hill Venture Lending Partners 03, LLC. Both Bancshares and Gold Hill Venture Lending Partners 03, LLC have an ownership interest of 5.0% and 4.8%, respectively, in Gold Hill Venture Lending 03, LP. The limited partners of the fund have the substantive ability to remove the general partner without cause. Therefore, Gold Hill Venture Lending 03, LP is not consolidated and Bancshares carries the investments in the fund at estimated fair value as determined by the general partner. Changes in the estimated fair value of the investment are recorded as investment gains or losses in our consolidated net income.

We consider our marketable and non-marketable equity securities accounting policies to be critical, as the timing and amount of gain or losses, if any, from these instruments depend upon factors beyond our control. These factors include the general condition of the public equity markets, levels of mergers and acquisitions activity, and legal and contractual restrictions on our ability to sell the underlying securities. Therefore, we cannot predict future gains or losses with any degree of accuracy and any gains or losses are likely to vary materially from period to period. In addition, the valuation of non-marketable equity securities included in our financial statements represents our best interpretation of the underlying equity securities performance at this time. Because of the inherent uncertainty of valuations, the estimated values of these securities may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's carrying value, thereby possibly requiring an impairment charge in the future. For further information related to non-marketable equity securities for the years ended December 31, 2004, 2003, and 2002, please refer to the table under Part II—Item 8. Consolidated Financial Statements and Supplementary Data—Note 7. Investment Securities.

Allowance for Loan and Lease Losses

We consider our accounting policy relating to the estimation of the allowance for loan and lease losses to be critical as estimation of the allowance involves material estimates by our management and is

particularly susceptible to significant changes in the near term. Our loan loss reserve methodology is applied to the funded debt as a contra-asset and to our unfunded loan commitments as a reserve to Other Liabilities. Except as described herein, the methodology for the determination of an appropriate reserve for funded and unfunded loan commitments is the same.

We define credit risk as the probability of sustaining a loss because other parties to the financial instrument fail to perform in accordance with the terms of the contract. Through the administration of loan policies and monitoring of the loan portfolio, our management seeks to reduce such credit risks. While we follow underwriting and credit monitoring procedures, which we believe are appropriate in growing and managing the loan portfolio, in the event of nonperformance by these other parties, our potential exposure to credit losses could significantly affect our consolidated results of operations and financial condition.

The allowance for loan and lease losses is established through a provision for loan losses charged to expense to provide for credit risk. Our allowance for loan and lease losses is established for loan losses that are probable but not yet realized. The process of anticipating loan losses is imprecise. Our management applies the following evaluation process to our loan portfolio to estimate the required allowance for loan and lease losses:

We maintain a systematic process for the evaluation of individual loans and pools of loans for inherent risk of loan losses. On a quarterly basis, each loan in our portfolio is assigned a credit risk rating. Credit risk-ratings are assigned on a scale of 1 to 10, with 1 representing loans with a low risk of nonpayment, 9 representing loans with the highest risk of nonpayment, and 10 representing loans, which have been charged-off. This credit risk-rating evaluation process includes, but is not limited to, consideration of such factors as payment status, the financial condition of the borrower, borrower compliance with loan covenants, underlying collateral values, potential loan concentrations, and general economic conditions. Our policies require a committee of senior management to review at least quarterly, credit relationships that exceed specific dollar values. Our review process evaluates the appropriateness of the credit risk rating and allocation of allowance for loan and lease losses, as well as other account management functions. Our Enterprise Risk Management department through a co-sourced relationship, reviews a selection of credit relationships. In addition, our management receives and approves an analysis for all impaired loans, as defined by the SFAS No. 114, “Accounting by Creditors for Impairment of a Loan.” The allowance for loan and lease losses is allocated based on a formula allocation for similarly risk-rated loans, or for specific risk issues, which suggest a probable loss factor exceeding the formula allocation for a specific loan, or for individual impaired loans as determined by SFAS No. 114.

Our evaluation process was designed to determine the adequacy of the allowance for loan and lease losses. We assess the risk of losses inherent in the loan portfolio by utilizing modeling techniques. For this purpose, we have developed a statistical model based on historical loan loss migration to estimate an appropriate allowance for outstanding loan balances. In addition, we apply a macro allocation to the results of the aforementioned model to ascertain the total allowance for loan and lease losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of the allowance for loan and lease losses, relies, to a great extent, on the judgment and experience of our management.

Historical Loan Loss Migration Model

We use the historical loan loss migration model as a basis for determining expected loan loss factors by credit risk-rating category. The effectiveness of the historical loan loss migration model is predicated on the theory that historical trends are predictive of future experience. Specifically, the model calculates the likelihood and rate of a loan in one risk-rating category moving one category lower using loan data from our portfolio.

We analyze the historical loan loss migration trend by compiling gross loan loss data and by credit risk rating for the rolling twelve-month periods as of the end of each quarter. Each of the loans charged-off over the twelve-month period is assigned a credit risk rating at the period end of each of the preceding four quarters. On an annual basis, the model calculates charged-off loans as a percentage of current period end loans by credit risk-rating category. The percentages are averaged and are aggregated to estimate our loan loss factors. The annual periods are reviewed and averaged to form the loan loss factors for several quarters of history. The current period-end client loan balances are aggregated by risk-rating category. Loan loss factors for each risk-rating category are ultimately applied to the respective period-end client loan balances for each corresponding risk-rating category to provide an estimation of the allowance for loan and lease losses.

Macro Allocations

A macro allocation is calculated each quarter based upon an assessment of the risks that may lead to a loan loss experience different from our historical results. These risks are aggregated to become our macro allocation. Based on management's prediction or estimate of changing risks in the lending environment, the macro allocation may vary significantly from period to period and includes but is not limited to consideration of the following factors:

- Changes in lending policies and procedures, including underwriting standards and collections, and charge-off and recovery practices.
- Changes in national and local economic business conditions, including the market and economic condition of our clients' industry sectors.
- Changes in the nature of our loan portfolio.
- Changes in experience, ability, and depth of lending management and staff.
- Changes in the trend of the volume and severity of past due and classified loans.
- Changes in the trend of the volume of nonaccrual loans, troubled debt restructurings, and other loan modifications.

Finally, we compute several modified versions of the model, which provide additional assurance that the statistical results of the historical loan loss migration model are reasonable. Our Chief Credit Officer and Chief Financial Officer evaluate the adequacy of the allowance for loan and lease losses based on the results of our analysis.

Allowance for Loan Loss Contingency

We reserve for the possibility of an unfunded loan commitment being funded and subsequently being charged-off. Each quarter, every unfunded client credit commitment is allocated to a credit risk-rating category in accordance with each client's credit risk rating. We use the historical loan loss factors described above to calculate the possible loan loss experience if unfunded credit commitments are funded. Separately, we use historical trends to calculate the probability of an unfunded credit commitment being funded by us. We apply the loan funding probability factor to risk-factor adjusted unfunded commitments by credit risk-rating to derive the reserve for unfunded loan commitments. The loan loss contingency reserve may also include certain macro allocations as deemed appropriate by our management.

Goodwill

Please see Note 2. Summary of Significant Accounting Policies, for a description of our process for evaluating goodwill. Goodwill, which arises from the purchase price exceeding the assigned value of the net assets of an acquired business, represents the value attributable to unidentifiable intangible elements being acquired. Our goodwill at December 31, 2004, related to the acquisition of SVB Alliant (Alliant Partners) a mergers and acquisitions firm. The value of this goodwill is supported by the free cash flows from the acquired businesses. A decline in earnings as a result of a decline in mergers and acquisitions transaction volume or a decline in the valuations of mergers and acquisitions clients could lead to impairment, which would be recorded as a write-down in our consolidated net income.

On an annual basis or as circumstances dictate, our management reviews goodwill and evaluates events or other developments that may indicate impairment in the carrying amount. The evaluation methodology for potential impairments is inherently complex and involves significant management judgment in the use of estimates and assumptions. We evaluate impairment using a two-step process. First, we compare the aggregate fair value of the reporting unit to its carrying amount, including goodwill. If the fair value exceeds the carrying amount, no impairment exists. If the carrying amount of the reporting unit exceeds the fair value, then we compare the “implied” fair value, defined below, of the reporting unit’s goodwill with its carrying amount. If the carrying amount of the goodwill exceeds the implied fair value, then writing goodwill down to the implied fair value recognizes goodwill impairment.

We primarily use a discounted future cash flows approach to value the reporting unit being evaluated for goodwill impairment. These estimates involve many assumptions, including expected results of operations, assumed discounts rates, and assumed growth rates for the reporting units. The discount rate used is based on standard industry practice, taking into account the expected equity risk premium, the size of the business, and the probability of the reporting unit achieving its financial forecasts. The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit, as if the unit had been acquired in a business combination and the fair value of the unit was the purchase price.

Events that may indicate goodwill impairment include significant or adverse changes in results of operations of the business, economic or political climate, an adverse action or assessment by a regulator, unanticipated competition, and a more-likely-than-not expectation that a reporting unit will be sold or disposed of. More information about goodwill is included in Item 8-Consolidated Financial Statements and Supplementary Data-Note 10. Goodwill and Item 7A. Quantitative and Qualitative Disclosures about Market Risk—Factors That May Affect Future Results.

Results of Operations

Earnings Summary

We reported consolidated net income of $65.4 million in 2004, as compared to consolidated net income of $12.0 million in 2003 and $53.4 million in 2002. Diluted earnings per common share totaled $1.74 for 2004, as compared to $0.32 for 2003 and $1.18 for 2002.

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

We included the dilutive effect of the $150.0 million zero-coupon, convertible subordinated notes due June 15, 2008 in our fully diluted earnings per share (EPS) calculation using the treasury stock method, in accordance with the provisions of Emerging Issue Task Force (EITF) issue No. 90-19, “Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion” and Statement of Financial Accounting Standard (SFAS) No. 128, “Earnings Per Share”. The exposure draft of SFAS No. 128R, if adopted in its proposed form, will require us to change our accounting for the calculation of EPS on our contingently convertible

debt to the if converted method. If converted treatment of the contingently convertible debt would have decreased EPS by $0.17 per diluted common share, or 10 percent for 2004.

2004 Compared to 2003

Increase in Consolidated Net Income —Increase in Net Interest Income, Decrease in Impairment of Goodwill Expense

Consolidated net income increased by $53.4 million between 2004 and 2003:

- Impairment of goodwill expense decreased by $61.1 million. In 2003, we incurred charges aggregating $63.0 million related to our investment banking business unit, SVB Alliant;
- Net interest income increased by $45.9 million, primarily due to increased interest income from both investment securities and loans; and
- Noninterest income increased by $31.0 million, largely due to increases in corporate finance fees, client investments fees and foreign exchange fees.

These improvements to consolidated net income were partially offset by increases in certain noninterest expense categories, particularly compensation and benefits expense, which was higher in 2004 primarily due to variable compensation, attributable to our improved financial performance. Additionally, we experienced an increase in professional services expense primarily due to expenses associated with Sarbanes-Oxley compliance. Finally, our effective tax rate increased to 37.8% in 2004 from 21.0% in 2003.

2003 Compared to 2002

Decrease in Consolidated Net Income —Decrease in Net Interest Income, Impairment of Goodwill Expense

The decrease in consolidated net income between 2003 and 2002 primarily resulted from an increase of $82.2 million in noninterest expense. The increase in noninterest expense was principally due to the following factors:

- Impairment of goodwill charges aggregating $63.0 million related to SVB Alliant, and
- Increase in expense associated with our incentive compensation program, which we believe was necessary to retain our professional talent in an improving economic environment.

Additionally, due to a decrease in the weighted-average prime rate of 4.1% for the year ended December 31, 2003, from 4.7% for the year ended December 31, 2002, we earned lower interest income from our investment securities and loan portfolios, which resulted in a decline in net interest income. However, our provision for loan loss expense decreased by $10.1 million for 2003, as compared to 2002, largely due to a significant loan loss recovery, and our improved credit quality.

The major components of net income and changes in these components are summarized in the following table for the years ended December 31, 2004, 2003 and 2002, and are discussed in more detail on the following pages.

	Years Ended December 31,				
	2004	**2003**	**% Change 2004/2003**	**2002**	**% Change 2003/2002**
	(Dollars in thousands)				
Net interest income	$ 234,748	$ 188,884	24.3%	$ 194,708	(3.0)%
Provision for loan (losses) recoveries	(9,901)	(8,727)	13.5	7,220	(220.9)
Noninterest income	106,033	75,060	41.3	67,858	10.6
Noninterest expense	242,486	265,191	(8.6)	183,036	44.9
Minority interest in net (gains) losses of consolidated affiliates	(3,079)	7,689	(140.0)	7,767	(1.0)
Income before income tax expense	105,117	15,169	593.0	80,077	(81.1)
Income tax expense	39,741	3,192	1,145.0	26,719	(88.1)
Net income	$ 65,376	$ 11,977	445.8	$ 53,358	(77.6)
Return on average assets	1.4%	0.3%		1.4%	
Return on average stockholders' equity	13.4	2.4		8.5	
Average stockholders' equity to average assets	10.2	12.3		16.2	

Net Interest Income and Margin

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

The following table sets forth average assets, liabilities, minority interest and stockholders' equity, interest income and interest expense, average yields and rates, and the composition of our net interest margin for the years ended December 31, 2004, 2003, and 2002.

	Years Ended December 31,								
	2004			2003			2002		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Federal funds sold and securities purchased under agreement to resell(1)	$ 437,052	$ 6,143	1.4 %	$ 385,169	$ 4,530	1.2 %	$ 153,185	$ 2,865	1.9 %
Investment securities(2):									
Taxable	1,819,889	72,929	4.0	1,297,920	42,789	3.3	1,376,977	46,585	3.4
Non-taxable(3)	123,243	7,698	6.2	142,597	9,613	6.7	177,058	10,606	6.0
Loans(4)(5)(6):									
Commercial	1,616,499	145,638	9.0	1,508,961	134,589	8.9	1,508,204	141,697	9.4
Real estate construction and term	120,568	6,511	5.4	98,720	5,989	6.1	102,479	7,245	7.1
Consumer and other	217,398	9,914	4.6	192,341	8,192	4.3	151,613	7,298	4.8
Total loans	1,954,465	162,063	8.3	1,800,022	148,770	8.3	1,762,296	156,240	8.9
Total interest-earning assets	4,334,649	248,833	5.8	3,625,708	205,702	5.7	3,469,516	216,296	6.2
Cash and due from banks	213,213			192,591			182,400		
Allowance for loan and lease losses	(48,249)			(58,658)			(61,042)		
Goodwill	37,066			91,992			98,252		
Other assets(2)	230,042			202,276			190,919		
Total assets	$ 4,766,721			$ 4,053,909			$ 3,880,045		
Funding sources:									
Interest-bearing liabilities:									
NOW deposits	$ 25,986	114	0.4	$ 23,447	105	0.4	$ 33,567	220	0.7
Regular money market deposits	513,699	2,587	0.5	332,632	1,824	0.5	288,238	2,751	1.0
Bonus money market deposits	739,976	3,721	0.5	673,982	3,686	0.5	614,378	5,855	1.0
Time deposits	329,336	2,001	0.6	485,199	3,468	0.7	610,996	7,403	1.2
Contingently convertible debt	146,255	943	0.6	73,791	572	0.8	—	—	0.0
Junior subordinated debentures	49,362	1,505	3.0	24,490	3,026	12.4	—	—	0.0
Other borrowings	16,605	520	3.1	40,903	772	1.9	57,593	1,647	2.9
Total interest-bearing liabilities	1,821,219	11,391	0.6	1,654,444	13,453	0.8	1,604,772	17,876	1.1
Portion of noninterest-bearing funding sources	2,513,430			1,971,264			1,864,744		
Total funding sources	4,334,649	11,391	0.3	3,625,708	13,453	0.4	3,469,516	17,876	0.5
Noninterest-bearing funding sources:									
Demand deposits	2,296,468			1,762,334			1,516,337		
Other liabilities	103,271			85,459			58,119		
Trust preferred securities(7)	—			19,193			38,667		
Minority interest	59,150			37,481			31,145		
Stockholders' equity	486,613			494,998			631,005		
Portion used to fund interest-earning assets	(2,513,430)			(1,971,264)			(1,864,744)		
Total liabilities, minority interest and stockholders' equity	$ 4,766,721			$ 4,053,909			$ 3,880,045		
Net interest income and margin		$ 237,442	5.5 %		$ 192,249	5.3 %		$ 198,420	5.7 %
Total deposits	$ 3,905,465			$ 3,277,594			$ 3,063,516		

(1) Includes average interest-yielding deposits in other financial institutions of $10,559, $783, and $609 in 2004, 2003 and 2002, respectively.
(2) Average noninterest-earning investment securities, primarily marketable and non-marketable equity securities, are excluded from the totals of investment securities and are included in other assets. Average noninterest-earning investment securities amounted to $108,458, $102,742 and $97,143 for the years ended December 31, 2004, 2003 and 2002, respectively.
(3) Interest income on nontaxable investments is presented on a fully taxable-equivalent basis using the federal statutory tax rate of 35% for all years presented. These adjustments were $2,694, $3,365, and $3,712 for the years ended December 31, 2004, 2003, and 2002, respectively.
(4) Average loans include average nonaccrual loans of $14,533, $16,089, and $19,602 in 2004, 2003, and 2002, respectively.
(5) Average loans are net of average unearned income of $13,448, $12,573, and $11,651 in 2004, 2003, and 2002, respectively.
(6) Loan interest income includes loan fees of $36,399, $36,348, and $36,701 in 2004, 2003 and 2002, respectively.
(7) Adoption of FIN No. 46 and SFAS No. 150 in the latter half of 2003 resulted in a change of classification of trust preferred securities distribution expense from noninterest expense to interest expense on a prospective basis. Additionally, the adoption of FIN No. 46 and SFAS No. 150 resulted in a change of classification of trust preferred securities from noninterest-bearing funding sources to interest-bearing liabilities on a prospective basis. Prior to adoption of FIN No. 46 and SFAS No. 150, in accordance with accounting rules in effect at that time, the company recorded trust preferred securities distribution expense as noninterest expense. On October 30, 2003, $50.0 million in cumulative 7.0% trust preferred securities were issued through a newly formed special purpose trust, SVB Capital II. We received $51.5 million in proceeds from the issuance of 7.0% junior subordinated debentures to SVB Capital II. A portion of the net proceeds were used to redeem the existing $40.0 million of 8.25% trust preferred securities. Approximately $1.3 million of deferred issuance costs related to redemption of the $40.0 million 8.25% trust preferred securities were included in interest expense in the fourth quarter of 2003.

Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume change." Net interest income is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities, referred to as "rate change". The following table sets forth changes in interest income for each major category of interest-earning assets and interest expense for each major category of interest-bearing liabilities. The table also reflects the amount of simultaneous changes attributable to both volume and rate for the years indicated. For this table, changes that are not solely due to either volume or rate are allocated in proportion to the percentage changes in average volume and average rate. Changes relating to investments in non-taxable municipal securities are presented on a fully taxable-equivalent basis using the federal statutory tax rate of 35% for all years presented.

	2004 Compared to 2003 Increase (Decrease) Due to Changes in			2003 Compared to 2002 Increase (Decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest income:						
Federal funds sold and securities purchased under agreement to resell	$ 659	$ 954	$ 1,613	$ 3,102	$ (1,437)	$ 1,665
Investment securities	18,380	9,845	28,225	(4,696)	(93)	(4,789)
Loans	12,805	488	13,293	3,442	(10,912)	(7,470)
Increase (decrease) in interest income	31,844	11,287	43,131	1,848	(12,442)	(10,594)
Interest expense:						
NOW deposits	11	(2)	9	(52)	(63)	(115)
Regular money market deposits	922	(159)	763	426	(1,353)	(927)
Bonus money market deposits	345	(310)	35	599	(2,768)	(2,169)
Time deposits	(1,000)	(467)	(1,467)	(1,328)	(2,607)	(3,935)
Contingently convertible debt	481	(110)	371	572	—	572
Junior subordinated debentures	1,744	(3,265)	(1,521)	3,026	—	3,026
Other borrowings	(602)	350	(252)	(403)	(472)	(875)
Increase (decrease) in interest expense	1,901	(3,963)	(2,062)	2,840	(7,263)	(4,423)
Increase (decrease) in net interest income	$ 29,943	$ 15,250	$ 45,193	$ (992)	$ (5,179)	$ (6,171)

2004 Compared to 2003

Net Interest Income

Net interest income, on a fully taxable-equivalent basis, totaled $237.4 million for 2004, an increase of $45.2 million, or 23.5%, from 2003. The increase in net interest income was the result of a $43.1 million increase in interest income and a $2.1 million decrease in interest expense.

Interest Income—Net Increase in Interest-Earning Assets (Volume Variance)

The $43.1 million increase in interest income for 2004, as compared to 2003, was primarily the result of a $31.8 million favorable volume variance. The favorable volume variance resulted from a $708.9 million, or 19.6% increase, in average interest-earning assets. We believe increases in our sources of funding, largely deposits, were the main contributors to the increase in average interest-earning assets. We believe deposits increased due to an improved venture capital funding environment and general improvements in business conditions for many of our clients. This increase in interest-earning assets was primarily centered in investment securities, which increased $502.6 million, and loans, which increased $154.4 million.

Average investment securities increased by $502.6 million, resulting in an $18.4 million favorable volume variance. Throughout 2004, we continued our investment strategy of changing the investment portfolio mix by increasing the portion of the portfolio invested in relatively higher-yielding mortgage-backed securities and collateralized mortgage obligations. Our average investments in mortgage-backed securities and collateralized mortgage obligations collectively increased by $564.8 million for 2004 as compared to 2003, largely funded by increases in client deposits. We estimated the duration of our investment portfolio increased to 2.1 at December 31, 2004, from 1.7 at December 31, 2003. The increase in duration was primarily due to the increase in mortgage-backed securities and collateralized mortgage obligations whose average duration is typically in the 2 to 5 year range.

In addition, average loans increased by $154.4 million, or 8.6% in 2004 as compared to 2003, resulting in a $12.8 million favorable volume variance. The volume variance is largely driven by growth in our commercial loan category, which increased by $107.5 million. In particular, the average balances of higher-yielding loan products such as asset-based loans and accounts receivable factoring increased by $39.4 million and $68.6 million, respectively. In addition, we also grew our average real estate and consumer loan portfolios. The increase in average loans reflects an improvement in economic activity and in the markets served by us. These new loans continue to be subject to our existing underwriting practices. Our strategy is to grow average loans modestly during 2005 as our corporate technology efforts continue to develop.

Average federal funds sold and securities purchased under agreement to resell for 2004 increased by $51.9 million, or 13.5%, resulting in a $0.7 million favorable volume variance. The increase was mainly due to the growth in funding sources, primarily noninterest-bearing demand deposits.

Interest Income—Shift in the Composition of Average Interest-Earning Assets (Rate Variance)

Favorable rate variances associated with each component of interest earning assets caused an $11.3 million increase in interest income in 2004 as compared to 2003. Although the yields on federal funds sold and securities purchased under agreement to resell and investment securities increased and the yield on loans remained unchanged, t he yield on total average interest-earning assets remained unchanged. T he overall yield remained unchanged due to a change in the mix of our total average interest-earning assets. In 2004, investment securities represented 44.8% of our total average interest-earning assets and loans represented 45.1% of our total average interest-earning assets. In 2003, investment securities represented 39.7% of our total average interest-earning assets, and loans represented 49.6% of our total average interest-earning assets. Thus, the increase in yields on federal funds sold and securities purchased under agreement to resell and investment securities in 2004 as compared to 2003 was offset by the change in overall composition of our interest-earning assets.

We increased our prime lending rate by 25 basis points on five occasions in the latter half of 2004, increasing it from 4.00% to 5.25%. As of December 31, 2004, approximately 81.3%, or $1.9 billion, of our outstanding loans were variable rate loans, which would re-price with any further increase or any decrease in our prime lending rate, unless restricted by the terms of any such loans.

The yield on investment securities increased by 51 basis points to 4.1% in 2004 from 3.6% for 2003, causing a $9.8 million favorable rate variance. This was primarily due to a shift in the composition of a portion of the investment portfolio to relatively higher-yielding mortgage-backed securities and collateralized mortgage obligations.

We also realized a $1.0 million favorable rate variance associated with our federal funds sold and securities purchased under agreement to resell , which is largely driven by higher short-term market interest rates in 2004 as compared to 2003. We expect to continue the trend of managing federal funds sold and securities purchased under agreement to resell at appropriate levels for our liquidity needs.

Interest Expense

Total interest expense for 2004 decreased by $2.1 million from 2003, despite a $166.8 million, or 10.1% increase in our interest-bearing liabilities. The decrease in interest expense was primarily the result of a $4.0 million favorable rate variance, partially offset by a $1.9 million unfavorable volume variance.

We experienced a favorable rate variance of $4.0 million primarily due to lower interest expense related to borrowing. In the fourth quarter of 2003, we recognized $1.3 million in deferred issuance costs associated with the early redemption of the $40.0 million, 8.25% trust preferred securities.

Also, in the fourth quarter of 2003, we issued $51.5 million in 7.0% junior subordinated debentures and simultaneously entered into an interest rate swap agreement with a notional amount of $50.0 million. This interest rate swap agreement hedges against the risk of changes in fair value associated with our 7.0% junior subordinated debentures. 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 LIBOR plus a spread. For 2004, we paid interest expense of $3.5 million on the 7.0% junior subordinated debentures. However, the fair value hedge agreement provided income of $2.2 million, resulting in net interest expense of $1.3 million for 2004.

There were significant fluctuations in several line items of the total interest expense volume variance, which largely offset each other. In particular, the implementation SFAS No. 150 and FIN No. 46 in mid 2003 required us to reclassify our trust preferred securities to the long-term debt category during 2003. Additionally, these accounting pronouncements also required us to classify the trust preferred securities distribution expense as interest expense, on a prospective basis. The trust preferred distribution expense had previously been classified as noninterest expense.

Increases in regular money market and bonus money market deposits contributed a $1.3 million unfavorable variance to the total interest expense volume variance. This unfavorable volume variance was largely offset by lower time deposits, which provided a $1.0 million favorable volume variance. Due to the general improvement in the venture capital funding environment, highly-liquid money market deposits have increased by $247.1 million, while longer-term time deposits have decreased by $155.9 million. Our clients may use time deposits as collateral for letters of credit issued by Silicon Valley Bank on their behalf, to certain third parties such as real estate lessors. We believe time deposits have decreased partly because of a softer real estate market, which generally reduces the frequency of these types of arrangements. Moreover, due to the general improvement in the economic environment, borrowings secured by time deposits have decreased.

A shift of client funds from time deposits to more liquid money market deposits also contributed to the favorable rate variance.

The average cost of funds of 0.3% for 2004 represented a slight decrease from 0.4% in 2003. The decrease was largely attributable to a decrease in the cost of borrowings and to a relative increase in noninterest-bearing funding sources as a percentage of total funding sources.

2003 Compared to 2002

Net Interest Income

Net interest income on a fully taxable-equivalent basis totaled $192.2 million in 2003, a decrease of $6.2 million, or 3.1%, from $198.4 million in 2002. The decrease in net interest income was due to a $10.6 million, or 4.9%, decline in interest income, offset by a $4.4 million, or 24.7%, decrease in interest expense over the comparable prior-year period. Interest expense in 2003 included $3.0 million relating to the SFAS No. 150 and FIN No. 46-mandated classification of trust preferred securities distribution expense as interest expense for the latter half of 2003. For periods prior to June 30, 2003, trust preferred securities

distribution expense was classified as noninterest expense and therefore did not impact the net interest margin.

Interest Income—Impact of Declining Market Interest Rates on Interest-Earning Asset (Rate Variance)

Throughout the decreasing market interest rate environment, we implemented numerous measures to minimize the impact to our net interest margin. These measures included diversifying the product mix in the investment portfolio to higher yielding, high-quality assets and reducing rates paid on interest-bearing deposits. Additionally, we increased the duration of our investment securities portfolio by replacing certain short-term, lower yielding securities with longer-term, higher-yielding securities such as collateralized mortgage obligations, thereby taking advantage of a steeper interest rate curve. Overall, the duration of our investment securities portfolio increased to approximately 1.7 years in 2003, from approximately 1.5 years in 2002.

The $10.6 million decrease in interest income for 2003, as compared to 2002, was the result of a $12.4 million unfavorable rate variance associated with each component of interest-earning assets, partially offset by a $1.8 million favorable volume variance. Market interest rates decreased slightly during 2003, which caused the weighted average prime rate to decline by 55 basis points from 4.7% in 2002. Consequently, the yield on loans decreased by 60 basis points in 2003 to 8.3% from 8.9% in 2002. In 2003, we incurred a $10.9 million unfavorable rate variance associated with our loan portfolio. Floating rate loans, which represent approximately 81.2% of our total loan portfolio, produced lower interest income due to a lower average prime rate in 2003 compared to 2002. The average yield on federal funds sold and securities purchased under agreement to resell also decreased due to the decline in market interest rates from 1.9% in 2002 to 1.2% in 2003, which caused a $1.4 million unfavorable rate variance.

Interest Income—Net Increase in Interest-Earning Assets (Volume Variance)

Total average interest-earning assets in 2003 increased $156.2 million, or 4.5% as compared to the prior year. The increase in total average interest-earning assets was principally funded by an increase in average noninterest-bearing deposits of $246.0 million, or 16.2%, and an increase in average long-term debt of $81.7 million, or 343.8%, offset by a decrease in average stockholders' equity of $136.0 million, or 21.6%. The increase in average long-term debt was principally due to the issuance of $150.0 million of zero coupon convertible debt in May 2003. The net proceeds from the issuance of the convertible debt were largely used to repurchase our common stock, which resulted in the aforementioned decrease in average stockholders' equity.

Average loans increased $37.7 million, or 2.1%, in 2003, as compared to 2002, resulting in a $3.4 million favorable volume variance. In 2003, we grew our average loan portfolio to a record level by continuing to focus on attracting corporate technology clients, which we believed were under-served by our competitors. We experienced loan growth across most of the industry sectors we serve.

Average investment securities for 2003 decreased $113.5 million, or 7.3%, as compared to 2002, resulting in a $4.7 million unfavorable volume variance. The decrease in average investment securities was primarily concentrated in short-term investments, partially offset by an increase in longer-term collateralized mortgage obligations.

Average federal funds sold and securities purchased under agreement to resell increased $232.0 million, or 151.4%, in 2003, as compared to the prior year, resulting in a $3.1 million favorable volume variance. This increase was primarily due to a change in the investment portfolio mix.

The yield on average interest-earning assets decreased 60 basis points in 2003 from the prior year. This decrease primarily resulted from a decline in short-term market interest rates; thus, we earned lower yields on each component of our interest-earning assets.

Interest Expense

Total interest expense in 2003 decreased $4.4 million from 2002. This decrease was due to a favorable rate variance of $7.4 million, partially offset by an unfavorable volume variance of $3.0 million. The favorable rate variance between 2003 and 2002 primarily resulted from a reduction in the average rates paid on all of our interest-bearing deposits, particularly those rates paid on our time deposit and bonus money market deposit products.

The unfavorable volume variance was due in large part to the SFAS No. 150-mandated classification of trust preferred securities distribution expense of $3.0 million as interest expense for the latter half of 2003. Trust preferred securities distribution expense was previously classified as noninterest expense. Of the $3.0 million in trust preferred securities distribution expense, approximately $1.3 million related to the recognition of deferred issuance costs in the fourth quarter of 2003, due to the early redemption of our 8.25% trust preferred securities. In the fourth quarter of 2003, we entered into an interest rate swap agreement to swap our 7.0% fixed payment on junior subordinated debentures for a variable rate based on the London Inter-Bank Offer Rate (LIBOR) plus a spread.

Additionally, we experienced an unfavorable volume variance related to long-term debt of $1.0 million. In the second quarter of 2003, we issued $150.0 million of zero-coupon, convertible subordinated notes, with a maturity of June 15, 2008. Although no interest was paid on the notes, we experienced an increase in interest expense due to amortization of the contingently convertible debt issuance costs. The overall unfavorable volume variance caused primarily by long-term debt and trust preferred securities was partially offset by average time deposits, which decreased from $611.0 million in 2002 to $485.1 million in 2003, causing a $1.3 million favorable volume variance.

The average cost of funds paid on average interest-bearing liabilities in 2003 was 0.8% down from 1.1% in 2002. This decrease in the average cost of funds was largely due to a decrease of 50 basis points on the average rates paid on both our money market deposit and time deposit products.

Provision for Loan Losses

The provision for loan losses is based on our evaluation of the adequacy of the existing allowance for loan and lease losses in relation to total loans and on our periodic assessment of the inherent and identified risk dynamics of the loan portfolio resulting from reviews of selected individual loans and loan commitments. For a more detailed discussion of credit quality and the allowance for loan and lease losses, see Item 7. Critical Accounting Policies and Item 7. Financial Condition—Credit Quality and the Allowance for Loan and Lease Losses.

2004 Compared to 2003—Continued Improved Credit Quality Prompts Further Recovery of Provision for Loan Losses

We realized a recovery of provision for loan losses of $9.9 million in 2004 compared to a recovery of provision for loan losses of $8.7 million in 2003. In 2003, our loan loss recoveries exceeded loan charge offs by $0.2 million. We incurred net charge-offs of approximately $2.3 million in 2004 and credit quality remained strong with nonperforming loans at 0.6% of gross loans. We realized a slight net recovery of loan losses in 2003. We believe the improvement in the recovery of loan losses was primarily attributable to our improved credit risk management and to improved economic conditions.

2003 Compared to 2002—Improved Credit Quality Leads to Recovery of Provision for Loan Losses

We realized a recovery of provision for loan losses of $8.7 million in 2003, as compared to provision for loan losses of $7.2 million in 2002. We realized a slight net recovery of loan losses in 2003, compared to

net charge-offs of $5.8 million in 2002. The change in provision for loan losses for 2003, as compared to 2002, resulted from the improvement in our loan portfolio's credit quality position.

A large part of the loan recoveries in 2003 related to a settlement in August 2003 of litigation commenced by us relating to a charged-off film loan. This was reflected in the provision for loan losses for both the third quarter and nine months ended September 30, 2003. In October 2000, we filed a civil lawsuit for approximately $8.3 million (plus attorneys' fees and interest) in the United States District Court for the Central District of California, against certain insurance companies for various causes of action, including breach of contract, breach of the duty of good faith, and fair dealing and fraud. The lawsuit concerned our claim for insurance coverage under an insurance policy issued to us by these insurance companies related to a loan made by us to finance production of a film. In the third quarter of 2003, the parties entered into a confidential and mutually agreeable settlement agreement, after which we dismissed the lawsuit. As a result of the settlement, we recorded significant recovery related to a previously charged-off film loan.

Noninterest Income

The following table summarizes the components of noninterest income and the percent change from year to year:

	Years Ended December 31,				
	2004	2003	% Change 2004/2003	2002	% Change 2003/2002
	(Dollars in thousands)				
Client investment fees	$ 26,919	$ 23,991	12.2%	$ 30,671	(21.8)%
Corporate finance fees	21,913	13,149	66.7	12,110	8.6
Letter of credit and foreign exchange income	16,399	12,856	27.6	15,225	(15.6)
Deposit service charges	13,538	13,202	2.5	9,072	45.5
Income from client warrants	9,191	7,528	22.1	1,661	353.2
Investment gains (losses)	5,571	(8,402)	166.3	(9,825)	(14.5)
Credit card fees	2,817	3,431	(17.9)	955	259.3
Other	9,685	9,305	4.1	7,989	16.5
Total noninterest income	$ 106,033	$ 75,060	41.3%	$ 67,858	10.6%

2004 Compared to 2003—Increases in Most Components Drive 41.3% Increase

	At December 31, 2004	At December 31, 2003	At December 31, 2002
	(Dollars in millions)		
Client investment funds(1):			
Private label client investment funds	$ 7,260.3	$ 7,615.3	$ 7,642.1
Client investment assets under management	2,678.1	591.6	—
Sweep funds	1,351.2	1,139.2	853.2
Total client investment funds	$ 11,289.6	$ 9,346.1	$ 8,495.3

(1) Client funds invested through Silicon Valley Bancshares, maintained at third party financial institutions.

We offer investment products and services that include mutual funds and other investments, sweep products, and asset management services to our clients.

Our fees, calculated on clients' average balances, ranged from 9 to 70 basis points (fixed income securities and Federated Sweep, respectively) as of December 31, 2004, compared to a range of 10 to 100 basis points as of December 31, 2003.

Total client investment funds were $11.3 billion at December 31, 2004, compared to $9.3 billion at December 31, 2003, an increase of $2.0 billion, or 20.8%. As of December 31, 2004, client investment funds under management accounted for $2.7 billion, or 23.7%, of total client investment funds. Mutual fund products were $6.2 billion at December 31, 2004, and $6.4 billion at December 31, 2003.

Client investment fee income increased by $2.9 million from 2003 to 2004. Client investment fee for 2004 was $26.9 million. The increased income was largely attributable to the growth in client investment funds.

The increase in corporate finance fees in 2004 over 2003 was in large part due to a single large investment banking transaction, which generated $6.1 million in fees. SVB Alliant's business is highly variable so we expect to see significant changes in corporate finance fees from year to year.

The increase in letter of credit and foreign exchange income was primarily due to a higher volume of client foreign exchange transactions, which resulted from increased global economic activity associated with our clients' markets.

In 2004, we recognized income from client warrants of $9.2 million, as compared to $7.5 million in 2003. We have historically obtained rights to acquire stock, in the form of warrants, in certain clients, primarily as part of negotiated credit facilities. The receipt of warrants does not change the loan pricing, covenants, or other collateral control techniques we employ to mitigate the risk of a loan becoming nonperforming. The collateral requirements on loans with warrants are similar to lending arrangements where warrants are not obtained. The timing and amount of income from the disposition of client warrants typically depends on factors beyond our control, including the general condition of the public equity markets as well as the merger and acquisition environment. We therefore cannot predict the timing and amount of warrant-related income with any degree of accuracy, and it is likely to vary materially from period to period.

We recognized net investment gains in 2004, as compared to net investment losses in 2003. Investment gains for 2004 were concentrated in our managed funds of funds, our managed venture capital fund, and direct equity investments. Losses on our equity investments, excluding the impact of minority interest, were $1.0 for 2004 compared to $2.8 million for 2003. We expect continued variability in the performance of our equity portfolio.

2003 Compared to 2002—Decreases in Client Investment Fees and Foreign Exchange Income, Partially Offset by an Increase in Deposit Service Charges.

Client investment fees decreased in 2003 from 2002. Fees on clients' average balances ranged from 10 to 100 basis points in 2003 and 12.5 to 107 basis points in 2002. At December 31, 2003, $9.3 billion in client funds were invested in these products, compared to $8.5 billion in 2002. Of these funds, $6.4 billion and $8.5 billion were invested in mutual fund products as of December 31, 2003 and 2002, respectively. Total invested client funds have increased between 2003 and 2002, however the decrease in client investment fees from year to year was due to a shift in client investment mix. The sustained low interest rate environment has caused lower priced investment products to become a more attractive investment strategy for many of our clients.

In the first quarter of 2003, we established a registered investment advisor (SVB Asset Management) to meet the demand for active management of client investment portfolios. This action will allow us to provide a more expansive and competitive array of investment products and services to our clients. While the fees earned per dollar managed has been reduced, our strategy is to make up for the lower fees through greater volume. At December 31, 2003, SVB Asset Management had $591.6 million of assets under management.

Deposit service charges increased in 2003 over 2002 as we have expanded and enhanced our suite of fee-based financial (depository) services and client usage has increased overall. Clients compensate us for depository services, either through earnings credits computed on their demand deposit balances or via explicit payments that we recognize as deposit service charges income. Earnings credits are calculated using client average daily deposit balances less a reserve requirement and a discounted U.S. Treasury bill interest rate. Clients received lower earnings credits in 2003 compared to 2002 due to lower short-term market interest rates, resulting in fewer earnings credits to offset deposit service charges.

Corporate finance fees increased slightly in 2003 from 2002. Corporate finance fees totaled $12.1 million in 2002. In 2002, SVB Alliant, our investment-banking subsidiary, generated the entire balance of $12.1 million. SVB Alliant's revenues are typically a function of the valuation of its clients' mergers and acquisitions transactions. Economic events depressed valuations of high technology and life science corporations in 2002 and 2003. Thus, SVB Alliant has not achieved its merger and acquisition revenue goals. Consequently, we incurred aggregate impairment of goodwill charges of $63.0 million in 2003; see the discussion under the heading Noninterest Expense contained later in this Management Discussion and Analysis of Financial Condition and Results of Operations section.

Letter of credit fees, foreign exchange fees, and other trade finance income decreased between 2002 and 2003 as a result of increased competition and increased availability of these product types from other financial institutions.

Due to an increase in client initial public offering and mergers and acquisition activities, the income from client warrants increased between 2002 and 2003.

Credit card fees have continued to increase year over year as a result of our increased efforts to market a full range of fee-based financial services to our clients. In 2003, client usage of this product has increased, as well has fees charged for this line of service.

We experienced improvements in investment securities losses from year to year. The 2003 and 2002 losses primarily related to the write-downs of certain venture capital fund and direct equity investments. Excluding the impact of minority interest, the net write-downs of our equity securities totaled approximately $2.8 million in 2003 and $4.1 million in 2002.

Other noninterest income largely consisted of service-based fee income associated with our deposit and loan services as well as fund management fees.

Noninterest Expense

The following table presents the detail of noninterest expense and the percent change, year over year:

	Year Ended December 31,				
	2004	2003	% Change 2004/2003	2002	% Change 2003/2002
	(Dollars in thousands)				
Compensation and benefits	$ 155,097	$ 122,964	26.1%	$ 104,285	17.9%
Net occupancy	17,590	17,638	(0.3)	20,391	(13.5)
Professional services	17,068	13,677	24.8	18,385	(25.6)
Furniture and equipment	12,403	11,289	9.9	9,562	18.1
Business development and travel	9,718	8,692	11.8	8,426	3.2
Correspondent bank fees	5,340	4,343	23.0	2,835	53.2
Data processing services	3,647	4,288	(14.9)	4,360	(1.7)
Telephone	3,367	3,187	5.6	3,123	2.0
Postage and supplies	3,255	2,601	25.1	3,190	(18.5)
Tax credit funds amortization	2,480	2,704	(8.3)	2,963	(8.7)
Impairment of goodwill	1,910	63,000	(97.0)	—	100.0
Provision for loan loss contingency	1,549	2,504	(38.1)	(3,338)	175.0
Trust preferred securities distributions	—	594	(100.0)	2,230	(73.4)
Other	9,062	7,710	17.5	6,624	16.4
Total noninterest expense	$ 242,486	$ 265,191	(8.6)%	$ 183,036	44.9%

2004 Compared to 2003—Decrease in Impairment of Goodwill, Increases in Compensation and Benefits and Professional Services Expense

The increase in compensation and benefits expense of $32.1 million was primarily due to an increase in incentive compensation expense of $17.5 million, or 108.1%, to $33.7 million during 2004, compared to $16.2 million during 2003. Incentive compensation at SVB Alliant increased $6.9 million and was driven by a 66.7% increase in investment banking revenues from $13.1 million to $21.9 million. The remaining increase in incentive compensation is largely attributable to improved financial performance of Silicon Valley Bank.

The remainder of the increase in compensation and benefit expense during 2004 was largely due to increases in salaries and wages expense, employee stock ownership plan expense, and equity-based compensation expense. Salaries and wages expense increased by $3.6 million, or 4.6%, to $82.6 million during 2004, compared to $78.9 million during 2003. The increase was primarily attributable to higher rates of employee salaries and wages. Average full-time equivalent (FTE) personnel was 999 during 2004, a slight increase from 994 FTE personnel during 2003.

Employee stock ownership plan expense increased by $3.0 million, or 78.7%, to $6.8 million during 2004, compared to $3.8 million during 2003. The increase was attributable to our improved consolidated financial performance. See Item 8.—Consolidated Financial Statements and Supplementary Data—Note 18. Employee Benefit Plans for further discussion of the employee stock ownership plan.

Lastly, equity-based compensation increased by $1.6 million, or 155.3%, to $2.6 million in 2004, compared to $1.0 million in 2003. This increase reflects our increased use of restricted stock and restricted stock units, in lieu of stock options, as components of our employee compensation structure, as we transition our equity-based compensation programs.

Net occupancy expense remained relatively unchanged between 2004 and 2003. However, on September 15, 2004, we renegotiated the lease related to our corporate headquarters facility in Santa Clara, California, which replaced the original lease, dated as of March 8, 1995. The new lease covers two

buildings, comprising approximately 157,000 square feet of space, which we occupied under the previous lease, as well as a third building, comprising approximately 56,500 square feet of space, within the same facility complex. The total square feet of the premises leased under the new lease arrangement is approximately 213,500 square feet, which is approximately the same square footage of our corporate headquarters under its previous leases. The term of the new corporate headquarters lease began retroactively on August 1, 2004, and will end on September 30, 2014, unless terminated on an earlier date. Based on the new lease terms, our corporate headquarters lease expense will be lower under the new lease arrangement. The landlord for these premises is contributing approximately $7.0 million towards the cost of these renovations, improvements, and alterations. We expect to incur renovation, improvement, and alteration costs in excess of this amount.

Professional services expenses consist of costs associated with corporate legal services, litigation settlements, accounting and auditing services, information technology and other consulting, and our board of directors. The increase in professional services was primarily due to three significant factors:

Firstly, in 2003, we settled the remaining aspects of a film loan litigation and were able to recover significant legal expenses pertaining to those proceedings. The recovery of legal costs was recorded, upon receipt of the funds, as a reduction of legal expense in 2003.

Secondly, in 2004 we incurred an increase in professional services fees associated with commitment of resources to document and enhance controls required by the Sarbanes-Oxley Act of 2002 and the independent audit thereof. In particular, these costs were substantially higher in the fourth quarter of 2004.

Lastly, we incurred approximately $1.4 million in professional fees related to fund raising activities associated with the Gold Hill Venture Lending 03, limited partnership which are venture debt fund entities. These venture debt funds raised approximately $214.1 million in capital commitments. Silicon Valley Bancshares initiated the formation of these funds and agreed to pay a portion of the related fund raising fees.

Over the past few years, we have continued to emphasize stringent controls over the use of external consulting services.

The increase in furniture and equipment expense is primarily due to the consolidation of two of our offices in southern California and the cost of furnishings for a newly opened Silicon Valley office. Also, see data processing below.

The increase in business development and travel was primarily due to costs related to our sponsorship of the inaugural SVB Tech Investors Forum in September 2004. At this event, which was held in San Francisco, California, at which 76 public and private technology companies presented to over 500 investors. There were also additional incremental travel expenses associated with the opening of our international subsidiaries in London, England., and Bangalore, India in September 2004.

Correspondent bank fees increased from year to year. Many of our correspondent banks provide earnings credits to offset bank fees we incur when using their services. Earnings credits are generally calculated using average daily deposit balances less a reserve requirement and a short-term market interest rate. We received lower earnings credits in 2004 as compared to 2003 due to our maintaining lower average balances with our correspondent banks and lower average short-term market interest rates. As such, we had fewer earnings credits to offset bank fees charges incurred by us. Thus, we incurred higher recognizable bank fees in 2004 as compared to 2003. Management made the decision to lower the average balances with correspondent banks because we were able to earn more on our funds by investing them than we would have benefited from lower correspondent bank fees by maintaining larger balances with our correspondent banks.

The decrease in data processing expense was primarily due to the renegotiation, in late 2003, of the terms of an agreement with one of our more significant outsourced data processing providers from a data processing arrangement to a short-term software licensing arrangement. The change in the agreement was executed to facilitate the transition of this data processing from the external provider to our internal resources. Hence the expenses associated with this vendor, which were classified as data processing in the first six months of 2003, were classified as expensed software under the caption furniture and equipment through August 2004. We commenced the in-sourcing of this data processing application in late 2004.

The decrease in impairment of goodwill expense can be attributed to charges of $63.0 million incurred in 2003 related to our investment banking business unit, SVB Alliant (see further discussion below under the *2003 Compared to 2002* analysis). In 2004, we recognized an impairment charge in the third quarter related to our private client services business unit Woodside Asset Management (see further discussion under Financial Condition—Goodwill below).

2003 Compared to 2002—Goodwill Impairment Charges, Increase in Variable Compensation, Decrease in Professional Services Expense

The increase in compensation and benefits expense of $18.7 million was primarily due to an increase in incentive compensation expense of $10.1 million, or 164.1%, to $16.2 million during 2003, compared to $6.1 million during 2002. We believed the increase in incentive compensation was necessary to retain our professional talent in an improving economic environment.

The remainder of the increase in compensation and benefit expense during 2003 was due to an increase in salaries and wages expense, an increase in 401(k) benefits expense, and a residual net increase in other employee benefits.

Salaries and wages expense increased by $4.4 million, or 5.8%, to $79.0 million during 2003, compared to $74.6 million during 2002. The increase was primarily attributable to higher rates of employee salaries and wages. Average full-time equivalent (FTE) personnel of 994 during 2003 was slightly lower from 1,000 during 2002.

401(k) benefit expense increased by $2.1 million, or 238.7%, to $3.0 million during 2003, compared to $0.9 million during 2002. The increase was attributable to additional matching contributions made by us to this Plan during 2003 resulting from changes to the 401(k) plan, which became effective as of January 1, 2003. See Item 8.—Consolidated Financial Statements and Supplementary Data—Note 18. Employee Benefit Plans for further discussion of the changes to the 401(k) plan.

In 2003, we incurred aggregate impairment of goodwill charges related to the SVB Alliant (formerly Alliant Partners) reporting unit of $63.0 million ($38.7 million net of tax, or $1.04 per diluted common share in 2003). We acquired SVB Alliant on September 28, 2001. In recent times, economic events depressed valuations of technology and life science corporations. Thus, SVB Alliant did not achieve its originally forecasted results of operations. Consequently, we incurred these aggregate impairment charges; see Item 8. Consolidated Financial Statements and Supplementary Data Note 9. Goodwill for further information. For a discussion of our goodwill accounting policies, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Goodwill.

Occupancy expense decreased by $2.8 million between 2003 and 2002. In 2002, we exited leased premises in Santa Clara, California, approximating 18,000 square feet. The lease on the building expires in August 2005. Our management determined that the premises would have no future economic value to our operations, except for any potential future sub-lease arrangement. Therefore, during 2002, we incurred charge-offs of approximately $2.5 million related to the exit of these premises. We incurred no such charge-offs in 2003.

Professional services expenses, which consist of costs associated with corporate legal services, litigation settlements, accounting and auditing services, consulting, and our board of directors, has decreased year to year. In 2003, we settled the remaining aspects of a film loan litigation and were able to recover significant legal expenses pertaining to those proceedings. Additionally, over the past few years, we implemented stringent measures to control the use of external consulting services.

Furniture and equipment expenses increased in 2003 compared to 2002, mainly due to an increase in information technology maintenance costs related to new business initiatives.

Correspondent bank fees increased from year to year. Many of our correspondent banks provide earnings credits to offset bank fees we incur when using their services. Earnings credits are generally calculated using average daily deposit balances less a reserve requirement and a short-term market interest rate. We received lower earnings credits in 2003 as compared to 2002, due to our maintaining lower average balances with our correspondent banks and lower market interest rates. As such, we had fewer earnings credits to offset bank fees charges incurred by us. Thus, we incurred higher recognizable bank fees in 2003 as compared to 2002. Management made the decision to lower the average balances with correspondent banks because we were able to earn more on our funds by investing them than we would have benefited from lower correspondent bank fees by maintaining larger balances with our correspondent banks.

Beginning July 1, 2003, trust preferred securities distribution expense was required to be classified as interest expense on a prospective basis, pursuant to adoption of SFAS No. 150. Therefore, noninterest expense does not reflect trust preferred securities distribution expense for the latter half of 2003. The 8.25% trust preferred securities, originally issued during the second quarter of 1998, paid a fixed-rate quarterly distribution and had a maximum maturity of 30 years. We completed the early redemptions of the $40.0 million of 8.25% trust preferred securities in the fourth quarter of 2003.

On June 3, 2002, we entered into a derivative agreement with a notional amount of $40.0 million. The agreement hedged against the risk of changes in fair value associated with our $40.0 million of 8.25% trust preferred securities. The derivative agreement provided a $1.0 million and $1.1 million decrease in trust preferred security distribution expense for 2003 and 2002, respectively. This interest rate swap was terminated effective June 23, 2003.

Other noninterest expense increased by $1.1 million, or 16.4%, to $7.7 million during 2003, compared to $6.6 million during 2002. This increase was substantially attributable to increase in operational losses, client services expense, advertising and promotion expense, and insurance and protection expense.

Operational losses increased by $0.9 million, or 116.3%, to $1.6 million during 2003, compared to $0.7 million during 2002, primarily due to bad debt expense at SVB Alliant.

Client services expense related to loans and deposits increased overall by $0.5 million, or 24.5%, to $2.7 million during 2003, compared to $2.2 million during 2002.

Advertising and promotion expense increased by $0.4 million, or 32.3%, to $1.4 million during 2003, compared to $1.0 million during 2002, primarily due to additional marketing collateral related to new business initiatives.

Insurance and protection expense increased by $0.3 million, or 42.5%, to $1.2 million during 2003, compared to $0.9 million during 2002, primarily due to higher market premiums for the Company’s insurance coverage.

Minority Interest in Net Gains (Losses) of Consolidated Affiliates

Investment gains or losses related to our managed funds (see Part II, Item 8, Consolidated Financial Statements and Supplementary Data—Note 7. Investments Securities) are included in our consolidated noninterest income. Minority interest in the net gains or losses of these consolidated managed funds primarily represent net investment gains or losses and management fees expense attributable to the minority interest holders in these managed funds.

The change from net minority interest losses in 2003 to net minority gains in 2004 is primarily attributable to the improved investment returns from two of our managed funds SVB Strategic Investors Fund, LP and Silicon Valley BancVentures, LP.

	Years Ended December 31,				
	2004	2003	% Change 2004/2003	2002	% Change 2003/2002
	(Dollars in thousands)				
Minority interest in net (gains) losses of consolidated affiliates	$ (3,079)	$ 7,689	(140.0)%	$ 7,767	(1.0)%

Income Taxes

2004 Compared to 2003

Our effective income tax rate was 37.8% in 2004, compared to 21.0% in 2003. The increase in our effective tax rate between 2004 and 2003 was primarily attributable to higher pre-tax income. The lower tax rate in 2003 was primarily attributable to a higher impact of our federally tax-exempt municipal bond and tax credit funds on overall pre-tax income.

2003 Compared to 2002

Our effective income tax rate was 21.0% in 2003, compared to 33.4% in 2002. The decrease in our effective tax rate from 2002 to 2003 was primarily due to a higher impact of our tax-advantaged investments on our lower overall earnings, partially offset by the exclusion of REIT tax benefits.

In the third quarter of 2002, we implemented California Real Estate Investment Trust (REIT) to serve as a future-funding vehicle. In 2002 we obtained $0.8 million in tax benefits from the REIT structure. In 2003, we did not take any REIT tax benefits in response to a California Franchise Tax Board (FTB) announcement on December 31, 2003, which related to new tax shelter regulations. We believe we are appropriately reserved for prior year benefits that were previously recognized. We will not reflect REIT tax benefits in our future financial statements until this matter has been resolved with the California FTB. We believe that our position with regard to the REIT has merit, and we plan to pursue our tax claims and defend our use of this entity. For further information on our effective tax rate, see Item 8. Consolidated Financial Statements and Supplementary Data—Note 17. Income Taxes.

On September 11, 2002, California enacted a law requiring large banks (those with average assets in excess of $500 million) to conform to federal law with respect to accounting for bad debts. Prior to the law change, all banks, regardless of size, were eligible to use the reserve method of accounting for bad debts which enabled them to take deductions for anticipated bad debt losses prior to the losses being incurred for California tax purposes. With the change, large banks may now only deduct actual charge-offs net of recoveries in determining their California taxable income. Banks that are required to conform to the new law must include in taxable income 50 percent of their existing bad debt reserves as of the end of the prior tax year. As a concession for requiring large banks to comply with the new law, recapture of the remaining 50 percent of the reserve is waived thereby creating a permanent tax benefit. Our one-time tax benefit resulting from the law change was $0.8 million and was reflected in our income tax expense for 2002. This change, while reducing income tax expense, also resulted in accelerated tax payments.

Operating Segment Results

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, we report segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. Please refer to the discussion of our segment organization in the Business Overview in Item 1.

Our primary source of revenue is from net interest income. Accordingly, our segments are reported using net interest income. We also evaluate performance based on noninterest income and noninterest expense, which are presented as components of segment operating profit or loss. We do not allocate income taxes to our segments. Additionally, our management reporting model is predicated on average asset balances therefore, it is not possible to provide period end asset balances for segment reporting purposes. Our segment information at and for the years ended December 31, 2004, 2003 and 2002, are as follows:

Commercial Banking

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Income (Loss) Before Taxes

Commercial Banking's income before income taxes for 2004 of $67.8 million represented an increase of $1.0 million, or 1.5%, from $66.9 million for 2003. This increase was the net result of higher revenues of $28.6 million, comprised of higher net interest income of $18.3 million and higher noninterest income of $10.3 million, offset by higher noninterest expenses of $24.9 million.

Net interest income of $170.1 million for 2004 increased $18.3 million, or 12.0%, from $151.8 million for 2003. Higher loans and deposit volumes along with higher interest rates drove this increase.

Recovery of provision for loan losses of $2.4 million for 2004 represented a net change of approximately $2.7 million from $(0.4) million for 2003.

Noninterest income of $66.1 million for 2004 increased $10.3 million, or 18.5%, from $55.8 million for 2003. The increase was primarily driven by letter of credit and foreign exchange income, which increased $4.6 million; collateral monitoring fees of $2.3 million, which in 2003 was not reported as part of Commercial Bank; and cash management sweep fees, which increased $2.2 million. Higher volume of client exchange transactions resulted from increased global economic activity associated with our clients' markets.

Noninterest expense of $166.0 million for 2004 increased $24.9 million, or 17.6%, from $141.1 million for 2003. The increase in noninterest expense was primarily driven by expense related to compensation and benefits and business development. Specifically, incentive compensation increased $4.1 million, base compensation increased $2.1 million, and other employee-related expenses increased $2.1 million. Business development and travel expense increased by $1.2 million related to strategic initiatives such as the sponsorship of the SVB Tech Forum in San Francisco in the third quarter of 2004 and the global expansion initiatives. Noninterest expenses related to units supporting Commercial Bank activities were also allocated to Commercial Bank. Increases in incentive compensation expenses related to the support units also contributed to the expense increase.

Financial Condition

Commercial Banking had an increase in average deposits of $622.8 million, or 23.9%, and an increase in average loans of $128.2 million, or 8.5%, during 2004 compared to 2003. The loan products with the largest growth were accounts receivable factoring, which increased by $68.1 million, and asset-based lending, which grew by $41.4 million. The increase in average deposits and average loans reflect an improved funding environment for our venture capital-backed commercial clients and other market factors. Additionally, we are engaged in various marketing initiatives to attract and retain commercial clients at all stages of growth.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net Income (Loss) Before Taxes

Commercial Banking's income before income taxes for 2003 of $66.9 million represented a decrease of $3.9 million, or 5.5%, from $70.8 million for 2002. This decrease was the result of lower revenues of $7.0 million higher expense of $2.8 million partially offset by lower charge-offs of $5.9 million. The lower revenues were comprised of lower net interest income of $2.1 million and lower noninterest income of $4.9 million.

Net interest income of $151.8 million for 2003 decreased $2.1 million, or 1.4%, from $154.0 million for 2002. The transfer rates on deposits drove the decrease in net interest income, partially offset by an increase in deposit balances.

Recovery of provision for loan losses of $(0.4) million for 2003 represented a net change of approximately $5.9 million, from $5.6 million for 2002. Commercial Banking benefited from a large recovery related to entertainment loan litigation settlements in the third quarter of 2003.

Noninterest income of $55.8 million for 2003 decreased $4.9 million, or 8.1%, from $60.7 million for 2002. Client investment fees, which decreased $6.5 million, and letter of credit and foreign exchange income, which decreased $4.4 million, primarily drove the decrease. These decreases were offset by cash management account fees, which increased by $3.6 million, and other noninterest income, which increased by $2.1 million.

Noninterest expense of $141.1 million for 2003 increased $2.8 million, or 2.0%, from $138.3 million for 2002. The increase in noninterest expense was primarily driven by compensation and benefits expense. Incentive compensation expense increased at Commercial Bank as did the cost of the support units supporting growing business activities with Commercial Banking.

Financial Condition

Commercial Banking had an increase in average deposits of $162.1 million, or 6.6%. The increase in average deposits reflected an improved funding environment for our venture capital-backed commercial clients and other market factors. Additionally, we engaged in various marketing initiatives to attract and retain commercial clients at all stages of growth.

SVB Capital

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Income (Loss) Before Taxes

SVB Capital's income before taxes for 2004 of $7.3 million represented a $1.2 million, or 19.1% increase, compared to $6.1 million for 2003. This increase was primarily attributable to increases in interest income and noninterest income, partially offset by an increase in noninterest expense.

Net interest income for 2004 of $12.5 million represented a $0.7 million increase, or 5.6%, from $11.8 million for 2003. The increase was primarily attributable to a favorable $1.3 million volume variance related to loans and deposit balances. The increase was partially offset by an unfavorable rate variance of $0.6 million. The rate variance represents the impact of the interest rate on loans and deposits, net of the transfer pricing.

Noninterest income for 2004 of $14.8 million represented a $5.1 million, or 52.7% increase, from $9.7 million for 2003. The increase was primarily a result of gains on securities and increased income from warrants. The timing and amount of income from the disposition of client warrants typically depends on factors beyond our control, including the general condition of the public equity markets as well as the merger and acquisition environment. We therefore cannot predict the timing and amount of warrant related income with any degree of accuracy, and it is likely to vary materially from period to period. Investment gains or losses related to our managed funds, (see Part II, Item 8, Consolidated Financial Statements and Supplementary Data, Note 7. Investments Securities), are included in our consolidated noninterest income. Minority interest in the net gains or losses of these consolidated managed funds primarily represent net investment gains or losses and management fees expense attributable to the minority interest holders in these managed funds.

The change from net minority interest losses in 2003 to net minority gains in 2004 is primarily attributable to the improved investment returns from two of our managed funds SVB Strategic Investors Fund, LP and Silicon Valley BancVentures, LP.

Noninterest expense for 2004 of $22.5 million represented a $5.1 million, or 29.5% increase from $17.4 million for 2003. The increase in noninterest expense is primarily attributed to professional fees and compensation and benefits. Professional fees, primarily related to fund management, increased by $2.3 million. Compensation and benefits expense increased by $2.0 million resulting from higher salary expense. We also incurred approximately $1.4 million in professional fees related to fund raising activities associated with the Gold Hill Venture Lending 03 Limited Partnership venture debt fund entities.

Financial Condition

SVB Capital had an increase in average deposits of $46.8 million, or 9.1%, and average loans of $10.4 million, or 15.5%, during 2004 compared to 2003. The growth in average deposits and average loans was due to various market factors, including an improved funds flow environment for SVB Capital's client base, venture capital, and private equity firms, as well as our initiatives to serve clients at all states of growth.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net Income (Loss) Before Taxes

SVB Capital's income before income taxes of $6.1 million for 2003 represented an increase of $4.5 million, or 284.1%, from $1.6 million for 2002. This increase was the net result of higher revenues of $21.5 million, comprised of higher net interest income of $11.8 million and higher noninterest income of $9.7 million, offset by higher noninterest expenses of $17.4 million.

Net interest income of $11.8 million for 2003 increased $1.2 million, or 10.9%, from $10.6 million for 2002. The increase was primarily attributable to a favorable $0.9 million favorable volume variance related to loans and deposit balances **,** and $0.3 million favorable rate variance. The rate variance represents the impact of the interest rate on loans and deposits, net of the transfer pricing.

Noninterest income of $9.7 million for 2003 increased $7.0 million, or 256.9%, from $2.7 million for 2002. The increase primarily related to warrant income gains of $7.5 million compared to $1.7 million for the same period in 2002.

Noninterest expense of $17.4 million for 2003 increased $3.6 million, or 26.0%, from $13.8 million for 2002. The increase in noninterest expense was primarily driven by allocated expense from units supporting business expansion within SVB Capital. Higher incentive compensation expenses at the support units were a prime contributor to the increased allocated costs.

Financial Condition

SVB Capital had an increase in average deposits of $53.5 million, or 11.6%, and an increase in average loans of $4.5 million, or 7.2%, during 2004 compared to 2003. The growth in average deposits and average loans was due to various market factors, including an improved funds flow environment for SVB Capital's client base, venture capital, and private equity firms, as well as our initiatives to serve clients at all states of growth.

SVB Alliant

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Income (Loss) Before Taxes

SVB Alliant's loss before income taxes of $(3.0) million for 2004 represented a $59.6 million improvement, compared to a $(62.6) million loss for 2003. The increase was primarily a result of goodwill impairment charges of $63.0 million in 2003.

Noninterest income of $21.9 million in 2004 represented an increase of $8.8 million, or 66.7%, compared to $13.2 million in 2003. The increase was primarily attributable to one single large transaction, which generated $6.1 million in fees in the second quarter of 2004.

Noninterest expense of $24.9 million in 2004 represented a decrease of $50.8 million, compared to $75.8 million for 2003. The decrease was primarily due to impairment of goodwill charges of $17.0 million and $46.0 million incurred during the second and fourth quarter of 2003, respectively. This was partially offset by increases in compensation and benefits expense of $10.9 million. Of this increase, $6.9 million was attributable to increased incentive compensation, $1.6 million was attributable to increased base compensation, $1.2 million was attributable to increased employee benefits, and $0.9 million was attributable to increased stock-based compensation expense.

Financial Condition

SVB Alliant's average total assets were lower for 2004 due to impairment charges of goodwill of $17.0 million and $46.0 million recorded in the second and fourth quarter of 2003, respectively. Please see Item 8—Consolidated Financial Statements and Supplementary Date—Note 6. Goodwill for further discussion.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net Income (Loss) Before Taxes

SVB Alliant's loss before tax of $(62.6) million for 2003 represented a decrease of $65.1 million, from pre-tax income of $2.4 million for 2002. This decrease was primarily a result of goodwill impairment charges of $63.0 million in 2003.

Noninterest income of $13.2 million for 2003 increased $1.0 million, or 8.6%, from $12.1 million for 2002.

Noninterest expense of $75.8 million for 2003 represented an increase of $66.1 million, compared to $9.7 million for 2002. The increase in noninterest expense was primarily driven by expenses related to charges for impairment of goodwill of $17.0 million and $46.0 million incurred during the second and fourth quarter of 2003, respectively. In addition, compensation and benefits expense also increased by $2.0 million in 2003.

Balance Sheet Analysis

SVB Alliant's average total assets were lower for 2003 due to the reduction in goodwill resulting from the $17.0 million and $46.0 million impairment of goodwill charges recorded in the second and fourth quarters of 2003, respectively. Please see Item 8—Consolidated Financial Statements and Supplementary Date—Note 6. Goodwill for further discussion.

Private Client Services and Other

The private Client Services and Other segment, principally consists of our Private Client Services group, and other business service units that are not part of the Commercial Bank, SVB Capital or SVB Alliant segments. The Private Client Services Group does not meet the separate reporting thresholds as defined by SFAS No. 131 and as such has been combined with other business service units for segment reporting purposes. The Private Client Services group provides a wide range of credit services to high-net-worth individuals using both long-term secured and short-term unsecured lines of credit. Those products and services include home equity lines of credit, secured lines of credit, restricted stock purchase loans, airplane loans, and capital call lines of credit. We also provide our clients with deposit account products and services to meet cash management needs, including checking accounts, deposit accounts, money market accounts, and certificates of deposit. Through our subsidiary, Woodside Asset Management, Inc., we provide individual clients with personal investment advisory services, assisting clients in establishing and implementing investment strategies to meet their individual needs and goals. Woodside Asset Management, Inc. incurred a $1.9 million goodwill impairment charge in the third quarter ended September 30, 2004. The Private Client Services Group was known as the Private Banking Group until its name change in January 2004.

The other business services units provide various products and services. The Private Client Services and Other segment also reflects those adjustments necessary to reconcile the results of operating segments based on the Company's internal profitability reporting process to the interim unaudited consolidated financial statements prepared in conformity with U.S generally accepted accounting principles applicable to consolidated financial statements.

Net interest income of $52.2 million for 2004 increased $26.9 million, or 106.7%, from $25.2 million for 2003. The increase in net interest income is primarily attributed to an increase of $25.0 million related to an increased gap between the funds transfer rates utilized for profitability reporting and the realized earnings on the investment portfolio.

Financial Condition

Our total assets were $5.2 billion at December 31, 2004, an increase of $673.6 million, or 15.0%, compared to $4.5 billion at December 31, 2003.

The growth in our total assets was primarily funded by an increase in client deposits, which increased by $552.6 million, or 15.1% over the period. The increase in total assets was largely concentrated in investment securities and loans.

Federal Funds Sold and Securities Purchased under Agreement to Resell

Federal funds sold and securities purchased under agreement to resell totaled a combined $166.3 million at December 31, 2004, a decrease of $376.2 million, or 69.3% as compared to $542.5 million outstanding at the prior year end. The lower levels of federal funds sold and securities purchased under agreement to resell at December 31, 2004, as compared to the prior year end reflects our current strategy of investing available funds in high quality, fixed income investment securities while maintaining adequate sources of liquidity. Our plan is to continue the trend of managing federal funds sold and overnight repurchase agreements at appropriate levels.

Investment Securities

Investment securities totaled $2.3 billion at December 31, 2004, an increase of $682.8 million, or 43.3%, from December 31, 2003. The increase was largely attributable to collateralized-mortgage obligations and mortgage-backed securities, which collectively increased by $500.5 million and asset-backed securities, which increased by $63.3 million. See Item 8. Consolidated Financial Statements and Supplementary Data—Note 7. Investment Securities.

For a description of the accounting policies related to Investment Securities, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Item 8. Consolidated Financial Statements and Supplementary Data—Note 2. Significant Accounting Policies—Investment Securities.

The following table details the composition of investment securities, which were classified as available-for-sale and reported at fair value, with the exception of non-marketable securities that include Federal Reserve Bank and Federal Home Loan Bank stock, tax credit funds, venture capital fund investments, and other private equity investments, which were reported on a cost basis less any identified impairment or reported at fair value using investment company accounting rules at December 31, 2004, 2003, and 2002.

	At December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Available-for-sale securities:			
U.S. Treasury securities	$ 29,766	$ 31,153	$ 20,578
U.S. agencies and corporations:			
Collateralized mortgage obligations	813,919	611,385	420,161
Mortgage-backed securities	594,442	296,494	158,936
Discount notes and bonds	278,331	285,429	197,545
Asset-backed securities	100,996	37,695	38,508
Obligations of states and political subdivisions	98,037	150,871	210,517
Commercial paper and other debt securities	92,573	26,991	11,148
Money market mutual funds	98,548	23,079	378,933
Warrant securities	5,672	7,676	839
Venture capital fund investments	—	8	11
Other equity investments(1)	—	8,602	7,055
Total available-for-sale securities	2,112,284	1,479,383	1,444,231
Marketable equity securities (investment company accounting)(2)	480	—	—
Non-marketable securities (investment company accounting):			
Venture capital fund investments(3)	52,547	30,149	22,082
Other private equity investments(4)	15,720	10,097	9,986
Other investments(5)	13,635	—	—
Non-marketable securities (cost basis accounting):			
Venture capital funds investments	25,400	25,196	24,740
Tax credit funds	14,070	16,551	18,255
Federal Home Loan Bank stock(6)	12,798	3,009	2,172
Federal Reserve Bank stock(6)	7,967	7,467	7,394
Other private equity investments	3,306	3,582	6,834
Total investment securities	$ 2,258,207	$ 1,575,434	$ 1,535,694

(1) Available-for-sale other equity investments included $0 million, $8.6 million, and $7.1 million related to investments owned by two consolidated limited partnerships, Taurus Growth Partners, LP and Libra Partners, LP as of December 31, 2004, 2003, and 2002, respectively. The Taurus Growth Partners, LP and Libra Partners, L.P funds were liquidated and the funds were fully distributed as of December 2004. We had a controlling interest of less than 1% in the funds.

(2) Marketable equity securities (investment company accounting) included $0.5 million related to Silicon Valley BancVentures, LP, at December 31, 2004. The Company has a controlling interest of 10.7% in the fund. Excluding the minority interest-owned portion of Silicon Valley BancVentures, LP, the Company has marketable equity securities (investment company accounting) of $0.1 million as of December 31, 2004.

(3) Non-marketable venture capital fund investments (investment company accounting) included $45.3 million, $30.1 million, and $22.1 million related to our fund of funds, SVB Strategic Investors Fund, LP, as of December 31, 2004, 2003, and 2002, respectively. We had a controlling ownership interest of 11.1% in the fund. It also included $7.3 million and $0.0 million related to SVB Strategic Investors Fund II, LP, at December 31, 2004 and December 31, 2003, respectively. We had a controlling interest of 14.4% in the fund. Excluding the minority interest owned portion of these funds, we had non-marketable venture capital fund investments (investment company accounting) of $6.1 million, $3.3 million, and $2.4 million as of December 31, 2004, 2003 and 2002, respectively.

(4) Non-marketable other private equity investments (investment company accounting) included $15.7 million, $10.1 million, and $10.0 million related to our venture capital fund, Silicon Valley BancVentures, LP, as of December 31, 2004, 2003, and 2002, respectively. We had a controlling ownership interest of 10.7% in the fund. Excluding the minority interest owned portion of Silicon Valley BancVentures, LP, we had non-marketable other private equity investments (investment company accounting) of $1.7 million as of December 31, 2004 and $1.1 million each as of December 31, 2003 and 2002.

(5) Non-marketable other investments (investment company accounting) included $9.0 million related to Partners for Growth, LP at December 31, 2004. We had a majority ownership interest of 53.2% in the fund. It also included $2.4 million and $2.3 million related to Gold Hill Venture Lending Partners 03, LLC and Gold Hill Venture Lending 03, LP, respectively, as of December 31, 2004. We had a majority interest of 90.7% in Gold Hill Venture Lending Partners 03, LLC. Excluding the minority interest owned portion of Partners for Growth, LP and Gold Hill Venture Lending Partners 03, LLC, we had non-marketable other investments (investment company accounting) of $9.2 million as of December 31, 2004.

(6) Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank (“FRB”) stock are restricted, as we are required to hold shares of FHLB and FRB stock under the Bank’s borrowing agreement.

2004 Compared to 2003

Available-for-Sale Investments

Available-for-sale investment securities totaled $2.1 billion at December 31, 2004, an increase of $632.9 million, or 42.8%, from the December 31, 2003 balance of $1.5 billion. This increase primarily resulted from a shift of funds from federal funds sold and securities purchased under agreement to resell to the available-for-sale investment securities portfolio. Furthermore, excess liquidity generated by growth in deposits in excess of loan growth was invested in the available-for-sale investment portfolio. The increase in available for sale securities was concentrated in higher-yielding mortgage-backed securities and collateralized mortgage obligations. During 2004, we increased the duration of the fixed income investment portfolio to 2.1 years at December 31, 2004 from 1.7 years at December 31, 2003, in conjunction with our active interest rate risk management program. Commercial paper, money market mutual funds and asset-backed securities also increased, which was partially offset by a decrease in obligations of states and political subdivisions.

Non-Marketable Equity Securities

The increase in the other investments category of non-marketable securities was related to investments in two venture debt funds. Additionally, venture capital funds and other private equity investments increased due to increases in the market value of certain investments in our managed funds SVB Strategic Investors Fund, LP and Silicon Valley BancVentures, LP, and further investments made into our managed funds.

Based on December 31, 2004 market valuations, we had $5.6 million in unrealized pre-tax warrant gains. We are restricted from exercising many of these warrants until later in 2005. As of December 31, 2004, we directly held 1,902 warrants in 1,362 companies and made investments, through our managed investment funds, in 300 venture capital funds, 40 companies, and two venture debt funds.

Additionally, we have an investment in a specific fund, which is being carried as a cost basis investment. The carrying value of our cost basis investment in that fund at December 31, 2004 does not include an unrealized gain of approximately $2.1 million based on the market valuation of the specific fund investment.

We are typically contractually precluded from taking steps to hedge any current unrealized gains associated with many of these equity instruments. Hence, the amount of income realized by us from these equity instruments in future periods might vary materially from the current unrealized amount due to fluctuations in the market prices of the underlying common stock of these companies.

At December 31, 2004, except for securities issued by the U.S. Government or by U.S. government agencies and corporations, we held no investment securities that were issued by a single party that exceeded 10.0% of our stockholders’ equity.

2003 Compared to 2002

Available-for-Sale Investments

Available-for-sale investment securities totaled $1.5 billion at December 31, 2003, an increase of $35.2 million, or 2.4%, from the December 31, 2002, balance of $1.4 billion. The increase in available-for-sale securities resulted from growth in average client deposits in excess of loan growth. The change in the composition of investments was the result of our continuing efforts to diversify the product mix in our investment portfolio to higher yielding, high- quality assets. Short-term money market mutual funds were reallocated to higher yielding mortgage-backed securities and collateralized mortgage obligations. We added some duration to the portfolio due to active interest rate risk management and increased the