

SVB FINANCIAL GROUP

Form 10-Q

August 07, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____.

Commission File Number: 000-15637

SVB FINANCIAL GROUP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

3003 Tasman Drive, Santa Clara, California

(Address of principal executive offices)

(408) 654-7400

(Registrant's telephone number, including area code)

91-1962278

(I.R.S. Employer
Identification No.)

95054-1191

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

At July 31, 2015, 51,475,662 shares of the registrant's common stock (\$0.001 par value) were outstanding.

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Glossary of Acronyms that may be used in this Report

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

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PART I - FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value and share data)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	\$2,625,550	\$1,796,062
Available-for-sale securities, at fair value (cost of \$14,414,219 and \$13,497,945, respectively)	14,495,759	13,540,655
Held-to-maturity securities, at cost (fair value of \$7,730,811 and \$7,415,656, respectively)	7,735,891	7,421,042
Non-marketable and other securities (1)	645,506	1,728,140
Total investment securities	22,877,156	22,689,837
Loans, net of unearned income	14,261,430	14,384,276
Allowance for loan losses	(192,644)	(165,359)
Net loans	14,068,786	14,218,917
Premises and equipment, net of accumulated depreciation and amortization	88,284	79,845
Accrued interest receivable and other assets (1)	576,342	555,289
Total assets	\$40,236,118	\$39,339,950
Liabilities and total equity		
Liabilities:		
Noninterest-bearing demand deposits	\$27,734,720	\$24,583,682
Interest-bearing deposits	7,892,245	9,759,817
Total deposits	35,626,965	34,343,499
Short-term borrowings	2,537	7,781
Other liabilities	614,690	483,493
Long-term debt	802,454	453,443
Total liabilities	37,046,646	35,288,216
Commitments and contingencies (Note 13 and Note 16)		
SVBFG stockholders' equity:		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value, 150,000,000 shares authorized; 51,461,496 shares and 50,924,925 shares outstanding, respectively	51	51
Additional paid-in capital	1,162,508	1,120,350
Retained earnings (1)	1,824,626	1,649,967
Accumulated other comprehensive income	63,917	42,704
Total SVBFG stockholders' equity	3,051,102	2,813,072
Noncontrolling interests	138,370	1,238,662
Total equity	3,189,472	4,051,734
Total liabilities and total equity	\$40,236,118	\$39,339,950

(1) Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 1— "Basis of Presentation" of the "Notes to Interim Consolidated Financial Statements" under Part I, Item 1 in

this report.

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

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INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015 (2)	2014
Interest income:				
Loans	\$167,252	\$147,680	\$332,753	\$295,852
Investment securities:				
Taxable	84,613	63,424	165,887	117,844
Non-taxable	741	794	1,513	1,590
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	1,320	1,943	2,589	3,579
Total interest income	253,926	213,841	502,742	418,865
Interest expense:				
Deposits	1,182	3,068	3,125	5,972
Borrowings	8,973	5,808	16,921	11,600
Total interest expense	10,155	8,876	20,046	17,572
Net interest income	243,771	204,965	482,696	401,293
Provision for loan losses	26,513	1,947	32,965	2,441
Net interest income after provision for loan losses	217,258	203,018	449,731	398,852
Noninterest income:				
Gains (losses) on investment securities, net	24,975	(57,320)	58,238	166,592
Gains on derivative instruments, net	16,317	12,775	56,046	36,942
Foreign exchange fees	22,364	17,928	40,042	35,124
Credit card fees	14,215	10,249	26,305	20,531
Deposit service charges	11,301	9,611	22,037	19,218
Lending related fees	8,163	5,876	16,185	12,179
Letters of credit and standby letters of credit fees	4,772	2,810	9,974	6,950
Client investment fees	5,264	3,519	9,746	6,937
Other	18,916	8,762	11,238	19,962
Total noninterest income	126,287	14,210	249,811	324,435
Noninterest expense:				
Compensation and benefits	124,915	99,820	240,685	202,327
Professional services	18,950	21,113	37,697	42,302
Premises and equipment	11,787	12,053	24,444	23,635
Business development and travel	9,764	9,249	20,876	19,443
Net occupancy	8,149	7,680	15,462	15,000
FDIC and state assessments	5,962	4,945	11,751	9,073
Correspondent bank fees	3,337	3,274	6,705	6,477
(Reduction of) provision for unfunded credit commitments	(3,061)	) 2,185	(798)	) 3,308
Other (1)	14,309	10,625	27,831	19,787
Total noninterest expense (1)	194,112	170,944	384,653	341,352
Income before income tax expense (1)	149,433	46,284	314,889	381,935
Income tax expense (1)	54,974	35,928	118,040	97,224
Net income before noncontrolling interests (1)	94,459	10,356	196,849	284,711
Net (income) loss attributable to noncontrolling interests	(8,316)) 40,597	(22,190)) (142,808)

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Net income available to common stockholders (1)	\$86,143	\$50,953	\$174,659	\$141,903
Earnings per common share—basic (1)	\$1.68	\$1.06	\$3.42	\$3.02
Earnings per common share—diluted	1.66	1.04	3.37	2.96

Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See (1) Note 1— "Basis of Presentation" of the "Notes to Interim Consolidated Financial Statements" under Part I, Item 1 in this report.

Amounts for the six months ended June 30, 2015, have been revised to reflect the retrospective application of new accounting guidance adopted in the second quarter of 2015 related to our consolidated variable interest entities (2)(ASU 2015-02). Amounts prior to January 1, 2015 have not been revised for the adoption of this guidance. See Note 1— "Basis of Presentation" of the "Notes to Interim Consolidated Financial Statements (unaudited)" under Part I, Item 1 of this report for additional details.

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income before noncontrolling interests (1) (2)	\$94,459	\$10,356	\$196,849	\$284,711
Other comprehensive (loss) income, net of tax:				
Change in cumulative translation gains:				
Foreign currency translation gains	529	157	2,690	1,621
Related tax expense	(321	) (76	) (1,141	) (654
Change in unrealized gains on available-for-sale securities:				
Unrealized holding (losses) gains	(45,541	) 82,064	41,566	111,393
Related tax benefit (expense)	18,191	(33,203	) (17,024	) (45,008
Reclassification adjustment for (gains) losses included in net income	(141	) 16,480	(2,737	) 16,421
Related tax expense (benefit)	57	(6,653	) 1,105	(6,630
Cumulative-effect adjustment for unrealized gains on securities transferred from available-for-sale to held-to-maturity	—	36,653	—	36,653
Related tax expense	—	(14,756	) —	(14,756
Amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity	(2,604	) —	(5,432) —
Related tax benefit	1,047	—	2,186	—
Other comprehensive (loss) income, net of tax	(28,783	) 80,666	21,213	99,040
Comprehensive income	65,676	91,022	218,062	383,751
Comprehensive (income) loss attributable to noncontrolling interests (2)	(8,316	) 40,597	(22,190	) (142,808
Comprehensive income attributable to SVBFG	\$57,360	\$131,619	\$195,872	\$240,943

Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See (1) Note 1— "Basis of Presentation" of the "Notes to Interim Consolidated Financial Statements" under Part I, Item 1 in this report.

Amounts for the six months ended June 30, 2015, have been revised to reflect the retrospective application of new accounting guidance adopted in the second quarter of 2015 related to our consolidated variable interest entities (2)(ASU 2015-02). Amounts prior to January 1, 2015 have not been revised for the adoption of this guidance. See Note 1— "Basis of Presentation" of the "Notes to Interim Consolidated Financial Statements (unaudited)" under Part I, Item 1 of this report for additional details.

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SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands)	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total SVBFG Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2013 (As Reported)	45,800,418	\$46	\$624,256	\$1,390,732	\$(48,764)	\$1,966,270	\$1,113,058	\$3,079,328
Cumulative effective of adopting ASU 2014-01 (1)	—	—	—	(4,635)	—	(4,635)	—	(4,635)
Balance at December 31, 2013 (As Revised)	45,800,418	\$46	\$624,256	\$1,386,097	\$(48,764)	\$1,961,635	\$1,113,058	\$3,074,693
Common stock issued under employee benefit plans, net of restricted stock cancellations	379,026	—	8,127	—	—	8,127	—	8,127
Common stock issued under ESOP	30,762	—	3,890	—	—	3,890	—	3,890
Income tax benefit from stock options exercised, vesting of restricted stock and other	—	—	6,164	—	—	6,164	—	6,164
Net income (1)	—	—	—	141,903	—	141,903	142,808	284,711
Capital calls and distributions, net	—	—	—	—	—	—	6,419	6,419
Net change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	76,176	76,176	—	76,176
Cumulative-effect for unrealized gains on securities transferred from available-for-sale to held-to-maturity, net of tax	—	—	—	—	22,522	22,522	—	22,522
Amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity, net	—	—	—	—	(625)	(625)	—	(625)

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of tax								
Foreign currency translation adjustments, net of tax	—	—	—	—	967	967	—	967
Common stock issued in public offering	4,485,000	5	434,861	—	—	434,866	—	434,866
Share-based compensation expense	—	—	15,284	—	—	15,284	\$—	15,284
Balance at June 30, 2014 (1)	50,695,206	\$51	\$1,092,582	\$1,528,000	\$50,276	\$2,670,909	\$1,262,285	\$3,933,194
Balance at December 31, 2014 (1)	50,924,925	\$51	\$1,120,350	\$1,649,967	\$42,704	\$2,813,072	\$1,238,662	\$4,051,734
Common stock issued under employee benefit plans, net of restricted stock cancellations	509,146	—	13,582	—	—	13,582	—	13,582
Common stock issued under ESOP	27,425	—	3,512	—	—	3,512	—	3,512
Income tax benefit from stock options exercised, vesting of restricted stock and other	—	—	10,157	—	—	10,157	—	10,157
Deconsolidation of noncontrolling interest	—	—	—	—	—	—	(1,069,437)	(1,069,437)
Net income	—	—	—	174,659	—	174,659	22,190	196,849
Capital calls and distributions, net	—	—	—	—	—	—	(53,045)	(53,045)
Net change in unrealized gains and losses on available-for-sale securities, net of tax	—	—	—	—	22,910	22,910	—	22,910
Amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity, net of tax	—	—	—	—	(3,246)	(3,246)	—	(3,246)
Foreign currency translation adjustments, net of tax	—	—	—	—	1,549	1,549	—	1,549
Share-based compensation expense	—	—	14,907	—	—	14,907	—	14,907
Balance at June 30, 2015	51,461,496	\$51	\$1,162,508	\$1,824,626	\$63,917	\$3,051,102	\$138,370	\$3,189,472

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Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See (1) Note 1— "Basis of Presentation" of the "Notes to Interim Consolidated Financial Statements" under Part I, Item 1 in this report.

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

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INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended June 30,	
	2015	2014
(Dollars in thousands)		
Cash flows from operating activities:		
Net income before noncontrolling interests (1)	\$196,849	\$284,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	32,965	2,441
(Reduction of) provision for unfunded credit commitments	(798)	) 3,308
Changes in fair values of derivatives, net	(33,030)	) 14,566
Gains on investment securities, net	(58,238)	) (166,592)
Depreciation and amortization (1)	19,753	19,181
Amortization of premiums and discounts on investment securities, net	9,662	14,419
Amortization of share-based compensation	15,986	14,765
Amortization of deferred loan fees	(43,194)	) (39,071)
Pre-tax net gain on SVBIF sale transaction	(1,287)) —
Deferred income tax benefit	4,283	5,173
Changes in other assets and liabilities:		
Accrued interest receivable and payable, net	2,087	(11,326)
Accounts receivable and payable, net	(4,912)	) (3,303)
Income tax payable and receivable, net (1)	4,881	5,176
Accrued compensation	(30,579)	) (48,848)
Foreign exchange spot contracts, net	46,517	119,577
Other, net	44,489	3,912
Net cash provided by operating activities	205,434	218,089
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,711,333)	) (6,045,269)
Proceeds from sales of available-for-sale securities	6,674	23,708
Proceeds from maturities and pay downs of available-for-sale securities	791,954	1,050,927
Purchases of held-to-maturity securities	(1,032,637)	) (120,426)
Proceeds from maturities and pay downs of held-to-maturity securities	734,606	74,236
Purchases of non-marketable and other securities (cost and equity method accounting)	(12,875)	) (30,354)
Proceeds from sales and distributions of non-marketable and other securities (cost and equity method accounting)	66,807	38,265
Purchases of non-marketable and other securities (fair value accounting)	(3,374)	) (126,907)
Proceeds from sales and distributions of non-marketable and other securities (fair value accounting)	67,929	146,509
Net decrease (increase) in loans	146,753	(440,780)
Proceeds from recoveries of charged-off loans	4,541	2,933
Effect of deconsolidation of noncontrolling interest	15,995	—
Purchases of premises and equipment	(24,539)	) (18,744)
Net proceeds from SVBIF sale transaction (2)	39,284	—
Net cash used for investing activities	(910,215)	) (5,445,902)
Cash flows from financing activities:		
Net increase in deposits	1,203,927	5,879,568
Decrease in short-term borrowings	(5,244)	) (170)
Net (distributions to) capital contributions from noncontrolling interests	(53,045)	) 6,419
Tax benefit from stock exercises	10,157	6,164
Proceeds from issuance of common stock, ESPP, and ESOP	17,091	12,018

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Net proceeds from public equity offering	—	434,866
Proceeds from issuance of 3.50% Senior Notes	346,431	—
Net cash provided by financing activities	1,519,317	6,338,865
Net increase in cash and cash equivalents	814,536	1,111,052
Cash and cash equivalents at beginning of period (1) (2)	1,811,014	1,538,779
Cash and cash equivalents at end of period (1)	\$2,625,550	\$2,649,831
Supplemental disclosures:		
Cash paid during the period for:		
Interest	\$24,848	\$17,535
Income taxes	93,439	75,057
Noncash items during the period:		
Changes in unrealized gains and losses on available-for-sale securities, net of tax	\$22,910	\$76,176
Distributions of stock from investments	23,806	11,080
Transfers from available-for-sale securities to held-to-maturity	—	5,418,572

Cash flows for the six months ended June 30, 2015 were revised to reflect the adoption of ASU 2015-02 as of (1) January 1, 2015 and cash flows for the six months ended June 30, 2014 were revised to reflect the retrospective application of our adoption of ASU 2014-01.

Cash and cash equivalents at December 31, 2014 included \$15.0 million recognized in assets held-for-sale in conjunction with the SVBIF Sale Transaction. On April 13, 2015 we received net proceeds of \$39.3 million (2) consisting of the sales price of \$48.6 million less \$9.3 million of cash and cash equivalents held by SVBIF that were sold.

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

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SVB FINANCIAL GROUP AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

The accompanying unaudited interim consolidated financial statements reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary to fairly present our financial position, results of operations and cash flows in accordance with GAAP. Such unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of results to be expected for any future periods. These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”).

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

Principles of Consolidation and Presentation

Prior to April 1, 2015, the Company’s consolidated financial statements included the accounts of SVB Financial Group and entities in which we had a controlling interest. The determination of whether we had controlling interest was based on consolidation principles prescribed by ASC Topic 810 and whether the controlling interest in an entity was a voting interest entity or a variable interest entity (“VIE”). However, during the three months ended June 30, 2015, we early adopted the provisions of ASU 2015-02, Amendments to the Consolidation Analysis (ASU 2015-02)(see “Adoption of New Accounting Standards” below), which simplifies consolidation accounting by reducing the number of consolidation models and changing various aspects of current GAAP, including certain consolidation criteria for variable interest entities. The new guidance eliminates the presumption that a general partner of a limited partnership arrangement should consolidate a limited partnership. The amendments to ASC Topic 810 in ASU 2015-02 modify the evaluation of whether limited partnerships and similar entities are VIEs or voting entities. With these changes, we determined that the majority of our investments in limited partnership arrangements are VIEs under the new guidance while these entities were typically voting interest entities under the prior guidance.

ASU 2015-02 provided a single model for evaluating VIE entities for consolidation. VIEs are entities where investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or equity investors, as a group, lack one of the following characteristics: (a) the power to direct the activities that most significantly impact the entity’s economic performance, (b) the obligation to absorb the expected losses of the entity, or (c) the right to receive the expected returns of the entity. We assess VIEs to determine if we are the primary beneficiary of a VIE. A primary beneficiary is defined as a variable interest holder that has a controlling financial interest. A controlling financial interest requires both: (a) power to direct the activities that most significantly impact the VIE’s economic performance, and (b) obligation to absorb losses or receive benefits of a VIE that could potentially

be significant to a VIE. Under this analysis, we evaluate kick-out rights and other participating rights which could provide us a controlling financial interest. The primary beneficiary of a VIE is required to consolidate the VIE. ASU 2015-02 also changed how we evaluate fees paid to managers of our limited partnership investments. Under the new guidance, we exclude those fee arrangements that are not deemed to be variable interests from the analysis of our interests in our investments in VIEs and the determination of a primary beneficiary, if any. Our consolidated financial statements include the accounts of SVB Financial Group and consolidated entities. We consolidate voting entities in which we have control through voting interests. We determine whether we have a controlling financial interest in a VIE by determining if we have the power to direct the activities of the VIE that most significantly impact the entity's economic performance and whether we have significant variable interests. Generally, we have significant variable

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interests if our commitments to a limited partnership investment represent a significant amount of the total commitments to the entity. We also evaluate the impact of related parties on our determination of variable interests in our consolidation conclusions. We consolidate VIEs in which we are the primary beneficiary based on a controlling financial interest. If we are not the primary beneficiary of a VIE, we record our pro-rata interests or our cost basis in the VIE, as appropriate, based on other accounting guidance within GAAP.

All significant intercompany accounts and transactions with consolidated entities have been eliminated. We have not provided financial or other support during the periods presented to any VIE that we were not previously contractually required to provide.

Adoption of New Accounting Standards

In February 2015, the FASB issued a new accounting standard, ASU 2015-02, which amends the consolidation requirement for certain legal entities. As outlined above in "Principles of Consolidation and Presentation", we early adopted this guidance in the second quarter of 2015 using the modified retrospective method, which results in an effective date of adoption of January 1, 2015 and will not require the restatement of prior period results. The adoption of this guidance impacted our statement of financial position and results of operations, but had no impact on retained earnings, SVBFG stockholders' equity or net income as investments that were consolidated in previous reporting periods are now deconsolidated and no new investments were consolidated. Refer to Note 4—"Variable Interest Entities" of the "Notes to Interim Consolidated Financial Statements (unaudited)" under Part I, Item 1 of this report for additional details regarding our assessment of the adoption of this guidance.

In May 2015, the FASB issued a new accounting standard (ASU 2015-07, Fair Value Measurement (Topic 820)), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The standard is required to be applied retrospectively to all periods presented. The guidance will be effective for fiscal years beginning after December 15, 2015, with early adoption permitted. We early adopted this guidance in the second quarter of 2015. The adoption of this guidance impacts our fair value disclosures and has no impact on our financial position, results of operations or stockholders' equity.

In January 2014, the FASB issued a new accounting standard (ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects), which is effective for us for interim and annual reporting periods beginning after December 15, 2014. The standard is required to be applied retrospectively, with an adjustment to retained earnings in the earliest period presented. The ASU is applicable to our portfolio of low income housing tax credit ("LIHTC") partnership interests. We adopted this guidance in the first quarter of 2015.

For prior periods, pursuant to ASU 2014-01, (i) amortization expense related to our low income housing tax credits was reclassified from Other noninterest expense to Income tax expense, (ii) additional amortization, net of the associated tax benefits, was recognized in Income tax expense as a result of our adoption of the proportional amortization method and (iii) net deferred tax assets, related to our low income housing tax investments, were written-off. The cumulative effect to retained earnings as of January 1, 2015 of adopting this guidance was a reduction of \$4.7 million, inclusive of a \$4.6 million reduction to retained earnings as of January 1, 2014. Our previously reported net income and diluted earnings per share for the three and six months ending June 30, 2014 were not materially impacted by the adoption of ASU 2014-01.

Recent Accounting Pronouncements

In May 2014, the FASB issued a new accounting standard (ASU 2014-09, Revenue from Contracts with Customers (Topic 606)), which provides revenue recognition guidance that is intended to create greater consistency with respect to how and when revenue from contracts with customers is shown in the income statement. This guidance will be effective on a retrospective basis beginning on January 1, 2018. We do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or stockholders' equity.

In August 2014, the FASB issued a new accounting standard (ASU 2014-15, Going Concern (Topic 205-40)), which requires management to evaluate for each annual and interim reporting period whether there is substantial doubt about an entity's ability to continue as a going concern. The guidance will be effective for annual and quarterly periods

beginning on or after December 15, 2016, with early adoption permitted. We are currently developing processes and controls to adopt this guidance by the adoption deadline and do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or stockholders' equity.

In April 2015, the FASB issued a new accounting standard (ASU 2015-03, Interest- Imputation of Interest (Subtopic 835-30), which simplifies the presentation of debt issuance costs. The guidance will be effective for annual and quarterly periods beginning on January 1, 2016, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our financial position.

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Reclassifications

Certain prior period amounts, including amounts related to the adoption of ASU 2014-01 and ASU 2015-02, have been reclassified to conform to current period presentations.

2. Stockholders' Equity and EPS

Accumulated Other Comprehensive Income

The following table summarizes the items reclassified out of accumulated other comprehensive income into the Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2015 and 2014:

		Three months ended June 30,		Six months ended June 30,		
(Dollars in thousands)	Income Statement Location	2015	2014	2015	2014	
Reclassification adjustment for (gains) losses included in net income	Gains (losses) on investment securities, net	\$(141	) \$16,480	\$(2,737	) \$16,421
Related tax expense (benefit)	Income tax expense	57	(6,653) 1,105	(6,630)
Total reclassification adjustment for (gains) losses included in net income, net of tax		\$(84	) \$9,827	\$(1,632	) \$9,791

EPS

Basic EPS is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted EPS is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for stock options and restricted stock units outstanding under our equity incentive plans and our ESPP. Potentially dilutive common shares are excluded from the computation of diluted EPS in periods in which the effect would be antidilutive. The following is a reconciliation of basic EPS to diluted EPS for the three and six months ended June 30, 2015 and 2014:

(Dollars and shares in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income available to common stockholders (1)	\$86,143	\$50,953	\$174,659	\$141,903
Denominator:				
Weighted average common shares outstanding-basic	51,268	48,168	51,139	47,025
Weighted average effect of dilutive securities:				
Stock options and ESPP	410	569	420	601
Restricted stock units	198	308	229	361
Denominator for diluted calculation	51,876	49,045	51,788	47,987
Earnings per common share:				
Basic (1)	\$1.68	\$1.06	\$3.42	\$3.02
Diluted	\$1.66	\$1.04	\$3.37	\$2.96

Prior period amounts have been revised to reflect the retrospective application of new accounting guidance adopted in the first quarter of 2015 related to our investments in qualified affordable housing projects (ASU 2014-01). See (1) Note 1— "Basis of Presentation" of the "Notes to Interim Consolidated Financial Statements" under Part I, Item 1 in this report.

The following table summarizes the weighted-average common shares excluded from the diluted EPS calculation as they were deemed to be antidilutive for the three and six months ended June 30, 2015 and 2014:

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	Three months ended June 30,		Six months ended June 30,	
(Shares in thousands)	2015	2014	2015	2014
Stock options	99	167	146	90
Restricted stock units	—	2	—	1
Total	99	169	146	91

3.Share-Based Compensation

For the three and six months ended June 30, 2015 and 2014, we recorded share-based compensation and related tax benefits as follows:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2015	2014	2015	2014
Share-based compensation expense	\$8,215	\$7,687	\$15,986	\$14,765
Income tax benefit related to share-based compensation expense	(2,692	) (2,515	) (5,330	) (4,675

Unrecognized Compensation Expense

As of June 30, 2015, unrecognized share-based compensation expense was as follows:

(Dollars in thousands)	Unrecognized Expense	Average Expected Recognition Period - in Years
Stock options	\$14,464	2.63
Restricted stock units	46,877	2.81
Total unrecognized share-based compensation expense	\$61,341	

Share-Based Payment Award Activity

The table below provides stock option information related to the 2006 Equity Incentive Plan for the six months ended June 30, 2015:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The-Money Options
Outstanding at December 31, 2014	1,394,888	\$66.03		
Granted	122,120	129.30		
Exercised	(286,282	) 51.34		
Forfeited	(17,383	) 86.09		
Expired	(1,520	) 48.76		
Outstanding at June 30, 2015	1,211,823	75.61	4.22	\$ 82,851,473
Vested and expected to vest at June 30, 2015	1,168,962	74.62	4.17	81,084,324
Exercisable at June 30, 2015	678,385	59.89	3.23	57,044,065

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value based on our closing stock price of \$143.98 as of June 30, 2015. The total intrinsic value of options exercised during the three and six months ended June 30, 2015 was \$11.6 million and \$21.8 million, respectively, compared to \$3.5 million and \$10.7 million for the comparable 2014 periods.

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The table below provides information for restricted stock units under the 2006 Equity Incentive Plan for the six months ended June 30, 2015:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	614,666	\$79.92
Granted	230,120	129.15
Vested	(208,257)	) 73.94
Forfeited	(15,638)	) 85.25
Nonvested at June 30, 2015	620,891	100.04

4. Variable Interest Entities

Our involvement with VIEs includes our investments in venture capital and private equity funds, debt funds, private and public portfolio companies and our investments in qualified affordable housing projects.

The following table presents the carrying amounts and classification of significant variable interests in consolidated and unconsolidated VIEs as of June 30, 2015:

(Dollars in thousands)	Consolidated VIEs	Unconsolidated VIEs (1)	Maximum Exposure to Loss in Unconsolidated VIEs
June 30, 2015:			
Assets:			
Cash and cash equivalents	\$22,203	\$—	\$—
Non-marketable and other securities (2)	200,695	340,972	340,972
Accrued interest receivable and other assets	659	—	—
Total assets	\$223,557	\$340,972	\$340,972
Liabilities:			
Other liabilities	282	—	—
Accrued expenses and other liabilities (2)	—	63,637	—
Total liabilities	\$282	\$63,637	\$—

During the second quarter of 2015 we adopted ASU 2015-02 and certain previously consolidated VIEs are no longer included in our Consolidated Balance Sheet. We applied the accounting guidance as of the beginning of the fiscal year of adoption, January 1, 2015. Upon adoption, we deconsolidated 16 entities, which reduced our total (1) assets and total equity (which includes total SVBFG stockholders' equity plus noncontrolling interests) by \$1.1 billion and \$1.2 billion, respectively, primarily as a result of the reduction of our non-marketable and other securities and noncontrolling interests, respectively. SVB Financial continues to consolidate its interest in five SVB Capital funds that meet the new consolidated criteria.

(2) Included in our non-marketable and other securities portfolio are investments in qualified affordable housing projects of \$122.5 million and related unfunded commitments of \$63.6 million.

Non-marketable and other securities

Our non-marketable and other securities portfolio primarily represents investments in venture capital and private equity funds, debt funds, private and public portfolio companies and investments in qualified affordable housing projects. A majority of these investments are through third party funds held by SVB Financial in which we do not have controlling or significant variable interests. These investments represent our unconsolidated VIEs in the table above. Our non-marketable and other securities portfolio also includes investments from SVB Capital. SVB Capital is the venture capital investment arm of SVB Financial, which focuses primarily on funds management. The SVB Capital family of funds is comprised of direct venture funds that invest in companies and funds of funds that invest in other venture capital funds. We have a controlling and significant variable interest in five of these SVB Capital funds and consolidate these funds for financial reporting purposes.

All investments are generally nonredeemable and distributions are expected to be received through the liquidation of the underlying investments throughout the life of the investment fund. Investments may be sold or transferred subject to the notice

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and approval provisions of the underlying investment agreement. Subject to applicable regulatory requirements, including the Volcker Rule, we also make commitments to invest in venture capital and private equity funds, but are not obligated to fund commitments beyond our initial investment. For additional details, see Note 13—"Off-Balance Sheet Arrangements, Guarantees, and Other Commitments" of the "Notes to Interim Consolidated Financial Statements (unaudited)" under Part I, Item 1 of this report.

The Bank also has variable interests in low income housing tax credit funds that are designed to generate a return primarily through the realization of federal tax credits. These investments are typically limited partnerships in which the general partner, other than the Bank, holds the power over significant activities of the VIE. We have not consolidated these investments in accordance with the new guidelines in ASU 2015-02. For additional information on our investments in qualified affordable housing projects see Note 6—"Investment Securities" of the "Notes to Interim Consolidated Financial Statements" under Part I, Item 1 of this report.

As of June 30, 2015, our exposure to loss with respect to the consolidated VIEs is limited to our net assets of \$223.3 million and our exposure to loss for our unconsolidated VIEs is equal to our investment in these assets of \$341.0 million.

5. Cash and Cash Equivalents

The following table details our cash and cash equivalents at June 30, 2015 and December 31, 2014:

(Dollars in thousands)	June 30, 2015	December 31, 2014
Cash and due from banks (1)	\$2,281,816	\$1,694,329
Securities purchased under agreements to resell (2)	338,612	95,611
Other short-term investment securities	5,122	6,122
Total cash and cash equivalents	\$2,625,550	\$1,796,062

At June 30, 2015 and December 31, 2014, \$1.4 billion and \$861 million, respectively, of our cash and due from (1) banks was deposited at the Federal Reserve Bank and was earning interest at the Federal Funds target rate, and interest-earning deposits in other financial institutions were \$557 million and \$440 million, respectively.

At June 30, 2015 and December 31, 2014, securities purchased under agreements to resell were collateralized by (2) U.S. Treasury securities and U.S. agency securities with aggregate fair values of \$345 million and \$98 million, respectively. None of these securities received as collateral were sold or pledged as of June 30, 2015 or December 31, 2014.

6. Investment Securities

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

Available-for-Sale Securities

The components of our available-for-sale investment securities portfolio at June 30, 2015 and December 31, 2014 are as follows:

(Dollars in thousands)	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Available-for-sale securities, at fair value:				
U.S. treasury securities	\$8,952,703	\$54,705	\$(5,442)	) \$9,001,966
U.S. agency debentures	3,127,635	31,285	(3,967)	) 3,154,953
Residential mortgage-backed securities:				
Agency-issued collateralized mortgage obligations—fixed rate	1,641,311	11,995	(10,713)	) 1,642,593
Agency-issued collateralized mortgage obligations—variable rate	687,418	4,892	(2)) 692,308

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Equity securities	5,152	165	(1,378) 3,939
Total available-for-sale securities	\$14,414,219	\$103,042	\$(21,502) \$14,495,759

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(Dollars in thousands)	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Available-for-sale securities, at fair value:				
U.S. treasury securities	\$7,289,135	\$17,524	\$(4,386)	) \$7,302,273
U.S. agency debentures	3,540,055	30,478	(8,977)	) \$3,561,556
Residential mortgage-backed securities:				
Agency-issued collateralized mortgage obligations—fixed rate	1,884,450	14,851	(14,458)	) 1,884,843
Agency-issued collateralized mortgage obligations—variable rate	779,103	5,372	—	784,475
Equity securities	5,202	2,628	(322)	) 7,508
Total available-for-sale securities	\$13,497,945	\$70,853	\$(28,143)	) \$13,540,655

The following table summarizes our unrealized losses on our available-for-sale securities portfolio into categories of less than 12 months and 12 months or longer as of June 30, 2015:

(Dollars in thousands)	June 30, 2015					
	Less than 12 months		12 months or longer		Total	
	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses
Available-for-sale securities:						
U.S. treasury securities	\$552,547	\$(5,442)	) \$—	\$—	\$552,547	\$(5,442)
U.S. agency debentures	511,643	(3,967)	) —	—	511,643	(3,967)
Residential mortgage-backed securities:						
Agency-issued collateralized mortgage obligations—fixed rate	375,854	(1,213)	) 404,495	(9,500)	) 780,349	(10,713)
Agency-issued collateralized mortgage obligations—variable rate	933	(2)	) —	—	933	(2)
Equity securities	2,719	(1,378)	) —	—	2,719	(1,378)
Total temporarily impaired securities: (1)	\$1,443,696	\$(12,002)	) \$404,495	\$(9,500)	) \$1,848,191	\$(21,502)

As of June 30, 2015, we identified a total of 94 investments that were in unrealized loss positions, of which 17 investments totaling \$404.5 million with unrealized losses of \$9.5 million have been in an impaired position for a period of time greater than 12 months. As of June 30, 2015, we do not intend to sell any impaired fixed income investment securities prior to recovery of our adjusted cost basis, and it is more likely than not that we will not be (1) required to sell any of our securities prior to recovery of our adjusted cost basis. Based on our analysis as of June 30, 2015, we deem all impairments to be temporary, and therefore changes in value for our temporarily impaired securities as of the same date are included in other comprehensive income. Market valuations and impairment analyses on assets in the available-for-sale securities portfolio are reviewed and monitored on a quarterly basis.

The following table summarizes our unrealized losses on our available-for-sale securities portfolio into categories of less than 12 months and 12 months or longer as of December 31, 2014:

(Dollars in thousands)	December 31, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses	Fair Value of Investments	Unrealized Losses

Available-for-sale securities:

U.S. treasury securities	\$2,297,895	\$(4,386	) \$—	\$—	\$2,297,895	\$(4,386)
U.S. agency debentures	249,266	(489	) 507,385	(8,488	) 756,651	(8,977)
Residential mortgage-backed securities:							
Agency-issued collateralized mortgage obligations—fixed rate	662,092	(3,104	) 453,801	(11,354	) 1,115,893	(14,458)
Equity securities	568	(322	) —	—	568	(322)
Total temporarily impaired securities (1):	\$3,209,821	\$(8,301) \$961,186	\$(19,842) \$4,171,007	\$(28,143)

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As of December 31, 2014, we identified a total of 115 investments that were in unrealized loss positions, of which 33 investments totaling \$961.2 million with unrealized losses of \$19.8 million have been in an impaired position for a period of time greater than 12 months. As of December 31, 2014, we do not intend to sell any impaired fixed income investment securities prior to recovery of our adjusted cost basis, and it is more likely than not that we will (1) not be required to sell any of our securities prior to recovery of our adjusted cost basis. Based on our analysis as of December 31, 2014, we deem all impairments to be temporary, and therefore changes in value for our temporarily impaired securities as of the same date are included in other comprehensive income. Market valuations and impairment analyses on assets in the available-for-sale securities portfolio are reviewed and monitored on a quarterly basis.

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The following table summarizes the remaining contractual principal maturities and fully taxable equivalent yields on fixed income investment securities classified as available-for-sale as of June 30, 2015. The weighted average yield is computed using the amortized cost of fixed income investment securities, which are reported at fair value. For U.S. treasury securities and U.S. Agency debentures, the expected maturity is the actual contractual maturity of the notes. Expected maturities for mortgage-backed securities may differ significantly from their contractual maturities because mortgage borrowers have the right to prepay outstanding loan obligations with or without penalties. Mortgage-backed securities classified as available-for-sale typically have original contractual maturities from 10 to 30 years whereas expected average lives of these securities tend to be significantly shorter and vary based upon structure and prepayments in lower rate environments.

	June 30, 2015									
	Total		One Year or Less		After One Year to Five Years		After Five Years to Ten Years		After Ten Years	
(Dollars in thousands)	Carrying Value	Weighted- Average Yield	Carrying Value	Weighted- Average Yield	Carrying Value	Weighted- Average Yield	Carrying Value	Weighted- Average Yield	Carrying Value	Weighted- Average Yield
U.S. treasury securities	\$9,001,966	1.07 %	\$400,332	0.32 %	\$7,866,030	1.14 %	\$735,604	0.75 %	\$—	— %
U.S. agency debentures	3,154,953	1.65	847,396	1.82	2,159,703	1.53	147,854	2.49	—	—
Residential mortgage-backed securities:										
Agency-issued collateralized mortgage obligations - fixed rate	1,642,593	1.98	—	—	—	—	598,642	2.55	1,043,951	1.65
Agency-issued collateralized mortgage obligations - variable rate	692,308	0.71	—	—	—	—	—	—	692,308	0.71
Total	\$14,491,820	1.28	\$1,247,728	1.34	\$10,025,733	1.22	\$1,482,100	1.65	\$1,736,259	1.28

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Held-to-Maturity Securities

The components of our held-to-maturity investment securities portfolio at June 30, 2015 and December 31, 2014 are as follows:

(Dollars in thousands)	June 30, 2015			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Held-to-maturity securities, at cost:				
U.S. agency debentures (1)	\$488,185	\$7,049	\$(93)	\$495,141
Residential mortgage-backed securities:				
Agency-issued mortgage-backed securities	2,590,151	2,280	(4,829)	2,587,602
Agency-issued collateralized mortgage obligations—fixed rate	3,527,554	6,194	(18,767)	3,514,981
Agency-issued collateralized mortgage obligations—variable rate	117,109	285	(1)	117,393
Agency-issued commercial mortgage-backed securities	936,337	4,870	(1,235)	939,972
Municipal bonds and notes	76,555	8	(841)	75,722
Total held-to-maturity securities	\$7,735,891	\$20,686	\$(25,766)	\$7,730,811

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

(Dollars in thousands)	December 31, 2014			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Held-to-maturity securities, at cost:				
U.S. agency debentures (1)	\$405,899	\$4,589	\$(38)	\$410,450
Residential mortgage-backed securities:				