SVB FINANCIAL GROUP
Form 10-Q
May 10, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from to .

Commission File Number: 000-15637

SVB FINANCIAL GROUP

(formerly Silicon Valley Bancshares)

(Exact name of registrant as specified in its charter)

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

(408) 654-7400

Registrant s telephone number, including area code:

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

Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No o

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

Yes o No ý

At April 28, 2006, 35,534,315 shares of the registrant s common stock ($0.001 par value) were outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1 - INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except par value)	**March 31, 2006**	**December 31, 2005**
Assets		
Cash and due from banks	$ 293,022	$ 286,446
Federal funds sold, securities purchased under agreement to resell and other short-term investments	256,973	175,652
Investment securities	1,944,335	2,037,270
Loans, net of unearned income	2,757,980	2,843,353
Allowance for loan losses	(35,982)	(36,785)
Loans, net	2,721,998	2,806,568
Premises and equipment, net of accumulated depreciation and amortization	26,922	25,099
Goodwill	35,638	35,638
Accrued interest receivable and other assets	167,380	175,042
Total assets	$ 5,446,268	$ 5,541,715
Liabilities, Minority Interest, and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 2,998,220	$ 2,934,278
Negotiable order of withdrawal (NOW)	38,071	39,573
Money market	795,216	961,052
Time	316,999	317,827
Total deposits	4,148,506	4,252,730
Federal funds purchased and securities sold under agreement to repurchase	289,604	279,464
Contingently convertible debt	147,810	147,604
Junior subordinated debentures	49,560	48,228
Other borrowings	2,574	11
Other liabilities	83,731	124,921
Total liabilities	4,721,785	4,852,958
Commitments and contingencies		
Minority interest in capital of consolidated affiliates	138,365	119,456
Stockholders equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.001 par value, 150,000,000 shares authorized; 35,446,037 and 35,103,145 shares outstanding at March 31, 2006 and December 31, 2005, respectively	35	35
Additional paid-in capital	7,812	8,439
Retained earnings	609,764	587,713
Unearned compensation		(5,792)
Accumulated other comprehensive loss	(31,493)	(21,094)
Total stockholders equity	586,118	569,301
Total liabilities, minority interest, and stockholders equity	$ 5,446,268	$ 5,541,715

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)	For the three months ended March 31, 2006	March 31, 2005
Interest income:		
Loans	$ 66,148	$ 47,456
Investment securities:		
Taxable	20,394	20,745
Non-taxable	823	1,023
Federal funds sold, securities purchased under agreement to resell and other short term investments	2,040	2,959
Total interest income	89,405	72,183
Interest expense:		
Deposits	2,325	2,262
Other borrowings	3,201	795
Total interest expense	5,526	3,057
Net interest income	83,879	69,126
Recovery of loan losses	(2,474)	(3,814)
Net interest income after recovery of provision for loan losses	86,353	72,940
Noninterest income:		
Client investment fees	9,637	7,396
Corporate finance fees	2,438	4,814
Letter of credit and standby letter of credit income	2,350	2,370
Deposit service charges	2,178	2,504
Gains on derivative instruments, net	2,227	4,026
(Losses) gains on investment securities, net	(61)	1,202
Other	4,632	3,057
Total noninterest income	23,401	25,369
Noninterest expense:		
Compensation and benefits (including share-based compensation expense of $5.9 million and $1.2 million, respectively)	44,521	40,268
Professional services	8,355	5,070
Net occupancy	4,205	4,658
Furniture and equipment	3,704	2,719
Business development and travel	2,754	2,090
Correspondent bank fees	1,130	1,221
Data processing services	1,128	1,013
Telephone	907	889
Reduction of unfunded credit commitments	(496)	(185)
Other	4,480	3,072
Total noninterest expense	70,688	60,815
Income before minority interest in income of consolidated affiliates, income tax expense and cumulative effect of change in accounting principle	39,066	37,494
Minority interest in net (income) loss of consolidated affiliates	(244)	441
Income before income tax expense	38,822	37,935
Income tax expense	16,743	14,999
Net income before cumulative effect of change in accounting principle	22,079	22,936

Cumulative effect of change in accounting principle, net of tax		192		
Net income	$	22,271	$	22,936
Earnings per common share basic, before cumulative effect of change in accounting principle	$	0.63	$	0.64
Earnings per common share diluted, before cumulative effect of change in accounting principle	$	0.57	$	0.59
Earnings per common share basic	$	0.63	$	0.64
Earnings per common share diluted	$	0.58	$	0.59

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	For the three months ended March 31, 2006	March 31, 2005
Net income	$ 22,271	$ 22,936
Other comprehensive (loss) income, net of tax:		
Cumulative translation gains (losses):		
Translation gains (losses), net of tax	38	
Change in unrealized (losses) gains on available-for-sale investment securities:		
Unrealized holding (losses) gains, net of tax	(10,536)	(14,051)
Reclassification adjustment for gains (losses) included in net income, net of tax	99	(203)
Other comprehensive (loss) income, net of tax	(10,399)	(14,254)
Comprehensive income	$ 11,872	$ 8,682

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	**For the three months ended March 31, 2006**	**March 31, 2005**
Cash flows from operating activities:		
Net income	$ 22,271	$ 22,936
Adjustments to reconcile net income to net cash provided by operating activities:		
Recovery of provision for loan losses	(2,474)	(3,814)
Changes in fair values of derivatives, net	(359)	462
Losses (gains) on investment securities, net	61	(1,202)
Depreciation and amortization	1,872	2,136
Minority interest	244	(441)
Tax benefits of share compensation and other	4,145	3,284
Share-based payment	5,938	1,245
Amortization of deferred warrant-related loan fees	1,507	(1,746)
Deferred income tax expense	4,552	2,806
Changes in other assets and liabilities:		
Decrease (increase) in accrued interest receivable	2,505	(1,117)
Decrease in accounts receivable	1,325	396
(Increase) decrease in income tax receivable, net	(11,760)	5,568
Decrease in accrued retention, incentive plans, other compensation benefits payable	(32,370)	(25,169)
Reduction of provision for unfunded credit commitments	(496)	(185)
Other, net	6,939	6,781
Net cash provided by operating activities	**3,900**	**11,940**
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,002)	(172,537)
Proceeds from sales of available-for-sale securities	644	1,829
Proceeds from maturities and pay-downs of available-for-sale securities	94,117	103,511
Purchases of nonmarketable securities (cost method accounting)	(5,976)	(2,750)
Proceeds from sales of nonmarketable securities (cost method accounting)	265	2,297
Proceeds from maturities and pay-downs of nonmarketable securities (cost method accounting)	1,443	1,210
Purchases of nonmarketable securities (investment fair value accounting)	(19,971)	(11,705)
Proceeds from sales of nonmarketable securities (investment fair value accounting)	3,580	927
Proceeds from maturities and pay-downs of nonmarketable securities (investment fair value accounting)	3,667	
Net decrease (increase) in loans	85,256	(34,781)
Proceeds from recoveries of charged-off loans	3,031	5,959
Purchases of premises and equipment	(3,694)	(3,583)
Net cash provided by (used for) investing activities	**161,360**	**(109,623)**
Cash flows from financing activities:		
Net decrease in deposits	(104,224)	(63,239)
Increase in other borrowings, net	12,703	2,095
Capital contributions from minority interest participants, net of distributions	18,665	14,866
Stock compensation related tax benefits	3,156	
Proceeds from issuance of common stock	17,616	4,831
Repurchase of common stock	(25,279)	(33,056)
Net cash used for financing activities	**(77,363)**	**(74,503)**

Net increase (decrease) in cash and cash equivalents		87,897		(172,186)
Cash and cash equivalents at beginning of year		462,098		627,218
Cash and cash equivalents at end of period	**$**	**549,995**	**$**	**455,032**
Supplemental disclosures:				
Cash paid during the period for:				
Interest paid	$	5,261	$	3,035
Income taxes paid	$	16,636	$	3,673

See accompanying notes to interim unaudited consolidated financial statements.

SVB FINANCIAL GROUP AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Nature of Business

SVB Financial Group (formerly known as Silicon Valley Bancshares and individually referred to herein as SVB Financial Group, the Parent) and its subsidiaries (collectively referred to as the Company or SVB Financial Group) offer clients financial products and services through five strategic business groups: Commercial Banking, SVB Capital, SVB Alliant, SVB Global and Private Client Services. (see Note 10. Segment Reporting).

SVB Financial Group, the Parent is a bank holding company and a financial holding company whose principal subsidiary is Silicon Valley Bank (the Bank), a California-chartered bank, founded in 1983, and headquartered in Santa Clara, California. SVB Financial Group serves more than 11,000 clients across the country, through its 27 regional offices in the United States and three subsidiaries outside the United States. The Bank has 13 offices throughout California and operates regional offices across the country in Arizona, Colorado, Georgia, Illinois, Massachusetts, Minnesota, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia, and Washington. The three international offices are located in Bangalore, India; Shanghai, China; and London, England.

Through our Commercial Banking business group which includes Silicon Valley Bank and its subsidiaries, we serve clients in all stages of maturity ranging from emerging-growth companies to established, private and public companies in the technology, life science and premium wine industries. We define emerging-growth clients as companies in the start-up or early stages of their lifecycle; these companies tend to be privately held and backed by venture capital; they generally have few employees, are primarily engaged in research and development, have brought relatively few products or services to market, and have no or little revenue. By contrast, we define established and corporate technology clients as companies that tend to be more mature; these companies may be publicly traded, and more established in the markets in which they participate. In 2006, we began using SVB Silicon Valley Bank to refer to our Commercial Banking activities.

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

SVB Alliant, our investment banking subsidiary, provides merger and acquisition advisory services (M&A), private placement advisory services through our Private Capital Group, strategic alliance services, and specialized financial studies such as valuations and fairness opinions. SVB Alliant is a broker-dealer registered with the U.S. Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers, Inc. (NASD). In 2005, we established SVB Alliant Europe Limited, a subsidiary based in London, England, that will provide investment advisory services to companies in Europe when the subsidiary becomes licensed to do so by the Financial Services Authority in England.

SVB Global (formerly referred to as our Global Financial Services group) , which we began referring to as SVB Global in 2006, includes our foreign subsidiaries which facilitate our clients global expansion into major technology centers around the world. The SVB Global group provides a variety of services, including consulting and business services, referrals, and knowledge sharing, as well as identifying business opportunities for SVB Financial Group.

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. The Private Client Services group helps our clients meet their cash management needs by providing deposit account products and services, including checking accounts, deposit accounts, money market accounts, and certificates of deposit.

2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements contain all adjustments (of a normal and recurring nature) that are, in the opinion of management, necessary to fairly present our financial position results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America (GAAP). Such interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results for any future periods. These interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

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

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

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

Federal funds sold, securities purchased under agreement to resell and other short-term investment securities as reported in the interim consolidated balance sheets include interest-bearing deposits in other financial institutions of $26.3 million and $34.7 million at March 31, 2006 and December 31, 2005, respectively.

Share-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No.123 (revised 2004), Share-Based Payment (SFAS No. 123 (R)), which requires the measurement and recognition of compensation expense based on estimated fair value for all share-based payment awards including stock options, employee stock purchases under employee stock purchase plans, non-vested share awards (restricted stock) and stock appreciation rights. SFAS No. 123 (R) supersedes our previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107, which provides the Staff s views regarding implementation issues related to SFAS No. 123 (R).

We adopted the provisions of SFAS No. 123 (R) using the modified prospective transition method beginning January 1, 2006. See Note 4. Share-Based Compensation. In accordance with that transition method, we have not restated prior periods for the effect of compensation expense calculated under SFAS No. 123 (R). We have selected the Black-Scholes option-pricing model as the most appropriate method for determining the estimated fair value of all our awards.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154), which replaces APB No. 20 Accounting Changes and SFAS No. 3 Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 also changes the requirements for the accounting for and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS No. 154 was effective for us beginning January 1, 2006. We do not expect the adoption of SFAS No. 154 to have a material impact on our results of operations or financial condition.

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

3. Earnings Per Share (EPS)

The following is a reconciliation of basic EPS to diluted EPS for the three months ended March 31, 2006 and March 31, 2005:

(Dollars and shares in thousands, except per share amounts)	Net Income	For the three months ended March 31, Weighted Average Shares	Per Share Amount
2006:			
Basic EPS:			
Income available to common stockholders	$ 22,271	35,086	$ 0.63
Effect of dilutive securities:			
Share-based compensation and convertible debt		3,361	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 22,271	38,447	$ 0.58
2005:			
Basic EPS:			
Income available to common stockholders	$ 22,936	35,632	$ 0.64
Effect of dilutive securities:			
Share-based compensation and convertible debt		3,134	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 22,936	38,766	$ 0.59

In September 2004, the EITF reached final consensus on EITF 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share (EITF 04-8), that contingently convertible securities should be treated as convertible securities and included in the calculation of diluted earnings per common share. The potential dilutive effect of the contingently convertible debt using the treasury stock method was approximately 1.5 million shares and 1.0 million shares for the quarters ended March 31, 2006 and March 31, 2005, respectively. The assumed proceeds under the treasury stock method were calculated by subtracting the aggregate weighted average conversion price for the average market price of the shares related to the contingently convertible debt. We included the dilutive effect of the $150.0 million zero-coupon, convertible subordinated notes due June 15, 2008 in our fully diluted earnings per share (EPS) calculation using the treasury stock method, in accordance with the provisions of EITF No. 90-19, Convertible Bonds With Issuer Option to Settle in Cash Upon Conversion (EITF 90-19) and SFAS No. 128, Earnings Per Share (SFAS No. 128). However, the exposure draft of SFAS No. 128(R), if adopted in its proposed form, will require us to change our accounting for the calculation of EPS on our contingently convertible debt to the if converted method. The if converted treatment of the contingently convertible debt would have decreased EPS by $0.04 per diluted common share, or 7.2 percent and by $0.05 per diluted common shares or 8.5 percent for the three months ended March 31, 2006 and 2005, respectively.

4. Share-Based Compensation

Equity Incentive Plans

Our 1997 Equity Incentive Plan (the 1997 Plan), provides for the grant of incentive stock options to employees and nonstatutory stock options, stock appreciation rights, restricted stock purchase awards, stock bonuses, and restricted stock units (collectively Stock Awards) to employees, directors and non employees. The 1997 Plan provides a means by which selected employees, directors and non employees of the Company may be given an opportunity to purchase shares of our common stock at a price not less than 100% of the fair market value of the common stock on the date the option is granted for incentive and nonstatutory stock or receive cash based on stock appreciation. Options may vest over various periods not in excess of five years from the date of grant and expire five to ten years from the date of grant.

The 1997 Plan provides for the granting of shares of our common stock to directors, employees, and non employees. Shares granted under this plan may be subject to certain vesting requirements and resale restrictions (restricted stock). For the quarters ended March 31, 2006 and 2005, we made restricted stock awards for 201 shares of restricted stock at a weighted-average fair value of 49.36 per share and 5,690 shares at a weighted-average fair value of 45.50 per share, respectively. We awarded 13,205 restricted stock units with an aggregate intrinsic value of $700,525 for the three month period ended March 31, 2006. At March 31, 2006, there were 250,862 shares of restricted stock outstanding, the vesting of these shares occurs on various dates through the years ending December 31, 2006, 2007, 2008 and 2009.

Employee Stock Purchase Plan

We maintain an employee stock purchase plan (ESPP) under which participating employees may annually contribute up to 10% of their gross compensation to purchase shares of our common stock at 85% of its fair market value at either the beginning or end of each six-month offering period, whichever price is less. All employees are eligible to participate in the ESPP. Eligible employees become Plan participants on the first day of hire. To be eligible, an employee must, among other requirements, be age 18 or above and complete at least one hour of service as an employee of us or any of our affiliates. Effective January 1, 2006, we began recognizing compensation expense in accordance with SFAS 123R. At March 31, 2006, a total of 986,613 shares of our common stock were reserved for future issuance under the ESPP. There were no shares issued under the ESPP during the three months ended March 31, 2006. The next purchase will be on June 30, 2006 at the end of the current six-month offering period

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

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

If compensation cost related to our stock option awards to employees and directors and to the ESPP had been determined under the fair value method prescribed under SFAS No. 123, our net income, basic earnings per share, and diluted earnings per share would have been the pro forma amounts shown below for the three months ended March 31, 2005:

(Dollars in thousands, except per share amounts)		**For the three months ended March 31, 2005**
Net income, as reported	$	22,936
Add: Stock-based compensation expense, net of tax reported in net income		662
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax		(5,318)
Net income, pro forma	$	18,280
Earnings per common share basic:		
As reported	$	0.64
Pro forma		0.51
Earnings per diluted share diluted:		
As reported	$	0.59
Pro forma		0.48

Impact of the Adoption of SFAS No. 123 (R)

We adopted SFAS No. 123 (R) and related interpretations using the modified prospective transition method beginning January 1, 2006. Accordingly, during the three-month period ended March 31, 2006, we recorded share-based compensation expense for awards granted prior to but not yet vested as of January 1, 2006 as if the fair value method required for pro forma disclosure under SFAS No. 123 were in effect for expense recognition purposes adjusted for estimated forfeitures. For restricted stock grants, we continued to recognize compensation expense using the accelerated amortization method under FIN 28. For share-based awards granted after January 1, 2006 we have recognized compensation expense based on the estimated grant date fair value method required under SFAS No. 123 (R). For these awards we have recognized compensation expense using a straight-line amortization method. As SFAS No. 123 (R) requires that share-based compensation expense be based on awards that are ultimately expected to vest, estimated share-based compensation for the three-month period ended March 31, 2006 has been reduced for estimated forfeitures. Upon adoption, we recorded a cumulative effect of change in accounting principle net of tax to reflect the application of an assumed forfeiture rate to all restricted share awards which continued to vest subsequent to the implementation date. The impact on our results of continuing operations of recording share-based compensation for the three-month period ended March 31, 2006 was as follows:

Share-based Payment Expense

(Dollars in thousands, except per share amounts)		**For the three months ended March 31, 2006**
Total share-based compensation expense	$	5,938
Income tax benefit		1,275
Total share-based compensation expense, net of tax	$	4,663
Impact on earnings per common share:		
Basic	$	0.13
Diluted		0.12

Unrecognized Compensation Expense

		March 31, 2006	
(Dollars in thousands)		**Unrecognized Expense**	**Average Expected Recognition Period in Years**
Stock option awards	$	21,025	1.11
Restricted stock awards		5,188	1.06
Employee stock purchase plan		350	0.25
Total unrecognized share-based compensation expense	$	26,563	

Valuation Assumptions

As of March 31, 2006 and 2005, the fair value of share-based awards for employee stock option awards, restricted stock and employee stock purchases made under our ESPP was estimated using the Black-Scholes option pricing model. The following weighted average assumptions were used:

	For the three months ended March 31, 2006		For the three months ended March 31, 2005
Equity Incentive Plan Awards			
Expected term of options in years		5.2		5.1
Expected volatility of the Company s underlying common stock		30.4%		39.5%
Risk-free interest rate		4.48%		3.89%
Expected dividend yield		%		%
Weighted average fair values-stock options	$	18.28	$	18.19
Weighted average fair value-stock awards	$	49.36	$	45.50
ESPP				
Expected term of options in years		0.5		0.5
Expected volatility of the Company s underlying common stock		22.5%		24.8%
Risk-free interest rate		4.40%		2.63%
Expected dividend yield		%		%
Weighted average fair value	$	10.23	$	10.01

The expected term was based on the implied term of the stock options using a lattice option-pricing model with early exercise factors based on historic employee exercise behavior. The expected volatilities for the Equity Incentive Plan for the three months ended March 31, 2006 and 2005 were calculated using a blended rate consisting of equal measures of our historic volatility and our expected volatility over a five-year term. The expected volatilities for the ESPP for the three months ended March 31, 2006 and 2005 are equal to the historical volatility for the previous six month periods. The expected risk-free interest rates for all periods were based on the yields of Treasury Securities, as reported by the Federal Reserve Bank of New York, with maturities equal to the expected terms of the employee stock options.

Share-Based Payment Award Activity

The table below provides stock option information related to the 1989 Stock Option Plan and the 1997 Plan for the three-month periods ended March 31, 2006 and 2005:

	March 31, 2006 Shares		March 31, 2006 Weighted-Average Exercise Price
Outstanding at beginning of period	6,024,455	$	28.84
Granted	39,550		50.79
Exercised	(792,938)		23.09

Forfeited	(120,436)		34.05
Outstanding at March 31	5,150,631		29.81
Exercisable at March 31	3,007,828	$	26.12

Intrinsic Value	Shares	Weighted-Average Exercise Price	Remaining Contractual Life in Years	Aggregate Intrinsic Value of In-The-Money Options ($)
Outstanding at March 31, 2006	5,150,631	$ 29.81	4.61	$ 119,722,700
Exercisable at March 31, 2006	3,007,828	$ 26.12	4.50	$ 81,009,938

The aggregate intrinsic value of outstanding options shown in the table above represents the pretax intrinsic value as of March 31, 2006. This value is based on the Company s closing stock price of $53.05 as of March 31, 2006. The total intrinsic value of options exercised during the three months ended March 31, 2006 and March 31, 2005, was $21.5 million and $4.7 million, respectively. Cash received from stock option exercises was $17.6 million and $4.8 million during the three months ended March 31, 2006 and 2005, respectively. The tax benefit of stock options exercised was $6.8 million and $2.5 million for the three months ended March 31, 2006 and 2005, respectively.

The following table summarizes information regarding stock options outstanding as of March 31, 2006:

	Outstanding Options			Vested Options	
Ranges of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$8.25 - $17.07	702,323	4.10	$ 13.62	604,224	$ 13.12
17.20 - 23.69	567,635	5.24	22.35	477,298	22.57
23.90 - 25.17	561,269	2.58	25.06	270,960	25.00
25.29 - 26.40	554,086	5.31	26.06	550,212	26.06
26.66 - 31.29	570,841	5.68	30.91	417,508	30.97
31.40 - 35.04	114,518	4.51	33.32	94,819	33.20
35.26 - 35.26	528,512	2.59	35.26	246,380	35.26
35.54 - 36.30	519,991	4.99	35.57	130,505	35.61
36.34 - 42.19	519,104	5.36	39.68	136,872	39.62
43.26 - 51.69	512,352	5.87	46.00	79,050	49.45
$8.25 - $51.69	5,150,631	4.61	$ 29.81	3,007,828	$ 26.12

The Company expects to satisfy the exercise of stock options and future grants of restricted stock by issuing new shares registered under the Plan. At March 31, 2006, options for 1,553,149 shares were available for future grant under the 1997 Plan.

The table below provides restricted stock award information related to the 1989 Stock Option Plan and the 1997 Plan for the three-month periods ended March 31, 2006 and 2005:

	March 31, 2006		March 31, 2005	
	Shares	Weighted-Average Fair Value	Shares	Weighted-Average Fair Value
Outstanding at beginning of period	253,848	$ 42.12	251,113	$ 29.56
Granted	201	49.36	5,690	45.50
Vested	(201)	49.36	(92,382)	17.39
Forfeited	(2,986)	44.36	(643)	17.09
Outstanding at March 31	250,862	$ 42.10	163,778	$ 37.03

The total fair value of restricted stock grants that vested during the three months ended March 31, 2006 and March 31, 2005 was $9.9 thousand and $1.6 million respectively.

5. Investment Securities

The detailed composition of our investment securities is presented as follows:

(Dollars in thousands)		March 31, 2006		December 31, 2005
Available-for-sale securities, at fair value	$	1,740,288	$	1,850,655
Non-marketable securities (investment company fair value accounting):				
Venture capital fund investments(1)		90,205		81,280
Other private equity investments(2)		27,505		26,782
Other investments(3)		28,301		25,300
Non-marketable securities (equity method accounting):				
Other investments (4)		13,082		10,985
Low income housing tax credit funds		13,913		11,682
Non-marketable securities (cost method accounting):				
Fund investments		27,514		26,924
Other private equity investments		3,527		3,662
Total investment securities	$	1,944,335	$	2,037,270

(1) Includes $60.3 million and $58.7 million related to SVB Strategic Investors Fund, LP at March 31, 2006 and December 31, 2005, respectively. We have a controlling ownership interest of 12.6% in the fund. Also includes $28.8 million and $22.1 million related to SVB Strategic Investors Fund II, LP, at March 31, 2006 and December 31, 2005, respectively. We have a controlling interest of 8.6% in the fund. Additionally, it includes $1.1 million and $0.5 million related to SVB Strategic Investors Fund III, LP at March 31, 2006 and December 31, 2005, respectively. We have a controlling interest of 11.6% in the fund.

(2) Includes $27.5 million and $26.8 million related to Silicon Valley BancVentures, LP at March 31, 2006 and December 31, 2005, respectively. We have a controlling ownership interest of 10.7% in the fund.

(3) Includes $28.3 million and $25.3 million related to Partners for Growth, LP at March 31, 2006 and December 31, 2005, respectively. We have a majority ownership interest of 50.0% in the fund.

(4) Includes $6.3 million and $5.6 million related to Gold Hill Venture Lending Partners 03, LLC, the general partners of Gold Hill Venture Lending 03, LP, as of March 31, 2006 and December 31, 2005, respectively. We have a majority interest of 90.7% in Gold Hill Venture Lending Partners 03, LLC. Gold Hill Venture Lending Partners 03, LLC has an ownership interest of 5.0% in the fund. It also includes $6.1 million and $5.4 million related to Gold Hill Venture Lending Partners 03, LP, as of March 31, 2006 and December 31, 2005, respectively. We have a direct ownership interest of 4.8% in the fund. Additionally, it includes $0.7 million to Partners for Growth II, LP as of March 31, 2006. We have an ownership interest of 24.2% in the fund.

The following table breaks out our unrealized losses on our available-for-sale investment securities portfolio into categories of less than 12 months or 12 months or longer as of March 31, 2006:

	March 31, 2006					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value of Investments	Unrealized Losses Investments	Fair Value of Investments (1)	Unrealized Losses(1)	Fair Value of Investments	Unrealized Losses
	(Dollars in thousands)					
U.S. Treasury securities	$ 9,850	$ (118)	$ 19,894	$ (105)	$ 29,744	$ (223)
U.S. agencies and corporations:						
Collateralized mortgage obligations	394,818	(8,717)	374,526	(15,155)	769,344	(23,872)
Mortgage-backed securities	296,873	(10,028)	160,976	(8,185)	457,849	(18,213)
Discount notes and bonds	48,564	(1,401)	189,047	(5,991)	237,611	(7,392)
Asset-backed securities			87,654	(1,511)	87,654	(1,511)
Commercial mortgage-backed securities	68,395	(2,779)			68,395	(2,779)
Total temporarily impaired securities	$ 818,500	$ (23,043)	$ 832,097	$ (30,947)	$ 1,650,597	$ (53,990)

(1) As of March 31, 2006, we identified investments totaling $832.1 million with unrealized losses of $30.9 million whose fair value has been less than their adjusted cost for a period of time greater than twelve months. We had two U.S. Treasury securities totaling $19.9 million with unrealized losses of $0.1 million which were purchased in October 2003 and February 2005. We had 43 securities classified as collateralized mortgage obligations totaling $374.5 million with unrealized losses of $15.2 million which were originally purchased between July 1998 and February 2005 We had 16 securities classified as mortgage-backed securities totaling $161.0 million with unrealized losses of $8.2 million which were originally purchased between July 2001 and April 2004. We had 15 securities classified as discount notes and bonds totaled $189.0 million with unrealized losses of $6.0 million which were originally purchased between February 2003 and February 2005. We had 15 securities classified as asset-backed securities totaled $87.7 million with unrealized losses of $1.5 million which were originally purchased between October 2002 and February 2005. All investments with unrealized losses for a period of time greater than twelve months are either rated AAA by Moody s and/or S&P or are issued by the US Treasury government or a government-sponsored enterprise. Because these securities are of superior credit quality, the unrealized losses are due solely to increases in market interest rates and we expect to recover the impairment prior to or at maturity, thus the Company deems these impairments to be temporary. We have the intent and ability to hold the securities until the market value recovers. Market valuations and impairment analysis on assets in the investment portfolio are reviewed and monitored on an ongoing basis.

The following table presents the components of gains and losses on investment securities, for the three months ended March 31, 2006 and March 31, 2005.

(Dollars in thousands)	**For the three months ended March 31, 2006**	**March 31, 2005**
Gross gains on investment securities:		
Available-for-sale securities, at fair value	$ 170	$ 50
Non-marketable securities (investment company fair value accounting):		
Venture capital fund investments	2,567	1,595
Other private equity investments	2	405
Other investments	3	
Non-marketable securities (equity method accounting)	207	
Non-marketable securities (cost method accounting):		
Venture capital fund investments	76	2,051
Total gross gains on investment securities	3,025	4,101
Gross losses on investment securities:		
Available-for-sale securities, at fair value		(397)
Non-marketable securities (investment company fair value accounting):		
Venture capital fund investments	(2,196)	(1,205)
Non-marketable securities (equity method accounting)	(552)	(51)
Non-marketable securities (cost method accounting):		
Venture capital fund investments	(293)	(846)
Other private equity investments	(45)	(400)
Total gross losses on investment securities	(3,086)	(2,899)
Gains (losses) on investment securities, net	$ (61)	$ 1,202

6. Loans and Allowance for Loan Losses

The detailed composition of loans, net of unearned income of $19.3 million and $20.6 million for the periods ended March 31, 2006 and December 31, 2005, respectively, is presented in the following table:

(Dollars in thousands)	**March 31, 2006**	**December 31, 2005**
Commercial loans	$ 2,345,592	$ 2,410,893
Vineyard development	102,418	104,881
Commercial real estate	18,723	20,657
Total real estate construction	121,141	125,538
Real estate term consumer	42,724	39,906
Real estate term commercial	7,827	10,694
Total real estate term	50,551	50,600
Consumer and other	240,696	256,322
Total loans, net of unearned income	$ 2,757,980	$ 2,843,353

The activity in the allowance for loan losses for the three months ended March 31, 2006 and March 31, 2005 was as follows:

(Dollars in thousands)	Three months ended March 31, 2006		Three months ended March 31, 2005	
Beginning balance	$	36,785	$	37,613
Recovery of provision for loan losses		(2,474)		(3,814)
Loans charged off		(1,361)		(4,060)
Recoveries		3,032		5,959
Ending balance	$	35,982	$	35,698

The aggregate recorded investment in loans for which impairment has been determined in accordance with SFAS No. 114 totaled $3.9 million and $13.4 million at March 31, 2006 and March 31, 2005, respectively. Allocations of the allowance for loan losses specific to impaired loans totaled $0.3 million at March 31, 2006, and $3.8 million at March 31, 2005. Average impaired loans for the first quarter of 2006 and 2005 totaled $5.6 million and $13.8 million, respectively.

7. Borrowings

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

(Dollars in thousands)	Maturity		March 31, 2006		December 31, 2005
Other borrowings	Overdraft	$	79	$	11
Revolving line of credit structured lending fund	Due on Demand		2,495		
Total other borrowings		$	2,574	$	11
Federal funds purchased and securities sold under agreement to repurchase	Less than One Month	$	289,604	$	279,464
Contingently convertible debt	June 15, 2008		147,810		147,604
Junior subordinated debentures	October 15, 2033		49,560		48,228

Interest expense related to other borrowings was $6,000 and $75,000 for the three months ended March 31, 2006 and 2005, respectively. The weighted average interest rates associated with the our borrowings outstanding for the three months ended March 31, 2006 and the year ended December 31, 2005 was 3.33% and 2.27%, respectively.

Contingently Convertible Debt

The fair value of the convertible debt at March 31, 2006 was $238.4 million, based on quoted market prices. We intend to settle the principal amount of $150.0 million (accreted value) in cash. Based on the terms of the notes, if, at any time before June 15, 2007, the per share stock price on the last trading day of the immediately preceding fiscal quarter was 110% or more of the then current conversion price, the notes would become convertible. The per share closing price of $53.05 of our common stock on March 31, 2006, the last trading day of first quarter of 2006, was 57.8% or more than the then current conversion price of $33.6277. Accordingly, during the first quarter of 2006, our note holders held the right, at their option, to convert their notes, in whole or in part, subject to certain limitations, at the conversion price of $33.6277. We received conversion notice relating to the notes in an aggregate principal amount of $39,000 during the first quarter of 2006 and $103,000 cumulatively.

Concurrent with the issuance of the convertible notes, we entered into a convertible note hedge at a cost of $39.3 million and a warrant transaction providing proceeds of $17.4 million with respect to our common stock, with the objective of decreasing our exposure to potential dilution from conversion of the notes (see Note 8. Derivative Financial Instruments - Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock).

Available Lines of Credit

As of March 31, 2006, we have available $491.0 million in federal funds and lines of credit, $391.0 of which were unused. In addition to the available federal funds lines we have reverse repurchase agreement lines available with multiple securities dealers. Reverse repurchase lines allow us to finance short term borrowings using various fixed income securities as collateral. At March 31, 2006, we borrowed $189.6 million against our reverse repurchase lines.

8. Derivative Financial Instruments

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

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

	At March 31, 2006		
	Notional or contractual amount	Credit risk Amount (1)	Estimated net fair value Asset (liability)
		(Dollars in thousands)	
Derivatives			
Interest rate swap	$ 50,000	$	$ (2,871)
Foreign exchange spot and forwards	462,212	2,747	(124)
Foreign currency options	7,284	55	
Equity warrant assets	105,650	28,343	28,343
Equity conversion option	1,000	451	451

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

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

Fair Value Hedges

Derivative instruments that we hold as part of our interest rate risk management may include interest rate swaps, caps and floors, and forward contracts. On October 30, 2003, we entered into an interest rate swap agreement with a notional amount of $50.0 million. This agreement economically hedges against the risk of changes in fair values associated with the majority of our 7.0% fixed rate, junior subordinated debentures. For information on our junior subordinated debentures, see Note 7. Borrowings.

The terms of this fair value hedge agreement provide for a swap of our 7.0% fixed rate payment for a variable rate based on London Inter-Bank Offer Rate (LIBOR) plus a spread. This derivative agreement provided a benefit of $0.2 million and $0.4 million in the three months ended March 31, 2006 and 2005, respectively. The swap agreement largely mirrors the terms of the junior subordinated debentures and therefore is callable by the counterparty anytime on or after October 30, 2008. Changes in the fair value of the swap are recognized in net income as a gain or loss on derivative instruments. Changes in the fair value of the derivative agreement are primarily dependent on changes in market interest rates in relation to this interest swap agreement. We recorded a negative change in fair value of $2.9 million for the quarter ended March 31, 2006.

Derivatives

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

We enter into foreign exchange forward contracts and non-deliverable foreign exchange forward contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency at a future date, depending upon the clients need. For each of the foreign exchange forward contracts and non-deliverable foreign exchange forward contracts entered into with our clients, we enter into an opposite way foreign exchange forward contract and non-deliverable foreign exchange forward contract with a correspondent bank, which mitigates the risk of fluctuations in foreign currency exchange rates. These contracts are short-term in nature, typically expiring within one year. We have not experienced nonperformance by counterparties and therefore have not incurred related losses. Further, we anticipate performance by all counterparties to such agreements.

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

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

We obtain derivative equity warrant assets to purchase an equity position in a client company s stock in consideration for providing credit facilities and less frequently for providing other services. The purpose of obtaining warrants from client companies is intended to increase future revenue. The change in fair value of equity warrant assets is recorded in noninterest income, a component of consolidated net income. The change in fair value of the warrants resulted in a net gain (loss) of $0.3 million and ($0.8) million for the three months ended March 31, 2006 and 2005, respectively.

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

On May 20, 2003, we issued $150.0 million of zero-coupon, convertible subordinated notes at face value, due June 15, 2008, (See Note 7. Borrowings). These notes include a conversion feature which is indexed to and could potentially be settled in our stock. The conversion option is an embedded derivative, which, pursuant to paragraphs 11(a) and 12(c) of SFAS No. 133, qualifies as an embedded derivative indexed to our stock. If it was a freestanding derivative, it would be classified in stockholders equity. Thus, the embedded derivative is not considered a derivative for purposes of SFAS No. 133 and is not recorded on our financial statements at fair value.

Concurrent with the issuance of the $150 million principal amount of contingently convertible notes, (See Note 7 Borrowings), we entered into a convertible note hedge (purchased call option) at a cost of $39.3 million and a warrant transaction providing proceeds of $17.4 million with respect to our common stock, with the objective of decreasing our exposure to potential dilution from conversion of the contingently convertible notes.

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

At issuance under the warrant agreement, the counterparty could purchase up to approximately 4,460,608 shares of our common stock at $51.34 per share, upon the occurrence of conversion events defined above. The warrant transaction will expire on June 15, 2008. The proceeds of the warrant transaction were included in stockholders equity in accordance with the guidance in EITF 00-19. Due to conversion events in 2005 and 2006, the counterparty s right to purchase our stock under warrant has been decreased by 3,063 shares. Also see Note 3. Earnings Per Share.

9. Common Stock Repurchase

We currently have in place a program authorizing our repurchase of up to $305.0 million of stock. The repurchase program was initially authorized by our Board of Directors and announced on May 7, 2003 for $160.0 million (with no expiration date), and was subsequently increased by $75.0 million (announced on January 27, 2005 and to be repurchased before June 30, 2006) and $70.0 million (announced on January 26, 2006 and to be repurchased before June 30, 2007). Unless earlier terminated by the Board, the program will expire on June 30, 2007. The Company s trading window closed at the close of business on March 3, 2006. To continue the repurchase program, the Company put into effect a 10b5-1 plan which allowed the Company to automatically repurchase a predetermined number shares per day at the market price on every trading day until the trading window re-opened on May 2, 2006. As of March 31, 2006, we had repurchased 7.0 million shares totaling $229.3 million. During the three months ended March 31, 2006, we repurchased 510,000 shares of our common stock. At March 31, 2006, the approximate dollar value of shares that may still be repurchased under this program was $75.7 million.

10. Segment Reporting

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 financial performance as our reportable segments. Please refer to the discussion of our segment organization in our 2005 Annual Report on Form 10-K, Part I. Item 1. Business Business Overview.

We are organized into five lines of banking and financial services for management reporting: Commercial Banking, SVB Capital, SVB Alliant, SVB Global (formerly referred to as Global Financial Services), and Private Client Services and Other Business Services. These operating segments are strategic units that offer different services to different clients. The segments are managed separately because they appeal to different markets and, accordingly, require different strategies. The results of operating segments are based on our internal profitability reporting process. This process assigns each client relationship in its entirety, to a primary operating segment. The process assigns income and expenses to the operating segments according to the customer s primary relationship designation. Additionally, working capital and its associated costs are allocated to the operating segments on an economic basis, treating each operating segment as if it were an independent entity. Unlike financial reporting, which benefits from the comprehensive structure provided by GAAP, the internal profitability reporting process is highly subjective, as there is no comprehensive, authoritative guidance for management reporting. The management reporting process measures the performance of operating segments based on our internal operating structure and is not necessarily comparable with similar information for other financial services companies. Changes in the management structure or the allocation process have resulted, and may in the future result in changes in our allocation methodology as this process is under constant refinement. In the event of such changes, results for prior periods have been, and may be, restated for comparability. Changes in an individual client s primary relationship designation have resulted, and may in the future result in the inclusion of certain clients in different segments in different periods.

As of March 31, 2006, based on the quantitative threshold for determining reportable segments as required by SFAS No. 131, our reportable segments are Commercial Banking and SVB Capital. SVB Alliant, Private Client Services and SVB Global do not meet the separate reporting thresholds as defined by SFAS No. 131 and as such, have been aggregated in a column labeled Other Business Services for segment reporting purposes. For further information, please see our 2005 Form 10-K under Part II. Item 8. Consolidated Financial Statements and Supplementary Data - Note 25. Segment Reporting.

Commercial Banking provides solutions to the needs of our commercial clients in the technology, life science, and premium wine industries, through our lending, cash and deposit management, and global banking and trade products and services.

SVB Capital focuses on the business needs of our venture capital and private equity clients while 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 group manages four venture funds and oversees hundreds of investments, including investments in several sponsored limited partnerships, such as Gold Hill Venture Lending Partners 03, LP, and its parallel funds, which primarily provide secured debt, typically to emerging-growth clients in their earliest stages; and the Partners for Growth funds, which are special situation debt funds that provide secured debt to, primarily, higher-risk, middle market clients in their later stages.

The Other Business Services segment is principally comprised of Private Client Services, SVB Alliant, and SVB Global and other business service units that are not part of the Commercial Banking or SVB Capital segments. 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. SVB Alliant provides investment banking products and services including, merger and acquisition services, strategic alliances services, and specialized financial studies such as valuations and fairness opinions. SVB Global (formerly referred to as our Global Financial Services group) includes our foreign subsidiaries that facilitates our clients global expansion into major technology centers around the world SVB Global provides a variety of services, including consulting and business services, referrals, and knowledge sharing, as well as identifying business opportunities for SVB Financial Group.

The other business services units provide various products and services. The Other Business Services segment also reflects those adjustments necessary to reconcile the results of operating segments based on our internal profitability reporting process to the interim consolidated financial statements prepared in conformity with GAAP.

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 three months ended March 31, 2006 and March 31, 2005 are as follows:

	Commercial Banking	SVB Capital	Other Business Services	Total
		(Dollars in thousands)		
Three months ended March 31, 2006				
Net interest income	$ 65,241	$ 6,732	$ 11,906	$ 83,879
Provision for (recovery of) loan losses(1)	(570)		(1,904)	(2,474)
Noninterest income (2)	20,215	1,725	1,461	23,401
Noninterest expense (3)	46,334	4,505	19,849	70,688
Minority interest in net (income) loss of consolidated affiliates			(244)	(244)
Income (loss) before income tax expense and cumulative effect of change in accounting principle	$ 39,692	$ 3,952	$ (4,822)	$ 38,822
Total average loans	$ 2,248,183	$ 61,228	$ 354,037	$ 2,663,448
Total average assets (4)	3,730,617	666,079	868,098	5,264,794
Total average deposits	3,239,528	625,062	196,961	4,061,551
Goodwill at March 31, 2006			35,638	35,638
Three months ended March 31, 2005				
Net interest income	$ 50,721	$ 4,327	$ 14,078	$ 69,126
Provision for (recovery of) loan losses(1)	(3,413)	(401)	(3,814)	
Noninterest income (2)	18,610	3,118	3,641	25,369
Noninterest expense (3)	42,207	4,696	13,912	60,815
Minority interest in net (income) losses of consolidated affiliates			441	441
Income (loss) before income tax expense	$ 30,537	$ 2,749	$ 4,649	$ 37,935
Total average loans	$ 1,822,657	$ 82,245	$ 268,013	$ 2,172,915
Total average assets	3,877,685	640,785	613,411	5,131,881
Total average deposits	3,439,873	601,928	155,343	4,197,144
Goodwill at March 31, 2005			35,638	35,638
Year Ended December 31, 2005				
Total average loans	$ 2,032,672	$ 61,749	$ 273,941	$ 2,368,362
Total average assets (4)	3,807,150	680,626	702,001	5,189,777
Total average deposits	3,356,655	637,108	172,713	4,166,476
Goodwill at December 31, 2005			35,638	35,638
Year Ended December 31, 2004				
Total average loans	$ 1,630,961	$ 76,522	$ 244,172	$ 1,951,655
Total average assets (4)	3,629,524	550,566	592,819	4,772,909
Total average deposits	3,231,625	518,066	155,717	3,905,408
Goodwill at December 31, 2004			35,638	35,638
Year Ended December 31, 2003				
Total average loans	$ 1,506,055	$ 64,560	$ 227,375	$ 1,797,990
Total average assets (4)	3,021,016	517,940	517,512	4,056,468
Total average deposits	2,607,706	483,838	186,022	3,277,566
Goodwill at December 31, 2003			37,548	37,548

---

(1) For segment reporting purposes, we report net loan charge-offs as the provision for loan losses. Thus the Other Business Services segment includes $(0.8) million and $(1.9) million for the three-month periods ended March 31, 2006 and 2005, respectively, which represents the difference between net charge-offs and the provision for loan losses.

(2) Commercial Banking segment includes direct depreciation and amortization of $0.8 million and $0.4 million for the three months ended March 31, 2006 and 2005, respectively. Due to the complexity of our cost allocation model, it is not feasible to determine the exact amount of the remaining depreciation and amortization expense allocated to the various business segments.

(3) The internal reporting model used by our management to assess segment performance does not calculate tax expense by segment. Our effective tax rate is a reasonable approximation of the segment rates.

(4) Total Average Assets have been corrected to reflect the current composition of particular segments and prior periods presented have been corrected accordingly. Specifically, certain assets previously reported in the other Business Services segment have been reclassified into the commercial Banking and SVB Capital segments.

11. Obligations Under Guarantees

We provide guarantees related to financial and performance standby letters of credit issued to our clients to enhance their credit standings and enable them to complete a wide variety of business transactions. Financial standby letters of credit are conditional commitments issued by us to guarantee the payment by a client to a third party (beneficiary). Financial standby letters of credit are primarily used to support many types of domestic and international payments. Performance standby letters of credit are issued to guarantee the performance of a client to a third party when certain specified future events have occurred. Performance standby letters of credit are primarily used to support performance instruments such as bid bonds, performance bonds, lease obligations, repayment of loans, and past due notices. These standby letters of credit have fixed expiration dates and generally require a fee paid by a client at the time we issue the commitment. Fees generated from these standby letters of credit are recognized in noninterest income over the commitment period using the straight-line method.

The credit risk involved in issuing letters of credit is essentially the same as that involved with extending loan commitments to clients, and accordingly, we use a credit evaluation process and collateral requirements similar to those for loan commitments. Our standby letters of credit are often cash-secured by our clients. The actual liquidity needs or the credit risk that we have experienced historically have been lower than the contractual amount of letters of credit issued because a significant portion of these conditional commitments expire without being drawn upon.

The table below summarizes our standby letter of credits at March 31, 2006. The maximum potential amount of future payments represents the amount that could be remitted under the standby letters of credit if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from the collateral held or pledged.

(Dollars in thousands as of March 31, 2006)	Expires within one year or less	Expires after one year	Total amount outstanding	Maximum amount of future payments
Financial standby	$ 565,491	$ 64,147	$ 629,638	$ 629,638
Commercial standby	4,782		4,782	4,782
Performance standby	10,970	9,126	20,096	20,096
Total	$ 581,243	$ 73,273	$ 654,516	$ 654,516

At March 31, 2006, the carrying amount of the liabilities related to financial and performance standby letters of credit was approximately $3.9 million. At March 31, 2006, cash and investment securities collateral available to us to reimburse losses under financial and performance standby letters of credits was $271.6 million.

Additionally, the Bank, as a financial provider, routinely guarantees credit cards for some of our customers which have been provided by an unaffiliated financial institution. We have recourse against the customer for any amount it is required to pay to a third party in the event of default under these arrangements. These guarantees are subject to the same credit policies, underwriting standards and approval process as loans made by us. Certain of these amounts are secured by certificates of deposit and other assets which we have rights to in the event of nonperformance by the customers. The total amount of this guarantee was $59.2 million at March 31, 2006. It is not considered probable that material losses would be incurred by us as a result of these arrangements.

12. Related Party Transactions

The Bank increased its commitment under a revolving line of credit facility to an aggregate amount of $30.0 million to Gold Hill Venture Lending 03, LP, a venture debt fund (Gold Hill), and its affiliated funds. We have a 9.3% effective ownership interest in Gold Hill, as well as a 90.7% majority interest in its general partner, Gold Hill Venture Lending Partners 03, LLC. The line of credit expires in August 2006 and bears an interest rate of prime plus one percent. The highest aggregate balance outstanding during the quarter ended March 31, 2006 was approximately $30.0 million.

13. Legal Matters

On May 24, 2001, Gateway Communications, Inc. (Gateway) filed a lawsuit in the United States Bankruptcy Court for the Southern District of Ohio (Western Division) naming the Bank as a defendant. Gateway (the debtor in the bankruptcy case) alleges that the Bank s actions in connection with a loan resulted in Gateway s bankruptcy, and seeks $20,000,000 in compensatory damages, punitive damages, interest and attorneys fees. On June 24, 2003, the Court dismissed four of the five counts in the complaint, including the claim for punitive damages, leaving one breach of contract claim. We believe that the sole remaining claim has no merit and intend to defend the lawsuit vigorously. Thus, we have not accrued any amount related to potential damages from this case as they are not considered probable and reasonably estimable. The action is scheduled for trial in July 2006.

We are unable to predict at this time the final outcome of the above matter and the ultimate effect, if any, on our liquidity, consolidated financial position or results of operations.

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

14. Income Taxes

Income Tax Rate Comparison

Tax rate for the quarter ended March 31, 2005	39.5%
Add: Share-based compensation	3.6
Tax rate for the quarter ended March 31, 2006	43.1%

Our effective tax rate was 43.1% for the first quarter ended March 31, 2006, compared with 39.5% for the first quarter ended March 31, 2005. The higher tax rate was primarily attributable to the 3.6% tax impact of certain categories of share-based payment expense recognized under SFAS 123(R) that are not deductible for tax purposes in the period the related expense was recognized.

15. Subsequent Event

From April 1, 2006 through May 3, 2006, the Company repurchased 192,000 shares of its common stock totaling $10.0 million under the stock repurchase program leaving $65.7 million that still may be repurchased under the program. To continue the repurchase program, the Company put into effect a 10b5-1 plan which allowed the Company to automatically repurchase a predetermined number shares per day at the market price on every trading day until the trading window re-opened on May 2, 2006.

In April 2006, the Bank issued a letter of credit in the amount of $200 thousand on behalf of SurgRx, Inc. The initial maturity date of the letter of credit is April 4, 2007, but the letter of credit will be automatically renewed unless affirmatively terminated by SurgRx until its final expiry on May 10, 2010. The letter of credit is secured by a certificate of deposit pledged by SurgRx, Inc. which certificate of deposit is held by the Bank. David Clapper, one of our directors, is the Chief Executive Officer of SurgRx, Inc.

In April 2006, two of the managing directors of the SVB Alliant business unit resigned from the Company. The Company is actively conducting a search for their successors.

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis below contain 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 3. 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 interim unaudited consolidated financial statements and notes as presented in Part I - Item 1 of this report and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K) as filed with the Securities and Exchange Commission (SEC). Certain reclassifications have been made to prior years results to conform to the current period s presentations. Such reclassifications had no effect on our results of operations or stockholders equity.

Overview of Company Operations

SVB Financial Group is a bank holding company and a financial holding company that was incorporated in the state of Delaware in March 1999. In May 31, 2005, we changed our name from Silicon Valley Bancshares to SVB Financial Group. 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. SVB Financial Group s corporate headquarters is located at 3003 Tasman Drive, Santa Clara, California 95054, and our telephone number is 408.654.7400. When we refer to we or use similar words, we intend to include SVB Financial Group and all of its subsidiaries collectively, including Silicon Valley Bank. When we refer to SVB Financial Group, the Parent or the parent company we are referring only to the parent company, SVB Financial Group.

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 interest rate differentials, fee-based services and investments in private equity and venture capital funds.

In part, our income is generated from interest rate differentials. The difference between the interest rates received on interest-earning assets, such as loans extended to clients and securities held in our investment portfolio, and the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, 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 four limited partnerships: a venture capital fund that invests directly in privately held companies and three funds that invest in other venture capital funds.

Business Overview

SVB Financial Group 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.

We offer a variety of investment services and solutions to our Commercial Banking clients and others which enable companies to better manage their assets. SVB Silicon Valley Bank s Repurchase Agreement Program (Repo) is designed for our Venture Capital and Private Equity clients. Through our broker-dealer subsidiary, SVB Securities, we offer money market mutual funds and fixed income securities. SVB Securities is registered with the SEC and a member of the National Association of Securities Dealers, Inc. (NASD). We also offer investment advisory services through SVB Asset Management, our registered investment advisory subsidiary. SVB Asset Management specializes in outsourced treasury management, customized cash portfolio management and reporting and monitoring for corporations.

SVB Capital

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

SVB Capital makes investments in venture capital and other private equity firms and in companies in the niches we serve. The segment also manages four venture funds that are consolidated into our financial statements; SVB Strategic Investors Fund, LP, SVB Strategic Investors Fund II, LP, and SVB Strategic Investors Fund III, 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, primarily to emerging growth clients in their earliest stages, and the Partners for Growth funds that provide secured debt to, primarily, higher risk, middle market 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 clients 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 their industries.

Other Business Services

The Other Business Services segment is principally comprised of SVB Alliant, SVB Global and Private Client Services, and other business service units that are not part of the Commercial Banking or SVB Capital segments. SVB Alliant, SVB Global and Private Client Services do not meet the separate reporting thresholds as defined by SFAS No. 131 and as such,

have been aggregated as Other Business Services for segment reporting purposes.

SVB Alliant

Through SVB Alliant, our investment banking subsidiary, we provide merger and acquisition advisory services, 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 U.S. Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers, Inc. (NASD).

SVB Global

SVB Global (formerly referred to as our Global Financial Services group) includes our foreign subsidiaries that facilitates our clients global expansion into major technology centers around the world SVB Global provides a variety of services, including consulting and business services, referrals, and knowledge sharing, as well as identifying business opportunities for SVB Financial Group.

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 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. As a result of the Private Client Services group s recent decision to focus on its core banking and credit products, we sold Woodside Asset Management during the quarter ended March 31, 2006. The impact of the sale had an immaterial impact on our financial condition and results of operations.

Critical Accounting Policies and Estimates

The accompanying management s discussion and analysis of results of operations and financial condition are based upon our interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). 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.

A summary of significant accounting policies and a description of accounting policies that are considered critical are described in Part II. Item 8. Consolidated Financial Statements and Supplementary Data Note 2. Significant Accounting Policies and in Part II. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in our 2005 Form 10-K.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154), which replaces APB No. 20 Accounting Changes and SFAS No. 3 Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 also changes the requirements for the accounting for and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS No. 154 was effective for us beginning January 1, 2006. We do not expect the adoption of SFAS No. 154 to have a material impact on our results of operations or financial condition.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 . SFAS No. 155 permits fair value measurement of any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. We are currently assessing the impact of SFAS No.155 on our consolidated financial position and results of operations.

Results of Operations

Earnings Summary

We reported net income of $22.3 million for the three months ended March 31, 2006, $0.7 million, or 2.9% lower than net income of $22.9 million for the three months ended March 31, 2005. Earnings per diluted common share were $0.58 for the three months ended March 31, 2006, as compared to $0.59 for the comparable prior year period.

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 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. 128(R), if adopted in its proposed form, will require us to change our accounting for the calculation of EPS on our contingently convertible debt to the if converted method. The if converted treatment of the contingently convertible debt would have decreased EPS by $0.04 per diluted common share, or 7.2% for the three months ended March 31, 2006, and by $0.05 per diluted common share, or 8.5% for the three months ended March 31, 2005, respectively.

Three Months ended March 31, 2006 Compared to Three Months ended March 31, 2005

Consolidated net income decreased by $0.7 million for the three months ended March 31, 2006 versus the three months ended March 31, 2005.

Net interest income increased by $14.8 million due to an increase in average loans, and due to an improvement in yields generated from these loans.

The increase in noninterest expense of $9.9 million was largely attributable to an increase of $4.3 million in compensation expense, an increase of $3.3 million in professional services fees and an aggregate increase of $1.7 million in furniture and equipment and business development expenses.

The major components and changes of net income are summarized in the following table:

(Dollars in thousands)	For the three months ended March 31, 2006	2005	% Change
Net interest income	$ 83,879	$ 69,126	21.3%
Recovery of provision for loan losses	(2,474)	(3,814)	(35.1)
Noninterest income	23,401	25,369	(7.8)
Noninterest expense	70,688	60,815	16.2
Minority interest in net income of consolidated affiliates	(244)	441	(155.3)
Income before income tax expense	38,822	37,935	2.3
Income tax expense	16,743	14,999	11.6
Cumulative effect of change in accounting principle, net of tax	192		
Net income	$ 22,271	$ 22,936	(2.9)
Return on average assets(1)	1.72%	1.81%	
Return on average stockholders equity(1)	15.77%	17.17%	
Average stockholders equity to average assets	10.88%	10.55%	

(1) Quarterly ratios represent annualized net income divided by quarterly average assets/equity.

Net Interest Income and Margin

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

The following tables set forth average assets, liabilities, minority interest, stockholders equity, interest income, interest expense, annualized yields and rates, and the composition of our annualized net interest margin for the three months ended March 31, 2006 and 2005, respectively. (For a description of certain off-balance sheet arrangements, see also Note 11. Obligations Under Guarantees to the interim financial statements contained in this report.)

29

AVERAGE BALANCES, RATES AND YIELDS

(Dollars in thousands)	For the three months ended March 31, 2006 Average Balance	2006 Interest Income/ Expense	2006 Yield/ Rate	2005 Average Balance	2005 Interest Income/ Expense	2005 Yield/ Rate
Interest-earning assets:						
Federal funds sold, securities purchased under agreement to resell and other short-term investments(1)	$ 196,894	$ 2,040	4.20%	$ 474,359	$ 2,959	2.53%
Investment securities:						
Taxable	1,781,098	20,395	4.64	1,878,723	20,745	4.48
Non-taxable(2)	74,628	1,265	6.87	92,079	1,574	6.93
Loans:						
Commercial	2,240,951	58,565	10.60	1,785,085	42,055	9.55
Real estate construction and term	174,701	2,939	6.82	150,532	2,201	5.93
Consumer and other	247,796	4,644	7.60	237,298	3,200	5.47
Total loans, net of unearned income	2,663,448	66,148	10.07	2,172,915	47,456	8.86
Total interest-earning assets	4,716,068	89,848	7.73	4,618,076	72,734	6.39
Cash and due from banks	246,486			233,533		
Allowance for loan losses	(38,036)			(39,242)		
Goodwill	35,638			35,639		
Other assets (3)	304,638			283,875		
Total assets	$ 5,264,794			$ 5,131,881		
Funding sources:						
Interest-bearing liabilities:						
NOW deposits	$ 41,826	$ 41	0.39	$ 30,594	$ 30	0.40
Regular money market deposits	283,432	535	0.77	498,379	692	0.56
Bonus money market deposits	619,796	1,238	0.81	740,967	1,048	0.57
Time deposits	313,890	511	0.66	313,870	492	0.64
Federal funds purchased and securities sold under agreement to repurchase	192,292	2,243	4.73			
Contingently convertible debt	147,705	232	0.64	146,844	236	0.65
Junior subordinated debentures	50,190	720	5.82	48,733	484	4.03
Other borrowings	137	6	17.76	9,743	75	3.12
Total interest-bearing liabilities	1,649,268	5,526	1.36	1,789,130	3,057	0.69
Portion of noninterest-bearing funding sources	3,066,800			2,828,946		
Total funding sources	4,716,068	5,526	0.48	4,618,076	3,057	0.27
Noninterest-bearing funding sources:						
Demand deposits	2,802,607			2,613,334		
Other liabilities	119,469			115,275		
Minority interest in capital of consolidated affiliates	120,808			72,537		
Stockholders equity	572,642			541,605		
Portion used to fund interest-earning assets	(3,066,800)			(2,828,946)		
	$ 5,264,794			$ 5,131,881		

Total liabilities, minority interest and stockholders equity						
Net interest income and margin		$ 84,322	7.25%		$ 69,677	6.12%
Total deposits	$ 4,061,551			$ 4,197,144		

---

(1) Includes average interest-bearing deposits in other financial institutions of $27.8 million and $15.1 million for the three months ended March 31, 2006 and 2005, respectively.

(2) Interest income on non-taxable investments is presented on a fully taxable-equivalent basis using the federal statutory income tax rate of 35.0% in 2006 and 2005. The tax equivalent adjustments were $0.4 million and $0.6 million for the three months ended March 31, 2006 and 2005, respectively.

(3) Average equity investments of $127.7 million and $122.4 million for the three months ended March 31, 2006 and 2005, respectively, were reclassified to other assets as they were noninterest-yielding.

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 and interest expense for each major category of interest-earning assets and interest-bearing liabilities. The table also reflects the amount of simultaneous change attributable to both volumes and rates for the periods 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 rate of 35.0% in 2006 and 2005.

	2006 Compared to 2005 Three months March 31, Increase (Decrease) Due to Change in		
(Dollars in thousands)	**Volume**	**Rate**	**Total**
Interest income:			
Federal funds sold and securities purchased under agreement to resell and other short-term investment securities	$ (2,268)	$ 1,349	$ (919)
Investment securities	(1,396)	737	(659)
Loans	11,627	7,065	18,692
Increase (decrease) in interest income	7,963	9,151	17,114
Interest expense:			
NOW deposits	11		11
Regular money market deposits	(357)	200	(157)
Bonus money market deposits	(191)	381	190
Time deposits		19	19
Federal funds purchased and securities sold under agreement to repurchase	2,243		2,243
Contingently convertible debt	1	(5)	(4)
Junior subordinated debentures	15	221	236
Other borrowings	(134)	65	(69)
(Decrease) increase in interest expense	1,588	881	2,469
Increase in net interest income	$ 6,375	$ 8,270	$ 14,645

Three Months ended March 31, 2006 Compared to Three Months ended March 31, 2005

Net Interest Income

Net interest income, on a fully taxable-equivalent basis, totaled $84.3 million for the three months ended March 31, 2006, an increase of $14.6 million, or 21.0% from the comparable 2005 period. The increase in net interest income was the result of a $17.1 million increase in interest income, offset by a $2.5 million increase in interest expense.

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

The $17.1 million increase in interest income, on a fully taxable-equivalent basis, was partially due to an $8.0 million favorable volume variance. The favorable volume variance resulted from a $98.0 million, or 2.1% increase, in average interest-earning assets.

The increase in average interest-earning assets was primarily centered in average loans, which increased $490.5 million resulting in an $11.6 million favorable volume variance. The volume variance is largely driven by growth in our commercial loan category, which represented $455.9 million of the increase, followed by smaller increases in the real estate and consumer loan categories. The increase in average loans reflects an improvement in economic activity and in the markets served by us. Our loan yield in the three months ended March 31, 2006 included $1.6 million from accretion of warrant loan fees as compared to $1.7 million in the three months ended March 31, 2005.

This increase was partially offset by a decrease in federal funds sold, securities purchased under agreement to resell and other short-term investments of $277.5 million which resulted in an unfavorable volume variance of $2.3 million. Additionally, average investment securities decreased by $115.1 million, resulting in a $1.4 million unfavorable volume variance. In particular, mortgage-backed securities and collateralized mortgage obligations decreased by $73.2 million. We estimated the duration of the total investment portfolio at March 31, 2006 to be 3.1 years, compared to 2.5 years at March 31, 2005.

Interest Income - Change in Market Interest Rates and Shift in Investment Portfolio Mix (Rate Variance)

Favorable rate variances associated with each component of interest earning assets caused a $9.2 million increase in interest income. The yield on average interest-earning assets increased 134 basis points overall, largely driven by higher yields generated by loans and total investment securities. The increase in yields on interest-earning assets was primarily caused by an increase in short-term interest rates.

The average yield on taxable investment securities for the three months ended March 31, 2006 increased 16 basis points to 4.64 as compared to the prior year period, causing a $0.7 million favorable rate variance associated with our average investment securities. This was primarily due to securities that matured or were called in the current and prior quarter.

We realized a $7.1 million favorable rate variance associated with our loan portfolio, largely driven by higher yields from loans. On February 1, 2006 and March 29, 2006, we increased our prime lending rate, each time by 25 basis points, bringing our prime rate to 7.75 percent, in response to increases in short-term market interest rates. Our weighted-average prime lending rate increased to 7.42% in the first quarter of 2006 from 5.43% in the first quarter of 2005. As of March 31, 2006, approximately 72.1%, or $2.0 billion of our total loan portfolio were variable rate loans and would reprice with an increase in our prime lending rate.

In addition, we realized a $1.3 million favorable rate variance associated with federal funds sold, securities under agreement to resell and other short-term investment securities. The aforementioned increases in short-term market interest rates were largely responsible for this favorable rate variance.

Many elements of our interest-earning assets are interest rate sensitive, thus we expect that any future increase in market interest rates will be incremental to our earnings.

Interest Expense

Total interest expense for the three months ended March 31, 2006 increased by $2.5 million, largely due to unfavorable volume variance of $1.6 million associated with an increase in interest expense primarily related to overnight borrowings and an unfavorable rate variance of $0.9 million primarily associated with money market deposits.

During the three month period ended March 31, 2006, the average balance of federal funds purchased and securities sold under agreement to repurchase was $192.3 million compared to $0 for the three months ended March 31, 2005. The average interest rate during that period was 4.73%.

The average cost of funds paid in the three months ended March 31, 2006 was 0.48%, compared to 0.27% for the three months ended March 31, 2005. The increase in deposit rates resulted from our decision to increase rates for interest-bearing deposit accounts, in response to recent increases in short term market interest rates.

Provision for (Recovery of) Loan Losses

The provision for loan losses is based on our evaluation of the adequacy of the existing allowance for loan 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.

Three Months ended March 31, 2006 Compared to Three Months ended March 31, 2005

We recorded a recovery of a provision for loan losses of $2.5 million for the three months ended March 31, 2006, compared to a recovery of a provision for loan losses of $3.8 million for the comparable three month period a year ago.

We incurred net recoveries of approximately $1.6 million for the three months ended March 31, 2006 compared to net recoveries of $1.9 million for the three months ended March 31, 2005.

Noninterest Income

The following table summarizes the components of noninterest income for the three months ended March 31, 2006 and 2005, and the percent changes from period to period:

(Dollars in thousands)	For the three months ended March 31 2006	2005	% Change
Client investment fees	$ 9,637	$ 7,396	30.3%
Corporate finance fees	2,438	4,814	(49.4)
Letter of credit and standby letter of credit income	2,350	2,370	(0.8)
Deposit service charges	2,178	2,504	(13.0)
Gains (losses) on derivative instruments, net	2,227	4,026	(44.7)
Gains (losses) on investment securities, net	(61)	1,202	(105.1)
Other	4,632	3,057	51.5
Total noninterest income	$ 23,401	$ 25,369	(7.8)

We offer a variety of investment products on which we earn fees. These products include money market funds, repurchase agreements and fixed income securities through client directed accounts, sweep money fund products and fixed income portfolios managed through our asset management service. The following table summarizes client assets invested across those products as of March 31, 2006 and 2005.

(Dollars in millions)	At March 31, 2006	At March 31, 2005
Client investment funds:		
Client directed investment assets (1)	$ 10,094	$ 7,452
Sweep money market funds	2,183	1,356
Client investment assets under management	4,092	2,918
Total client investment funds (2)	$ 16,369	$ 11,726

(1) Mutual funds and Repurchase Agreement program assets.

(2) Client funds maintained at third party financial institutions.

Total client investment funds were $16.4 billion at March 31, 2006, compared to $11.7 billion at March 31, 2005, an increase of $4.6 billion, or 39.6%. Mutual fund products totaled $8.5 billion and $6.1 billion at both March 31, 2006 and 2005, respectively. As of March 31, 2006, assets managed in SVB Asset Management accounted for $4.1 billion, or 25.0% and assets held in the Repurchase Agreement program were $2.2 billion, or 13.3% of the total client investment funds, respectively.

The following table summarizes the components of gains (losses) on derivative instruments for the three months ended March 31, 2006 and 2005, and the percent changes from period to period:

(Dollars in thousands)	For the three months ended March 31, 2006	2005	% Change
Foreign exchange forwards (1)	$ 5,305	$ 4,819	10.1%
Foreign exchange forwards (2)	(533)		
Total gains on exchange forwards	4,772	4,819	(1.0)

Change in fair value interest rate swap		(2,871)			
Equity warrant assets change in fair value:					
Cancellations and expirations		(754)		(138)	446.4
Change in underlying assumption used to value		1,080		(655)	(264.9)
		326		(793)	(141.1)
Total gains (losses) on derivatives instruments	$	2,227	$	4,026	(44.7)%

---

(1) Represents the income differential between foreign exchange forward contracts/non-deliverable foreign exchange forward contracts with clients and opposite way foreign exchange forward contracts/non-deliverable foreign exchange forward contracts with correspondent banks. See Note 13 Derivative Financial Instruments under Item 8 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

(2) Represents change in fair value of foreign exchange forward contracts with correspondent banks to economically reduce foreign exchange exposure risk related to certain foreign currency denominated loans.

The change in fair value of equity warrant assets is primarily attributed to the changes in the value of the underlying assumptions derived consistently using our methodology to value warrants including: changes in the risk-free interest rate, changes in the underlying value of the client companies stock, changes in the volatility of market comparable public companies and changes in the expected life.

The following table presents the components of gains and losses on investment securities, for the three months ended March 31, 2006 and 2005.

(Dollars in thousands)	For the three months ended March 31, 2006	March 31, 2005
Gross gains on investment securities:		
Available-for-sale securities, at fair value	$ 170	$ 50
Non-marketable securities (investment company fair value accounting):		
Venture capital fund investments	2,567	1,595
Other private equity investments	2	405
Other investments	3	
Non-marketable securities (equity method accounting)	207	
Non-marketable securities (cost method accounting):		
Venture capital fund investments	76	2,051
Total gross gains on investment securities	3,025	4,101
Gross losses on investment securities:		
Available-for-sale securities, at fair value		(397)
Non-marketable securities (investment company fair value accounting):		
Venture capital fund investments	(2,196)	(1,205)
Non-marketable securities (equity method accounting)	(552)	(51)
Non-marketable securities (cost method accounting):		
Venture capital fund investments	(293)	(846)
Other private equity investments	(45)	(400)
Total gross losses on investment securities	(3,086)	(2,899)
Gains (losses) on investment securities, net	$ (61)	$ 1,202

Gains (losses) on investment securities, net for the three months ended March 31, 2006 were concentrated in our managed funds of funds, our managed venture capital fund, and direct equity investments. We expect continued variability in the performance of our investment securities portfolios.

Three Months ended March 31, 2006 Compared to Three Months ended March 31, 2005

Client investment fee income for the three months ended March 31, 2006 of 9.6 million was $2.2 million higher than $7.4 million for the three months ended March 31, 2005. The increased income in the three months ended March 31, 2006 as compared to March 31, 2005 was largely attributable to the growth in client investment funds generating this income.

Our fees, calculated on client average balances, ranged from 5 to 67 basis points as of March 31, 2006, compared to a range of 10 to 84 basis points as of March 31, 2005.

Deposit services for the three months ended March 31, 2006 were $2.2 million, compared to $2.5 million at March 31, 2005, a decrease of $0.3 million, or 13.0% lower, than for the three months ended March 31, 2005. 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 charge 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 higher earnings credit in the three months ended March 31, 2006 compared to the respective prior year period due to increased short-term market interest rates in the first quarter of 2005, resulting in additional credits to offset deposit service charges.

35

Noninterest Expense

The following table presents the detail of noninterest expense including the percent change in noninterest expense for the current year periods compared to the prior year periods:

(Dollars in thousands)	For the three months ended March 31, 2006	2005	% Change
Compensation and benefits	$ 44,521	$ 40,268	10.6%
Professional services	8,355	5,070	64.8
Net occupancy	4,205	4,658	(9.7)
Furniture and equipment	3,704	2,719	36.2
Business development and travel	2,754	2,090	31.8
Correspondent bank fees	1,130	1,221	(7.5)
Data processing services	1,128	1,013	11.4
Telephone	907	889	2.0
Change in provision for unfunded credit commitments	(496)	(185)	168.1
Other	4,480	3,072	45.8
Total noninterest expense	$ 70,688	$ 60,815	16.2

Three Months ended March 31, 2006 Compared to Three Months ended March 31, 2005

The increase in compensation and benefits expense of $4.3 million was primarily due to an increase in equity based compensation expense of $4.7 million, to $5.9 million for the three months ended March 31, 2006, compared to $1.2 million for the comparable prior year period. This increase reflects our adoption of SFAS 123R as of January 1, 2006, which includes recognizing expense for stock options granted and Employee Stock Purchase Plan shares. Compensation and benefits expense also increased due to payroll and benefit expenses caused by an increase in FTE, partially offset by a decrease of employee stock ownership plan expense.

Professional service expense totaled $8.4 million for the three months ended March 31, 2006, an increase of $3.3 million as compared to $5.1 million for the three months ended March 31, 2005. The primary components of this net increase were compliance and information technology related professional services costs associated with various initiatives. Expenses for furniture and equipment increased by $1.0 million, primarily related to office relocations and information technology initiatives. Business development and travel expenses increased by $0.7 million, primarily due to higher levels of travel to support the Company s business activities.

Minority Interest in Net (Gains) Losses of Consolidated Affiliates

Investment gains or losses related to our managed funds, (see Note 5. Investment Securities), are included in noninterest income. Minority interest in the net gains or losses of these consolidated managed funds primarily represents net investment gains or losses and management fees expenses attributable to the minority interest holders in these managed funds.

The increase in net minority interest gains from the first quarter of 2005 to the first quarter of 2006 is primarily attributable to higher returns from our managed funds. Net minority interest gains in the first three months of 2006 were $0.7 million less than the three months ended March 31, 2005.

(Dollars in thousands)	**For the three months ended March 31, 2006**	**For the three months ended March 31, 2005**
Minority interest in net losses (income) of consolidated affiliates	$ (244)	$ 441

Income Taxes

Our effective tax rate was 43.1% for the first quarter ended March 31, 2006, compared with 39.5% for the first quarter ended March 31, 2005. The higher tax rate was primarily attributable to the tax impact of certain categories of share-based payment expense recognized under SFAS 123(R) that are not deductible for tax purposes in the period the related expense was recognized.

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 our 2005 Annual Report on Form 10-K, Part I. Item 1. Business Business Overview.

Our primary source of revenue is from net interest income. Accordingly, our segments are reported using net interest income, net of funds transfer pricing. Funds transfer pricing (FTP) is an internal measurement framework designed to assess the financial impact of a financial institution s sources and uses of funds. It is the mechanism by which an earnings credit is given for deposits raised, and an earnings charge is made for funded loans. 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 three months ended March 31, 2006 and 2005 are as follows:

Commercial Banking

First quarter ended March 31, 2006 compared to first quarter ended March 31, 2005

Net Income (Loss) Before Taxes

Commercial Banking s income before income taxes for the quarter ended March 31, 2006 of $39.7 million represented an increase of $9.2 million, or 30.0%, from $30.5 million for the same period a year ago. This increase was the net result of higher revenues of $16.1 million, offset by higher noninterest expenses of $4.1 million, and a net change in recoveries of $(2.8) million. The higher revenues were comprised of higher net interest income of $14.5 million and higher noninterest income of $1.6 million.

Net interest income of $65.2 million for the first quarter ended March 31, 2006 increased $14.5 million, or 28.6%, from $50.7 million for the same period a year ago. Higher loans volumes along with higher interest rates drove this increase. Net interest income is the difference between interest earned on loans, net of funds transfer pricing and interest paid on deposits, net of funds transfer pricing.

Noninterest income of $20.2 million for the quarter ended March 31, 2006 increased $1.6 million, or 8.6%, from $18.6 million for the same period a year ago. This increase in noninterest income was primarily driven by increased client investment fees of $2.0 million, partially offset by decreased net gains on derivatives of $0.4 million. The decreased net gains on derivatives were related to the exercise of equity warrant assets of $1.4 million, partly offset by increased gains on foreign exchange derivative income of $1.0 million.

Recovery of provision for loan losses of $0.6 million for the first quarter ended March 31, 2006 represented a net change of approximately $2.8 million from $3.4 million for the same period a year ago.

Noninterest expense of $46.3 million for the quarter ended March 31, 2006 increased by $4.1 million, or 9.8%, from $42.2 million for the same period a year ago. The increase in direct noninterest expense was primarily driven by expense related to compensation and benefits, furniture and equipment, and business development and travel. Specifically, base compensation increased $0.6 million, depreciation expense increased by $0.4 million and travel expense increased by $0.3 million. Noninterest expenses related to units supporting Commercial Bank activities were also allocated to Commercial Bank. Increases in stock-based compensation and professional services related to the support units contributed to the expense increase.

Financial Condition

Commercial Banking had a decrease in average deposits of $200.3 million, or 5.8%, and an increase in average loans of $425.5 million, or 23.3%, during the quarter ended March 31, 2006 compared to the same period a year ago. The loan products with the largest growth were core commercial, which grew by $326.6 million, and asset-based lending, which grew by $103.0 million. The increase in average loans reflects 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.

SVB Capital

First quarter ended March 31, 2006 *compared to first quarter ended* March 31, 2005

Net Income (Loss) Before Taxes

SVB Capital s income before income taxes for the quarter ended March 31, 2006 of $4.0 million represented an increase of $1.2 million, or 43.8%, from $2.7 million for the same period a year ago. This increase was the net result of higher revenues of $1.0 million, combined with lower noninterest expenses of $0.2 million. The higher revenues were comprised of higher net interest income of $2.4 million and offset by lower noninterest income of $1.4 million.

Net interest income of $6.7 million for the quarter ended March 31, 2006 increased $2.4 million, or 55.6%, from $4.3 million for the same period a year ago. Higher deposit volumes along with higher interest rates drove this increase. Net interest income is the difference between interest earned on loans, net of funds transfer pricing and interest paid on deposits, net of funds transfer pricing.

Noninterest income of $1.7 million for quarter ended March 31, 2006 decreased by $1.4 million, or 44.7%, from $3.1 million for the same period a year ago. The decrease was primarily a result of decreased net gains on investments net of minority interest of $1.8 million, partly offset by increased gains on foreign exchange derivative income of $0.2 million, and increased client investment fees of $0.2 million.

Noninterest expense of $4.5 million for the quarter ended March 31, 2006 decreased by $0.2 million, or 4.1%, from $4.7 million for the same period a year ago. The decrease in direct noninterest expense was primarily driven by expense related to compensation and benefits and professional services. Specifically, base compensation decreased $0.2 million, employee relocation decreased $0.1 million, and consulting expenses decreased $0.3 million. Noninterest expenses related to units supporting SVB Capital activities were also allocated to SVB Capital.

<u>Financial Condition</u>

SVB Capital had an increase in average deposits of $23.1 million, or 3.8%, and a decrease in average loans of $21.0 million, or 25.6%, during the quarter ended March 31, 2006 compared to the same period a year ago. The increase in average deposits reflects 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.

Other Business Services

The Other Business Services segment is principally comprised of Private Client Services, SVB Alliant and SVB Global and other business service units that are not part of the Commercial Banking or SVB Capital segments. These segments do not meet the separate reporting thresholds as defined by SFAS No. 131 and as such have been combined with other business service units for segment reporting purposes. The Other Business Services 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 GAAP. 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. SVB Alliant provides investment banking products and services including, merger and acquisition services, strategic alliances services, and specialized financial studies such as valuations and fairness opinions. SVB Global serves the needs of our domestic clients with global banking products, including foreign exchange and global finance and access to our international banking network for in- country services abroad. SVB Global also supports venture capital and commercial banking clients with business services through subsidiaries in India, Shanghai and the United Kingdom.

Net interest income of $11.9 million for the first quarter ended March 31, 2006 decreased $2.2 million, or 15.4%, from $14.1 million for the same period a year ago. The decrease in net interest income is primarily attributed to a decrease of $2.9 million related to a decreased gap between the funds transfer rates utilized for profitability reporting and the realized earnings on the investment portfolio. This was partly offset by higher loan and deposit volumes for Private Client Services along with higher interest rates.

Consolidated Financial Condition

Total assets of $5.4 billion at March 31, 2006 were down $95.4 million from December 31, 2005. Loans, net of unearned income, decreased by $85.4 million to $2.8 billion at March 31, 2006, from the balance at December 31, 2005. Additionally, our use of cash to repurchase our common stock, for a total cost of $25.8 million during the first quarter of 2006 contributed to the decrease in total assets.

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

Federal funds sold, securities purchased under agreement to resell and other short-term securities totaled $257.0 million at March 31, 2006, an increase of $81.3 million, or 46.3%, compared to the $175.7 million outstanding at December 31, 2005. The increase was caused by higher short term cash flows at quarter end.

Investment Securities

Investment securities totaled $1.9 billion at March 31, 2006, a decrease of $92.9 million, or 4.6% from $2.0 billion in December 31, 2005.

Refer to our 2005 Form 10-K under Part II. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Part II. Item 8. Consolidated Financial Statements and Supplementary Data Note 2. Significant Accounting Policies Investment Securities for our accounting policies related to investment securities.

Loans

Loans, net of unearned income, at March 31, 2006, totaled $2.8 billion, a decrease of $85.4 million from the balance at December 31, 2005. Our gross loans by industry niche as of March 31, 2006 and December 31, 2005 are as follows:

(Dollars in thousands)	**March 31, 2006**	**December 31, 2005**
Technology	$ 1,375,520	$ 1,417,838
Life science	275,421	266,786
Venture capital	323,569	362,754
Winery	331,491	349,744
Other (1)	471,303	466,799
Total gross loans	$ 2,777,304	$ 2,863,921

(1) At March 31, 2006, this balance is predominantly Private Client Services loans. The balance also includes real estate, media and religious niche loans, areas that we exited in 2002 but will continue to service until the loans are paid off.

Credit Quality and the Allowance for Loan Losses

For a description of the accounting policies related to the allowance for loan losses, see Part 1. Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our 2005 Form 10-K.

We realized $3.0 million in gross recoveries and incurred $1.4 million in gross charge-offs during the three months ended March 31, 2006. The gross charge-offs for the first quarter ended March 31, 2006 were primarily from one client in the hardware niche. Recoveries were primarily from three clients in the real estate niche.

Nonperforming assets consist of well-secured loans that are past due 90 days or more but are still accruing interest, and loans on nonaccrual status. The decrease of nonperforming loans was primarily related to loans secured by real estate. Due to the quality of the related collateral, this decrease in nonperforming loans did not result in a significant impact on the allowance for loan losses at March 31, 2006. The table below sets forth certain relationships between nonperforming assets and the allowance for loan losses:

(Dollars in thousands)	**March 31, 2006**	**December 31, 2005**
Nonperforming assets:		
Loans past due 90 days or more	$	$ 1,046
Nonaccrual loans	3,923	6,499
Total nonperforming loans	3,923	7,545
Other real estate owned	5,949	6,255
Total nonperforming assets	$ 9,872	$ 13,800
Nonperforming loans as a percentage of total gross loans	0.14%	0.26%
Nonperforming assets as a percentage of total assets	0.18%	0.25%
Allowance for loan losses	$ 35,982	$ 36,785
As a percentage of total gross loans	1.30%	1.28%
As a percentage of nonperforming loans	917.21%	487.54%

Derivatives

March 31, 2006 compared to December 31, 2005

Derivative assets are recorded as a component of other assets and liabilities and are comprised of the following:

(Dollars in thousands)	As of March 31, 2006	As of December 31, 2005	% change
Assets (liabilities):			
Equity warrant assets	$ 28,343	$ 27,802	1.9%
Foreign exchange forward and option contracts	(124)	766	(116.2)
Equity conversion option	451	451	
Total	$ 28,670	$ 29,019	(1.2)%

Equity warrant assets increased by $0.5 million. The fair value related to exercise of equity warrant assets into equity securities decreased by $0.6 million as of the dates of exercise, while $1.3 million in aggregate grant date fair value of new equity warrant assets was added to the portfolio. Additionally, the decrease in fair value of our equity warrant assets attributable to cancellations and expirations was $0.8 million. The remaining $1.1 million increase was related to changes in the fair value of equity warrant assets attributable to changes in the underlying assumptions used to value the equity warrants including: changes in the risk-free interest rate, changes in the underlying value of our clients company stock, changes in the volatility of share prices for comparable public companies, and changes in the expected life.

We enter into foreign exchange forward contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency at a future date, depending upon the clients need. We enter into an opposite way foreign exchange forward contract with a correspondent bank to hedge these contracts, which mitigates the risk of fluctuations in foreign currency exchange rates, for each of the foreign exchange forward contracts entered into with our clients. These contracts are short term in nature, typically expiring within one year. At March 31, 2006 and December 31, 2005, the aggregate notional amounts of these contracts totaled $462.2 million and $432.7 million, respectively. The maximum credit exposure for counter-party nonperformance for foreign exchange forward contracts with both clients and correspondent banks amounted to $2.7 million at March 31, 2006 and $5.7 million at December 31, 2005. We have not experienced nonperformance by a counter party and therefore have not incurred related losses. Further, we anticipate performance by all counter-parties to such foreign exchange forward contracts.

We enter into foreign currency option contracts with clients involved in international trade finance activities, either as the purchaser or seller of foreign currency options, depending upon the clients need. We enter into an opposite way foreign currency option contract with a correspondent bank, which completely mitigates the risk of fluctuations in foreign currency exchange rates, for each of the currency option contracts entered into with our clients. These contracts typically expire in less than one year. At March 31, 2006 and December 31, 2005, the aggregate notional amounts of these contracts totaled $7.3 million and $18.8 million, respectively. We have not experienced nonperformance by a counter party and therefore have not incurred related losses. Further, we anticipate performance by all counter-parties.

Deposits

Deposits decreased by $104.2 million to $4.1 billion at March 31, 2006, compared to the balance at December 31, 2005. Noninterest-bearing demand deposits increased slightly from December 31, 2005, as a percentage of total deposits, at approximately 72.3%.

Liabilities

Other liabilities at March 31, 2006 decreased from December 31, 2005, primarily due to a decrease in accrued incentive compensation.

Capital Resources

Our management seeks to maintain adequate capital to support anticipated asset growth and credit risks, and to ensure that SVB Financial and Silicon Valley Bank are in compliance with all regulatory capital guidelines. Our primary sources of new capital include the issuance of common stock, as well as retained earnings.

Common Stock

On January 19, 2006, the Company s Board of Directors increased the stock repurchase plan and authorized up to an additional $70.0 million of common stock to be repurchased, which is included in the $75.7 million noted below. The

Company may, at its discretion, exercise this additional repurchase authority at any time on or before June 30, 2007 in the open market, through block trades or otherwise, pursuant to applicable securities laws. Depending on market conditions, availability of funds, and other relevant factors, we may begin or suspend repurchases at any time prior to the termination of the repurchase program on June 30, 2007, without any prior notice.

We repurchased 510,000 shares of its common stock for an aggregate cost of $25.8 million under the stock repurchase program leaving $75.7 million authorized that still may be used to repurchase its common stock under the program as of March 31, 2006.

From time to time, we may implement a non-discretionary Rule 10b5-1 trading plan, under which we will automatically repurchase shares of our common stock pursuant to a predetermined formula for a specified period of time.

Stockholders   Equity

Stockholders equity totaled $586.1 million at March 31, 2006, an increase of $16.8 million, or 3.0%, from the $569.3 million balance at December 31, 2005. This increase was primarily the result of our net income in the three months ended March 31, 2006 and tax benefits associated with share based payments, partially offset by common stock repurchases during the first quarter of 2006. We have not paid a cash dividend on our common stock since 1992, and we do not have any material commitments for capital expenditures as of March 31, 2006. As of March 31, 2006, there were no plans for payment of dividends.

Funds generated through retained earnings are a significant source of capital and liquidity, and are expected to continue to be so in the future. Our management engages in a periodic capital planning process in an effort to make effective use of the capital available to us. The capital plan considers capital needs for the foreseeable future and allocates capital to both existing business activities and expected future business activities. Expected future activities for which capital is set aside include potential product expansions and acquisitions of new business lines.

Both SVB Financial and Silicon Valley Bank are subject to capital adequacy guidelines issued by the Federal Reserve Board. Under these capital guidelines, the minimum total risk-based capital ratio and Tier 1 risk-based capital ratio requirements are 10.0% and 6.0%, respectively.

The Federal Reserve Board has also established minimum capital leverage ratio guidelines for state member banks. The ratio is determined using Tier 1 capital divided by quarterly average total assets. The guidelines require a minimum of 5.0% for a well-capitalized depository institution. For further information on risk-based capital and leverage ratios as defined by the Federal Reserve Board, see our 2005 Form 10-K, under Part I. Item 1. Business Supervision and Regulation Regulatory Capital.

Both SVB Financial and Silicon Valley Bank s capital ratios were in excess of regulatory guidelines for a well-capitalized depository institution as of March 31, 2006, and December 31, 2005. Capital ratios for SVB Financial are set forth below:

	March 31, 2006	**December 31,, 2005**
SVB Financial:		
Total risk-based capital ratio	15.88%	14.74%
Tier 1 risk-based capital ratio	13.46%	12.39%
Tier 1 leverage ratio	12.28%	11.64%

The increase in total risk-based capital and Tier 1 risk-based capital was due to our year-to-date repurchases of our common shares and a decline in risk weighted assets, particularly loans, and an increase in year-to-date earnings.

Liquidity

An important objective of asset/liability management is to manage liquidity. The objective of liquidity management is to ensure that funds are available in a timely manner to meet loan demand, to meet depositors needs, and to service other liabilities as they become due without causing an undue amount of cost or risk and without causing a disruption to normal operating conditions.

We regularly assess the amount and likelihood of projected funding requirements through a review of factors such as historical deposit volatility and funding patterns, present and forecasted market and economic conditions, individual client funding needs, and existing and planned business activities. Our asset/liability committee provides oversight to the liquidity management process and recommends policy guidelines, subject to the approval of our Board of Directors, and courses of action to address our actual and projected liquidity needs.

The ability to attract a stable, low-cost deposit base is our primary source of liquidity. We continue to expand on opportunities to increase our liquidity and take steps to carefully manage our liquidity. In 2002, we became a member of the Federal Home Loan Bank of San Francisco, thereby adding to our liquidity channels. Other sources of liquidity available to us include federal funds purchased, reverse repurchase agreements, and other short-term borrowing arrangements. Our liquidity requirements can also be met through the use of our portfolio of liquid assets. Our definition of liquid assets includes cash and cash equivalents in excess of the minimum levels necessary to carry out normal business operations, federal funds sold, securities purchased under resale agreements, investment securities maturing within six months, investment securities eligible and available for financing or pledging purposes with a maturity in excess of six months, and anticipated near-term cash flows from investments.

Our policy guidelines provide that liquid assets as a percentage of total deposits should not fall below 20%. Silicon Valley Bank s ratio of liquid assets to total deposits was 41.16% and 39.59% at March 31, 2006 and December 31, 2005, respectively, both well in excess of our minimum policy guidelines. In addition to monitoring the level of liquid assets relative to total deposits, we also utilize other policy measures in liquidity management activities. As of March 31, 2006 and December 31, 2005, we were in compliance with all of these policy measures.

Condensed Consolidated Statement of Cash Flows

(Dollars in thousands)	**For the three months ended March 31, 2006**	**March 31, 2005**
Net cash provided by operating activities	$ 3,900	$ 11,940
Net cash provided by (used for) investing activities	161,360	(109,623)
Net cash used for financing activities	(77,363)	(74,503)
Net increase (decrease) in cash equivalents	87,897	(172,186)
Cash and cash equivalents at the beginning of the year	462,098	627,218
Cash and cash equivalents at the end of the period	$ 549,995	$ 455,032

In analyzing our liquidity during the three months ended March 31, 2006 and 2005, reference is made to our interim unaudited consolidated statement of cash flows for the three months ended March 31, 2006 and 2005; see Item 1. Interim Unaudited Consolidated Financial Statements. The statement of cash flows includes separate categories for operating, investing, and financing activities.

Cash provided by operating activities was $3.9 million, which included net income of $22.3 million for the three months ended March 31, 2006. Adjustments for noncash items included $5.9 million of share-based payment, $4.6 million of deferred income tax expense and $4.1 million of tax benefits of share compensation and other, partially offset by $2.5 million for the recovery of loan losses. Sources of cash from changes in other assets and liabilities included a decrease in accrued interest receivable of $2.5 million and a decrease in accounts receivable of $1.3 million. These sources of cash were offset by a decrease in accrued retention, incentive plan and other compensation benefit payable of $32.4 million and an increase in net income tax receivable of $11.8 million.

Cash provided by investing activities was $161.4 million for the three months ended March 31, 2006. Net cash inflow was primarily driven by aggregate proceeds from sales, maturities and pay-downs of investment securities of $103.7 million, including a decrease in loans of $85.3 million offset by $26.9 million in purchases of investment securities.

Cash used for financing activities was $77.4 million for the three months ended March 31, 2006, and was largely driven by a decrease in deposits of $104.2 million and share repurchases of $25.3 million. Capital contributions from minority interest participants and proceeds from the issuance of common stock contributed $18.7 million and $17.6 million, respectively.

Cash and cash equivalents at March 31, 2006 were $550.0 million.

On a stand-alone basis, SVB Financial s primary liquidity channels include dividends from Silicon Valley Bank, its investment portfolio assets, and its ability to raise debt and capital. The ability of Silicon Valley Bank to pay dividends is subject to certain regulations described in Part I. Item 1. Business Supervision and Regulation Restriction on Dividends of our 2005 Form 10-K.

42

Forward-Looking Statements

The foregoing discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our management has in the past and might in the future make forward-looking statements orally to analysts, investors, the media, and others. Forward-looking statements are statements that are not historical facts. Broadly speaking, forward-looking statements include, without limitation:

Projections of our revenues, income, earnings per share, cash flows, balance sheet, capital expenditures, capital structure or other financial items;

Descriptions of strategic initiatives, plans or objectives of our management for future operations, including pending acquisitions;

Forecasts of future economic performance; or

Descriptions of assumptions underlying or relating to any of the foregoing.

In this Quarterly Report on Form 10-Q, we make forward-looking statements discussing our management s expectations about:

Sensitivity of our interest-earning assets to interest rates, and impact to earnings from an increase in interest rates;

Credit quality of our loan portfolio;

Levels of nonperforming loans;

Liquidity provided by funds generated through retained earnings;

Activities for which capital will be required;

Ability to meet our liquidity requirements through our portfolio of liquid assets;

Ability to expand on opportunities to increase our liquidity;

Use of excess capital; and/or

Volatility of performance of our equity portfolio.

You can identify these and other forward-looking statements by the use of words such as becoming , may , will , should , predicts , potential continue , anticipates , believes , estimates , seeks , expects , plans , intends , the negative of such words, or comparable terminology. Al believe that the expectations reflected in these forward-looking statements are reasonable, we have based these expectations on our beliefs as well as our assumptions, and such expectations may prove to be incorrect. Our actual results of operations and financial performance could differ significantly from those expressed in or implied by our management s forward-looking statements.

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

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

A key objective of asset/liability management is to manage interest rate risk associated with changing asset and liability cash flows and market interest rate movements. Interest rate risk occurs when interest rate sensitive assets and liabilities do not re-price simultaneously both in timing and volume. Our asset/liability committee provides oversight to our interest rate risk management process and recommends policy guidelines regarding exposure to interest rates for approval by our Board of Directors. Adherence to these policies is monitored on an ongoing basis, and decisions related to the management of interest rate exposure are made when appropriate.

We manage interest rate risk principally through strategies involving our investment securities portfolio. Our policies permit the use of off-balance-sheet derivative instruments in managing interest rate risk.

Our monitoring activities related to managing interest rate risk include both interest rate sensitivity gap analysis and the use of a simulation model. While traditional gap analysis provides a simple picture of the interest rate risk embedded in the balance sheet, it provides only a static view of interest rate sensitivity at a specific point in time and does not measure the potential volatility in forecasted results relating to changes in market interest rates over time. Accordingly, we combine the use of gap analysis with use of a simulation model that provides a dynamic assessment of interest rate sensitivity.

For further information see Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2005 Form 10-K for disclosure of the quantitative and qualitative information regarding the interest rate risk inherent in interest rate risk sensitive instruments as of December 31, 2005. As of March 31, 2006, there have been no significant changes to the interest rate risk information contained in our 2005 Form 10-K and our policies in managing interest rate risk.

Market Value of Portfolio Equity (MVPE)

One application of the aforementioned simulation model involves measurement of the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities, and off-balance sheet items, defined as our market value of portfolio equity (MVPE).

The following table presents our MVPE exposure at March 31, 2006 and December 31, 2005, related to an instantaneous and sustained increase or decrease in market interest rates of 100 and 200 basis points, respectively.

Change in interest rates (basis points)	Estimated MVPE	Estimated Increase/ (Decrease) in MVPE Amount	Estimated Increase/ (Decrease) in MVPE Percent	Estimated Net Interest Income	Estimated Increase/ (Decrease) in Net Interest Income Amount	Estimated Increase/ (Decrease) in Net Interest Income Percent
			(Dollars in thousands)			
March 31, 2006:						
+200	$ 917,446	$ (45,428)	(4.7)%	$ 416,358	$ 37,418	9.9%
+100	920,587	(42,287)	(4.4)	397,675	18,735	4.9
-	962,874			378,940		
-100	924,867	(38,007)	(3.9)	356,996	(21,944)	(5.8)
-200	895,018	(67,856)	(7.0)	331,979	(46,961)	(12.4)
December 31, 2005:						
+200	$ 1,136,407	$ (12,792)	(1.1)%	$ 408,682	$ 41,236	11.2%
+100	1,143,348	(5,851)	(0.5)	388,086	20,640	5.6
-	1,149,199			367,446		
-100	1,138,898	(10,301)	(0.9)	344,489	(22,957)	(6.2)
-200	1,093,921	(55,278)	(4.8)	312,746	(54,700)	(14.9)

The preceding table indicates that at March 31, 2006, in the event of an instantaneous and sustained increase or decrease in market interest rates, our MVPE would be expected to increase or decrease accordingly.

The market value calculations supporting the results in the preceding table are based on the present value of estimated cash flows using both market interest rates provided by independent broker/dealers and other publicly available sources that we deem reliable. These calculations do not contemplate any changes that we could make to reduce our MVPE exposure in response to a change in market interest rates.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the preceding table. For example, although certain of our assets and liabilities may have similar maturity or re-pricing profiles, they may react to changes in market interest rates with different magnitudes. Also, actual prepayment rates on loans and investments could vary substantially from the assumptions utilized in the model to derive the results as presented in the preceding table. Further, a change in the shape of the forward yield curve could result in different MVPE estimations from those presented herein. Accordingly, the results in the preceding table should not be relied upon as indicative of actual results in the event of changing market interest rates. Additionally, the resulting MVPE estimates are not intended to represent, and should not be construed to represent the underlying value.

Our MVPE sensitivity at March 31, 2006 increased slightly from December 31, 2005, primarily due to changes in the investment portfolio while staying well within our policy guidelines. In addition, our net interest income at risk remains within policy limits. These estimates are highly assumption dependent and will change regularly as the company s asset-liability structure changes and as different interest rate environments evolve. We expect to continue to manage our interest rate risk actively utilizing on and off balance sheet strategies as appropriate.

The simulation model also gives us the ability to simulate our net interest income using an interest rate forecast (simple simulation). In order to measure the sensitivity of our forecasted net interest income to changing interest rates utilizing the simple simulation methodology, both a rising and falling interest rate scenario are projected and compared to a base market interest rate forecast derived from the current yield curve. For the rising and falling interest rate scenarios, the base market interest rate forecast is increased or decreased, as applicable, by 200 basis points in 12 equal increments over a one-year period.

We perform net interest income and net income simulations in an interest rate environment whereby we shock the base rate immediately both up and down 300 basis points in 100 basis point increments. Shock scenarios provide us with additional information with respect to our sensitivity to interest rates and the impact on our net income under varied interest rate scenarios.

Our policy guidelines provide that the difference between a base market interest rate forecast scenario over the succeeding one-year period compared with the aforementioned rising and falling interest rate scenarios over the same time period should not result in net interest income degradation exceeding 25.0%. Simulations as of March 31, 2006, indicated that we were within these policy guidelines.

Interest rate risk is the most significant market risk impacting us. Other types of market risk affecting us in the normal course of our business activities include foreign currency exchange risk, equity price risk, and basis risk. The impact resulting from these market risks is not considered significant, and no separate quantitative information concerning market rate and price exposure is presented herein.

ITEM 4 CONTROLS AND PROCEDURES

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s (SEC) rules and forms. Disclosure controls and procedures include, among other processes, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2006 pursuant to Exchange Act Rule 13a-15. Based upon that evaluation and as a result of the material weaknesses described below that were first identified in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 and have not yet been fully remediated, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were not effective as of March 31, 2006.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting at the Company. The Company s internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). A company s internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2005, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s internal control over financial reporting pursuant to Rule 13a-15(c), as adopted by the SEC under the Exchange Act. In evaluating the effectiveness of the Company s internal control over financial reporting, management used the framework established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management identified the following material weaknesses as of December 31, 2005:

The Company did not have adequately designed internal controls in its financial reporting process related to the selection and application of U.S. generally accepted accounting principles (GAAP). Specifically, accounting policies, procedures and practices were not consistently developed, maintained or updated in a manner ensuring that financial statements were prepared in accordance with GAAP. Also, policies and procedures were not designed to consistently ensure the preparation and retention of adequate documentation to support key judgments made in connection with the selection and application of significant accounting policies within the Company s financial reporting process. Finally, the Company s policies and procedures did not consistently provide for effective analysis, implementation, and documentation of new accounting pronouncements.

The Company did not maintain sufficient levels of appropriately qualified and trained personnel in our financial reporting processes. As a result, the Company did not establish internal control over financial reporting policies and procedures related to (a) the timely preparation of comprehensive documentation supporting management s analysis of the appropriate accounting treatment for warrant derivative assets or other non-routine or complex transactions, and (b) the review of such documentation by qualified internal staff, assisted by external advisors as deemed necessary, to determine its completeness and the propriety of the Company s conclusions.

These material weaknesses resulted in the restatement, in December 2005, of the Company s previously issued consolidated financial statements as of December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004, and the interim consolidated financial information for each of the quarterly periods in 2004 and 2003 and the quarterly period ended March 31, 2005. Specifically, the aforementioned material weaknesses in internal control over financial reporting as of December 31, 2005 resulted in the following accounting errors:

(1) Derivative equity warrant assets with net share settlement provisions were not reported as derivatives in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Specifically, the Company failed to properly reflect the fair value of equity warrant assets with net settlement terms received during lending activity in our consolidated balance sheet, the change in fair value of the equity warrant assets in the income statement and the accretion of the grant date fair value of equity warrant assets to interest income as a yield adjustment

(2) Initial non-refundable corporate finance fees were not reported in accordance with the provisions of Staff Accounting Bulletin No. 104, *Revenue Recognition*. Specifically, the Company failed to defer recognition of initial upfront non-refundable retainers received upon execution of engagement letters to provide mergers and acquisitions advisory services until the completion of all contractual obligations pursuant to the terms of the engagement letters or upon receipt or notification of an engagement termination letter.

(3) Non-refundable loan fees and costs associated with the Company s lending products and fees associated with letters of credit were not reported in accordance with the provisions of SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.* Specifically, the Company failed to recognize net fee revenue in accordance with the appropriate straight-line or interest method, as prescribed by SFAS No. 91, for net loan fee income obtained in connection with the extension of lending products. In addition, the Company inappropriately recognized non-refundable loan fees that it receives for factoring loans immediately rather than deferring and amortizing fees over the term of the facility granted. The Company did not properly defer direct loan origination costs associated with originating certain loan products. In addition, the Company misclassified fees on certain letters of credit as interest income rather than noninterest income on commitments where the probability of exercise was deemed remote.

(4) Certain investment securities that were readily convertible to known amounts of cash and present insignificant risk of changes in value with original or purchased maturity dates of 90 days or less were not reported as cash equivalents in accordance with the provisions of SFAS No. 95, *Statement of Cash Flows*. This misapplication of GAAP resulted in a reclassification in the Company s consolidated balance sheets of money market mutual fund investments and commercial paper investments from Investment securities to Federal funds sold and securities purchased under

agreement to resell and other short-term investment securities.

(5) Current federal income taxes receivable and current federal income taxes payable were not reflected net on the Company s balance sheets. This misapplication of GAAP resulted in a change to the Company s other assets and other liabilities. Current federal income taxes receivable and current federal income taxes payable should be netted as the Company has the legal right of offset, as defined by FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*.

Remediation of Material Weaknesses

The Company s management has identified the steps necessary to address the aforementioned material weaknesses, including:

Documenting of processes and procedures, along with appropriate training, to ensure that the Company s accounting policies, which have been corrected to conform with U.S. GAAP, are consistently applied going forward;

Hiring additional accounting personnel to ensure that accounting personnel with adequate experience, skills and knowledge particularly in relation to complex or non-routine transactions are directly involved in the review and accounting evaluation of such transactions;

Involving internal personnel assisted by external advisors, as deemed necessary, early in the process, particularly in complex or non-routine transactions, to obtain additional guidance as to the application of generally accepted accounting principles to any such proposed transaction;

Ensuring comprehensive documentation supporting management s analysis of the appropriate accounting treatment for equity warrant derivatives or other non-routine or complex transactions and the related review thereof are completed to standards established by senior accounting personnel and the principal accounting officer;

Requiring senior accounting personnel and the principal accounting officer to review all complex or non-routine transactions to evaluate and approve the accounting treatment for such transactions; and

Requiring regular periodic review of all significant accounting policies and their adoptions, application, and impact by senior accounting personnel and the principal accounting officer together with the Audit Committee of the Board of Directors.

The Company began to execute the remediation plans identified above in the third quarter of 2005, and we believe our controls and procedures will continue to improve as a result of the further implementation of these actions.

We cannot assure you that these remediation efforts will be successful or that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. See Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk Factors That May Affect Future Results.

Changes in Internal Control

Except as described above, there were no changes in our internal control over financial reporting identified in management s evaluation during the first quarter of the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

On May 24, 2001, Gateway Communications, Inc. (Gateway) filed a lawsuit in the United States Bankruptcy Court for the Southern District of Ohio (Western Division) naming the Bank as a defendant. Gateway (the debtor in the bankruptcy case) alleges that the Bank s actions in connection with a loan resulted in Gateway s bankruptcy, and seeks $20,000,000 in compensatory damages, punitive damages, interest and attorneys fees. On June 24, 2003, the Court dismissed four of the five counts in the complaint, including the claim for punitive damages, leaving one breach of contract claim. We believe that the sole remaining claim has no merit and intends to defend the lawsuit vigorously. Thus, we have not accrued any amount related to potential damages from this case as they are not considered probable and reasonably estimable. The action is scheduled for trial in July 2006.

We are unable to predict at this time the final outcome of the above matter and the ultimate effect, if any, on our liquidity, consolidated financial position or results of operations.

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

ITEM 1A RISK FACTORS

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

The risk factors set forth below are also set forth in our 2005 Form 10-K. No changes have been made.

Credit Risks

If a significant number of clients fail to perform under their loans, our business, profitability, and financial condition would be adversely affected.

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

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

Our loan portfolio has a credit profile different from that of most other banking companies. Many of our loans are made to companies in the early stages of development with negative cash flow and no established record of profitable operations. In many cases, repayment of the loan is dependent upon receipt of additional equity financing from venture capitalists or others. Collateral for many of the loans often includes intellectual property, which is difficult to value and may not be readily salable in the case of default. Because of the intense competition and rapid technological change that characterizes the companies in our technology and life science industry sectors, a borrower s financial position can deteriorate rapidly. We also make loans that are larger, relative to the revenues of the borrower, than those made by traditional small business lenders, so the impact of any single borrower default may be more significant to us. Because of these characteristics, our level of nonperforming loans and loan charge-offs can be volatile and can vary materially from period to period. Changes in our level of nonperforming loans may require us to make material provisions for loan losses in any period, which could reduce our net income or cause net losses in that period.

Market/Liquidity Risks

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

A major portion of our net income comes from our interest rate spread, which is the difference between the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates and fees we receive on interest-earning assets, such as loans extended to our clients and interest rates we receive on securities held in our investment portfolio. Interest rates are highly sensitive to many factors beyond our control, such as inflation, recession, global economic disruptions, unemployment and the fiscal and monetary policies of the federal government and its agencies. In addition, legislative changes could affect the manner in which we pay interest on deposits or other liabilities. For example, Congress has for many years debated repealing a law that prohibits banks from paying interest rates on checking accounts. If this law were to be repealed, we would be subject to competitive pressure to pay interest on our clients checking accounts, which would negatively affect our interest rate spread. Any material decline in our interest rate spread would have a material adverse effect on our business and profitability. Additionally, a portion of our loan fee income, a component of loan interest income, is predicated on the receipt of warrant assets. If we fail to continue to receive warrant assets our future interest margin may decline.

Our business is dependent upon access to funds on attractive terms.

We derive our net interest income through lending or investing capital on terms that provide returns in excess of our costs for obtaining that capital. As a result, our credit ratings are important to our business. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs (or trigger obligations under certain existing borrowings and other contracts), or increase the interest rates we pay our depositors. Further, our credit ratings and the terms upon which we have access to capital may be influenced by circumstances beyond our control, such as overall trends in the general market environment, perceptions about our creditworthiness or market conditions in the industries in which we focus.

Warrant, venture capital fund, and direct equity investment portfolio gains or losses depend upon the performance of the portfolio investments and the general condition of the public equity markets, which is uncertain.

We have historically obtained rights to acquire stock, in the form of equity warrants, in certain clients as part of negotiated credit facilities and for other services. In future periods we may not be able to ultimately realize gains from the sale of securities to third parties related to the exercise of warrants, or our realized gains may be materially less than the current level of fair value of derivative equity warrant assets and unrealized gains disclosed in this filing. We also have made investments in venture capital funds as well as direct equity investments in companies. The timing and amount of income, if any, from the disposition of client warrants, venture capital funds, and direct equity investments typically depend upon factors beyond our control, including the performance of the underlying portfolio companies, investor demand for initial public offerings, fluctuations in the market prices of the underlying common stock of these companies, levels of mergers and acquisitions activity, and legal and contractual restrictions on our ability to sell the underlying securities. In addition, our investments in venture capital funds and direct equity investments have lost value and could continue to lose value or become worthless, which would reduce our net income or could cause a net loss in any period. All of these factors are difficult to predict, particularly in the current economic environment. Additionally, due to the nature of investing in private equity venture-backed technology and life science companies, it is likely that additional investments within our existing portfolio will become impaired. However, we are not in a position to know at the present time which specific investments, if any, are likely to be impaired or the extent or timing of individual impairments. Therefore, we cannot predict future investment gains or losses with any degree of accuracy, and any gains or losses are likely to vary materially from period to period.

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

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

Operational Risks

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

We rely on experienced client relationship managers and on officers and employees with strong relationships with the venture capital community to generate new business. If a significant number of these employees were to leave us, our growth and profitability could be adversely affected. We believe that our employees frequently have opportunities for alternative employment with competing financial institutions and with our clients.

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

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123 and supersedes APB No. 25, and requires us to record compensation expense for all employee share based payments. The Company adopted SFAS No. 123R on January 1, 2006. This expense had a material impact on our results of operations for the first quarter of 2006 and is likely to have a material impact on our results of operations going forward.

In October 2004, in an effort to align our option grant rate to that of other financial institutions similar to us, we significantly decreased the number of shares subject to options granted to our employees on a prospective basis. We may in the future consider taking other actions to modify employee compensation structures, such as granting cash compensation or other forms of equity compensation. Our decision to reduce the number of option shares to be granted on a prospective basis, and any other future changes we may adopt in our employee compensation structures, could adversely affect our results of operations and cash flows, as well as our ability to attract, recruit, and retain certain key employees.

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

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

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

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

Our operations can be subject to natural disasters and other events beyond our control, such as earthquakes, fires, public health issues, power failures, telecommunication loss, terrorist attacks, and acts of war. Our corporate headquarters and a portion of our critical business offices are located in California near major earthquake faults. Such events of disaster, whether natural or manmade, could cause severe destruction or interruption to our operations and as a result, our business could suffer serious harm.

To mitigate these risks we have begun a phased business continuity program, with initial capabilities available in 2005 and additional capabilities to be implemented throughout 2006. Additionally, we signed a lease and began opening a support and back-operations facility in Salt Lake City, Utah during the first quarter of 2006. The facility is part of our business continuity strategy to ensure the continuous availability of critical client operations in the event of an unforeseen disaster. We also have a back-up data center in Phoenix, Arizona. Nonetheless, there is no assurance that our business continuity program can adequately mitigate the risks of such business interruptions.

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

Third parties provide key components of our business infrastructure such as internet connections and network access. Any disruption in internet, network access or other voice or data communication services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party.

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

We have a complex set of information technology systems and processes to support our business. Our systems consist of multiple information systems that complicate our processing, reporting and analysis of our business transactions and business information. Although we have continuously improved our business systems and processes, as our business grows larger and more complex, our current systems and processes will likely not be able to support the growth effectively. In 2006 and forward, there will be a more significant focus towards improving our systems and processes in order to increase our efficiency, including upgrading and consolidating our information systems and improving and automating, where appropriate, our processes. There is no assurance that we can effectively and timely improve our systems and processes to meet all of our business needs efficiently.

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

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

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

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

Changes in accounting standards could materially impact our financial statements.

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

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

Our management has determined that as of December 31, 2005, we did not maintain effective internal control over financial reporting based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework as a result of identified material weaknesses in our internal control over financial reporting. Specifically, we did not have adequately designed internal controls in our financial reporting process related to the selection and application of generally accepted accounting principles in that (a) accounting policies, procedures and practices were not consistently developed, maintained or updated in a manner ensuring that financial statements were prepared in accordance with U.S. generally accepted accounting principles, (b) these policies and procedures were not designed to consistently ensure the preparation and retention of adequate documentation to support key judgments made in connection with the selection and application of significant accounting policies within our financial reporting process and (c) our policies and procedures did not consistently provide for effective analysis, implementation, and documentation of new accounting pronouncements. In addition, we did not maintain sufficient levels of appropriately qualified and trained personnel in our financial reporting processes resulting in our inability to establish internal control over financial reporting policies and procedures related to (1) the timely preparation of comprehensive documentation supporting management s analysis of the appropriate accounting treatment for warrant derivatives or other non-routine or complex transactions, and (2) the review of such documentation by qualified internal staff, assisted by external advisors as deemed necessary, to determine our completeness and the propriety of our conclusions. For a detailed description of these material weaknesses and our remediation efforts and plans, see Part I, Item 4. These control deficiencies resulted in material errors in our financial reporting which resulted in a restatement of our financial statements for the years 2002, 2003 and 2004. This restatement process took five months to complete, required substantial resources and personnel, and included a comprehensive review of our financial statements and accounting practices by our auditors. However, we have not yet fully remediated these material weaknesses.

In response to these material weaknesses in our internal control over financial reporting, we are implementing additional controls and procedures and are incurring additional related expenses. We cannot be certain that the measures we have taken to date and are planning to take will sufficiently and satisfactorily remediate the identified material weaknesses in full. Furthermore, we intend to continue improving our internal control over financial reporting and the implementation and testing of these efforts could result in increased cost and could divert management attention away from operating our business.

If we are unable to remediate the identified material weaknesses discussed above, or if additional material weaknesses are identified in our internal control over financial reporting, our management will be unable to report favorably as to the effectiveness of our internal control over financial reporting and/or our disclosure controls and procedures, and we could be required to further implement expensive and time-consuming remedial measures and potentially lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and potentially subject us to litigation.

Legal/Regulatory Risks

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

SVB Financial, Silicon Valley Bank, and their subsidiaries are extensively regulated under federal and state law. These regulations are intended primarily for the protection of depositors, other clients, and the deposit insurance fund not for the benefit of stockholders or security holders. Federal and state laws and regulations limit or otherwise affect the activities in which SVB Financial, Silicon Valley Bank, and their subsidiaries may engage. A change in the applicable statutes, regulations, or regulatory policy may have a material effect on our business and that of our subsidiaries in substantial and unpredictable ways including by placing limitations on the types of financial services and products we may offer or increasing the ability of nonbanks to offer competing financial services and products. In addition, SVB Financial, Silicon Valley Bank, and their subsidiaries are required to maintain certain minimum levels of capital. Federal and state banking regulators possess broad powers to take supervisory action, as they deem appropriate, with respect to SVB Financial and Silicon Valley Bank. SVB Alliant and SVB Securities, both broker-dealer subsidiaries, are regulated by the SEC and the National Association of Securities Dealers, Inc. (NASD). 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 employees. Supervisory actions can result in higher capital requirements, higher insurance premiums, and limitations on the activities of SVB Financial, Silicon Valley Bank or their subsidiaries. These supervisory actions could have a material adverse effect on our business and profitability. Any increased or unanticipated regulatory scrutiny or review may impact the conduct of our business and could have a material adverse effect on our business and profitability, since existing resources would be detracted from the current conduct of business and reprioritized to resolve any such review. For example, the scope and degree of regulatory scrutiny of Bank Secrecy Act (BSA)/anti-money laundering compliance have expanded significantly following the events of September 11, 2001 and as a result we have been focusing resources to understand our inherent BSA risk and to document our compliance. We could also receive regulatory sanctions or be subject to regulatory orders for any failure to comply with laws, regulations or policies, which may damage our reputation.

SVB Financial Group, the Parent relies on dividends from its subsidiaries for most of its revenue.

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

Strategic/Reputation Risks

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

Our reputation is very important to sustain our business, as we rely on our relationships with our current, former and potential clients and stockholders, the venture capital and private equity community and the industries in which we serve. Any damage to our reputation, such as regulatory enforcement actions, downgrade of ratings, loss of customers, late filings of SEC reports and potential delisting actions, could have a material adverse effect on our business.

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

If conditions deteriorate in the domestic or global economy, especially in the technology, life science, private equity, and premium wine industry niches, our business, growth, and profitability are likely to be materially adversely affected. A global or U.S. economic slowdown would harm many of our clients. Our clients may be particularly sensitive to disruptions in the growth of the technology sector of the U.S. economy. In addition, a substantial number of our clients are geographically concentrated in California, and adverse economic conditions in California could harm the businesses of a disproportionate number of our clients. To the extent that our clients underlying businesses are harmed, they are more likely to default on their loans.

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

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

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

We cannot assure that we will be able to maintain our historical levels of profitability in the face of sustained competitive pressures.

Other banks and specialty and diversified financial services companies, many of which are larger and have more capital than we do, offer lending, leasing, other financial products and advisory services to our client base. In some cases, our competitors focus their marketing on our industry sectors and seek to increase their lending and other financial relationships with technology companies, early stage growth companies or special industries such as wineries. In other cases, our competitors may offer a broader range of financial products to our clients. When new competitors seek to enter one of our markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing and/or credit terms prevalent in that market, which could adversely affect our market share. Our pricing and credit terms could deteriorate if we act to meet these competitive challenges.

We face risks in connection with completed or potential acquisitions.

We completed one acquisition in each of 2002 and 2001 and, if appropriate opportunities present themselves, we intend to acquire businesses, technologies, services or products that we believe are strategic. There can be no assurance that we will be able to identify, negotiate or finance future acquisitions successfully or integrate such acquisitions with our current business.

Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, and/or contingent liabilities, which could have a material adverse effect on our business, results of operations, and/or financial condition. Any such future acquisitions of other businesses, technologies, services, or products might require us to obtain additional equity or debt financing, which might not be available on terms favorable to us, or at all; and such financing, if available, might be dilutive.

Upon completion of an acquisition, we are faced with the challenges of integrating the operations, services, products, personnel, and systems of acquired companies into our business, which may divert management s attention from ongoing business operations. In addition, acquisitions of new businesses may subject us to regulatory scrutiny. We cannot assure that we will be successful in integrating any acquired business effectively into the operations of our business. Moreover, there can be no assurance that the anticipated benefits of any acquisition will be realized.

The success of our acquisitions is dependent on the continued employment of several key employees. If acquired businesses do not meet projected revenue targets, or if certain key employees were to leave the businesses, we could conclude that the value of the businesses has decreased and that the related goodwill has been impaired. If we were to conclude that goodwill has been impaired that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations.

We face risks associated with international operations.

A component of our strategy is to expand internationally on a limited basis, which requires management s attention and resources. We already opened offices in the UK, India and China and plan to expand our operations in those locations and are exploring adding other locations. In addition to the uncertainty regarding our ability to generate revenues from foreign operations and to expand our international presence, there are certain risks inherent in doing business on an international basis, including, among others, legal and regulatory requirements, legal uncertainty regarding liability, tariffs, and other trade barriers, difficulties in staffing and managing foreign operations, differing technology standards or customer requirements, requirements or restrictions relating to making foreign direct investments, difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner, longer payment cycles, different accounting practices, problems in collecting loan or other types of payments, political and economic instability, seasonal reductions in business activity, changes in tax laws and potentially adverse tax consequences, any of which could adversely affect the success of our international operations. In addition, in many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by regulations applicable to us, such as the Foreign Corrupt Practices Act. Although we implement policies and procedures designed to ensure compliance with these laws, our employees and agents may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business. To the extent we continue to expand our international operations and have additional portions of our international revenues denominated in foreign currencies, we could become subject to increased risks relating to foreign currency exchange rate fluctuations. Since we have limited experience in globalizing our service, there can be no assurance that we will be successful in expanding into international markets or that one or more of the factors discussed above will not have a material adverse effect on our business, results of operations, and/or financial condition.

Maintaining or increasing our market share depends on market acceptance of new products and services.

Our success depends, in part, upon our ability to adapt our products and services to evolving industry standards and client demands. There is increasing pressure on financial services companies to provide products and services at lower prices. In addition, the widespread adoption of new technologies, including Internet-based services, could require us to make substantial expenditures to modify or adapt our existing products or services. A failure to achieve market acceptance of any new products we introduce, or a failure to introduce products that the market may demand, could have an adverse effect on our business, profitability, or growth prospects.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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, 2006 January 31, 2006	50,000	$	49.39	50,000	$	99,000,000
February 1, 2006 February 28, 2006	250,000	$	50.00	250,000	$	86,600,000
March 1, 2006 - March 31, 2006	210,000		51.62	210,000		75,700,000
Total	510,000	$	50.61	510,000	$	75,700,000

---

(1) We currently have in place a program authorizing our repurchase of up to a total of $305.0 million of stock. The repurchase program was initially authorized by our Board of Directors and announced on May 7, 2003 for $160.0 million (with no expiration date), and was subsequently increased by $75.0 million (to be repurchased before June 30, 2006) and $70.0 million (to be repurchased before June 30, 2007) and announced on January 27, 2005 and January 26, 2006, respectively. Unless earlier terminated by the Board, the program will expire on June 30, 2007. As of March 31, 2006, we have repurchased 7.0 million shares totaling $229.3 million. At March 31, 2006, the approximate dollar value of shares that may still be repurchased under this program was $75.7 million.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 EXHIBITS

See Index of Exhibits at the end of this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SVB Financial Group
Date: May 10, 2006	/s/ DONAL D. DELANEY Donal D. Delaney Corporate Controller (Principal Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
2.1	Asset Purchase Agreement between the registrant and SVB Alliant	8-K	000-15637	2.1	October 2, 2001	
3.1	Restated Certificate of Incorporation	8-K	000-15637	3.1	May 31, 2005	
3.2	Amended and Restated Bylaws	8-K	000-15637	3.3	January 20, 2006	
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock	8-A/A	000-15637	3.4	February 27, 2004	
4.1	Indenture dated as of May 20, 2003 between the Company and Wells Fargo Bank Minnesota, National Association	S-3	333-107994	4.1	August 14, 2003	
4.2	Form of Note (included in Exhibit 4.9)	S-3	333-107994	4.2	August 14, 2003	
4.3	Registration Rights Agreement dated as of May 20, 2003, between the Company and the initial purchasers named therein	S-3	333-107994	4.3	August 14, 2003	
4.4	Junior Subordinated Indenture, dated as of October 30, 2003 between Silicon Valley Bancshares and Wilmington Trust Company, as trustee	8-K	000-15637	4.12	November 19, 2003	
4.5	Junior Subordinated Deferrable Debenture due October 15, 2033 of Silicon Valley Bancshares	8-K	000-15637	4.13	November 19, 2003	
4.6	Amended and Restated Trust Agreement, dated as of October 30, 2003, by and among Silicon Valley Bancshares as depositor, Wilmington Trust Company as property trustee, Wilmington Trust Company as Delaware trustee, and the Administrative Trustees named therein.	8-K	000-15637	4.14	November 19, 2003	
4.7	Certificate Evidencing 7% Cumulative Trust Preferred Securities of SVB Capital II	8-K	000-15637	4.15	November 19, 2003	
4.8	Guarantee Agreement, dated October 30, 2003 between Silicon Valley Bancshares and Wilmington Trust Company, as trustee	8-K	000-15637	4.17	November 19, 2003	
4.9	Agreement as to Expenses and Liabilities, dated as of October 30, 2003, between Silicon Valley Bancshares and SVB Capital II	8-K	000-15637	4.17	November 19, 2003	
4.10	Certificate Evidencing 7% Common Securities of SVB Capital II	8-K	000-15637	4.18	November 19, 2003	
4.11	Silicon Valley Bancshares Officers Certificate and Company Order, dated October 30, 2003	8-K	000-15637	4.19	November 19, 2003	
4.12	Amended and Restated Preferred Stock Rights Agreement dated as of January 29, 2004, between Silicon Valley Bancshares and Wells Fargo Bank Minnesota, N.A.	8-A/A	000-15637	4.20	February 27, 2004	
4.13	Amendment No. 1 to Amended & Restated Preferred Stock Rights	8-A/A	000-15637	4.13	August 3, 2004	

	Agreement, dated as of August 2, 2004, by and between Silicon Valley Bancshares and Wells Fargo Bank, N.A.				
10.1	Office Lease Agreement, dated as of	8-K	000-15637	10.28	September 20, 2004

57

	September 15, 2004, between CA-Lake Marriott Business Park Limited Partnership and Silicon Valley Bank: 3003 Tasman Drive, Santa Clara, CA 95054				
10.2	Amended and Restated Lease Termination Agreement, dated as of October 20, 2004, by and between CA-Lake Marriott Business Park Limited Partnership and Silicon Valley Bank	8-KA	000-15637	99.1	October 22, 2004
*10.3	Amended and Restated Silicon Valley Bancshares 1989 Stock Option Plan	10-Q	000-15637	10.28	August 13, 1996
*10.4	Silicon Valley Bank Money Purchase Pension Plan	10-Q	000-15637	10.29	August 13, 1996
*10.5	Amendment and Restatement of the Silicon Valley Bank Money Purchase Pension Plan	10-Q	000-15637	10.30	August 13, 1996
*10.6	Silicon Valley Bank 401(k) and Employee Stock Ownership Plan, as amended and restated	10-K	000-15637	10.6	March 16, 2005
*10.7	Form of Change in Control Severance Benefits Policy for Non-Executives	10-Q	000-15637	10.33	November 13, 1996
*10.8	Amended and Restated Silicon Valley Bancshares Retention Program Plan	10-Q	000-15637	10.8	August 9, 2004
*10.9	Severance Agreement between the Company and John C. Dean related to Garage.com as of August 12, 1998	10-Q	000-15637	10.40	November 13, 1998
*10.10	Severance Agreement between the Company and Harry W. Kellogg related to Garage.com as of August 12, 1998	10-Q	000-15637	10.41	November 13, 1998
*10.11	1999 Employee Stock Purchase Plan	10-K	000-15637	10.44	March 17, 2000
*10.12	Silicon Valley Bancshares 1998 Equity Incentive Plan, amended as of July 20, 2000	10-Q	000-15637	10.45	November 14, 2000
*10.13	Change in Control Severance Benefits Policy of Silicon Valley Bank	10-Q	000-15637	10.46	November 14, 2000
*10.14	Consulting Agreement between Silicon Valley Bancshares and John C. Dean, effective as of May 1, 2001	10-Q	000-15637	10.47	May 15, 2001
*10.15	Silicon Valley Bancshares 1997 Equity Incentive Plan, as amended	DEF 14A	000-15637	B-1	March 16, 2005
*10.16	Form of Indemnity Agreement between the Company and its directors and officers	10-Q	000-15637	10.50	November 14, 2003
*10.17	Severance Agreement between the Company and Lauren Friedman	10-Q	000-15637	10.51	November 14, 2003
*10.18	Promissory Note Between Silicon Valley Bancshares and Marc Verissimo dated August 4, 2000	10-K	000-15637	10.52	March 11, 2004
*10.19	Bonus Agreement Between Silicon Valley Bank and Marc Verissimo dated September 20, 2000	10-K	000-15637	10.53	March 11, 2004
*10.20	Promissory Note Between Silicon Valley Bancshares and Ken Wilcox dated April 4, 2002	10-K	000-15637	10.54	March 11, 2004
*10.21	Promissory Note Between Silicon Valley Bancshares and Marc Verissimo dated April 2, 2002	10-K	000-15637	10.55	March 11, 2004
*10.22	Promissory Note Between Silicon Valley	10-K	000-15637	10.56	March 11, 2004

	Bancshares and Greg Becker dated May 6, 2002					
*10.23	Promissory Note Between Silicon Valley Bancshares and Greg Becker dated January 16, 2003	10-K	000-15637	10.57	March 11, 2004	
*10.24	Silicon Valley Bancshares Senior Management Incentive Compensation Plan	10-K	000-15637	10.58	March 11, 2004	
*10.25	Separation Agreement Between Silicon Valley Bank and Leilani Gayles dated July 16, 2003	10-K	000-15637	10.59	March 11, 2004	
*10.26	Offer Letter to Jack Jenkins-Stark dated February 20, 2004	10-Q	000-15637	10.26	May 7, 2004	
*10.27	Offer Letter to David C. Webb dated May 25, 2004	10-Q	000-15637	10.27	August 9, 2004	
*10.28	Silicon Valley Bank Deferred Compensation Plan, as amended and restated	8-K	000-15637	10.29	November 3, 2004	
*10.29	Form of Restricted Stock Unit Agreement under 1997 Equity Incentive	8-K	000-15637	10.30	November 5, 2004	
*10.30	Form of Incentive Stock Option Agreement under 1997 Equity Incentive Plan	10-Q	000-15637	10.31	November 9, 2004	
*10.31	Form of Nonqualified Stock Option Agreement under 1997 Equity Incentive Plan	10-Q	000-15637	10.32	November 9, 2004	
*10.32	Form of Restricted Stock Award under 1997 Equity Incentive Plan	10-Q	000-15637	10.33	November 9, 2004	
*10.33	Offer Letter to David Ketsdever dated November 13, 2004	8-K	000-15637	10.34	November 30, 2004	
*10.34	SVB Financial Group Change in Control Severance Plan	8-K	000-15637	10.35	March 13, 2006	
14.1	Code of Ethics	10-K	000-15637	14.1	March 16, 2005	
21.1	Subsidiaries of Silicon Valley Bancshares	10-K	000-15637	21.1	March 16, 2005	
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of Principal Executive Officer					ý
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of Principal Financial Officer					ý
32.1	Section 1350 Certifications					ý

* Denotes management contract or any compensatory plan, contract or arrangement.